Opportunity Seized

The Results of the Mailing Industry Task Force

2001–2004

The Report of the 2001
Mailing Industry Task Force

Mailing Industry Task Force
National Postal Forum
Spring 2003

Mailing Industry Task Force
2001–2003
Results and Achievement

Table of Contents

page 1 Letter to the Mailing Industry

page 2 Task Force Mission and Process

page 6 Phase One: Objectives and Accomplishments

page 14 Results At-a-Glance

page 28 Phase Two: Growth, Effectiveness and Innovation

May 1, 2004

To the Mailing Industry:

The conclusion of the first phase of the Mailing Industry Task Force's effort to forge a strategic collaboration between the United States Postal Service and the mailing industry's leaders has arrived. We can look back over the past three years with satisfaction that the process put in place has delivered substantial, measurable results that have supported — and accelerated — the transformation of the mail channel, and opportunity and growth for the businesses and the institution that depend upon its viability.

While we are still faced with significant changes, the Task Force and its members can see their efforts reflected in developments in address quality improvement, in the planning and initial implementation of Intelligent Mail™ products and services, and in the optimization and renewed emphasis on quality of mail preparation and entry. Our support has led to change in pricing flexibility, enhanced payment systems, ease of access through new "gateway" technologies and services, computer modeling of the entire postal network, and the establishment of an independent CEO-level industry council.

Our influence has been a catalyst for other change, as well. The President's Commission on the Postal Service has reset the agenda for the national debate on postal reform, and our concerns and ideas can be seen in the Commissioners' findings. Our industry members worked hard to educate Congress on the need for a change in the Civil Service pension payment formula, and now we have unprecedented rate stability.

We're taking this opportunity to codify our accomplishments in this final first-phase report, and to reset our focus. Going forward, we'll concentrate our efforts on new and innovative revenue growth concepts for the industry and the Postal Service, and how to make mail even more effective for its customers. As we have in the past, we first will identify several initiatives and enhancements that we determine as having the most potential to drive growth. Then we will focus our efforts on how the industry and the Postal Service can best collaborate to realize that potential.

We want to thank all our colleagues — both industry and postal — for their support and their efforts to date. And we welcome their continued involvement as we move the Task Force towards new challenges and new opportunities.

Michael J. Critelli
Co-Chair

John M. Nolan
Co-Chair

Task Force Mission and Process

Introduction

Beginning in 2001, the Mailing Industry Task Force (MITF) — headed by a chief executive level Steering Committee chaired by United States Postal Service Deputy Postmaster General John Nolan and Michael J. Critelli, the Chairman and CEO of Pitney Bowes — set out on a collaborative journey to think and act strategically about how to make mail more competitive and responsive to mailing customers. Over 65 mailing industry organizations and 175 postal and industry executives would participate over the next three years. They would conceive, develop and support 43 initiatives evolving from or linked to Task Force recommendations. Each initiative, by the fall of 2003, either had been fully implemented or was in the process of becoming operational.

"Our efforts stand apart from other industry and Postal Service partnerships," said Deputy Postmaster General Nolan, "in that we have always committed to the support of meaningful and achievable results."

The Task Force, Nolan said, could see those results in the context of the following USPS actions that had been taken in the past three years:

- Establishment by the Postal Service of a Senior Vice President for Intelligent Mail™ and Address Quality
- Prioritization of both USPS and industry resource allotment and management attention to Intelligent Mail™ and address quality
- The ongoing expansion and refinement of Confirm® Services, the Postal Service's first Intelligent Mail™ product
- Development of strategic initiatives designed to improve the preparation and entry processes for non-letter-sized flat mailpieces and packages
- Completion of phase one computer modeling of the entire postal network
- Testing of new consumer-friendly services and products designed to improve the change of address process and to facilitate the return of merchandise
- Implementation of strategic pricing initiatives, including the first negotiated service agreement

"In some regards, our most important accomplishment was conducting and analyzing research to demonstrate how big an industry we are, and to show that the Postal Service, while critically important, is proportionally a smaller part of the whole. The transformational process we are facilitating is to build the health of an entire industry, not that of a specific institution. That quantification didn't exist three years ago."

Michael J.Critelli, Chairman and Chief Executive Officer, Pitney Bowes

- Rollout of *PostalOne!*®, a Web-based, technology-supported system that more effectively links customers' mailing information with the Postal Service's acceptance, verification and payment systems
- Support for Task Force industry CEOs' creation of the Mailing Industry CEO Council, an independent, nonprofit business league dedicated to the promotion of mail and the mail channel

Completion of the work on the 43 key initiatives *(see the centerfold section of this report)* marked the conclusion of phase one. In this report, those accomplishments are described — and success stories in each of the seven areas of focus are highlighted.

The Mission and Strategic Direction

"In some regards, our most important accomplishment," said Task Force Co-Chair Michael Critelli, "was conducting and analyzing research to demonstrate how big an industry we are, and to show that the Postal Service, while critically important, is proportionally a smaller part of the whole. The transformational process we are facilitating is to build the health of an entire industry, not that of a specific institution. That quantification didn't exist three years ago."

The context created for the recommendations — a first-time quantification of the size and scope of the mailing industry — captured much of the initial attention of the postal community. Using research gathered both by industry members of the Task Force and by the Postal Service, the Task Force reported that the mailing industry generated annual commerce valued at nearly $900 billion, or roughly 8 percent of the country's Gross National Product. Moreover, the industry employed 9 million. "Either way you measure, in dollars or in people," said Critelli in 2001 when the research was first published, "we are an economic engine that cannot be ignored."

The Task Force was designed as a collaborative entity, one that would eventually become a paradigm of successful public/private partnering. Initially, it was asked by Postmaster General Jack Potter to focus on industrywide issues that included where the best opportunities existed in terms of improving mail and its channel, and how both the industry and the Postal Service might find success through strategies targeted at those opportunities.

"Our charter," recalled John Nolan, "was to assess customer needs, to ascertain the current role of hard-copy mail in customer relationship management processes and, finally, to understand the competitive environment affecting the future of the mailing industry. What we had to do was develop a recommended course of action necessary for both the Postal Service and the industry to thrive in the future."

The Task Force defined three overarching strategic principles that would support transformation and success: make the mail channel more competitive, unify the mailing industry and respond to customer needs. For more responsive mail, members recommended the development of Intelligent Mail™ and consumer gateway services, including merchandise returns and alternative points of access to postal services. To unify the industry, the Task Force suggested that the industry create and support a CEO-level advisory council whose mission would be to ensure the viability of the hard-copy mail delivery system by focusing on standards development, channel promotion and issues awareness. And to make the mail channel more competitive, members urged that the industry and the Postal Service collaborate to standardize preparation, containerization and entry requirements to develop a strategy of integration to optimize the postal network, to adopt a flexible pricing strategy and to improve address quality.

An eighth strategic focus — enhanced payment and credit options — was added after the Task Force report's release. The eight areas of focus — later consolidated to seven by combining mail preparation and entry with network optimization — would constitute the universe of phase one activity for the Task Force.

The Task Force Process

Task Force membership reflected what its members thought of as the mail channel value chain — the mailers, the preparers of mail, the companies whose revenues relied on the customer connections maintained by the mail, and the vendors and suppliers of the hardware, software and labor required to keep the mail channel operable and viable. The value chain structure shaped an industry that had been, as Co-Chair Critelli observed, "fragmented."

The chief executives who formed the initial Task Force Steering Committee included Acxiom's Charles Morgan, ADVO's Gary M. Mulloy, Symbol Technologies' Dr. Jerry Swartz, R.R. Donnelley's William Davis, American Express' Jonathan Linen, Capital One's Nigel Morris, Fingerhut's Michael Sherman, Paramount Cards' Hamilton Davison, Seibel Systems' Thomas Seibel and Wunderman's David Sable. Over the next two years, others would join the Steering Committee, including Lockheed Martin's Judy Marks, Wolf Detroit's Hugh Mahler and Fala Direct Marketing's Jeff Jurick.

Each of the areas of recommendation was assigned a Postal Service officer and an industry leader to serve as co-chairs of a subcommittee devoted to further study and implementation.

"The sustained level of CEO engagement," reflected Critelli, "resulted in our studying and working on issues of mutual, strategic interest. Trade associations, by comparison, had a more fragmented agenda regarding mail and the channel, as you would expect. Ours was focused and comprehensive."

By the fall of 2001, the Task Force had identified several opportunities that appeared to have the potential to help move the industry toward greater cost-effectiveness and a more techno-

logically integrated channel able to compete with any communications method. Steering Committee members agreed the Task Force would remain active to facilitate implementation of recommendations and further explore ideas that the Task Force was unable to give appropriate attention to in its initial phase.

"We focused on challenges and initiatives within the range of what could be accomplished," said Critelli. "We supported what was within the joint control of the industry and the Postal Service. Our objective was not to simply propose reform, but to accomplish transformation. It was about rolling up our sleeves. And the momentum we created gave the Postal Service and the industry confidence to move forward."

In the spring of 2002, the Task Force was able to report that initiatives were underway in support of each strategy, and that each subcommittee had at least one work group studying how best to further develop and implement the recommendations.

"We have created a process," commented Steering Committee member Charles Morgan, "a sustainable process by which we can have continuous improvement in the mail channel over a long number of years to make it a viable component of the new economy."

In the fall of 2002, and three times again in six-month intervals, the Task Force updated the mailing industry and the postal community on progress made in reaching their objectives. The influence of the work could be seen when, in the spring of 2002, the Postal Service — responding to a request from Congress — published its own Transformation Plan. Several of the transformation strategies reflected Task Force recommendations on Intelligent Mail™, prep and entry, address quality, network optimization, payment, pricing and access to postal services.

That the Postal Service plan echoed the Task Force's strategic path in important ways seemed to many a validation of the three-year effort. And the optimism for the potential for growth could be traced directly back to the Task Force's earliest days.

"The notion of two worlds — one which is Web-based and one which is physical — is one that we're all confronting," had said Task Force member Dr. Jerry Swartz of Symbol Technologies in 2001. "I look at that as a wonderful opportunity. It's a brave, new world. One where mail is going to be at the core."

September 2003 brought the first phase of the Task Force effort to a formal close. On the pages that follow, the Task Force's accomplishments in each area are outlined. Meanwhile, as the final section of this report will show, the Task Force work will continue in what will become its phase two.

"As we now have for three years, leaders of the mailing industry and the Postal Service continue to successfully collaborate to achieve the shared objectives of a strong mailing industry and a future of universal communication and delivery service to the American people by the United States Postal Service," said Task Force Co-Chair John M. Nolan. "We're moving closer to our goals to better respond to customer needs, to make mail more competitive, and to help unify this industry."

Phase One: Objectives and Accomplishments

Address Quality

The initial report of the Mailing Industry Task Force recommended reducing undeliverable mail by improving address quality and by providing a "feedback loop" that captures and reports addressing errors. The Task Force — led in this effort by Acxiom Company Leader Charles Morgan and USPS Senior Vice President for Intelligent Mail™ and Address Quality Charles Bravo — narrowed its focus on how best to improve the processes used by mailers and the Postal Service to create quality address databases and to ensure that their use is most effectively and efficiently leveraged by Postal Service operations procedures and programs.

After reporting progress on testing the accuracy of the database of the National Change of Address system; on development of a plan for the Postal Service's Postal Automated Redirection System (PARS); and on the need for process improvements associated with move update, the USPS Address Correction Service (ACS) and the change of address card, the Task Force focused on implementation of programs to drive process improvement. Due in part to the needs identified by the Task Force, Postmaster General Potter in January 2002 announced the creation of a new Postal Service functional area — Intelligent Mail™ and Address Quality — and named Bravo Senior Vice President, Intelligent Mail™ and Address Quality.

Among the program implementation efforts supported by the Task Force are:

"Feedback loop" development. The Task Force advocated funding for PARS — initially, a lettermail-only system. It was approved by the Board of Governors, and a contract was signed with Siemens for its development and implementation. Deployment is now underway.

Preprinted ACS codes. The Task Force asked that mailers be allowed to preprint ACS participant codes on envelopes, and the Postal Service approved the request. Mailers are now able to use electronic ACS without changing the envelope window size or making costly program changes. Preprinted codes have potential to generate substantial UAA-related cost reductions.

Federal Register notice for move update requirements. The Task Force supported this change to improve the accuracy of industry mailing lists. The change is currently in the initial stage of implementation.

"We identified the annual cost of undeliverable-as-addressed mail to the Postal Service as $1.5 billion. To the industry, it's more. First, we targeted the cause, then we focused on potential solutions. I am confident that with continued cooperation, we can make a significant impact in reducing the amount of undeliverable-as-addressed mail and create a win for consumers, the mailing industry, and the Postal Service."

Charles Morgan, Company Leader, Acxiom

Enhancing the Change of Address Process

In the fall of 2002, the Postal Service and the Mailing Industry Task Force announced plans to unveil a series of initiatives designed to improve how address changes are processed and implemented throughout the postal network.

The initiatives, ranging from a redesign of the official change of address form to additional training for postal clerks and carriers, were fast-tracked for implementation by the close of that year.

"Through analysis of results from a test sponsored by our Mailing Industry Task Force partners and ourselves," said Deputy Postmaster General John Nolan at the time, "we have discovered opportunities to improve both the address quality of our databases, and the ways in which the databases are used. We anticipate these initiatives will help both the Postal Service and mailers in reductions of the costs associated with address correction."

The address quality test — coordinated by the Postal Service's National Customer Support Center in Memphis, Tennessee — was conducted in the summer of 2002. It was designed to evaluate the quality of the information in the National Change of Address database and the process by which it's used. The test also showed the need to align the ways different address-correction systems default to move types.

"The changes made as the result of the findings of this extensive mailing will add value for both mailers and ourselves," observed Postal Service Senior Vice President, Intelligent Mail™ and Address Quality Charles Bravo.

Half a million mailpieces were used in the study, said Jan Caldwell, who heads the Postal Service's National Customer Support Center. "This was a fairly significant scope, and we worked with several mailers," she said. "The results came to us for study, and we found that, while the quality of our NCOA database was high, the form we use to capture the data was confusing."

Several focus groups confirmed the Center's conclusion, noted Chris Bennett of Acxiom. "We also found later that when people left information off their forms," said Bennett, "the default settings were inconsistent. Neither the Postal Service nor the industry was seeing the extent of the problem, because the postal culture is to try to deliver the mail, even if it's misaddressed." The redesign of the move form will definitely benefit consumers, mailers and the Postal Service.

With the focus groups and other input pointing to the need for a better form, the Postal Service implemented a redesign program and revised the instructions for the form. New training measures were put into place. And efforts were undertaken to raise consumer awareness of the option to use the online change of address form at www.usps.com.

"With more than 40 million consumers submitting move forms annually," said Task Force Steering Committee member Charles Morgan, the Company Leader of Acxiom, "it is absolutely critical that we continue to identify ways to improve the quality of the information submitted by consumers and the National Change of Address database, and the frequency with which mailers apply updates."

ACS reviews at Computer Forwarding System (CFS) sites. Task Force studies demonstrated that a significant percentage of properly endorsed pieces were apparently not being sent to the CFS unit for ACS return and were manually returned in error at a higher cost to both the Postal Service and their mailers. A data profile of processing locations with a higher percentage of electronic returns and those with a low percentage of electronic returns was created to learn what needed to be fixed. Feedback is being provided to improve operations and the associated electronic return rate, and training for field employees has been implemented.

Communicate ACS information between CFS sites and mailers to improve performance. The Task Force recommended better communications between CFS sites about the types of errors found and how mailers can improve the quality of ACS codes being used. A process has been set up to centralize the reporting of ACS mailer deficiencies at the National Customer Support Center (NCSC). A CFS site identifies those ACS mailpieces with errors or deficiencies, and provides feedback to the NCSC for posting on the Business Service Network (BSN). The NCSC, in this process, then coordinates reasonable resolutions of the deficiency or error with the ACS customer.

Develop an official snowbird program. USPS' Delivery Operations and Product Development groups have been tasked with the creation and implementation of a snowbird program to help reduce the problems and irregularities that changes of address creates for seasonal movers. A rate case filing is planned for 2004.

Intelligent Mail™

The Task Force recommended that the industry promote development of the "intelligent" mailpiece by collaborating with the Postal Service to implement standards and systems to make every participating mailpiece — including packages — unique and trackable. "If the person is going to throw our mail out, we'd rather not send it to them," said Steering Committee member Michael Sherman, then president of Fingerhut, when the recommendation was first published in 2001. "So how do you make mail smarter? How do you put together individualized customer contact programs so that each customer gets a program tailored for her?"

The recommendation gained traction throughout the postal community, and in April 2002, development of Intelligent Mail™ Services was included as a growth strategy in the Postal Service's Transformation Plan. In January 2003, Postmaster General Potter named Charles

"It's not a question of electrons versus paper. It's a question of both. More and more technologies, channels of communications, are merging and it's not that you have one versus the other, it's how effective is this particular channel at reaching people across America. The idea of Intelligent Mail™ — a connection between technology and hard copy, resulting in value added for the sender, receiver, and processor — is the missing piece in the puzzle."

Hamilton Davison, President and Chief Executive Officer of Paramount Cards

The OneCode Vision™

On January 8, 2003, a Postal Service/industry team led by Jim Prevost of DST Output and Jeff Freeman of the Postal Service's Intelligent Mail™ and Address Quality function presented the outline of what would become the Postal Service's OneCode Vision™. The vision, as outlined by the team, was one of a single enhanced barcode-type to use on each type of mailpiece that could combine tracking, sorting and other information in a format that could be read by Postal Service sorters.

"The industry and the Postal Service both had needs they wanted to address," recalled Prevost. "When we talked to Task Force representatives, we heard a desire to move beyond PLANET Code® and to have more characters available. From the Postal Service, we heard the need to improve read quality and expand from error checking to error correction."

The Task Force, working with the Postal Service, had already initiated a review of two-dimensional barcodes used by the Postal Service and looked at opportunities for expanding the data on an envelope. The Postal Service concluded that two-dimensional coding was technically feasible but would require additional investment in software, hardware and possibly network bandwidth as well. The OneCode Vision™ — proposing a single code per mail type, but not necessarily a single standardized code for all mail — appeared to be the best platform upon which to build Intelligent Mail™.

"The MITF Intelligent Mail™ committee of the Task Force," said Freeman, "was invaluable. Committee members highlighted the technical feasibility of the concept, developed some early prototypes to stimulate discussion, and helped to identify and clarify the potential benefits to the mailing industry in pursuing the concept."

Today, work on code content data elements continues. The Task Force has formed a committee work group to identify key service requirements. Meanwhile, the Postal Service is building on the work of the committee as it pursues pilot testing of PLANET Address Change Service and testing of the four-state code as an alternative to PLANET Code® to enable enhanced tracking services through its Confirm® service.

"The work we're doing will expand mail's value," said Prevost. "This is an important, transformational initiative."

Bravo to the new officer position of Senior Vice President, Intelligent Mail™ and Address Quality, and directed him to develop both a new functional department and an overarching Intelligent Mail™ strategy for the Postal Service.

Among the program implementation efforts supported by the Task Force are:

Enhanced products and services. The Postal Service unveiled Confirm® as a special service offering in September 2002. Continued expansion of access to Delivery Confirmation™ through products such as Click-N-Ship™ have shown further progress in the availability of Intelligent Mail™ services. Shortly after its launch, the Task Force endorsed Confirm® as "a major step forward towards achieving the Task Force recommendation that Intelligent Mail™ products be developed in order to make mail more valuable to its customers and more competitive with other communications channels."

For mailers who register, the Confirm® service provides electronic tracking information from mail entry through the automated processing environment for letter and flat mail. Confirm® can tell its subscribers when mail is about to be delivered. Benefits from such knowledge will enable mailers to advise their customers on when to staff telephone banks in response to a mailing's content and messages, and when best to launch other marketing efforts in support of the mailing. Confirm® can also tell mailers how consumers are responding to their marketing initiatives.

This will allow mailers to accelerate, moderate or otherwise adjust a plan, in real time, based on Confirm® data. Further, a mailer can report if a "check is truly in the mail." This knowledge will benefit both businesses and individual consumers by anticipating cash flow, stopping dunning notices or avoiding unnecessary termination of service. The Task Force concluded that the benefits of Confirm® provide examples of the improved customer relationship management and enhanced mailing response that Intelligent Mail™ products and services will deliver.

Confirm now has 165 subscribers. Confirm® data is available electronically 24 hours a day, seven days a week, 365 days a year. The program subscribers' shared reports are available on the Web at the mailtracking.usps.com site. Mailers use PLANET Codes® on seeded mail to get information about larger mailings.

The Task Force has also noted that resellers are discovering innovative ways to add value to the Confirm® data reports, and have encouraged the Postal Service to develop a reseller certification program to provide incentive for such enhancement.

In April 2003, the Postal Service initiated a pilot test of bundle tracking as an alternative means for Confirm® subscribers to obtain information on the status of their mailings. Currently, the Postal Service has 51 bundle tracking pilot test sites with five mailers participating in the pilot test. The test identified several issues that the Postal Service is working with the mailing industry to resolve. In addition, the Postal Service has completed market research to determine mailer interest in the concept.

Intelligent Mail™ corporate plan. The Postal Service — with the Task Force's support and input — has developed a corporate plan that presents a unified view of its strategies for developing Intelligent Mail™ and enhancing address quality. The plan lays out three key strategies: uniquely identify mail and aggregates; develop and deploy enabling infrastructure; enhance address quality.

Intelligent Mail™ infrastructure development. The Task Force supported deployment of new Wide Field of View cameras — with enhanced optical character recognition capabilities — in postal plants nationwide. Deployment to initial sites has shown that the cameras exceed performance expectations. The Task Force remains confident that full deployment of the cameras constitutes a significant step forward in development of an infrastructure necessary to support the USPS Intelligent Mail™ vision and strategies.

The Postal Service Board of Governors has approved investment in upgraded information networks for 62 mail processing facilities. The enhanced mail processing infrastructure will significantly increase the bandwidth available for transferring data from mail processing equipment to its information network. By making more data available faster, the Postal Service will be able to offer near-real-time tracking information on products such as Confirm® that rely on barcodes being read on processing equipment.

Privacy issues. The USPS Chief Privacy Officer, a member of the Task Force, has sponsored a privacy work group that examined the privacy implications of Intelligent Mail™ and developed suggestions on how best to incorporate privacy considerations into Intelligent Mail™ services. The work group has developed a privacy policy for Intelligent Mail™ services, posted at the privacy Web site at http://www.usps.com/privacyoffice/welcome.htm, and the mail tracking site at https://mailtracking.usps.com/mtr/common/index.pge. In keeping with the USPS high standards of privacy, the policy protects all aspects of Intelligent Mail™ services, including mailers, recipients and the mail itself.

Intelligent Mail™ communications. The Task Force supported Postal Service efforts to communicate the potential of Intelligent Mail™ and to market the Confirm® product. The Postal Service and the industry have worked to identify best practices and applications for Confirm®. Brochures and presentations have been developed to communicate best practices for retail, financial services and direct mail industries. The Confirm® Web site has been updated to better communicate the value of Confirm®, as well as its technical requirements. Task Force members have participated in a number of speaking engagements in industry conferences.

Consumer Gateway Services

The Task Force recommended that the industry and the Postal Service collaborate to develop "consumer gateway" services to remain competitive and to establish new streams of revenue while meeting the needs of consumers. The initiatives that have come out of the mandate have been designed to build upon the Postal Service's unique third-party trust status and have leveraged the organization's physical, technological and transportation assets.

All the work done by the Task Force was aligned with the following understanding: that marketplace challenges reshaping the nature of letter and package delivery were driving the consumer to look for more value and better service. Gateway services would need to take advantage of existing technology, enhanced services and products to provide the best possible customer service to the citizen mailer. In addition, the Task Force determined, there would have to be a focus on initiatives resulting either in productivity-based cost savings or increased revenue for the Postal Service. As Postal Service Vice President for Product Development Nick Barranca noted, "One of the things that is going to be key is creating the right value equation for the citizen mailer, the business mailer and the Postal Service."

As initiatives relating to Intelligent Mail™ progressed and requirements for additional mail security were prioritized, the Task Force's Consumer Gateway Services committee began to work closely with Task Force colleagues who were focused on Intelligent Mail™ and address quality.

Ease of use and access to services were both areas receiving the greatest attention, and the Task Force examined different approaches and methodologies to improve and enhance merchandise returns processes. Members studied the feasibility of an end-to-end package solution that retailers could offer to consumers, and decided to pursue three major initiatives: 1) Use the original Delivery Confirmation™ barcode on inbound and outbound packages, along with additional scanning within the postal system, to offer merchants and their customers more information on their package status; 2) Offer merchants a new option of receiving merchandise from their customers using a prepaid merchandise return label from the retailer delivered to them by the postal carrier; and 3) Offer consumers free package pickup, with the use of a prepaid merchandise return label by the postal carrier in their line of travel during normal delivery of the mail. This study and analysis led, eventually, to the implementation of a new parcel return service *(see Consumer Gateway success story on page 13).*

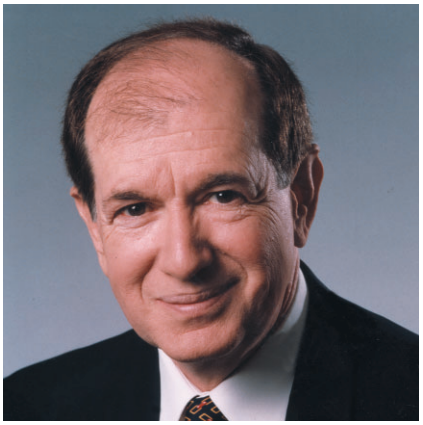
Other ease of use options considered by the Consumer Gateway committee included real-time payment flexibility and payment options to be offered by carriers; 24/7 access to postal products and services through kiosks, retail partnerships, flat-rate packaging and automated mail pick-up systems; a new pickup and delivery model that would leverage postal infrastructure assets; and opportunities to link physical mail and virtual services via print-to-Web technology.

Among the specific initiatives supported and facilitated by the Task Force are:

Online shipping. The Postal Service's Click-N-Ship™ program was successfully launched, and the number of users and package volume have steadily increased since the introduction. The Task Force has supported the service as a significant step forward in expanding customer access and leveraging the Postal Service Web presence.

"Consumer gateway services point to future revenues and possibilities that leverage the tremendous potential at the core of the Postal Service's capabilities — brick, click and motor."

Dr. Jerry Swartz, Symbol Technologies



Parcel Return Service

Responding to consumer concerns about difficulties in returning merchandise bought either online or through catalogs, the Postal Service, in the fall of 2003, launched a parcel return service designed to mitigate those fears while leveraging the power of worksharing.

"We knew that remote shopping was growing faster than retail sales," said program manager John Gullo, "and that direct sales were up 18 percent in 2002. That meant a dramatic increase in outbound packages and, consequently, more returns."

Making returns easier, the Postal Service concluded, was a huge opportunity. The Task Force collaborated in the development of the program, and one Task Force member — package consolidator Newgistics — became the initial shipper for the service's launch. Several Newgistics' customers — retailers like Neiman Marcus — could now offer prepaid return labels. The agent picks up the returning parcels at either an origin post office or a bulk mail center in their service area. That saves the Postal Service money, and the savings are passed on to the shipper.

"Customer service," noted former Newgistics vice president for marketing Susan Mitchell in the Spring 2003 issue of *Parcel Shipping & Distribution* magazine, "has become an increasingly competitive advantage in today's direct retail environment...By implementing best practice return processes, retailers can increase customer acquisition and retention as well as reduce operational expenses and lower call center volume."

The Postal Service's parcel return service is at the core of such best practices, Mitchell stated. "The USPS 'last-mile' coverage and millions of convenient drop-off locations make it the most efficient and customer-friendly return service," concluded Mitchell.

For the Postal Service, the service also appears to be a winner in its early stages. "Through the first five months," said program manager Gullo, "we've handled 1.7 million pieces, and generated over five million dollars in revenue. We've beaten our targets for the year to date."

By the end of 2004, said Gullo, four more shippers — and all their customers — are expected to come into the program. The interest and embrace of the service seems clear validation of the Consumer Gateway vision that helped drive its development: that customer loyalty does indeed flow from — and depend upon — the ease of access to postal services like returns.

Results At-a-Glance

	INITIATIVE	BENEFIT	RESULTS
Address Quality	**Federal Register Notice — Move Update Requirements**		
	Create a Federal Register notice on the move update requirements	In FY 05 — Reduce significant USPS cost and comparable for mailers	Second Federal Register notice was published August 2003; implementation of requirements scheduled for inclusion with rate case submission in 2006
	Change of Address (CA) Form PS 3575		
	Modify existing COA Form PS 3575	Improve accuracy of 3575 and COA database; reduce USPS' & mailers' costs; improve customer satisfaction	Proxy for improvement in customer satisfaction and attributable cost reduction will be determined in June 2004, using focus group study results comparing error rates occurring with the old form versus the new form
	Create a new COA Form PS 3575	Improve accuracy of 3575; reduce USPS' & mailers' costs; improve customer satisfaction	New change of address form in process of redesign; deployment in 2005 in conjunction with release of PARS Change-of-Address Forms Processing System program
	Communicate to the Postal Clerks about referencing the internet for filing COA	Reduce by 75% cost of entering 3575 information	FY 2004 (Oct.–Mar.) ICOA transactions have increased by 70% over same period in FY 2003 with an estimated savings of $600,000 comparing manual versus electronic entry
	Research alternatives to the $1.00 internet fee for filing COAs	Reduce by 75% cost of entering 3575 information	No alternative found
	Revise the COA confirmation letter	Improve accuracy of 3575; reduce USPS' & mailers' costs; improve customer satisfaction	Will be done in concert with new COA form
	Automated Change Service (ACS)		
	Obtain approval from the Domestic Mail Manual (DMM) to allow the ACS to be preprinted on envelopes	Reduce mailers cost, increase percentage of electronic ACS	This and other initiatives resulted in an overall customer growth rate of 15% in 2003 versus a 12% growth rate in 2002. First-Class saw a 17.4% customer growth rate in 2003
	Place articles in Mailers Companion, Memo-to-Mailers and HardCopy about the DMM notice	Educate mailing industry; reduce Postal and mailers costs	Completed
	Produce ACS hardcopy CD-ROM	Cost-effective way for small and medium mailers to get COA information	Since implementation, new subscribers utilizing the ACS hardcopy CD-ROM option represent 7% of all new subscribers
	Track ACS percentages to track progress	Significant percentage increase of properly endorsed ACS pieces processed electronically instead of manually	FY 2003 showed a 5.13% overall growth in ACS notices over FY 2002 (Note: these values exclude increases resulting from Capital One NSA); first 6 months of 2004 (Oct.–Mar.) show continuing growth of 4.73% versus first 6 months of 2003
	Communicate ACS information between CFS sites and mailers to improve performance (use BSN to help)	Significant percentage increase of properly endorsed ACS pieces processed electronically instead of manually	Reports of mailer ACS errors declined by 30% in March 2004 since peak reported in December 2003
	ACS reviews at CFS sites	Significant percentage increase of properly endorsed ACS pieces processed electronically instead of manually	FY 2003 showed a 5.13% overall growth in ACS notices over FY 2002 (Note: these values exclude increases resulting from Capital One NSA); first 6 months of 2004 (Oct.–Mar.) show continuing growth of 4.73% versus first 6 months of 2003
	Training Package for United States Postal Service Field Operation		
	Develop a training package for USPS Field Operation	Significant percentage increase of properly endorsed ACS pieces processed electronically instead of manually	In implementation
	Snowbird Program		
	Develop an official Snowbird Program	Significantly reduce forwarding cost and increase customer satisfaction	In pre-rate case development
Intelligent Mail™	**Vision Development and System Enhancement**		
	Wide field of view camera	Allow 2D symbologies to be read and increase read rates	Complete in November 2003
	Confirm® — improve present process and expand Confirm® capabilities	Add value to mail and increase volume	Completed standardization training; ongoing effort will include new MTAC work group
	Address block symbologies	Add value to mail and increase volume	In development; 2D and multistate barcodes being considered; study of mailer capabilities initiated by USPS
	Extend content for barcodes	Add value to mail and increase volume	In development
	Finalize privacy principles	Protect value of Intelligent Mail™	Principles developed
	Targeted education on Intelligent Mail™ value	Increase usage of Confirm®; generate volume and revenue	Presentations developed
Consumer Gateway Services	**Efficiency Improvement and Ease of Access**		
	Parcel Select ™ Merchandise Return Service — Packages available for pickup at BMC & DDU	Increase volume and revenue; increase customer satisfaction	Implemented in October 2003, has generated 1.7 million returns and over $5 million in revenue; more than 80% online customers prefer prepaid shipping label to return merchandise
	Develop Kiosks / Self-Service Technologies	Reduce USPS' costs and increase customer satisfaction	2,506 Kiosks put into service, beginning December 2003
	Postal Carrier Line of Travel Pickup — Pilots for local initiatives	Expand access; increase customer convenience	In April 2004, Carrier Pickup available to 85% of city and rural delivery addresses; in first two and one-half months, Carrier Pickup generated over 25,000 customer requests for pickup

	INITIATIVE	BENEFIT	RESULTS
Unify the Industry	**Industry Alignment and Channel Promotion**		
	Create industry council	Align industry leaders around shared objectives and messages	Industry CEO Council established as nonprofit corporation, June 2002
	Develop mail channel ad campaign	Promote economic importance of mail	Developed by Wunderman, unveiled Spring 2002
	Provide standards development leadership	Assurance that new technologies will serve entire industry	Industry representatives continue to play leading roles in Intelligent Mail™, address quality and mail preparation work groups
Payment Systems	**System Technology Enhancement**		
	PostalOne!® — Approved	Increase customer ease of use; reduce mailers' costs	The *PostalOne!*® program has scheduled three significant software releases (Feb. 04, June 04 and Nov. 04) to incrementally increase the value and features of the program
	Approved proof-of-concept test (PIN-based debit card acceptance at BMEU)	Increase customer ease of use; reduce mailers' costs	The PIN-based debit card test has been put on hold pending the migration of Shared Services
Pricing Strategy	**Negotiated Rate Case**		
	Negotiated Rate Case	Reduce time to implement rate case and reduce cost	Confirm® case completed, 2003
	Negotiated Service Agreement (NSA)		
	File the "New Classification for Periodicals" with PRC	Increase volume, contribution for USPS by reducing sacks; reduce mailers' costs by providing incentive for efficient entry	Reduction in the number of sacks: over 600,000; number of pieces entered at a destination ADC or SCF: over 20 million
	Filed the "Negotiated Service Agreement with Capital One Price Initiatives" with PRC	Increase volume and contribution for USPS; Reduce mailers' costs	Capital One NSA launched, 2003
	Rate Summit — Breakthrough Pricing Workshops		
	Rate Summit — Breakthrough Pricing workshops	Raise awareness within Postal Rate Commission and USPS of industry support for competitive pricing; generate new pricing concepts	Two summits held in 2002; industrywide support shown for competitive pricing initiatives
Mail Preparation and Entry Optimization	**Preparation and Entry Alignment**		
	Enhance Dropship Product	Align destination entry with correct processing location based on class, shape, presort and/or processing category	Enhancement complete; communications strategy in development
	5-digit scheme for AFSM 100-compatible Periodicals, Standard mail and Bound Printed matter (BPM) flats	Fewer packages, reducing sorting and prep responsibilities, with potential cost savings of up to $20 million annually	Implemented; all mailers of Periodicals, STD, and BPM automation flats are participating; preliminary data indicates 7% reduction in bundles; savings under study
	Restrict the preparation of 3-digit containers without value for certain Standard Mail, Periodicals, and BPM pallets and sacks of flats and irregulars	Reduce pallets and sacks	Implemented; all mailers of Periodicals, STD and BPM flats are participating; preliminary data indicates 2% reduction in pallets; savings under study
	Enhance the prep for BPM flats by allowing co-packing and co-sacking of automation and presorted rate pieces	Reduce packages and sacks	Effective April 2003; co-sacking required in Sept. 2003
	Full merging of carrier-route and 5-digit sorted, no-AFSM, 100-compatible flats within the same containers for dispatch directly to delivery units	Align manual incoming secondary volume with actual processing	New standards have been developed; expected implementation in Spring 2004
	3-digit scheme for Periodicals, Standard Mail, BPM flats for 3-digit ZIP Codes processed together on AFSM 100s	Fewer packages, reducing sorting and prep responsibilities	High-level parameters of the scheme are being developed
	Explore modifying the standards related to "OELs," presort stickers and package preparation in anticipation of the advanced package sorting equipment deployment	Improve package sortation capabilities on the new automated equipment	A joint Postal Service and industry work group related to MTAC will work through these issues in conjunction with the equipment vendor
	Increase the combining of letter mail trays from multiple mailings on pallets	Reduce pallets and origin entry of letters trays	Verification and acceptance issue are being identified in order to allow this concept to be further adopted across the industry
	Palletization of First-Class Mail trays and tubs	Improve allied handling of FCM containers and facilitate dock transfers	Tabled, for future consideration
	New Flat Container	Reduce USPS handling costs and mailers' cost of preparing	Ft. Myers, FL, test complete, successfully proved container's potential; industry to study how to integrate concept into bindery lines; USPS to study impact on rates, mail preparation
	Optimization		
	Network Integration and Alignment (NIA)	Reduce processing cost for Postal Service and mailers	Computer model developed

Kiosks and self-service technologies. The Postal Service began deploying self-service kiosks in 2003, with each of an anticipated 2,500 kiosks able to sell stamps, information-based indicia printed postage and other services.

Pre-paid packaging. After piloting a pre-paid, flat-rate envelope with an inside sales partner, the Postal Service rolled out the product in December 2003, making it available online via usps.com.

Carrier Pickup. From the line-of-travel possibilities considered by the Task Force, the Carrier Pickup service was developed and launched early in 2004 in selected postal districts. The service is activated by a Web-based request from a consumer, which is read by the appropriate local post office. In April 2004, Carrier Pickup will be available to 85 percent of city and rural delivery addresses. In its first two and one-half months, Carrier Pickup has generated over 25,000 requests for pickup.

Unify the Industry

Unification of a mailing industry described in 2001 by Task Force Co-Chair Michael Critelli as "fragmented" was an important objective, even more so once the scope and strength of the $900 billion, 9 million-member workforce had been quantified.

The Task Force, in its initial set of recommendations, had called for the establishment of a CEO-level council whose mission would be to ensure the viability of hard-copy mail delivery systems by focusing on standards development, channel promotion and issues awareness. Task Force members envisioned the Council as one that would develop an advertising and marketing program for mail, the industry and their challenges, as well as a body that would closely examine opportunities to deepen the relevance and importance of mail. As Task Force member William Davis observed at the time, "A CEO-level council charged with actions to solidify the future and vitality of the hard-mail system is necessary."

Speaking to the issue of standards, Steering Committee member Nigel Morris, then the President and Chief Operating Officer of Capital One, stated, "There have to be standards and they have to be of the highest quality. But you have to see quality through the eyes of your customer, not through the eyes of your infrastructure and how you define quality."

By 2002, the Task Force had refined its vision of a CEO Council to be a virtual organization, positioned as both a promoter of mail and the mail channel and as an organization through which efforts could be taken to build support for legislation and other regulatory change. Because the Council would have a lobbying role, the Postal Service — the Task Force agreed — would neither hold membership in the organization nor participate in its activities. The Mailing Industry CEO Council was subsequently incorporated as a non-profit business league on June 26, 2002, with a mission "to unify the mailing industry and to represent and promote the critical role of mail in U.S. business and commerce." The CEO Council, said its Chairman Michael Critelli, would focus its activities on the establishment and maintenance of public policy and mailing industry standards, intended to support industry growth in both the near-term and the long-term future.

"We were careful not to create another trade association," recalled Critelli. "The Steering Committee was concerned that — if we did — we'd be seen as competing for the same funding and for mindshare. We felt that our marketing and advocacy objectives took precedence over any functional activities, and that by existing as a virtual entity we'd complement other organizations."

The Council's founding board members — Gary M. Mulloy, William Davis, Hamilton Davison, Charles Morgan, Nigel Morris, David Sable, Michael Sherman and Dr. Jerry Swartz — were eventually joined by five other chief executives. They are Judy F. Marks, President, Lockheed Martin Distribution Technologies; Dave Dyer, Chief Executive Officer, Lands' End, Inc.; Charles Schellhorn, President and Chief Executive Officer, DST Output; Richard Hochhauser, President and Chief Executive Officer, Harte-Hanks, Inc.; and Thomas Ryder, Chairman and Chief Executive Officer, Reader's Digest Association, Inc.

All members have actively promoted the development of the "one voice" concept for the mailing industry and have directed their efforts in two strategic directions: encouraging the President's Commission on the Postal Service to address the serious challenges facing the postal system and the passage of Civil Service Retirement System (CSRS) legislation, allowing the Postal Service to change the formula by which it calculates its Civil Service pension payment obligations.

Other Task Force activities in this area included:

Develop and launch an advertising and marketing program. The Task Force — supported by the Wunderman agency — developed messaging for a highly-targeted advertising campaign directed towards influencers whose opinions and commentary could affect the outcome of legislative reform efforts, and drafted a first-phase launch for the program. After a preview in San Diego during the Spring 2002 National Postal Forum, the messaging — centered on the concept that mail plays a crucial role in American business and in American lives — was delivered through selected trade publications and newspapers in and around Washington, D.C. The first phase lasted six weeks and was supported by contributions from Council member companies and other industry firms.

Provide standards development leadership. Steering Committee members led standards-development efforts as part of the work done by Task Force committees on Intelligent Mail™, consumer gateway services, preparation and entry optimization, payments and credit, pricing, address quality and network optimization.

"The Task Force wanted a Council which would become a visible voice arguing that attention must be paid to the future of mail. We are separate and distinct from the Postal Service. We are advocates for the viability of mail and its channel."

Judy Marks, President, Lockheed Martin Distribution Technologies

Coordinated Government Relations Strategy

When the Mailing Industry CEO Council was formally launched in 2002, members looked to recreate the successful process used by the Task Force a year earlier to communicate to policy makers with consistent, aligned messaging. The Task Force approach had been in response to the 9/11 and bio-terrorism attacks of that fall. Talking points and position papers were developed around postal reform, emergency funding and other pressing policy issues for the MITF Steering Committee. The message points allowed industry leaders to speak with one voice when interacting with legislators and other policy makers, and helped the Postal Service obtain emergency funding to address mail security. At the time, the Steering Committee also chose a member to act as a government relations representative to ensure committee activities were focused and coordinated.

With the creation of the Council, Judy Marks, the President of Lockheed Martin Distribution Technologies, was asked by Council Chairman Critelli to play that role. As head of the Council's legislative subcommittee, Marks built a strategy that had two objectives. "To educate," said Marks, "and to 'friend-raise.'"

With activity and interest rising around both legislative reform and the possibility of a change in the formula used to determine Postal Service payments into the Civil Service retirement fund, Marks brought together legislative professionals from all member companies for a planning "summit."

"The most important accomplishment," she said, "was to develop a report that showed, state by state, our members' economic impact and workforce numbers. We had major facilities — several — in each state, and could show legislators exactly what was the potential impact for their constituents." The modeling mirrored the analysis that the Task Force had done in its initial 2001 report.

From the analysis emerged talking points and a letter campaign that built upon the economic impact model. Then, in January 2003, the Council assembled teams of CEOs to personally visit legislators to discuss the need for Civil Service payment formula legislation. The result was passage of a bill that has promised stable postal rates until 2006.

"Now we're getting involved with education and communication around privacy issues," said Marks. "We'll continue to address common policy issues that affect the entire mailing industry."

Payment Systems

Two years ago, the Mailing Industry Task Force recommended that the Postal Service and the industry work together to develop and deploy enhanced payment systems and commercial credit options. Working with the Task Force, the Postal Service addressed legal and financial issues associated with surety bonds, letters of credit and equalized credit. After thorough investigation of these financial instruments, members developed a set of principles upon which payment-system enhancement should be constructed in order to realize increased levels of value for customers. When the Postal Service presented a proposal to develop a system called *PostalOne!*® incorporating Web-based scalable technology, the Task Force immediately offered encouragement, support and feedback on how the new system might best serve the mailing industry.

The payment-focused initiatives studied and supported by the Task Force have included:

Deferred payment options. Task Force members asked the Postal Service to join them in an investigation of the feasibility of revising pre-payment requirements to allow mailers use of financial instruments such as surety bonds, letters of credit or equalized payments. Such options, some Task Force members felt, could enhance competitiveness and offer customers greater payment flexibility. The Postal Service revisited the prospective costs and benefits associated with offering credit terms. Extensive analysis showed that deferred payment would be breakeven at best. The Postal Service, in 2002, concluded it was likely to constitute suboptimal use of its capital resources and pointed to the availability of third-party credit providers to fill the need.

Surety bonds, letters of credit, equalized payments. The Task Force proposed that financial instruments such as surety bonds, letters of credit or equalized payments be utilized to enhance competitiveness and offer customers greater payment flexibility. The Postal Service, in 2002, concluded that financial instruments such as surety bonds and letters of credit are not generally accepted forms of payment, only a contractual obligation to pay. As such, they do not satisfy the prepayment of postage obligation.

PIN-based debit cards. In 2002, a payment method was approved for proof-of-concept testing by the Postal Service. However, the test was put on hold until some back-end system processes are worked through. The Postal Service is continuing to investigate alternative solutions.

PostalOne!® In January 2003, the *PostalOne!*® team developed the initial capability that sets the stage for linking vast amounts of customer data into a single, consolidated view of the business customer. According to USPS program executive Larry Goodman, the business customer "view" the Postal Service is building will integrate detailed information about customers' Permit mailing accounts, postage meter activity, precanceled stamp activity and Express Mail accounts into a convenient Web-based location. This view is also intended to support larger government agency customers by linking their information contained within the Official Mail Accounting System (OMAS).

There remain activities to accomplish to transition, mature and expand the existing account management and payment platform capability through the *PostalOne!*® system. The *PostalOne!*® team is re-engineering the existing Permit system, which provides account management functions for approximately $35 billion in customer deposits annually, by centralizing its data. Although the effort continues, the majority of Permit accounts were integrated into the *PostalOne!*® system by February 2004. Approximately 6,000 personal computers have been deployed and 6,000 acceptance unit employees have been trained and are using the new Permit capabilities within the *PostalOne!*® system.

The second major payment effort involves the migration of the Centralized Account Processing System (CAPS) into the *PostalOne!*® system. This expands the CAPS payment capabilities to create a new payment foundation for all of the enhanced and expanded payment options requested by the mailing industry.

Today, CAPS is used by USPS customers to pay postage for the following account types: Permit Imprint, Business Reply Mail (BRM), Merchandise Return Service (MRS), Postage Due, Express Mail Corporate Account and Address Element Correction.

The transition of CAPS customers into the *PostalOne!*® system began at the start of 2004 and is scheduled to be finished by summer.

"Single-source access and transaction tracking are keys to making it easier for mailers like ourselves to use the channel. With ease, there will come productivity and growth. When *PostalOne!*® is fully functional, this aspect of the customer relationship between the permit holder and the Postal Service will have been fundamentally changed for the better."

Gary Mulloy, Chairman and Chief Executive Officer, ADVO

Better Customer Service Through Streamlined Transactions

"It's not often," observed Quad/Graphics' *Views* magazine, "that you can say something is 100 percent certified. It's a big deal, a mark of quality and achievement."

The date was early 2004, and the cause for celebration — the implementation of *PostalOne!*® systems throughout the printer's national network of plants. For mailing industry leaders like the Wisconsin-based Quad/Graphics, a member of the Task Force, the introduction of *PostalOne!*® has meant new electronic capabilities and expanded payment options for its customers. Mail.dat files can be sent to the *PostalOne!*® Web site before a print job starts, providing mailers with the information needed for verification of a shipment. The Mailing Industry Task Force envisioned that "using efficient, state-of-the-art technology for payment processing will simplify the payment process and allow greater flexibility, making the mail channel more convenient for customers and allowing it to compete more effectively with alternate communication channels which have already implemented these systems." This vision is being validated.

"The *PostalOne!*® system," says Postal Service program manager Larry Goodman, "provides business mailers with a new electronic capability that provides a faster and more accurate method of accepting, assessing and finalizing customers' postage statements."

For Quad/Graphics' Phil Thompson, manager of the company's Distribution Business Resources group, the enhancements offered by state-of-the-art technology were well worth the investment.

"Instead of filling out forms," Thompson told *Views,* "we can add value by spending more time with customers and consulting throughout the production, start to finish."

Pricing Strategy

In 2001, the Mailing Industry Task Force called on the Postal Service to develop and implement a competitive pricing strategy. During its deliberations, the Task Force concluded that the Postal Service had to be able to price its products and services more flexibly. Members concluded that this could be achieved through expedited rate-setting, market-based elements such as seasonal pricing or product bundling, and predictability.

The Task Force applauded the decision by the Postal Service to include development of a "corporate pricing plan" as an objective in its 2002 Transformation Plan. Effective pricing, Task Force members agreed, would help the Postal Service become more businesslike, more efficient and more responsive to the needs of USPS customers. Since the publication of the Transformation Plan, the Task Force has worked closely with the Postal Service to build understanding of the components of an effective pricing strategy, to develop a process for a negotiated service agreement (NSA) and to participate in the first NSA test case.

"Stable, competitive and flexible pricing," observed ADVO CEO Gary Mulloy, "will draw businesses back to the mail channel for their advertising and correspondence needs. As the principal influence on industrywide costing, a predictable, responsive pricing strategy for the Postal Service could have a transformational impact."

The Task Force has actively supported and participated in the following initiatives:

The passage of Civil Service pension payment reform legislation. This has led to the promise of rate stability until 2006. Not only does this satisfy one of the original Task Force goals (keeping price increases below inflation), but it also creates an opportunity to use the time and available resources to advance other objectives, such as continued work on more predictable price changes in the future, additional NSAs and the introduction of other new initiatives.

"The partnership [between the Postal Service and his company] has been extraordinary. The industry has been supportive. The line of sight for a win-win outcome from the negotiated service agreement looks better and better."

Nigel Morris, Co-Founder and Vice Chairman, Capital One

The Capital One Negotiated Service Agreement

The Postal Service's first negotiated service agreement was launched in the fall of 2003 with Task Force member Capital One. The launch followed a 2001 recommendation by the Task Force that the Postal Service develop a pricing strategy that emphasized flexibility. That recommendation, said Postal Service pricing program executive Mike Plunkett, "was one of the impetuses for our success."

The Task Force recommendation had been echoed in the 2002 Transformation Plan, and by the fall of 2002 resources had been committed by Postal Service Vice President for Pricing and Classification Steve Kearney to initiate action on a negotiated service agreement process.

"We needed a customer to take the risk to invest the resources and time necessary to see it through," said Plunkett. "The customer had to understand the hurdles, and to accept the inevitable delays." Capital One accepted the challenge.

Eight months later — after a ratemaking summit co-sponsored by the Postal Rate Commission (PRC) and the USPS had debated the NSA process and made recommendations, and after the PRC had held a full hearing with testimony — the NSA was approved. On September 1, 2003, it was officially activated. Perhaps more important, the mail classification case was settled in a way that provides guidance on how other companies can negotiate similar agreements. In addition, the PRC has promised to develop expedited procedures for consideration of future NSAs. Rules for future NSAs were published in February 2004, and the Postal Service is already in discussions with additional customers on new NSAs. The Task Force anticipates two new NSAs will be proposed in the spring of 2004, with others to follow.

The Capital One NSA has two key components: volume incentives for First-Class Mail and cost savings from returned mail. "The early results are very promising," said Plunkett. "In the agreement, electronic notices replace physical returns, leading to estimated savings of $1.6 million for Cap One immediately." The PRC estimated potential cost savings of $43 million over the three-year term of agreement, Plunkett noted.

With rules in place, Plunkett believes the Postal Service is on the threshold of a new era in pricing. "We're extremely happy with the agreement process, and are now engaged in discussions with more than a dozen customers. With the Cap One NSA, we expect to exceed our projections."

The negotiated service agreements appear to be the win-win envisioned by Task Force Steering Committee member Nigel Morris.

Pricing simplification initiatives. Following the successful launch of the DMM 100 series for household customers in July 2002, the Postal Service — with input from Task Force members — published an updated version in June 2003 and a Spanish-language version in August 2003. The Postal Service is preparing a Chinese-language version of the DMM 100 for future release. The Postal Service also launched the DMM 200 — aimed at business and organizational users — in June 2003.

Experimental rate cases. The Task Force supported classification cases for two new services: Customized MarketMail™ (CMM) and the Parcel Return Service (PRS).

CMM, which was implemented in August 2003, allows customers to present uniquely shaped, die-cut mailpieces that will create high-impact advertising messages, and the Task Force believes this will enhance the value of mail as a marketing tool. Great Circle Family Foods, a Krispy Kreme franchisee in the Los Angeles area, made the first CMM mailing in the form of an open box of doughnuts. The test mailing achieved an 11% response rate. Other CMM mailers included Rosenfield Raymon Pielech PC, a public accounting firm based in New Bedford, Massachusetts. Instead of a traditional 2 to 3 percent return, 20 percent of those who received that mailing requested follow-up meetings with the firm. The Rosenfield Raymon Pielech PC marketing director reported that the campaign "generated leads so quickly that the firm had to schedule meetings two to three weeks in advance to meet customer demand."

PRS, the Task Force concludes, will serve a large and growing need for commercial shippers to offer a convenient, cost-effective way for their customers to return merchandise. PRS went into implementation in October 2003 *(see Consumer Gateway success story on page 13).*

Co-palletization. In May 2003, a pricing incentive for periodicals mailers to co-palletize their drop-shipped mailings was implemented. Several companies have already signed on to participate in this experimental service offering.

Streamlined ratesetting. Task Force members participated in two 2003 ratemaking "summits" jointly sponsored by the Postal Service and the Rate Commission. Discussion topics included how to phase in rates, development and implementation of negotiated service agreements, niche classifications, and how ratesetting might be expedited. Confirm® is an example of how a negotiated rate case can expedite the process, as well as a demonstration of value-based pricing with three price levels and service options. Officially launched in September 2003, Confirm® was first presented to the Rate Commission in April of that year and was approved by the Governors in August. Postal officials have also told the Task Force that there is a possibility that the next omnibus rate case could include a phased-in rates proposal.

Mail Preparation and Entry Optimization

Three years ago, the Task Force recommended that the industry and the Postal Service collaborate to standardize mail preparation, containerization and entry requirements to drive greater end-to-end system efficiency across classes of mail. The Task Force also suggested that the industry and the Postal Service develop a strategy to optimize the total postal network so that customers receive the best value and pricing with the assurance of security and reliability.

Within the first six months, Task Force members — led by William Davis — developed a foundation for optimization initiatives and a process for prioritizing activities. Since then, the Task Force has worked closely with industry, the Postal Service and the Mailers' Technical Advisory Committee to pilot implementation of initiatives and to plan future efforts.

In so doing, the Task Force decided to combine its Preparation and Entry Standardization and Network Optimization efforts into the work of a single subcommittee co-chaired by USPS Senior Vice President for Operations John Rapp and Davis.

Among the initiatives supported by the Task Force have been:

Principles of standardization. Led by Bill Davis and his Co-Chair John Rapp, the Task Force supported implementation of a set of principles for standardization, which represent a framework from which to measure success. The development of initiatives remains aligned with existing industry and USPS partnerships, including the Mailers' Technical Advisory Committee (MTAC) and Product Redesign.

Development of corporate flats strategy. In May 2003, Co-Chair Rapp announced the release of a corporate flats strategy for the Postal Service that incorporated several near-term initiatives — a five-digit packaged flats scheme; procedures to more efficiently prepare "fletters," which are often small catalogs with the capability of being processed either as a non-automated letter or an automated flat; standardization of procedures to transport certain flat-size mail in letter trays, in lieu of sacks; co-palletization of lower-volume periodical publications traditionally prepared in sacks; development of a new container for flats; and development of a three-digit scheme for flats — which had emerged from initiatives supported by the Task Force. The flats strategy has been incorporated into the overall USPS Corporate Automation Plan, Phase II, which is designed to provide automated handling of all mail products. That plan — which will be implemented in near-term, mid-term and long-term phases — consolidates these prep and entry programs under an overarching vision:

> The Postal Service's ultimate vision for delivery is a seamless operation that produces one package of mixed letters and flats for each delivery point (Delivery Point Packaging, or DPP). This vision is based on having high-speed mail sorting and packaging equipment that will efficiently sort and merge the letter and flat mail streams into delivery sequence for the letter carrier. This equipment will be optimally located so that the operational savings can be maximized. Ideally, all presorted mail sequenced using this system would have an 11-digit POSTNET barcode with a standardized address, or address label, format and placement so that the equipment output will result in an address orientation that facilitates efficient delivery.

"The mailing industry has served its customers' communications needs effectively for many years. As industry leaders, it is our responsibility to be as efficient as possible to help our customers increase the effectiveness of their communications while driving greater value across the entire supply chain. The issues that matter most — and for which we have to provide solutions — are increased customization, faster response times, and enabling customers to know exactly when mail is going to be delivered. And, of course, continuously reducing cost."

William Davis, former R.R. Donnelley Chairman and Chief Executive Officer

Presort Optimization

By 2004, several initiatives — combined flats and lettermail tray mailings, periodicals co-palletization, enhanced drop shipping, allowing residual mail to be placed on Bulk Mail Center pallets in lieu of in sacks and cost-based preparation modeling — had moved into implementation stages.

A five-digit packaged flats scheme had been one of the first to go online. Using five-digit schemes for automation-compatible flats bundles that replicated the scheme design combinations successfully used for automated letters, this initiative was completed in December 2003. Noting that the process would help ensure that flat mail would be processed in the most efficient manner, USPS Vice President for Network Operations Paul Vogel commented, "The program responds to the industry need to prepare mail in alignment with postal processing on advanced flat sorting machines."

At the same time, a three-digit container of value program was also finalized. The identification of three-digit containers (mostly pallets) that do not add value was designed to help reduce the number of pallets handled, and will help move the mail through the optimum processing stream. This program requires mailers to prepare pallets containing multiple three-digit ZIPs when the individual three-digit containers would not add value in postal processing. Mailer preparation of the fewest number of containers that can still minimize postal handling costs to the greatest extent possible is the objective.

In a report to the Mailers' Technical Advisory Committee, Postal Service executive Marc McCrery noted, "The primary goals of any Presort Optimization effort are to reduce the number of units (e.g., packages, trays, sacks, pallets, etc.) prepared and facilitate deeper drop ship entry of these units into the postal mailstream. The bottom line should be a reduction in the total combined costs to the industry and the Postal Service." Better alignment of mail preparation with USPS operations, in terms of the location of the mail processing equipment and the assignment of mail to processing sites, has been the result.

"Mailers have been provided with additional options to optimize service," concluded McCrery, "achieve delivery consistency by reducing the 'tail of the mail' and maximize drop shipping."

The Task Force continues to support Postal Service and industry collaboration in all prep, entry and optimization initiatives. The Task Force has reiterated that the programs and initiatives in implementation will take significant costs out of the system through the improved alignment, while at the same time reducing sorting and prep responsibilities.

> The Postal Service has a long history of testing innovative methods to implement changes in distribution, delivery and transportation systems and is continuing this tradition by investing research and development funds to evaluate the benefits and costs of implementing the delivery vision.

The full text of the Flats Strategy can be accessed online at ribbs.usps.gov. On the left column under "RIBBS Links," click the "Corporate Flat Strategy" link. To comment on the strategy, send an email to The FlatStrategyFeedback@usps.gov email address, which routes all comments to USPS Headquarters.

Network integration and alignment. Progress on the modeling effort — Network Integration and Alignment — has continued with computerized simulation scenarios designed not so much to identify facilities that might not be necessary, but rather to figure out the most efficient and effective way to streamline the network.

Phase Two: Growth, Effectiveness and Innovation

Starting in the fall of 2003, the Mailing Industry Task Force began studying how best to leverage the promise of rate stability in the near term and significant technological enhancements in the mid and long term. It quickly became clear that the direction that needed to be followed by both the Postal Service and the mailing industry was a focus on revenue growth.

"We need to develop a mindset that mail is a growth business," said Task Force Co-Chair Michael Critelli. "We are going to support initiatives and to promote innovations that will do just that."

The Task Force's three-year track record suggests strongly that the objective will be met. In every area of recommendation laid out by the Task Force in its 2001 report, results have been delivered. The Task Force, time and again, has shown itself to be both a catalyst for and an active supporter of positive change.

The foundation described by Deputy Postmaster General Nolan is one of a communications channel that delivers universal access with stable pricing. With mail, businesses can reach every customer at home or at work six days a week. That creates the potential to use pricing and product design to attract new customers and expand mail use with old ones. The Task Force believes that's a powerful value proposition for organizations trying to use customer relationship management techniques and one-to-one marketing tools.

The Task Force Steering Committee, having assessed where best to direct future efforts, has made a commitment to focus on revenue growth for the industry, continued improved effectiveness for the mail and support for an innovation development process that will ensure a steady flow of creative ideas about mail usage.

Going forward, the goal of the Task Force will remain mail's viability and how to sustain it. But the approach — growth, effectiveness and innovation — will be the new path for this unique public/private collaborative partnership.

"In the first phase, our members' interests were primarily centered on costs, not revenues. That focus helped shore up our foundation. If we're going to grow this business we needed that foundation. Now we've got opportunities around the core mail products and services for all of us in this industry. To take advantage of those opportunities, we'll need to develop new understandings — around usage, around marketing, around value. That's the focus of our second phase."

Deputy Postmaster General John Nolan

For more information and feedback go to www.usps.com/strategicdirection/mitf.htm