

PITNEY BOWES

IN TRANSFORMATION

Stamford, CT - The dogged inventiveness of Arthur H. Pitney, the vision of Walter H. Bowes and the salesmanship of Walter H. Wheeler created Pitney Bowes, Inc., a colossus of the mailing industry. Today, CEO Michael J. Critelli is transforming this venerable company into an integral participant in the information technology (IT) revolution.

The IT revolution continues to challenge old economy companies like Pitney Bowes where change becomes necessary for survival. By expanding from fundamentally sound products and practices to offer companion services to its customers, P-B's executives and managers maintain a strong, growing company. When the US Postal Service mandated replacement of mechanical postage meters with electronic terminals, Pitney Bowes introduced an array of new electronic products that perform postage metering while adding other financial functions including list maintenance controls. Thus, new products and new alliances incorporate useful technological improvements.

With total revenues approaching \$4 billion and worldwide employment at 30,000, Pitney Bowes is now a large oak grown from a small acorn machine shop. To manage this global enterprise, Pitney Bowes recently split itself into three reporting segments: Global Mailing, Enterprise Solutions and Capital Services. Under Michael Critelli, a transformation into a new economy company is about complete. The shake-out of dot-coms in fiscal 2000 found P-B reassessing partnerships tied to the Internet world and carefully pruning speculative, bright ideas with little substance. In the fourth quarter of 2000, a decision was taken to spin-off the office systems division by the end of 2001. In December 2001, **Imagistics International Inc.**, Trumbull, CT was spun off to Pitney Bowes shareholders as a tax-free stock dividend. Imagistics will market and service copiers, facsimile machines and multipurpose printers to Fortune 500 companies and others. This divestiture will allow Pitney Bowes to emphasize digital world growth markets over mature markets

that would otherwise employ needed resources. P-B's strong mailing services and enterprise management divisions will expand.

The world of Michael Critelli is dramatically altered in just twelve months. Remarkably, Pitney Bowes and Critelli have ridden the technology wave like a surfer playing the rising, incoming swells and breaks to best advantage. Rather than react and defend, Critelli has calmly assessed his industry leading position, made decisions based on corporate strengths and weaknesses and concentrated on a new, simplified vision. As stated in the P-B 2000 annual report, Critelli's redefined mission concentrates on leading-edge, globally integrated mail and document management solutions for organizations of all types. The subtlety here is a redirection from mail orientation to a broader view of document management. Mail is recognized as just one means of communication in a world embracing other communication forms. Older post offices are facing obsolescence under the churn of electronic progress.

The impetus for innovation is drawn from an 84 year tradition that began in 1901 when Arthur Pitney patented a metering device that cleverly applied postage to outbound mail. With a mechanical, double locking counter, the postage machine gave business mailers a welcome improvement over licking and sticking stamps while securely controlling advance postage payments. While Pitney was replacing stamps with printed indicia, Walter Bowes was inventing an automatic postage canceling machine. Bowes, an Englishman with a world-view, was more of a salesman than the disciplined inventor, Pitney.

Together Pitney and Bowes formed a powerful partnership that convinced the United States Post Office Department, then Great Britain's Royal Mail and Canada's Postal Service to employ a rugged machine that applied postage and accounted for the cost of each use. Efficient financial control of mail rooms and easy dispatching of mail led to worldwide acceptance of the Pitney Bowes postage meter.

From the beginning, through ethical dealings, well engineered products and attentiveness to postal service needs, Pitney Bowes succeeded. The

inventive minds that brought Pitney Bowes its first dependable machines was followed by a master salesman, Walter Wheeler. Wheeler grew the company despite the great depression ascending to the presidency in 1938. Wheeler extolled sound business methods along with his superlative salesmanship. He rewarded employees and stockholders for their contribution to the companies' success and built harmonious relations with government postal authorities. Through perseverance and attentiveness, he convinced the U.S. Post Office Department to delegate a portion of their operation to a profit-making corporation. Wheeler and others became expert in the mail business, dealt scrupulously with government agencies and gained widespread trust and respect.

The post World War II years brought Pitney Bowes renewed growth when the decade of the 1980s saw the office machine industry evolve from mechanical devices to electronic devices. Pitney Bowes adapted to the demand for new machines that produced copies and transmitted facsimiles. However, other companies were not so successful as the swift change to electronic office equipment littered the economic landscape with failed companies. The office machine industry of typewriters, calculators and bookkeeping equipment experienced a technological pandemic that caused hundred year old companies to fail. The survival of the postage meter and the continued growth of Pitney Bowes is a rare example of success during a paradigm shift.

While P-B broadened its product offerings beyond postage meters, its engineering skills remained concentrated on equipment for private mailers and postal services. Well engineered, rugged and complex P-B's additions included mail handling and sorting equipment. A subtle but important transformation began as the company moved beyond large corporate mail rooms to include mail related office administrative systems. Postage handling and financial transaction processing have common needs of accountability, reliability and time sensitivity.

Early in the year 2000, Pitney Bowes was focused

on the edict from the USPS to replace all mechanical postage meters with electronic meters. Critelli embraced this mandated change as an opportunity by placing intelligent terminals into every business it served. Rather than just replace mechanical cogs and gears with wires and transistors doing the same job, Pitney Bowes expanded its information offerings to existing postage meter customers. When the USPS offered substantial postage discounts to those who follow its rules, P-B offered software to take advantage of a complex rating system. Implementing discount earning techniques using a sophisticated P-B program benefits three parties: Pitney-Bowes, who provides the program; the mailer, who earns the discounts; and the USPS who reduces costs in processing the mail.

Another Pitney Bowes initiative offers improved software control of mailer prospect and customer lists. Better list control saves postage and wasted mail by detecting duplicates and noting addressing errors. Carefully written software can cleanse a mailing list and pay for itself by avoiding duplications and misdeliveries. Going beyond discount earnings and list cleaning, P-B offers programs to identify new prospects for services and products offered. The payoff for this service is an improved mailing list that brings greater returns to the mailer.

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Business mail involves vast amounts of invoicing and bill paying traffic. Since P-B's prime customers are the corporate mail rooms of utilities,

banks, credit institutions and insurance companies, improving the cycle time and reliability of accounts receivable processing is a worthy, measurable goal. Despite increasing use of electronic fund transfers, regular mail still handles 94% of monthly bill paying activity. Indirectly, P-B is involved in a financial flow cycle that is the life blood of most businesses. The physical, outbound mailing of invoices and the incoming receipt of payments generates the cash flow that drives every organization. Turning the mail rooms of Fortune 500 companies into data processing centers brings a new information technology efficiency. While a trend is afoot to move bill paying away from the mail stream into electronic or Internet processing,

this conversion will take time. Accounts receivable processing requires secure, accurate record keeping following established accounting procedures. Rather than fight against the trend towards electronic fund transfers, Pitney-Bowes is embracing the new and converting the postage meter into an intelligent terminal. This terminal now functions as an implementer of the account receivable process: invoicing, acknowledgment, payment receipts, customer account maintenance and cash control. P-B's Document Messaging Technologies group is now part of its Enterprise Solutions Group which creates better methods for enterprise wide management of all financial documents.

Next, P-B used its knowledge of mail processing to help national posts throughout the world. Governments are often poorly equipped to run businesses, so Pitney Bowes knowledge and products are of great interest to postal services everywhere. To this end, Critelli concentrated both domestic and international mailing operations into Pitney Bowes' largest corporate division -- Global Mailing Systems.

Critelli's vision for Pitney-Bowes is filled with new initiatives, reorganization plans and new partnerships for innovative adventures into the IT world. It is an uncommon recipe directing an old economy company to focus on new economy objectives. But then, Arthur Pitney was an innovator in 1901 and Walter Bowes was a global thinker in the aftermath of World War I. For 84 years, P-B succeeded with creative, reliable advancements to help mailmen and mail rooms efficiently deliver written communication. Now Critelli has reemphasized P-B's fundamentals nurtured by other forceful, enlightened leaders of this bedrock company to bring forth again success in future products. Pitney Bowes, in the years ahead, will likely be in the forefront of electronic document management. Just check the P-B web site www.pb.com and you may well be looking at the future. <<