PACKAGE MARKET SCENARIO ANALYSIS

US package market delivery is dominated by three major competitors, USPS, FedEx, and UPS, each with strengths in market subsegments. The Postal Service is under pressure to increase prices for packages, although they are subsidy-free and provide a large contribution to the Postal Service finances. Further some are trying to force the Service to exit the market completely. It is difficult to confidently predict competitors’ responses to increased prices or market exit. Under these circumstances, scenario analysis provides a useful framework for discussing policy options.

Scenario 1 – USPS increases prices of competitive products $1.50 and competitors match that increase. All increases in package prices are ultimately passed on to households, a fairly reasonable assumption.

- The average US household faces price increases for goods delivered by USPS, FedEx, and UPS of about $132 a year.
- Less affluent households will bear smaller costs since they receive a smaller number of packages, but that cost will amount to a higher percentage of their income.
- Collectively, the price increase will cost American households about $16.2 billion dollars annually, more than half of which will wind up benefiting the shareholders of UPS and FedEx.
- This is a very inefficient way of financing the Postal Service since for every additional dollar consumers spend on package shipments, less than half winds up benefiting the Postal Service.

Scenario 2 – USPS completely withdraws from the market under new legislation requiring it to do so. UPS and FedEx don’t increase their prices but all shipping that used to run through the Postal Service now switches to them. Prices for these shipments reflect average current price differentials in a variety of markets, about $5 a piece. Of course, if this number turned out to be only half of that, impacts would be reduced by half.

- The average US household faces price increases for goods currently delivered by USPS, FedEx, and UPS of about $200 a year.
- Less affluent households will bear smaller costs since they receive a smaller number of packages, but that cost will amount to a higher percentage of their income.
- Collectively, the price increase will cost American households about $25 billion dollars annually, all of which will wind up benefiting the shareholders of UPS and FedEx.
Scenario 3 – USPS completely withdraws from the market under new legislation requiring it to do so. UPS and FedEx increase their own prices by a dollar for all the business that used to run through them (limiting competition increase the remaining firms’ pricing power). All shipping that used to run through the Postal Service now switches to them. Prices for these shipments reflect average current price differentials in a variety of markets, about $5 a piece, plus the $1 additional increase.

- The average US household faces price increases for goods currently delivered by USPS, FedEx, and UPS of about $290 a year.
- Less affluent households will bear smaller costs since they receive a smaller number of packages, but that cost will amount to a higher percentage of their income.
- Collectively, the price increase will cost American households about $35 billion dollars annually, all of which will wind up benefiting the shareholders of UPS and FedEx.

Methods and Sources

Total Annual Costs = scenario price increase times package volume in relevant markets
Cost Annual Cost per Household = total cost divided by number of households.

Information on USPS package received by income level from House Hold Diary
USPS Package Volume from USPS FY 2017 RPW Report
UPS Package Volume from 2017 UPS Annual Report
FedEx Volume from FedEx Annual Report 2017
Households from 2010 United States Census, extrapolated to 2017 from Population Growth from 2010-2017 (United States Census Bureau)
Packages per Household calculated by total package volumes divided by total households