

Preparing For The Future

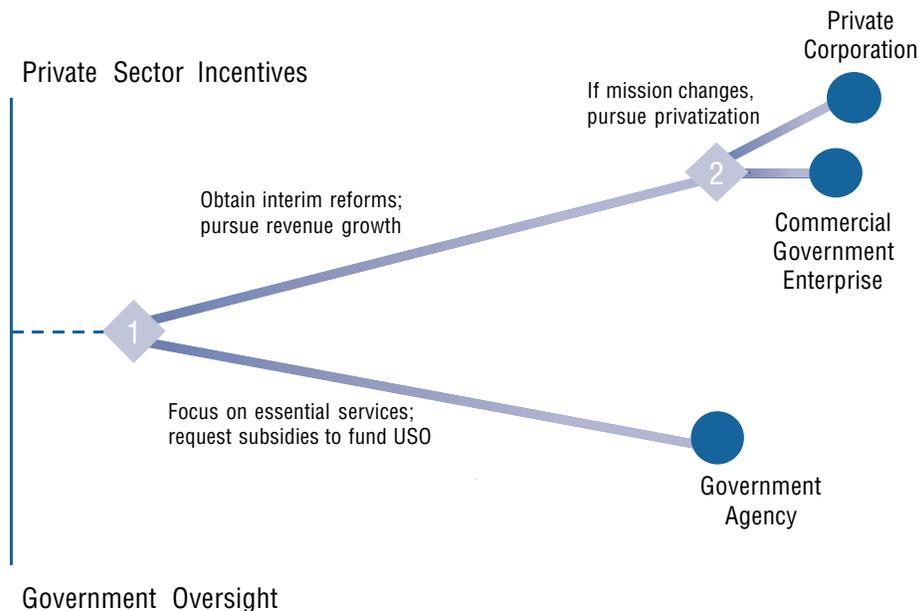
Section 3 — Preparing for the Future

The ultimate goal of Postal Service transformation is to ensure an efficient, reliable, and innovative delivery services sector that meets the future diverse economic and social needs of the nation. Fundamental structural transformation of an institution as large as the Postal Service will take years to complete. A transformation plan must, therefore, peer a decade or more into the future and accommodate, as well as possible, the full range of roles that the Postal Service may be called upon to play. A transformation plan must also take into account issues of transition so that legitimate and reasonable expectations of stakeholders—including the general public, mailers, and postal employees—are not overwhelmed by abrupt change. This chapter discusses three models that illustrate the range of possibilities.

- **Government Agency.** An entity focused on providing services not adequately provided in the market and supported by government subsidies.
- **Privatized Corporation.** A business entity with private shareholders.
- **Commercial Government Enterprise.** A government-owned enterprise that would operate more commercially in the market to provide postal and related services.

These three models are examined in broad outline. The Postal Service recognizes that many variations may be possible under each model, but believes that these three general approaches highlight the key policy choices needed to select a path for transformation.

U.S. POSTAL SERVICE TRANSFORMATION PATH



A graphic representation of the three models is displayed on a scale of government oversight and private sector incentives. The diamonds represent “decision points,” that is, external and internal factors that influence the degree and type of transformation required. Internal decision points include: cost and productivity issues, growth of delivery points, the effects on contribution of a changing mail mix, cash situation,

capital requirements, financial results, and leadership objectives. External decision points include: government mandated security requirements, public trust in the mailstream, political climate around reform, diversion and competition, evolution of the universal service obligation (USO), economic and market conditions, labor reforms, pricing freedoms, and investment freedoms. At the decision points, these and other factors could be analyzed prior to continuing on a pathway.

The black lines indicate pathways along which the Postal Service might move. It is important to note that the Postal Service could move up or down a pathway in response to internal and external changes, such as legislative or regulatory decisions. Due to the challenges facing the Postal Service, there is a real threat that the current structure will not permit the Postal Service to fulfill its mission of universal service in the future. If so, movement down one of the pathways is inevitable.

Which pathway the Postal Service should follow is a public policy decision. Therefore, stakeholders need to evaluate differences among alternative models and the policy issues surrounding each. For each model, the *Transformation Plan* outlines the policy objectives; broadly describes the model; discusses possible consequences; and lists some of the possible legislative, structural, and financial implications.

3.1 Government Agency

At one end of the spectrum of possibilities, the Postal Service could be restructured as a Government Agency and focused on services that private companies cannot provide profitably, at least at prices and on the universal scale that policymakers deem appropriate to the needs of the United States. This model represents one approach to resolving frequent conflicts between two policy objectives implicit in current postal law: ensuring necessary postal services, on the one hand, and promoting competition in the delivery services market, on the other. As a Government Agency, the Postal Service would concentrate more on its role as an essential government service—somewhat similar to defense, the national park system, and the interstate highway system—and concern itself less with markets where customer requirements are already being addressed by the private sector. Under this approach, the Postal Service would have to reevaluate its products and services, potentially eliminating a number of services currently offered and adjusting the workforce to the attendant reduced mail volume. Given fixed network costs and declining volumes, this model is likely to require subsidies to cover the cost of universal service.

"I strongly believe there will be a continued need for a governmental postal system that continues to provide universal service."

—Consumer

Policy Objectives

Stakeholders may prefer the Government Agency model if they believe that the Postal Service in the future will be unable to cover the cost of continuing public policy obligations from revenues derived from postal products and services or if they believe that government participation in the economy should be reduced. The policy objectives of this option are:

- To ensure continuous provision of basic public postal services at affordable rates without undue or unreasonable discrimination, for example, by requiring retail access and universal delivery at a particular service level;

- To clarify the mission of the Postal Service to allow all participants in the market—managers, employees, mailers, and partners—to plan accordingly; and
- To minimize economic distortions that may result from participation by a regulated government entity in competitive private markets.

Description

The Postal Service is likely to evolve toward a Government Agency if, for reasons of public policy, it continues to lack the flexibility needed to operate successfully. Without a commercial focus, the Postal Service will likely feel increasing pressure to stop promoting competitive postal products satisfactorily provided by the market. Significant declines in mail volume, especially First-Class Mail[®], would likely accelerate this process, shifting the center of gravity of the Postal Service toward noncommercial residential delivery and retail services.

While a Government Agency may be considered a step back from the declared intent of the Postal Reorganization Act, a move toward a more government-like Postal Service may be the logical outcome of viewing it as a public service that exists to provide a unique product—a uniformly priced, homogenous letter mail delivery service—that the government has determined should be available to all residents but whose volume seems likely to decline in the future. If the need for such a government service diminishes, the government entity providing this service could be scaled back correspondingly. In a country that celebrates private enterprise, with a limited tradition of public sector businesses, some may also consider devolution of the Postal Service into a Government Agency the most efficient economic policy.

In effect, a Government Agency would become less independent of government than the “independent establishment” envisioned in 1970. Rates would continue to be cost-based under the jurisdiction of an independent regulator. Even so, direct government subsidies are likely to be needed, probably in increasing amounts, unless universal service expectations are curtailed as mail volume subsides and postal networks continue to expand. Subsidies would, in turn, likely bring increased congressional oversight or legislative decision making in operations, pricing, and personnel matters. As a matter both of commercial practicality and economic policy, a Government Agency would have a more limited ability to operate in competitive markets, and therefore find itself less able to access new revenue streams than the current Postal Service.

The table below summarizes likely attributes of this model.

GOVERNMENT AGENCY

Mission/Public Policy	Meet public policy goals at minimal cost
Ownership	Government
Corporate Governance	Government agency or establishment
Regulation	Congressionally determined
Monopoly	Letter and mailbox monopoly
Universal Service Obligation	Government defined
Retail Flexibility	Explicitly defined under USO
Product Development	Limited to filling market gaps
Pricing	“Cost of service” regulation (current system), perhaps tied to appropriation process
Human Capital	Collective bargaining, arbitrator, federal employees, salary cap
Financial Requirement	Cost minimization with appropriation
Ability to Invest	Treasury approval required
Access to Capital	Treasury approval, legislated debt ceiling
Earnings	Break-even or losses with subsidy
Taxes	Not directly subject to taxation
Security	Postal Inspection Service or other federal agency
Key Metrics	Prices, size of subsidy, service levels

Consequences

For the Postal Service, an explicit policy decision to move the organization toward the Government Agency model has the benefit of clarity of mission and proper calibration of expectations. Postal management would be more focused on covering costs with revenues from traditional services and less concerned about evolving markets. The workforce would likely be reduced substantially over time, but employees would continue to be government employees compensated by federal funds in a manner consistent with federal policies. On the other hand, the complexities of managing a system that remains important to the mailing industry, as well as the general public, without a clear commercial future would be daunting.

For the government, as owner of the Postal Service, clarifying the role of the organization as a Government Agency may resolve some tensions between the business and governmental objectives of the Postal Service. Even so, the government

may find it difficult to sustain unpopular mechanisms for funding the USO and other uneconomic social policies.

For customers, particularly large mailers, this policy option yields advantages and disadvantages. Customers will have confidence that their mail will be delivered as long as the government continues to support universal service. Indeed, if general government funds are used to pay for universal service, some might say that mailers would be subsidized by taxpayers. Customers may also benefit if this approach leads to more competition and more choices in the marketplace, for example, if upstream letter mail operations are further opened to entry. However, in a sector characterized by economies of scale, it is unclear that customers are better served by a more limited Postal Service as opposed to a more commercially competitive Postal Service. For example, many ground parcel shippers would today feel abandoned if they did not have the Postal Service as an alternative to private parcel companies.

Selection of the Government Agency model might turn on reaching some of the following judgments:

- Universal service is best provided by the public sector.
- The Postal Service's traditional monopoly products will either generate sufficient revenue over the long term to fund social policy costs and universal service, or, if competition and electronic diversion make this impossible, taxpayers should subsidize the Postal Service.
- The public will be forced to adjust to lower levels of postal services in exchange for cost containment or higher government subsidies.
- The public is willing to reduce its expectations of postal service in exchange for retaining the Postal Service as a government obligation.
- If current trends continue and advertising mail becomes the Postal Service's largest revenue product, the government should remain responsible for providing what is primarily a channel for commercial advertising.
- The Postal Service should focus on essential services as needed even while domestic firms and foreign posts will be able to provide competitive products as needed.
- Prices might again be set by legislation or through a government process reflecting congressional decisions on subsidy levels.

Legislative, Structural, and Financial Implications

The following are some legislative, structural, and financial implications of the Government Agency model:

- The USO would be defined by Congress and the Postal Service's product orientation refocused to deliver only essential government services; this limited definition of postal services could substantially reduce mail volume. Other providers would be allowed and encouraged to compete in nonessential services.

- Funding would likely be a combination of user fees (postage) and government appropriations (taxes).
- Because the network would continue to expand to match household growth, Postal Service employment would not shrink as much as mail volume, but a large reduction from today's employee complement could be expected. The majority of the workforce would be delivery employees. The cost-per-piece of mail handled would increase, resulting in friction between ratepayers and taxpayers over who should fund the postal network.
- A process, designated by Congress, would be determined for rate making. A regulator would be largely responsible for the determination of revenues from postage, and the Congress would provide an important component of funding through the appropriation process. In practice, subsidy levels might vary unpredictably from year-to-year based upon, not only Postal Service needs, but also the priorities of Congress.
- Labor negotiations might move away from private sector collective bargaining models and toward public sector approaches; craft wages might continue to provide a premium over private sector equivalents.
- The Postal Service would continue to pay no direct local, state, or federal taxes.
- Postal Service costs would be reduced further through additional streamlining and consolidation. As it grows smaller, and as restrictions against competing in the nonessential services market are implemented, the Postal Service will lose expedited mail volumes and a large share of parcel volumes. It would also likely lose a significant portion of its "essential services" volumes (bills and payments) to electronic alternatives.
- The Postal Service would likely lack sufficient funds for internal investments in value-added products and services, new equipment, and facilities.

As a Government Agency, the Postal Service would offer a minimal menu of products and services to the American public, eliminating a number of services currently offered, adjusting the workforce to the modified offerings and attendant lost volume, while maintaining an extensive retail network. The overall policy goal would simply be to keep the "deliverer of last resort" afloat, likely with government subsidies. Many stakeholders have indicated that the prospect of today's Postal Service degrading into a Government Agency is unappealing.

3.2 Privatized Corporation

At the other end of the spectrum of options is the possibility of complete transformation of the Postal Service into a shareholder-owned, value-maximizing company. In addition to giving Postal Service managers a full range of private sector managerial tools, this model would place Postal Service managers under the supervision of a Board of Directors representing “residual claimants” (private shareholders) who have “real money” at stake. Privatization would also eliminate any implication that government ownership represents a guarantee against commercial failure. At the same time, privatization could resolve thorny regulatory issues that might continue to limit the viability of a government agency.

As a Privatized Corporation, the Postal Service would offer market-based products and services. Universal service, most likely, would be provided under contracts between a regulator and various operators, including the Privatized Corporation. The Privatized Corporation would be able to implement market-based pricing, discounts and incentives, and private sector financial practices.

“The imperative is clear for the [Postal Service] to become privatized. The [Postal Service] needs to emphasize its core mission, and to accomplish that, it needs to be able to operate like a private-sector business rather than a quasi-governmental entity.”

—Business Customer

Policy Objectives

Privatization would be undertaken to achieve many of the policy objectives noted under the discussion of the Commercial Government Enterprise. In addition, privatization would support the following objectives:

- To improve the commercial prospects of the Postal Service by changing its governance to include genuine residual claimants (shareholders);
- To separate the government completely from participation in the operational and commercial aspects of the delivery services sector, although some regulatory responsibility by government would be retained;
- To remove restrictions and oversight based on concerns about the competitive use of assets paid for by government; and
- To realize funds from the sale of an asset no longer needed by the government so that the money can be invested in other government functions.

Description

For a Privatized Corporation, all or a significant portion of the ownership of the Postal Service would be held by private persons. Some shares could be held by employees and managers of the Postal Service. Obviously, the greater the fraction of shares held by private persons, the more thoroughly privatized the Postal Service would be; nonetheless, even privatization of a significant minority share has policy implications.³¹

Private owners may take a more personal interest in the commercial success of the Postal Service than officials representing the general public through the government. Private investors will necessarily have their own money at stake. A Board of Directors that is legally obligated to protect private shareholder interests is thus likely to be more focused on commercial success.

Full privatization of the Postal Service would also appear to address certain policy issues that have raised thorny questions about the conduct of some commercialized postal administrations, in particular Deutsche Post (DPWN).³² With full privatization, these public policy issues seem to disappear. All of the assets of a fully privatized Postal Service would be paid for by investors' funds so that there would remain no accumulated benefits of government support and no accumulated costs of the universal service obligation on the company's balance sheet. These assets and liabilities would have been evaluated fairly and objectively, presumably, by the financial marketplace. Thus, a fully privatized corporation should achieve a significantly greater degree of commercial independence than other options.

The table on the following page summarizes likely attributes of a Privatized Corporation.

³¹ In some countries that have privatized ownership in the national post office, the government has retained a "golden share" giving it the right to veto major changes in ownership. Use of a golden share is under scrutiny by European competition authorities.

³² When DPWN was established as a government-owned corporation, the German government transferred to DPWN ownership of the substantial assets of the former post office. DPWN in turn sold some of these assets and raised funds that were used to pay for acquisition of private companies like DHL. Private competitors complained that the assets sold by DPWN were paid for by tax dollars. Conversion of these assets into money and expenditure on competitive ventures, charged the critics, amounted to a large government subsidy. In response, DPWN argued that the value of such assets was no more than needed to compensate DPWN for the accumulated costs of the universal service obligation.

PRIVATIZED CORPORATION

Mission/Public Policy	Maximize shareholder value
Ownership	ESOP/private or solely private
Corporate Governance	Corporate Board of Directors
Regulation	Market Standard (independent supervisory regulator)
Monopoly	Little or none (e.g., mailbox only)
Universal Service Obligation	Government contract
Retail Flexibility	Market based
Product Development	Market based
Pricing	Market based
Human Capital	Strike/lockout, private sector, no salary cap
Financial Requirement	For profit
Ability to Invest	No restrictions
Access to Capital	Capital markets
Earnings	Retained: dividends to shareholders
Taxes	All federal, state, and local taxes paid
Security	Federal, state, or local law enforcement
Key Metrics	Share price, earnings

Consequences

For American citizens, mailers, and employees, the consequences of transforming the Postal Service into a Privatized Corporation offer the potential for major financial success. The six markets in which the Postal Service has core competencies are all projected to grow, some significantly, during the next decade. The six markets are retail, delivery (last mile), communications, financial services, logistics, and advertising.³³ Explicit authority to partner and compete in these markets offers opportunities for economic growth.

³³ The table below presents a long-term vision of how these broad markets are likely to evolve over the next decade (Source: PricewaterhouseCoopers).

Markets	Projected Size in 2010
Advertising	\$460 billion
Communications	\$1.5 trillion
Financial Services	\$1.1 trillion
Logistics	\$1.3 trillion
Retail	\$1.6 trillion
Last Mile (Delivery)	\$135 billion

A Privatized Corporation presents risks as well as opportunities. Possible workforce reductions could place individual jobs at risk. The corporation itself would no longer have the backing of the government. Private companies fail as well as succeed; a Privatized Corporation could thrive or it could go bankrupt. Hence, the Privatized Corporation model implies a need for additional regulatory safeguards for the delivery services sector as a whole to ensure that universal service is maintained as needed in the public interest.

Selection of the Privatized Corporation model might turn on reaching some of the following judgments:

- Transforming a public service-oriented government Postal Service into a profit-oriented Privatized Corporation would increase efficiency and assure more responsive products and services for the majority of customers.
- Universal service as it is known today will not be crucial to the nation.
- The American people will be satisfied that a system of regulation can preserve universal postal service to an acceptable degree without direct government ownership.
- The American people will accept the sale of one of the most important organs of government remaining from the early days of the Republic.
- A transition plan can be structured for the successful marketing of products and services, the valuation of assets, and the restructuring of liabilities so that private investors, including employees, will be interested in becoming owners.

Legislative, Structural, and Financial Implications

Some of the legislative, structural, and financial implications for the Privatized Corporation model are as follows:

- The magnitude, timing, and parameters of an Initial Public Offering (IPO) would have to be determined so that a government-owned entity would be transferable to private ownership.³⁴
- Future delivery standards and charges for mail service could become more variable geographically as market forces play more of a role.
- Transition to such a different model for supplying the nation's postal needs may involve a period of difficult and even painful adjustments for customers and employees until market forces have been fully accommodated.
- Components of postal operations could be reorganized and diversified, leading to different owners by function, e.g., processing and transportation could be privatized while delivery could remain a governmental mandate, or perhaps by geographic area, e.g., the Baby Bells.
- Sources of funds for universal service would have to be identified. Options include 1) government-funded through service contracts; 2) subsidies; 3) monopoly³⁵ supported; or 4) provided for through a competitive fund.

³⁴ See Appendix S, *Privatization — Process and Financing Issues*, for more information.

³⁵ See Appendix U, *Universal Service Obligation and the Postal Monopoly*, for more information.

3.3 Commercial Government Enterprise

The third model, a mid-range approach, is to transform the Postal Service into a Commercial Government Enterprise³⁶ as a way to introduce an updated, stable business and financial model suited to the 21st century. Universal service remains important to the American people and should be retained. Keeping universal service affordable will require a postal system able to participate efficiently and flexibly in the modern economy. To achieve these goals, it may be appropriate to keep the enterprise under public ownership to serve the public interest, with the management tools available to commercial entities to assure more efficient and economical performance.

A Commercial Government Enterprise represents a large step toward placing the Postal Service on a more businesslike footing. As a commercialized entity, the Postal Service would be expected to provide traditional and nontraditional products and services, implement market-based pricing, and adopt more commercial financing.

“Looking forward, we envision a postal service that is able to adjust to a rapidly changing marketplace, able to identify and understand its customers [sic] needs and provide the services all of its customers have come to expect.”

—Business Customer

Policy Objectives

In several other industrialized countries that have addressed postal transformation, policymakers have concluded that restructuring the national post office as a government-owned, commercial operation offers the best chance of achieving national postal policy goals in increasingly competitive markets. The policy objectives of this approach are:

- To clarify the role of the Postal Service so that management is permitted and motivated to operate with the tools and incentives of a business, subject to public interest restraints administered by the regulator;
- To avoid congressional subsidy;
- To raise the efficiency, innovativeness, and performance of the Postal Service to levels closer to market standards;
- To create an organizational framework that will allow the Postal Service to participate effectively in the emerging global delivery services arena through alliances and joint ventures with private companies and other corporatized posts;
- To introduce greater institutional flexibility so that changes in basic rules (for example, universal service expectations) can be introduced administratively rather than legislatively; and
- To preserve long-term options for the government by creating an organizational framework that can be later adapted to either full privatization or conversion into an efficient Essential Governmental Service.

³⁶ See Appendix T, *Overview of Selected Government Entities*, for more information.

Description

A commercialized Postal Service would need to operate more like a business. It would hire and reward managers and employees under more private sector rules, subcontract selected functions, invest in new facilities and services, and participate in partnerships and ventures with other commercial entities. A Commercial Government Enterprise may not pay taxes in return for a dividend paid to the government.

Under this model, the Postal Service would manage itself like a commercial enterprise, but would not alter its mission of universal service. The Postal Service might be responsible for the obligation by means of a contract between the government and the Postal Service (as in New Zealand), or a set of laws decreed by government and enforced by a regulator (as in Germany), or a set of conditions attached to a license (as in the United Kingdom and Sweden).³⁷ In principle, a Commercial Government Enterprise could be able to provide alternatives for services that are no longer, in its judgment, commercially attractive. Thus, for example, it might be envisioned that, as in other countries, the postal enterprise might close a significant number of nonperforming retail outlets and contract retail services with local businesses, and replace them with more efficient means of access. A commercialized Postal Service could earn a net income and might pay dividends to its owner, the government. A portion of its retained earnings could be reinvested in the business to support the universal service obligation and ensure business continuity. The Postal Service might also be free to borrow and invest in business alliances.

As a Commercial Government Enterprise, the Postal Service would have a dominant position in some markets, some of them protected by a legal monopoly. It may be anticipated that the regulator (the Postal Rate Commission) would be empowered to prevent the enterprise from extracting unreasonable profits from customers in noncompetitive markets and using monopoly profits to gain an unfair advantage in competitive markets. Regulatory controls could take the form of rule makings and review of complaints. In principle, a Commercial Government Enterprise should be able to set prices within broad parameters.³⁸

Postal Service employees might be covered by private sector labor and employment laws, and craft employees would have the right to collective bargaining and other rights guaranteed by general legislation. Executive compensation might be structured to be competitive with comparable businesses without the existing federal salary cap.

³⁷ See the Defining and Measuring the Postal Universal Service Obligation section in Appendix U, *Universal Service Obligation and the Postal Monopoly*, for more information.

³⁸ See Appendix H, *Postal Transformation — The International Experience*, for more information.

The table below summarizes possible attributes of the Postal Service as a Commercial Government Enterprise.

COMMERCIAL GOVERNMENT ENTERPRISE

Mission/Public Policy	Provide universal service at affordable cost
Ownership	Government
Corporate Governance	Board of Governors refocused on fiduciary duties
Regulation	Postal Rate Commission
Monopoly	Letter and mailbox monopoly
Universal Service Obligation	Negotiated with regulator
Retail Flexibility	Explicitly defined under USO
Product Development	Market based – cost/benefit model
Pricing	Flexibility within broad parameters, complaint-based review
Human Capital	Collective bargaining, Railway Labor Act model, some private sector laws, no salary cap
Financial Requirement	Reasonable net income; retained earnings
Ability to Invest	Business alliances
Access to Capital	Legislated debt ceiling; retained earnings
Earnings	Retained to support USO, capital and business continuity; dividends possible
Taxes	Determined through legislation
Security	Postal Inspection Service
Key Metrics	Business-based metrics

Consequences

For American citizens, mailers, and policymakers, the consequences of a Commercial Government Enterprise offer an ongoing commitment to providing self-funded universal service to America. Increased financial and pricing flexibility would allow the new Postal Service to find alternative sources of revenues if hard copy traditional mail volumes decline. Moreover, rate payers would most likely benefit from further development of value-added services that complement the existing products. Employees could have fewer federal safeguards, but a decreased potential for layoffs as new opportunities replace the decline of traditional workload.

A Commercial Government Enterprise would continue to be an asset of the federal government. As markets and consumer needs continue to evolve in the future, a government provided universal service may someday no longer be relevant. Commercialization would allow the Postal Service to ready itself for potential future privatization, safeguarding the value of the asset.

Selection of the Commercial Government Enterprise model may turn on reaching some of the following judgments:

- The model will induce greater efficiency and responsiveness to customer needs from the Postal Service in recognition that customer requirements have changed since passage of the Postal Reorganization Act of 1970.
- Policymakers will tolerate employee layoffs if required to make the Postal Service more affordable, although fewer layoffs may be required if additional sources of revenue are found.
- If the Postal Service essentially operates in a more commercial way, there still remain policy reasons to maintain government ownership.
- Customers prefer a stronger, more competitive Postal Service.
- The government favors a commercial post that preserves universal service or even pays dividends to the national treasury as an alternative to a potential return to government subsidies.
- Policymakers want a national post capable of competing against increasingly aggressive foreign posts both domestically and internationally.
- Policymakers and the American public will allow one of the largest businesses (by revenue) in the United States to compete and more fully partner with the private sector in its own and related markets even though it is owned by the government.
- While this model assumes a government-owned entity that may be a permanent structure, it also may be understood as a (potential) step toward future privatization; pressures toward privatization could continue if the Postal Service becomes a Commercial Government Enterprise.
- The government, as owner, will protect creditors as a last resort and may return to operating the Postal Service as a Government Agency to protect universal service, or privatize the organization if the business model breaks down.

Legislative, Structural, and Financial Implications

Some of the legislative, structural, and financial implications for the Commercial Government Enterprise model are as follows:

- Given the experience of other government organizations and transformed private bureaucracies, changing to a corporate culture could take a decade or longer. To ensure success of the organization, the monopoly protections should be retained as long as reasonably needed to facilitate this difficult transition.

- As a commercial enterprise, the Postal Service could be free to offer services in related markets where its core competencies provide the opportunity. Economic modeling indicates significant opportunities for a successful commercial entity.
- Legislation necessary to transform the Postal Service into a Commercial Government Enterprise will likely require compromise and a common vision for all stakeholders.
- Some commercial ventures fail; others succeed.

3.4 Universal Service

Any discussion of the future of the Postal Service must include consideration of the definition of universal service.³⁹ The ways by which that definition could be changed are nearly limitless. The combination of days of delivery, method of delivery, service commitments, access points, and other elements of universal service could be changed in any number of ways. Indeed, there have been numerous specific suggestions offered by stakeholders as to how USO could be defined differently. The Postal Service believes that the future definition of USO should be determined as a matter of public policy. This report, therefore, does not include a specific recommendation for change. However, to help frame the debate the Postal Service provides the following information relating to two commonly raised proposals, i.e., reducing the number of delivery days and changing the delivery method to a more centralized approach.

- Reducing the number of delivery days using volume- or revenue-based criteria has been suggested as a way of reducing costs. The Postal Service has conducted a preliminary study of the possibility of eliminating one day of delivery. Rough estimates of the gross savings possible from reducing the number of delivery days from six to five are in the range of \$800 million to \$1.1 billion. These savings could however, be offset by a loss of revenue since many Postal Service customers advised that they may opt to use alternative methods of delivery if delivery frequency were changed.
- Given the significant cost differences of the various delivery modes (door \$0.81, curbside \$0.51, and centralized \$0.37), it has been suggested that a mandated change to the current mix of delivery should be made. While the Postal Service has managed delivery costs over time by limiting new deliveries to curbside or centralized modes, it has not done a study on the conversion of existing door delivery to a more cost effective method. Practical considerations, as well as public and political concerns, would have to be studied in great detail before the viability of this proposed change could be determined.

³⁹ See appendix U, *Universal Service Obligation and the Postal Monopoly*, for more information.

3.5 Postal Service Perspective

Ultimately, the future business model of the Postal Service is a policy decision. In recent years, discussion and debate over the proper role for the Postal Service in the 21st century has been vigorous, and appropriately so, for important public policy questions are stake. After taking into account this public dialogue and stakeholder input, after weighing the implications of recent events, and after considering as well the enduring influence of the institution's core values, vision, and mission, the Board of Governors and senior leadership of the Postal Service have formed an opinion on the most appropriate model for the Postal Service for the next few decades.

Government Agency

Postal leadership does not believe that devolution of the Postal Service into a Government Agency represents the best course for the future. While restructuring the organization as a Government Agency would continue support for its core values and mission, it would not provide stability for the nation's delivery services network. The Postal Reorganization Act of 1970 rejected the government agency structure of the old Post Office Department because of volatility brought on by labor issues, capital shortfalls, and service problems. The risk of volatility will only increase if, as expected, First-Class Mail volume declines and the postal monopoly proves less able to fund the universal service obligation and other public policies. There is, moreover, little support for this model among stakeholders.

Privatized Corporation

Postal Service leadership likewise considers the Privatized Corporation an inappropriate, or at least premature, model for the Postal Service in the foreseeable future. Whether or not a privatized Postal Service would fully support the values and mission of the present institution is unclear. Corporate culture would inevitably change in a profit-driven organization even if public policy issues remain a factor in corporate decision making. Moreover, privatization is not a viable option at this time for financial reasons. There would likely be little investor interest in an initial public offering by a company operating in a potentially declining market. While the assets of the Postal Service are great, so are future retirement liabilities. Consideration of the privatization option would appear to be more timely after the Postal Service has further honed financial, pricing, and market skills. Most importantly, focus groups with the American public held during the Stakeholder Outreach effort yielded strong opposition to privatization. The American public wants its government to provide universal service, and Postal Service leadership hears them.

Commercial Government Enterprise

Postal Service leadership has concluded that the model of a Commercial Government Enterprise offers the best hope for transforming the Postal Service into an enterprise equipped to maintain universal service at affordable prices in the economy of the 21st century. The Postal Service's basic mission will not change. Its corporate vision will continue to embrace delivery and access for every American. Increased flexibilities inherent in the Commercial Government Enterprise will afford opportunities for growth and cost containment. Although the value of the monopoly is diminishing, transformation of the Postal Service as a Commercial Government Enterprise will equip it to control costs and adapt to changing markets while continuing to provide universal service.

3.6 Longer-Term Legislative Changes

Translation of a conceptual mode, the Commercial Government Enterprise, into a specific legislative framework will involve a wide array of choices. To be successful, transformational legislation must address deficiencies of the present model which make the current system too unwieldy. Transformation must arm the Postal Service to adapt quickly and responsively to change by freeing it from processes and restrictions that may support traditional governmental values but undercut business efficiency. To preserve universal service at affordable rates in the modern marketplace, the Postal Service will need the capacity to make the hard decisions presented by trade-offs between controlling costs and meeting customer demands.

In this section of the *Plan*, the Postal Service identifies the most significant issues that it believes would have to be addressed to transform the Postal Service along the Commercial Government Enterprise model. They encompass the following areas of 1) net income and retained earnings, 2) markets, 3) purchasing, 4) regulation, and 5) labor and employment. The Postal Service recognizes that various solutions may be possible in each area and that the entire postal community must be heard from in order to complete a satisfactory transformation.

1. Net Income and Retained Earnings

The Commercial Government Enterprise should have the goal of earning reasonable returns over the long term and have the ability to accumulate retained earnings. Retained earnings could provide two types of improvements:

First, the need to generate a net income for the owner (i.e., the government) could help instill in the entire organization an incentive to manage its resources as efficiently as possible. Resulting cost savings would benefit customers through lower postage bills and enhanced services.

Second, an earnings-based model should help resolve for the long term some of the deficiencies of the current financial model that are not fully addressed in the near-term, interim changes. Earnings would reduce the Postal Service's current dependence on issuing debt to finance capital spending. The current freeze on capital spending intensifies financial and competitive risks to the long-term viability of postal networks and services. To lessen the freeze, the Postal Service has requested from Congress

\$957 million for services rendered in the past. Retained earnings would provide a more stable source of funding to assure that capital investments can be made on the basis of sound operating and financial policies and would help avoid reaching absolute borrowing limits. Similarly, retained earnings should enable the Postal Service to get through temporary economic slowdowns without always having to raise prices, allowing it to focus more on the longer term. Price increases could be scheduled to address market conditions. The Postal Service could also smooth the price effect of growth in longer-term liabilities such as retirement. Finally, the Postal Service would be better prepared financially to respond to unexpected events if the contingency built into existing rates proves inadequate, as it has in recent experience.

2. Markets

The postal enterprise should have the flexibility to explore service offerings in related markets in order to maintain the financial solvency of its postal network and to help fund continuing universal service responsibilities. New ventures could include overseas postal markets. Major foreign posts are now entering the U.S. market as they begin to compete globally. The U.S. postal enterprise should be able to compete globally as well.

Other global opportunities could include horizontal integration in such areas as logistics, printing, remittance, and scanning services. By leveraging its core competencies and knowledge through partnerships and contractual arrangements, a firm makes the most efficient use of its resources. For instance, the Postal Service could capitalize on its extensive logistics background by providing consulting help and maximizing usage of its assets. It could also increase use of its extensive retail network by providing sales outlets for other parties who do not have full-service outlets in particular locations. In addition, the Postal Service might allow broader downstream access, for a fee, to arguably its most valuable asset—its delivery network.

The Postal Service already partners with the private sector to accomplish many facets of its mission and, under this model, could continue to expand opportunities for the private sector. More scope for joint undertakings and investments with private partners should be permitted expressly. In today's business world, strategic alliances and other ongoing business relationships often use shared equity as a way of managing a relationship and apportioning its risks and rewards. Many postal administrations make appropriate use of these kinds of transactions, as do other organizations with which the Postal Service does business regularly.

3. Purchasing

The postal enterprise should be free to enter into contracts to purchase goods and services, including transportation,⁴⁰ following the most effective commercial practices. A number of federal statutes should be reconsidered.⁴¹ Like other service providers, the postal enterprise should be subject to purchasing statutes and obligations applicable

⁴⁰ See Appendix M, *Efficiency-Based Strategies*, for more information on international air transportation deregulation, which is one example of purchasing freedoms.

⁴¹ By way of illustration, some of the statutes that now impose added costs not required of the firms whose competing or substitute services may take increasing volume away from the postal system include the Contract Disputes Act (procedures for asserting and resolving claims in a specified court system); the Prompt Payment Act (payment of interest on delayed payments); the Davis Bacon Act (prevailing wage rate set by the Department of Labor for laborers); the Service Contract Act (payment of wages set by the Department of Labor under certain contracts); and the Javits-Wagner-O'Day Act (purchase of selected goods and services from workshops employing the blind or disabled).

to commercial organizations, such as the Uniform Commercial Code, which deals with many forms of commercial transactions (contracts to buy and sell goods). Also, a Commercial Governmental Enterprise may face some form of antitrust regulation.

4. Regulation

a. Pricing

A Commercial Government Enterprise would need pricing flexibility to participate effectively in the modern business environment and to provide its customers with moderate and predictable rate adjustments. If the postal monopoly is maintained to support universal service, however, some regulation of monopoly prices is likely to be considered appropriate to protect the public interest. However, the Postal Service should have authority to price its competitive services based on market principles. For customers using monopoly services, the Postal Rate Commission (PRC) and the Board of Governors would provide broad parameters to prevent cross-subsidy and undue discrimination. Within those broad parameters, the Postal Service would have the flexibility to adjust its prices promptly. Pricing and classification parameters should be enforced under a complaint process. Wherever the enterprise faces effective competition, the antitrust laws and fair competition laws should suffice to protect competition in the public interest.

b. Universal Service and Uniform Rates

Universal service should continue to be protected. The definition of universal service could specify general criteria on major service attributes such as days of delivery, but must be flexible and pragmatic, so that new methods of providing access to service are taken into account and networks and services are not unreasonably tied to historical conditions. Broad expectations should allow room for localized adjustments, such as differences in delivery days in some areas based on need and efficiency. Requirements for universal service should include a complaint process instead of prior review.

5. Labor and Employment

a. Collective Bargaining

An efficient postal enterprise should be accountable for its total performance, preferably including all cost-causing components. While the Postal Service currently negotiates with its bargaining unit employees over most conditions of employment, some employee benefits, including retirement and certain aspects of health benefits, are fixed by law. These statutory constraints distort the bargaining process because large elements of total employee cost are excluded from the bargaining table. This limitation on the bargaining process should be corrected so that the entire compensation package is on the table at the same time.

Additionally, cooling off and mediation procedures similar to those for essential services under the Railway Labor Act should be provided.⁴² In the mediation stage, criteria for decision should be provided, similar to those under other models involving essential services, so that explicit consideration is given to the effect of labor contracts on the enterprise, its customers, and the public interest. Consistent with the Railway Labor Act, failure of the mediation process could lead to strikes and lockouts as in the private sector.

b. Employment Laws

Like other organizations in the mailing community, the Postal Service should be subject to private sector employment laws. Currently the Postal Service is under federal sector programs for workers' compensation, equal employment opportunity, and certain employee discipline procedures. On the other hand, the Postal Service has already been placed under private sector provisions regarding occupational safety and health and under the National Labor Relations Act for most aspects of collective bargaining. Employment laws applicable to a Commercial Government Enterprise should be made consistent with a similarly situated private business. For example, the current mixture of private and public employment laws permits dual filing of complaints by employees which drives up administrative costs and management expenses. Comparable private sector employers are not saddled with a similar burden. Postal customers should not have to bear costs of duplicative complaint systems.

⁴² See Appendix V, *Alternative Collective Bargaining Models*, for more information.