

United States Postal Service 2000 Comprehensive Statement on Postal Operations

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All reference to "2000" or "the year" refer to the government fiscal year ending September 30, 2000.

Chapter 1 Compliance with Statutory Policies

A. Fundamental Service to the People

(39 U.S.C 101 (a))

1. General

It began with a successful rollover to the new century. Years of preparation paid off. When the year 2000 arrived, the mail kept moving and financial data and other key information systems remained intact.

Postal Service employees continued to deliver record-breaking performance in customer service and in overnight delivery of First-Class Mail. Those successes translated to immediate benefit for our customers.

Customer satisfaction measurements revealed that 92 percent of households surveyed rated their level of satisfaction with the Postal Service as "good," "very good" or "excellent." And, independently measured delivery scores continued to rise, with a high 94 percent of local First-Class Mail delivered on time for the year.

The Vice President's Commission on Reinventing Government awarded the Postal Service the prestigious Hammer Award for achievement in diversity. *Fortune* magazine mirrored that sentiment by placing the Postal Service among the top ten best workplaces for minorities. Those successes fueled our efforts and helped to expand the scope of our multicultural initiatives.

Throughout the year, we sought to reach under-represented markets through advertising and product specialization. We contracted help from three advertising agencies known for their expertise in reaching specialty markets, including African Americans, Hispanic Americans and Asian Americans.

And, we successfully launched our newest website, www.usps.com/correo. Written entirely in the Spanish language, the website gives our Spanish-speaking customers access to the full range of services and employment opportunities offered by the Postal Service.

We've embraced electronic technology and began providing the Internet-based products and services our customers demanded with the launch of our premier website, www.usps.com. Since its inception, we've continuously expanded our electronic services lineup. It now includes the following:

- Postal Service *eBillPay*, an electronic bill presentment and payment service for individuals and businesses, too.

- *NetPost Mailing Online*, a service that brings the convenience of letter shop operations to consumers' home computers. It allows users to electronically transmit their (First-Class Mail and Standard Mail (A)) in the form of documents, correspondence and newsletters, along with their mailing lists, to the Postal Service via our website at www.usps.com. The electronic files are securely distributed to printers who print, insert, add postage, sort and transport the mailings to the nearest Post Office for processing and delivery.
- The Postal Store, a virtual retail outlet that brings the speed and convenience of secure on-line shipping to customers looking to buy postage and other postal products.

And the most recent addition, *Netpost CardStore*, is an Internet-based service, designed to make sending high-quality, personalized greeting cards easier and less time-consuming. Its primary focus is business-to-business and business-to-consumer greeting cards, but consumers can send their individual greeting cards, too.

With each electronic service initiative, we've sought to provide convenient, high-value Internet-based services for our customers, while reaffirming the relevancy of traditional, hard copy mail. So far we've been successful.

We are also working to build an organization of operational excellence. We are continuing our Breakthrough Productivity Initiative to centralize functions, eliminate duplication and reduce administrative staffing. This will help us to cut significant costs from our system. Despite these efforts, an increasingly competitive communications market and our existing regulatory environment are working together to create an increasingly difficult financial outlook for the Postal Service. With the continued expansion of electronic communications, forecasts call for significant diversions of First-Class Mail to other media. We are also experiencing changes in the patterns of mail volume growth, with a shift away from higher-contribution products such as First-Class Mail to Standard Mail, which makes a smaller contribution to our overhead. In addition, a labor arbitration process that does not consider the needs of our customers has contributed to a situation in which salaries are growing at a rate that exceeds both our revenue and inflation.

2. Board of Governors

As the governing body of the United States Postal Service, the 11-member Board of Governors

has responsibilities comparable to a board of directors of a publicly held corporation. The Board is composed of nine Governors appointed by the President of the United States with advice and consent of the Senate, the Postmaster General and the Deputy Postmaster General. The Governors appoint the Postmaster General who serves at their pleasure without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General (39 U.S.C. 202).

The Board meets on a regular basis and, at the annual meeting in January, the chairman is elected by the Governors from among all members of the Board. The vice chairman is elected by the full Board.

The Board directs the exercise of the power of the Postal Service. It establishes policies, basic objectives and long-range goals for the Postal Service in accordance with Title 39 of the United States Code. Except for those powers specifically vested in the Governors, the Board may delegate the authority vested in it by statute to the Postmaster General under such terms, conditions and limitations including the power of redelegation, as it deems desirable (39 U.S.C. 402). The Governors are authorized to establish reasonable and equitable classes of mail and reasonable and equitable rates of postage and fees for postal service (39 U.S.C. 3621). A specific power reserved by statute for the Governors alone is to approve, allow under protest, reject or, by unanimous written decision, modify recommended decisions of the Postal Rate Commission on postal rate and mail classification changes (39 U.S.C. 3625).

During 2000, the Board held regular monthly meetings for a total of 24 days. Eight of the regular monthly meetings were held in Washington, DC. Another four in cities across the country gave Board members an opportunity to meet mailers and employees, hear their concerns, visit postal facilities and observe new technology.

The Board had four standing committees: Audit, Capital Projects, Compensation and Strategic Planning. The committees hold regularly scheduled meetings during the year to consider matters within their areas of responsibility and refer items to the full Board for consideration. A number of these meetings were held prior to the scheduled Board meetings to facilitate action on committee activities.

In October 1999, the Board approved the 2000 Economic Value Added (EVA) Variable Pay Program and a resolution designating the number

of authorized Assistant Postmasters General/Vice Presidents. They also approved their meeting schedule for 2000 and the budget of the Office of the Governors.

In November 1999, the Governors approved the Recommended Decision of the Postal Rate Commission for Weighted-Averaged, Nonletter-Sized Business Reply Mail in Docket No. MC99-2. The Board approved a resolution setting February 6, 2000, as the effective date for the new classification and fees. The Board also approved filing with the Postal Rate Commission an Experimental Classification for Mailing Online and extending the contract for external audit services for one year. The Governors approved the 2000 Performance Plan for the Office of Inspector General.

In December 1999, the Board approved the 1999 audited financial statements and 1999 Annual Report. The Board also held a special meeting on succession planning by conference call in December.

In January 2000, the Board approved the filing of an Omnibus Rate case with the Postal Rate Commission. The Governors approved a resolution relative to the Postmaster General's salary and the Board approved a resolution on capital funding. The Board also approved the annual report to Congress in compliance with the Government in the Sunshine Act. The Governors elected Einar V. Dyhrkopp as Chairman of the Board and the Board elected Robert F. Rider as Vice Chairman for 2000.

In February, the Board approved both the 1999 Annual Performance Report and the 2001 Preliminary Annual Performance Plan, in compliance with the Government Performance and Results Act. The Board also approved the transmission of the Annual Comprehensive Statement on Postal Operations to Congress. The Governors approved the Postal Rate Commission's Recommended Decision in Docket No. MC00-1, Experimental Ride-Along Periodicals Classification Change. The Board approved an implementation date of February 26, 2000, for the change.

In March, the Board reviewed the preliminary plans relative to electronic commerce and the use of the Internet to meet customer demands.

In April, the Board approved the offering of ePayment services through the Internet. The Board also approved an Audit Resolution Process for reports from the Office of Inspector General.

In May, the Board approved a resolution on International Postage Rates for three categories of surface printed matter. The Board approved a reso-

lution on Compensation and Benefits for Officers of the Postal Service that strengthened the approval and administration of relocation benefits. The Board approved the Chief Inspector's Semiannual Report to Congress on the summary of investigative activities in accordance with the Mail Order Consumer Protection Amendments of 1983.

In June, the Governors rejected the Postal Rate Commission Opinion and Recommended Decision in Docket No. C99-4, Complaint of Continuity Shippers Association. The Board approved a resolution for the consideration of eCommerce initiatives. The Board approved a resolution for an updated Charter of the Audit Committee that was based on rules adopted by the Securities and Exchange Commission, the exchanges and the Auditing Standards Board.

In July, the Board approved a resolution on Capital Funding that added developmental real estate projects to those requiring Board approval when a project exceeds \$10 million.

In August, the Governors approved the Decision on the Recommended Decision of the Postal Rate Commission in the Mailing Online Experiment, Docket No. MC2000-2. The Board approved a resolution with September 1, 2000, as the effective date of the new classification. The Board approved a resolution for Contingent Borrowing Authority. The authorized the exercise of the power of the Postal Service to borrow money under 39 U.S.C. 2005. The Board also approved a resolution expanding Priority Mail Global Guaranteed Service to include non-documents shipments, effective October 1, 2000.

In September, the Governors approved the 2001 budgets for the Office of Inspector General and the Postal Rate Commission. The Board approved a public notice in the Federal Register for an International Rates Proposal. The Board also approved transmittal of the Five-Year Strategic Plan in compliance with the Government Performance and Results Act.

During the year, the Board considered and approved 22 capital investment proposals costing \$10 million or more. Funding was approved for seven automation-related projects, including some that increased readability and throughput of automated equipment. Systems approved included automated induction units for secondary parcel sorting machines, upgrade of optical character reader equipment, automated flat sorting machines, expanded capability for delivery and carrier sequence bar code sorters, control modifications for small parcel and bundle sorters upgrade readers and

feeders for flat sorting machines. Eight facility projects were approved, including Twin Cities Air Mail Center, St. Paul, MN; new lease for Midtown Station and additional funding for Ansonia Station, New York, NY; expansion of the Los Angeles Bulk Mail Center; Priority Mail Center, Phoenix, AZ; Crossroads and Topaz Stations, Las Vegas, NV; advance site and design, Santa Monica, CA; and Air Mail Center expansion, San Francisco, CA. Five other projects were approved, including funds for Mailing Online, *PostalOne!*, POS ONE Stage 2B, Mail Evaluation, Readability and Lookup system (MERLIN) and delivery and collection vehicles. Two projects were approved as part of the information platform, including surface-air management system and delivery operations information system.

Governor Sam Winters, serving in his one-year extension, ended his term on the Board November 8, 2000. Alan Kessler was appointed to the Board on November 9, 2000. Governor Kessler's term expires in December 2008. The Board appointed John Nolan Deputy Postmaster General on February 5, 2000.

3. Strategic Planning

The Office of Strategic Planning supports the Postmaster General and the Management Committee, within the policy framework set by the Board of Governors, in the development, approval and implementation of a Five-Year Strategic Plan, as required by the Government Performance and Results Act (GRPA). The Office is also responsible for preparing the GPRA-required preliminary and final Annual Performance Plans.

The Office of Strategic Planning also assists the Strategic Planning Committee of the Board of Governors and the Management Committee in addressing long-term strategic issues and provides support to the annual planning process. The office publishes an annual Business Environment Assessment (BEA) at the beginning of the annual planning cycle. Postal managers are updated on issues likely to impact the Postal Service in upcoming years and facilitates discussion with Postal Service stakeholders on the future of the Postal Service.

a. The Five-Year Strategic Plan, Fiscal Year 2001-2005

The GPRA of 1993 required federal government agencies, including the Postal Service, to develop and submit to Congress and the President a five-year strategic plan. According to the statute,

this plan should outline the mission of the agency, describe the challenges faced by the organization and provide information on how the agency will address those challenges. Agencies also are required to provide the objectives, measures and targets that should be used to define success and evaluate progress. Finally, agencies need to involve their stakeholders in discussions on the objectives, strategies and measures.

GPRA requires the Postal Service to update its Five Year Strategic Plan at least every three years. The previous strategic plan was provided to Congress and the President in September 1997. An updated plan, for 2001–2005, was provided in September 2000. The revised strategic plan represents a summary of an ongoing process that involves extensive work by the Board of Governors, the Management Committee and postal stakeholders.

The Postal Service is beset by an outdated regulatory model that limits flexibility in certain key areas critical to the organization's future success. We are seeking statutory reform that would provide a new regulatory model with increased pricing, product, labor and investment flexibility.

The strategic plan underlines the importance of this goal as it addresses one of our fundamental challenges — the uncertainty about future mail volume growth as a result of changing technology.

In the past, the Postal Service was able to forecast mail volume growth primarily based on assumptions about the growth of the U.S. economy. The widespread availability of the Internet in American homes and businesses and the development of Internet applications that may substitute for traditional postal applications, such as bill presentment and payment, suggest that business practices and consumer behavior may change in the future. The Postal Service recognizes that many external experts predict that such changes will cause mail volume to decline.

The Postal Service is operating within an extremely volatile market environment with competitive pressures unlike any it has experienced in the past. While it is clear that these will likely contribute to a long-term, negative effect on mail volume and revenue, the organization must make strategic decisions for the future while operating within a changing marketplace.

The plan identifies three major strategic challenges created by this environment. The first is the issue of affordability, or maintaining postal prices at competitive levels, subject to the break-even requirements of the Postal Reorganization

Act. The postal response to this challenge is a set of strategies known as the “Blueprint for Progress: Breakthrough Productivity Initiatives,” which have the goal of reducing costs by about \$3–\$4 billion over the next several years. The strategies include targeted reductions in overhead, overall postal employment, transportation and fuel costs and improvements in purchasing productivity. Other strategies focus on improving the Postal Service operating network and increasing productivity of current flat and package handling operations by implementing automation, materials and handling, information processing and other technologies.

A second major challenge is to identify opportunities for the Postal Service to grow revenue to replace volume that may be lost to Internet-based applications such as electronic bill payment and presentment and e-mail interactive advertising. We are responding to this challenge in a number of ways. Our primary focus is maintaining and strengthening the value and relevance of our core products and services. We are doing this by maintaining high service levels, increasing ease of use and access and adding enhancements and features that position our core products as the right solutions for customer needs. We are also developing new electronic and Web-enabled services.

The third challenge identified and described in the strategic plan is the need for the Postal Service to become more flexible, innovative and responsive to customer needs. This is a “vision” of change that will prepare the Postal Service for the future. However, such changes press the limits of the current regulatory and legislative structure established 30 years ago by the Postal Reorganization Act of 1970.

The Postal Service is not only seeking significant improvements in internal processes, but is also in need of more flexibility in developing and pricing services, investing and working with postal unions.

The strategic plan introduced a framework, called “Gateway to the Household,” which increases the focus on the traditional mission of the Postal Service to provide prompt, reliable services to all communities. The “Gateway to the Household” expands the internal focus on postal operations to include a more externally oriented “value chain” that includes mailers, the mailing industry and the attitudes and behaviors of recipients of the mail. The future success of the Postal Service will depend on improvements across the

entire value chain as mail is increasingly subject to technological substitution and direct competition.

The strategic plan describes the risks facing the Postal Service if the strategies for improving affordability, growth and flexibility are unsuccessful. The traditional mission and infrastructure of the Postal Service would be under severe pressure for change — change that may be disruptive and that the American public has shown no willingness to consider.

b. Leadership Support

The process of framing strategic issues, providing data and analysis, developing policy options and facilitating leadership discussions is an intensive and continuous process. Strategic Planning provides the necessary support to postal leadership efforts. Initiatives include providing management with timely and relevant “futures” seminars, industry and academic experts, strategic research and consulting support, scenario development and other programs that respond to the changing needs of postal management in a dynamic, competitive environment.

c. The Business Environment Assessment (BEA)

The BEA supports postal officers and executives in the development of annual performance targets. The office integrates data provided by different departments to create a report that establishes a common foundation for the development of functional plans.

The BEA focuses on the impact of legislation and regulatory changes on the Postal Service, on changing technology and on trends in postal markets. It also addresses changes in the economy and labor market and business practices or processes that may affect the Postal Service.

The BEA is also used as a training tool in the development and mentoring of the next generation of postal leaders and as the basis for discussions with postal stakeholders about the future of the Postal Service.

d. Stakeholder Outreach

The Postal Service interacts with its stakeholders — employees, customers, the public, the mailing industry and the policy community — in a number of different ways. Many of these interactions often tend to be fairly specific and related to immediate, practical issues. In 2000, we conducted a major initiative to discuss long-term strategic issues about the future of the Postal Service with the different stakeholders. In the coming year, the Postal

Service will extend these discussions, using the Internet to create broader and more interactive participation in the planning process.

e. The Annual Performance Plan and the Annual Performance Report

The Preliminary Annual Performance Plan for the Postal Service has been included with this Comprehensive Statement, as required by GPRA. This Performance Plan describes the goals, sub-goals, indicators, measures and preliminary targets for 2002, which begins October 2001.

The targets are set each year after extensive consultation with both headquarters and field managers that takes place during the Deploy phase of the management cycle, which is completed near the end of each fiscal year. The preliminary targets are subject to change as data become available or as changes in the external environment force changes not foreseen during the planning process. The Postal Service will provide updated plans to Congress as necessary.

Chapter 5 of this document is the Annual Performance Report required by GPRA. The Performance Report assesses the success of the Postal Service in achieving the targets outlined in the Annual Performance Plan. It is intended to provide the postal policy community with consistent, timely, relevant and accurate data to evaluate postal performance.

f. Improving Postal Goals and the Planning Process

Appendix 1 of the Postal Service Five-Year Strategic Plan, 2001–2005, describes the current planning process in detail. There is strong support for the annual management cycle and for the longer-term strategic planning process. The discipline provided by the process has led to such successes as increased customer approval ratings, overnight First-Class Mail service performance and successes in other targeted areas.

However, the current process is likely to change over the next year to reflect the experience the Postal Service has gained over the past several years. This includes extensive research on GPRA practices of other agencies, benchmarking with academic experts and leading practitioners in the private sector and GAO evaluations of the Annual Plan and Performance Report.

4. Quality

a. Quality Core Applications

In 2000, a decision was made to phase out the Field Quality organization over the next three years. The Headquarters Quality staff resources normally devoted to field support, course development and instructor certification and Quality application support, have been reassigned to support our corporate standardization efforts. The new, reduced Quality organization structure will bring greater focus to its activities.

Our first Standardization initiative began with a partnership with the Vehicle Maintenance group, which wanted to standardize the Scheduled Maintenance Process. This effort began in January 2000 and has progressed to the point where a national, standard Scheduled Maintenance process has been deployed to all ten Areas. This has driven greater performance levels and consistency in our Vehicle Maintenance facilities throughout the system.

Another key opportunity to pilot our Standardization approach began early in the year in response to a request by the senior VP, Operations, to help improve Priority Mail performance. The Quality Department developed a set of national indicators for Priority Mail that were rolled out nationally in October 2000. While the indicators were being developed and tested, Quality worked to designate national Process Owners for critical Priority Mail processes (e.g., Mail Prep, Manual Processing, Small Parcel and Bundle Sorter (SPBS) Processing, Flats Processing, etc.) these owners began to document the best-performing processes nationally using Quality's "Design Lite" approach. As of this writing, national standard process documentation for Mail Prep, Manual Processing and SPBS Processing will be deployed.

Following the decision by senior management that Flats Processing was rapidly becoming a critical area for the business, a similar standardization effort was launched on the deployment of the Automated Flat Sorting Machine 100s (AFSM) 100 automation equipment. The objective of this effort is to achieve the Productivity targets that this equipment is capable of achieving (i.e., approximately 2,850 pieces per hour). In December, the Postal Service completed documentation of a standard process for installing and operating the AFSM 100.

Standardization is a strategic initiative that is intended to provide Operations personnel with well designed and capable processes that will, when operated properly, achieve the *CustomerPerfect!* targets established by senior management.

Achieving this level of integration of leadership's direction and the capability of our critical processes will greatly enhance the Postal Service's ability to achieve our strategic intent and simultaneously drive much greater consistency and predictability in our service performance throughout our network. It also removes the burden from the field of having to develop process improvements independently in response to corporate performance targets, which is the practice today. While this has been successful in achieving sustained performance in First Class External Mail (EXFC)* scores, for instance, it is nevertheless time consuming and inefficient for 85 performance clusters to pursue these improvements by themselves without the benefit of a national, standard process developed, tested and proven capable by the responsible Headquarters function. Considering the daunting fiscal challenges the Postal Service is facing, Standardization is viewed as a key strategy for improving our service levels while the organization reduces its costs in the face of shrinking First-Class Mail volume.

In 2000, because of severe revenue shortfalls and driven by the need to make significant cost reductions, the Field Quality organization was targeted to be phased out over the next three years by the Area Vice Presidents. The Headquarters Quality staff resources normally devoted to field support, course development and instructor certification, as well as Quality application support, have therefore been reassigned to support our corporate Standardization efforts.

b. Quality Development and Applications

The application of Quality tools shifted emphasis from a role of identifying and mapping processes to one of using data to measure and analyze process variation, stability and capability. Statistical Control tools were introduced to allow our managers to calculate and illustrate process control through the use of control charting. These higher level tools are more effective in giving our managers the information they need to manage the processes that make up our business.

The use of process management skills was greatly expanded through the Quality Practitioner

* EXFC externally measures collection box to mailbox delivery performance. EXFC continuously tests a panel of 463 ZIP Code areas on the basis of geographic and volume density from which 90 percent of First-Class Mail volume originates and 80 percent destines. EXFC is not a system-wide measurement of all First-Class Mail performance.

program. Across the enterprise, over 600 Quality Practitioners were trained in the application of process management methods to increase the capability of our internal and external processes.

As a result of the 1997 Baldrige assessment, an initiative was undertaken to develop a strategy for identifying, collecting and using comparative data to evaluate Postal Service performance. This benchmarking methodology will allow us to compare internal standardized "best practices" for replication across the enterprise as well as to compare Postal Service documented processes against external world class methods as a means of accelerating process improvement.

Another area that received increased attention was that of project/program management. The application of sound process management principles to the initiation and management of major programs resulted in the identification of a focused and disciplined approach to managing large integrated efforts. Use of this program management process will ensure that major programs support the strategic objectives of the Postal Service, make best use of available resources, provide integration of activities and establish accountability. A specialized project management training program also was established to facilitate implementation of this process.

c. Quality-Enabling Applications

Focus in this area has shifted to providing support primarily for the enabling process owners with Breakthrough Productivity Improvement (BPI) goals. Prioritizing opportunities established through the BPI effort created the strategic alliance needed to integrate core and enabling processes. In an effort to drive the redesign necessary for substantial cost savings and service improvements, process owners are utilizing process management tools, including benchmarking, standardization and data analysis methodologies. Many of the enabling process owners are recognizing the benefits of data-driven decision-making and the value of developing a process approach to problem-solving and project-management. The integration of cross-functional efforts has been a key driver for many of the improvement/standardization efforts.

5. Diversity

a. General

The Postal Service is facing internal and external business needs that provide both challenge and opportunity for improved financial

performance. Internally, we must continue to create an inclusive environment, build upon our diverse talents and drive out discrimination and sexual harassment. External factors include: retaining talented employees, meeting legal and regulatory equal employment opportunity mandates, enhancing our corporate image as a responsible corporate citizen of the diverse communities we serve and promoting business and community partnerships.

To meet these challenges, Diversity Development is focused on four principal objectives: (1) workplace environment, (2) workplace management, (3) leadership development and (4) customer and community relations. During the upcoming year, Diversity Development will continue its efforts to help make the Postal Service a great place to work. This means striving for a place where everyone's participation is welcome and no one is subjected to discrimination or sexual harassment. It is also a place where employees have access to programs that help them advance as far as their talents and desires will take them.

Diversity Development is providing the training and messaging to build an inclusive and harassment-free workplace. This includes special emphasis programs that encourage our employees to appreciate each other's differences and to exclude no one from organizational life because of those differences. We are making sure that both personnel selection and development participation are inclusive. We are taking steps to maximize the return on our investment in sponsorships in multicultural communities. In addition, the Diversity Development vice president is actively involved with ensuring that the succession planning process is inclusive by participating with the Postmaster General and officers in their respective succession planning meetings. We will continue our efforts to help build a diverse supplier base by welcoming participation of small, minority- and women-owned businesses. Realizing that suppliers also are our customers, our key objectives are to generate revenue from these sources and to increase customer service and satisfaction.

b. National Diversity Recognition Program

The Postal Service National Awards Program for Diversity Achievement recognizes individuals and teams that demonstrate exemplary efforts to encourage and promote diversity within the organization. Nominations are submitted for those

employees who focus on the Postal Service *CustomerPerfect!* goals which consist of the Voice of the Customer (VOC), Voice of the Employee (VOE) and Voice of the Business (VOB).

In 2000, there were approximately 1,600 nominations, of which 452 were screened by a team of six postal executives. The categories for award consideration were Individual, Partnership, Team, Leadership and the Dot Sharpe Lifetime Achievement Award. In addition to these awards, a Vice President category was established to recognize several employees, both individually and collectively, who specifically helped to advance the vision of diversity within the Postal Service.

Recognizing and valuing diversity continues to be a business requirement and is key to attaining *CustomerPerfect!* goals. Recognizing postal employees for their support of and accountability to diversity initiatives will continue to assist the Postal Service in remaining an inclusive organization.

c. Employment of Individuals with Disabilities

The Postal Service uses regular competitive procedures in selecting individuals with disabilities for employment. Individuals with severe disabilities receive non-competitive employment consideration through referrals from individual state departments of vocational rehabilitation or the U.S. Department of Veterans' Affairs. In 2000, the Postal Service's career workforce included 49,155 employees with reported disabilities. Of these, over 7,000 were employees with targeted disabilities.

Each year, the Postal Service submits an Affirmative Employment Plan and an Accomplishment Report for Individuals with Disabilities to the Equal Employment Opportunity Commission. The Affirmative Employment Plan is disseminated to Postal Service field installations. Each installation head is responsible for implementing the plans.

d. Veterans' Employment

The Postal Service is one of the largest employers of veterans and disabled veterans in the nation. At the end of 2000, the Postal Service employed about 244,000 veterans of whom about 80,000 are disabled because of injuries received in the uniformed services. The Postal Service prepares an annual Accomplishment Report and Plan Certification for disabled veterans for submission to the Office of Personnel Management.

e. Affirmative Employment Programs

The Affirmative Employment Program (AEP) unit provides national guidance on the Postal Service's affirmative action and employment program. During 2000, the following actions were taken to improve the inclusiveness and retention of the postal workforce:

- Published and distributed the Affirmative Employment Plan and Accomplishment Report for individuals with disabilities to management and the Equal Employment Opportunity Commission (EEOC).
- Published and distributed to management the Affirmative Employment Plan and Accomplishment Report for disabled veterans to management and the Office of Personnel Management.
- Implemented the Diversity Quarterly Tracking Report to monitor affirmative employment activities nationwide.
- Completed AEP Accomplishment Reports that addressed the prevention of sexual harassment, employee group representation, discrimination complaints, recruitment and hiring, employee development, promotions, separations, retention, program evaluation, veterans and people with disabilities.

In accordance with Section 717 of the Equal Employment Opportunity Act of 1972, the EEOC requires the submission of the Affirmative Employment Plan Accomplishment Reports, with updates for multi-year plans each fiscal year.

The Diversity Reporting System (DVRS) provides detailed workforce statistical reports used to analyze postal workforce data and identify employment trends. Statistical information from DVRS is provided on request to the General Accounting Office, the EEOC, Congress and other external and internal customers.

The Postal Service also administers the National Hispanic Program (NHP), Women's Program and Special Emphasis Programs. These programs focus attention on the special needs, obstacles and concerns of all groups when they are under-represented in postal employment. Major accomplishments for these programs are outlined as follows:

1. The National Hispanic Program (NHP)

During 2000, the NHP Executive/Managerial Development Process, through its field network, continued its mission to address the VOE and underrepresentation of Hispanics in the Postal Service.

Also during 2000, the NHP sponsored or attended recruitment and community outreach activities. One such activity was the Test Battery 460/470 Pre-Test Orientation. The number of qualified Hispanics applying for and obtaining Postal Service jobs at all levels has increased because of this activity. Hispanic Program specialists have participated in recruitment drives, Test Battery 460/470 preparedness seminars, Form 991 preparation and Advanced Leadership Program recruitment.

In its efforts to respond to the Voices of the Customer and Business goals, the NHP sponsored numerous national events involving the National Council of La Raza, the U.S. Hispanic Chamber of Commerce, Hispanic Data — the electronic job posting website, the Hispanic Employees Program Management, the Hispanic National Bar Association, the National Organization for Mexican American Rights, the National Hispanic Leadership Institute, the Transporte Integrado y Masivo Hispanic Yearbook, the League of United Latin American Citizens and the Hispanic Business Expo of Central Florida. These outreach activities have helped to establish the Postal Service as a benchmark among our nation's businesses in addressing the needs of the Hispanic community.

2. The Women's Program

During 2000, the Postal Service continued its commitment to improving the status of women in the workforce. Through structured programs and positive actions these efforts have assisted with the removal of barriers and the inclusion of women at every level in the organization. Some of the major accomplishments designed to address the Voice of the Employee and the underrepresentation of women in the Postal Service were:

- Redesign and update of the Women's Program website. provided information on recruitment, career development and hyperlinks to national women's organizations.
- Establishment and implementation of a Diversity Executive Advisory Committee to identify and resolve Special Emphasis Programs issues.
- Sponsorship of the National Association for Female Executives, the Business Women's Network Diversity Council and Leaders' Summit, Business and Professional Women and Federally Employed Women. These outreach activities have furthered the Postal Service's recruitment, career development and supplier diversity efforts.

Based on statistics from Quarter 4, 1999 to Quarter 4, FY 2000, and the Quarterly Workforce Profile, the nationwide representation of female employees increased in each level grouping except for PCES-02:

EAS 01-14	0.1% Increase
EAS 15-18	0.6% Increase
EAS 19 and above	1.0% Increase
PCES-01	2.9% Increase
PCES-02	0.9% Decrease

The National Women's Program plans to continue its awareness campaign using postal media, and websites of women's organizations. The program is designed to assist women with career development and to facilitate networking and support. It provides sponsorship to the Advanced Leadership Program and executive education programs at various universities.

The Women's Program will continue to analyze studies that focus on work and family life and address issues such as recruitment, retention, mentoring and succession planning.

3. Special Emphasis Program

During 2000, the Special Emphasis Program focused on recruitment, retention promotional opportunities for African Americans, American Indians, Native Alaskans, Asian Americans and Pacific Islanders, people with disabilities, veterans and white males. White females and Hispanics are addressed by the Women's Program and the National Hispanic Program, respectively. Some of the major accomplishments of the Special Emphasis Program were:

- Compliance with the White House Initiative on Asian Americans and Pacific Islanders.
- Compliance with the President's Committee on Employment of People with Disabilities. The Special Emphasis Program created a joint video on disability awareness and associated service talks to increase appreciation of the Postal Service's commitment to employees and customers with disabilities.
- Creation of Diversity Development's Special Emphasis Web page on the corporate intranet that strategically addresses topics on recruitment, presidential proclamations, publications and links to external organizations.
- Sponsorship of external national special emphasis organizations with the goal of increasing awareness about availability of postal products, supplier services and career opportunities.

f. National Sexual Harassment Prevention

This year Publication 553, *Employees' Guide to Understanding Sexual Harassment*, was mailed to the home of every postal employee. The guide will help employees understand sexual harassment and how to resolve related complaints.

All postal employees were required to take sexual harassment prevention training in 2000 as part of their VOE requirements. EAS employees received 2 hours of training, which included the Initial Management Inquiry Process. Craft employees received one hour of training. Each Area was provided with training films. The sexual harassment course series for EAS employees was broadcast monthly on the Postal Service Television Network (PSTN) and the Initial Management Inquiry Process (IMIP) was broadcast quarterly. The IMIP helped managers and supervisors effectively identify, investigate, prevent and resolve sexual harassment situations in the workplace. This program included a one-hour segment designed to increase awareness among craft employees of the serious nature of sexual harassment.

g. Supplier Diversity

The Postal Service's Supplier Diversity program is a fundamental element in the Postal Service's corporate strategy to remain competitive and profitable in the marketplace. Our record is a good one and because our business and financial challenges are more similar to those of the private sector than those of government agencies, the Postal Service has adopted more of a private-sector approach to supplier diversity. That approach is based on strengthening our supplier base by reaching out to identify strong suppliers and providing them with opportunities to compete for our contracts. When we benchmark our results against either the public or the private sectors, we find ourselves clearly among the leaders engaging small and woman-owned businesses and above average with regard to minority businesses.

The Postal Service provides a wide range of programs and efforts aimed at promoting the involvement of small, minority and woman-owned businesses in our purchase opportunities. Close and effective working relationships are maintained with a number of the national associations and their affiliates that support supplier development and diversity throughout the country. These include, among others, the National Council of La Raza, the National Urban League, the United States Hispanic Chamber of Commerce, the

Organization of Chinese Americans, the Women Business Enterprise National Council, the National Association of Women Business Owners, the Business Women's Network, the U.S. Pan Asian American Chamber of Commerce, the National Congress of American Indians the National Minority Supplier Development Council. The Postal Service actively supports these organizations and participates in workshops sponsored by them, as we do in those sponsored by members of Congress and state and local governments; the Postal Service participated in an estimated 100 trade, federal, congressional and special-emphasis supplier-focused events across the country. Further communication is maintained through a Postal Service web page that addresses the small, minority- and woman-owned business communities and provides information on purchase opportunities as they arise, contact points, policies and procedures.

During 2000, the Postal Service focused on tracking and measuring key elements of the Five-Year Supplier Diversity Plan issued in 1999. Efforts centered on three of the Plan's six key areas: accountability, sourcing and training.

In April, guidelines were issued for setting performance goals for buying organizations and individual buyers. Effort-based indicators were outlined that meet both the Postal Service's supplier diversity policies and legal requirements applicable to the Postal Service. These indicators include attending and participating in trade fairs and events promoting small, minority- and woman-owned businesses; ensuring that these entrepreneurs are included in the sourcing process; debriefing small, minority- and woman-owned businesses that have unsuccessfully competed for a contract; tracking use of certified supplier databases or other methods of identifying qualified suppliers; and counting the number of purchase opportunities offered.

As noted, sourcing, which is the process of locating suppliers, is receiving particular emphasis. The Postal Service continues to work to improve and systematize our ability to identify and do business with those suppliers that provide best value, perform reliably, work with the Postal Service to reduce cost and cycle time, and strive to reduce risk while improving quality. As part of this effort, during 2000 the Postal Service sponsored a Southern California Pilot Program to develop new approaches to promoting supplier diversity. Major accomplishments from this effort include the development of a standardized communications

packet for suppliers, stronger approaches to establishing partnerships with trade and industry associations and state/local government agencies, as well as the creation of a consolidated sourcing database for Southern California (Long Beach, Los Angeles, San Diego, Santa Ana and Van Nuys). These achievements are now being examined with an eye toward replicating them nationwide. Lastly, as a part of ongoing supply chain management efforts, the Postal Service continued to work with its prime suppliers and industry resources to identify and develop a listing of “proven” minority- and woman-owned businesses. The listing is used for direct and subcontracting opportunities.

Training continues to be critical to the overall success of the Supplier Diversity Program. Mandatory training requirements are in place for all employees in Postal Service buying functions to participate in 2-4 hours of cultural and supplier diversity training. In addition to this ongoing training, a number of customized training sessions for our Supplier Diversity Program representatives and contracting professionals were provided during 2000. A computer-based training (CBT) course is being developed for use throughout the Postal Service.

We also have clarified and strengthened our subcontracting policies. This has led to marked improvement in this important area. Suppliers competing for high-dollar value contracts are now required to tell us, before award, how they plan to subcontract with small, minority- and woman-owned businesses. In addition, new tools to promote and monitor subcontracting with these businesses have been launched. These efforts have had significant results. By the end of 2000, 310 suppliers were submitting quarterly subcontracting reports as compared with 184 at the end of 1999. A total of 23,615 subcontracts worth more than \$244.2 million went to minority businesses, while some 14,202 subcontracts worth \$220.6 million went to woman-owned businesses. We consider these new policies a success, with more subcontracts being reported, more prime contractors submitting reports and higher overall dollars reportedly being spent in the small, minority- and woman-owned business communities.

Outside of the subcontracting area, during 2000 more than \$3.5 billion (representing 69.4 percent of contractual actions) went to small businesses. More than \$336 million (representing 8.9 percent of contractual actions) went to minority businesses. More than \$488 million (representing 11 percent of contractual actions)

went to woman-owned businesses. Lastly, more than \$16 million worth of contracts or orders went to Javits-Wagner-O’Day Act institutions, such as the National Industries for the Blind and Severely Handicapped.

B. Service to Small or Rural Communities

(39 U.S.C. 101(b))

Effective March 16, 1998, the United States Postal Service imposed a moratorium on management initiated Post Office closings and consolidations. With this moratorium, Post Offices will not be closed unless no other reasonable choice is available. Some closings (and suspensions) may be necessary or appropriate if postmasters retire suddenly or catastrophic events such as flood, fire or earthquake occur.

The Postal Service invited the National Association of Postmasters of the United States and the National League of Postmasters of the United States to work with us. Their representatives and the Postal Service continue to review all recent and proposed Post Office closings and emergency suspensions to help determine appropriate courses of action. During 2000, the Postal Service closed or consolidated 18 Post Offices, 16 community Post Offices and 3 classified stations. These Post Offices were in the process of being closed before the issuance of the moratorium and thus were allowed to continue through the closing process. Only one appeal was docketed with the Postal Rate Commission. It concerned an office that had been closed two years previously and was remanded to the Postal Service for further consideration.

C. Employee Compensation and Career Advancement

(39 U.S.C. 101 (c))

1. Collective Bargaining

The Postal Service began separate negotiations in August 2000 with the American Postal Workers Union, AFL-CIO (APWU) and the National Postal Mail Handlers Union, AFL-CIO (NPMHU); and in September 2000 with the National Rural Letter Carriers’ Association (NRLCA) for successor collective bargaining agree-

ments to those set to expire on November 20, 2000. All three unions together represent approximately 514,000 employees. The negotiations with the NRLCA follows an agreement between the parties reached in February 2000 on a one year extension to the 1995–1999 Postal Service–NRLCA National Agreement. Negotiations with postal unions cover a full range of topics involving wages, benefits and conditions of employment. Collective bargaining with the National Association of Letter Carriers, AFL-CIO (NALC), which represents approximately 245,000 employees, over the successor to the three-year 1998 National Agreement, will occur in 2001.

- In April 2000, the terms of the collective bargaining agreement covering approximately 1,100 employees at the Information Service Centers were established by an interest arbitration award. The Award provides for a two-year agreement that will expire on January 20, 2001.
- The Postal Service and the Fraternal Order of Police reached agreement on the terms of a new four-year labor contract in July 2000. The previous labor agreement had expired in April 1999, and the parties had agreed to meet in a final effort to seek agreement in advance of scheduled fact-finding. The settlement, which will expire in April 2003, covers approximately 1,250 Postal Police officers.
- The collective bargaining agreement between the Postal Service and the National Postal Professional Nurses expired on February 11, 2000. The parties failed to reach agreement on a successor contract. The dispute will be resolved pursuant to the dispute resolution procedures of the Postal Reorganization Act with an outcome expected in 2001.
- Agreements between the Postal Service and certain smaller bargaining units will also be expiring — for example, Operating Services APWU on November 20, 2000, the Mail Equipment Shops — Tool and Die (International Association of Machinists) on January 30, 2001.
- As an outgrowth of the APWU collective bargaining agreement, the parties have made significant strides toward improving the workplace environment by clarifying the terms of the labor agreement and its application. The APWU and the Postal Service have agreed to revise the grievance procedure in order to streamline the grievance process and

reduce the backlog of national cases. Future refinements to the grievance process will be addressed during 2000 negotiations.

- The Postal Service and the NPMHU have completed the first year of their test of a revised grievance-arbitration procedure. The test procedure, which eliminates the third step of the grievance process, has produced a greater resolution of grievances at the local facility. Future efforts will include a review of the process with local labor and management representatives with emphasis on those locations where the test procedure has been less effective.
- The parties continue to develop the Contract Interpretation Manual (CIM), with the initial draft completed early this year. The parties are now jointly reviewing each section for refinement and completion of supporting references where appropriate.
- The Postal Service and the NPMHU hosted their third annual Quality of Work Life Conference. This national event, attended by both craft employees and managers from participating facilities, continues to showcase the various processes developed to improve the workplace environment and Postal Service operations.
- After successfully testing the revised Dispute Resolution Process (DRP) for two years in 19 test districts, the Postal Service and the NALC agreed in August of 2000 to implement the process nationwide beginning in 2001. The parties further agreed to rewrite Article 15 of the National Agreement to reflect the new process during 2001 national negotiations. Data from the test sites reflected an increase in resolution rates at the local level and a decrease in disputes appealed to arbitration. The DRP eliminates the current area Step 3 review and places the authority and responsibility for the resolution of grievances at the installation and district levels. It provides for the training and certification of the district level Step B representatives, one each from the NALC and the Postal Service. The implementation of the new process will include this training as well as district orientation for city letter carriers and delivery supervisors. The district-by-district implementation of the DRP began with a training session for the candidates nominated to serve as the

district level Step B representatives in October of 2000.

- In June of 1998, the USPS-NALC produced the Postal Service-NALC Joint Contract Administration Manual (JCAM). This contract resource became widely used in the field to facilitate the resolution of workplace disputes, promoting a better understanding of the proper application of and compliance with the National Agreement. It has been credited by both the Postal Service and the NALC with significant reductions in appeals to arbitration. In September of 2000, the Postal Service and NALC published an updated edition of the JCAM which was distributed to every city delivery unit in the system.
- In the area of Labor Relations Systems, a redesign of the Grievance and Arbitration Tracking System (GATS) was initiated. All field offices are now required to input grievances at the Step 2 level of the process for inclusion in GATS. The new system, which is Y2K compliant, is user-friendly and will assist management in identifying and analyzing disputes in the workplace. In addition, GATS2 will facilitate changes in the grievance/arbitration scheduling process agreed to during 1998 negotiations.

2. Personnel

a. Postal Career Executive Service (PCES)

There were 970 individuals in the ranks of the PCES at the close of 2000. Of this total, 813 individuals held PCES I positions. The remainder (other than officers) served in Executive and Administrative (EAS) positions. There were 46 PCES II officer positions in the Postal Service at the end of the fiscal year. The makeup of the PCES officers and executives is representative of the Postal Service's diverse workforce.

b. Consultation with Management Associations

In accordance with Title 39, United States Code, Section 1004, consultations were conducted in 2000 with the National Association of Postal Supervisors (NAPS), the National Association of Postmasters of the United States (NAPUS) and the National League of Postmasters of the United States (League). These sessions provided an opportunity for the management associations to participate directly in

the planning and development of programs and policies related to pay policies that impact some 80,000 EAS postmasters, supervisors and other managerial personnel through 2000. Pay consultations will commence sometime in late spring or early summer 2001, with our continued emphasis on pay for performance through the Merit Pay Program and the EVA Variable Pay Program. The principle of market-based pay will be a fundamental concept underlying these consultations, ensuring that supervisory and managerial pay in the Postal Service is comparable to that maintained in the private sector of the economy as required by the Postal Reorganization Act.

As in the past, each of the management associations will continue to provide representatives to participate on Headquarters and fieldwork teams tasked with formulating the testing procedures for new programs.

During 2000, the labor unions, management associations and postal management held quarterly (or as needed) labor summits, to discuss issues relevant to the parties. Under the auspices of the Labor Summit the management associations and the Postal Service agreed upon a mediation pilot as an elective step in the current supervisory disciplinary appeals process (650 Process) and in most other adverse action proceedings. Once the pilot is completed, it will be considered for nationwide implementation.

Also in 2000, the Office of Equal Employment Opportunity (EEO) restructured throughout the Postal Service. This restructuring effort allows us to focus the attention of EEO professionals at the district level on dispute resolution, while the responsibility for investigating complaints that cannot be resolved informally is moved to the Area level. The number of appeals centers responsible for the EEO process doubled in 2000, and the Resolve Employment Disputes, Reach Equitable Solutions Swiftly (REDRESS) mediation program was integrated into the EEO function. This integration and restructuring was achieved without any planned increase in complement and eliminated the need for the temporary staff formerly required to support the REDRESS program.

For the second consecutive year, the number of EEO precomplaint counselings and formal complaints in the Postal Service decreased. Precomplaints decreased by 5.1 percent, from 26,460 to 25,086, while formal complaints fell 13.8 percent, from 12,137 to 10,457. Overall, the rate of precomplaint counselings that result in

formal complaints has been reduced from 46 percent in 1999 to 42 percent in 2000. This equates to 1,680 fewer formal complaints in 2000.

This substantial, continued reduction in formal complaints is attributable in large measure to the Postal Service's EEO mediation program, REDRESS. REDRESS and traditional EEO counseling are both offered as alternatives to individuals seeking precomplaint counseling. The mediators in REDRESS are non-postal employees who are neutral and practice a form of mediation that is built on the "transformative" model. Through empowerment and recognition, the parties to the mediation are encouraged to listen and respond to one another's views effectively and with better understanding of their differences.

In 1999, the participation rate in REDRESS for those seeking precomplaint counseling was nearly 70 percent. In 2000, the participation rate rose to 73 percent nationally. Successful resolution of disputes that go through mediation is nearly twice the rate of resolution of disputes that remain in the traditional counseling process. The continuing success of this process is encouraging. It will continue to be emphasized as a means of bringing employees and managers face to face to learn to deal with conflict and misunderstanding in the workplace.

REDRESS II brings mediation to the formal complaint process through the hearing stage. In 2000, a program was implemented across the country through cooperation with the Office of the General Counsel. Expectations for the success of this program remain high.

d. Injury Compensation

In 2000, the Postal Service had an increase in the growth of workers' compensation cash outlays of approximately \$65 million (11.4 percent) over 1999, for a total cash payout of approximately \$633.3 million. Total paid compensation claims increased by 2,003 (7.1 percent) total medical claims increased by 7,172 (6 percent).

During 2000, the Postal Service cost control strategy was again directed through the continued efforts to manage disability cases. A number of initiatives support this objective. These include Nurse Case Manager services that assist the injury compensation staff with medical management strategies to help employees with work-related injuries or illnesses move into productive duty in a safe and positive environment. Specialists also use enhancements to the case management tools to

track and analyze workers' compensation costs and return-to-work efforts.

A new training course was developed with electronic publishing capabilities. The training course will produce human resources specialists with the knowledge and skills required to effectively provide medical and case management of worker's compensation issues.

The Postal Inspection Service continued its efforts in 2000 to investigate fraud associated with postal employees' injury compensation claims. Postal inspectors identified 329 individuals suspected of workers' compensation violations. Criminal investigations led to 47 arrests. Specific incidents uncovered by postal inspectors include fraudulent claims for Federal Employees' Compensation Act (FECA) benefits and falsification of investigations involving conspiracy and fraud by treating physicians and other medical providers. Compensation cost avoidance on all cases investigated by the Postal Inspection Service was estimated as nearly \$118 million. Additional cost reduction on cases where Continuation of Pay was avoided brings the total estimated cost avoidance to over \$122 million. Workers' Compensation payments represent a growing, long-term cost liability for the Postal Service.

e. Succession Planning

Succession planning is the deliberate and systematic effort by the Postal Service to ensure leadership continuity and build talent from within the organization. The objectives are to identify individuals who can move into executive positions, to develop people for corporate needs and to foster diversity among the leadership ranks. Individuals are identified as potential successors based on their leadership skills, functional and management expertise and performance results. The Postal Service's Succession Planning has been designed to place the right people in the right jobs. After completing the sixth full year of succession planning, 90 percent of executive vacancies were filled by identified successors, and 6 percent were filled by nonsuccessors. Four percent of executive vacancies were filled from outside hires. Forty-four percent of vacant executive positions in 2000 were filled by promotions of EAS employees to PCES. Fifty-two percent were filled from within the executive ranks.

A strategic initiative, "EAS Leadership Development," is underway to address our need for employee retention and leadership development. It is a comprehensive, customized process to identify and develop leadership competencies and

behaviors to drive success throughout the organization. Our goal is to have a cadre of talented individuals ready to assume key management positions as they become available.

f. Combined Federal Campaign (CFC)

The Postal Service joins other federal agencies in the CFC drive each fall. In 2000, postal employees nationwide pledged a total of nearly \$39 million in payroll deductions to the charities of their choice. The average gift was \$176.

3. Compensation and Benefits

a. Pay Comparability

1. Bargaining Unit Employees' Pay and Benefits.

During 2000, the average pay and benefits for career bargaining unit employees (excluding corporate-wide expenses) is \$50,103 per work year.

In an attempt to achieve compensation rates comparable to private industry, negotiations between the Postal Service and union representatives for the various bargaining units that have reached negotiated settlements continue to apply the principle of moderate restraint set forth in past interest arbitration awards.

2. Nonbargaining Unit Employees' Pay and Benefits.

Pay for supervisors, postmasters and other nonbargaining staff employees generally meets or exceeds private sector levels. It also provides an adequate and reasonable differential between first-line supervisors and bargaining unit clerks and carriers.

The continuation of the EVA Variable Pay Program for EAS employees aligns this pay practice with PCES executives and corporate success measures as established under the *CustomerPerfect!* process. This pay package gives management the framework it needs to drive the necessary behavioral changes that make the Postal Service competitive in the marketplace.

3. Executive Pay and Benefits.

Due to the limit imposed on Executive Schedule I salaries by the Postal Reorganization Act, pay and benefits for Postal Service officers and some key executives do not meet private sector comparability standards. During 2000, the average salary for Postal Service officers was \$140,958. The average executive salary was \$101,756.

The Postal Service continued to focus on corporate objectives through the 2000 EVA Variable Pay Program, which recognizes the significant role that postal executives and EAS employees play in achieving corporate success. The EVA Variable Pay

Program awards payouts for achieving breakthrough performance.

Furthermore, by using the same performance measures for officers, executives and EAS employees, participants become stakeholders in the success of the Postal Service in achieving its *CustomerPerfect!* goals. Finally, to help focus on continuous improvements and long-term results, the 2000 payments consisted of a percentage of prior year's reserve account and current year earned credit. In 2000, award payouts averaged \$2,900 for exempt nonbargaining EAS employees, \$1,000 for non-exempt nonbargaining employees and \$10,100 for executives. While the program was designed to recognize team performance, provisions were made to exclude individual employees who did not contribute to the performance of the organization.

b. Leave Programs

Postal Service employees are provided both sick and annual leave at the same rate as other federal sector employees. However, postal employees have a higher annual leave carryover limit than their federal sector counterparts. Postal employees used an average of 10.1 days of sick leave per employee during 2000.

Earned annual leave may be donated to other career or transitional Postal Service employees who have exhausted their own leave and have a serious health problem.

Under the Family and Medical Leave Act, eligible employees may take up to 12 weeks off from work for covered conditions. Postal Service employees may use annual leave, sick leave, or leave without pay for covered conditions in accordance with applicable collective bargaining agreements and current leave policies.

Postal Service career nonbargaining unit employees and some bargaining unit employees can participate in a leave exchange program through which a portion of annual leave that would otherwise be earned in the following leave year can be exchanged for cash.

The Postal Service allows the use of 80 hours of accrued sick leave for dependent care under a policy available to all career employees.

c. Health Insurance

Health care contributions totaled \$3.1 billion, or 6.2 percent of the Postal Service's total pay and benefits during 2000. Under the Omnibus Budget Reconciliation Act of 1990, the Postal Service is required to fund the annuitants' share of the Federal Employee Health Benefit (FEHB) pre-

miums. During 2000, the cost of funding the health care benefits for postal annuitants and their survivors was \$744 million.

During 2000, the Postal Service continued to pay most of the premium cost of employee health benefit coverage. Career employees are automatically enrolled to pay their share of health benefit premium contributions with pre-tax payroll deductions.

d. Life Insurance

The Federal Employees Group Life Insurance (FEGLI) program provides life insurance coverage for Postal Service employees. The Postal Service assumes the full cost of basic life insurance for eligible employees. During 2000, Postal Service costs for employee life insurance were \$194 million and the cost of funding life insurance for postal annuitants and their survivors was \$6.7 million.

In 1999, employees were offered the opportunity to change life insurance coverage under the FEGLI Program. More than 90,000 employees made elections to acquire or modify their coverage during that open enrollment period. These elections and changes became generally effective May 6, 2000.

e. Retirement Systems

Postal Service career employees, like federal career employees, are covered by one of three retirement systems administered by the U.S. Office of Personnel Management.

At the end of 2000, there were 785,913 career employees covered by a federal retirement program. Of this total, 519,509 employees (65 percent) were covered by the Federal Employees Retirement System (FERS); 263,383 employees (33.5 percent) were covered by the Civil Service Retirement System (CSRS); 12,021 employees (1.5 percent) were covered by CSRS Offset.

CSRS is a defined benefit retirement system. Annuity benefits are based on an employee's high-three average salary and years of service. CSRS Offset is similar to CSRS but requires Social Security contributions. Upon Social Security eligibility, the CSRS annuity is reduced (offset) by any Social Security benefit resulting from periods of CSRS Offset service, to produce a benefit equivalent to what would have been received under CSRS.

FERS is a retirement system with both defined benefit and defined contribution components. Under FERS, employees receive retirement

benefits from a federal retirement annuity, Social Security and the Thrift Savings Plan (TSP). The FERS annuity benefit, while also based on an employee's high-three average salary and years of service, produces a smaller benefit than CSRS does.

The Postal Service and career employees make retirement contributions to the Civil Service Retirement and Disability Fund. For 2000, CSRS employees contributed 7.25 percent of basic pay to the Fund. FERS and CSRS Offset employees contributed 1.05 percent of basic pay to the Fund and 6.2 percent of gross pay to Social Security.

f. Thrift Savings Plan (TSP)

All career employees may participate in the TSP, which is administered by the Federal Retirement Thrift Investment Board. The rules for TSP participation differ depending on the employee's retirement system. For FERS employees, the Postal Service contributes one percent of basic pay to TSP, fully matches employee contributions up to 3 percent of basic pay, and matches one-half of employee contributions from 3 to 5 percent of basic pay. FERS employees may contribute up to 10 percent of basic pay to TSP on a tax-deferred basis, subject to IRS maximum limits. The Postal Service does not match CSRS or CSRS Offset employee contributions to the TSP. Employees' contributions are limited to 5 percent of basic pay. At the end of 2000, 411,825 FERS employees and 155,137 CSRS and CSRS Offset employees participated in TSP.

g. Flexible Spending Accounts (FSAs)

Employees continue to take advantage of FSAs to pay for certain health care and dependent care expenses with contributions made through pretax payroll deductions. FSAs were first offered in 1992 to certain nonbargaining unit employees and have since been expanded to include all employees. In 2000, 53,083 employees were enrolled in health care FSAs (an 8.5 percent increase from 1999), with an average contribution of \$1,318. In 2000, 5,957 employees were enrolled in dependent care FSAs (a 1.5 percent increase from 1999), with an average contribution of \$2,770. The projected 2000 savings for the Postal Service resulting from the FSA program is approximately \$2.4 million (net of administrative expenses). Employees experience tax savings as well, which vary according to the individual's contribution amounts and marginal tax rates.

4. Employee Development

a. General

Employee Development has two main areas of responsibility: Product Development and Evaluation, which designs, develops and evaluates curricula and; and Delivery, which operates at the William F. Bolger Center for Leadership Development, Potomac, Maryland and at the National Center for Employee Development (NCED), Norman, Oklahoma. Both centers are self-contained campuses with classrooms, conference facilities, housing, dining and related services. There are 85 Postal Employee Development Centers (PEDCs) throughout the nation that support operational needs by providing local training assistance to employees.

While traditional classrooms, on-the-job instruction and correspondence courses are still prevalent, delivery platforms increasingly include satellite networks, videotape, computer-based interactive programs, web-based instruction and combinations of the above.

With the continuation of the Associate Supervisor Program (ASP), Career Management Program (CMP) and Advanced Leadership Program (ALP), the training and development needs of supervisors and managers at all levels of the organization are being met.

The 16-week ASP for first-line supervisors continues to be a national success. All 85 Districts participate in the program. The program has trained 8,164 graduates. In 2000, 129 classes were conducted.

The CMP was introduced in the spring of 1999. CMP addresses the needs of supervisors and managers in the EAS level 15-22 range. In 2000, over 50 offerings were completed for 1,500 EAS employees. There are three entry points or tracks representing initial and advanced supervisory skills and management development. Participants complete an assessment based on the leadership competency model to determine their appropriate entry point into the program. Currently the program consists of one week of classroom instruction for each track. In addition, functional/technical training is available for delivery and mail processing supervisors. Several other functions have functional/technical curricula already in place for supervisors.

The ALP continued to make significant progress in preparing high-potential managers for the challenging leadership roles of the future. By

the end of the year, a total of 34 classes with approximately 42 students per class had entered the program. Several program design improvements were made. Among them were a new ALP video describing the Executive Competency model; an updated enrollment guide and web site; a new evening speaker series called Executive Chat; and, the addition of two Postal Vice Presidents as regularly appearing ALP faculty. Most notably, ALP was reviewed by the American Council on Education and was rated as carrying 12 undergraduate college credits. As a result, ALP students pursuing college degrees will now be able to apply their ALP experience toward their college degree requirements.

PBS-The Business Channel continued as an initiative in 2000. The innovative partnership offered postal employees quality training programs via the Postal Satellite Training Network (PSTN). Training programs were available live five days a week, with taping available on all telecasts. This timely, professional and cost-effective training alternative proved to be an effective way to convey corporate messages. For example, 86,000 employees received sexual harassment training through this medium in 2000.

The Safety for Leadership course, designed to help more than 35,000 postal leaders understand and implement safety programs in the Postal Service, rolled out at the National Center for Employee Development this year. This course has become an integral part of ASP and lays a foundation for the Joint Labor Management Safety and Health Committee, Collateral Duty Facility Safety Coordinator and other safety programs. Courses were upgraded and refreshed to meet requirements of the Postal Employee Safety Enhancement Act (PESEA).

b. Technical and Craft Training

The NCED, Norman, OK, advanced its critical support of the Postal Service's core business and employee development. NCED delivered automation and motor vehicle maintenance and operations courses on major postal systems and equipment, plus environmental compliance and automation management programs. Other initiatives supported field office course requests, equipment changes and deployment of national postal goals.

Staff conducted 220 courses, in 3,400 class offerings, for 61,000 employees. Strict budget controls and revenue achievements delivered this 15 percent increase in students at slightly below last year's total program and administrative costs.

Efforts continued to expand NCED's curriculum to support a broader base of postal clients, including several new management courses and to enhance administrative and operating proficiency. The Center also launched efforts to attract non-postal clients to generate more of its own operating revenue and reduce its dependence on postal headquarters funding.

Staff began creating learning tools to develop maintenance employees' basic technical skills and provide continuous learning while in their home offices. Planned introductory courses will better prepare postal employees for high-tech, equipment-specific courses at NCED. Additionally, staff built an electronic technical skills database to provide maintenance managers and employees with a skill development tracking reference.

A major undertaking brought a new Web-based Automated Enrollment System (AES) on line in 2000. The new Web-AES is user-friendly, accessible and will increase report and tracking opportunities. The new AES collected field requests for 2001 programs and distributed available course seats to district and maintenance offices. It was also designed to collect fee data in anticipation of NCED's new revenue-based operation.

NCED transmitted over 4,200 hours of Postal Satellite Training Network (PSTN) programming in 2000. NCED originated over 1,900 broadcast hours of course and technical information, and it transmitted another 2,300 broadcast hours originated elsewhere, including the Business and Management Channel, the Bolger Center and USPS-TV Southeast Area District programs. Using both PSTN and Postal Audio Tele-training Network (PATN), NCED delivered 30 distance learning courses to 17,450 employees in their home offices, for 195,040 total distance learning training hours.

1. Major NCED Accomplishments

- Taught five simultaneous course offerings on the Identification Code Sortation (ICS) system to provide maintenance skills for over 800 technicians. ICS uses existing identification mail tags as a second source for bar coding to help keep mail pieces in the automated mail stream. Ongoing courses will support national deployment of over 1,700 new ICS computers.
- Completed deployment support for the Flat Mail Optical Character Reader (FMOCR) by running three tours of course offerings. Continued two-tour offerings for ongoing

FMOCR support. The FMOCR addition to the FSM 881 has resulted in significant labor saving and increased mail throughput.

- Provided 12 course offerings on the new Time and Attendance Collection System (TACS).
- Modified Delivery Bar Code Sorter (DBCS) programs to support new deployment of the new DBCS Delivery Input and Output Subsystem (DIOSS) varied equipment configurations at 380 DBCS sites.
- Merged Remote Computer Reader modifications into maintenance courses. RCR modifications are expected to increase the machine acceptance rate for handwritten mail from 63 to 75 percent by December 2000.
- Provided technical support to contractor-delivered resident and PSTN maintenance courses for 350 employees on the Phase I buy of 175 AFSM 100. We also began instructor and lab preparations for NCED to deliver maintenance courses beginning March 2001, concurrent with contractor offerings. AFSM 100s can process 17,000 pieces of flat mail per hour. AFSM 100 Phase II will deploy another 362 machines requiring maintenance course support. Each Phase II machine will replace two to three existing Flat Sorting Machine 881 systems.
- Delivered operator and maintenance courses on the new (PBSS) 624Bs, upgraded to read the new \$5, \$10 and \$20 bills. Courses support the nationwide deployment of 1,000 PBSS 625Bs.
- Piloted a new Maintenance Operations Performance Analysis course. Taught use of maintenance and inventory management reports from the Visual Maintenance Activity Reporting and Scheduling system to analyze performance factors and improve efficiency.
- Prepared automotive technician course on new Carrier Route Flex Fuel delivery vehicles to support planned deployment of 10,600 vehicles. Offerings will begin October 2000.
- Conducted about 30 environmental health and safety programs on postal compliance with national rules and regulations. Courses included hazard communications, waste reduction and recycling, refrigerant education and certification, asbestos management and toxic substance control.
- Designed classroom labs and supported the newly centralized Business Mail Acceptance (BMA) program. This course brought a new

postal audience to the Center, coaching clerks in skills to ensure proper revenue collection on volume business mail. By year end, the BMA program had ramped up to three simultaneous offerings, and 313 employees had taken the test.

2. Revenue Generation

Center staff captured over \$3.2 million in gross revenue in 2000 to help offset NCED operating expenses. Revenue sources include postal and nonpostal conferences, resale of satellite time, housing income from nonstudent guests and delivery of other postal and nonpostal courses. Housing room nights during 2000 totaled 203,000 of which 22,800 were for conferees.

c. William F. Bolger Center for Leadership Development

The Bolger Center has made significant strides toward becoming self-reliant. In 2000, the Center piloted a revenue budget concept. Under this concept, the Center identifies its potential through projected sales goals generated through the services provided to postal and external customers. The amount of sales generated from external customers is tracked and deposited into the Postal Service General Fund account and the Center is credited for any profit gained. This process is still in the pilot stages.

A number of improvements were made to The Bolger Center and its operations during the past year. These improvements include installation of a campus wide Energy Management System, refurbishment of the North Building West Wing classrooms and public space, and complete renovation of the 5th floor of the Main Building. A Postmark America store is scheduled to open at the Center in early January 2001. Customer satisfaction scores for the year were very high, at 98.9 percent overall satisfied.

The Media Unit produced nearly 250 hours of PSTN programming, serving clients such as Sales, Employee Resource Management, Human Resources and Address Management Delivery Policies and Programs. The Media Unit also produced over 20 videotape productions, earning Telly and Videographer Awards for production excellence for *Computerized Job Bidding*, *Supervisor's Guide To Time & Attendance*, and *Training Inspectors For the 21st Century*. Media also partnered with Tactical Marketing and Sales to provide monthly PSTN broadcasts that pro-

vided training and information to field marketing and sales professionals.

Our existing computer training lab was remodeled, and a new lab was completed that essentially doubles our computer training capacity.

5. Selection, Evaluation and Recognition

a. Merit Pay Performance Evaluation

In 2000, the Postal Service continued to emphasize the importance of the Merit Performance Evaluation process. This process evaluates and rewards the performance of professional and managerial personnel. The process employs indices and measurements tied to the work unit's mission when establishing employee objectives for the year. These indices and measurements are used to assess the employee's success in meeting these mutually agreed-upon objectives. As with last year's program, the Merit Performance Evaluation process continues to be closely aligned with the *CustomerPerfect!* philosophy. It provides a mechanism to link employee contributions to corporate goals.

In 2000 an individual Merit Performance Evaluation process covering executives was continued. Its primary purpose is to promote individual accountability to support both corporate goals and certain critical indicators that contribute to the success of the Postal Service. One critical indicator emphasizes diversity and requires executives to develop individual goals that promote diversity, while taking into account the specific activities identified in their organizational affirmative action plan when setting specific targets for success. Like the performance evaluations for professional and managerial employees, the executive evaluations also link contributions to the overall achievement of corporate goals.

6. Workplace Environment Improvement (WEI)

The Office of WEI was created in September 1998 to reflect management's commitment to improving the postal work environment and bringing focus to "people issues" in the Postal Service. WEI includes the Employee Assistance Program, violence prevention and crisis management activities, the identification and propagation of indicators, measures and initiatives for workplace environment improvement. Key components of WEI for 2000 and 2001 are to:

- Coordinate implementation of recommendations from report by the independent Commission on Safe and Secure Workplace.

- Modify role of Employee Workplace Intervention Analyst position to play more strategic and consultative role in field WEI efforts to oversee threat assessment and crisis management activities.
- Integrate, assess and communicate employee feedback and other workplace environment information.
- Catalog, assess and support replication of a broad array of workplace improvement initiatives and practices.
- Identify or develop and deploy measures of results and indicators of progress.
- Communicate throughout the Postal Service progress in improving workplace environment recognize successes in this area.

Specific areas in which these components are carried out are:

a. Employee Assistance Program (EAP)

The Postal Service EAP provides free, voluntary, confidential, in-person counseling services to employees and family members by master's-level counselors housed in or near local postal facilities. Counselors are available 24 hours a day, seven days a week, in convenient locations and assist employees and family members with a variety of difficulties that affect their lives and their work, including emotional, financial, legal, chemical dependency, marital and family problems.

The EAP provides consultation to managers and supervisors regarding not only individual workers, but also the work setting within which they function. In 2000, Employee and Workplace Intervention Analysts, career employees who oversee the EAP in each District EAP counselors provided approximately 21,837 consultations to management on such topics as supervision strategies and management skills. They also worked with union members to help resolve issues and prevent workplace disruption. The EAP intervenes when appropriate through preventive efforts, such as manager coaching and educational seminars on communication and stress management. EAP also provides ameliorative efforts that include conflict resolution sessions and organizational interventions and restorative actions, such as debriefings after a critical incident (e.g., suicide, domestic violence at work, armed robbery, accidental death). In 2000, 46,153 employees and their family members received counseling from the EAP.

Fully 52 percent percent of postal employees seeking counseling reported that their problems negatively affected their job performance. EAP staff also responded to over 394 critical incidents

and provided assistance to more than 6,392 employees after these incidents. Health and wellness seminars on topics ranging from stress management to elder care to substance abuse were provided to 53,540 employees.

b. Violence Prevention and Crisis Management

A Workplace Environment Advisory Committee, including representatives of employee unions, management associations, labor relations and human resources was created shortly after the inception of this office in late 1998 with the Manager, WEI, as chair. This group, working closely with the Inspection Service and WEI, uses a standardized protocol for the identification and resolution of potential "troubled worksites," postal sites that may be susceptible to threatening or other undesirable behavior as a result of individual or systemic problems. In addition, WEI is assisting the field in ensuring that local threat assessment and crisis management teams are in place and that desired training is provided. Finally, WEI staff are involved, on an ongoing basis, in communication with and response to potential threats and crisis incidents throughout the Postal Service to ensure prompt response, swift resolution and maximum safety of postal employees.

WEI played a key role in the dissemination of the report of the independent Commission on a Safe and Secure Workplace, also known as the *Califano Commission*, as it was chaired by Joseph A. Califano, Jr. The commission conducted a comprehensive review and analysis of violence in the Postal Service over a two-year period and released its findings in August 2000.

The commission found that while postal employees are not more likely to be victims of violence at work, they are more fearful than other employees about violence in the workplace. On the other hand, postal employees are less angry, aggressive, hostile, depressed and stressed than those in the national workplace. The commission recognized the Postal Service's strong efforts in developing a comprehensive array of programs to reduce workplace violence, but made recommendations for the following improvements:

- Continue and step up violence prevention programs already in place and address underlying sources of friction.
- Screen job applicants more carefully.
- Define "zero tolerance" for violence policy.
- Continue violence awareness training for employees, with unions playing a greater role.

- Ensure warning signals of violence are heeded and employees know how to report threats and violence.
- Establish communication systems such as cell phones or beepers for carriers on delivery routes, especially in high crime and remote areas.
- Allay employee concerns about confidentiality of the EAP
- Encourage joint local union/management oversight.
- Train managers and union officials to better handle employee terminations.
- Increase training of supervisors and managers in interpersonal skills.
- Strengthen incentives to focus managers on the workplace environment, in addition to customer satisfaction and financial performance.

Also, according to the Commission, Postal Service, unions and management associations should overhaul dispute resolution processes and agree on a system of financial performance incentives for craft employees. Finally, the Commission recommended that Congress should consider revamping compensation systems for postal managers and employees to eliminate or at least raise the pay ceiling to attract the best managers and effectively reward good performance of all postal workers.

WEI is taking the lead in 2001 in ensuring that the recommendations are implemented where feasible and that employees are informed about progress in this area.

c. Integration of Employee Feedback and Workplace Environment

WEI is playing a pivotal role in increasing the effectiveness with which data from the VOE survey and other workplace environment information are used. The Board of Governors approved a compensable indicator using six survey questions for the 2000 survey. This index will be retained as a compensable indicator for 2001. WEI provides technical assistance to the field in interpreting and responding to these data also facilitates sharing of information about field and best practices that impact positively on the work environment.

WEI staff serve as internal consultants on WEI efforts throughout the country, with an emphasis on increasing the efficiency and effectiveness of these activities, particularly with regard to the use of outside consultants. Also, WEI is propagating information throughout the Postal Service regarding internal and external resources

for addressing workplace environment issues, including local and national Postal Service initiatives and outside sources which have been shown to improve workplace relationships and climate. Finally, WEI will continue to deliver national messaging in 2001, to ensure that the business case for improving the workplace is recognized and accepted.

d. Dependent Care

Pursuant to a Memorandum of Understanding negotiated with APWU, AFL-CIO for the 1998–2000 National Agreement, the Postal Service and the APWU have jointly selected a vendor to provide a dependent care resource and referral service to management and APWU employees. The service allows employees to get assistance in locating dependent and elder care resources as well as a variety of options to help balance work and home life.

D. Postal Cost Apportionment and Filings and Ratemaking, Developments

(39 U.S.C. 101 (d))

1. Omnibus Rate Case - Docket No. R2000-1

On January 12, 2000, the Postal Service filed a Request for a Postal Rate Commission Recommended Decision on changes in rates and fees. The proposed overall percentage change was 6.5 percent and included a 1-cent (or 3 percent) increase from the current 33-cent basic First-Class rate. The proposed increase was designed to provide an additional \$3.7 billion in revenue.

The filing also included numerous classification changes that were responsive to customer needs and the changing environment. For example, new work sharing discounts were proposed for Bound Printed Matter and more affordable options for reply mail and the return of merchandise were developed. Also, a restructuring of Post Office box fees was proposed so that the fees would better reflect the local costs of providing the service.

Approximately 10 months after the filing of the request following hearings on the Postal Service's direct case and intervenors' direct cases rebuttal testimony, the Postal Rate Commission issued its Recommended Decision on November 13, 2000. While the Postal Rate Commission recommended most of the classification changes

proposed by the Postal Service, along with the 1-cent increase in the first ounce of the First-Class rate, it substantially reduced the Postal Service's estimate of required revenue, as developed on the evidentiary record. As a consequence, the PRC substantially reduced many of the other rate increases proposed by the Postal Service. The end result was, according to the Commission's calculations, a 4.6 percent increase, compared with the 6.5 percent increase proposed by the Postal Service.

The Postal Service's Governors issued two Decisions on December 5. In the primary Decision, the Governors allowed the recommended rates to take effect under protest, but returned the matter to the Commission for reconsideration. In particular, the Governors asked the Commission to reconsider several items related to the revenue requirement (which governs the overall size of the rate increase), along with several other technical pricing issues. This request for reconsideration is now pending before the Postal Rate Commission, after the submission by the Postal Service and the parties of comments and reply comments in December and January. Meanwhile, the rates allowed under protest were implemented on January 7, 2001. In their second Decision issued on December 5, the Governors rejected classification recommendations from the Commission pertaining to discounts for First-Class Mail, the flat-rate Priority Mail envelope and a matter related to automated Standard Mail (A).

2. Periodicals "Ride-Along" Experiment - Docket No. MC2000-1.

On September 27, 1999, the Postal Service filed a case under the Commission's *Experimental* rules, which allow for the limited testing of a new service. Under the then-existing classification schedule, an enclosure included in mailings of Periodicals was required to pay the Standard Mail rate that would apply if the enclosure were mailed as a separate piece. Under the "ride-along" experiment, the enclosure pays a flat per-piece rate of 10 cents. Not only is this more affordable for mailers, it is also simpler to administer. Subsequent to the filing, the Postal Service and the mailing community reached an agreement regarding the issues of the case and filed a stipulation and agreement with the Postal Rate Commission. On February 3, 2000, the Commission recommended the classification and fee based on this agreement. The experimental classification implemented on February 26, 2000 will expire on February 20,

2002, unless it is made permanent or another experiment is put in its place.

3. NetPost Mailing Online Experiment Docket No. MC2000-2

On November 16, 1999, the Postal Service filed an experimental case requesting a recommended decision from the Postal Rate Commission for a Mailing Online classification and fee schedule (MC2000-2). On June 21, 2000, the Postal Rate Commission issued an Opinion and Recommended Decision, which the Governors approved on August 7, 2000, with an implementation date of September 1, 2000. The experiment will last approximately three years.

Mailing Online is a hybrid mail product that permits customers to create mailings electronically. Customers design documents on their personal computers, upload the document and a mailing list to the Postal Service through the USPS.com website, select desired printing options and pay with a credit card. The Postal Service then combines customer jobs, presorts them and sends the jobs in batches to geographically distributed printing partners. The printers create the physical mailpieces for nearby entry and delivery by the Postal Service.

4. Bulk Parcel Return Complaint Case - Docket No. C99-4

On June 9, 1999, the Continuity Shippers Association filed a complaint with the Rate Commission arguing that the fee for Bulk Parcel Return Service (BPRS) was too high. The complainant contended that updated cost studies showed lower costs than originally estimated and that the cost coverage should be lower than what the Commission previously established. On April 14, 2000 the Commission recommended a lower fee for BPRS based on the lower cost estimate, but maintained the cost coverage. On June 15, 2000, the Governors of the Postal Service rejected the Commission's recommended decision, noting that all costs change over time and that the Commission had failed to find the fee unlawful as required by the Act.

5. PosteCS Complaint Case - Docket No. C99-1

In October 1998, United Parcel Service (UPS) filed a complaint with the Postal Rate Commission concerning the Postal Service's provision of *PosteCS*, a wholly electronic, Internet-based document service designed to support secure electronic communications. The fundamental basis for the UPS

complaint is the allegation that the Postal Service is offering *PosteCS* to the public without first submitting to the Commission a request for a recommended decision on classification provisions and rates associated with this service. The complaint further alleges that provision of *PosteCS* at no charge on an introductory basis is contrary to the pricing standards of the Postal Reorganization Act (Act). In addition, UPS alleges that the service constitutes a “nationwide change in service” for which an advisory opinion must be requested under the Act.

The Postal Service moved to dismiss the complaint. In its motion to dismiss, the Postal Service maintained that the Commission does not have subject matter jurisdiction to entertain the question of whether *PosteCS* is a “postal” service. Even if the Commission had jurisdiction to consider the complaint, *PosteCS* is plainly not a “postal” service for purposes of the Commission’s jurisdiction according to the definitions of that term put forth by the courts, the Commission, and the Governors of the Postal Service. On May 3, 1999, the Commission issued an order denying the Postal Service’s motion to dismiss and ordering further proceedings on the question of whether *PosteCS* is a “postal” service for purposes of the Commission’s rate and classification jurisdiction. Throughout 2000, the Commission addressed disputes related to discovery by UPS. The complaint case is still pending before the Commission.

E. Transportation Policies

(39 U.S.C. 101 (e),(f))

1. General

The Postal Service spent \$4.7 billion in 2000 for the contractual transportation of mail. This figure represents a 6.8 percent increase from 1999 transportation expenses. Mail transportation accounted for more than 7 percent of total postal expenses for 2000.

2. Domestic Transportation

a. Air Transportation

Air transportation costs in 2000 totaled \$1.7 billion. These costs included the use of commercial airlines (passenger and freight) and as dedicated network and air taxi service. The Postal Service contracted with 56 commercial airlines to move more than 2.95 billion pounds

of domestic mail last year. Ten of the commercial airlines handled 68 percent of the total volume. Of the almost 56,000 commercial airline flights that are available on a daily basis, the Postal Service uses approximately 15,000 for the transportation of mail. To supplement the movement of mail by air, the Postal Service operates its Eagle Hub in Indianapolis, IN. The hub operates a nighttime network (ANET) with 28 aircraft and serves 46 cities directly. The Eagle Hub transports more than 800,000 pounds of mail each night; 30 percent is Express Mail, 55 percent is Priority Mail 15 percent is First-Class Mail. The 240,000 pounds of Express Mail equates to approximately 70 percent of all Express Mail that moves by air. In addition, during the Holiday peak period, the network expands to encompass a daytime service that transports more than one million pounds of Priority Mail each day for a 13-day period.

Additionally, the Postal Service operates a western dedicated network (WNET) which transports more than 250,000 pounds of mail transported daily in the Western and Pacific Areas. Of the total number of pounds of mail transported daily on WNET, 12 percent is Express Mail, 48 percent is Priority Mail; and 40 percent is First-Class Mail.

b. Rail Transportation

Postal Service expenses for all rail transportation were \$277 million in 2000. This represents a 2.2 percent decrease from 1999. The Postal Service holds contracts with eight railroads that perform service on approximately 1800 rail segments.

In 2000, the Postal Service paid Amtrak \$98 million for rail transportation services. Expanded service included using a rail/highway combination vehicle call a RoadRailer vehicle. This vehicle, has extended the reach and capability of Amtrak service to meet postal needs. The Amtrak transportation network provides service for the majority of Periodical Mail.

c. Highway Transportation

The Postal Service expended approximately \$2.1 billion for highway mail transportation in 2000, a 5 percent increase over 1999.

d. Hub and Spoke Program (HASP)

With nine hub and spoke facilities operating nationally, intermodal operations were implemented when dedicated air taxi service was added

to the Southeast and Indianapolis HASPs in 1998. Nineteen aircraft, ranging in size from DC9s to 747s were introduced to support the HASP surface transportation network. These actions reduced congestion at commercial airline transfer hubs, improved service and provided a more consistent arrival profile.

e. Domestic Water Transportation

In 2000, the cost of transporting mail to domestic offshore destinations was \$30 million, a 2 percent increase over 1999.

3. International Transportation

a. International Air Transportation

In 2000, the Postal Service spent \$160.3 million for international air transportation. U.S. flag carriers were paid \$131.5 million, and foreign flag carriers received \$28.8 million. Foreign flag carriers are used for airmail service to destinations where no U.S carrier provides the required service. Selections of carriers for surface airlift contracts are awarded on the basis of best value. An additional \$137.9 million was spent for military mail, which was reimbursed by the Department of Defense (DOD).

b. International Surface transportation

During 2000, international surface transportation costs were \$7 million. The cost covers all surface mail sent by sea. The selection of ocean carriers is based on price and service to the required destinations.

4. Postal-Owned Transportation

(See Table 1.1)

5. Mail Transport Equipment (MTE)

To further our commitment to supplying our customers with quality MTE, we support a network of 22 Mail Transport Equipment Centers. The Mail Transportation Equipment Service Center (MTESC) program is a network of out-sourced facilities dedicated to processing, repairing, storing and redistributing sacks, trays, pallets and wheeled containers to internal and external customers. Separating MTE activities from plant activities enables mail processing managers to focus on processing mail. Under the program, emptied mail transport equipment is dispatched from a mail processing center to one of the 22 service centers via dedicated transportation. The used equipment is inspected, sorted, repaired and made ready for reuse by either internal or external customers.

Over 2,000 trailer loads of mail transport equipment requests are filled each day. A professional logistics contractor, managed at the national level, provides centralized coordination of inventory management, ordering and fulfillment, data systems and other supporting activities.

The MTESC program plays an integral role in achieving the goals set forth in the 1998–2002 Strategic Plan of satisfying our customers, improving our organizational effectiveness and strengthening our financial viability.

**TABLE 1.1
POSTAL SERVICE VEHICLE INVENTORY FY 00**

Vehicle Type	Inventory
1/4 - Ton	11,861
1/2 - Ton	161,333
1 - Ton	1,357
2- and 2 1/2 -Ton	7,221
Cargo Vans	2,468
Tractors	1,819
Spotters	401
Trailers	5,049
Service	5,013
Administrative	5,544
Law Enforcement	2,960
Mobile Post Office	223
Miscellaneous	142
Total Owned	205,391
Leased Vehicles	6,323
Grand Total	211,714

Postal Service Vehicle Operating Trends 2000

Number of Vehicles	205,391
Miles traveled (millions)	1,144
Miles per gallon	9.8
Cost per vehicle	\$ 4,010
Cost per mile	\$ 0.75

F. Postal Facilities, Equipment and Employee Working Conditions

(39 U.S.C. 101 (g))

1. Safety and Health, Safety Management Process

In the second full year as a “private sector” employer under the Occupational Safety and Health Act, the Postal Service faced several unique challenges. As an independent establishment of the executive branch of the Government of the United States, the Postal Service is operated as a basic and fundamental service provided to the people by the

Government of the United States. In 2000, the Postal Service performed this vital mission while also focusing on enhancing safety and health programs in our facilities and responding to Occupational Safety and Health Administration (OSHA) inspection activity in a proactive and positive manner.

Postal management was challenged to improve safety and health programs beyond basic compliance to involve employees and their representatives. To measure this performance, management conducted the most comprehensive third-party evaluation of nationwide safety and health programs ever undertaken. As a part of the EVA Variable Pay Program targets as detailed previously in chapter 1, an independent safety and health firm conducted program evaluations in 252 large postal facilities nationwide. These facilities were selected randomly by the firm. The evaluations were conducted in an objective manner independent of postal management. The third-party experts utilized a safety and health Program Evaluation Guide (PEG) developed specifically for the Postal Service. It was based on OSHA guidance and industry best practices.

All Areas met the PEG threshold goal of a sound safety and health program. Many facilities far exceeded basic program elements. There was a dramatic improvement in management involvement, employee participation and OSHA-required written programs. This was demonstrated by increased emphasis on Executive and Joint Labor Management Safety and Health Committees. Additionally the national EVA goal for lost workday injuries and illnesses was met.

The Postal Service continued to focus on motor vehicle safety. In conjunction with the National Safety Council (NSC), over 135,000 Postal Service drivers were recognized with NSC Safe Driver Awards. The Postal Service deployed several national driver safety campaigns including “schools out,” “pedestrian safety,” “winter driving” and “schools in” designed to increase driver awareness and reduce motor vehicle accidents. The Postal Service also partnered with the National Highway Traffic Safety Administration in the National Drunk and Drugged Driving Prevention (3D) month campaign. The first corporate-wide seat belt use survey was accomplished utilizing the postal Web site. Seat belt use data were shared with the U.S. Department of Transportation in support of the “Buckle Up America” Campaign.

The Postal Service continued to work with OSHA in a proactive manner on compliance activities. This included the prompt and thorough

investigation of employee complaints relative to safety and health and the appropriate resolution of cited deficiencies.

2. Environmental Programs

a. Fuel Cell, Anchorage, AK

On August 9, 2000, Senator Ted Stevens (R-AK) and Postmaster General William J. Henderson dedicated the nation’s largest commercial fuel cell system at the Anchorage Processing & Distribution Center.

The system is energy efficient and environmentally friendly. Producing one megawatt of electricity, this is the first fuel cell system that provides power to the utility grid — Alaska’s Chugach Electric.

Fuel cell systems offer one of the lowest-maintenance forms of electrical power in the world. As businesses and the Internet create a greater demand for uninterrupted power, fuel cells are becoming a cost-effective alternative. This project demonstrates fuel cell resource flexibility and commercial viability for meeting today’s critical power needs.

Fuel cells do not burn fuel so the system eliminates air emissions normally associated with acid rain and smog dramatically reducing those associated with global warming.

Compared with electricity generated from the average combustion-based processes in the United States, a one-megawatt fuel cell system would eliminate more than 200,000 pounds of air pollution and 11 million pounds of carbon dioxide from the atmosphere during each year of operation.

b. Green Electricity

Just in time for Earth Day 2000, the Postal Service announced one of the largest purchases of retail green power in U.S. history. The Postal Service awarded a competitively-bid contract to go-green.com, the retail operation of Preferred Energy Services, Inc. to provide 100 percent green power to 1,000 Postal Service facilities throughout California over a three-year period. The contract called for delivery of more than 30 million kilowatt hours of electricity from renewable energy resources for each of the next three years.

This purchase of 100 percent green power for more than 1,100 facilities in California demonstrates our commitment to conducting business in a socially responsible manner. By doing this, we remained true to our values while accomplishing

two very important things: the acquisition of a cost-effective energy source and the opportunity to make a contribution to the environmental health of the communities we serve.

The use of renewable energy resources — instead of the traditional mix of resources — to generate 30 million kilowatt hours annually will save about 25 million pounds of carbon dioxide, 60,000 pounds of oxides of nitrogen and 18,000 pounds of sulfur dioxide each year from being released into the atmosphere.

The Postal Service received technical assistance from the Lawrence Berkeley National Laboratory in developing the solicitation and evaluating the offers received that led to this purchase. With 40,000 facilities nationwide, the Postal Service is the largest federal consumer of electricity other than the military and plans to deploy 500 electric delivery vehicles in California next year.

c. Benign Pressure-Sensitive Adhesives

In March 2000 the Postal Service announced the development of an environmentally benign Pressure-Sensitive Adhesive (PSA), marking the beginning of a new era in recycling.

This world-class technology will help make recycling more economical, help decrease costs for recycling and repulping operations and help divert tons of valuable waste paper from our nation's landfills. For years it has been known as the "sticky" problem. What do you do with adhesives when recycling paper? These adhesives gum up the works and recycling mills have difficulty recycling paper with high adhesive content. But through the leadership of the Postal Service and cooperation between the public and private sector, the "sticky" problem may soon be a thing of the past.

Not only will this new adhesive technology improve the environmental performance of postage stamps, it will also reach a much larger audience of adhesive users.

On April 21, 2000, President Clinton issued Executive Order 13148, a "Greening the Government" Executive Order that recommended all federal agencies employ the new PSA technology.

The Postal Service has a long history of leadership in recycling efforts and protection of the environment. Although stamps were a very small part of the "sticky" problem, the Postal Service saw an opportunity for public policy leadership and took on the task of developing an environmentally friendly adhesive. In 1994, the Environmentally Benign Pressure Sensitive

Adhesives Program was initiated as part of the Postal Service's commitment to develop stamps and stamp products that do not adversely affect the environment. Previously, the Postal Service formed a team of researchers from government and industry, including members of the Forest Products Laboratory (U. S. Department of Agriculture), the adhesive industry, paper manufacturers, recyclers, printers and testing laboratories. This research partnership, sponsored and funded by the Postal Service, has been successful in creating an environmentally friendly adhesive. It passed a comprehensive series of tests, meeting all Postal Service stamp performance and recycling requirements.

d. Per Scholas

In April 2000, the Postal Service announced its partnership with Per Scholas in the South Bronx to provide computers to inner-city youth and families. Per Scholas is a non-profit organization dedicated to bridging the digital divide by bringing 21st-century technology to school children and low-income families.

The Postal Service is partnering with Per Scholas to recycle stand-alone computer systems by donating 15,000 units for recycling as well as providing postal vehicles to transport computers for reconditioning to the Center and distributing the refurbished units to families without home computers.

This partnership with Per Scholas offers the Postal Service yet another opportunity to be a leader in the voluntary takeback movement and to reaffirm our commitment to the diverse communities that we serve, everywhere, every day.

Started by a consortium of foundations and corporations, Per Scholas — which comes from the Latin phrase, "For Schools" — produces high-quality computers for schools and other non-profit organizations at substantial savings. In the last four years, it has placed more than 13,000 computers in over 1,200 schools in 22 states. Per Scholas also offers comprehensive computer technology training and job placement for disadvantaged youth. At its new recycling center, Per Scholas has expanded its operations to include reconditioning computers donated by the Postal Service and other organizations and placing them in disadvantaged homes through social service agencies. Per Scholas projects that

it will provide 10,000 of these computer packages each year.

e. Resource Recovery from Obsolete Equipment with Goodwill, Austin, TX

For several years, the Postal Service has been a leader in electronics equipment reutilization — the process of salvaging value from discarded computers and other electronics equipment. Austin, Texas, has become a magnet for high-tech firms and consequently has become a hotbed of creative approaches to dealing with discarded high-tech equipment. The Postal Service spotted an opportunity in Austin to break new ground in materials management.

In 1998, Goodwill Industries of Central Texas in Austin, established a facility to receive discarded electronic equipment such as Integrated Retail Terminals (IRTs). It dismantles them for harvesting of usable parts, or utilizes the remaining materials as recyclable scrap. The USPS/Goodwill program receives approximately 325,000 pounds of equipment (about 5,000 IRTs annually) from Postal Service facilities nationwide. This equipment is disassembled into 22 separate component parts (various plastics, metals, wiring, etc.), with each being sold separately to vendors of recyclables. Notably, the employees engaged in the sophisticated disassembly process are largely workers previously unskilled and unemployed, many with severe physical or cognitive challenges and trained by Goodwill. The hiring of needy employees, while a hallmark of Goodwill nationwide, is nonetheless a vital feature of this program — not just life-enhancing for the employees and their families, but enriching to the community at large.

Establishment of the program gave vendors of recyclables a firm foothold in the Austin area. They saw the steady stream of materials coming from Austin as a sustainable source of “raw materials.” Moreover, through an enviable feedback loop, these vendors informed Goodwill of ways to make the raw materials cleaner (e.g., fewer metals in a load of plastics). Goodwill was able to separate recyclables more thoroughly, thereby fetching higher prices. Prices for scrap integrated circuit boards have increased by over 60 percent as a result of this feedback mechanism. Prices for virtually all other recyclables are up 20-30 percent.

This project has been nominated for the Innovations in American Government Award, sponsored by the John F. Kennedy School of

Government at Harvard and the Ford Foundation.

The Postal Service is committed to putting sustainable development concepts into practice. We believe that what began at Goodwill will be an example for other governmental entities to follow. Think globally. Act locally

f. Energy and Environmental Contracting

Purchasing and Materials continues to work with Engineering’s Environmental Management Policy organization in examining how purchasing and materials business practices can contribute to the Postal Service’s — and our nation’s — environmental goals. Several notable achievements were made during 2000.

In April, the Postal Service made one of its largest ever “green” purchases when it awarded a contract for the delivery of more than 30 million kilowatt hours of electricity from renewable energy sources over each of the next three years. The electricity will be used at more than 1,000 Postal Service facilities throughout California. The use of renewable resources will save about 25 million pounds of carbon dioxide, 60,000 pounds of oxides from nitrogen 18,000 pounds of sulfur dioxide from being released into the atmosphere annually.

Ongoing efforts include:

- Shared energy savings contracts that continue to promote energy efficiency and reap annual costs savings of \$8.9 million. More than \$200 million worth of recycled products are purchased annually.
- The Postal Service has the nation’s largest compressed natural gas delivery fleet (more than 7,500 long-life vehicles have been converted to this alternate fuel)
- During 2000, the Postal Service contracted for 500 electric-powered delivery vehicles. Deployment begins in 2001. These vehicles will be joined by more than 21,000 flexible fuel ethanol vehicles.

3. Total Resource Management

The Postal Service buys more equipment annually, but recovers little residual value from obsolete equipment and is liable for environmental costs/fines. Just three percent recovery could generate \$30 million annually in new revenue for the Postal Service. Estimated disposition of annual cost savings could reach \$10 million. Potential environmental liability would be reduced and the

corporate image of the Postal Service as a public policy leader would be enhanced.

Environmental Management Policy sponsored the Total Resource Management project — a cross-functional team formed to develop cost-effective, environmentally beneficial alternatives for Postal Service equipment.

This project reviewed past and planned automated equipment contracts, disposition plans, actual dispositions and financial/environmental impacts. It also reviewed and analyzed current Postal Service policy and actual practice with consideration for policy change, cost-benefit, investment recovery and environmental impact. The supporting data and management tools were used to develop policy recommendations.

The project received the Postal Service's *Excellence in Project Management* award.

4. Facilities

TABLE 1.2 POSTAL SERVICE REAL ESTATE INVENTORY	
Total owned facilities	7,848
Total owned interior square feet	214,547,159
Total owned land in square feet	829,972,377
Total leased facilities	26,797
Total leased interior square feet	102,943,016
Total GSA/other government facilities	452
Total GSA/other government interior square feet	214,547,159
Annual rent paid to lessors	214,547,159

a. Building Standards/Safety

Facilities has increased its attention to building standards and safety. As part of the Architectural Barriers Act of 1968 (ABA), Design and Construction implemented a case tracking system to review, document and respond to all accessibility complaints filed against the Postal Service. Building standards and guidance for future projects are the focus of monitoring the Occupational Safety and Health activities in Postal Service facilities nationwide. And, for operational safety, enhanced employee well-being Facilities' Boiler and Elevator inspectors conducted over 10,000 safety inspections on mechanical equipment, including boilers, elevators, escalators and compressed air tanks.

b. Design and Construction Initiatives

1. Green Showcase Facility

The new Post Office in Corrales, New Mexico was the first modern Post Office constructed using straw bales. Straw is a sustainable renewable re-source and has an insulation factor two to three times better than standard wall construction. The straw-filled walls were covered with stucco on the exterior and gypsum boards on the interior to look the same as standard construction.

Other conservation measures used in the facility included installation of ceramic lobby tiles made of recycled materials, a roof rainwater collection system for irrigation, energy efficient lighting, permeable concrete pavers in parking areas and recycling of construction wastes. The resulting facility serves as a showcase for sustainable development and a test of alternate construction techniques. It is a resource-efficient building that fits comfortably into its rural western environment.

The Postal Service received a White House Year 2000 *Closing the Circle Award* for the Corrales Post Office.

c. Special Alaska Facilities Program

In February 1999, a Special Alaska Facilities Program was established to replace or refurbish 32 existing Post Offices in rural areas of Alaska. The logistics, weather conditions and effort required to clear the selected sites were among many challenges that had to be overcome. The Alaska Facilities Program is making sorely needed improvements to the affected Post Offices, helping to boost the local economy and create employment opportunities during construction.

To date, sites have been selected for all 32 projects. Ten of these sites have been completed. The remaining 22 projects are planned for completion by early fall 2002.

d. Realty Asset Management

Realty Asset Management is charged with maximizing the return on underutilized and surplus real property assets controlled by the Postal Service. This organization generates income from real estate assets by maximizing postal property value through its highest and best use, leasing or subleasing excess postal space to government and public tenants and selling surplus real property. During 2000, revenue totaling \$147.4 million was generated by Realty Asset Management from the following sources:

TABLE 1.3 REALTY ASSET MANAGEMENT

Leasing to private tenants	\$ 24.2 million
Leasing to government tenants	\$ 28.0 million
Sales of excess property	\$ 84.0 million
Rent from developmental property	\$ 11.2 million

e. Postal Service Facilities Workload

TABLE 1.4 FACILITIES PROJECTS

	Projects Completed During 2000	Projects Ongoing as of End of 2000
New construction, major renovations and expansion projects	263	683
Building purchases	96	174
New lease construction	278	462
Other lease actions (alternate quarters, new leases, and lease renewals)	5,155	1,501
Expense repair and alteration projects	9,758	5,413
Capital repair and alteration projects	10,297	6,345

f. Community Relations Regulations

Since the Postal Service implemented its expanded Community Relations regulations in October 1998, there has been a greater community involvement with decisions to expand, relocate or construct new facilities. The regulations provide a systematic approach to helping local communities understand what various projects are designed to achieve and seek to build partnerships with communities as decisions are made. We believe this fulfills a need in our ever changing environment.

g. Priority Mail Processing Centers

Facilities supported the anticipated transfer of ten leased facilities to the Postal Service from Emery Worldwide Airlines. A project management system was created. All technical and contractual information was obtained and technical assessments were made of all sites and buildings.

5. Purchasing and Materials

a. Purchasing and Materials' Strategic Plan

Fiscal Year 2000 was the fourth year of Purchasing and Materials' Five-Year Strategic Plan. The Plan is centered on the Postal Service's *CustomerPerfect!* management system and was designed to transform Purchasing and Materials from a transaction-based organization to the business customer of choice for internal Postal Service customers and external suppliers. Many successes have been realized under the plan. During 2000, one of its central thrusts — supply chain management — received primary attention.

b. Supply Chain Management

The Strategic Plan identifies supply chain management as one of the most important aspects of successful contemporary businesses. It has become the standard operating philosophy for Postal Service purchasing and materials management, as well as a major tenet of the Postal Service's Breakthrough Productivity Initiative (BPI). In general terms, supply chain management is the analysis of the purchase process and the supply stream, from the supplier's supplier to the customer's use, in order to increase customer satisfaction and decrease overall cost. Effective supply chain management involves a number of business practices, including close interaction among end users, buyers and suppliers, long-term contracts, and ongoing analysis and improvement of operating and administrative processes.

Supply chain Centers of Excellence (COE) teams have been established throughout Purchasing and Materials. They are using supply chain management business practices to benefit the Postal Service. During 2000, more than 60 COE teams were established within Purchasing and Materials' 35 business units. The teams are cross-functional, representing both purchasing and internal customers. Each is commodity-focused, investigating how customer satisfaction can be improved and savings realized. As a result, strategic partnerships have been developed with, among others, suppliers providing office products, mail transport equipment cellular phones and services. These partnerships offer quick delivery and, often, cost savings through electronic commerce. The Postal Service also receives discounts and rebates depending on the amount of business done with the particular supplier. Due to the wide variety of goods and services purchased by the

Postal Service, such partnerships will grow, as will the customer service and financial benefits received through them.

Another commodity receiving particular attention is fuel, which annually costs the Postal Service more than \$700 million. A Fuel Management Program has been established, based on a pilot test that began in 1998. The pilot resulted in savings of more than \$1.5 million for diesel fuel. The Postal Service established a supplier partnership under which the supplier will provide below-retail diesel directly to highway mail transportation suppliers, with obvious cost savings. Savings are also being realized in aviation fuel costs; more than \$1.5 million per year will be saved by purchasing such fuel directly from suppliers. Finally, a fuel credit card (which can also be used for vehicle maintenance services) is now being used nationally. The card simplifies the purchase of fuel and maintenance services and its use generates rebates to the Postal Service.

Innovative business practices are also being used to further the SCM program and BPI objectives. Reverse auctioning, an Internet-based business practice, was used during 2000 for selected commodities. In one case, reverse auctioning led to the award of a six-year contract for the lease of more than 4,000; trailers estimated savings are more than \$2 million annually. Reverse auctioning allows potential suppliers to adjust their proposed price on-line as they react to the proposed prices of their competitors. The results for buyers are lower prices, a better negotiating position, shorter purchasing cycles and improved productivity. Although reverse auctioning is not the best sourcing approach for all Postal Service purchases, it will be used increasingly.

Purchasing policies are also being aligned with supply chain management principles. During 2000, a major effort was undertaken to review and reduce the documentation normally used in Postal Service solicitations and contracts. The intent is to establish standard terms and conditions that reduce the administrative burden placed on both buyers and suppliers, thereby lowering cost and effort. The new terms and conditions will be published in the Postal Service Purchasing Manual in 2001.

Meaningful data and measurement are essential to supply chain management. Purchasing and Materials is therefore measuring supplier performance. Supplier process management and control systems are periodically reviewed and performance is tracked over time. The Supplier Measurement and Tracking system has been assessing supplier

performance and has provided suppliers and buyers with useful feedback for the past five years. Key or critical suppliers are also required to supply process and performance related metrics. As a result of these efforts, the Postal Service has developed a Supplier Rating System that began national testing in 2000. When this system is fully implemented, it will provide buyers with comprehensive supplier performance information.

The Postal Service continues to recognize its best performers with the Quality Supplier Award program. In June, ten suppliers from both the large and small business communities received the 2000 Postal Service Quality Supplier Award. The award has been given since 1989. Over the life of the program, winners have included small and large businesses whose performance and commitment to quality have been found to be outstanding.

c. Process Management (PM)

Since early 1997, Purchasing and Materials has been using PM tools and techniques to improve customer service. This effort began in the materials discipline and has since been used increasingly in purchasing operations. During 2000, Purchasing and Materials had largely established PM as its means of doing business.

It has become one of the most important tools in our supply chain management initiatives. Process management systems are now available on the Postal Service Intranet process management reviews have been integrated into semi-annual business reviews for process owners. Current initiatives include identifying and developing candidates for Quality Practitioners, who will act as internal consultants for Purchasing and Materials staff, again, exploiting the use of process management tools in Supply Chain Management initiatives.

Valid and reliable data are central to effective process management. Recognizing this, Purchasing and Materials established a purchasing-processes database to capture spend data for purchasing transactions. This is in large part made possible by the implementation of a software-based purchasing system, SNAPS, used for supplies, services and equipment. Similar data gathering and analysis has been underway for the past three years in the material management area has led to marked improvement in inventory control and warehouse operations.

d. Materials

Materials is responsible for managing thousands of line items required for daily Postal Service

operations, providing purchasing and materials support to the Areas through ten Purchasing and Materials Service Centers (PMSC), and managing two Material Distribution Centers (MDCs). The Materials cataloging function maintains over 24,000 stocked items and over 6,000 direct supplier items. Availability rate for stocked items at the end of 2000 was 99 percent. The MDCs processed nearly 2.5 million order lines; the customer service level provided (fill rate) was 94.7 percent.

Gross sales for the Materials wholesale operations was \$348 million in parts, supplies, printed material and equipment. Issues from wholesale inventories amounted to \$189 million, while electronic commerce, based direct sales from 60 suppliers amounted to \$159 million, a 20 percent increase over last year. At the same time, the Label Printing Center produced more than two billion mail processing labels the Mail Equipment Shops produced more than one million sacks and pouches and 400,000 locks and keys.

Building on earlier process management efforts, Materials partnered with other Postal Service organizations to take advantage of the most current and effective inventory and material distribution business practices. One example of the success in this area was the partnership with Retail on the distribution of merchandise to all Postal Stores and outlets. By reducing the number of fulfillment operations and by treating these companies as partners, cycle times and inventory levels were greatly reduced while customer satisfaction was improved. Over \$6 million has been saved, along with a 25 percent reduction in inventories system wide.

Partnerships with other postal organizations yielded similar successes. At the request of Consumer Affairs, a pilot was established to test on-line auctioning of unclaimed and recovered mail parcels. While the test will not be completed until mid-2001, initial results have shown a national interest in this material and an increase in per unit sales prices.

Work with the Maintenance Management and MTE organizations resulted in the application of the existing maintenance management software to supplier-operated MTE Service Centers. This eliminated system development costs while standardizing tracking and ordering processes.

A joint venture with Acquisition Management Automation and Purchasing the supplier was able to push the design for a new flat mail processing cart from design approval to field deployment, in less than two months.

Incorporated into these arrangements were application, of electronic commerce and payments, simplified ordering processes for the customers and savings in transportation costs. As a result of these efforts, Materials is increasingly employed as an in-house consultant and manager of acquisition, storage, distribution and customer service.

Materials programs begun in 2000 will greatly affect the Postal Service's use of freight transportation. Materials Distribution also began using the Freight Traffic Management System (FTMS) in 2000. This Web-based software system creates freight shipment transactions, calculates expected freight charges and allows users to select the best value carrier. Material Management Specialists at the Districts, Areas and in Material Distribution will use the system to replace existing Government Bill of Lading software.

The Field Inventory Reduction objective started in 1998 continued in 2000. This objective involves the ten Purchasing and Materials Service Centers using a number of processes with their customers to better manage their inventories. Results were more than \$17.6 million in inventory returned to the MDCs disposal of over \$4.5 million in surplus parts. These sites also were able to nationally generate \$2.2 million in revenue from the sale of surplus material, while avoiding costs through the redistribution of excess inventory.

e. Professional Development

Purchasing and Materials manages one of the federal government's most comprehensive and rigorous professional development programs. Eighteen courses, addressing such areas as contract administration, commercial purchasing, inventory control and orientation for prospective contracting officer's representatives, are offered and must be successfully completed in order to attain contracting officer status. All of the courses receive college credit recommendations from the American Council on Education. During 2000, more than 800 individuals, including both purchasing and material management professionals and other Postal Service employees, attended 39 courses. In addition, cultural and supplier diversity training was provided to employees throughout Purchasing and Materials. This training addressed subjects such as best practices used to further supplier diversity, cultural competencies and the dynamics of diversity.

Because of changes and improvements in the purchasing and materials disciplines, particularly

the development of the supply chain management philosophy and its successful implementation in the private sector, the focus of Purchasing and Materials curriculum has begun to change. Over recent years, Purchasing and Materials began a phased-in approach toward achieving full implementation and management of an integrated supply chain. Improvements are being made to core processes through process management initiatives. To achieve organizational capability and to re-skill purchasing and supply management professionals, most of the in-house curriculum discussed above is being phased out. Plans call for the transition to commercially available courses to ensure that Purchasing and Materials employees have the knowledge, skills and abilities to ensure the success of the supply chain management initiatives.

f. Systems Integration

The Postal Service is using its purchasing and materials systems to further supply chain management and take advantage of existing and developing technologies. Expanded use of eCommerce tools and capabilities can reduce administrative time and cost and quicken delivery.

During 2000, the Postal Service made progress in establishing an Internet-based buying system. This system, known as Web-based purchasing, provides users with a fully integrated electronic (hence, paperless) system that handles requisitioning, approval, ordering certification and payment processes. Orders are made by accessing catalogs available from the Postal Service supplier base. Savings will be realized by reducing transaction cost, inventory and prices. Just as important, Web-based purchasing allows buyers and purchase teams to focus on strategic sourcing rather than the ordering process. This will result in more effective business decisions based on the Postal Service's business objectives. During 2000, pilot testing began on the system. It will be expanded and play a key role in the future of Postal Service purchasing.

For several years, the Postal Service has used two systems applications to communicate purchasing information to suppliers and to inform buying organizations of their capabilities. The first of these, the Business Opportunity Bulletin (BOB), provides suppliers with information, including purchase opportunities. Users download solicitations and relevant information. The second, Supplier Automated Database on the Internet (SADI) allows suppliers to provide Postal Service buyers with information about their companies

and capabilities, their socioeconomic status and the regions of the country in which they prefer to do business. BOB will be replaced as the Postal Service takes advantage of the expanded capabilities of the General Service Administration's Electronic Posting System to alert suppliers to purchase opportunities.

As noted above, Materials is making increased use of technology in its disposal of surplus assets and recovered mail and its management of freight. Internet-based auctions of excess equipment have also been piloted and have shown promise in both disposing of excess and increasing revenue. Use of this technology will expand over the coming years.

Data warehousing is critical to effective supply chain management during 2000 the Postal Service made significant strides in this area. Data warehousing is the collection and analysis of purchasing and payment history facilitates trend analysis and better-informed decision making. During the past year, such analysis was performed on supplies and services purchases and payments transportation commitment and capital expenditures will be similarly analyzed during 2001. The result of these efforts will be a more comprehensive understanding of demand trends and more effective purchasing.

Chapter 2 Postal Operations

A. Public Perceptions, Customer Outreach and Mailer Liaison

1. Customer Feedback Analysis

The Postal Service uses a variety of methods to communicate with customers about our services, products, policies and personnel. The aggregated data from these sources allow the Postal Service to formally integrate the voice of the individual consumer into our business practices and to provide feedback to operations where we can take action, respond and improve. In 2000, the number of customer contacts through traditional methods of communication (i.e., letter, phone calls customer walk-ins) increased slightly. The number of customer inquiries via Internet, an alternative customer communication vehicle, nearly doubled.

The Postal Service logged 807,685 customer contacts during 2000, an approximate 5 percent increase. Of these, 4 percent were compliments, 3 percent were general information requests and 92 percent were service issues. The volume of Internet inquiries skyrocketed, reaching 91,025 e-mails — a 48,000 increase over the previous year.

The increase in customer contacts occurred in all ten Postal Service Areas.

2. Customer Outreach and Mailer Liaison

a. Consumer Advisory Councils (CACs)

Consumer Advisory Councils (CACs) offer a unique opportunity for the Postal Service to maintain contact with residential customers nationwide. Customer Advisory Councils operate at the Post Office level and are made up of a cross-section of community and local postal officials. The Consumer Advocate provides functional guidance and support to our Customer Advisory Councils. Based on the results of a 1999 benchmarking study, the Consumer Advocate identified long-range strategies for tying local council activity to the Postal Service's corporate objectives, ensuring that the voice of the consumer is heard at the corporate level.

b. Mail Recovery Centers (MRCs)

The Postal Service operates three Mail Recovery Centers in San Francisco, CA; St. Paul, MN; and Atlanta, GA. These facilities are responsible for the final disposition of undeliverable mail. During 2000, they processed approximately 1.4 million parcels and 105.6 million letters. To better

serve customers, the Postal Service uses MRCs as diagnostic tools to pinpoint specific problem areas that affect mail volumes received at our facilities. By communicating these problems to our mailers, they are able to improve their mail preparation and/or packaging. We work closely with mailer organizations to determine ways we can work together to provide better service. A direct result of this process was the Expanded Return Program, whereby undeliverable mail items found in company-identifiable packaging are returned in bulk, postage due, to the 35 participating companies. Approximately 340,000 pieces were returned through this program during 2000. The Mail Recovery Program also has initiated partnerships with various internal partners, such as Operations, Delivery Programs, Retail and the Inspection Service, to improve organizational efficiency.

c. Corporate Call Management (CCM)

Corporate Call Management gives postal customers easy access to a broad range of services through a network of National Service Centers (NSCs). The overall goal of CCM is to improve customer service and operating efficiency, decrease redundant calls to Post Offices and increase revenue through establishment of an effective national call-handling infrastructure. Presently, two centers, located in Denver, CO and Kansas City, MO respond to 55 percent of the nation's inquiries regarding general information, mailing rates, hours and locations of local postal facilities and service opportunities. NSCs also handle calls for national programs including Express Mail, Delivery Confirmation and DineroSeguro.

Call center responsibilities were transferred to the Vice President and Consumer Advocate's office. Consumer Affairs is in the process of making customer-friendly enhancements to the call center phone prompts. One such example affords customers the option of receiving local Post Office phone numbers in order to resolve other local issues directly.

d. Sales

During 2000, the Postal Service underwent a major reorganization of its sales organizations. The growth of eCommerce and the increasingly competitive world of commercial business shipping, demanded that the new sales organization be structured to reflect customer needs and interests, rather than internal postal interests.

The new group's responsibilities include development, implementation and evaluation of

all commercial sales and account management plans and programs and policies nationwide, including customer service and satisfaction activities. The new structure has placed the bulk of former local and national sales positions into a single Headquarters organization, that reports through the Senior Vice President, Sales to the Chief Operating Officer (COO). In doing so, customer needs are more easily heard and factored into operational decisions, giving the Postal Service the ability to balance operating costs with customer needs.

The sales force has been organized into four geographic regions — Northeast, Southeast, Central and West — rather than the former 85 local Districts. Each region is headed by an associate vice president, Sales, who reports to the Senior Vice President, Sales.

National Account Managers, who formerly reported to 11 Area Offices, have been organized into five different business segments, each headed by an executive manager who reports directly to the Senior Vice President of Sales. These business segments, are Services (including hospitality, entertainment and tourism, business services, etc.) Mail Order and Retail, Financial Services, Advertising Mail and Sales Partners.

Sales Partners are companies that generate business for the Postal Service, such as letter shops, parcel consolidators, publishers and the printers. This segmentation allows sales representatives within each function to develop indepth knowledge of specific business lines and bring value-added assistance when providing shipping solutions for customers.

A small national support staff assists the national Sales staff. This group has responsibility for lead generation, research, the Account Management process and other matters that support Sales. An Operations Integration and Service group and a Finance group, which operate out of Sales Headquarters in Arlington, VA, also provide national support.

The final segment of the new Sales organization is the Business Service Network, a nationwide network of service centers that provide National and Premier customers (established accounts) a local point-of-contact for resolving local concerns. The network is strategically housed at major postal operational points around the country.

e. USPS Pro Cycling Team

The Postal Service has four primary objectives for the sponsorship of its top-ranked cycling

team, led by Lance Armstrong, the two-time winner of the Tour de France, the world's most prestigious cycling competition:

- Generating revenue by making sales to companies and individuals affiliated with cycling;
- Enhancing the Postal Service brand through activities that will positively impact customer perceptions of the Postal Service in a competitive business environment;
- Reaping the public relations value of sponsorship through a variety of activities focused on both customers and employees; and,
- Leveraging retail sales on-site at domestic cycling events, on the team's Internet site and at Postmark America.

Sales has leveraged the business relationships developed through the cycling sponsorship, closing more than \$18 million in new sales in the past three years. Above and beyond the revenue generated in the Sales function and through retail promotions, the Postal Service benefits from the tremendous public relations value of Lance Armstrong's victories in the 1999 and 2000 Tours de France.

The team's top-notch performance throughout the year, also has a strong impact on employee pride, connecting the notion of winning with the Postal Service. This combination of forces — positive publicity and employee sense of pride — helps customers feel good about the Postal Service as an organization. In a competitive environment, this helps build business. The title sponsorship has been retained for 2001.

f. Core Business

The Postal Service has a fundamental requirement to provide products and services that meet the needs of its different business and consumer customers. The Postal Service continues to improve its monitoring of the business environment through market research, customer satisfaction/loyalty measurements and Customer Value Analysis for specific products and customer segments.

The Postal Service underwent a major effort to identify and develop strategic assessments of key industries. We also developed a new consumer segmentation structure designed to improve our strategic planning.

In 2000, a comprehensive analysis was conducted to determine customer needs and requirements, determine marketplace dynamics, and

evaluate ever-changing customer business models. This analysis was used to establish strategies and tactics to improve our core product offerings. The data also were used to define service requirements, information needs and pricing sensitivities as part of the *CustomerPerfect!* process. Further, it was used to help the Commercial Sales group develop its selling strategies against targeted milestones.

1. First-Class Mail.

Effective and efficient service is the foundation of our flagship product, First-Class Mail. This year, record service performance was achieved, as measured by the External First-Class Measurement system (EXFC). Our continued focus on transactions mail (bills, statements and payments) has positioned the Postal Service to continue to be the primary enabler for businesses and consumers to conduct financial transactions. Expansion of the National Firm Holdout program, redesign of Business Reply Mail (BRM) service, and increased attention to two-and three-day service performance have all supported improved service in this critical part of the First-Class Mail base. Core Business Marketing developed a model to assist remittance customers in improving “float” based on remittance center locations, volumes and service standards.

Improvements to CONFIRM, our new letter mail tracking system, were introduced to better serve the information needs of major mailers. CONFIRM enables senders or recipients of mail to track the delivery of letters and achieve desired business results through the use of unique bar codes called PLANET CODEs. A more robust production system was developed which is sufficient to serve an unlimited number of customers. Deployment of hardware and software to enable all bar code sorters in major processing plants to read PLANET CODE indicia was achieved. Deployment of the CONFIRM capability for bar code sorters in smaller associate offices and delivery units has begun, with completion anticipated in 2001.

Core Business Marketing began testing several new First-Class Mail application enhancements, including MicroPayment and Friend-To-Friend Mail in 2000, both of which utilize PLANET CODE technology. The MicroPayment concept uses stamps as a form of currency. MicroPayment design reply cards — either business reply or courtesy reply — offer customers the option of using stamps as payment for low price point-of-sale purchases valued between \$1 and \$10.

Friend-To-Friend Mail capitalizes on CONFIRM’s ability to recognize a specific type of

mailpiece and offers marketers the ability to use postcards as a vehicle to expand the reach of their advertising message. Friend-To-Friend Mail allows marketers to use postage-paid postcards to carry an advertising message that can be sent to any third party. The advertiser pays the postage only when the card is entered into the mailstream by the customer, as determined by a unique PLANET CODE indicia.

2. Advertising Mail, Standard Mail (A)

Standard Mail (A) is the lead service for attracting advertising content to the mailbox. It is a valuable medium for the distribution of information about products and services (catalogs and direct mail), organizations (fundraising) and individuals (campaign material).

To better serve our customers, Core Business Marketing developed a comprehensive website, www.uspsdirectmail.com, which offers a variety of on-line help to marketers who wish to sell products and services, drive traffic to their location, acquire new customers and retain existing customers through relationship management activities. This new customer contact channel brings value to both beginning and experienced mailers through four interactive environments.

- A tutorial leads marketers through basic considerations and elements of a successful direct mail campaign.
- The Online Consultant provides a “wizard-like” process to developing a campaign.
- The Reference option provides a quick look-up tool for experienced mailers.
- The Vendor Support option provides electronic service assistance with campaigns.

Sales support and direct marketing materials were developed for Postal Service account representatives and national account managers to improve the level of support they can give to customers who advertise. Core Business Marketing partnered with local field organizations to conduct advertising mail seminars, equipping those small businesses that attended with information and tools needed to achieve their business objectives.

Working with Operations, industry associations, and the direct mail and mail order industries, led to increased attention to service, improvements in delivery predictability and better coordination with the mailing community at large.

3. Periodicals Mail

The Postal Service is the primary deliverer of subscription publications in the United States. Working closely with the periodicals industry, the Postal Service has identified opportunities for cost

reduction, service improvement and business growth. Over the past year, Core Business has worked with cross functional groups on such efforts as future flats strategies, package integrity, service measurement and mail irregularity feedback. Core Business also initiated several process efficiencies, including customer and operations training packages and standard operating procedures for our processing plants and airmail facilities.

In terms of communications, we have established an electronic communications vehicle that links publishers and printers with Postal Service delivery units, sufficient to identify and resolve subscriber delivery and service issues. In combination with Area marketing and operations functions, quarterly Periodicals Focus Group meetings are conducted with industry representatives to educate, inform and collaborate on issues designed to facilitate customer service and periodicals business growth.

Core Business Marketing looks forward to continuing our business building initiatives through a periodicals Web page, electronic distribution of newspapers and opportunities to increase subscription marketing for publishers.

4. Special Services

Postal Service Special Services add value to First-Class Mail, package services and other categories of mail. As stated earlier, there are a variety of accountable mail special services that give other customers the opportunity to confirm receipt and delivery of their mailpieces, obtain signatures, ensure mail contents, officially register mailpieces and have the Postal Service perform Collect on Delivery (COD) services. Customers also can purchase domestic and international money orders and secure an official Post Office box.

- Core Business Marketing executed a major effort to transform all accountable mail special services labels and forms to a bar coded format. This effort will enable electronic capture and retrieval of data and information, giving customers faster and more reliable service. Bar coded special service labels are scanned on delivery and, together with signature capture software and equipment, electronic records are created for each mailpiece. Records are stored in a centralized database, making it easier for both customers and the Postal Service to retrieve information.
- The Postal Service has established a standardized system for monitoring and tracking Post Office box usage, availability and pricing

schedules, allowing the Postal Service to better meet the needs of customers. This system is used in over 12,000 postal locations, representing about 80 percent of the total Post Office boxes available to customers.

- To enhance the value and relevance of special services, the Postal Service continues to monitor the business environment through market research and customer satisfaction measurements to address key customer and marketplace requirements.

g. Expedited/Package Services

Expedited/Package Services (E/PS) serves as the focal point for the Postal Service's objective — provide to consumers a uniformly first rate, affordable and dependable parcel delivery service.

E/PS seeks to position the Postal Service as the product of choice in the package delivery market by emphasizing customer value with service to everyone, everywhere, every day. The road map to achieving this objective is the E/PS Business Plan, a dynamic document that is provided to senior Postal managers annually.

The E/PS Business Plan provides guidance on how the Postal Service can grow the package business; ensure our price advantage; increase customer ease-of-use; improve performance and enhance current product and service offerings. The E/PS Business Plan describes what these initiatives are and how they will be realized.

Establishing the Postal Service as the best value provider entails the following objectives:

- **Price** — Ensuring price advantage is a key strategy that is critical to maintaining the competitive advantage.
- **Service** — Improved, consistent performance is a key customer need within the package industry and is critical to growing market share.
- **Features** — Enhancement of current product and service offerings responds to market demand and positions the Postal Service as a player in the package industry.
- **Image** — Increased customer ease-of-use allows customers enhanced access to Postal Service expedited and package services.

As illustrated within the E/PS Business Plan, each of these strategies is aligned with Postal Service corporate goals.

1. Package Products

In 2000, E/PS worked with other functional units within the Postal Service to develop strategies

intended to enhance the growth and development of Express Mail, Priority Mail Standard Mail (B), which includes Parcel Post and the relatively new but growing service, Parcel Select.

Priority Mail remains the market share leader in the two-to three-day product category. The Postal Service continued to work to protect and grow that leading share by maintaining its affordable rates, providing higher levels of service by adding features and ease of use shipping solutions to facilitate that growth. Two-to three-day delivery is an attractive value proposition to the rapidly growing population of online shippers.

Express Mail continued to show modest but steady growth as more customers came to view it as a reliable and reasonably priced alternative in the overnight market.

Parcel Post maintained its position as the value choice in the non-time sensitive delivery category.

Parcel Select has emerged as a growing force in the package delivery market as consolidators and shippers have begun to realize the savings potential of Postal-business work share agreements.

The product represents a real value alternative for parcel mailers who can save on their parcel shipping costs and choose a level of service which best meets their shipping needs. The Parcel Select brand provides three levels of rate incentives based on how deep into the postal distribution network a shipper enters their parcels for delivery.

The concept behind Parcel Select originates from a term that parcel shippers have known for years — zone skipping. Through this concept, parcel shippers who can provide their own transportation are able to bring their parcels directly to the postal facility responsible for a certain destination ZIP Code, reducing the distance between the entry and delivery points for the parcels. Since distance and transportation are major cost factors in postage rates, the Postal Service is able to reduce its costs and pass those savings on to the shipper as postage discounts. The closer the mail is brought to its final destination, the greater the savings. In addition, zone skipping dramatically reduces the time needed for postal handling of parcels, which leads to improved delivery service.

In a related development, two private sector delivery companies have chosen to take advantage of the savings offered as a part of the Parcel Select option. Airborne Express launched Airborne@Home and Emery Worldwide Airways announced its intention to bring to market a high value multi-piece shipment service, Parcel@Home.

Overall, Parcel Select is an economical way to reap the benefits of the Postal Service's greatest strength, its nationwide six-day a week neighborhood delivery network.

2. Global Express Guaranteed™ (GXG) Service

Global Express Guaranteed is fast becoming recognized as a leader in the international expedited delivery market. GXG, developed by E/PS and International Business, was created as part of a strategic alliance with DHL Worldwide Express. GXG has shown steady growth since inception. Its development was enhanced further in 2000. Originally launched as Priority Mail Global Guaranteed (PMGG) in April 1999, this premier guaranteed international service is now a permanent postal service, having been so designated by the Postal Service Board of Governors in August 2000.

Renamed GXG, this service's reach broadened from its initial 19 destinating countries and territories to more than 200. Likewise, the number of acceptance locations grew from 3,500 Post Offices in 11 metropolitan areas to more than 20,000 retail locations.

In the early stages of its existence, GXG service was for documents only. In the autumn of 2000, a new class of GXG service was created and offered. Now in its fifth state of expansion, an online shipping solution is planned for GXG, thereby ensuring greater convenience and ease of use for commercial customers.

3. Confirmation of Delivery Services

- E/PS developed and implemented of the new signature capture process and electronic record management. As a result, E/PS forever changed the way the Postal Service captures, stores and retrieves signatures for every signature special service and Express Mail item. This improvement in managing delivery records provides opportunities to better meet customer needs for proof of delivery services, fraud reduction and indemnity claim processing. Delivery record look-up from Postal Service Intranet site now takes seconds rather than days — an effective way of managing over 400 million delivery records annually.
- Conversion from a manual paper process to a more efficient electronic system involved adding bar codes to all special service labels and delivery receipts and the rollout of 225 Optical Work Stations to every Computerized Forwarding Systems in the country. Also key was the download

of new “smart” software to over 330,000 hand held scanners, one of the largest of its kind. Once all the hardware and software was in place, more than 500,000 delivery employees were trained on the new process.

- Fast on the heels of the new signature capture process came the pilot test of Signature Confirmation™ service in August of 2000. Building on the Delivery Confirmation™ infrastructure, this new proof of delivery service gives customers the ability to receive the recipient’s name with their delivery information and to easily request a copy of the signed delivery record by phone or online. Signature Confirmation is scheduled to be available to retail and commercial customers in spring 2001.
- Delivery Confirmation service scan scores continue to exceed expectations since the official service launch in March of 1999. Also, customer acceptance has been strong with volume sales topping 100 million, even before the end of the fiscal year in 2000.
- E/PS, on behalf of Priority Mail, renewed its sponsorship for the “Help Stamp Out Hunger” Food Drive conducted annually by the thousands of members of the National Association of Letter Carriers (NALC). The Priority Mail logo appears on each of the 100 million plus cards delivered to American homes alerting residents to the upcoming drive. In 2000, the NALC effort resulted in the collection of more than 64 million pounds of non-perishable food that was delivered to food banks for the needy across the country. The sponsorship reflects not only strong support for the drive, but also appreciation for the job the carriers do every day of the year.
- www.USPSPriorityMail.com. E-commerce continues to play a significant role in the parcel delivery business and as such, remains an important focal point for E/PS planning and development. The growth of retail e-commerce (e-tailing) and the correspondent growth in consumer package deliveries, has give E/PS a key opportunity to help position the Postal Service as the preferred online delivery provider for Internet-to-consumer fulfillment. One element of the E/PS program is the sponsorship of a successful advertising program with television, print and direct mail asking the now familiar ques-

tion, “What’s Your e-Priority?” This effort to link well-known Internet companies with Priority Mail is further supported by the website www.USPSPriorityMail.com. There, potential shippers will find several software tools they can download, integrate into their systems and use to improve customer service by offering Priority Mail.

In addition, the website offers online retailers the opportunity to utilize the electronic merchandise return option, Returns@ease. This option, which has been received enthusiastically in the Internet community, allows a retailer to authorize its consumers to download and print pre-paid postage label that can be affixed to the item and dropped in the mail.

The boundaries of the e-commerce revolution have yet to be determined. E/PS remains committed to meeting its challenges and equipping the Postal Service with the tools it needs to fulfill customer needs.

4. Prime Time TV Advertising And American Business Review TV Program

Since its inception in 1997, E/PS has consistently promoted Postal Service products and services by crafting and placing high-quality commercial advertisements and feature programs on national television. During the Holiday 2000 mailing season, E/PS saturated prime commercial air time with advertising spots featuring Global Express Guaranteed, Priority Mail, Express Mail and Electronic Merchandise Return Service

In July 2000, E/PS taped key delivery industry spokespersons for a three-minute feature documentary highlighting the Postal Service’s ever changing role in the world of e-Commerce. This program, titled *American Business Review* and hosted by news anchor Morley Safer, was distributed nationwide for television broadcast in autumn 2000.

5. Selling Integrated Package Solutions

To help equip the Sales force with the tools necessary to attain their goal of increasing revenue, E/PS helped develop the Selling Integrated Package Solutions training program. The jewel in this program’s crown was the June 1, 2000 PSTN broadcast which targeted sales employees throughout the nation. This 3-1/2 hour live broadcast featured a call-in question and answer segment, encouraging viewer interaction.

6. Sales and Service In The Fall Holiday Mailing Season

To reinforce sales force training and to increase revenue during the Holiday 2000 mailing

season, E/PS and Sales aired the PSTN broadcast, Sales and Service in the Fall Holiday Mailing Season. This live program, broadcast in September 2000, contained a call-in question and answer segment, to help ensure viewers' understanding of the material presented.

h. Stamp Services

1. Stamp Program.

In 2000, the Postal Service produced a wide variety of commemorative and definitive stamps. The stamps that were issued were recommended by the Citizens' Stamp Advisory Committee (CSAC), recognizing great people and their achievements in the American experience, important historical events and the natural beauty and wildlife of the United States.

Of the 23 stamp events held in 2000, numerous significant stamps were dedicated. Among them were the Space Achievement and Exploration stamps, which featured a number of firsts. There were four hologram stamps, a circular stamp and five pentagonal stamps. In November, these stamps were selected as the "Best of Show" winner by the International Hologram Manufacturers Association (IHMA) and Reconnaissance International, receiving the top award for the most outstanding holographic projects for the year 2000. Five Hubble telescope images from deep space created a special pane of stamps issued prior to the World Stamp Expo 2000 stamp show. A unique pane of 20 designs featuring the evolution of the American flag was well received by the public and collectors. Stamps featuring children's art, chosen from over 27,000 designs submitted depicting the future, also were issued at the Expo. Our first-ever Prestige booklet of stamps honoring the 100th anniversary of the U.S. submarine force was dedicated in spring 2000. Four Distinguished Soldiers including Audie Murphy, Alvin York, Omar Bradley and John Hine, were saluted with stamps, as well as Senator Claude Pepper and Patricia Roberts Harris. Anniversaries were observed through stamps for the Library of Congress and California statehood. A stamp for adoption was the focal point of a massive campaign to build awareness of this important issue.

The stamp program for 2001 was successfully completed earlier for than past years. The accelerated schedule affords earlier development of stamp and retail products and earlier release of designs to the media, field offices and public.

2. Production Activities.

During 2000, significant strides were made in cost reduction, expedited production activities and continued environmental affairs.

- The Year 2000 stamp was issued on December 27. Given a mandate to produce and distribute the stamp in record time, Stamp Acquisition and Distribution did so within four weeks of receipt of the artwork from Stamp Design.
- March 5–8, 2000 the Postal Service co-sponsored the Technical Association of Paper Pulping Industries 2000 Recycling Symposium. During the conference, discussion was held regarding the benign adhesive project that has been spearheaded by Stamp Acquisition and Distribution. As a result of this effort, the Postal Service was officially recognized by the White House Office of Environmental Policy. An Executive Order was released mandating federal agency compliance with the benign adhesive protocol specifications pioneered by the Postal Service.
- Stamp Acquisition and Distribution expanded the multi-print pricing tables to maximize cost savings in producing water activated and self-adhesive panes.
- We continued production of the two-sided booklet, first introduced in the spring of 1999, with the production of the first two-sided special size definitive booklets. This new innovation increases productivity and reduces production costs.
- We successfully met all stamp production and distribution commitments for both the commemorative and definitive stamp programs.

3. Direct Marketing.

The *USA Philatelic* catalog continues to be the major mail order vehicle for stamps and stamp products. Orders are fulfilled through Stamp Fulfillment Services (SFS). A comprehensive listing of all stamps and stamp products available to our customers, *USA Philatelic* is the source of a major portion of total philatelic mail order sales revenue. In 2000, sales through SFS, exceeded \$111 million with the vast majority of sales attributed directly to customer orders from the *USA Philatelic* catalog. Based on customer ZIP Codes, all sales are credited to local offices. Through the catalog, field offices receive unplanned philatelic revenue from SFS, which require no funding and no field resources. The catalog also contributes to increased

philatelic purchases at Post Offices. There were marked increases in customer response, order volume and revenue per catalog. Revenue-based Return on Investment (ROI) for Core Customers is over 800 percent. The foreign customer segment (one of the smallest segments) is the most profitable, producing an ROI of above 1,400 percent.

Separate multi-year catalog contracts, one for creative design and the other for printing, continue to result in cost savings of over \$1 million per year. As this design and print process is refined, costs are expected to decrease even further.

Marketing and “win-back” efforts have added more than 115,000 new “core” customers to our database for 2000. Reactivated customers now make up nearly 14 percent of this core customer group. The catalog has responded to our customers needs by giving them the information they need about our stamps and stamp products — further satisfying the “Voice of the Customer.”

4. Youth Program.

The integrated youth program continued to build and nurture relationships with America’s youth at home, in schools and in communities. The Postal Service distributed to Stampers® members, between ages 8–12, an annual calendar that featured this year’s stamp program; and four Stampers Cool-lectibles™ magazines which featured this year’s stamps, historical information pertaining to the stamps and fun, educational activities and games. More than 300,000 teachers, educators and librarians received three educational kits. In addition:

- The Wee Deliver™ program in elementary schools continues to be very successful.
- We successfully partnered with the Environmental Management Office in sponsoring a Pollution Solution essay contest. The grand prizewinners of this contest will receive trips to the Pacific Coast Rain Forest during the summer of 2001. Over 6,000 contest entries were received.
- We made our National Stamp Collecting Month materials available on our Postal Service website, <http://www.usps.com>.
- During World Stamp Expo this year, more than 3,400 children participated in our Stampers Kids Area activities. The World Kids’ Congress also was held and the winners of the Stampin’ The Future Contest from 18 different postal administrations attended this event.

5. Celebrate the Century.

February 1998 through May 2000, the Postal Service issued a series of ten sheets of 15 stamps commemorating each decade of the 20th century. The Citizen’s Stamp Advisory Committee (CSAC) recommended subjects for the first five decades — 1900 through 1940. The remaining decades — 1950 through 1990 — were selected by nationwide balloting of the American public. The nationwide balloting process, which ended in May 1999, afforded the public the opportunity to choose subjects that represented the last five decades of the 20th century. Increased interest in the hobby of stamp collecting during this period can be directly attributed to the American public’s involvement in the voting process, which allowed them to select subjects of their choice to appear on stamps commemorating the great people and events of the century.

In conjunction with the issuance of the Celebrate the Century (CTC) stamps, the Postal Service launched the CTC Express Train in March 1999. The CTC Express traveled some 25,000 miles throughout the nation, visiting over 68 locations in 35 states. CTC sought to deliver America’s past to America’s future, spreading history and good will, as well as information about the historic value of stamps to America’s heritage. Over 287,000 visitors toured the train during its 18-month tour. The CTC Express train ended its tour in Savannah, GA, on November 5, 2000.

i. Licensing Program

In January, 2000, the Office of Brand Management and Licensing, made a decisive step towards implementing a broad scale licensing program by competitively selecting Equity Management Incorporated (EMI) as the exclusive worldwide licensing agency for the Postal Service. Over the past year, Postal Service has been working with EMI to increase royalty revenue to a level consistent with Postal Service’ intellectual property potential.

As a result of this strategic collaboration with EMI, during 2000 Postal Service executed over 25 new contracts with licensees. The effect of these initiatives has been to begin maximizing Postal Service trademark equities and to enhance the Postal Service brand with high quality products, while aggressively pursuing revenue growth.

The Licensing Program also made inroads into protecting Postal Service intellectual property and brands by communicating internally and externally the consistent message about licensing

requirements. Since early 2000, every response to inquiries regarding Postal Service intellectual property, including stamp images, has clearly articulated that the Postal Service actively protects its copyrights and trademarks, as well as its other intellectual property. Organizations wishing to sell products bearing Postal Service copyrighted images or marks must obtain a license from the Postal Service. Furthermore, in conjunction with the Postal Service Law Department, Licensing has been protecting Postal Service intellectual property in assets represented by urls such as www.usps.com, and postoffice.com.

In August 2000 senior Postal Service management issued a memorandum to all Postal Service officers notifying the organization that the Office of Brand Management and Licensing, is responsible for all standards pertaining to the use of Postal Service intellectual property. This began the process of developing an authorized vendor program to streamline brand protection and brand enhancement. Other existing and pilot projects include selling retail products via the internet, the On-line Web Store featuring the branded product line, testing and marketing a co-branded product line branded mailing supplies through commercial retail venues.

B. Mail Volume and Service Performance

1. Mail Volume

As shown in Table 2.1, mail volume grew modestly in 2000 despite a significant decline in First-Class single piece letters¹ and growing economic uncertainty. Total mail volume increased by 6.2 billion pieces to 207.9 billion pieces, a growth of 3.1 percent. For 2001, the projected total volume growth is one half of one percent (0.5%). Even this relatively miniscule growth rate will be difficult to achieve however, should a recession occur in 2001.

Under the present regulatory system, Postal Service rates are set rigidly in advance of any "rate cycle" and are based upon anticipated economic circumstances. This system rigidly holds the Postal Service to those fixed rates and prohibits the Postal Service from making logical, reasonable pricing responses to economic and marketplace realities.

Flexible pricing, one of the five essential elements of Postal Reform, would allow the Postal Service to accommodate unanticipated increases in costs and to increase mail volumes by offering a variety of pricing incentives to customers. In slow mailing periods, customers could be offered lower rates whereas premium rates could fairly be charged for mailing during high volume mailing periods when service is more costly. Such pricing flexibility is more than a commonplace business practice in competitive markets; it is a universal necessity.

Revenue in 2000 grew in line with volume. As compared to 1999, First-Class revenue per piece benefited from higher prices and heavier pieces. The first three months of 2000 benefited from R97-1 prices when compared with the same weeks in 1999. Average weight per piece was one half of one percent higher in 2000 for First-Class letters. Offsetting the factors that lead to higher revenue per piece were mix changes resulting in lower yields. One example of the mix change is that Standard Mail (A) grew faster (5.1 percent) than First-Class Mail (1.6 percent growth). This is significant because Standard Mail (A) has less than half as much revenue per piece compared to First-Class Mail. Within First-Class Mail, single piece letters fell 2.6 percent. Although this partly represented the continuing historical shift from single-piece letters to workshared letters, the Postal Service has concerns that this decline may result from the loss of traditional applications of the mail.

Within subclasses of mail, revenue yield generally reflected increased customer use of worksharing discounts. For 2001, the Postal

TABLE 2.1 HISTORICAL AND PROJECTED MAIL VOLUME BY FISCAL YEAR

(millions of pieces)	1999	2000	Projected 2001*	Projected 2002*
First-Class Mail	101.9	103.5	103.3	104.7
Priority Mail	1.2	1.2	1.2	1.2
Express Mail	0.1	0.1	0.1	0.1
Periodical Mail	10.3	10.4	10.2	10.2
Standard Mail (A)	85.8	90.1	91.5	94.1
Package Services (formerly Standard Mail (B))	1.0	1.1	1.1	1.2
International	1.0	1.1	1.1	1.1
Other	0.4	0.4	0.4	0.4
Total Mail	201.7	207.9	208.9	213.0

The Postal Service projects year end losses will be between \$2.0 and \$3.0 billion in 2001 and between \$2.5 and \$3.5 billion in 2002. These volume projections fall within these ranges.

¹ First Class letters refer to First Class letters, flats and irregular parcels and pieces (IPPS), i.e. all First Class other than cards.

² They were over 41 percent of 2000 revenue and over 44 percent of 1999 contribution.

Service anticipates that the falling yield per piece will continue to influence revenue. Key categories with above average unit revenue will decline. First-Class Mail will shrink by about 0.2 percent, led by First-Class single piece letters, and Priority Mail will decline. These two categories of mail constitute major portions of Postal Service revenue and cover a substantial portion of the Service's institutional costs.² Standard Mail (A) volume is expected to grow. (See Table 2.1.)

The projections of mail volumes shown in Table 2.1 reflect a slowing economy, R2000-1 rates, and recent experience. Should an actual recession occur, results could be worse.

Recently, economic forecasters have been revising their projections downward. In Congressional testimony, Federal Reserve Board Chairman Alan Greenspan, forecast a "substantial slowdown, on balance, for the year as a whole" and stated that "for the period ahead, downside risks predominate." Economic indicators support these cautions. They show that the manufacturing sector is in recession and has slowed. Business and consumer confidence is unstable and weakening.

Because of this extensive pronounced economic uncertainty, the Postal Service concludes that the projections in Table 2.1 do not represent the full range of results that reasonably may be expected to occur. Taking economic uncertainty into account, the Postal Service projects year-end losses will be between \$2.0 and \$3.0 billion in 2001 and between \$2.5 and \$3.5 billion in 2002.

2. Service Performance Measurement

First-Class Mail service performance results are measured through the Transit Time Measurement System (TTMS), which measures service performance from the time mail is entered into the system at an induction point until the time it is received in the home or small business. TTMS is independently administered by PricewaterhouseCoopers under a contract with the Vice President and Consumer Advocate.

TTMS' main goal is to measure service performance from the customer's point of view. The information gathered determines the effectiveness of system performance in satisfying customer requirements. EXFC provides quarterly estimates of First-Class Mail destination service performance for 85 Performance Clusters, encompassing 463, three-digit ZIP Codes, from their overnight, two-day and three-day service commitment areas. The network represents 80 percent of

the nation's originating First-Class stamped and metered mail volume. The EXFC measurement system has been in existence since 1990. The independent TTMS showed an average national overnight performance of 94 percent for 2000. National service performance for two- and three-day service commitment areas averaged 86 and 84 percent respectively.

Measuring customer satisfaction is an ever-evolving process. Customer Satisfaction Measurement (CSM) is composed of three distinct processes: one that measures residential satisfaction CSM-R, one that measures business customer satisfaction CSM-B one that measures event-based customer satisfaction CSM-EVB.

The CSM survey also supports the goal of the Voice of the Customer under the *CustomerPerfect!* process. Customer satisfaction is measured independently by The Gallup Organization through a contract with the Vice President and Consumer Advocate.

The CSM-R results showed that 92 percent of the nation's households rated their overall satisfaction with the Postal Service as "excellent," "very good," or "good" at the end of the fiscal year. The CSM Residential survey was redesigned in 2000 to better reflect consumers' current expectations of delivery products and services and to better measure postal corporate strategies. Given the changes in technology and the marketplace, an overhaul of the questionnaire was warranted. Additional questions anchored in observable behaviors were included to provide more actionable data to field postal managers. The revised CSM Residential survey was implemented in September 2000.

For the CSM-B, national accounts reported an overall satisfaction rating of 95 percent, an increase of 2 percent over the same period last year. These business customers have been identified as the Postal Service's largest customers. Approximately 250 accounts are designated as National Accounts.

The Premier accounts reported an overall satisfaction rating of 92 percent, a decrease of 1 percent over the same period last year. These are the second largest group of business customers. There are approximately 12,000 Premier accounts.

Business accounts reported an overall satisfaction rating of 90 percent, unchanged from the same period last year. Business accounts are all other business customers not identified as National or Premier Accounts. See Table 2.2

**TABLE 2.2 CUSTOMER SATISFACTION:
BUSINESS AND RESIDENTIAL PERFORMANCE IN 2000**

(in percent)

Performance by Quarter	1 st	2 nd	3 rd	4 th
National	93	92	94	95
Premier	93	92	93	92
Small/Large Business	89	90	90	90
Residential	92	92	92	92

As the Federal Benchmarking Report recently stated, organizations need to operate with a sense of urgency. There are two types of companies; those that recognize customer needs and meet them those who either do not recognize the need, or refuse to change. For the Postal Service, the marketplace dictated the change and we responded.

3. International Mail

During 2000, International Business focused on developing key international markets; improved communications and service with customers, restructured its product offerings reaffirmed its relationship with foreign postal administrations through joint product development.

a. New Services

The Postal Service has made its new Global Express Guaranteed Service (formerly Priority Mail Global Guaranteed) a permanent service offering. This premium expedited service is offered via an alliance with DHL Worldwide Express, Inc. The service has been expanded to nearly all countries and now includes merchandise as well as document service.

To better serve the North American market, the Postal Service and Canada Post Corporation (CPC) launched Xpresspost, a priority retail product offered in Canada serving destinations in the United States. The product benefits from work sharing in that it is drop shipped by CPC to six hubs in the United States having been first presorted at origin to addresses in the service area of each U.S. hub. Likewise, the Postal Service, with the cooperation of CPC, continued its deployment of Admail service into Canada, a service that meets the needs of commercial customers in the United States. In addition, International Business recorded significant first year volume and revenue results from the introduction of International Priority Airmail (IPA) service to Canada. All three initiatives have been designed to satisfy and enhance the expanding requirements of cross-border customers in both countries.

b. Volume and Revenue

In 2000, international mail totaled 1.028 billion pieces and generated \$1.654 billion in revenue representing increases of 0.2 percent and 1.8 percent, respectively, compared to the prior fiscal year. International mail revenue is primarily derived from outbound air and surface letter post items, parcels, Express Mail International Service (EMS), International Surface Airlift (ISAL), IPA and payments by foreign postal administrations for the handling and delivery of foreign origin mail. These payments include internal air conveyance, transit charges, imbalance charges, terminal due and inward land rates.

Airmail service accounted for 59.7 percent of outbound mail volume and 54.5 percent of the revenue. Airmail volume of 613.9 million pieces decreased by 5.2 percent principally due to erosion in airmail letters, cards printed matter, although air parcels showed a modest gain of 3.3 percent. Airmail revenue of \$901.33 were virtually unchanged from 1999, with gains in printed matter (1.8 percent) and parcels (7.5 percent) being nearly offset by declines (2.4 percent) in air LC. The increases in component revenue reflect the May 1999 international rate adjustment.

EMS recorded a 7.5 percent gain in revenue on a 6.9 percent increase in volume. ISAL posted a 4.1 percent gain in volume with a corresponding 3.5 percent increase in revenue to \$95.7 million. IPA posted a remarkable 60 percent revenue growth on a 107 percent increase in volume. IPA performance reflected the results of market-based pricing first introduced during 1999.

c. Product/Rate Restructuring

The international product line and prices were restructured to make it easier to do business with the Postal Service. The changes, developed during 2000, become effective January 2001. Content-based rate distinctions were eliminated for retail customers and our product lines were reorganized according to delivery speed. Pricing anomalies that have confused customers and employees were eliminated; our prices now clearly reflect differences in delivery speed and reliability. The rates most international mailers pay were simplified. Twelve different rates for documents weighing 1 ounce or less were replaced by two rates: 60 cents for North America and 80 cents for the rest of the world. Other changes were made to the international rates to ensure appropriate levels of cost coverage. Categories of mail that have consistently lost money or that cannot be offered at

reasonable prices given the level of service were eliminated. International rates have always been organized by groups of countries to reflect differences in transportation and foreign delivery costs. These country groupings were updated to reflect significant changes in foreign delivery charges set by the Universal Postal Union.

d. Cost Management/Cost Reductions

The Postal Service has limited control over two-thirds of the costs it incurs to provide international mail service. Payments made by the Postal Service to foreign postal administrations for the delivery of our outbound, international mail constitute 50 percent of the total costs of outbound international mail. The rates postal administrations pay for foreign delivery are, for the most part, established by the Universal Postal Union (UPU) at international meetings held every five years. Another 16 percent of the costs of providing outbound international mail service are for international transportation. The Department of Transportation sets the prices the Postal Service pays to airlines for transporting mail overseas.

The Postal Service has some ability to influence the decisions made by the UPU. The United States actively participates in working groups established by the UPU to propose adjustments to foreign delivery rates that better align with delivery costs. Our efforts have been focused on making these payments reflective of actual delivery cost. We also establish bilateral agreements with individual countries when we believe such agreements yield rates that more accurately reflect delivery costs.

e. Growing Inbound Business Traffic

International Business has developed agreements with private international mail consolidators, large international customers and foreign postal administrations to generate new inbound international revenue. Under the agreements, the providers accept shipments and transport them to the United States for delivery by the Postal Service, primarily as Priority Mail, at full, published domestic rates. The specific international markets targeted for these agreements are Europe, Canada, Mexico, Latin America, Asia/Pacific and other emerging markets.

f. State Department Coordination

In 2000, the Postal Service has continued to work in cooperation with the U.S. Department of State, which has primary responsibility to formulate, coordinate and oversee policy with respect to U.S. representation in the UPU. The Department of State leads a consultation process

on postal policy issues with all stakeholders, including the Postal Service, other government agencies, customers and private providers of delivery services. This responsibility was granted to the Department of State through legislation that Congress passed in October 1998. The Department of State's role is to ensure that the Postal Service not enter into any agreement that provides any undue or unreasonable preference to the Postal Service, a private provider of postal services or any other person.

In addition, the Postal Service, Department of State and Postal Rate Commission agreed to sponsor a joint study of the remail provisions of Article 43 of the Convention of the UPU and their impact on key stakeholders. The results of this study, carried out by an independent consultant, shall contribute to formulation of U.S. policy on the fees postal administrations pay for the delivery of international letter mail. The Postal Service shall also continue its efforts through the UPU to implement a more cost-based terminal dues system for industrialized countries with a link to service quality in 2004. This system, adopted at the UPU Congress in Beijing in 1999, provides a transition to a more cost-based terminal dues system for all countries.

The Postal Service also participated on the U.S. delegation to the UPU High Level Group, which was created by the Beijing Congress in 1999 to address issues of UPU reform and wider participation by key stakeholders in postal issues. This delegation was led by the Department State and included representatives from other government agencies and the private sector.

g. Customs Service

In 2000, the Postal Service, in conjunction with the U.S. Customs Service, initiated a joint study, mandated by Congress, to develop an operating agreement regarding enforcement of customs laws. This study will address inspection of inbound and outbound items, electronic manifesting, timely collection of fees, targeting and other issues of parity in the treatment of the Postal Service and private carriers by Customs.

C. Mail Distribution

TABLE 2.3 NEW CONTRACTS WERE AWARDED FOR:

Automated Flat Sorting Machine (AFSM) 100s	362
Collection and Delivery Vehicles	2,400
CSBCS Stacker Modules	353
Delivery Bar Code Sorter Expanded Capability Kits	106
Mail Entry Verification Systems	200
Parcel Singulators/Readers	42
Recognition Improvement - Typed & Printed Addresses	1,086
Small Parcel and Bundle Sorter Control Systems	192
TOTAL	4,741

1. Automation Activities

The Postal Service continues to focus on automating mail distribution operations to improve efficiency and reduce costs. The foundation of this effort is based on bar code technology, which includes generating bar coded mail, processing bar coded mail in automated operations and adjusting the workforce as necessary to capture savings.

a. Letter Mail Automation

In 2000, customers generated over 83 billion bar coded letters, representing about 59 percent of total letters. The Postal Service generated bar codes for another 43 billion — about 30 percent of all letters. Of the bar codes we generated and applied to letters, Multiline Optical Character Readers (MLOCs) and the Remote Bar Coding System (RBCS) each accounted for about 20 billion. Other operations accounted for the remainder.

1. New Equipment and Software

During this year, the Postal Service continued its campaign to improve automated processing of letter mail through deployment of additional hardware and software. New automation equipment is allowing postal operations to keep pace with the increasing volume of letter mail.

The deployment included 332 Delivery Bar Code Sorters (DBCS), 194 Input/Output Sub-System Kits (DIOSS) 429 Output Sub-System Kits (OSS). This equipment allows mail that was being processed manually to enter the automated mail stream, thereby reducing work hour requirements.

During 2000, the Postal Service worked to increase the physical limits of mail that can be processed on automation equipment, thus increasing the amount of automated mail and reducing the amount of manual mail. Currently, about 8 percent of letter mail is processed manu-

ally. Yet it accounts for one-half of the total letter mail processing labor costs. Letters can be processed using automation equipment at one-tenth the cost of manual processing.

In support of this effort, six prototype Delivery Bar Code Sorter Expanded Capability (DBCS-EC) machines have been deployed at three major processing plants. Near the end of the year, a contract for an additional 106 Expanded Capability kits was awarded. These EC kits, when added to our existing DBCS machines, will allow them to process a wider range of mail than is currently possible. The DBCS-EC machines will be capable of handling flimsy mail pieces, thick and heavy mail pieces items such as compact discs.

Letter mail recognition rates continued to rise in 2000 as we deployed additional hardware and software upgrades for our existing Multi-line Optical Character Reader (MLOC) equipment and Remoter Computer Readers (RCRs). The RCR 2000 program targets a 75 percent handwritten address encode rate with incentives based on incremental performance improvements. The system baseline for this program was a 57 percent handwritten encode rate by the end of 2000, this rate had risen to 72 percent. The RCR 2001 program is projected to yield over an 80 percent encode rate by 2002 without adversely affecting the error rate.

The Recognition Improvement Program provides hardware and software enhancements for resolving primarily machine-printed addresses on letter mail. During 2000, we conducted a competitive test of four suppliers that had submitted proposed recognition improvements. Development of these improvements was accomplished at their expense and the Postal Service was able to select those with the highest return on investment. The evaluation was based on “system encode rate improvement” considering both the on-line MLOC equipment and the off-line RCR and their respective potential cost savings. This program resulted in a 6 percent improvement in the system encode rate.

During 2001, the Postal Service will be testing and deploying additional handwritten and machine-imprint recognition improvements. Incrementally released software enhancements will be evaluated and purchased on a pay-for-performance basis.

2. Remote Encoding Centers

When all electronic means of resolving address information have been exhausted, the mail piece image is sent to Remote Encoding Centers

(RECs) where operators use video display terminals and keyboards to process the address information. Providing partial RCR results with the image often allows the operator to process the address with minimal keystrokes. The results of RBCS activities are bar codes sent electronically to a bar code sorter. There, the bar code is applied to the mail piece, keeping it in the automated mail stream.

Since September 1999, reduced keying requirements due to recognition improvement rates have allowed us to close 23 of the original 55 RECs. By June 2001, we plan to close an additional five. That will reduce the number RECs still in operation to 27. Other consolidation options also are being considered that could result in the closure of four additional RECs.

3. Process Improvements

a. Sorting Technology

The Identification Code Sort (ICS) System enables mail pieces with unreadable POSTNET bar codes to be sorted by reading the unique mail piece identification tag and obtaining the associated ZIP Code, using a database lookup of the RCR or REC-derived result. The ICS System eliminates the need to relabel and reprocess these mail pieces, saving two additional passes through the bar code sorters as well as associated labor and label material costs.

- The ICS system is being added to all of our existing bar code sorters, including Delivery Bar Code Sorters (DBCSs), Carrier Sequence Bar Code Sorters (CSBCSs) Mail Processing Bar Code Sorters (MPBCSs). When deployment is complete in early 2001, over 9,000 bar code sorters will have been retrofitted with an ICS upgrade kit. This upgrade is increasing bar code sorter efficiency.
- We nearly completed deployment of 438 Manual Modification kits for our MLOCs during 2000. This enhancement allows the MLOCs to process a wider range of mail, including thick mail pieces that previously had to be sorted manually. This modification has improved the machine's performance by reducing the jam rate, which is resulting in higher throughputs and reduced mail damage.
- The Postal Service awarded a contract to design, manufacture and deploy 353 CSBCS Stacker Modification Kits during 2000. This 21- or 25-stacker addition will provide the

CSBCS with the capability of sorting to a greater number of delivery points even though the volume of mail in the route (or combination of routes) may not have changed. The operating window will continue to be met. Bin overflows, manual processing requirements, processing costs and delays in getting mail to the carrier will be greatly reduced. Deployment of the kits is expected to begin in spring 2001.

b. Flat Mail Automation

Over 45 billion pieces annually fall into the flat mail category. In 2000, customers generated bar codes for almost 39 percent of them. Postal computer forwarding system activities also generated a small percentage of bar codes as part of the forwarding process.

- An important addition to our automation processing capability has been the Automated Flat Sorting Machine (AFSM) 100. Deployment of 175 AFSM 100s began in April 2000 and is scheduled for completion in January 2001. This machine is allowing us to sort flat mail in the most efficient, cost-effective way possible by using the latest technologies available. Its enhanced features have enabled us to expand the benefits of automation to the flat mail stream. These features include three automatic feeding stations yielding a throughput of over 17,000 pieces per hour, OCR reading with on-line video coding (i.e., real-time keying) of OCR rejects and a tray take-away system with adaptability to robotic handling systems. This initial purchase is providing additional flat sorting capacity. Deployment of another 362 AFSM 100s, which will primarily be used to replace our older and less capable FSM 881s, is scheduled to begin in January 2001 and end in April 2002.
- We also are planning to add automated feeders and optical character readers to all Flat Sorting Machine (FSM) 1000s, which will result in higher machine throughputs and lower staffing requirements. These machines are able to process the mail that cannot be handled by our primary flat sorters, the FSM 881 and AFSM 100, including newspapers and poly-wrapped material. During 2000, we conducted a competitive test of these enhancements. We expect to award a contract for their purchase

in early 2001, with deployment expected to begin in 2002.

- The Postal Service has nearly completed deployment of PLANET/CONFIRM capability for flat mailers. This program is designed to meet the needs of a number of customers, particularly national mailers who want to improve their business processes or refine customer data. PLANET/CONFIRM provides mailers information regarding origin or destination confirmation, address correction, forwarding tracking. During 2000, this capability was added to the FSM 881s and FSM 1000s; it will be extended to the AFSM 100s in early 2001.

c. Parcel Automation

The increase in bar coded packages is driving efforts to improve processing efficiency, including package singulation. During 2000, we awarded a contract to purchase 42 Parcel Singulator Induction Units for deployment to our Bulk Mail Centers (BMCs). These singulators will reduce the labor required to process parcels.

- During 2000, we deployed 49 new Small Parcel and Bundle Sorter (SPBS) Feed Systems, bringing the total number in use to 264. Eight additional feed systems are scheduled to be deployed during 2001. Each of these systems feeds one SPBS, reducing allied labor required to feed the SPBS equipment.
- We also worked on the development of a next-generation sorter that takes advantage of the latest technology available to perform small parcel and bundle processing. This new equipment, known as the Automated Package Processing System (APPS), will automate the existing package processing network by providing automatic package singulation and address reading through an Optical Character Reader/Bar code Reader/Video Coding System (OCR/BCR/VCS). The APPS will be compatible with the Postal Service's Information Platform and will provide the capability of in-route tracking of Delivery Confirmation codes. The APPS includes automated container unloading at both ends of the machine to support the high throughput requirements. The camera tunnel consists of an array of cameras positioned at different angles to capture multiple images of a mail piece (six-sided imaging). As mail moves by the cameras, they record the images of the

different surfaces on the package. These images go to an OCR/BCR processor that tries to determine the correct ZIP Code and the type of package (letter, flat bundle or parcel). Unresolved images go to the VCS for manual coding. A competitive test is planned for Spring 2001 and an APPS production contract award is expected shortly thereafter.

d. Other Automation

- In an effort to automate the labor intensive, manual process of evaluating mailings for automation compliance at Bulk Mail Entry Units, (BMEU) the Postal Service has developed a Mailing Evaluation Readability and Lookup INSTRUMENT (MERLIN). MERLIN is able to perform multiple mail verifications (mail height, weight, length, width, etc.) as well as bar code analysis for both letters and flats. It can produce all the reports necessary for the acceptance of a mailing. The 200 MERLIN units purchased by the Postal Service this year are scheduled for deployment during 2001.
- Development of the Postal Automated Redirections System (PARS) continued during 2000. This system will handle Undeliverable-As-Addressed (UAA) letter mail more efficiently than today's process. The UAA mail will be intercepted earlier in the sorting process, resulting in a reduction in total handlings and reduced processing costs. The initial phase of this program will focus on improvements to our Change of Address forms processing system.

4. Material Handling

Long recognized as a leader in the material handling environment, the United States Postal Service uses the latest in robotic and other material handling technologies to accomplish its global mission of providing uniform service to the public.

- This year the Postal Service extended its development of sophisticated material handling systems to include additional Tray Management Systems (TMSs) and the development of a Universal Transport System (UTS). Common to both systems is the ability to automate the movement of letter and flat trays. These trays of mail are transported, based on operational need, to each separate area in the plant where mail is processed and then from the last processing

operation to dispatch. Featuring state-of-the-art material handling technologies and information systems, this equipment will enable the Postal Service to contain work hour growth while providing for improved work and information flow within our processing plants.

The UTS supports the Integrated Processing Facility (IPF) vision and includes significant mail tracking capabilities. The first UTS is being installed at the IPF in Ft. Myers, FL and is expected to be operational in early 2001.

- Another technology under development is Automated Guided Vehicle (AGV) systems. This technology is used in other industries and is being customized to support Postal applications. AGVs are computer-controlled driverless vehicles that can be used to transport containers of mail to and from truck load and unload operations and between plant operations. Implementing AGV systems will reduce facility manual labor hours by automating container movement normally done by people. AGV control systems are planned to connect with other systems such as UTS to enable facility information management and tracking of mail. One successful installation has been completed this year at the IPF in Ft. Myers, which currently has three AGVs in operation. More deployments are expected after the technology has been refined. This is another system that will support the IPF's automated processing environment.
- During 2000, the Postal Service began deployment of new rectangular array robots and Automatic Airline Assignment systems. Additional material handling technologies that have been developed and will be universally deployed during 2001 include equipment that will automatically remove the sleeve (or covering) from different types of letter mail trays. This equipment will remove the shipping strap from the tray that holds the sleeve in place. The mail tray will then be held in position with robotic arms while a separate mechanical device removes the tray from the sleeve. The tray continues to be processed and the sleeve is saved for reuse in dispatch operations. Similarly, when mail is ready for dispatch from the facility, trays of mail must have sleeves and strapping applied to secure the mail during transport.

- In addition to improvements in the handling of our letter mail, development is on-going for automating the handling of larger pieces of mail called flats. Flat mail, such as magazines and periodicals, is transported in trays that have lids. These flat trays are also strapped to prevent damage during shipment. An automatic flats unlidder has been prototyped and pre-production units will be deployed during 2001.

These pieces of equipment will automate those current manual tasks required to prepare and present both letter and flat mail trays for their various downstream processing operations as well as for dispatch. This will provide for a more automated and controlled processing environment.

a. Tray Management System

The Tray Management System (TMS) is an intelligent material handling system used to support letter and flat mail operations in some of our major processing plants. It has improved plant efficiency by providing an even flow of trayed mail from operation to operation. This equipment, which is providing mail at the right place at the right time, is helping to optimize operating schedules, reduce cycle times and improve employee productivity.

This year, the Postal Service continued deployment of TMS at existing and new facilities. In addition to the three original prototype sites (Ft. Lauderdale, FL; Charlotte, NC; and Middlesex-Essex, MA), 17 facilities now have operating systems. Design and/or installation work is underway at 11 additional sites.

This year saw the design, development installation of a Universal Transport System in our pilot IPF located in Ft. Myers, FL. The UTS expands the automation of container mail from trays to include most all postal products such as parcels, parcel trays, mail cartridges, rigid trays, sacks and bundles. With its increased information gathering capabilities and expanded product lines, the UTS will form both the physical and informational backbone of the IPF. Fully functional by early spring 2001, the UTS will form the connecting network for various robotic cells both at dispatch and with the introduction of the Mail Cartridge System, for individual piece letter mail processing systems. The combination of these technologies will provide the Postal Service with the ability to accommodate increased volumes in this demographically expanding area while reducing costs, increasing throughput and providing a better working environment for our employees.

b. Automated Seamless Dispatch System

The Automated Seamless Dispatch System will automate, streamline and organize mail dispatch operations. It consists of three primary material handling components: the Automatic Tray Slewing (ATS) system, the Automatic Airline Assignment (AAA) system and the Robotics Containerization System (RCS).

Deployment of 123 ATS systems, which automatically sleeve all sizes of fiber board or plastic letter trays used in Postal operations, is expected to begin in January 2001.

The AAA system is designed to automatically process sleeved and strapped letter mail trays or flat tubs for integration into a facility's tray dispatch line. Deployment of 222 AAA systems began in October 1999 and is expected to end in July 2001. The Semi-Automatic Scan Where You Band (SASWYB) device is a related material handling unit which provides a semi-automated means of processing and assigning all types of mail to airline flights. It is designed to efficiently scan the distribution label, weigh the item and discharge the mail piece after the operator attaches the printed Dispatch and Routing label. Deployment of 166 SASWYB devices is expected to begin in March 2001.

The RCS is designed to automatically sort and load letter trays and flat tubs into a mail container or onto a pallet for dispatch. Letter and flat trays are forwarded to the dispatch area either manually or via conveyors. Sorting and loading trays into the proper dispatch container is now a manual operation. The RCS is a self-contained module that can be integrated into the site's existing source conveyor system. It is equipped to automatically sort all letter trays and flat tubs into a mail container or onto a pallet for dispatch. RCS automatically takes mail off the conveyor and distributes trays and tubs into containers at up to 24 positions. It is completely enclosed by a safety system, eliminating potential safety hazards to employees working in the area. Deployment of 100 RCS units is expected to finish by September 2001.

These systems are critical new components that support dispatch operations and will be integrated with UTS and other systems to provide information-rich, automated material handling operations.

c. Mail Cartridge System (MCS) and Direct Connect System (DCS)

During 2000, the Postal Service continued development of the Mail Cartridge System (MCS)

and the Direct Connect System (DCS), which are the results of prior research efforts associated with the Integrated Buffer System. The MCS is a key developmental area for automating the feeding and sweeping of Delivery Bar Code Sorters. It provides an automated feed system that will recirculate local mail for two-pass sorting and, by replacing the DBCS sort pockets with a lightweight bar coded cartridge, allow robotic sweepside equipment to remove full cartridges and sort them onto racks according to their destination. MCS will eliminate work hours associated with feeding and sweeping the DBCS while also reducing sweeping errors. Testing of a pre-production MCS unit is scheduled for February 2001.

The DCS automatically transports mail from an Advanced Facer Canceler System (AFCS) to a DBCS. It allows the mail processed by an AFCS to be routed directly to a DBCS by accepting the letter mail stream from the AFCS, properly orienting the mail pieces, moving them through overhead transports to the sorting area then feeding the mail into a DBCS. A prototype system is currently operational at the IPF in Ft. Myers, where it is processing about 50,000 pieces of mail each day. Following successful completion of a formal test of the system in early 2001, we expect to make an initial purchase of 200 DCSs. These systems will allow use of the existing feeders on the DBCS so that mail can be manually fed to supplement the flow from DCS during times when no mail is being sent through it.

5. Integrated Processing Facility (IPF)

The Operations Strategic Action Plan was implemented in May 1996. One objective of this plan was to substantially alter the future operating cost structure of our plants. To achieve this objective, the Postal Service devised a long-term strategy for reducing the labor intensity of processing operations by creating a network of highly automated processing plants called Integrated Processing Facilities. The process of planning and implementing new technologies and new processes continues to be demonstrated at the working IPF in Fort Myers, FL.

When fully operational, the IPF will be a completely automated processing facility. It will integrate such technologies as Robotics, image lift at the Advanced Facer Canceler System, the Direct Connect System, the Mail Cartridge System, intelligent material handling systems, Automatic Guided Vehicles and numerous other initiatives

related to the processing of letters, flats and packages. Once these and future technologies are fully integrated, the IPF will be the processing plant of the future with a significant reduction in the need for manual labor to load, transport, unload, feed and sweep machines.

This year an AFSM 100, two Robotic Containerization Systems and three AGVs have been installed and accepted. The Integrated Buffer Systems were removed and replaced with DCS. Installation of the UTS and the first MCS is currently underway with acceptance expected in Spring 2001. Simulation of the mail flows within and between these various technology components has continued design planning has taken place for the creation of a facility-wide IPF control system to tie all of the elements of the IPF together.

The IPF is a multiyear program and significant progress was made along several fronts this year. Next year, major equipment installations and continued system integration are planned for the IPF. The Postal Service is striving to complete the first IPF at Ft. Myers by 2008.

6. Support Systems for Mail Processing

Current cost savings initiatives have redirected the Logistics' focus to maintaining critical systems and replacing obsolete ones.

a. Transportation Information Management Evaluation System (TIMES)

TIMES is a data collection system designed to track highway contractor performance as well as mail volume and content. TIMES is currently operational in approximately 460 P&DCs, Air Mail Centers (AMCs) Airport Mail Facilities and at the hub-and-spoke program sites.

b. Dedicated Air Tracking (DATS)

The Postal Service Dedicated Air Operations group controls the consistency of the movement of mail on postal dedicated aircraft through several air networks including the Expedited Aircraft Network (ANET), the Daytime Dedicated Network (DNET), the Western Expedited Network (WNET) Christmas Dedicated Networks (CNET). DATS provides the Postal Service with the information and tools to monitor air and truck operations within these dedicated air networks, to supervise air cargo contractors involved in moving the mail, and to supply accurate and timely reports to postal management. DATS allows users to track and manage mail from either a hub or Point-To-Point (PTP) network perspective.

DATS provides real-time operational data that allows users and managers to manage the transportation of expedited mail, and to review the current day's operations. The information and automated tools provided by DATS assist users in ensuring that service standards are achieved, dedicated aircraft are effectively utilized, and operational alerts are dealt with on a timely basis.

DATS manages all dedicated postal networks 24 hours a day, 52 weeks a year, providing a wealth of timely operational information to all levels of postal management. It represents the latest in computer technology and provides the Postal Service with a solid foundation for further improvements in the management of its dedicated air networks.

c. Surface Air Management System (SAMS)

In 1998, the Postal Service initiated a project to design, develop and provide national implementation of a SAMS. The system was designed to be an integral component of a standardized dispatch process known as ASD.

The SAMS server utilizes a routing file from our nationally hosted planning system — National Air and Surface System (NASS). Headquarters and Area office personnel use NASS to set optimal routings based upon mail class, dispatch window, existing transportation and the service standard for the origin and destination city pair.

The SAMS server provides an individual routing assignment, with unique serial identification, to each item presented for dispatch at one of the ASD workstations. The routing assignment and serial number are bar code printed on a self-adhesive tag, which is applied to the item being dispatched. The bar-coded tag will enable downstream data collection that can be used for internal performance and contractor compliance measures.

An initial stress test of SAMS was conducted in Grand Rapids MI and a field trial is currently underway at the Washington Dulles Airport Mail Center and surrounding facilities in the Capital Metro and Mid-Atlantic Areas. The field trial will continue through the Christmas 2000 operating season. Network Operations management will analyze the results from the field trial with a view toward determining a timetable for national deployment.

D. Delivery Unit Operations

1. Delivery Point Sequencing (DPS)

Today, over 9,600 zones receive their mail in Delivery Point Sequence order. These 9,600 zones account for over 80 percent of all city carrier routes and 58 percent of our rural routes, with each route averaging approximately 1,300 DPS letter pieces daily.

At the end of 2000, the number of city delivery points was approximately 83.2 million, rural deliveries totaled approximately 29.7 million, Post Office box deliveries were 19.7 million, and highway contract routes served 1.9 million deliveries, for a total of 134.5 million delivery points.

2. Delivery Operations Information System (DOIS)

DOIS replaces the Decision Support Information System (DSIS) and the Route Examination System (RES). DOIS was designed to provide actionable data to Delivery Unit Supervisors, assisting them in managing the in-office activities, planning of the street activities and managing the route inspection and adjustment activities. Used properly, the actionable data provided by DOIS will assist the Delivery Unit Supervisors in making sound business decisions related to carrier operations.

In 1998, the Board of Governors approved the DOIS Research and Development initiative. The research and development phase concluded in December 1999. The Board of Governors approved a plan to deploy the system nationwide in August 2000, with deployment to the first three Area's beginning in spring 2001. Nationwide deployment will be completed by March of 2003.

DOIS is currently deployed to 343 delivery units in six Customer Service Districts — New Hampshire, Salt Lake City, Sacramento, Erie, Lancaster and Fort Worth.

3. Mobile Data Collection Device

In March 1999, the Postal Service launched its Delivery Confirmation service for Priority Mail and parcels. In addition to Priority Mail and parcels, the new system supports Express Mail, international shipments and accountable mail. The main goal of Delivery Confirmation is to provide date and time of delivery or attempted delivery verification. A major technology component of this service is the Mobile Data Collection Device (MDCD) hand-held scanner. Over 325,000 hand-held scanners are

deployed to 36,000 postal facilities to capture delivery data at the point of delivery. The scanners are also used to support data acquisition for the Collection Box Management System. The MDCD system provides an infrastructure that enables growth and expansion. Signature Confirmation service is another initiative that will be supported with the MDCD. It will be launched in 2001.

E. Retail Programs

1. Marketing Calendar

A major target for improvement is the use of in-store marketing materials and the planning and execution of retail promotions. Traditional customer communications have been a function of discrete promotional efforts produced as part of a larger product promotion. Once a promotional "window" was closed, there was little or no ongoing information to help guide customers or support ongoing revenue-generation programs for products such as Priority Mail.

Managed by headquarters and coordinated through the Areas, the calendar concentrates advertising resources against products targeted for growth and periods during the year when customers are most willing to buy. These times, called drive periods, include Holiday, Valentine's Day, Tax, Spring, Summer and Fall.

With the new fiscal year, Retail Marketing will continue to implement promotions and communications in all Post Offices and contract outlets to ensure that all customers see consistent branding.

Each drive period campaign will include an appropriate level of stamp-themed products and displays, in-store promotional support, employee communications, consumer and small business direct mail advertising. Holiday and Spring are major campaigns that will feature national television and magazine advertising, local radio and print ads. The remaining campaigns will include a mix of local radio and print advertising.

Sustaining point-of-purchase systems are an important component of retail marketing and communications. These systems, composed of standard product/service signs and hanging hardware, provide fixed, semi-permanent promotion of Priority Mail®, Express Mail®, Global Priority Mail®, International Express Mail®, Priority Mail Global Express Guaranteed Service™ and special

services. Standard elements include menu boards to hang at the full-service counter along with companion banners in the self-service area, Post Office box full-service lobbies.

2. Retail Sales

Roughly 89 percent of all retail revenue and 96 percent of all retail operating expense accrue from the Postal Service's classified Post Office and contract unit full-service options. They are augmented by Stamps By Mail, over 32,000 vending machines and stamp sales at thousands of commercial retail outlets and ATMs.

Retail is the way most Americans buy and use mail. This provides local access for the core product applications of correspondence and transaction mailing, domestic and international package shipping and special services, including delivery through more than 18 million Post Office boxes. Our major customer segments are small businesses and consumers (customers who use the mail for personal, rather than business reasons). It is estimated that consumers and small firms generate Postal Service retail revenue of \$7.4 billion and \$8.7 billion, respectively (meters, permits and corporate accounts not included).

3. Point-of-Service One (POS ONE)

In 2000, the Postal Service continued the rollout of a new point-of-service system designed to take advantage of commercial learning and technology. POS ONE is replacing current integrated retail terminals (IRTs) with state-of-the-art hardware and software, along with support services and training. Postal customers receive improved and timely information about available services and have immediate access to options and costs to make quick, informed decisions. Future key features will include automated, online check and debit/credit authorization, bilingual customer displays and improved inventory management.

By the end of December 2000, POS ONE was deployed to 7,650 sites with plans for greater expansion in 2001.

POS ONE is enabling the development of a retail data warehouse for collecting, storing, linking and reporting critical business information used for sales and market analysis. Information about products and services will be readily available for retail sales personnel, assisting both the customer and the employee.

4. Retail Workforce Strategies

Employees in the retail workforce influence customer perceptions of the Postal Service every day customers are rating their experiences favorably. Beginning in January 2000, a series of changes to improve support for the 125,000 strong retail workforce were implemented.

A new title, Sales and Services Associate, replaces the old window clerk designation. Supporting the change in title is a new job description that updates duties and responsibilities to reflect an emphasis on customer service.

A newly designed core skills training program for new associates was implemented early in the year. Test scores indicate significant improvement. The course shifts emphasis from rules and regulations to product knowledge and customer service skills training. Most of the learning occurs in a structured on-the-job learning format, which results in a reduction of total class time without sacrificing any content. Thus, cycle time for filling vacancies has been reduced by one week.

The first in a series of courses for supervisory employees with retail operations responsibilities was developed in 2000 and will be piloted and implemented next year. This curriculum will be distributed on-line via the Postal Service intranet. In the past, formal retail operations management training has not been available in any format.

An improved image to match new titles and improved skills was implemented in the form of a new uniform design. Phase 1 (tops only) was completed in 2000. The remaining two phases will complete a wardrobe that features variety. The design was developed based on employee and customer research.

5. Plan for Retail Operations Performance (PROP)

Success in retail services rests largely on performance at the local level. However, in many respects, the absence of dedicated retail management and processes has meant that managers must focus on two operations, delivery and retail. The demands of delivery operations have consumed a high percentage of field manager's time. The Postal Service is implementing more focused retail management processes across all Areas. This activity, called the PROP, provides a systemwide planning framework to improve postal retail. Both the planning framework (PROP) and the pilot effort were directed toward improving bottom-line performance.

PROP utilizes the existing organization and resources. An operations team composed of Headquarters and District managers and postmasters guides PROP. The team's charter was to create a standardized, progressive and measurable plan that engages key field managers in efforts to improve retail performance in key categories. The categories are Service, Employees, Access and Profitability. In recognition of the fact that different Districts are starting at different performance baselines, the team built the plan on a performance maturity continuum, setting performance targets at four successive levels. These range from an initial state of retail readiness (Level 1) to one of continuously improving retail performance (Level 4).

Former chief operating officer, Clarence Lewis, set targets for achievement in 2000. The Service category calls for "retail clean" Post Offices — facilities that are neat, orderly and attractive, with merchandising guidelines followed. Core products and services must be more consistently available and accessible for all customers. The Employee category requires that all employees wear proper attire and that standard procedures are followed to provide consistently high levels of courteous and professional service to retail customers. The Access category calls on Districts to expand nonfacility customer access points, such as stamps by mail or ATM. Additionally, the Access category focuses on an increased understanding of customer requirements and market profiles. This is achieved through mapping assists in the facility development process. In the Profitability category, each District has been assigned retail work hours, revenue targets and are monitoring and communicating progress to retail personnel.

Indicators from nationally recognized metrics have been determined for each category. Service and employee improvement are measured by the Mystery Shopper Program and the Customer Satisfaction Measurement CSM program, Ease of Use. Mystery Shopper is an independently conducted customer evaluation of designated retail units nationwide. It measures retail service provided to customers in five categories. For 2000, Mystery Shopper, Ease of Use and Retail Unit Proficiency measure employee competency targets. Finally, retail revenue and revenue per work hour productivity will measure our progress in the access and profitability categories. For each target indicator, baseline measurements have been taken and targets assigned to each District.

PROP was deployed to postal Areas for the start of 2000. Progress to these plan targets is being monitored each accounting period and postal quarter. Best practices and success stories will be communicated directly to field Districts and Area offices.

6. Postage Technology Initiatives

Leveraging the security architecture of its revenue protection strategy, Postage Technology Management (PTM) expanded its perspective in 2000 to embrace technology for purposes of cost savings, cost avoidance and revenue generation. PTM continues this three-prong strategy to effectively enhance security of postage evidencing through the introduction of advanced technology. In addition to increased revenue protection, an outgrowth of the organization's deliberate activities to migrate the postage metering industry to more secure technology has been the introduction of new products, new providers and new revenue.

a. Secure Metering Systems

The goal in this area is to move the industry to safer, more secure postage evidencing systems to safeguard against revenue loss due to tampering and misuse.

In August 1999, the Postal Service introduced a new product category — PC Postage with the authorization of two new Internet postage systems. PC Postage products allow customers to purchase and apply postage using the Internet and standard personal computers and printers. These products are developed in response to performance criteria produced by the Information Based Indicia Program (IBIP), which requires a tamper-resistant Postal Security Device as the postage value vault. Requirements for the postal security device and additional security features under PC Postage and other IBI systems have effectively raised the baseline of security requirements for all postage meters.

In addition, migration of manual set to remote set meters is currently underway as part of the overall strategy for more secure postage evidencing. The migration to remote set meters also means cost avoidance of manually setting meters. Under the migration strategy, the retirement of manually set electronic meters began in February 2000 with the stop-placement of any new manually set meters. PTM reported a 34 percent reduction in the manual reset meter population in 2000.

b. New Forms of Secure Postage Evidencing: the Information Based Indicia (IBI)

The IBI Program introduced an entirely new form of postage evidencing — the Information Based Indicia (IBI) as part of the PTM security architecture and the objective to secure postage against counterfeit attack. Unlike traditional postage meter indicia, each IBI is unique. IBIP performance criteria incorporates cryptographic services and a two-dimensional bar code containing, among other information, certain “security critical” data elements.

In addition, because it conveys digital data on the mail piece and has the capacity to encode additional information, the IBI provides potential benefit beyond revenue security in two areas; 1) IBI enables value-added services to customers 2) IBI is a valuable data contributor to the Information Platform. The current data elements of the IBI could be used by the Information Platform to support tracking of product, market and related information throughout the mail-stream as well as to enhance Postal Service product measurement and analysis.

c. Centralized Data Management

PTM continues the enhancement of its centralized databases to track and manage products, customers and revenue. These centralized databases include the Centralized Meter Licensing System (CMLS) and the Meter Accounting and Tracking System (MATS). These systems are used to provide the data necessary to conduct full loop audit and review procedures as part of the revenue protection security architecture.

CMLS captures information relating to the customer and provides a centralized licensing database that allows for automated record updating and reconciliation of applicable records with meter manufacturers/product service providers. The second phase of CMLS, the Meter Tracking System, tracks meter movements including lost, stolen and missing meters. This allows the Postal Service to know the exact status of any postage meter. CMLS is in the process of developing online licensing capability for instant licensing.

7. Self Service

During 2000, the Self Service office focused on improving performance, increasing access points for consumer stamp purchase generating revenue. Additionally, considerable emphasis was placed on increasing consumer awareness of alternative locations for stamp purchases. This was

accomplished through an advertising campaign that included commercials, print ads and direct mail. Additional information is provided below.

a. Improve Performance of Vending Operations

Approximately 7 percent of the retail revenue is generated from self-service vending. During 2000, the Postal Service focused on the self-service vending program as follows:

- There are approximately 32,000 revenue-generating vending machines currently installed at postal and non-postal locations. 3,000 new branded vending machines were purchased and distributed to the field for installation during 2000.
- Approximately 48 percent of vending machines classified as “out of date” were removed and offered for recycling.
- New currency acceptors were purchased and distributed to the field. Approximately 85 percent were installed during 2000. These new currency acceptors enable all models of vending equipment to utilize the same acceptors, thereby reducing service-wide parts inventory and reducing training time for new technicians and operators. The new currency acceptors enable the use of the new \$20 bills as well as the new \$5 and \$10 bills. Updates to the new acceptors for future changes to currency will be accomplished via software upgrades.

The Postal Service was recognized by the U.S. Mint for our ability to accept and dispense the new dollar coin when it was introduced in January 2000. No retrofits were required on any of the machines accepting and dispensing dollar coins.

b. Incorporate New Features to Increase Convenience/Improve Efficiency

The Debit Credit/Vending Activity Reporting Market Test offered debit/credit options as well as remote system monitoring. Completed during 2000, analysis of this market test will be used to implement the long-term vision of providing customers with options to use debit and credit cards. Also, findings from the market test support our plans to network the vending machines to enable local management functionality while also offering more accurate sales and performance data.

This capability will allow the Postal Service to offer more options and more reliable services to our consumers while also improving the cost-effectiveness of the existing machines.

c. Provide New Services

The Automated Postal Center is a self-service offering that enables consumers to weigh, rate, print postage (using the information-based indicia technology) and mail packages. It also offers the ability to purchase sheetlets of stamps and phone cards as well as to obtain general mailing information. This use of new technology further leverages our plans to reduce costs and improve customer satisfaction.

d. Offer Consumers More Alternative Access Points for Purchasing Stamps

Approximately 8 percent of the retail revenue is generated from the Stamps on Consignment program. During 2000, the Postal Service focused on this program designed to offer consumers alternative access points to purchase stamps. These alternative locations include grocery, drug and convenience stores as well as ATMs in various bank branches. Access locations increased by approximately 15,000 during 2000.

F. Marketing Technology and Channel Management

Marketing Technology and Channel Management achievements in 2000 were built on the simple fundamentals of results. Its operations and programs provided essential bridges of communication and service to the business mail community, a community that represents over 46 percent of Postal Service revenue.

For example, MERLIN (Mailing Evaluation Readability, Lookup Instrument), the automated system designed for use by Business Mail Entry Units (BMEUs), moved from the prototype test stage to Board of Governors approval for 200 additional systems. MERLIN's use by BMEUs in the acceptance of mail simultaneously verifies bar code quality, address accuracy, presort makeup, postage validation, and tray label accuracy.

In addition, through the Mailpiece Design Analysis (MDA) Workstations effort, approximately 175 portable workstations, developed to evaluate mailpieces at postal centers or customer facilities, were deployed during 2000. This deployment of MDA workstations provided the ability to electronically send and receive mailpiece images to and from customers for evaluation and approval.

Approximately 1,100 Bar code Scanners were also provided to Business Mail Entry Units during

the year. These scanners improve the quality of customer-generated bar codes and are used by the BMEUs to determine the accuracy and quality of bar coded sack and tray labels, parcel bar codes and special service bar codes.

Building on solid foundations put in place during the previous year, in 2000 *PostalOne!* — Phase I established a solid infrastructure, including a file standard that captures all data elements necessary to meet both mailer and Postal Service requirements for postal applications. Phase I also established a Data Transfer and Storage Capability (Database) that secures customer data transferred from their system through the Internet and through Postal Service internal firewall security. In addition, the WEB Information Portal was established, a WEB presence built to enable all users to logon and begin using *PostalOne!* Applications.

And our commitment to creating electronic business partnerships with major mailers, which is the defined mission and purpose of *PostalOne!*, remained solid throughout 2000. Enhancements to its suite of electronic business options provided to customers led to development of the e-Information capability, allowing the mailing community and postal operations to view the contents of a mailing and enabling secure Internet access to proprietary customer data in managing multiple events of the mailing process cycle. These enhancements also resulted in development of the e-Documentation capability, enabling the mailer to eliminate volumes of standardized verification process paperwork providing a more comprehensive approach in ensuring revenue accuracy. The e-Transportation business capability was also fine-tuned, developing high volume and desktop shipping systems flexible enough for future production and deployment.

G. Pricing and Product Design

Key among the accomplishments of Pricing and Product Design in 2000 were the agreement with the Periodicals Cost Reduction workgroup on broad operational changes and development of a Website for beginning mailers.

1. Periodicals Cost Reduction Effort

As part of the periodicals cost reduction effort, we worked with mailers to implement several changes that optimize mail preparation, transportation equipment use by reducing the number of sacks and trays employed and increasing the level of presort. Resulting decreases in bundle breakage and carrier costs alone are expected to save more than \$50 million annually. Overall periodicals cost reduction is expected to be \$65.3 million annually. These changes support the Postmaster General's commitment to reduce Postal Service operational costs for periodicals mail.

2. Business Mail 101

Business Mail 101: Smart Choices for Beginning Mailers is a unique Postal Service.com website that guides beginning mailers through critical mailing preparation decision points. A narrative combines existing rules, information and Internet tools with common sense "tips and tricks" from Business Mail Entry Unit professionals. The entire tool is designed to meet the mail preparation information needs of key market segments not currently managed by Postal Service sales efforts: new mailers in small and medium-sized service companies, small retailers, wholesalers and charitable organizations.

H. Electronic Commerce: Fast, Reliable, Convenient Secure Choices

The Internet has opened the door to a world of opportunities and new ways to provide universal service to the changing needs of individuals and businesses. Today's technology allows us to provide customers convenient access to products, services information and faster, more reliable delivery of their important communications and transactions with the same high level of confidence our customers expect and have enjoyed for more than 200 years.

1. Our Web Presence: www.usps.com

Each and every day, more and more people around the world are connecting to the world wide web as their preferred method to conduct business and get information quickly and easily.

It is our fundamental service obligation to the American people and businesses to provide fast online access to services and information that makes their personal and business lives easier. Additionally, we will continually improve the performance and the usability of our web presence so everyone can have secure access and rest assured that the Postal Service is protecting his/her privacy.

The Postal Service's convenient online channel is www.usps.com. Today customers can lookup ZIP Codes, track and confirm delivery, buy stamps, calculate rates, pay bills, get forms, send electronic documents and mailings and retrieve important information.

We will continue to listen to the voice of our customer and strive to enrich and improve our channel to better meet the needs of the American people and businesses. Soon we will allow them to conveniently change their address online currently they can access government information at the Federal, State and Local levels via www.usps.com. This new site call Hi Citizen provides convenient access to 74,000 agencies, easy access to over 1,300 forms thousands of instructions. The addition of this rich content empowers the American people to contact their government and helps government agencies comply with the Government Paperwork Elimination Act.

2. Messaging Services: Raising Customer Confidence and Converging Electronic and Hard copy Communications

The Postal Service is exploring new ways to transmit important communications leveraging today's technology to provide the same level of confidence and security our customers are accustomed to via hard copy mail.

In May, the Postal Service launched *PosteCS*, a global electronic courier service. *PosteCS* notifies a recipient where to pick up a document at a secure online location. *PosteCS* gives senders more control over their documents, end-to-end security, confidentiality and integrity, tracking and delivery receipt.

In September 2000, the Postal Service nationally launched its hybrid mail service, NetPost Mailing Online. This service allows customers to prepare electronic communications on their personal computers and electronically transmit them via the Internet to the Postal Service along with a mailing list. Once received, the communication is routed to a network of printers, printed, inserted envelopes and entered into the mail stream at a local Post Office. This service is available to cus-

tomers anytime, anywhere and saves them both time in preparation and speed in delivery.

The Postal Service is developing and nearing the launch of a new service Netpost Certified, which provides government agencies the right solution for a secure and authenticated Internet-based document delivery service. Additionally, we will examine ways to provide higher levels of authentication and security for Web-based transactions via smart cards and other emerging technologies.

The Postal Service Electronic Postmark provides a digitally signed date and time stamp against tampering of electronic documents and transactions. Today, this technology is integrated into *PosteCS*, NetPost Mailing Online, and other commercial messaging technology to provide customers the same level of confidence they value today in the postmarking of hard copy mail.

3. Online Payment Services: Extending Traditional Value in Today's Marketplace

In April 2000, the Postal Service nationally launched the first component of a suite of convenient online payment services, *eBillPay*. It offers the American people another way to pay their bills through the Postal Service with the same level of trust, security reliance we have provided for hundreds of years. Very soon we will integrate our Postal Service Electronic Postmark into *eBillPay* to provide a higher level of consumer confidence in the marketplace.

The Postal Service will continue to explore new and better ways to extend and enhance our traditional products by leveraging today's quickly evolving technology. We will explore taking our traditional domestic and international money order services online to make it easier for customers to pay for services and transact business in the United States and abroad.

4. Bringing Choices to Our Customers

The Postal Service has leveraged new technology and innovations for many, many years to provide faster, better more secure service to our customers. Traditionally, we have done this through contractual arrangements and we will continue this methodology as appropriate. However, we rely heavily on strategic alliances and partnerships to help us deliver more choices and services to our customers. This type of arrangement improves speed-to-market and leverages best technologies and core competencies of other companies to meet the needs of our customers.

I. Technology

During 2000, the strategic range of technology functions was broadened to encompass greater responsibility for stimulating Postal Service growth in the new century. Consequently, the focus on incorporating emerging technologies to improve the value and availability of postal products and services was sharpened. By using the power of the Internet, upgrading existing information systems and enhancing the information platform to electronically connect operations, services and customers, our technology units are beginning to transform the service of postal business.

1. Strategic Technology Initiatives

From induction through delivery, the entire information platform has sought to gather accurate data from the mail only once and use it to achieve a higher level of service for internal and external customers. In 2000, several cornerstone initiatives of the platform continued through development and implementation phases.

- The pilot project for *PostalOne!* demonstrated that the system does streamline the induction process and eliminate most of the paperwork for large-volume mailers. Similarly, the pilot project for the Delivery Operations Information System (DOIS), which will contribute tools for better resource management and productivity improvement, was completed and national deployment was approved. Also approved for national implementation was the Surface-Air Management System (SAMS) that will better address the assignment of transportation services on the ground and in the air.
- The immense Processing Operations Information System (POIS), designed to focus on inter-facility procedures and incorporate data from other parts of the platform, entered into pilot mode. The system will function as an integrated decision-support tool to provide supervisors with real-time data for timely adjustments to improve performance. Pilot projects also continued for the Time and Attendance Collection System (TACS) and the activity-based costing system.
- CONFIRM, Delivery Confirmation and Signature Confirmation Services, were implemented or upgraded nationwide

during 2000. These programs enhanced customers' relationships with their mail by giving them more information about the status of their deliveries.

2. Information Technology Infrastructure

Expansion of the postal information technology infrastructure, which connects postal operating units, customers and suppliers, continued. This infrastructure is a key enabler of business initiatives and business process improvements. It provides a standard foundation upon which systems can be deployed quickly and effectively. However, in order to more effectively and efficiently achieve the communication goals of the information platform, additional standards are being put into place throughout the network.

- The associate office infrastructure was extended to more than 7,500 postal facilities, providing them with a common communications and computing platform. It will be extended further in the coming year.
- Several of the Postal Service's Large plants received enhanced wiring. In general, work continued to obtain approval for nationwide implementation.
- Research to change the current 8-digit and 10-digit tray labels to 24 digits also continued; approval to implement the change is expected in the near future.
- The Identification Code Sort program, also on the infrastructure agenda, will support the delivery sortation of mail that bears a special subscription bar code.

3. Information Technology Assessability

The Workforce Investment Act of 1998 amended the Rehabilitation Act of 1973. It requires that electronic and information technology developed, procured, maintained or used by the federal government, including the Postal Service, be accessible to persons with disabilities. This set encompasses Computer hardware, software, telecommunications equipment, Web-based sites, pages, vending machines, kiosks, printers, facsimile machines and applications.

The Web is where the Postal Service is at greatest risk because of the large number of external and internal web pages and applications that we have deployed. Therefore, Web Accessibility Guidelines were issued to help site owners remedy applications to comply with Section 508. The guidelines provide direction for the universal acces-

sibility of web applications and compatibility with the "assistive technology" devices that allow people with disabilities to access information. JAWS, a program that vocally reads words from a computer screen, is an example of an assistive technology. We are complying with the spirit and intent of the law, not only because of the legal mandate, but because it is the right thing to do.

4. Information Application Support

Work was completed to ready all systems for flawless functionality in the new century. By the beginning of the year, the Y2K focus had moved beyond the remediation and contingency phases into the recovery management phase geared to resolve any problems that might arise. The Postal Service Y2K program was thorough, systematic, focused and successful.

Our technology units capitalized on the national infrastructure to expand Web utilities. This included helping other functions develop applications, such as the portal that will allow employees to complete transactions by choosing among various benefit options electronically, thus reducing costs and increasing accuracy. Another important aspect of this area is that the web is the initial area of focus for compliance with Section 508 of the Rehabilitation Act, as described above.

In addition, our technology units, both at Headquarters and in field offices, continued to support the application development and maintenance of major programs managed by other functional areas that are described elsewhere in this document. Examples of the programs supported include the delivery confirmation, point of service, mailing online and shipping online programs.

J. Operations Planning

1. Staffing and Scheduling

Our future success as an organization will be significantly influenced by our ability to use work hours efficiently and to maintain stability in our staffing relative to workload. In a joint effort with Human Resources, the Integrated Resource Management (IRM) program was successfully implemented in 19 pilot sites nationwide. The Integrated Resource Management program was modeled after the Denver Processing and Distribution Center's program, which has consistently maintained exemplary sick leave rates, well below the national average, for the past three years.

A major component of the IRM initiative is the Resource Management Database, an automated tool that is used to help management record, track and manage our leave administration policies. The 19 pilot sites have experienced significant cost savings, which is directly attributed to reductions in sick leave hours. Plans are underway to expand IRM to 90 additional sites at the start of calendar year 2001. Operations Planning will play a significant role in the expansion of IRM, training approximately 300 employees on the use of RMD as well as assisting in the development of eRMS, the Web-based version of the Resource Management Database.

Ongoing efforts will be focused on ensuring uniformity and consistency in staffing and in maintaining flexibility to adjust staffing as workloads shift. Many current staffing authorizations are outgrowths of organizations that no longer exist and do not accurately reflect the work performed. Where this occurs, new staffing guidelines will be developed or existing guidelines revised. These administrative staffing criteria reviews will follow a three-step process.

First, the Postal Service will determine the role and range of responsibilities to be carried out within various jobs and organizations. We will do this by analyzing the work content and expectations of functional area managers. Then, will make hard decisions about what we specifically expect. Second we will identify (1) the factors that determine workload and (2) a way to link assigned duties to specific factors that predict workload. Finally, the Postal Service will establish a method for measuring the workload and linking the process of allocating positions nationwide without increasing overall staffing unless justified from a workload standpoint. Operations Planning staff, as well as knowledgeable personnel from the Area offices and Performance Clusters, will perform these analyses. This type of systematic staffing review provides an opportunity to explore the use of new and more effective methods of determining workload-based staffing levels.

2. Address Management

The success of our automation program is dependent upon our ability to ensure that each mailpiece has a correct bar code. Our address management services provide that capability by maintaining current data on each delivery point served by the Postal Service and by regularly providing that data to postal facilities and customers.

a. Forwarding

The Postal Service uses the Computerized Forwarding System (CFS) to forward mail to the 17 percent of the nation's population that moves each year. Over 2 billion pieces of forwarded mail and 44 million change-of-address cards were processed in 2000. CFS sites are located in 224 postal facilities nationwide. Each CFS site presently consists of a centralized computer, mechanized terminals for processing letters and nonmechanized terminals for processing flats and magazines. The CFS database provides the data for all address correction activities.

b. 100 percent Database Quality

Address Management has continued to make progress toward the goal of 100 percent Address Management Systems (AMS) database quality by pursuing an aggressive policy of ongoing quality reviews and the development and implementation of technological and procedural improvements to ensure better communication between Delivery and field AMS sites. This has resulted in continued improvements to AMS database quality. AMS now provides more timely delivery point addressing information for use in all automated mail processing, bar coding and sorting operations. It also is the source of all address information products required by the commercial industry to prepare automation compatible mailings. In 2000, we initiated the National AMS Street Review Program. Moving responsibility for AMS data quality measurements from the Areas to Headquarters and ensuring that their measurements are applied evenly across the nation.

c. Address Quality Improvement

Improving address quality reduces the amount of undeliverable-as-addressed mail and improves the effectiveness of automated mail-processing operations. The Postal Service makes products and services available to assist mailers in attaining and maintaining 100 percent deliverable address lists. The Postal Service makes available the products and services outlined below to assist mailers in attaining and maintaining 100 percent deliverable address lists. These mailers produce more deliverable mailpieces and gain access to worksharing discounts.

1. Address Element Correction (AEC) service

The AEC service was designed to correct addresses that could not be matched to the national ZIP+4 file using Coding Accuracy

Support System (CASS) certified address-matching software. AEC corrects deficient addresses and identifies those that do not exist. Already, millions of addresses in mailers' files have been examined and corrected, leading to improved customer satisfaction. AEC uses a variety of computer logic resolution processes to correct as many addresses as possible, and it produces a diagnostic report about the mailer's list management practices. Current electronic success rates average 35 to 50 percent of the previously unmatched addresses. More than 37.5 million addresses were processed in 2000 with six million addresses corrected.

2. Bar Code Certification

To ensure the accuracy of the bar codes applied by mailers, the Postal Service evaluates the ability of customers' hardware and software to produce properly constructed bar codes that meet Postal Service automation requirements. During the current year to date, eight vendors participated in the certification program. Six printers and two software packages were certified as producing bar codes that meet required physical characteristics.

3. Coding Accuracy Support System

Coding Accuracy Support System improves the accuracy of carrier route, five-digit ZIP, ZIP+4 delivery point codes that appear on mailpieces. The program is a quality control measure that ensures that software vendors provide accurate, updated information and software to customers who purchase this information to process their mailing lists. CASS is available to all mailers, service bureaus and software vendors who want to evaluate their address-matching software and improve the quality of their ZIP+4, carrier route five-digit coding accuracy. The Postal Service's National Customer Support Center (NCSC) grades this process and the results are returned to mailers to provide useful diagnostics for correcting deficiencies. CASS enables the Postal Service to evaluate the accuracy of address-matching software programs in three areas: (a) ZIP+4 delivery point coding, (b) carrier route coding and (c) five-digit coding. CASS allows vendors/mailers the opportunity to test their address-matching software packages and, after achieving a minimum percentage of accuracy, be certified by the Postal Service.

4. Correct Address Notification

Responding to requests from the mailing industry and the need for consumers to use complete and correct addresses, the Postal Service developed a system of customer address notification. The notification effort seeks to influence the public to use all the elements of a complete and correct address. Notification mailpieces were delivered to approximately 275,000 customers during 2000.

5. Customer Notification Letter

The Customer Notification Letter is a notification to postal customers who have submitted change-of-address (COA) orders (PS Form 3575). The notifications include details of the COA order, providing customers an opportunity to verify the COA information on file with the Postal Service. Customers are instructed to contact the Post Office serving their old address if any of the COA information is not correct. The telephone numbers for both the old and new Post Offices are provided. The notifications also include a question and answer section advising customers what to do if they are not receiving mail at their new address. There is also information on how customers may notify others of their new address, and a reminder to register or reregister to vote. In 2000, approximately 7 million customer notifications were mailed.

6. Delivery Sequence File

The Delivery Sequence File is a comprehensive licensed address data system that expands the level of information beyond the ZIP+4 code. The system contains a complete address register with carrier delivery sequence information. Mailers who match their address records to DSF can validate the existence of the address and identify deficient elements. Consistent with other address quality systems, DSF standardizes the addresses submitted by mailers to ensure automation compatibility. Mailers in 2000 matched more than 18 billion addresses.

7. Locatable Address Conversion System

The Locatable Address Conversion System process enables business mailers to electronically update their rural-style addresses with new, locatable city-style addresses in areas that are experiencing 911 emergency response address conversions. There are currently 4 million converted addresses in the LACS file. Improved address quality increases mailer access to work-sharing discounts and improves deliverability. The Postal Service licensed 13 firms to assist mailers in

updating their address records or to perform the matching service for business mailers.

8. Move Validation Letter

In April 1996, the Postal Service implemented a process to circumvent the fraudulent submission of COA orders. The solution, a Move Validation Letter (MVL), is a notification that is mailed to postal customers at their old address alerting them that a request has been made to forward mail from the old address. If a potentially fraudulent situation exists, the customer is instructed to contact their local Post Office for assistance. The telephone number of the local Post Office is provided. These notifications are generated for COAs entered into the Computerized Forwarding System (CFS) database on a daily basis. They are mailed within 24 hours of receipt by the National Customer Support Center (NCSC) in Memphis, TN. In 2000, more than 35 million notifications were mailed.

9. Multiline Accuracy Support System

The Multiline Accuracy Support System is an extension of the CASS, which is a process designed in cooperation with the mailing industry to improve the accuracy of postal codes that appear on mail. Whereas CASS focuses on the processing of addresses stored electronically in computer data files, MASS tests the quality of address matching occurring on MLOCR equipment and direct-view encoding stations. These systems have to lift an address image directly from a mailpiece to accomplish processing. MASS allows vendors/mailers the opportunity to test their machines and, after achieving a minimum percentage of accuracy, be certified by the Postal Service.

10. Presort Accuracy, Validation Evaluation

The Presort Accuracy, Validation Evaluation (PAVE) program is a process designed in cooperation with the mailing industry to evaluate presort software and determine its accuracy in sorting address files according to Domestic Mail Manual (DMM) standards. PAVE is available only to software and hardware developers — companies that develop presort software or manufacture presorting equipment for resale or internal use. Participation in the program is purely voluntary. Although this program evaluates and validates presort products manufactured by the developers, PAVE does not guarantee acceptance of mail prepared using PAVE-certified hardware and/or software; however, it does provide national approval of computer-generated facsimiles of Postal Service postage statements, standardized documentation and other presort documentation.

11. Rapid Information Bulletin Board System

Rapid Information Bulletin Board System was introduced to provide members of the mailing industry with rapid access to postal information. Some of the information in RIBBS includes Customer Support Rulings, Federal Register notices, weather and natural disaster condition reports, DMM labeling lists, certified vendor information, office locator services, reports and data for ADVANCE participants and minutes of the Mailers' Technical Advisory Committee meetings.

12. Delivery Confirmation Certification

Delivery Confirmation, a recently implemented program for Priority Mail and Standard Mail, provides a method for customers to verify the delivery status of packages. Customers choosing the electronic file option are required to participate in a certification process to ensure the accuracy and quality of customer-generated data that is entered into the Delivery Confirmation System. The Postal Service certifies the customer's ability to accurately format and populate mailpiece information in the required fields of the Delivery Confirmation electronic file and to accurately transmit that file to the Postal Service's host computer. Bar coded labels, used to capture delivery data, are physically examined and scanned for readability and compliance with the Delivery Confirmation requirements. To date, over 1,389 customers have successfully completed electronic file and bar coded label certification.

d. The Mover's Guide

The Mover's Guide is an all-in-one guide to moving, designed to improve customer satisfaction and reduce costs. The booklet provides Postal Service change-of-address forms, mail-forwarding information, moving-related commercial advertising, advertiser discount coupons and tips on moving. Consumer reaction continues to be positive. Customers are provided with a greater understanding of the activities associated with forwarding mail. The Mover's Guide, a result of a strategic alliance with a private company, is designed, printed and produced at no cost to the Postal Service or its customers. A strategic alliance with the company to continue the distribution of both the English and Spanish versions of The Mover's Guide has been extended to year 2002.

e. MoversNet Website

In July 1996, the Postal Service introduced a service for customers who use a personal computer

and are planning to move: a mover's Internet site www.usps.gov/moversnet/. *MoversNet*, a more informative, feature-rich, on-line version of The Mover's Guide, is designed to offer time- and money-saving options to help the rapidly growing population of computer-equipped movers. Current features include the following: an interactive change-of-address form; before- and after-the-move checklists; packing tips; a link to the IRS website to obtain income tax forms on demand; answers to frequently asked mail forwarding questions; a ZIP Code lookup for all addresses; a phone number and address directory of the Post Office serving each address; commercial advertising and money-saving coupons; and a Spanish translation of the entire rite. Providing at-home convenience and the correct address format with ZIP+4 code for the mover's old and new addresses, the change-of-address form can be filled in on a consumer's personal computer, then printed, signed and mailed in. Customer feedback and media reports have been highly favorable. Additional enhancements are planned for 2000. An enhanced version of *MoversNet* was developed in 2000. Deployment of the enhanced *MoversGuide.com* website is planned for 2001. This version offers an additional customer choice to file a change-of-address and it will allow change-of-address orders to be accepted electronically via the Internet, with proper identity validation. This enhanced version does not change or affect any of the other currently acceptable methods. In addition to the ability to submit change-of-address orders electronically over the Internet, the enhanced website will also offer a wide variety of value-added services to customers such as setting up utility hookups and cable connections, establish long-distance service and order packing supplies etc. from the *MoversGuide.com* website.

f. The Welcome Kit

The Welcome Kit is a new value-added program for customers who have recently moved. It is designed to reduce Postal Service costs and improve service. Beginning in 1996, the kits were test-marketed in Boston, Buffalo, Indianapolis, San Antonio and Sacramento. During 1997, the test was expanded nationwide. The Welcome Kit contains the following: the customer's address change Confirmation Notification Letter; local phone numbers and addresses for the customer's new area; a Settling-In Guide, with helpful information and advice on getting settled; savings on products and services customers typically need after moving; and information on how customers

can notify the Bureau of Motor Vehicles, the IRS and voter registration offices of their new address.

g. Move Update Implementation

The Move Update requirement of Classification Reform, which became effective July 1, 1997, was established to reduce the estimated \$1.5 billion annual expense and negative service standard impacts that undeliverable-as-addressed mail creates. The requirement specifies that addresses used to obtain all First-Class presorted and automation discount rates must be updated for move activity within 180 days (six months) prior to the date of mailing by a Postal Service-approved method. Address Management has direct responsibility for all approved methods with the exception of the manual address correction process, which is mailpiece endorsement based. The Address Management methods include the following:

1. National Change-of-Address

The National Change-of-Address process provides business mailers with change-of-address information for customers on their mailing lists prior to mailing, thus ensuring that subsequent communications are directed to the current address. This process reduces the amount of undeliverable mail and promotes the use of automation-compatible address formats by ensuring that all addresses submitted are standardized with complete and accurate information, including ZIP+4 codes. More than 5.6 billion address corrections were provided to business mailers through the NCOA service during 2000, an increase of 24 percent from 1999.

2. Address Change Service

The Address Change Service offers mailers automated address-correction service following the issuance of their mailings. Address correction notifications are generated from change-of-address orders (PS Form 3575) submitted to the Postal Service by customers who move. This change-of-address data is maintained in the CFS database. In order to participate in ACS, mailers are required to modify the address label or address block of each mailpiece for which an electronic ACS notification is requested. They are also required to utilize an ACS compatible ancillary service endorsement. ACS electronic notifications are provided at a fee of \$0.20 per notification. However, participation in ACS does not eliminate the provision of manual address correction notifications (hardcopies), which are provided at the manual address correction fee of \$0.50 each. By rapidly updating their

address lists, mailers improve the deliverability of their mail. In 2000, the number of corrections processed through ACS was 165 million.

3. FASTforwardSM

In 1997, Address Management deployed to the mailing industry, under Postal Service license, cutting-edge technology that provides an effective means for mailers to update addresses on mailpieces processed on MLOCRs. This technology, known as FASTforward, will direct mailpieces to the customer's new mailing address when a change-of-address order has been filed with the Postal Service. FASTforward provides a fast, accurate, safe and secure method for users of MLOCRs to apply new address information and the correct bar code for the new address as the mailpieces are being processed. In 2000, more than 3 billion mailpieces were processed and over 39 million mailpieces were forwarded.

Concurrent with the MLOCR effort, Address Management also provides a second version of FASTforward technology for Mailing List Correction (MLC). This version of FASTforward provides correction to computerized address files when a change-of-address is identified for a customer's address record. In 2000, more than 12 billion address records were processed and over 216 million corrections were provided to business mailers using FASTforward for MLC, representing a 50 percent increase over 1999.

4. Alternate Qualification Method

A Postal Service stand-alone testing process, based on FASTforward technology, allows mailers to demonstrate that they have their own process in place to update address changes on mailing lists with 99 percent accuracy. If the Postal Service verifies this, the mailers' lists are then qualified for a period of 12 months.

h. Electronic Publication Watch System (ePUBWATCH)

The Electronic Publication Watch System, commonly referred to as ePUBWATCH, is a web-based periodicals complaint tracking application that allows registered publishers to enter a subscriber postal-related complaint, request an electronic publication watch or request the assistance of a Periodical Service Improvement Team member. This newly improved and expanded program is designed to help resolve postal-related subscriber complaints for any size publication. This is a vast improvement over the existing paper-based publication watch program.

ePUBWATCH consists of a publisher's web page, an administrative reports web page (which is used by the National Customer Support Center in Memphis and Area and District postal personnel) and a Delivery Unit Web page. At this time, our plan is to begin national deployment in February 2001.

i. The Collection Box Management System

The Collection Box Management System (CBMS) provides a monitoring tool for delivery unit management to ensure adherence to our collection box schedules and policies. The system consists of a data collection device that scans a bar code located inside a collection box to collect time, location and date information. The information collected by the scanner is then placed in a data transfer device at the delivery unit for downloading into the Delivery Unit Computer. The data is then loaded into the CBMS software program, which allows management to quickly ascertain the status of each collection. A small percentage of delivery units still utilize the wand/button technology to manage collections.

j. ADVANCE Notification and Tracking System

The ADVANCE Notification and Tracking System, commonly referred to as ADVANCE, is designed as a delivery confirmation system to meet the time-sensitive mailing needs of our external customers and for postal managers to use a real-time management tracking tool to ensure that delivery expectations and reporting compliance are met. ADVANCE tracks the delivery performance of qualified Standard Mail (A) and periodicals mailings in over 7,000 delivery units and approximately 11,000 five-digit ZIP Codes. In 2000, ADVANCE tracked over 3.4 billion mailpieces.

Participating mailers submit their mailing information to the National Customer Support Center (NCSC) at least eight days prior to the requested "begin date" for in-home delivery. Delivery units receive advance notification of a mailing via an ADVANCE web page and must report when the mail was located, when delivery began and when delivery is completed. These delivery event dates are provided to the customer through the ADVANCE mailer web page and the Rapid Information Bulletin Board System (RIBBS).

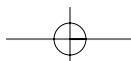
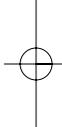
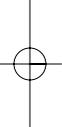
ADVANCE adds business value in several important areas:

- It provides advance notification of time-sensitive mailings to delivery units, which



allows them to meet the delivery needs of our time-sensitive advertisers.

- It provides advance notification of time-sensitive mailings to Area and District offices, which allows them to monitor the delivery and reporting compliance.
- It provides delivery confirmation information to our external Standard Mail (A) and periodical customers. By allowing our customers to specify their requested in-home delivery windows and offering real-time Delivery Confirmation information; the Postal Service expects to retain the existing time-sensitive mail volume/revenue for these mail classes and facilitate growth in time-sensitive mailing revenue.



Chapter 3 Financial Highlights

As directed by Congress, the Postal Service has sought to eliminate redundancy between our 2000 Annual Report and this 2000 Comprehensive Statement. In this chapter, we present Financial Highlights in a condensed format and limit discussion and analysis to Postal Service financial results for 2000; aspects of our financial management on which Congress has requested that we report, such as Productivity; business programs on which we are required to report, such as the Breast Cancer Semipostal Research program; and, topics of particular interest to Congress, such as Appropriations. The financial results of our operations for 2000 are discussed and analyzed in considerable detail in the 2000 Annual Report of the United States Postal Service.

A. Financial Summary

1. Revenue

Revenue in 2000 grew 2.9 percent or \$1.8 billion, to end the year at \$64.5 billion. Compared to the two previous years, the rate of growth declined. In 1998, revenue grew 3.2 percent. In the following year, when a general rate increase was implemented, growth was 4.4 percent. Revenue in 2000 was more than \$800 million below what had been estimated, as First-Class Mail grew less than expected; mailers shifted their choices of mail classes to reap the price benefits of the automated mail classes; and as diversion of messaging from hard copy mail to electronic media continued. Tables 3.1 and 3.2 show the proportionate percentages of total revenue and volume held by each class of mail.

TABLE 3.1 REVENUE BY CLASS OF MAIL
(in percent)

	2000	1999
First-Class Mail	55.09	55.75
Standard Mail (A)	23.57	23.04
Priority Mail	7.50	7.23
Special Services	3.40	3.57
Periodicals	3.37	3.38
Standard Mail (B)	2.97	2.92
International	2.57	2.60
Express Mail	1.54	1.50
	<u>100.00</u>	<u>100.00</u>

TABLE 3.2 VOLUME BY CLASS OF MAIL
(in percent)

	2000	1999
First-Class Mail	49.80	50.55
Standard Mail (A)	43.32	42.48
Periodicals	4.99	5.10
Priority Mail	0.59	0.59
Standard Mail (B)	0.54	0.52
International	0.53	0.51
Other	0.23	0.25
	<u>100.00</u>	<u>100.00</u>

2. Expenses

Postal Service expenses are dominated by personnel compensation and benefits that comprise more than 76 percent of our expenses. In 2000, this expense category increased by 4.6 percent, or \$2.2 billion. This is a faster rate of growth than was seen in either the Consumer Price Index (3.2 percent) or the Employment Cost Index (4.0 percent). This is attributable primarily to the increase in our average cost per work hour, which was driven by higher base pay, overtime and premiums as well as retirement, workers' compensation and health and other benefits. This expense increase occurred despite the reduction of 6,200 work years. Worker's compensation costs, a component of compensation and benefits, were up by more than \$300 million in 2000, significantly more than we had planned. This increase occurred, despite a refinement in methodology used to estimate our workers' compensation liability. Without this change, expenses would have been \$423 million higher. We anticipate that some of the trends that caused this increase will continue. For example, average cost per medical claim increased by almost 14 percent, reflecting the resurgence of medical inflation. Historical fluctuations in workers' compensation expense can be seen in Table 3.4.

Transportation expenses soared in 2000, due primarily to higher fuel prices. We estimate that fuel prices increased transportation costs by approximately \$275 million. Oil prices have risen from a low of \$10 a barrel in 1998 to over \$37 during 2000.

3. Net Loss

After four years of net income that totaled \$3,744 million, we posted a net loss \$199 million in 2000 on operating revenue of \$64,540 million.

TABLE 3.3 ANALYSIS OF EXPENSES
(in percent)

	2000	1999
Personnel compensation	57.09	57.52
Personnel benefits	19.32	18.35
Transportation	7.27	6.84
Supplies and services	4.60	5.82
Interest/deferred liability	2.42	2.55
Depreciation and write-offs	3.19	2.93
Other	2.11	1.99
Rent and communication	1.74	1.70
Vehicle/building maintenance	0.91	0.95
Utilities	0.72	0.71
Interest	0.34	0.25
Advertising	0.23	0.39
	<u>100.00</u>	<u>100.00</u>

TABLE 3.4 WORKERS COMPENSATION EXPENSE AND CASH PAYMENTS*

(dollars in millions)

Fiscal Year	Estimated Annual Increase/Decrease in Liability for Active Claims	Administrative Charge (DOL)	Total Annual Expenses	Payments to DOL for Postal Service Active Claims and Admin. Charges**
1990	\$ 753	\$ 15	\$ 768	\$ 671
1991	174	9	183	397
1992	1,071	14	1,085	454
1993	928	17	945	487
1994	311	16	327	501
1995	860	17	877	520
1996	718	19	737	531
1997	187	19	206	538
1998	739	21	760	567 ***
1999	583	20	603	585
2000	891	20	911	671

* Excludes Post Office Department (POD) expenses and payments

** Amounts in this column reflect payments to the Department of Labor.

*** Previously-reported number changed to exclude POD portion of payment from Postal Service total payments

We consider this a virtual break-even result for the year. The net loss equates to less than one-half of one days cash receipts. Postal rates remained static throughout the year as inflationary pressures in the general economy impacted our costs. The unanticipated reduction in the growth rate of mail volumes and inflationary increases in compensation and benefits as well as in fuel prices were the primary causes of the net loss.

Concurrently, we realized an outstanding gain in productivity, achieving a Total Factor Productivity (TFP) increase of 2.5 percent, a seven-year high. This gain in TFP equated to approximately \$1.6 billion in expense reductions for the year, lessening what otherwise would have been an even greater net loss. This accomplishment took place even as our volume and delivery workload increased. We delivered an additional 6.2 billion pieces of mail while our delivery network expanded to include America's 1.7 million new home and business addresses. Our productivity success is explained in greater detail in Section B of this chapter.

TABLE 3.5 INCOME AND EXPENSE STATEMENT

(dollars in millions)

	2000	1999	Difference	Net Change percent
Income				
Mail revenue	\$ 62,284	\$ 60,418	\$ 1,866	3.1%
Special services	2,192	2,237	(45)	-2.0%
Revenue forgone appropriation	64	71	(7)	-9.9%
Operating revenue	<u>64,540</u>	<u>62,726</u>	<u>1,814</u>	2.9%
Expense				
Compensation and benefits	49,532	47,333	2,199	4.6%
Other costs	13,460	13,309	151	1.1%
Operating expense	<u>62,992</u>	<u>60,642</u>	<u>2,350</u>	3.9%
Income from operations	1,548	2,084	(536)	-25.7%
Interest income	41	29	12	41.4%
Interest expense on deferred retirement liabilities	(1,568)	(1,592)	24	-1.5%
Interest expense on borrowings	<u>(220)</u>	<u>(158)</u>	<u>(62)</u>	39.2%
Net (loss) income	\$ (199)	\$ 363	\$ (562)	

4. Financing

The amount we borrow is largely determined by the difference between our cash flow from operations and our capital cash outlays. Starting in 1998, our capital outlays have exceeded our cash flow from operations. So we increased our year-end debt by \$549 million in 1998, \$496 million in 1999 and \$2.4 billion in 2000. We anticipate a net increase in our debt and cash balance in 2001. Debt outstanding at the end of the fiscal year was \$9.3 billion, of which \$2.5 billion was long-term debt at a weighted average interest rate of 5.6 percent. Our total debt is still below the peak we reached in 1992. Because we actively manage our credit lines, our average outstanding debt during the year was far less than the year-end balance. Our average outstanding debt increased to \$4.7 billion in 2000 from \$3.9 billion in 1999, and the interest we paid on our financing totaled \$220 million in 2000 compared with \$158 million in 1999.

TABLE 3.6 FINANCING HISTORY

	Year-End Debt (\$ billions)	Average Debt (\$ billions)	Interest Expense (\$ millions)
1996	\$ 5.9	\$ 5.4	\$ 368
1997	5.9	4.4	307
1998	6.4	3.2	167
1999	6.9	3.9	158
2000	9.3	4.7	220

B. Productivity

1. Total Factor Productivity (TFP), The Productivity Measure

The Postal Service measure of productivity, TFP, is calculated on all the factors of production in a given year. Over time, TFP measures the changes in the relationship between outputs and inputs, or resources, expended in producing those outputs.

The Postal Service's main outputs are mail volumes and service within its expanding delivery network. The Labor Productivity (LP) measure uses only labor input as a measure of resource use. Since labor productivity is a partial measure, it does not distinguish whether the increase is due to increases in the other inputs (capital and materials) or due to increases in Postal Service efficiency. To account for variations in the labor factor expended in mail volumes, TFP weights different types of mail volumes according to their workload content. That weighting is determined by factors such as size, mail piece weight, preparation requirements including bar coding and presorting and the mode of transportation used, such as air or highway. TFP also accounts for capital and materials inputs, such as mechanized and automated equipment, facilities, transportation and other non-personnel costs.

TFP growth is affected by multiple factors that may cause it to vary in the short term. Expenditures to enhance service and improve customer satisfaction may cause short-term declines in TFP growth. TFP can also fluctuate from one year to another because of time lags between major investments and the realization of savings resulting from those investments. Consequently, assessments of productivity performance should include consideration of the factors affecting TFP growth.

2. TFP, 2000 and the Future Plan

The Postal Service's TFP growth of 2.5 percent in 2000 was the highest since 1993 and the fifth largest in our history. As reported above, this TFP result is equivalent to achieving a \$1.6 billion reduction in expenses. Labor productivity growth was 2.1 percent for the year, also the highest since 1993.

Compared to other years with strong positive TFP growth, the 2000 result is significant. In prior years, TFP growth was driven largely by workload increases. During the 1990's, TFP grew 0.4 percent annually, on average, while workload grew 1.9 per-

cent annually, on average. In 2000, however, TFP growth of 2.5 percent was accomplished through managed restraint on resource usage growth. Work hours declined by 0.6 percent and the Postal Service used 5.1 percent less in materials. The 2000 TFP results also are attributable to returns on the investments in infrastructure upgrades, automation and mechanization that were made by postal management throughout the 1990's.

The Postal Service plans to continue to improve TFP over time. This objective is balanced against the need for service improvements to improve customer satisfaction and remain competitive in the marketplace.

3. TFP, Benchmark Measures

Traditionally, Postal Service TFP has been benchmarked against Multifactor Productivity (MFP), an index of private nonfarm business productivity reported by the Bureau of Labor Statistics (BLS). In recent years, MFP has become less useful as a benchmark measure for this productivity comparison. As the economy has become more heavily weighted with the high-technology or "information businesses" sector, so has MFP. Productivity growth in this economic sector far outstrips that of the industrial and service sectors that are more akin to the Postal Service.

Table 3.7 shows annual and cumulative TFP and LP compared with MFP for the years 1990 through 2000. Over the long run, a successful organization will average positive growth in productivity, as has the Postal Service, but year-to-year fluctuations in TFP and LP are common. In 1990 and 1993, TFP and LP showed exceptional growth.

TABLE 3.7 PRODUCTIVITY 1990-2000

	Total-Factor Productivity		Labor Productivity		Multi factor Productivity ¹	
	Annual	Cumulative	Annual	Cumulative	Annual	Cumulative
1990	3.0	3.0	3.1	3.1	(0.1)	(0.1)
1991	(1.7)	1.3	(0.2)	2.9	(0.9)	(1.0)
1992	0.4	1.7	1.0	3.9	2.0	1.0
1993	3.8	5.5	4.4	8.3	0.5	1.5
1994	(0.1)	5.4	0.7	9.0	1.0	2.5
1995	(1.8)	3.6	(1.3)	7.6	0.5	3.0
1996	(1.2)	2.4	(0.2)	7.4	1.4	4.4
1997	1.3	3.7	1.6	9.0	0.9	5.3
1998	(1.2)	2.5	1.2	10.2	1.5	6.8
1999	(0.3)	2.3	0.7	10.9	1.1	7.9
2000	2.5	4.8	2.1	13.0	1.7	9.6

¹ 1999 and 2000 MFP data are estimates of DRI/McGraw Hill. BLS data for these years has not yet been released.

Slow growth or declines followed in 1994 through 1996 positive growth was achieved again in 1997. In 1998 and 1999, we reported declines in TFP while LP increased. In 2000, we achieved strong growth in both TFP and LP.

4. TFP, Additional Considerations

Worksharing discounts to mailers impact our productivity performance. Worksharing incentives have shifted a greater proportion of the workload associated with automation compatible mail to business mailers. Worksharing discounts provide cost savings for the Postal Service and also enhance the productivity of the economy as a whole. Worksharing, however, transfers the Postal Service's prime opportunities for productivity improvement to our partners, the mailers. In contrast, the BLS multi-factor productivity does not have the ability to factor out self service or worksharing on the part of the customer.

Cumulative TFP growth for the Postal Service from 1990 through 2000 was 4.8 percent, or an average annual rate of more than 0.4 percent. Postal Service TFP growth is approximately one-

half the cumulative growth in MFP of 9.6 percent over the same time period.

C. Federal Government Appropriations

By law, the Postal Service can receive three types of appropriations from the federal government. Those are appropriations for public service; transitional costs and revenue forgone. Currently, appropriation is made for revenue forgone only. This accounted for only 0.1 percent of total revenue in 2000. During 1971, the year prior to creation of the Postal Service, these appropriations totaled almost one quarter of Post Office Department (POD) total revenue.

The Postal Service currently is authorized to request up to \$460 million for public service costs. This is the amount authorized by statute in 1970 and is not intended to represent the present cost of providing universal service. The Postal

Service has neither requested nor received any public service reimbursement since 1982.

The transitional cost category of reimbursement provides a means to fund costs related to the former POD and shelters current ratepayers from such costs. Worker's Compensation claims arising prior to July 1, 1971, are the last known POD cost. In the Balanced Budget Reform Act of 1997, Congress transferred responsibility for these costs to the Postal Service. Therefore, we have not received transitional cost appropriations since 1997.

In 2000, the Postal Service recognized a revenue forgone reimbursement of \$64 million to fund free mail for the blind and for overseas voting. That reimbursement was paid in October 2000, shortly after the close of the fiscal year. (See chart 3.8)

TABLE 3.8 HISTORICAL AND PRESENT-YEAR IMPACT OF CONGRESSIONAL APPROPRIATIONS ON MAIL REVENUE, 1971, 1976, 1986, 2000

(dollars in millions)					
Year	Total Mail Revenue	Mail Revenue Without Appropriations	Appropriation Category	Income from Appropriation	Appropriation as a percent of Total Mail Revenue
1971*	\$ 8,752	\$ 6,665	Deficiency in rates and fees; and Public Service	\$ 2,087	23.8%
			Free and Reduced Rate Mail Reconciliation for Prior Years	725	
			Public Service	none	
1976	\$ 12,844	\$ 11,199	Free and Reduced Rate Mail Reconciliation for Prior Years	920	12.8%
			Public Service	\$ 1,645 **	
			Free and Reduced Rate Mail Reconciliation for Prior Years	750	
1986	\$ 30,818	\$ 30,102	Public Service	(34)	2.3%
			Free Mail for the Blind and Overseas Voting Material	\$ 716 **	
			Reconciliation for Prior Years	71	
2000	\$ 64,540	\$ 64,476	Public Service	(7)	0.1%
				none	
				\$ 64	

* The figures for FY1971 are from the old Post Office Department prior to the creation of the Postal Service on July 1, 1971.

** This figure does not include the appropriation for Post Office Department Transitional Costs, which, upon receipt, are paid directly to the Department of Labor.

D. Breast Cancer Semipostal Research (BCR) Stamp

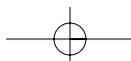
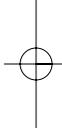
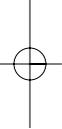
In 1997, Congress authorized the issuance of the first semipostal stamp for the specific purpose of raising funds from the American public to assist in finding a cure for breast cancer. The stamp is sold for 40 cents and is valid for the current cost of a one-ounce First-Class letter. Congress directed that the difference between the price of the stamp and the First-Class Mail rate, less program costs, be directed to two designated research agencies, the National Institutes of Health (NIH) and the Department of Defense (DOD) Medical Research Program. In accordance with the law, the General Accounting Office (GAO) has reviewed this program. The Office of the Inspector General (OIG) of the Postal Service has also audited the program and issued a report on its findings.

Our initial projections called for the printing of 200 million stamps. Since that time, in order to keep inventories in line with demand, we printed an additional 180 million stamps. From inception through December 2000, approximately 240 million stamps had been sold. Two years of sales raised a net voluntary contribution of \$16.8 million, of which \$8.2 million was raised in 2000.

The law provides for semiannual payments to be made on a schedule agreed to by the research agencies and the Postal Service. Payments have been made to the research agencies to cover sales from July 28, 1998, through early September 2000.

The costs associated with the BCR stamp include design, printing, packaging, advertising, promotion, training, legal fees, market research, programming for retail automation and receipt printing costs. The Postal Service has chosen to deduct selected incremental costs from our payments to the research agencies. A total of slightly more than \$500,000 was deducted from our first five payments, which covered sales from July 28, 1998, through early September 2000.

For six decades, the Postal Service has issued stamps to help raise awareness for a variety of health and social issues including drug abuse, AIDS awareness, environmental protection and conservation. The BCR semipostal stamp went a step farther and also raised funds. The stamp's original run was from July 28, 1998, through July 28, 2000. On July 28, 2000, President Clinton signed a bill extending issuance an additional two years, through July 28, 2002. We will continue to aggressively promote the sale of this product throughout our organization.



Chapter 4 Preliminary 2002 Annual Performance Plan

This chapter provides the Preliminary 2002 Annual Performance Plan of the United States Postal Service, based on the requirements of the 1993 Government Performance and Results Act (GPRA).

A. Introduction

1. Government Performance and Results Act (GPRA) Documents

The United States Postal Service published its first Five-Year Strategic Plan in compliance with GPRA in 1997. That plan, which covered the period 1998-2002,¹ was updated as required by the Act and published in September 2000, for the period 2001-2005. These plans describe the evolution of the Postal Service's corporate performance goals, strategies, targets and indicators. The next formal update of the Five-Year Strategic Plan will be published in September 2003 for the period 2004-2008.

Since the publication of the first Five-Year Strategic Plan, Preliminary Annual Performance Plans and final Annual Performance Plans have been published in accordance with the GPRA statute.²

2. The Mission of the Postal Service

Postal planning is framed by the goal of achieving the mission of the Postal Service, as stated in the Postal Reorganization Act of 1970. The nation's Postal Service is still perceived by the American public and its representatives as a core government function. The goals, strategies, targets and indicators in this plan support the Postal Service's mission as a government service providing universal postal service to the country.

Today, the role of the Postal Service in connecting all Americans at uniform rates is more important than ever, even as new electronic services fragment the communications marketplace and provide alternatives to traditional mail services for some customers.

3. The Business Environment

The strategic planning process includes an intensive review of the Postal Service's environ-

ment, as required by GPRA. This review has been undertaken with full stakeholder consultation.³ The central assumption that has historically guided postal planning — that mail volume and the associated growth in revenue would always be sufficient to cover the cost of delivering mail to a growing country at affordable prices — can no longer be taken for granted. The postal environment is changing rapidly, and postal planning is adapting in order to keep up with the challenges.⁴

The Postal Service faces unprecedented uncertainty — particularly with respect to the impact that Internet applications will have on mail volume. First-Class Mail volume growth is slowing and may decline in the future.⁵ Furthermore, an associated assumption of the past — that incremental cost increases could always be passed along to postal customers through higher rates without significantly impacting mail volumes — is also less certain. Business mailers and households have alternatives to traditionally mailed applications such as bills and statements, business communications and personal correspondence, ordering and fulfillment, entertainment, information, and advertising.⁶

4. Our Vision of the Future

As a result of this review, the following vision statement for the Postal Service in the 21st century was adopted:

Within the decade ahead, the Postal Service must be transformed into a high-performing enterprise, able to compete with agile competitors, to be responsive to more sophisticated customer demands, and to establish goals aligned with the vision of becoming the service customers choose to use, rather than have to use. All employees must have appropriate incentives and tools, not only to service their customers, but also to meet or exceed competitors' offerings. We must, in short, develop an operationally excellent, financially sound, performance-based culture and mindset.

¹ Unless otherwise noted, all references to years in this document will denote fiscal rather than calendar years.

² The Postal Service's Preliminary Annual Performance Plans are published in February of each year in the Annual Comprehensive Statement on Postal Operations, along with the Annual Performance Report. Final Annual Performance Plans are published as stand-alone documents at the conclusion of each fiscal year.

³ This process is described in Chapter 5 of the USPS Five-Year Strategic Plan.

⁴ Described in Chapter 1 of the Comprehensive Statement on Postal Operations.

⁵ First-Class Mail accounts for about 56% of the revenue of the Postal Service, and, more importantly, 70% of the coverage of "institutional costs" of the operating infrastructure. A reduction in this revenue source would put the ability of the Postal Service to finance the universal service mission at risk.

⁶ The changing business environment of the Postal Service is described in Chapter 2 of the USPS Five-Year Strategic Plan.

Given our expectations and beliefs about the future marketplace, it is imperative that the Postal Service achieves a state of operational excellence and competitive performance sufficient to provide customer value without relying on the monopoly.

Achieving this vision will allow the Postal Service to improve performance, to search for ways to grow both its revenue and those of the mailing industry, and to find solutions to the challenges raised by technology and major shifts in the business environment. The framework for integrating strategies to achieve the vision will be an understanding of the Postal Service as the “gateway” to the nation’s households and businesses.

5. The Evolution of Goals, Sub-goals, Indicators, and Targets

The new statement of future vision and strategic direction led in turn to amendments of the Postal Service’s three corporate goal statements incorporated in the 2000 Annual Performance Plan. These amendments reflected the organization’s decision to strengthen its goal statements relative to its increasingly challenging marketplace, its need to improve its workplace environment, and improve its overall business performance.

Following publication of the 2000 Annual Performance Plan in September 1999, a number of other changes were made. These changes were reflected in the Preliminary 2001 Annual Performance Plan. Additional amendments were adopted for 2001 and were described in the final 2001 Performance Plan.

The planning process in the Postal Service, and the associated goals, sub-goals, indicators, and targets will continue to evolve as the market and the U.S. economy changes. Stakeholders should expect further evolution as the Postal Service seeks to transform itself to meet the challenges of the future.

6. Universal Service and Postal Performance

Government Accounting Office (GAO) reviews of the Five-Year Strategic Plan and subsequent discussions on legislative reform have yielded suggestions of the need to develop measures related to the Postal Service’s responsibility to provide universal service. Several of the “Voice of the Customer” measures discussed here such as reliability of service to consumers and performance of

the basic first-Class Mail product, are related to the fulfillment of the Postal Service mission. The question of additional performance measures related to other elements of universal service remains open.

The Postal Service has been involved in an ongoing research effort to understand how universal service has been defined in other enterprises and to assess service requirements based on these definitions. The experience of industries such as telecommunications and of other postal administrations that have sought to define universal service has relevance to this effort. A review of universal service in other postal administrations was presented in the 2000 Annual Performance Plan and a review of universal service in other industries was included in the Preliminary 2001 Annual Performance Plan. Proposed statutory reform would have required the development of a definition.

For the public and mailers, the automatic extension of delivery services to new households and businesses is a fundamental part of the mission of universal service. In 2002, about 1.5 million new deliveries will be added, increasing the cost of the Postal Service infrastructure. At the same time, the United States Postal Service is required to maintain an extensive retail infrastructure, regardless of economic justification, to provide access to the network and to satisfy other public service requirements. In 2002, the Postal Service will continue to work with stakeholders to refine the policy options available for the continuation of universal service in the future. The current legal and regulatory practice retains a very broad and general working definition of the Postal Service’s public service obligation.

Until universal service is more specifically defined,⁷ the “overall customer satisfaction” indicator described in the “Voice of the Customer” section, will continue to be used as a summary measure of the Postal Service’s performance in achieving its mission.

B. Linkage Between Annual Performance Plan and Strategic Plan

1. Creating Alignment

The Postal Service’s organization-wide goals are to grow the business by providing quality prod-

⁷ See Chapter 1 in the USPS Five-Year Strategic Plan, 2001-2005.

ucts and services at competitive prices; to create a motivated, productive and inclusive workforce; and to provide affordable services. This balanced approach supports the efforts of the Postal Service to continue to perform its mission. These goals, and the associated sub-goals, indicators, and targets, undergo further review in each annual management cycle dictated by the Postal Service's performance management system.⁸

The updated Five-Year Strategic Plan describes the strategies that the Postal Service will use to respond to the changing business environment. These strategies seek a balance among multiple objectives: achieving affordability, being responsive to employee requirements, ensuring financial viability, responding to customer needs, and investing in the future. As required by the GPRA, the Five-Year Strategic Plan 2001-2005 discusses the current Postal Service business environment and describes the process used to obtain comments on the Postal Service's proposed strategic direction from its stakeholders.

The updated Strategic Plan also describes the performance indicators and targets that have been adopted by management for the 2001-2005 planning horizon. The goals, sub-goals, indicators and targets described in this 2002 Annual Performance Plan are consistent with those expressed in the Strategic Plan.

2. Government Performance and Results Act Requirements

The GPRA legislation established the content requirements for Postal Service Annual Performance Plans:

- Establish performance goals to define the level of performance to be achieved by a program activity;
- Express such goals in an objective, quantifiable, and measurable form unless an alternative form is used;
- Briefly describe the operational processes, skills, and technology, and the human, capital,

information, or other resources required to meet the performance goals;

- Establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity;
- Provide a basis for comparing actual program results with the established performance goals; and
- Describe the means to be used to verify and validate measured values.

[Title 39, U.S. Code, Sec. 2803(a)]

In addition, the Postal Service has received a number of recommendations for improving the Annual Performance Plan.⁹ These recommendations have been incorporated as follows:

As a result of statutory requirements plus multiple reviews it is useful here to clarify the expanded requirements for annual performance plans. The Preliminary Annual Performance Plan of the Postal Service is published at an early stage in the annual management cycle after the preliminary indicators and targets are established, but before the resources are deployed. The Final Plan will expand the discussion of the performance

TABLE 4.1 RESPONSES TO COMMENTS ON POSTAL PERFORMANCE PLANNING

Recommendation	Response
Provide detailed explanations when goals, sub-goals, indicators and targets contained in the prior year's plans are not carried forward into the current year's plan.	Changes are discussed in detail for each of the three major goals or "voices."
Provide clear criteria, including baseline data where possible, for measuring the Service's success toward achieving desired goals.	The Postal Service is attempting to provide clearer descriptions of the goals. Baseline data is provided in Chapter 5 of the Comprehensive Statement on Postal Operations.
Include complete description of strategies to accomplish stated goals.	The 2002 Preliminary Annual Performance Plan is provided shortly after the update of the Five-Year Strategic Plan. Details were provided in that document. Also, Chapters 1-3 of the Comprehensive Statement provide additional details on key programs relevant to this requirement.
Update information to reflect known or anticipated changes when discussing the linkage between performance goals and major programs.	The Preliminary Annual Performance Plan incorporates such recent events as the impact of the slowing economy, expected diversion of traditional mail volume, and actions of the Postal Rate Commission.
Where applicable, explain why baseline data is not being provided	Baseline data is provided as Chapter 5, Annual Performance Report, in the Comprehensive Statement. When the final 2002 Performance Plan is published at the end of 2001, this information, where available, will be updated.

⁸ See Appendix A of the 1999 Annual Performance Plan for a more complete description of the *CustomerPerfect!* system.

⁹ Comments from Postal Service Subcommittee Chairman John McHugh, in an April 24, 2000 letter to Postal Service Board of Governors Chairman Dyrhkopp, and the GAO report of August 14, 2000, "Enhancements Needed in Performance Planning and Reporting." These comments were addressed in detail in the 2001 plan.

goals to include information on resource allocation that is developed during the “deploy” process.

C. Postal Service Performance Goals For 2002

The preliminary corporate goals, performance sub-goals, indicators and targets for 2002 presented below are under development in a planning process that will be concluded in September 2001.

1. Corporate Goal Categories: The Three-Voice Structure

The Voice of the Customer category addresses growing the business by providing timely and consistent service, improving reliability and customer satisfaction. Revenue growth is essential to meet the break-even requirements of the Postal Reorganization Act, especially as the Postal Service must absorb the costs of extending more than 1.5 million new deliveries each year.

The Voice of the Employee category focuses on creating a motivated, productive and inclusive workforce.

The Voice of the Business category seeks to keep postal services affordable by achieving performance that assures financial viability and increased efficiency.

These three categories support three critical elements of the Postal Service: service to the cus-

Voice Category	Goal Statement
Voice of the Customer	Growth
Voice of the Employee	Motivated, Productive, and Inclusive Workforce
Voice of the Business	Affordability

tomers, the employee on whom the quality of this service depends, and the financial base or the business that must match revenue and cost. The goals are summarized in Table 4.2.

Achieving these broad goals will allow the Postal Service to continuously improve service, ensure an effective and stimulating workplace environment and achieve superior financial performance. The service sub-goals will be expanded to include all major product lines while sustaining the core mission of universal service. The human assets of the organization will be the focus of investment that provides employees with

the knowledge, tools, training and encouragement that will allow them to contribute to the success of the Postal Service and its customers. The costs of service enhancements and investments will be managed to assure that the Postal Service can financially sustain its mission of providing service to the nation.

The three Voice categories are supported by performance sub-goals that are aligned with relevant indicators. These sub-goals frame the critical actions needed to achieve the goals.

Specific performance targets are linked to each sub-goal. The Postal Service’s management system is an annual cycle of setting performance goals, deploying resources against those goals, measuring and rewarding performance, and evaluating and reviewing targets and performance. Each operating year is preceded by a planning year in which goals are set and resources are allocated. The cycle’s objective is continuous organizational improvement.

The specific performance goals, sub-goals, indicators, and targets for 2002 are summarized in Table 4.4. A three-year history of performance against the targets is provided in the following chapter, the Annual Performance Report. When the Final Annual Performance Plan is published, the performance data will be updated and included in that document.

2. Voice of the Customer

a. Performance Goals, Sub-goals, Indicators, and Targets

The performance goals and sub-goals of the Voice of the Customer are shown in Table 4.3

b. Performance Indicators and Targets for “Timeliness and Consistency”

For 2002, the Postal Service will:

- Achieve destinating overnight First-Class Mail on-time performance of at least 93.5 percent for Postal Quarters 1, 3, and 4, as measured by the External First-Class Measurement System (EXFC). Quarter 2 is excluded due to the unpredictable impact of extreme weather during this period.
- Achieve targeted on-time performance for originating and destinating composite Express Mail focusing on the surface network and the FedEx network, for Postal Quarters 3 and 4, as measured by the Express Mail Reporting System (EMRS). The Postal

Service expects significant improvements based on the use of the FedEx system instead of scheduled airlines, and a new baseline will be established.

- Achieve Priority Mail on-time performance, as measured by Delivery Confirmation data. The focus will be on the two-day network, for Postal Quarters 3 and 4.
- Develop a performance baseline for Standard Mail, using the CONFIRM system to replace ADVANCE.¹⁰ Adoption of CONFIRM requires recalibration of performance measures. The focus will be on providing delivery service within a “delivery window” for Carrier Route Bundles, and providing delivery service within the delivery standards for all other categories of Standard A Mail.
- Develop a performance baseline for on-time performance of destination-entered ground parcels (Parcel Select), as measured by the Delivery Confirmation system.

c. Performance Indicators and Targets for “Reliability”

For 2002, the Postal Service will:

Improve the accuracy of delivery as measured by the Accuracy of Delivery Index, identify problem areas, and achieve a 5% reduction from the 2001 baseline error rate.

d. Performance Indicator and Targets for “Improve Customer Satisfaction”

For 2002, the Postal Service will:

- Improve the overall residential customer satisfaction score by 1% over PQ4 of the previous year, and improve the “Excellent” ratings by 2% (based on responses to Customer Satisfaction Measurement survey questions).
- Improve the overall business customer satisfaction score by 1% over PQ4 of the previous year, and improve the “Excellent” ratings by 2% (based on responses to Customer Satisfaction Measurement survey questions).

3. High Priority VOC Targets

For 2002, the high-priority VOC performance targets are:

- On-time performance for Priority Mail. Field operating units will be held accountable primarily for deliveries within 500 miles, reached by surface transportation, while relevant headquarters functions will be accountable for the performance of Postal Service air service suppliers.

- On-time Express Mail (AM and PM service).
- Maintain the On-time performance for overnight First-Class Mail, as measured by EXFC.

These high-priority goals will be included in the Postal Service’s Economic Value Added (EVA) performance incentive program for 2002. The incentive for the first two goals is “variable,” in that the amount of the incentive depends on the actual indicator value achieved. The First-Class goal will be considered a “threshold” target for the VOC category, in which an incentive is earned only if the threshold value is achieved or exceeded. The long-range goal is to provide consistency of performance across classes of mail against published service standards.

4. Changes to VOC Goals

Under the Postal Service’s annual management cycle process, the various performance goals, sub-goals, indicators, and targets are reviewed and sometimes revised in response to significant changes in the external and internal environments.

The 2001 VOC performance goals were to provide timely delivery, reliable service, and improve customer satisfaction. These remain the focus for 2002, although the wording has been simplified in order to make organizational communication more effective. However, the following developments should be noted:

- The Postal Service has achieved consistently high levels of performance and customer satisfaction for First-Class Mail. In 2002, the Postal Service will focus on maintaining this performance while focusing on improving service in the competitive markets.
- The 2001 performance indicator for “ease of use” will not be used as a corporate strategic indicator in 2002. It will be used primarily as a tactical measure of specific customer contact programs, such as retail and bulk acceptance, rather than as a corporate strategic measure.
- The Postal Service will continue to use “overall customer satisfaction” as a measure of

**TABLE 4.3
VOICE OF THE CUSTOMER PERFORMANCE GOALS**

The Goal	Growth
Performance Sub-Goal 1	Timeliness and Consistency
Performance Sub-Goal 2	Reliability
Performance Sub-Goal 3	Customer Satisfaction

¹⁰ The ADVANCE system allows business customers to use the Internet to give local postal managers timely notice of mailings scheduled for delivery. An electronic image of the scheduled mail piece aids recognition. Detailed compliance and performance reports are accessible to both postal supervisors and mailing customers. CONFIRM replaces these manual systems with a process based on automatic reading of barcodes.

TABLE 4.4 2002 PRELIMINARY ANNUAL PERFORMANCE GOALS, INDICATORS AND TARGETS

Goal	Sub-Goal	Indicator	Target
Voice of the Customer (VOC) Growth	Timeliness and Consistency	Destinating First-Class Mail Overnight On Time, PQ 1, 3,&4 (EXFC)	93.5%
		Originating and Destinating Composite Express Mail On Time-Surface and on FedEx Network, PQ 3,4 (EMRS)	Proprietary
		Priority Mail On Time – Two Day Network, PQ3,4 (Delivery Confirmation)	Proprietary
		Standard A – Carrier Route Bundles within Delivery Window, All Others within Standard	Baseline
		Improve Parcel Select	Proprietary
	Reliability	Accuracy of Delivery Index (ADI)	5% reduction in error rate (from 2001 Baseline)
	Customer Satisfaction	Overall Satisfaction – Residential (Customer Satisfaction Survey)	1 point improvement in overall rating over PQ4-Previous Year, and 2 point improvement in “Excellent” Ratings.
Overall Satisfaction – Business (Customer Satisfaction Survey)			
Voice of the Employee (VOE) Motivated, Productive and Inclusive Workforce	Minimize Impact from Accidents and Absences	OSHA Accident/Illness Rate	2% improvement in National rate, allocated by opportunity.
		“Available for Duty” Rate	Baseline
	Employees Committed to USPS Success	VOE Survey	Equal or Better than FY2001
	Skilled Workforce	Training in Prescribed Curriculum	97% of EAS 15 & over: 20 hrs. 97% of EAS 14 & below: 8 hrs. 100% craft employee work units: 8 hours
	Dispute Resolution Processes Are Sound	REDRESS	100% Availability 70% Participation Rate
	Inclusive Workforce	Inclusive/Fair Environment Indicators are Part of Merit System	Included in PCES Merits
<ul style="list-style-type: none"> Representation of All Groups in Special Details, Assignments, and Succession Plans Activities Supporting the Affirmative Employment Plan 		Quarterly Reviews • Areas with COO • PC's with AVP's • HQ with Mngt Committee	
Voice of the Business (VOB) Affordability	Improve Productivity to Control Costs and Improve Contribution Levels and Grow the Business	Total Factor Productivity (TFP)	At Least 1% over FY2001
		Area Productivity Improvement	Improve over Hurdle
		Performance Cluster Productivity Improvement	Improve over Hurdle
		Flats and Parcels Contribution	Develop Indicator
	Improve Financial Strength	Retail Revenue	TBD upon completion of Deploy
		Commercial Revenue	TBD upon completion of Deploy
		Expense Budget	TBD upon completion of Deploy

ESTABLISH TEAM, 2/20/01

corporate performance. While many private sector firms use some form of customer satisfaction measurement as part of their strategic performance evaluation, the literature on the subject and consultation with experts in the field note the limitations. As noted in the

2001 Annual Performance Report, the Postal Service has used concepts such as “loyalty” ratings and “Customer Value Analysis” to improve its understanding of performance. The Postal Service will continue to develop more sophisticated approaches to use for

detailed internal evaluations, and for the analysis of performance by segment, by issue, and by geographic location.

- During 2000, operational and process performance indicators were developed for Periodicals performance jointly with publication mailers. Publishers requested that specific feedback about individual mailings be the Postal Service's primary focus. As a result, methods for uploading computer-generated point and time of entry data were developed that allowed mailers to track and verify individual mailings through Business Mail Entry Units. These mailer-specific indicators are intended to identify opportunities for process improvement, and are not suitable for measuring aggregate national or local performance. Additional enhancements to these indicators are planned.
- An indicator for on-time performance of International Mail is still not included on the 2002 list of national-level *CustomerPerfect!* measures, although the Postal Service is continuing to explore ways to measure international network performance at a reasonable cost.
- The Sales and Marketing organization is in the process of aligning its various functions with Customer Relationship Management (CRM) practices. These practices recognize the need to coordinate all of its customer contact programs and align them to customer expectations and needs. This should increase the timeliness, relevance, and effectiveness of customer contact programs and benefit Postal Service commercial customers by providing better customer service.

5. Goal Achievement Strategies

The Five-Year Strategic Plan for 2001-2005 presents the organizational strategies for achieving the longer-term goals of the Postal Service under its "Blueprint for Progress" initiative. Specific strategies for managing the organization, supporting the people, improving pricing, increasing revenue generation, and ensuring the effectiveness of capital investment are described in Chapter 4 of the Strategic Plan and Chapter 3 of the Comprehensive Statement on Postal Operations. More detail on additional initiatives will be provided in the Final 2002 Performance Plan in September.

Service Programs — The 2002 Deploy process has yet to take place. The current financial

situation suggests that there will be no additional resources available to allocate to new 2002 initiatives. However, the following programs should support service improvement goals in 2002:

- **Automation:** The primary emphasis will be on improving flat and package handling productivity and service performance by installing additional automation and related equipment.
- **Operations Discipline:** Quality control, operations standardization, and improvements to the postal network should also result in improved service improvement.
- **Transportation:** More consistent scheduling of air transportation through use of the Automatic Airline Assignment system and the implementation of a new service agreement with FedEx to carry mail and packages will increase consistency and reliability. In addition, the movement of some mail volume to surface transportation from less reliable air transportation is expected to improve service.
- **Information Systems:** The deployment of Information Platform programs should provide managers and supervisors with more timely, relevant and accurate data to improve acceptance, processing, transportation, and delivery operations, with corresponding improvements on service performance.
- **Technical Support Services:** A variety of programs, from *Postal One!* in bulk acceptance to the Business Service Network and Mail Equipment Centers, will enable mailers to better prepare and enter the mail in order to obtain the best possible service.

6. Voice of the Employee

a. Performance Goal, Sub-goals, Indicators, and Targets

The performance goal and sub-goals for the Voice of the Employee are presented in Table 4.5.

b. Performance Indicator and Target for "Minimize Impact from Accidents and Absences"

For 2002, the Postal Service will:

- Improve the National OSHA accident and illness rate by 2%, allocating the improvements to field units based on opportunities that vary with past performance and local conditions. Develop a new indicator to measure "availability for duty" rates, and create a baseline.

c. Performance Indicator and Target for “Employees Committed to USPS Success”

For 2002, the Postal Service will:

- Achieve results equal to or better than the 2001 baseline, as measured in the VOE Survey.

d. Performance Indicator and Target for “Skilled Workforce”

For 2002, the Postal Service will:

- Provide training in a prescribed curriculum, which includes four hours of interpersonal skills training, in the following amounts:
 - 20 hours for 97 percent of employees in grades EAS 15 and above.
 - 8 hours for 97 percent of employees in grades EAS 14 and below.
 - 8 hours for craft employees in all work units nationwide.

As measured by postal training records.

e. Performance Indicator and Target for “Dispute Resolution Process are Sound”

For 2002, the Postal Service will:

- Maintain and extend the use of REDRESS (100 percent availability, 70 percent participation rate).

f. Performance Indicator and Targets for “Inclusive Workforce”

For 2002, the Postal Service will:

- Ensure that inclusive/fair environment indicators are part of management merit system.
- Ensure that all groups are represented in special details, assignments, and succession plans.
- Ensure that activities supporting the affirmative employment plan are implemented.

Data developed by the Diversity Department will be used to support the merit process and management reviews.

g. High Priority VOE Targets

To drive desired behaviors, two of the VOE performance targets will be considered high-priority for purposes of the EVA variable pay program in 2002. The first initiative is the VOE Survey Index, which has been introduced to improve understanding of and response to employee issues and concerns. This index incorporates six components of the VOE Survey

relating to recognition/rewards and treatment by supervisors. Improvement targets are set for each Performance Cluster. The second initiative is achievement of the OSHA accident/illness target, which will be the “threshold” for evaluating eligibility for compensation for this category.

h. Changes to VOE Goals

The VOE performance goals for 2002 are essentially the same as those presented in the 2001 Annual Performance Plan. However, as discussed below, several changes to the 2001 performance indicators are likely to be introduced in the final plan:

- The bulk mail proficiency indicators are still being used to track Bulk Mail Entry Unit performance at the Performance Cluster level. Goal achievement will be tied to individual employee incentive awards to encourage ongoing and successful program participation. However, these will be program indicators, rather than strategic national performance indicators.
- The motor vehicle accident data is incorporated into the OSHA Accident/Illness indicator.
- In 2000, the report of the Commission on a Safe and Secure Workplace was published. The findings have been discussed extensively throughout the organization. Teams have been formed around four main topics: 1) selections and assignment, 2) skills and knowledge, 3) work environment, and 4) motivation and incentives. Some of the recommendations will be completed within a three to six month period while others are considered continuous improvement projects. Recommendations from these teams can be expected to result in changes or additions to goals.
- A major goal of the Postal Service in the future will be to change the organizational culture to foster an entrepreneurial and results-oriented mindset. The VOE survey responses will be used as an indicator while the Postal Service considers other measures for the future. One such indicator that will be developed will be an “available for duty” rate.

**TABLE 4.5
VOICE OF THE EMPLOYEE PERFORMANCE GOALS
AND SUB-GOALS**

The Goal	Motivated, Productive and Inclusive Workforce
Performance Sub-Goal 1	Minimize Impact from Accidents and Absences
Performance Sub-Goal 2	Employees Committed to USPS Success
Performance Sub-Goal 3	Skilled Workforce
Performance Sub-Goal 4	Dispute Resolution Processes Are Sound
Performance Sub-Goal 5	Inclusive Workforce

i. Goal Achievement Strategies

Longer-term VOE strategies are described in Chapter 4 of the Five-Year Strategic Plan for 2001-2005. Programs under the “Supporting the People” strategy include compensation, employee suggestions, succession planning, and workplace relations, and are described in Chapter 1 of the Comprehensive Statement.

The Postal Service’s 2002 goal of building an inclusive and welcoming workplace that fosters success will be driven by strategies and program plans in the six areas listed below.

- **REDRESS** (Resolve Employee Disputes, Reach Equitable Solutions Swiftly) — This mediation program was fully deployed in 2000 to resolve and expedite employee complaints at the lowest possible level, and has already contributed to a substantial reduction in the number of formal complaints filed. For 2002, the emphasis will be on maintaining at least a 70 percent participation rate in the program.
- **Labor Relations** — During 2002, a variety of initiatives will be pursued that are designed to contribute to a reduction in grievance activity and improvements in the work environment, employee attitudes and, ultimately, overall performance and productivity. Further expansion of alternative dispute resolution mechanisms to other compliance and appeals process is also underway. Introduction of mediation into the internal appeals process available to non-bargaining unit employees began in 2000 as a pilot project in three locations, and after refinement is expected to be available nationwide in 2002. Additionally, the Postal Service is working with the League of Postmasters and the National Association of Postmasters to

design a mediation program to address issues of national concern.

- **Training** — An ongoing improvement effort to excel in the development of leaders is reflected by the investment in the training of new managers and supervisors in communication conflict management and leadership skills. In 2002, the Postal Service will continue development and deployment of national training courses such as the Associate Supervisor Program and the Advanced Leadership Program (ALP), which actively develop desired leadership and management skills. The Training group and the Strategic Planning office will cooperate in a program that uses ALP graduates as focus groups for the development and review of strategic issues, thereby building on the skills developed during training while providing broader, more interactive participation in the strategic planning process.
- **Safety and Health** — Low accident and injury frequency statistics are aligned with Postal Service corporate goals to reinforce employee commitment, customer satisfaction and cost reduction. In 2002, the key supporting programs will enhance line management accountability for safety and health performance.
- **Workplace Environment Improvement** — In 2002, program activities will include the Employee Assistance Program, violence prevention and crisis management activities, and identification and propagation of indicators, measures, and tools for workplace environment improvement.
- **Diversity** — To achieve maximum corporate success in 2002, the Postal Service will continue to develop and implement strategies and objectives to promote an inclusive environment at all levels of the organization. In 2001, the Postal Service will examine the feasibility of using investigative services from an outside source for equal opportunity complaints. This study will be evaluated and a decision made by 2002. If successful, the Postal Service would expect to have all of its administrative investigations of equal opportunity complaints handled by an independent party.

7. Voice of the Business

a. Performance Goal, Sub-goals, Indicators and Targets

The financial performance goal and sub-goal for the Voice of the Business are presented in Table 4.6.

b. Performance Indicators and Targets for Improve Contribution Levels and Grow the Business”

For 2002, the Postal Service will:

- Improve Total Factor Productivity (TFP) by at least 1 percent over 2001 levels.
- Improve Performance Cluster productivity over a “hurdle” rate unique to each Performance Cluster. The rate is the percentage improvement over prior year performance that a Performance Cluster must achieve to ensure achievement of its budget plan for the VOB portion of the Economic Value Added program.
- Improve Area productivity over a “hurdle” rate. The hurdle rate is the percentage productivity improvement over the threshold that is necessary to meet the national net income target. It is recalculated each accounting period, and is the same for each Area.¹¹
- Focus on improving the contribution levels for flats and parcels. Indicators and targets will be developed for future implementation.

c. Performance Indicators and Targets for “Improve Financial Strength”

For 2002, the Postal Service will:

- Generate new retail revenue. Retail sales targets will be developed by Performance Cluster based on past performance, local opportunities, and relevant program support.
- Generate new commercial revenue. Commercial sales goals will be assigned, and a method will be developed to share accountability between the Sales organization and the operating units that provide the relevant services.
- Achieve expense budgets.

d. High Priority VOB targets

For 2002, the high-priority performance targets are:

- Improve Total Factor Productivity (TFP).
- Improve overall business performance, as measured by achievement of Area and Performance Cluster productivity improvement targets.

TFP Productivity improvement is a “threshold” goal for the Voice of the Business category. If the threshold is met, managers are eligible for EVA consideration based on performance in improving local productivity. Merit consideration will be given for achievements in:

- Generating new revenue from retail and commercial customers.
- Achieving expense budget targets.
- Improving the contribution for flats and package services.

e. Changes to VOB Goals

The VOB performance goals presented in the Final 2001 Annual Performance Plan, as amended January 3, 2001, were: improve overall VOB performance (as measured by indexed Economic Value Added), and control costs by achieving productivity gains (as measured by TFP and labor productivity). For 2002, the following changes to the preliminary performance sub-goals, indicators, or targets have been made:

- The uncertain impact of the recommendation of the Postal Rate Commission, the potential impact of labor arbitration decisions, the unexpected slowing of the growth of the U.S. economy, and the unknown future effect of technological diversion of mail volume has made forecasting 2002 revenue and costs extremely difficult. Accordingly, Net Income was dropped as a VOB goal in 2002 because its value as an indicator of organizational success has decreased. Improving productivity will become the primary VOB goal because it is within the control of the Postal Service.
- Upon approval of the Integrated Financial Plan by the Postal Service Board of Governors, 2002 revenue and cost estimates will be provided and will be published in the Final Performance Plan in September 2001.
- Final productivity hurdle rates for 2002 cannot be computed until final audited financial statements, volume, and revenue reports for 2001 are completed.

TABLE 4.6
VOICE OF THE BUSINESS PERFORMANCE GOALS AND SUB-GOALS

The Goal	Affordability
Performance Sub-Goal 1	Improve Productivity to Control Costs, Improve Contribution Levels and Grow the Business
Performance Sub-Goal 2	Improve Financial Strength

¹¹ The specific numerical Area productivity targets for 2002 are not yet available. They will not be finalized until the baseline data are final and all technical adjustments for cost and pay rate changes are completed. Additional information on Area productivity targets and achievement will be provided in the 2001 Annual Performance Report.

f. Goal Achievement Strategies

Longer-term VOB strategies are described in Chapter 4 of the Five-Year Strategic Plan for 2001-2005. These include the Postal Service's breakthrough productivity initiative, improvements to product pricing strategies, and revenue generation opportunities.

Achievement of the near-term VOB goals for 2002 is supported by a number of expense and capital investment programs, as described in the Resources and Programs section and elsewhere in the Comprehensive Statement on Postal Operations. In addition, the VOC strategies include the breakthrough productivity and eCommerce initiatives described below.

- **Breakthrough Productivity Initiative** — The Breakthrough Productivity Initiative (BPI) is a comprehensive and integrated approach to accomplishing productivity improvement and cost reductions in the following areas:
 - Administration
 - Purchasing
 - Transportation
 - Mail Processing and Post Office Operations

The overall objective of BPI is to provide a systematic corporate focus on driving costs out of the organization by improving productivity. The BPI approach, which is common to all the initiatives, is as follows:

- Identify current common causes for poor productivity (poor practices).
- Provide a methodical approach to implementing standard improved practices and methods.
- Provide diagnostic and corrective tools.
- Define new metrics to identify cost reduction opportunities based on internal and external benchmarks.
- Adjust budgets based on identified opportunity.

The specific tactics for each of the BPI initiatives are listed below:

- Administration
 - Reduce paper transactions through use of electronic technology.
 - Eliminate unnecessary transactions and combine redundant transactions.
 - Centralize administration by creating shared services organizations.
- Purchasing
 - Supply chain management.
 - Strategic sourcing.
 - Leveraging size for better prices.

- Revising purchasing methods utilizing 21st Century technology.
- Motivating suppliers to compete.
- Web-based purchasing through electronic catalogs.
- Transportation
 - Improve utilization of existing surface transportation.
 - Revise modal decision process.
 - Leverage size for transportation purchasing.
 - Revise purchasing method using new technology for both services and equipment.
- Mail Processing and Post Office Operations
 - Implement standard complement planning and tracking processes.
 - Provide standard scheduling tools to optimize workforce utilization.
 - Implement a national Operations performance measurement and management system.
 - Identify and implement standard proven methods and practices.
 - Identify critical knowledge shortages and correct through aggressive supervisor and management training.
- **Growth Initiatives** — The following programs will be implemented during 2002:
 - **Core Business** — The Postal Service will focus on improving service, convenience and new features to its core services to add to their value in the market. Commercial mailers will find it easier to do business with the Postal Service through improvements in online access, customer service, and business mail acceptance. New features, such as Delivery Confirmation and CONFIRM, will provide accurate and timely information to mailers about their mailings.
 - **Retail** — Small business and consumer customers will find courteous, knowledgeable clerks, using the latest in retail technology, providing accurate and prompt services in improved facilities. The focus of USPS efforts, however, will be to improve customer convenience and reduce postal costs by providing alternatives to a trip to the Post Office to purchase postage by providing increased access through consignment, contract un its, self-service, "Post Office on Wheels," and online services.

Strategic Marketing — The Postal Service will increase its efforts to reach the “mid-market” commercial customers and multi-cultural markets.

Sales — The postal sales program has been organized around customer segments in order to improve the ability to develop relevant solutions to business needs.

New Business Development — The Postal Service will continue to work with partners and other government agencies to develop relevant new services where the Postal Service can enable the use of new technologies that bind the nation together or otherwise provide value to its customers.

D. Managing the Postal Service

As described in its Five-Year Strategic Plan for 2001-2005, the Postal Service uses a management system based on the criteria of the Malcolm Baldrige National Quality Award. Consistent with the principle of excellence through continuous improvement, the performance of the management system itself and opportunities for improvement are subjects of ongoing review. Recent and planned improvements to the management system are described below.

1. Assessing the Management System

During 1998, the Postal Service undertook a full assessment of its management system, using as a benchmark the Malcolm Baldrige Quality Award criteria. The assessment documented the national approaches to addressing the core categories of the Baldrige Award. Following a series of site visits, a team of outside examiners facilitated a series of meetings in which the Postal Service’s officers received feedback on the Baldrige assessment and then identified five key opportunities for process improvements: people, human resource strategy, process management, comparative data, and alignment of direction.

In 1999, 39 project teams were formed to respond to the findings of the 1998 Baldrige assessment, and project plans were developed for each outcome. Several of these projects were completed during 1999, and responsibility for monitoring the outcomes of the remaining projects was transferred to the senior vice presidents in 2000. During 2001, assessment of the manage-

ment system continued, and additional opportunities for improving overall Postal Service competitiveness were identified.

For 2002, additional changes have been made. The field Vice-President Co-Chair of the Deploy team is being added to the Establish team. This will provide field input during the Establish phase and facilitate increased continuity between Establish and Deploy. The proposed goals and sub-goals will be accompanied by a “business case” supporting the market need and describing the alignment with USPS strategic direction. To increase focus and attention to detail, the Establish Team will review the top 25 headquarters programs.¹² Headquarters review will be completed prior to the start of field review so that changes that may adversely impact major programs can be factored into the field’s feedback, performance commitments, and resource requirements.

In 2002, measurements will be developed for the 25 major programs of the Postal Service, adding an intermediate level of goals, measures, indicators, and targets between the overall corporate goals and the field operational goals. Many of these goals will be headquarters program goals, and headquarters functional departments will be held accountable for their achievement.

2. Business Operations Planning

The Business Operations Planning process was launched in 1999 to develop an integrated Business Operations Plan to support the Postal Service’s annual management cycle. During business operations planning, a cross-functional committee of senior officers provides oversight on the development of functional implementation plans in marketing, operations, technology, human resources, labor relations, capital investment, and financial planning. The Business Operations Planning Committee also manages the preparation of an enterprise-wide Business Operations Plan that links the functional plans and sets an overall direction for implementation planning during the next year. A Coordinating Committee of senior managers responsible for implementation in all Postal Service functional areas supports the Business Operations Planning Committee throughout the year in developing the functional and overall business plans.

During 2000, both groups met regularly, completed their anticipated tasks, and provided input into the Establish 2001 portion of the management cycle. These inputs included sets of common and plan-specific assumptions for use in integrated plan-

¹² For further detail on the development of program management in the Postal Service, see the 2001 Annual Performance Plan.

ning efforts and a “Business Operations Planning Matrix” designed to ensure that the various functional plans align with each other and with corporate goals and strategies. For 2002, the Committee plans to update these outputs as appropriate and develop a more formal integrated planning document.

Also in 2002, a subcommittee of the managers responsible for strategic or long-range planning in the various functions will meet regularly under the direction of the Strategic Planning Office to discuss long term trends and to share relevant information that may influence the various functional activities of the Postal Service. The formal output of this group will be an annual business environment assessment.

3. Technology Investment Planning

The ability of the Postal Service to improve performance, reduce costs, and to develop relevant new services will increasingly depend upon the effectiveness of its investment in technology within the constraints of a limited budget. A Technology Investment Committee, composed of senior postal officers and supported by a cross-functional executive-level working group, was established to review USPS investments and to assist in implementation of technology programs.

4. Resources and Programs

The United States Postal Service is funded by revenue generated from its business services. That revenue must cover the cost of providing those services, the cost of the public service infrastructure, and must fund necessary investments in future improvements. Chapters 1 through 3 of the Comprehensive Statement provide detail on the major programs the Postal Service has been using to achieve its goals, and these programs will continue to contribute to the achievement of 2002 goals. However, Table 4.7 highlights some of the key programs described in those chapters.

5. 2002 Operating Projections

The Postal environment is changing rapidly and the Postal Service currently faces unprecedented uncertainty resulting from alternatives that mailers now have to traditional mail services, such as Internet-based applications. This may change the historical assumption that the growth in mail volume and the associated revenue will always be sufficient to cover the cost of delivering mail to a growing country.

We are currently projecting a net loss during 2002 of between \$2.5 and \$3.5 billion.

Due to substantial uncertainties resulting from the implementation of the Postal Rate Commission’s recommended rates, as well as the slowing economic environment, revenue and expense projections for 2002 are not yet finalized. Management has estimated that total revenue will be in a range from \$67.5 billion to \$68.5 billion as reflected in Table 4.8. Management has estimated that total expenses will be \$71.0 billion as reflected in Table 4.9. Likewise, major projects costs are subject to change by Postal Management and the Board of Governors. Given adverse rate recommendations and economic trends, the budget modifications are expected to be severe. However, more detailed analysis is required and will be included in the final Annual Performance Plan to be published following the completion of the Deploy cycle.

6. 2002 Major Program Cost

The General Accounting Office has noted that the USPS needs to discuss specific strategies to accomplish individual performance goals. The final Annual Performance Plan will contain such detail when it is published as a stand-alone document in September 2001. This year, the 2002 Preliminary Performance Plan is published shortly after the September publication of the updated Five-Year Strategic Plan, 2001-2005. The discussion in that document has been referenced in the Preliminary Plan, and need not be repeated here. Furthermore, the inclusion of the preliminary plan as part of the annual Comprehensive Statement on Postal Operations reduces the need to discuss specific programs in detail in the Preliminary Plan. Finally, the publication of the 2000 Performance Report, also as part of the Comprehensive Statement, permits the cross-referencing of baseline performance data. However, Table 4.10 provides a preliminary summary of the major 2002 program costs.

Table 4.11 provides an outline of the major cost reduction programs for 2002. As noted, Board of Governors review and management action are likely to cause adjustments in these preliminary estimates. Details on these programs will be provided in the final Annual Performance Plan.

E. Performance Measurement Systems and Review Processes

The specific Postal Service systems and processes used for verification and validation of the various performance goals are listed below. Many

of these measurement systems are based on surveys conducted by independent firms retained by the Postal Service to ensure the integrity of the results.

- Provide timely delivery (VOC) — Mail service performance results for overnight, 2-day and 3-day First-Class Mail and Priority Mail are measured by the Transit Time Measurement System (TTMS), which is independently administered by PricewaterhouseCoopers. Within TTMS, First-Class Mail results are measured by EXFC and Priority Mail service performance

has been measured by the Delivery Confirmation System.¹³ These systems track the mail piece from the time it enters the system until it is received in a home or small business and provides quarterly results of delivery performance. For Ad Mail, the ADVANCE System, administered by postal personnel, provides data on delivery timeliness and area coverage. In 2002, this system will be replaced by CONFIRM.

- Accurate service (VOC) — In its existing transit time measurement survey processes, PricewaterhouseCoopers surveys a sample of its reporters on the number of mail pieces received that were for the wrong address or were damaged. The contractor utilizes a quality-checking process to assure the accuracy of the data.
- Improve customer satisfaction (VOC) — Customer Satisfaction Measurement (CSM) surveys provide direct feedback from customers on a variety of rating and diagnostic questions that are designed to assess actual customer experiences with postal products and services. The Gallup Organization, an independent research firm, is under contract with the Postal Service to administer the CSM survey process, which includes conducting surveys, tabulating data, performing quality checks and forwarding results to the Postal Service. Responses to selected questions are used at the Postal Service to measure residential household and business customer satisfaction. Survey results are also used to develop Ease-of-Use measures.
- Improve workplace relations by building leadership skills and behaviors (VOE):
 - REDRESS participation rate — based on Mediation Activity Tracking reports, this indicator measures the percentage of employees within each Performance Cluster who elect mediation in lieu of traditional EEO counseling.
- Improve understanding of employee issues and concerns (VOE) — A survey is administered quarterly to a sample of employees to obtain information to enhance the workplace environment and improve relationships with employees. An independent contractor, Market Facts Inc., conducts these surveys, including distribution, scoring and compilation of the results.
- Ensure that each and every employee is given the knowledge, tools, training and encour-

TABLE 4.7
MAJOR POSTAL SERVICE PROGRAMS

Program	Description and Link with Strategic Goals
Strategic Planning	Provides analysis of business environment, supports management committee and Board of Governors, and develops reports (Strategic Plan, Annual Performance Plan)
Quality	Supports standardization of postal programs, trains "Quality Practitioners" working throughout USPS (VOB-improve productivity and contribution)
Diversity	Supports the development of inclusive environment within USPS (VOE - inclusive workplace)
Collective Bargaining	Determines the cost of postal labor through negotiation (VOB - affordability)
Labor Relations	Develops and administers workplace programs (VOE-sound dispute resolution processes)
Compensation and Benefits	Administers postal pay and benefits programs (VOE-motivated employees)
Employee Development	Develops and administers training and development programs (VOE-skilled employees)
Workplace Environment Improvement	Develops and administers safety and employee assistance programs (VOE - minimize impact from accidents and absences)
Pricing	Develops postal pricing proposals, based on cost and other criteria (VOC-Growth, and VOC -Affordability)
Transportation	Manages about \$5 billion in expenses (VOC-timeliness, consistency, and reliability; customer satisfaction; and VOB - control costs)
Facilities	Manages the construction and maintenance of postal buildings (VOB - control costs)
Environmental Protection	Develops and administers environmental programs (VOE - minimize impact from accidents, and VOB - control costs)
Purchasing	Develops and administers purchasing programs (VOB- control costs)
Customer Outreach	Creates programs to inform customers, and improve convenience or ease of use (VOC - improve customer satisfaction)
Core Business	Introduces service improvements, enhancements, new features (VOC - Growth, and VOB - commercial revenue)
Service Performance Measurement	Provides relevant and timely data to improve service performance (VOC - Growth)
International Mail	Introduces service improvements, enhancements, new features (VOC - Growth, and VOB - commercial revenue)
Mail Distribution	Develops programs to improve service and reduce cost (VOC and VOB)
Retail Programs	Develops programs to improve service, generate revenue, and reduce cost (VOC and VOB)
Mail Acceptance	Develops programs to improve customer service (VOC and VOB)
Business Development	Develops new products and services (VOC - Growth, and VOB - Improve Financial Strength)
Technology	Develops equipment (VOC - Grow Business, and VOB - Affordability)
Address Management	Develops programs to support customers and operations (VOC-Growth, and VOB- Control Costs)

¹³ In previous years, performance for Priority Mail was measured by the Priority End to End System (PETE). However, the Delivery Confirmation System more closely represents actual customer experience. The PETE system will continue to be used to validate Delivery Confirmation data.

agement to successfully meet the expectations for their positions (VOE):

- Training in prescribed curriculum — Two systems, the Local Employee Training System and the National Training Database maintained by the Human Resources Technology Management office, are used to record training hours and compare the data with training targets for both EAS and craft employees.
- Improve employees' safety, security and well-being (VOE):
 - In 2002, the Postal Service will use an accident/illness rate as an integrated safety indicator that incorporates the previous indicators (Total Accidents/Motor Vehicle Accidents). The indicator is based on data from the Postal Service's National Accident Reporting System, and conforms to OSHA reporting requirements.
 - The Postal Service is currently developing an "available for duty" indicator, which will be tested in 2002, providing a baseline for future performance measure.
- Improve overall business unit financial performance (VOB):
 - Economic Value Added (EVA) — An integral part of the EVA process is an incentive payment system that rewards employees for improved financial performance, customer service, and employee commitment. It encourages employees to control expenses, reduce waste, improve products, and improve employee effectiveness. Operating results that form the basis for determining EVA payouts are subject to the internal controls of the various data systems. The calculations are reviewed by

**TABLE 4.9
PRELIMINARY 2002 EXPENSE PROJECTIONS**

Expense Category	(\$ billions)
Personnel Expenses	53.4
Compensation	39.0
Benefits	14.4
Non-Personnel Expenses	17.6
Transportation	5.9
Supplies and Services	4.5
Building Occupancy	1.8
Depreciation/Write-offs	2.5
Interest Expense:	
Deferred Retirement Liability	1.7
Borrowing	0.5
Research and Development	0.1
Other Miscellaneous	0.6
Grand Total Expenses	71.0

- the Office of the Inspector General and by Ernst & Young during its annual financial statement audit of the Postal Service. Also, the Board of Governors has retained its own independent consultant to review and advise on EVA issues.
- Financial Statements (VOB) — Ernst & Young LLP, an independent certified public accounting firm hired by the Board of Governors, audits financial results. Also, during the year the Office of Inspector General and the Inspection Service (in 2000 only) conducted various financial audits and internal control reviews to assess the integrity of financial records.
 - Controlling costs by achieving productivity gains (VOB) — The data sources

**TABLE 4.8
PRELIMINARY 2002 REVENUE PROJECTIONS**

Revenue Category	Revenue (\$ billions)
First-Class Mail	36.0
Priority Mail	5.3
Express Mail	1.1
Periodicals	2.4
Standard A	17.0
Standard B	1.9
International	1.8
Special Services	2.1
Other	0.4
Total	68.0

**TABLE 4.10
PRELIMINARY 2002 MAJOR PROGRAM COSTS**

Program Name	Capital (\$ millions)	Expense (\$ millions)
MTE Service Center	-	333.0
Corporate Advertising	-	160.0
Stamp Manufacturing	1.0	166.0
Point of Service	369.0	162.0
Recurring Mail Transportation	-	160.0
Expedited Supplies	-	144.0
Corporate Call Management	10.0	118.0
Associate Office Infrastructure	1.0	91.0
Delivery Confirmation	-	74.0
Field Infrastructure	-	50.0

**TABLE 4.11
PRELIMINARY 2002 COST REDUCTION PROGRAMS**

Program	Revenue (\$ millions)
Flat Sorting Machines	246
REC Sites	64
Tray Handling Systems	22
Time and Attendance Control Systems	18
Identification Code Sort Program	11
Parcel Singulator	9
Robotics	9
Delivery Bar Code Sorters	8
Automatic Airline Assignment	7

used to calculate Total Factor Productivity (TFP) and Labor Productivity are the same as those used to prepare the financial statements. Accordingly, the data are subject to normal internal controls and accuracy checks by the General Accounting Office, the Office of the Inspector General, the Inspection Service, and the certified public accounting firm engaged to audit the financial statements. Actual operating results achieved within established budget parameters would indicate that these cost reductions have been achieved.

1. Performance Review Processes

Descriptions of the distinct roles of the General Accounting Office, the Office of Inspector General and the Postal Inspection Service in verifying and validating the Postal Service’s performance data are provided below.

a. General Accounting Office (GAO)

The United States General Accounting Office (GAO) is the investigative arm of the Congress and conducts studies and reviews of Postal Service operations and programs. Requests for studies are received typically from the House and Senate oversight committees and occasionally from individual Representatives and Senators. Studies may focus on activities unique to the Postal Service, such as an evaluation of mail processing automation, or they may involve government-wide issues, such as Year 2000 computer readiness. GAO conducts its studies of the Postal Service in conformance with its

“Government Auditing Standards” which prescribes certain data verification and validation procedures to assure a high level of confidence in the data sources upon which GAO bases its findings and recommendations. GAO’s studies provide the Congress and the public with information, evaluations, analyses and recommendations for improvement concerning Postal Service programs, activities and initiatives. At any one time GAO may have eight to ten studies in progress that involve the Postal Service.

b. Office of the Inspector General (OIG)

The Office of Inspector General (OIG) is an oversight entity within the Postal Service, headed by the Inspector General who reports directly to the Governors of the Postal Service. The OIG’s mission is to perform audits and investigations that promote economy and efficiency in the programs and operations of the Postal Service. The OIG is also responsible for detecting and preventing fraud, waste, abuse, and mismanagement of Postal Service programs. Requests for audits and studies may be received from the Board of Governors, from the House and Senate oversight committees, from individual members of Congress, or from Postal Service senior management.

The OIG may, at its discretion, initiate audits or investigations based on information received from the public or from employees. The OIG conducts its audits of the Postal Service in conformance with GAO’s “Government Auditing Standards.” The OIG’s audits, investigations and consulting services provide a means for keeping the Board of Governors, postal management and the Congress fully informed about problems and deficiencies relating to the administration of Postal Service programs and operations. At any one time the OIG may have 50-60 studies or investigations in progress.

c. Postal Inspection Service

The Postal Inspection Service is the law enforcement and security branch of the Postal Service. The Chief Postal Inspector has a direct reporting relationship to the Postmaster General/Chief Executive Officer. The Inspection Service supports the Postal Service’s management system. Their goals, indicators and targets are based on the three primary initiatives for the Postal Service, which are the Voice of the Customer, Voice of the Employee and Voice of the Business.

Currently, the primary mission of the Inspection Service is to protect the U.S. Postal Service, its employees and customers from criminal attack and to protect the nation's mail system from criminal misuse. This will be accomplished by providing investigative, security and preventive services and by enforcing federal statutes that protect postal employees, the mail, customers and assets.

As a result of the Omnibus Reconciliation Act signed into law in 1996, the Inspection Service, by agreement, shared responsibility of the audit function with the Postal Service Office of Inspector General. 2000 was the last fiscal year in which audits were included as part of the Inspection Service's programs. During 2000, the Inspection Service worked with the Office of Inspector General (OIG) to transition the remaining audit programs to the OIG. The transition process included joint performance of selected audits and exchange of dialogue on audit procedures and selection processes. The Office of Inspector General will be responsible for all audits beginning in 2001.

d. Verification and Validation: Ensuring Accuracy

A vast array of data and resources is available to measure success in meeting the various performance goals of the Postal Service. Many of the data systems utilized, especially in the area of finance, have a series of internal controls imbedded within their procedures to safeguard the integrity of the results.

The General Accounting Office, the Office of Inspector General, the Postal Inspection Service, and a certified public accounting firm appointed by the Postal Service Board of Governors conduct independent ongoing reviews and audits of Postal Service data and render periodic reports on their findings and recommendations.

The final 2000 and 2001 Annual Performance Plan listed a variety of studies and reports completed by the General Accounting Office, the Office of Inspector General, and the Inspection Service as part of ongoing efforts to verify and validate data related to the *CustomerPerfect!* performance goals.¹⁴ Table 4.12 presents a list of selected studies and reports on the Postal Service that have been recently completed by these organizations and the certified public accounting firm.

¹⁴ See Table 2.7 of the 2000 Annual Performance Plan, published on September 30, 1999.

F. Planning and Managing in Uncertainty

Changes in customer requirements, the evolution of technologies affecting the postal environment, the emergence of foreign postal administrations as competitors in the U.S. domestic market, and uncertainty about the direction of the U.S. economy, are all elements of an environment completely unlike anything the Postal Service has faced before. Postal managers and customers will have to manage in a much more dynamic market, where directions are not clear but whose pace is accelerating. In the past, postal policy was developed in the context of growing mail volume that provided sufficient revenue, with periodic incremental price increases, to support the public service infrastructure. Mail volume may continue to grow. However, it is also likely that key mail categories will begin to decline. In that case, a viable Postal Service will have to be much smaller, especially in terms of employees and facilities, as well as much more efficient.

It is not certain that the Postal Service will be able to be responsive enough to market changes or will be able to find new sources of revenue to replace traditional mail applications expected to be diverted by technological substitutes. If mail volume decline is much more rapid, as many market observers predict, then the fundamental mission of the Postal Service, as currently defined, will be at risk. This suggests even more dramatic change that would impact not just postal employees and suppliers, but key customer groups and the public.

The Postal Service will need increased flexibility in this environment if it is to continue to generate sufficient revenue to support the universal service mission and other public services. Much of this flexibility will have to come from significant changes within the Postal Service — to its operations and culture — if it is to become much more focused on operational excellence and cost control.

However, internal transformation strategies alone will not enable the Postal Service to address key elements of pricing, product development, strategic partnerships, and cost control. The thirty-year-old structure of the Postal Reorganization Act requires reform. The nature of reform will be subject to the complex political environment of the Postal Service, and the

results cannot be reliably predicted. With the cooperation of the stakeholders, the Postal Service will be able to make modifications in its legal and legislative framework to permit this historic institution to continue to serve its customers — the American people and their businesses — well into the 21st century.

TABLE 4.12 SCHEDULED DATA VERIFICATION AND VALIDATION REPORTS FOR PERFORMANCE GOALS		
Performance	Source	Goal Verification/Validation of Data Source/Report
		Report Title
Provide timely delivery (VOC)	General Accounting Office	Postal Activities and Laws Relating to Electronic Commerce (GAO/GCD-00-188, 09/07/00)
	Office of Inspector General	Mail Processing Delays at Worldways Airport Mail Center in Los Angeles (AC-MA-00-002, 04/28/00) Unprocessed Mail in Dallas, TX (DE-MA-00-001, 09/29/00)
	Inspection Service	International Air Carrier Service (027-1277924-SI2, 02/18/00)
Accurate Service (VOC)	General Accounting Office	Status of Efforts to Protect Privacy of Address Changes (GAO/GGD-99-102 07/30/99)
	Office of Inspector General	Tray Management System Software Management (#DA-MA-99-002 06/28/99) USPS Equipment Preventive Maintenance Program (#AC-MA-99-001 09/20/99)
Improve workplace relations by building leadership skills and behaviors (VOE)	Office of Inspector General	Fiscal Year 1998 Leadership Conference (#OV-MA-99-00309/30/99)
	Inspection Service	FLSA Reviews (042-1290280-PA-2, 01/03/00)
Improve safety, security and well-being (VOE)	Office of Inspector General	Criteria for Workplace Violence Prevention and Response (LB-AR-00-003-09/29/00)
	Inspection Service	Aviation Security Screening (071-1307159-SI-2, 05/08/00)
Improve understanding of employee issues and concerns (VOE)	Office of Inspector General	Complaint Resolution Process, Mankato Post Office (#DS-MA-99-006 09/10/99)
Ensure an inclusive and fair environment with opportunities for all employees (VOE)	General Accounting Office	Equal Employment Opportunity: The Postal Service Needs to Better Ensure the Quality of EEO Complaint Data (GAO/GGD-99-16709/28/99) U.S. Postal Service: Diversity in the Postal Career Executive Service (GAO/GGD-00-76 3/30/00) Diversity in District Management Level Positions (GAO/GCD-00-142, 06/30/00)
Improve overall business performance (VOB)	General Accounting Office	Challenges to Sustaining Performance Improvements Remain Formidable on the Brink of the 21st Century (GAO/T-GGD-00-2 3/21/99)
	Office of Inspector General	Point of Service One (#DA-AR-99-002 09/20/99) Plant Verified Drop Shipment System (# AC-AR-99-001 09/28/99)
	Inspection Service	HASP Operations (#039-1279813-PA(2) 09/08/99)
Controlling costs by achieving productivity gains (VOB)	Office of Inspector General	Revenue Assurance Process (AC-AR-00-003, 07/14/00) Plant Verified Drop Shipment Program (AC-AR-00-002, 05/11/00) Postal Rate Making Process (MK-AR-00-002, 6/30/00)
	Inspection Service	Processing and Distribution of First-Class and Overnight Mail (#312-1272877-PA(3) 05/25/99)
Net Income (VOB)	Ernst & Young LLP	Unqualified Opinion on 2000 Financial Statements

Chapter 5 Performance Report

A. Introduction

In this chapter, the Postal Service presents its review of its actual performance compared to the 2000 Annual Performance Plan.

The Postal Service developed the 2000 Annual Performance Plan through its *Customer Perfect!*¹ management process and in consultation with Congress. The plan sets objectives for achievement for the year, as defined by specific goals, subgoals, indicators and targets. Those 2000 goals and subgoals were approved by the Postal Service Board of Governors and were submitted to Congress in the United States Postal Service 2000 Annual Performance Plan.

These performance levels go to the heart of the Postal Service's mission. As stated in the discussion of the 2002 Performance Plan in the preceding chapter, "the goals, strategies, subgoals and indicators in this plan enhance the speed, reliability and efficiency of the mail's delivery. In so doing, they support the Postal Service's mission and role as a government service providing universal postal service to the country."

These performance measures drove fulfillment of another aspect of the Postal Service charter: to be self-sustaining. Postal Service activities and programs support the organization's unique statutory mission to provide universal service and fund its operations through revenue generated by its products and services.

This report meets the requirements of the Government Performance and Results Act (GPRA), which mandates that the report:

- Review the success of achieving the performance goals of the fiscal year.
- Evaluate the performance plan for the current fiscal year [2001] relative to the performance achieved towards the performance goals in the fiscal year covered by the report [2000].
- Explain and describe, where a performance goal has not been met (including when a program activity's performance is determined not to have met the criteria of a successful program activity): why the goal was not met; those plans and schedules for achieving the established performance goal;

and if the performance goal is impractical or infeasible, why that is the case and what action is recommended

- Include the summary findings of those program evaluations completed during the year covered by the report.

This report includes a section highlighting the Postal Service's performance in 2000; a table itemizing our performance for each subgoal; a section detailing the performance for each goal; and, a table listing changes made to the 2001 Plan's goals and subgoals as a result of 2000 performance. A report on Evaluations of Programs, indicators and subgoals has been included in Chapter 4.

On the following page, Table 5.1 itemizes our performance to each target. Detailed discussion of Postal Service performance to specific Indicators and Subgoals of the 2000 Plan follow this table.

B. Year in Review

The year 2000 proved even more challenging for the Postal Service than had been forecast in the Annual Performance Plan. Anticipating both structural and inflationary pressures on postal revenue, the plan had called for a virtually break-even net income of \$100 million. To realize that result, management implemented aggressive productivity initiatives.

1. Business Performance

In 2000, however, structural and inflationary pressures exceeded forecast levels and outstripped the cost efficiencies gained through management's intensive productivity programs. Declining rates of mail volume growth and the diversion of traditional hardcopy mail volumes to electronic media reduced revenue from our plan by over \$800 million. Workers' compensation claims and costs exceeded plan by approximately \$180 million. Inflation-driven increases to wages were \$58 million above those of the plan and rising fuel prices increased costs of operations by \$275 million. As a result, the Postal Service reported a net loss of \$199 million in 2000.

¹ *CustomerPerfect!* is our name for our internal management system, which has four phases: Establish; Deploy; Implement; and Review. This organization-wide system sets up an annual management cycle based on constant refining and revising of goals based on result-focused data. The first phase, Establish, assesses current strategic goals, strategies, indicators and subgoal and sets plans for the current year. The Deploy phase communicates these provisional subgoal throughout the organization and agreement is reached through the budget process on a set of funded programs aimed at achieving the subgoal. Implementation is the carrying out of these programs during the year. Review is senior management's responsibility throughout the year to review the progress of these programs.

² Details of the index used to measure this indicator appear in the detailed results portion of this chapter.

TABLE 5.1 PERFORMANCE 2000: GOALS AND RESULTS

Goal	Subgoal	Indicator
<p>VOC Earn customers' business in a market-place where they have choices by providing them with world-class quality at competitive prices.</p>	Provide timely delivery.	First-Class Mail on time: EXFC overnight EXFC 2/3 day Priority Mail on time Advertising on time Ground Parcels on time Periodical on-time International Mail on time
	Provide consistent service.	Customer Satisfaction Measurement of delivery within 30 minutes of the scheduled time
	Provide accurate service.	Customer Satisfaction Measurement of complaints or claims for misdelivery, damage, or loss
	Ensure that the service is easy to use.	Ease-of-Use Indices: Composite Residential Premier Accounts Business National Accounts
	Explore customer needs segmentation.	Segmentation Scheme
	Develop best value criteria.	Customer Value Analysis
	Explore concept of customer loyalty.	Customer Satisfaction Measurement survey responses
<p>VOE Foster an inclusive and welcoming workplace consistent with Postal Service values of fairness, opportunity, safety and security: where everyone is given the knowledge, tools, training and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers' and the Postal Service's success.</p>	Improve workplace relations by building leadership skills and behaviors.	REDRESS 100% available Indicator for labor relations performance Indicators for EEO program performance
	Ensure that each and every employee is given the knowledge, tools, training and encouragement to successfully meet the expectations for their positions.	Provide at least four hours of interpersonal skills training Provide one hour of sexual harassment training for all craft work units and two hours of training for all EAS employees
	Improve employees' safety, security and well-being.	Proficiency index for Bulk Mail Acceptance Unit employees OSHA Safety Program Evaluation indicators to match OSHA compliance requirements Lost workdays due to injury per 200,000 work hours Total accidents per 200,000 work hours Motor vehicle accidents per million miles driven
	Improve understanding of employee issues and concerns.	VOE Survey Index
	Ensure an inclusive and fair environment with opportunities for all employees.	A fair and inclusive environment An environment where opportunities are provided for all employee groups
<p>VOB Generate financial performance that assures commercial viability as a service provider in a changing competitive marketplace and generate cash flow to finance high-yield investments for the future while providing competitively priced products and services.</p>	Improve overall VOB performance.	Economic Value Added (EVA)
	Generate net income.	Capital commitments Net Income
	Control costs by achieving productivity gains.	Total Factor Productivity Labor Productivity
	Keep price increases at or below the rate of inflation Restore original equity.	Price change vs. CPI 2000 – Net income greater than BOG resolution.

	Preliminary Target	Final Target	2000 Results
	93	93	94
	87	1% point increase or at least 87%	87
	Proprietary information	No change	Proprietary information
	1% improvement	No change	97.9
	Proprietary information	No change	Proprietary information
	Develop indicators and baseline	No change	Developed indicator but not baseline
	Develop indicators and baseline	No change	Indicators and baseline not developed
	Set Target	No change	Target not set
	Set Target	No change	Target not set
	710	672	654
	760	700	688
	700	650	625
	740	660	659
	677	677	643
	Develop indicators and subgoal	No change	Indicators and subgoal not developed
	Develop indicators and subgoal	No change	Indicators and subgoal not developed
	Develop indicators and subgoal	No change	Indicators and subgoal developed
	Develop indicator and baseline	No change	Achieved goals
	Develop indicator and baseline	No change	Indicator and baseline developed
	Develop indicators and baseline	No change	Indicator and baseline developed
	To 100% of craft work units; And 97% of EAS	No change	95% of Craft work units and achieved goal for EAS
	To 100% of craft work units; And 100% of EAS	No change	99.97% of craft work units and achieved goal for EAS employees
	10 percent improvement over 1999	No change	Achieved goal
	Develop indicators and baseline, set target	No change	Achieved goal
	below 1.90	No change	1.93
	below 11.49	No change	12.52
	below 11.00	No change	11.47
	Develop Indicator and baseline, set subgoal	No change	Achieved target of developing indicator, baseline and setting target
	Develop indicator and baseline	No change	Achieved subgoal
	Develop indicator and baseline	No change	Achieved target
	Positive Indexed EVA	No change	\$1.8 billion
	\$4.0 billion	\$3.5 billion	\$3.2 billion
	\$100 million net income	No change	-\$199 million net loss
	3.1%	2.1%	2.5%
	3.1%	2.6%	2.1%
	Maintain current rates	No change	100%
	Approximate provision for recovery of prior years loss over current rate cycle	No change	-\$199 million net loss

Postal rates were kept constant, as called for in the plan, unchanged since January 1999. During the same period, as measured by the Consumer Price Index, inflation rose by 6.0 percent. With postal rates set in advance, productivity improvement programs afforded the Postal Service the only means to attempt to overcome the shortfall in revenue and increases in cost.

2. Total Factor Productivity 1993-2000

The effectiveness of these efforts is most apparent in the stunning gains the Postal Service achieved in productivity through managed restraint on resource usage. The realized gain of 2.5 percent in Total Factor Productivity (TFP) is equivalent to \$1.6 billion in expense reductions and is the highest TFP growth achieved by the Postal Service since 1993. As presented in the 2000 Performance Plan, the original target for 2000 TFP growth was 3.1 percent. That target was based upon projected 1999 performance results. Actual performance results revealed that 1999 TFP gains were 1 percent greater than projected and, to account for that gain, the 2000 TFP growth target was revised to 2.1 percent. In terms of absolute budget performance, this revised target of 2.1 percent growth in TFP equals that of the 3.1 percent target that had been set in the preliminary plan. In this context, the actual 2.5 percent gain in TFP in 2000 exceeds that of our original goal.

These gains in productivity paralleled management's efforts to reduce work years. This year, 6,200 fewer work years were used despite dramatic

increases in the postal workload, evidenced by the delivery of an additional 6.2 billion pieces of mail and 1.7 million new delivery points. These productivity gains were overcome by the impact of the decline in both the mail volume growth rate and revenue growth, however, and Labor Factor Productivity grew at 2.1 percent, half a percentage point below the targeted rate of growth.

Confronted with these extraordinary challenges, the Postal Service still met its goals of improving business performance, as measured by Economic Value Added (EVA), and the capital commitment budget target. Positive indexed EVA was \$1,789 million. The revised capital budget of \$3.5 billion was achieved with commitments of \$3.2 billion. The completed capital program did not require postponement of a single major program.

3. Customer Service

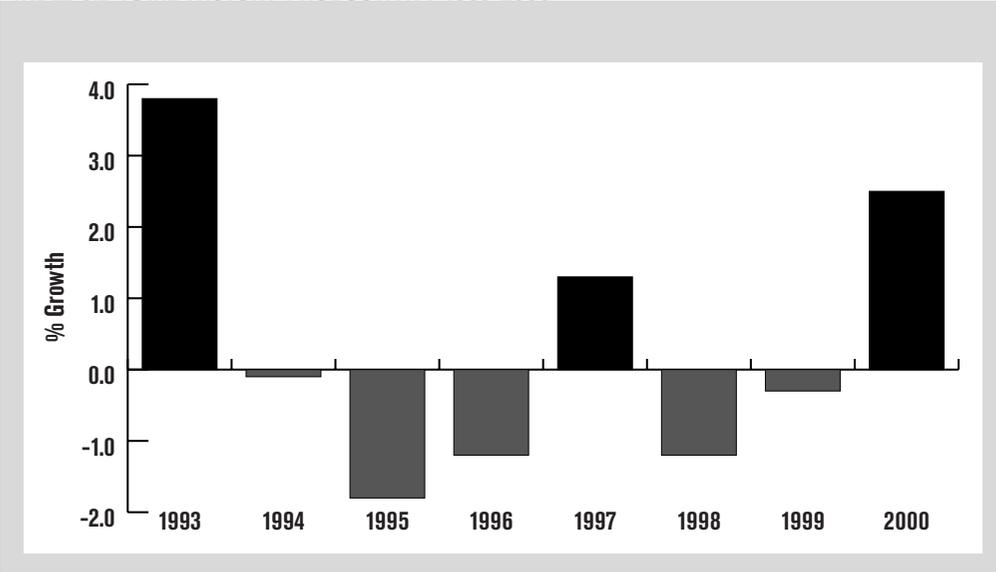
Throughout 2000, the Postal Service maintained its primary focus on its mission of delivering outstanding customer service and value to the American people. The Postal Service exceeded the target for on-time performance for its flagship product, Overnight First-Class Mail™, achieving 94 percent on-time performance both for the period of measurement and for the year in total. The target was 93 percent on-time performance.

For EXFC two-and three-day mail, the Postal Service matched 1999 on-time performance of 87 percent but

did not meet the higher target of 88 percent set for 2000. The Priority Mail on-time target, which is proprietary, was not met because of the inability of scheduled airlines to provide reliable flight service due to job actions and other factors. The targeted measurement of on-time performance for International mail did not occur. Indicators were developed but not deployed due to reprioritization of funding needs.

For many of the specific customer classifications measured in the Ease-of-Use indices, performance in 2000 exceeded the 1999 performance but did not meet the higher subgoal set for 2000. This was true of the Premier Ease-of-Use

TABLE 5.2 TOTAL FACTORY PRODUCTIVITY 1993-2000



Index, the Business Ease-of-Use Index, and the National Ease-of-Use Index. Aggressive 2000 subgoal for the Composite Ease-of-Use Index and for the Residential Ease-of-Use Index were not met. The Composite Index target was 672, and 654 was achieved. The Residential Ease-of-Use Index target was 700, and 688 was achieved as several retail initiatives were developed and implemented with the goal of improving customers' overall ease-of-use with the postal "lobby" experience. During the year, the need for addressing still broader customer experiences was ascertained and resources for this initiative were allocated to improving broader areas of customer service and to other program needs. This Residential performance goal has been dropped from the plan for 2001 and will not be reactivated until more sophisticated metrics can be developed to measure the wider array of customer needs for ease-of-use that have been identified as a result of efforts conducted this year.

Two goals of Customer Service in 2000, that of exploring customer needs segmentation and that of developing best value criteria for Ad Mail and Priority Mail, were addressed with strategic studies. Detailed analyses were compiled for both areas of inquiry, and findings from the studies have been incorporated in ongoing Postal Service business planning. The objectives having been achieved, neither of these initiatives is now required, and the performance goals will no longer be included in the annual plan.

4. Employees and the Workplace

In 2000, the Postal Service continued its vigorous commitment to an inclusive and welcoming workplace. Consistent with its values of fairness, opportunity, safety and security, the Postal Service pursued goals aimed at ensuring that all employees are given the knowledge and training to be successful and that all are recognized for and take pride in contributing to the success of customers and the Postal Service.

This year, workplace relations were improved by building leadership skills and behaviors. The subgoal for making the REDRESS process available to all Performance Cluster employees were exceeded with a 73 percent rate of participation. Achieving the goal for EEO and labor performance, the REDRESS process was fully incorporated in the EEO process, and all employees were given the option of using mediation under the REDRESS program for EEO complaints.

Employee training programs, stipulated as goals, were offered in Interpersonal Skills

Training, Sexual Harassment Avoidance training and in improving the proficiency of Bulk Mail Acceptance Unit employees. The program target for interpersonal skills training of 97 percent of EAS employees was exceeded as 100 percent participation was achieved; the target of 100 percent craft work unit participation was not achieved as 95.05 percent received training. Exceeding the goal, all EAS employees received two hours of Sexual Harassment Avoidance training, but craft work unit employees participated at the rate of 99.7 percent in the one-hour course required of them, short of the goal. Human Resource Management will place new emphasis on the craft work unit goal in 2001 and will gain the support of line managers for its achievement. The proficiency goal of a 10 percent improvement in the Bulk Mail Acceptance Unit process was achieved.

Significant progress was made in improving postal employees' safety, security and well-being. Meeting and exceeding the subgoal set in the plan for the year, new Safety Program Evaluation indicators were developed in 2000 and then were implemented and their targeted baselines exceeded. This new Program Evaluation Guide (PEG) was developed specifically for the Postal Service and is based on OSHA guidance and industry best practices. Threshold performance subgoal of 3.0 on a 5.0 scale were set and were met by all Area, and exceeded by many facilities. As a measure of the importance of this goal to the Postal Service, the PEG program was made a compensable goal under the 2000 EVA pay for performance program. Evaluations of the PEG program find that it has been institutionalized successfully throughout the Postal Service as a means of evaluating safety program effectiveness. For this reason, and because of the costs of continuing to field the PEG evaluations, the PEG threshold was dropped from the 2001 EVA goals. Nevertheless, the PEG process itself continues to be a leading indicator of Postal Service safety performance and a process management tool for evaluation, feedback and accountability. Postal Service employee and workplace safety in 2001 will be measured by the new OSHA Illness Injury Indicator.

The Postal Service achieved the target of 1.90 Lost Workday Injuries per 200,000 work hours, with a .05 variance, allowed by the plan. The national measurement on this indicator was 1.93. As with other safety indicators of the 2000 plan, this indicator and target have been altered in the 2001 plan, conforming to new requirements for Postal Service reporting. In 2001, pursuant to

the requirements of the Postal Employees' Safety Enhancement Act of 1998, the OSHA Illness Injury Indicator will be adopted as a universal workplace safety measure.

The target of another workplace safety program, reducing motor vehicle accidents to 11.00 per million miles driven, was not achieved. Actual performance on this indicator was 11.47, despite extensive emphasis on driver safety programs and despite the National Safety Council recognition of more than 135,000 Postal Service drivers with Safe Driver awards.

The goal of reducing all workplace accidents to 11.49 per 200,000 work hours was not achieved, and the actual measure on this indicator was 12.52. The indicator for this goal has been changed for 2001, when the new OSHA Illness Injury Indicator becomes effective.

In 2000, the Postal Service met the subgoal for developing a Voice of the Employee Survey Index, establishing a performance baseline and setting subgoal for improvement in understanding of employee issues and concerns. Specific subgoal were set but proved too ambitious for their first year and were not met. To address the concerns of employees reported in the survey, greater emphasis is being placed on increasing employee communications and building supervisors' human relations skills.

The subgoal set for the goal of ensuring an inclusive and fair workplace environment with opportunities for all employees were achieved. Indicators and baselines were established and managers were made accountable for the inclusive and fair workplace goal in their own merit evaluation process. The vice president for Diversity conducts the targeted quarterly reviews of Affirmative Employment Plans.

C. The Voice Structure and Performance Goals

In this section, the Postal Service reports on its measured performance to specific indicators and subgoal that comprise the fundamental elements of the 2000 Annual Performance Plan. This Performance Plan was developed as part of the ongoing planning process that responds to the 1993 Government Performance and Results Act. The plan was communicated to Congress in four steps. First, the Preliminary 2000 Annual Performance Plan was submitted to Congress in

February 1999. The 2000 Plan was amended thereafter to reflect the commentary of both the General Accounting Office (GAO) and the Office of Inspector General, and the 2000 Annual Performance Plan was submitted to Congress and the American people in September 1999. Third, the plan was reviewed during the preparation of last year's 1999 Performance Report included as Chapter 5 of the 1999 Comprehensive Statement. Indicators and subgoals in the 2000 Plan were reevaluated at that time and adjusted to reflect actual 1999 results and the experience of the first half of the year. The 1999 Comprehensive Statement, containing updated goals and subgoals for 2000, was submitted to Congress in January 2000. And last, as necessary correspondence has been sent to Congress to provide information on any needed changes necessary to the plan. For example, final productivity targets cannot be set until actual results of the prior year are known because targeted TFP is calculated upon multiple factors of those actual results. We provide Congress with a preliminary target for TFP in the Annual Performance Plan and inform Congress of the final productivity target when it is calculated.

As stated in the 2000 Annual Performance Plan, the Postal Service organizes its corporate goals in a three-voice structure that reflects its *Customer Perfect!* management system:

The **Voice of the Customer** goal category centers on customer satisfaction.

The **Voice of the Employee** goal category focuses on creating a workplace environment that fosters success and embraces the values of fairness, opportunity, safety and security.

The focus of the **Voice of the Business** goal category is on financial performance to assure commercial viability, bottom-line results and sufficient capital for future investments.

D. Postal Service Goal Categories and Goal Statements

For each Voice, a goal statement focuses on the overall performance sought. For 2000, these are:

- **Voice of the Customer** — Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.

- **Voice of the Employee** — Foster an inclusive and welcoming workplace consistent with Postal Service values of fairness, opportunity, safety and security: where everyone is given the knowledge, tools, training and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers' and the Postal Service's success.
- **Voice of the Business** — Generate financial performance that ensures the commercial viability of the Postal Service as a service provider in a changing, competitive marketplace; and, generate cash flow to finance high-yield investments for the future while providing competitively-priced products and services.

The following assesses Postal Service performance in each of these categories as measured according to the specific goals, subgoals, indicators and targets set for each.

E. Voice of the Customer Performance Goals: Customer Satisfaction

Postal Service Annual Performance Plan Goal:

Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.

Performance Goal 1

- Provide timely delivery.
 - As stated in the plan, 2000 indicators and targets for this subgoal are:
- Achieve overnight First-Class Mail on-time³ performance of at least 93 percent.
- Increase two- and three-day First-Class Mail on-time performance by one percentage point over 1999 performance, or at least to 87 percent.
- Achieve targeted Priority Mail on-time performance, as measured by the Priority End-to-End (PETE) system.
- Increase on-time performance for Ad Mail delivered within a requested sales window by one percentage point over 1999 performance using the ADVANCE measurement system.
- Continue development of a ground parcel on-time performance indicator; establish a performance baseline; and set a target when data are available.
- Develop on-time performance indicators and baselines for Periodicals and International mail.
 - With performance measured against each indicator and subgoal for this subgoal, in 2000, the Postal Service:
- Exceeded the performance target of 93 percent for on-time delivery of Overnight First-Class Mail with indexed performance at 94 percent. The established index for this External First-Class (EXFC) measured target is the weighted origin/destination combined result of Postal Quarter (PQ) III and IV performance. For 2000, in total, the Postal Service achieved Overnight First-Class Mail on-time performance of 94 percent, which exceeded the target for the period of external measurement.
- Did not achieve the performance target for EXFC Two-and Three-Day mail of at least one percentage point improvement over the 1999 performance of 87.7 percent. The Postal Service did meet the secondary target of achieving a minimum level of performance of 87 percent. The established index for this External First-Class (EXFC) measured target is the weighted origin/destination combined result of PQ III and IV performance. For all four postal quarters, in total, for 2000, the Postal Service achieved two- and three-day combined First-Class Mail on-time performance of 85 percent.
- Did not achieve the target for Priority Mail on-time performance due to operational shortfalls and scheduled airlines' inability to provide reliable flight service because of job actions and other factors. The Postal Service did, however, maintain the 1999 performance level for Priority Mail. The specific target and associated information is proprietary.
- Exceeded the target for Ad Mail delivered within a requested sales window of one percentage point over 1999 performance (94 percent) by almost 3 percent on-time, with performance at 97.9 percent as measured by the ADVANCE system.

³ First-Class Mail service performance results are measured with an index called External First-Class (EXFC). This index is generated by the Transit Time Measurement System (TTMS), which measures service performance from the time mail is entered into the system at an induction point until the time it is received in the home or small business. TTMS is independently administered by PricewaterhouseCoopers under a contract with the Vice President and Consumer Advocate. The system provides quarterly estimates of First-Class Mail destination service performance for 85 Performance Clusters from their overnight, two-day, and three-day service commitments in 463 3-digit ZIP Code Areas.

- Developed an indicator for ground parcel on-time performance. The proposed indicator would use existing Postal Service Delivery Confirmation systems as a measuring tool for Standard B, Parcel Post volume and performance within the Postal Service.

Implementing this indicator as an effective measurement of performance would require integration of Information Systems Standard B service measurement tables and files with the Product Tracking System (PTS) where the Delivery Confirmation database currently resides. Before the new performance measurement system could be incorporated system-wide, significant alteration of field operations procedures and infrastructure would have to occur. The Postal Service is continuing to develop these supporting systems and procedures and anticipates implementing this new indicator and establishing baseline measurements in 2001.

- In cooperation with publications mailers, developed an indicator for on-time delivery of Periodicals that was responsive to customers' needs for information and service. Before that indicator could be implemented and baseline measurement undertaken, however, mailing customers requested that the Postal Service shift its focus on Periodicals service measurement to individual Periodicals mailings, which publications mailers believed to be a greater service priority.

In response, the Postal Service then developed an enhanced Electronic Publication Watch System which will allow publishers to enter complaints into a centralized database; request an electronic publication watch that will track delivery of individual mailings of specific publications; and request resolution of a systemic service, related problem. Pilot testing of the enhanced Electronic Publication Watch System will be conducted in 2001.

The Postal Service continues to track Periodicals in its ADVANCE system but, because of this shift in customers' priorities, does not now track on-time delivery of Periodicals.

- Did not meet the target of setting an International performance indicator and baseline. Because of funding needs, we developed, but did not deploy, indicators for several International mail types. This goal has been dropped for 2001.

Performance Goal 2:

- Provide consistent service.
 - As stated in the plan, the 2000 Indicator and target for this subgoal are:
- Set a performance target using
- Customer Satisfaction Measurement indicators of delivery within 30 minutes of the scheduled time.
 - In 2000, the Postal Service:
- Did not meet the target, as set, because we reevaluated the indicator and the definition of consistent service. In its stead, a transit-time indicator was developed, based on Network Service Performance rather than on customer perception, and a baseline for this indicator will be established in 2001.

Performance Goal 3

- Provide accurate service.
 - As stated in the plan, the 2000 Indicator and target for this subgoal are:
- Set a performance target using Customer Satisfaction Measurement indicators of complaints or claims for misdelivery, damage or loss.
 - In 2000, the Postal Service:
- Developed and piloted an indicator for accurate service. A baseline will be established in 2001 and the new indicator has been scheduled for monitoring in 2002.

Performance Goal 4

- Ensure that the service is easy to use.
 - As stated in the plan, 2000 target and indicators for this subgoal are:
- Improve performance against Ease-of-Use Indices, which use customer satisfaction surveys to measure how easy it is for customers to do business with the Postal Service. Both composite and customer segment Ease-of-Use Index goals are shown below (based on a maximum index value of 1000):
- Increase the Composite Ease-of-Use Index to 672.
 - Increase Residential Ease-of-Use Index to 700.
 - Increase Premier Accounts Ease-of-Use Index to 650.
 - Increase Business Ease-of-Use Index to 660.
 - Increase National Account Ease-of-Use Index to 677.

EXFC is an external mail measurement system of collection box to mailbox delivery performance. EXFC continuously tests a panel of 463 3-digit ZIP Code Areas selected on the basis of geographic and volume density from which 90 percent of the First-Class Mail volume originates and to which 80 percent destinates. EXFC is not a systemwide measurement of all First-Class mail performance.

In 2000, the Postal Service:

- Achieved an Ease-of-Use Composite index performance of 654, 18 points below the target of 672.
- Achieved an indexed performance of 688 for the Residential Ease-of-Use, 12 points below the target of 700.

Even though this aggressive target was not met, several retail initiatives were implemented to improve our customers' Post Office "lobby" experiences. For example, Retail Associate training, focusing on several behaviors that affect customer interaction, was developed and implemented. During this process, it was discovered that the Ease-of-Use experience included all customer contact points, not just the Post Office lobby experience. Resources were then reallocated to a much broader array of customer experiences and program needs.

This performance goal was dropped for 2001 and will not be restored until a more sophisticated metric that more fully addresses customers' Ease-of-Use with Postal products, services and multi-contact/access points, especially as it relates to Internet access, can be developed.

- Achieved an indexed performance of 625 for the Premier Ease-of-Use Index, 25 points below the target of 650, and exceeded the 1999 performance measurement by 4 points.
- Achieved an indexed performance of 659 for the Business Ease-of-Use Index, just one point below the target of 660, and exceeded the 1999 performance measurement by 9 points.
- Achieved an indexed performance of 643 for the National Ease-of-Use Index, 34 points below the target of 677, and exceeded the 1999 performance measurement by 7 points.

Business, Premier and National account Ease-of-Use went through a transition period in 2000. A Business Service Network (BSN) was established to meet commercial customers' special requirements. Metrics were put into place that tracked performance of BSN customer interactions and fulfillment. Resources were shifted to support the BSN and, to meet customer needs, new priorities were set for both Postal sales and service efforts.

During 2001, Business Ease-of-Use will be re-evaluated to determine whether the Ease-of-Use metrics encompass the full range of customer experiences. Segmentation analysis has reaffirmed the need for enhanced service support and other out-

reach processes that are beyond the current definitions of Ease-of-Use for Business customers.

Performance Goal 5

- Explore customer needs segmentation.
 - As stated in the plan, the 2000 Indicator and target for this goal is:
- Explore customer needs segmentation as an alternative to product segmentation.
 - In 2000, the Postal Service:
- Undertook major initiatives to enhance our knowledge of the needs of our customers in both the commercial and consumer segments. As a result, in the commercial marketplace, distinct segments were identified.
- Developed strategic analyses of several key industry segments. These analyses focused on the segments' value chains and needs for communications and merchandise services. The analyses have allowed us to determine the opportunities for the Postal Service to add value to our customers' business processes to acquire, fulfill, and retain their own customers and to identify their requirements for improved service.
- In the consumer marketplace, a new segmentation structure was developed, reflecting:
 - households' use of mail,
 - households' family structure and lifestyle,
 - households' family location.

By combining these three factors, 14 distinct segments were identified. Focusing on these 14 segments will enable us to understand more fully their needs for service and how to serve and reach them in our marketing outreach efforts.

The knowledge gained through this initiative will be incorporated in our ongoing business planning activities. We will continue to update this information. A specific Voice of the Customer sub-goal is no longer required for this initiative.

Performance Goal 6

- Develop best value criteria.
 - As stated in the plan, the 2000 indicator and target for this goal is:
- Develop "best value" criteria based on Customer Value Analysis.
 - In 2000, the Postal Service:
- Conducted strategic studies to develop the Customer Value Analysis for Ad Mail and Priority Mail.

Our results showed that, as concerns advertising mail, the two most important attributes

sought for in selecting an advertising medium are cost effectiveness and the ability to measure results. These are followed in importance by the ability to create a message, the ability to target audiences and, ease of placement.

Overall, when selecting a package delivery service, reliability of service is the most important attribute. This attribute is followed by the track and trace information service, pick-up service, customer servicing, and price, all comparable in importance levels.

The knowledge gained through the Customer Value Analysis initiative will be incorporated our ongoing business planning activities. We will continue to update this information. A specific Voice of the Customer subgoal is no longer required for this initiative.

Performance Goal 7

- Explore concept of customer loyalty for competitive products.

As stated in the plan, the 2000 indicator and target for this goal are:

- Using Customer Satisfaction Measurement survey responses, develop customer loyalty indicators and subgoal.

In 2000, the Postal Service:

- Conducted studies of Customer loyalty and incorporated these findings into the business plan of the organization. For 2001, this goal has been renamed, "Improve Customer Satisfaction."

F. Voice of the Employee Performance Goals: Organizational Effectiveness

Postal Service Annual Performance Plan Goal:

Foster an inclusive and welcoming workplace consistent with Postal Service values of fairness, opportunity, safety and security: where everyone is given the knowledge, tools, training and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers' and the Postal Service's success.

Performance Goal 1

- Improve workplace relations by building leadership skills and behaviors.

As stated in the plan, 2000 indicators and target for this subgoal are:

- Make the REDRESS process available to all Performance Cluster (PC) employees, with 70 percent participation.
- Develop indicators and performance base-lines for labor relations performance and EEO program performance.

In 2000, the Postal Service:

- Achieved the objective of making the REDRESS process available in 100 percent of Performance Clusters and exceeded the 70 percent target rate of employee participation with a rate of 73.4 percent participation.
- Achieved the objective for labor relations and EEO program performance by fully integrating the REDRESS program into the EEO function and establishing it as a part of the administrative EEO process, with optional mediation of EEO complaints being made available to 100 percent of employees.

Performance Goal 2

- Ensure that each and every employee is given the knowledge, tools, training and encouragement to successfully meet the expectations for their positions.

As stated in the plan, 2000 indicators and target for this Subgoal are:

- Provide at least four hours of interpersonal skills training for all craft employees' work units and at least 97 percent of EAS employees.
- Provide one hour of sexual harassment avoidance training for all craft employees' work units and two hours of training for all EAS employees.
- Improve the proficiency index for Bulk Mail Acceptance Unit employees by 10 percent compared to the 1999 measurement

In 2000, the Postal Service:

- Achieved the target of providing Interpersonal Skills training for EAS employees and, although we did not meet the target for craft employees, we did provide four hours of Interpersonal Skills training to 95.05 percent of craft employees' work units.
- Achieved the target of providing Sexual Harassment Avoidance training for EAS employees and, although we did not meet the target for training 100 percent of craft employees, we did provide the scheduled four hours of training to 99.97 percent of craft employees' work units.

Originally, this goal was compensable for all EAS employees, nationwide. In 2000, the goal became part of the executive merit process and was applied in the evaluation of each executive's performance. Individual executives' decisions to emphasize other competing Postal Service goals affected national performance achievements on this indicator.

Senior human resource management will review the process to ensure continued visibility of this goal and will bring this issue to the attention of line managers to gain their support for meeting the goal.

- Achieved the target of a 10 percent improvement in the Bulk Mail Acceptance Unit process.

Performance Goal 3

- Improve employees' safety, security and well-being.

As stated in the plan, 2000 indicators and target for this subgoal are:

- Develop Safety Program Evaluation indicators to match OSHA compliance requirements, develop performance baselines and set subgoal.
- Keep lost workdays due to injury per 200,000 work hours below 1.90.
- Keep total accidents per 200,000 work hours below 11.49.
- Keep motor vehicle accidents per million miles driven below 11.0.

In 2000, the Postal Service:

- Achieved the target of developing Safety Program Evaluation indicators with the Program Evaluation Guide (PEG), developed specifically for the Postal Service. PEG is based on OSHA guidance and industry best practices. A threshold target of 3.0 on a 5.0 scale was set as the measure of a functioning sound safety and health program and that target was met by all Areas and far exceeded by many facilities. This target was a threshold requirement under the EVA pay for performance program, in the VOE area in 2000.

The Postal Service now applies the standards and practices of the PEG program throughout the organization. These PEG standards and safety program guides will continue to be used as a leading indicator for safety programs and as a measure of managers' accountability for those programs. Although safety performance will continue to be measured through program evaluations, PEG will not be included as an EVA goal in 2001. The cost-

effectiveness of the PEG program was evaluated and it was determined that funds for this program were better allocated to focusing on the new OSHA Injury Illness Indicator, which is effective in 2001.

- Achieved the target of 1.90 lost workday injuries per 200,000 work hours, with a .05 variance, allowed by the plan. The national measurement on this indicator was 1.93. This goal has been altered for 2001, to conform to new reporting requirements of the Postal Employees' Safety Enhancement Act of 1998. That law requires the Postal Service to adopt established private sector accident and injury reporting requirements. The new indicator for workplace safety, the OSHA Illness Injury Indicator, will be effective in 2001.
- Did not achieve the target of reducing motor vehicle accidents to 11.00 per million miles driven. Actual performance on this indicator was 11.47 motor vehicle accidents per million miles driven, despite Postal Service investment of significant organizational resources toward meeting this target and despite its continued focus on motor vehicle safety in programs designed to increase driver awareness and reduce motor vehicle accidents. More than, over 135,000 Postal Service drivers earned recognition by the National Safety Council (NSC) and received NSC Safe Driver Awards in 2000.

Although the Postal Service will continue to emphasize motor vehicle safety and measure progress against this objective, this indicator and target have been altered in the plan for 2001. The new OSHA Injury Illness Indicator, measuring universal workplace safety, replaces these measures.

- Did not achieve the target of reducing all workplace accidents to 11.49 per 200,000 work hours. The actual rate of accidents was 12.52 per 200,000 work hours. The goal has been altered for 2001. The OSHA Illness Injury Indicator has been adopted for all workplace safety goals and will be effective in 2001.

Performance Goal 4

- Improve understanding of employee issues and concerns.

As stated in the plan, the 2000 indicator and target for this subgoal is:

- Develop a VOE Survey Index and a performance baseline, and set subgoal.

As revised from the plan, based upon actual 1999 results and the 2000 budget, the 2000 indicators and target for this subgoal are:

- Achieve a Total Factor Productivity (a measure of total resource usage efficiency, including capital) gain of 2.1 percent.
- Achieve a Labor Productivity (a measure of labor resource usage efficiency) gain of 2.6 percent.

In 2000, the Postal Service:

- Exceeded the target for Total Factor Productivity (TFP) Growth, achieving TFP growth of 2.5 percent. This achievement is equivalent to \$1.6 billion in expense reductions and is the highest TFP growth achieved by the Postal Service since 1993. The growth of TFP in 2000 was brought about by managed restraint on resource usage. Work hours declined by 0.6 percent and materials use fell by 5.1 percent while mail volumes increased.

The TFP target is an outgrowth of the productivity gain implicit in our budget and must be determined through calculations based on actual figures.

The target for TFP that was listed in our final Annual Performance Plan was 3.1 percent. That target was based on projections of 1999 productivity growth and the budget and productivity projections for 2000. When the actual year-end and productivity results for 1999 were calculated, they were much higher than initially estimated. This caused the productivity rate of growth implicit in the 2000 budget to be lower than initially projected. The final 2.1 percent productivity growth rate goal for 2000 represents the same absolute level of budget performance as the initial 3.1 percent target. The Postal Service exceeded the efficiencies included in the 2000 budget.

In 2000, net income, not TFP growth, was the priority focus of the Voice of the Business. For 2001, the priority Voice of the Business focus will be TFP growth since efficiencies and service are the only missions that postal managers can affect directly.

- Did not meet the target for Labor Productivity growth, which grew at a rate of 2.1 percent, 0.5 percentage point below the target. When mail volumes were lower than anticipated in 2000, management reduced all resource usage, including the labor use component of TFP. This was sufficient to allay but not obviate the impact of lower

volume growth rates on the Labor Productivity factor.

Performance Goal 4

- Keep price increases at or below the rate of inflation.

As stated in the plan, the 2000 indicator and target for this performance goal is:

- Maintain current rates.

In 2000, the Postal Service:

- Achieved the target of maintaining current rates. In fact, there was no general rate increase after that of January 1999. During the same period, inflation rose by 6.0 percent as measured by the Consumer Price Index.

Performance Goal 5

- Restore original equity.

As stated in the plan, the 2000 indicator and targets for this performance goal is:

- Restore a portion of original equity by achieving an average net income over the current rate cycle that approximates the provision for recovery of prior years' losses included in current postage rates.

In 2000, the Postal Service:

- Posted a net loss, and therefore failed to restore equity of \$377 million, the amount consistent with Board Resolution 95-9. Over the past six years, however, the Postal Service has restored equity of \$5.3 billion, an amount greater than the cumulative total scheduled to be achieved by the end of 2000.

H. Evaluation of 2000 Performance and Changes to Goals and Subgoals in the 2001 Plan

In this section, the Postal Service evaluates the performance plan for 2001, relative to the performance achieved toward the performance goals of Fiscal Year 2000 covered by this report.

In complying with GPRA requirements to report this evaluation, the Postal Service submits four tables: Table 5.1, Table 5.3, Table 5.4, Table 5.5.

Table 5.1, "Performance 2001: goals, subgoals, indicators and target," leads this chapter. It itemizes 2000 performance to each goal, subgoal, indicator and target of the 2000 Annual Performance Plan.

Table 5.3, "Performance 2001: goals, subgoals, indicators, and targets," follows here. This table lists all Fiscal Year 2001 Goals, Subgoals, Indicators and subgoal of the latest 2001 Annual Performance Plan for each of the three Voices of the Postal Service Management Process: the Voice of the Customer; the Voice of the Employee; and the Voice of the Business.

Table 5.4, "Changes to VOC and VOB Performance Goals and Subgoals," identifies 2000 Goals and Subgoals that have been altered in the 2001 Plan; lists the new 2001 Plan Goals and Subgoals; and provides an explanation for change for those. there were no changes to the VOE Goals and Subgoals.

Table 5.5, Area Productivity Baseline Information, is provided as requested by Congress, provides baseline information on Area productivity. The initial target and performance information for each area are provided for 2000. The 2001 subgoal will not be set until baseline data are final and all technical adjustments for cost and pay rate changes are completed and audited.

TABLE 5.3 PERFORMANCE 2001: UPDATED GOALS, SUBGOALS, IN

Goal	
<p>VOC</p> <p>Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.</p>	
<p>VOE</p> <p>Foster an inclusive and welcoming workplace consistent with Postal Service values of fairness, opportunity, safety and security; where everyone is given the knowledge, tools, training and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers' and the Postal Service's success.</p>	
<p>VOB</p> <p>Generate financial performance that ensures commercial viability as a service provider in a changing, competitive marketplace and generate cash flow to finance high-yield investments for the future while providing competitively priced products and services.</p>	

S. INDICATORS AND SUB-GOAL VOICE OF THE CUSTOMER

Subgoal	Indicator	Target
Provide timely delivery.	First-Class Mail on time: EXFC overnight EXFC 2/3 day Delivery within standard + 1 day (overnight & 2/3-day) Priority Mail on time Advertising Mail on time (delivered within a sales window) Parcel Select (ground parcels) on time Periodicals on time Express Mail on-time (AM & PM)	93% 87% Develop performance baseline Proprietary information 98% Proprietary information Develop indicators and baseline Proprietary information
Provide reliable service.	Accuracy of delivery index	Develop performance baseline
Improve customer satisfaction.	Overall satisfaction – residential (CSM survey results) Overall satisfaction – residential (CSM survey results)	1% improvement over 2000 1% improvement over 2000
Improve workplace relations by building leadership skills and behaviors.	REDRESS 100% available	100% available, 70% participation
Ensure an inclusive and fair environment with opportunities for all employees.	Inclusive/fair environment indicators are part of merit process Representation of all groups in details and special assignments Representation of all groups in succession plans Activities supporting the affirmative employment plan	Included in PCES merits Quarterly reviews of affirmative employment plan (Areas with COO, PC's with AVP's, and HQ with Management Committee)
Ensure that each and every employee is given the knowledge, tools, training and encouragement to successfully meet the expectations for their positions.	Training in prescribed curriculum (including 4 hours of mandatory workplace environment interpersonal skills training) 100% of craft work units: 8 hours	97% of EAS 15 & over employees: 20 hours 97% of EAS 14 & below employees: 8 hours
Improve employees' safety, security and well-being.	OSHA injury/illness rate Motor vehicle accidents per million miles driven	7.96 Below 10.9
Improve understanding of employees. issues and concern.	VOE Survey Index	Improvement over 2000 VOE Survey Index score of 57.5
Improve overall VOB performance.	Area Productivity improvement PC Productivity improvement Capital commitments	Improvement over hurdle Improvement over threshold \$2.6 billion
Control costs by achieving productivity gains.	Total Factor Productivity Labor Productivity	0.7% 2.0%

TABLE 5.4 CHANGES TO VOC GOALS AND SUBGOALS

2000 Goal	2001 Goal	Explanation for Change
Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.	Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.	No change
2000 Subgoals	2001 Subgoals	Explanation for Change
Provide timely delivery of three indicators for 2000.	Provide timely delivery.	No change to goal or subgoal. However, three indicators for 2000 have been changed for 2001.
Consistency	Provide reliable service.	Consistency and Accurate service were combined into a more general performance goal to better reflect the set of measures that were most important to the consumer.
Accurate service	Dropped	While still available for the field to use to evaluate specific programs, this performance goal was not included in 2001 so that it could be reevaluated using customer feedback.
Ease-of-Use		
Explore customer needs segmentation.	Complete	Not included in 2001 because the because the exploration of alternative segmentation scheme was completed.
Develop best value criteria.	Complete	Not included in 2001, because a strategic study was completed and the knowledge gained incorporated in the new business planning.
Explore concept of customer loyalty.	Improve customer satisfaction.	The performance goal was revised to sharpen focus.

TABLE 5.4 CHANGES TO VOB GOALS AND SUBGOALS CONT

2000 Goal	2001 Goal	Explanation for Change
Generate financial performance that ensures the commercial viability of the Postal Service as a service provider in a changing, competitive market place; and generate cash flow to finance high-yield investments for the future while providing competitively priced products and services.	Generate financial performance that ensures the commercial viability of the Postal Service as a service provider in a changing, competitive market-place; and generate cash flow to finance high-yield investments for the future while providing competitively priced products and services.	No change
2000 Subgoals	2001 Subgoals	Explanation for Change
Improve overall business performance.	No change to subgoal however the measurement indicators have been changed.	Indexed EVA replaced with Area and Performance Cluster Productivity measure Capital commitments unchanged
Generate net income.	Dropped	Shifted focus to area we can control, such as productivity, and away from those, such as net income, controlled by external factors.
Control costs by achieving productivity gains.	No change	
Keep price increases at or below the rate of inflation.	Dropped	Simplification and increased focus on financial performance
Restore original equity.	Dropped	Simplification and considered redundant to the net income goal.

**TABLE 5.5 AREA PRODUCTIVITY
BASELINE INFORMATION**

Area	2000 Target	2000 Performance
Allegheny	1.83	1.42
Capitol Metro	1.83	1.86
Great Lakes	1.83	3.16
Mid-Atlantic	1.83	1.04
Midwest	1.83	2.32
Northeast	1.83	1.87
New York Metro	1.83	2.27
Pacific	1.83	1.78
Southeast	1.83	1.71
Southwest	1.83	2.56
Western	1.83	1.38

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