



POSTAL NEWS

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**Postmaster General John E. Potter's Keynote Address
National Postal Forum General Session
April 3, 2006**

Thank you all for coming. What a great venue. This Forum is one of the biggest, most innovative yet. Alixe Johnson and Susan Plonkey have done a fabulous job putting this all together. We listened to your feedback from last year. Take advantage of the new specialized sessions on targeting the Hispanic market and the expanded accreditation programs. We also know you wanted more time to explore and discuss new product and technology innovations in the Exhibition Area, and we've carved out time for you to do just that. The Forum and its business sessions provide you a great opportunity to look forward and consider the evolution taking place as the Postal Service -- in fact, the entire mailing industry -- grows in the 21st Century.

The pieces are falling into place. It wasn't that long ago that some of the pundits thought total mail volume would be in steep decline by 2006 as hard copy mail became obsolete. They were wrong! Mail volume last year reached a new record: 212 billion pieces. Companies like eBay and Netflix continue their growth and mail is an integral part of their success. Our negotiated service agreements have helped financial institutions like Capital One, Discover, Chase, and HSBC reach new customers cost effectively, while growing their businesses. Marketers have found that using the mail, along with the Internet, has resulted in significantly larger orders than if they had relied on Internet advertising alone. The public and the marketplace have spoken loudly.

Mail works!

Others wondered whether the giant Postal Service could become more businesslike, whether we could become service and customer oriented, whether we could become more productive each year, whether we could find a way to work collaboratively, both internally and externally. Well, the results speak for themselves:

- High levels of end-to-end service performance
- High levels of customer satisfaction
- Elimination of \$11 billion in debt
- Productivity increases 6 years in a row – which is unprecedented
- A reduction of over 100,000 career positions during that time
- Improved labor relations, and
- Great customer participation

Postal Customer Councils have been revitalized all across the country. We're lucky to have an active and results driven Mailers Technical Advisory Committee (MTAC), and a very successful mailing industry task force.

It's contagious. Our workforce is focusing on the customer. Letter carriers and Postmasters are helping small business grow through the use of the mail. We're proud of our Internet offerings that make it quick, easy and convenient to access postal products and conduct postal business. This is a track record we all should take great pride in. It's the base we need to build upon as we move into the future.

Let's not kid ourselves, the challenges remain great. So, the pace of change must remain high. We know that. Marketers are always exploring alternatives -- choosing between other forms of advertising and Direct Mail.

Financial transactions continue to move to the Internet. Postal workload grows by 2 million addresses each year. But volume is not keeping pace. Pieces per delivery continue to fall. Single piece First-Class Mail -- stamped mail -- has dropped 11 billion pieces. Then, this year we had to raise rates to pay for the Escrow Account of \$3.1 billion as required by law. While we had all hoped for legislative relief from the payment, it simply didn't happen.

At the same time, like you we are not immune from other cost drivers in the economy. Just consider the changes since we raised rates in 2002. Fuel has risen more than \$1 a gallon. That's over a billion dollars a year for the gasoline we purchase directly. Did we add a fuel surcharge? No.

We absorbed the costs so you didn't have to.

When considering other fuel related costs, the Postal Service, like the rest of the economy, has been hammered. Fuel adjustment clauses on most of our transportation contracts, mileage paid to rural letter carriers, as well as electric and other utility bills have increased total energy-related costs to well over \$2 billion annually since 2002.

We absorbed those costs so you wouldn't have to.

Fuel and energy related costs are one of the major drivers of the Consumer Price Index. Unlike most businesses, the Postal Service still has CPI-based COLA adjustments in our collective bargaining agreements, which in turn have driven our wage costs up. This combined with double-digit growth in Health Benefit costs -- an increase of \$700 million in 2006 alone -- means this year's salaries and benefits are \$4.5 billion more than they were 4 years ago -- even with tens of thousands fewer employees.

So what did we do? We absorbed those costs so you wouldn't have to.

Let's face it, change is tough. For example, I am especially proud of the initiatives our Supply Chain Management put in place over the past 5 years. We took the best practices from the private and government sectors and made them work for you. It wasn't without criticism, either. There were some who were comfortable doing business with us as they had for years. Ultimately, they changed! The result, we have avoided a cumulative \$2.1 billion in costs since 2000.

Despite our aggressive efforts, inflation continues to push prices. And we simply can't cut fast enough to offset all of the effects of inflation. You all probably know where this is heading. Yes, unfortunately, there is a need for another rate adjustment. When? Sometime in 2007. While no final decision has been made, management and the Board of Governors have been reviewing our finances and discussing alternatives for some time now. We could file a case as early as later this month. The filing will reflect a break-even scenario in 2008. Remember, rate adjustments are made to conform to the law that assures all Americans have access to universal service and that the Postal Service breaks-even over time. We have worked hard to present the Governors with a case that is fair, that gives mailers options to lower the impact of the rate change through greater use of worksharing discounts, and that reshapes prices to reflect the actual cost by type of mail being delivered: be it, letters, oversized letters, magazines, catalogs, or packages.

Some may say. "Hey, you just raised our rates. Why are you doing it twice?" Yes, we could have probably delayed the 5.4 percent January increase until 2007. But your message to us has been clear: avoid rate shock. Make smaller and more manageable rate adjustments rather than one extremely large one.

I know there are a number of people speculating on the next rate case. I would suggest that you wait until the case is filed and take some time to fully understand our proposals and their impact on your individual postage costs.

I also know that there is a lot of speculation about reform. Ratemaking is one of the cornerstones of the legislation that is now headed for a House and Senate conference. Consistent with the legislation passed in the House and Senate Bills, our Strategic Transformation Plan has two rate-related goals: first, hold rates at or near inflation and, second, move to annual changes. We intend to do just that beginning in 2009.

Regardless of what happens with reform legislation, we must continue to focus on driving change. And we are. Our 2006-2010 Strategic Transformation Plan was a logical next step in advancing change, and builds on the progress we made in the first Transformation Plan.

I want to thank everybody who responded to our call for input at National Postal Forum in Nashville last year. We received almost ten times more stakeholder feedback compared to our original Plan. Your input was important and valued. Thank you very much for all you contributed to the new Strategic Transformation Plan.

Unfortunately, there were some who thought we crossed an imaginary "finish-line" when we hit the first Plan target of \$5 Billion in savings. There was a natural tendency to take a "breather." In today's dynamic marketplace, no company, no organization has the luxury of sitting back and taking a "breather." Because, just as we saw in this year's Olympics, any lapse in focus or concentration can enable another to slip by for the gold. Aristotle said a long time ago that "excellence is not an act, it's a habit." I am convinced our excellence is habit forming. That's why we all need to stay focused on the plan and what needs to be done to maintain the continuous improvement of the past five years.

The new Strategic Transformation Plan is a bold plan, full of bold initiatives that will require the industry and the Postal Service to work closer than ever before if we are to be successful. Let me address several of the initiatives in the plan, starting with undeliverable-as-addressed mail, or UAA as we often refer to it.

We have wrestled with this issue for years. Bad addresses add costs for mailers, several billion dollars a year by some estimates. And they cost the Postal Service more than \$1 billion a year in wasted productivity.

What can you do to help? Better addresses of course. How? Use the most current information. And use the tools that are out there, like NCOA Link just before a mailing. It will help you increase your response rate and the value of your mailing and help us keep your rates low.

Second, we need the industry's cooperation as we streamline our networks -- whether it's our transportation networks or our processing networks. Why are we changing? It's simple - mailers have changed and we need to keep pace. People mail less today than they did in the past due to electronic diversion. It means we have less mail to cancel. And commercial mailers deposit mail at destination to take advantage of drop-ship discounts. That means less mail moves through our national logistics networks.

You barcode a greater amount of mail to take advantage of discounts. That makes our sorting more efficient. We need to capture the saving opportunities you create. I envision a leaner network with modern plants designed to handle multiple products and respond to changes in the mail mix. From your standpoint, it will mean fewer places to drop your mailings and enable you to maximize work-sharing discounts. This is not something that will happen overnight. Rather, it will be an evolutionary process that will enable all of us to transition smoothly.

The third major initiative I want to discuss this morning is intelligent mail. Barcodes have changed the face of American commerce, and they have changed the way our industry does business. With improvements in technology, we are on the threshold of new opportunities. You've heard it referred to as the One Code or the 4-State Barcode. Whatever name you want to call it, it is the barcode that will carry us for years to come. By eliminating separate codes for each service you request, barcode clutter on the envelope will be eliminated. This new code will provide a rich source of data to manage mail, track performance, and create value. A number of companies have been assisting us by testing the 4-state barcode on live mail. The results have been great and I fully expect the new codes to go live for all letter mail by September. If your company or organization is not familiar with the four-state or the One Code Solution, this Forum is a great opportunity to get up-to-speed.

The fourth major initiative we need to tackle is growth. This probably is our greatest challenge. When I look at the marketplace, I see great growth opportunities in small and medium-sized businesses, traditionally the biggest growth sector of the American economy, one which the mail is under-serving today. Most large companies know that direct mail has to be a part of their advertising and marketing mix. Why, because mail has power to reach out and touch the customer. It has the ability to sustain customer relationships.

Mail works!

We've seen it too. The Postal Service has shifted more and more of our advertising budget to direct mail. Our results have been outstanding and I am committed to more innovative direct mail pieces to help grow the mail business.

Beyond advertising, we are working hard to reach out. Look at what our carriers and postmasters have been doing. Customer connect continues to expand, and our letter carriers are bringing us leads that are bringing everyone business. Nationwide our postmasters have embraced Business Connect. Through grassroots outreach efforts, they've reached out to more than 900,000 potential customers to bring the message that our products and service offerings are a best-buy in the marketplace. We estimate that postmaster efforts have brought us about \$100 million annually in new business.

I would like to take a moment to single out Steve Lenoir, President of the League of Postmasters of the United States, who was there at the beginning of Business Connect. He helped make the program work. By the way, this is Steve's last Forum as League President. Thanks Steve for your many contributions to grow and deliver the mail.

If there is one company that has grown by tapping the grassroots of this nation and reaching out to individuals and small businesses, it's eBay. Not only has eBay become hugely successful, but hundreds of small companies have successfully tapped into its marketplace. eBay is a smart company. Even eBay, an internet company, is moving into direct mail! Why? It works. For some time I've said that the internet and mail complement each other. eBay is a great example of this. It has transformed the way millions do business - and it has even taught us a thing or two! I am delighted we have been part of the success-equation for eBay and its customers.

When we began discussions about who our honoree would be for the 2006 Partnership for Progress Award, I was immediately drawn to eBay and its Chief Executive Officer Meg Whitman. Meg Whitman's collaborative style and commitment to the customers we share is demonstrated every day by her team. And this spirit has been at the foundation of our partnership's success. Today it's my pleasure to award the 2006 Partnership for Progress Award to Meg Whitman. Accepting the award for Meg is Bob Hebler, eBay Vice President for Seller Development.

The success of the mailing industry is not the result of any one person -- or even a single group. The industry's success is the product of the partnership we've all developed over the years. The Mailers Technical Advisory Committee has done great work. They've tackled tough questions and provided us a valuable sounding board for many complex operational issues. The current MTAC chairman, Joyce McGarvy, is here today. Joyce, my thanks to you and all the members!

Another equally important group has been our Postal Customer Councils (PCCs). They have played an immense role in teaching others in their communities about the value of mail while sharing mailing success stories. Like MTAC, PCCs give us an opportunity year-round to educate -- and to learn! I'm proud of them all.

Last year, the Miami-Dade PCC was created. Mailing leaders saw a need for partnership and the response was tremendous. As a result, the Miami-Dade PCC was recognized as the top PCC in the nation in 2005. Today, we're lucky to have a number of its members with us, including industry co-chair Susan Reed, of Florida Power and Light, and the postal co-chair Miami Postmaster Jesus Galvez. Would all the members of the Miami PCC please stand and be recognized!

I'd also like to recognize someone who has spent countless hours working on postal issues. Pitney Bowes CEO Mike Critelli was among the first to call and say, "How can I help?" during the anthrax crisis. I sincerely appreciated that. When we needed new ideas, Mike volunteered to head the Mailing Industry Task Force (MITF). Under Mike's leadership, MITF fostered an atmosphere whereby collaborative working relationships with the private sector allowed the Postal Service to sharpen and refine strategies and tactics.

He also co-chaired the Intelligent-Mail-and Address-Quality-team where progress was made in the development and implementation of the CONFIRM and Internet Change-of-Address programs. And I thank Mike and MITF for efforts to rally the industry behind powerful causes such as the Transformation activities and Reform. Mike, thanks for all that you've done. After four years, we are going to let Mike again concentrate fully on Pitney Bowes.

We are fortunate that David Sable, Vice Chairman and Chief Operating Officer of the global direct marketing firm Wunderman, has returned to his New York City office from more than year in London and Europe. David, who has worked with the Postal Service in a number of roles since 1992, including the MITF, has agreed to take over as chair of MITF. Working with our Marketing and Sales group, I want MITF to refocus its efforts and work on growth. Our quick, easy, convenient strategy to reach medium and small businesses has been successful although there is much more we can do. I believe we can become even more aggressive in selling the value of mail.

This morning I have the pleasure to recognize a mailing industry leader who has dedicated his life to the mail. He has been an innovator and strategist in making mail the premier vehicle for marketing and advertising. Bill David began by building his first successful mailing company, Beaver Enterprises, in Jacksonville, Florida, in 1958. Bill is a founding member of the National Association of Advertising Distributors. He is a past Board Chairman of the Mail Advertising Service Association, now known as the Mailing & Fulfillment Service Association. He is also past chairman of the Association for Postal Commerce, PostCom. He served as industry co-chair of MTAC. And Bill also served on the Board of the National Postal Forum. He has done it all. Few individuals have left such an indelible mark on our industry. Bill, I am honored to recognize you now with the Postmaster General's Award.

The reason we are all where we are today is because of earlier generations of leaders. They met the challenges, created growth and prepared the path for us. Now it is our time to take the baton and continue the race.

In this hotel, there is a replica of a fort, the Castillo de San Marcos. In that fort is the story of a shipwreck treasure found off the Florida Keys. The ship was the Atocha. It went down in 1622, loaded with gold and silver. You can see some of the treasure in the hotel. The man who found it was Mel Fisher. He started looking in 1969. Plenty of folks had looked before him and failed. After almost four centuries no one could solve the mystery. Mel worked for years to find that ship. And this was his motto: "Today's the day". He never doubted that he would prevail. Finally, in the summer of 1985, there it was - one of the greatest treasure finds in history. Persistence paid off.

Persistence will pay off for us, too. We will continue to transform the Postal Service. We will make it easier and more convenient to do business together. We will add value throughout our product lines. And we will work with you to keep the mail relevant and vital for America.

Ladies and gentlemen, today's the day! The day for the mail and for all of us who depend on it. There is gold to be found. Let's go find it.

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