



MAILING INDUSTRY TASK FORCE

Improve Address Quality

RECOMMENDATION RECAP

The October 2001 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.

During its deliberations, the Task Force developed a strategic vision for its address quality initiatives that encompassed customer expectations for more control over their mail and its delivery, increased response rates for sales and marketing mail, and reduced mailing costs. The costs associated with Undeliverable-As-Addressed (UAA) mail totaled \$1.9 billion each year, the Task Force noted. The Task Force eventually narrowed its focus to concentrate 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.

“The Task Force members working on address quality improvement are driving a tremendous amount of change,” commented Acxiom Company Leader Charles Morgan. “We intend to keep the momentum going.”

TASK FORCE PROGRESS

NCOA Data Test. The Task Force has completed a test to evaluate the quality of the information in the National Change Of Address (NCOA) database, and the process by which it’s used. The test demonstrated that there are opportunities for improvement in identifying the differences between temporary and permanent, and family and individual moves. 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 Chief Technology Officer Charles Bravo.

A number of recommendations emerged on how the Postal Service uses its address database to successfully forward mail, and how address correction information is solicited and captured. They include:

- Changes in field procedures
- Additional training for carriers and clerks
- New marketing materials for customers
- Revisions to the Domestic Mail Manual
- A redesign of Form 3575, the official change of address form
- Re-emphasize proper handling of Address Change Service (ACS) mail
- Encouraging NCOA licensees and Coding Accuracy Support Software (CASS) vendors to improve their individual address-matching software logic
- Implementing improved USPS COA software to link multiple moves

“While we have found areas that can be improved,” said Steering Committee member Morgan, “the data is fundamentally sound. Indeed, many of the issues our test uncovered relate to errors in customer input to the system. The change-of-address form redesign should go a long way towards correcting that.”

“Feedback Loop” Development. Funding for the Postal Automated Redirection System (PARS) — a lettermail-only system — was approved by the Board of Governors, and a contract signed with Siemens for its development and implementation. The latter is scheduled to start in July 2003, with full deployment to take two-to-three years. When PARS is operational, some of the address-change input problem will be alleviated by carriers no longer having to copy by hand Form 3575 data onto a second form.



Preprinted Address Change Service Codes. A draft request allowing mailers to preprint ACS participant codes on envelopes will be completed and reviewed by the Postal Service this fall. When approved, mailers will be able to use electronic ACS without changing the envelope window size or making costly program changes. Already successfully tested by one mailer, preprinted codes have potential to generate substantial UAA-related cost reductions for both mailers and the Postal Service. They will be addressed in the next edition of the Domestic Mail Manual.

Federal Register Notice. The Task Force contributed to the preparation of a draft Notice proposing new Postal Service rules and regulations to drive out the cost of the system and reduce the volume of Undeliverable-As-Addressed mail. The notice was published in late May, with public comments due to have been submitted by August 29. The notice called for:

- Eliminating manual address corrections generated from Ancillary Service Endorsements as a means to meet the Postal Service's Move Update requirement.
- Increasing the frequency from 180 to 90 days for addresses to be Move Update-qualified.
- Increasing the frequency from 180 days to 90 days for addresses to be ZIP+4 coded via CASS-certified address matching software in order to obtain a USPS discounted automation rate.
- Requiring monthly updating of address matching directories used by CASS in order to obtain USPS discounted automation rates.
- Extending the USPS Move Update requirement concept for bulk mailings to Periodicals, Standard Mail, and Package Services.

Comments have been generally supportive and reflect the diversity of the mailing industry.

FUTURE ACTIONS

The Task Force will support the following next steps:

- Conduct a second NCOA test mailing after a recommendation-implementation period, to assess the effect of the proposed changes on the system.
- Encourage the Postal Service to test commercially-available databases to support enhanced address quality.
- Prepare for and conduct focus groups to redesign the change-of-address form. The Postal Service and the Gallup Organization will develop discussion materials and host focus groups to improve Form 3575.
- Ensure that industry input on the Federal Register Notice's proposed rules and regulations for COA software updates is given full consideration and is reflected in the new regulations when enacted.
- Evaluate a Change-of-Address by Phone service and assess the potential of utilizing the Postal Service call centers to take customer Change of Address requests through a toll-free number, augmenting the COA services available at post offices and on the Postal Service website. The cost of providing such service by phone, the Task Force found, could be substantially less than when hard-copy COA forms are processed by post offices. The service may also produce higher quality results than achieved on the Internet, as there would be a lower drop-out rate since call center agents would be available to assist customers. The Postal Service has agreed to continue its assessment of this service.
- Support Postal Service implementation of a "snowbird" mail-forwarding program, whereby consumers could choose to purchase pre-paid Priority Mail envelopes, and have their local post office collect and send mail to a temporary address on an agreed-upon schedule.

ADDRESS QUALITY COMMITTEE MEMBERSHIP

The Task Force subcommittee on address quality has members representing Acxiom, Prudential Financial, BankOne Card Services, Progressive Insurance, Pitney Bowes, Quebecor World, and Time Customer Service, Inc. The committee is co-chaired by Charles Morgan, Company Leader of Acxiom, and Postal Service Senior Vice President and Chief Technology Officer Charles Bravo.



MAILING INDUSTRY TASK FORCE

Implement an Industry Council

RECOMMENDATION RECAP

The October 2001 report of the Mailing Industry Task Force recommended the establishment of a unified, CEO-level 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.

During its deliberations, the Task Force developed a vision for the council that would position it 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 Council's charter would be to “determine the best methods to meet evolving customer needs, enhance the capabilities of the mail ‘product’ to complement and compete effectively with other communication methods, and identify new learnings and opportunities relevant to all aspects of the mailing industry.”

“For this council to succeed,” said Task Force co-chairman Michael Critelli, who will head the newly-formed council, “we must be able to raise awareness in Congress and elsewhere about the value and role of mail in commerce and the corollary need for a healthy postal system.”

TASK FORCE PROGRESS

Establish the Mailing Industry CEO Council as a Legal Entity. The Mailing Industry CEO Council was incorporated as a non-profit business league on June 26. Its founding board members — Michael Critelli, Gary M. Mulloy, William Davis, Hamilton Davison, Charles Morgan, Nigel Morris, David Sable, Michael Sherman and Dr. Jerome Swartz — met for the first time a month later. They agreed to expand Council membership to ensure that all aspects of the mailing industry would be represented among the member chief executives. The Council's newest members 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.

Identify Mission-Critical Issues and Activities. The Council, operating independently of the Mailing Industry Task Force, has begun to identify issues and activities that will support its mission to unify the fragmented mailing industry. Among its initial efforts will be messaging around the continued need for legislative reform in support of the Postal Service Transformation Plan as it reflects the Task Force recommendations.

“People are looking back to mail for many reasons,” commented Council member Charles Morgan. “E-mail responses have dropped dramatically for direct marketers. Telemarketing is facing redefinition. The future is in multi-channeled messaging and marketing. And mail is an important part of that future.”

Develop and Launch an Advertising and Marketing Program. A prototype advertising campaign for the mail channel — developed by the Wunderman agency — was unveiled last spring in San Diego and got a favorable reception. The campaign, directed towards influencers and policy makers, centered on the concept that mail plays a crucial role in American business and in American lives. Plans for further dissemination are in development. A communications plan designed to inform the industry and other postal stakeholders about the progress made on Task Force recommendations is also in development, with a roll-out planned to begin in the fall.



Coordinated Government Relations Strategy. Building upon last fall's successful response to September 11 and the bioterrorist attacks, Council CEOs will sponsor a "summit" for their government-relations managers to develop a coordinated, aligned approach for strategic communications in support of the Council's priorities. Just as last fall's message points allowed industry leaders to speak with one voice when interacting with legislators and other policy makers on emergency funding, so too will future messaging provide a shared focus on industry goals for transformation, growth and postal productivity.

Provide Standards Development Leadership. Council members continued to lead 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.

FUTURE ACTIONS

Now independent of the Task Force, the Mailing Industry CEO Council intends to pursue the following:

- Expand the Council's membership, to better reflect all aspects of the mailing industry.
- Prioritize Council objectives, and align government relations and communications planning efforts with those priorities.
- Continue efforts to develop unified standards, particularly through continuation of Task Force work groups.

CEO COUNCIL MEMBERSHIP

The members of the Mailing Industry CEO Council represent a broad cross-section of the industry. The Council president is Michael Critelli, Chairman and CEO, Pitney Bowes. The Council secretary and treasurer is Gary M. Mulloy, Chairman and CEO of ADVO.

The companies whose chief executives are members of the Council include Acxiom, Capital One, R.R. Donnelley, Symbol Technologies, Fingerhut, Wunderman, Lockheed Martin Distribution Technologies, Lands' End, DST Output, Paramount Cards, Harte-Hanks, Inc., and Reader's Digest Association, Inc.



MAILING INDUSTRY TASK FORCE

Develop Consumer Gateway Services

RECOMMENDATION RECAP

The October 2001 report of the Mailing Industry 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 need for such services was reiterated in the Postal Service’s April 2002 Transformation Plan, which promised implementation of growth strategies that would expand access to postal services, move simple transactions to less expensive channels, promote ease of use, enhance revenue opportunities by leveraging existing assets and infrastructure, and work with customers to add features to enhance the value of traditional products. The Task Force sees aspects of all the above strategies in its development of consumer gateway services.

“Postal transformation should, by necessity, reach out to consumer gateway services and the related revenue generation opportunities,” observed Jerry Swartz, Chairman and Chief Scientist of Symbol Technologies. “These services will be a creative way to leverage the tremendous potential of the Postal Service’s capabilities in meeting customer needs.”

“We need to continue exploring methods which can expand Postal Service offerings to consumers in targeted market segments,” added Nick Barranca, Vice President, Product Development for the Postal Service. “Going forward, we must remain committed to analyzing the returns on these investments.”

TASK FORCE PROGRESS

Last spring, the Task Force indicated that it would pursue gateway services development in the three broad areas of enhancing ease of use, increasing access, and generating revenue growth by leveraging “brick, click, and motor” assets. These initiatives would build upon the Postal Service’s unique third-party trust status and take maximum advantage of its physical, technological and transportation assets. Task Force members first targeted the initiatives as short-term (with results to be seen over six-to-30 months) and long-term (with implementation three-to-five years out). Now, six months later, the initiatives have been categorized into functional areas — ease of use for postage and special services’ transactions, getting mail into the system, getting mail delivered, and leveraging Postal Service assets.

Transaction Ease of Use

- The Task Force recommended expanding consumer access and services through kiosks and self-service technologies. A contract to design and develop automated kiosks for stamps, information-based indicia (IBI) printed postage, and other services will be awarded in the beginning of 2003. Current plans call for 20,000 kiosks to be rolled out beginning in fall 2003.
- The Task Force sought to determine ways to expand Postal Service offerings to the front doors of consumers and to Small Office/Home Office (SOHO) businesses and rural areas. In the past, the Postal Service had explored a rural carrier Mobile Postal Unit pilot test, equipping USPS trucks with wireless connections and hand-held mobile devices. The Task Force will review past data and, with the Postal Service, consider updating and reinstating this test.
- The Task Force is encouraging prepaid packaging for consumers. The USPS will work toward development of a prepaid box for consumer ease-of-use.
- The Task Force requested that the Postal Service determine the feasibility of electronic cash-on-delivery (COD) and credit/debit card payment methods as part of trusted postal carrier transactions at the front door, using next-generation mobile and wireless devices with payment and biometric security. The Task Force now recommends that informal market research be conducted to determine interest. Limited pilot tests could also be conducted with preferred customers in niche marketplaces.



Getting Mail into the System

- The Task Force will support the proposed implementation of a Parcel Select™ Merchandise Return Service. Parcel Select is designed for business-to-residential shippers who deposit packages closer to their destination. Through this service, the USPS could also offer merchandise returns to the same shippers. These savings may be passed on from shippers and merchants to consumers. If approved, implementation could be as early as spring 2003.
- The Task Force requested a feasibility study of a postal carrier pick-up program for items such as prescriptions and store-to-store video returns, partnering with U.S. retailers. A pilot test, beginning this fall, will have carriers providing services via line-of-travel, concentrating in a local five-digit ZIP Code retail area.

Getting Mail Delivered

- The Task Force recommendation for “automated mail pick-up” services is already being piloted at three locations. The Task Force is recommending that a business case be developed which explores strategic partnerships with major retailers and at locations that coincide with common consumer destinations frequently visited and are accessible 24 hours a day and seven days a week. The Task Force also explored integrating merchandise returns and carrier notification of package pick-up into the automated mail pickup system. The Task Force will continue to study the feasibility of integrating the system with other third-party retail channels for added consumer convenience.
- The Task Force has assigned the concept of Personal Intelligent Mail to both the Intelligent Mail and Consumer Gateway Services committees for evaluation. PiM would be aligned with CONFIRM and enabled by a barcode, for tracking mail sent and received by consumers and business mailers. Committee members are putting together a team of industry partners to conduct a study of the product and concept for technical feasibility. A major mailing house and a digital postage provider have expressed potential interest in participating. USPS is sponsoring focus groups to gauge interest.

Leveraging Postal Service Assets

- Exploration of integrated broadband Internet access for “road warriors” via wireless LAN infrastructure at post offices nationwide remains under discussion. The Postal Service is entering a discovery phase on WLAN infrastructure and will work closely with Task Force members.
- The Task Force suggested finding a third-party partner to serve as an Internet Applications Service Provider to enable Web portal applications for print-to-Web transactions and online returns. Members have since provided postal executives with background information and material on one type of consumer-centric print-to-Web solution, which will be processed and reviewed by USPS.
- The Task Force has explored integrating Delivery Confirmation barcodes from outbound package shipments, into return labels to further automate returns processing, and to capture additional scans for better track and trace visibility. Currently, it has not been possible to use the same barcode for both delivery and returns. However, the current process will still support visibility of packages as they travel through the system.

FUTURE ACTIONS

The Task Force will support the following next step:

- To continue to develop, assess and implement consumer gateway service concepts, using as prioritization principles their potential for cost reduction and revenue growth.

CONSUMER GATEWAY SERVICES COMMITTEE MEMBERSHIP

The Task Force committee on consumer gateway services includes representatives from Symbol Technologies, Inc., Northrop Grumman, IBM Global Services, Dell Computer, CVS, Harte-Hanks, Blockbuster Video, Lockheed Martin Distribution Technologies, Siemens-USA, Royal Ahold-USA, Sears, Wal-Mart, Rite-Aid, Wunderman and Philips International. The committee is co-chaired by Dr. Jerry Swartz, Chairman and Chief Scientist of Symbol Technologies, and Nick Barranca, Vice President, Product Development of the United States Postal Service.



MAILING INDUSTRY TASK FORCE

Promote Development of Intelligent Mail

RECOMMENDATION RECAP

The October 2001 report of the Mailing Industry 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 mailpiece — including packages — unique and trackable.

The Mailing Industry Task Force concluded that additional revenue growth would result from the Postal Service using intelligent mail to improve its ability to provide predictable and accurate mail delivery. The Task Force’s committee on intelligent mail crafted a strategy that proposes intelligent mail programs be developed and implemented based upon whether they provide customer value, use currently-available technology, minimize additional costs to mailers, consumers and the Postal Service, and address privacy and security issues.

In April, development of intelligent mail was included as a growth strategy in the Postal Service’s Transformation Plan. “With the commitment to intelligent mail as a driver of transformation,” said Task Force co-chairman Michael Critelli, “the Postal Service has not only validated the Task Force’s analysis, it has taken a significant step towards more reliable and measurable service, better security, and improved data and performance.”

TASK FORCE PROGRESS

The Value of IM-Enhanced Products and Services. Several enhanced products and services became available to the public this summer, or will be unveiled early this fall, including CONFIRM. Together, they form the first-phase building blocks for intelligent mail. Delivery confirmation information for Parcel Select and information on certified mail and registered mail became available on-line as of June 30, for example.

The CONFIRM rate case settlement — CONFIRM provides electronic tracking information from mail entry through the automated processing environment for letter and flat mail — was concluded in July. The service was implemented in September. CONFIRM can tell its subscribers when mail is about to be delivered. Benefit of such knowledge will include enabling 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 timely 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 CONFIRM’s benefits provide examples of the improved customer relationship management and enhanced mailing response that intelligent mail products and services will deliver.

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 Planetcodes.com site.

Intelligent Mail Focus Groups. The Postal Service marketing team has conducted nine customer focus groups to determine customer requirements for intelligent mail, and how they might translate into potential revenue streams. The groups represented different customer segments and a range of geographic regions. Results from the focus groups’ deliberations will be presented at the fall National Postal Forum by the Task Force committee members.



Privacy Working Group. The USPS Chief Privacy Officer, a member of the Task Force, set up a privacy working group to examine and incorporate privacy considerations into intelligent mail programs. The group identified data collection and privacy statutes and policies for the Postal Service and the industry. The group also catalogued the benefits of intelligent mail. For next steps, the group will draft a white paper for internal review, solicit input from privacy advocates, and develop a set of recommendations for the Task Force and its constituents.

Barcode Data Content Assessment. The Task Force, working with the Postal Service, initiated a review of two-dimensional barcodes currently used by the Postal Service and opportunities for expanding the data on an envelope. The Postal Service has concluded that this is technically feasible, but would require additional investment in software, hardware and possibly network bandwidth as well. The Task Force concluded that customer research will help determine whether there is a market willing to pay for these enhanced capabilities. Within current information-based indicia (IBI) programs, there is little excess data carrying capacity in the codes. In addition, the wide-field-of-view (WFOV) cameras currently in deployment at processing plants will recognize the two currently used IBI formats when applied as postage. Among alternative two-dimensional barcodes examined by the Task Force, a modified PDF 417 code, which can approximate the size of a Planet code, seemed most promising. However, Task Force members discussed the need to test mailer ability to print a 2D code at production speed and whether additional data capture and communication would drive increased costs.

Technological Capabilities Analysis. In discussing the potential data content of address blocks read by postal scanning equipment, the Task Force noted that a major limitation is the data network wiring in processing plants. While WFOV cameras could theoretically deliver information in real-time, the wiring cannot carry as much data as can be read. Another concern shared by members was that if data content were to be increased dramatically, the speed at which scanning equipment could handle that data might compromise mail processing rates. Deployment of the WFOV cameras will conclude in December 2003. The Task Force also observed that the upgrading of integrated data servers at 325 facilities would provide more information at a faster rate, strengthening the platform upon which the enhanced services and products are built.

FUTURE ACTIONS

The Task Force will support the following next steps:

- Implementation by the Postal Service of its intelligent mail strategy.
- Continue to assist the Postal Service in assessing code contents versus database contents, appropriate symbologies, the impact of intelligent mail on current operating equipment, and the impact of intelligent mail on the Service's information technology infrastructure.
- Continue to promote Postal Service solicitation of intelligent mail samples from mailers, perform pilot tests on intelligent mail, and assist in validation of its cost/benefit value.
- Assess focus group results to determine an attractive cost/benefit value.
- Support USPS deployment of updated equipment and implementation of an enhanced intelligent mail program.
- Work with the privacy work group to study how to enhance the privacy and security associated with mail.
- Promote publication of coding standards within the ISO framework and coordination of these codes with the Universal Postal Union (UPU).
- Ensure that value and investment are balanced and appropriately staged.
- Support development of communications and marketing plans for intelligent mail.

INTELLIGENT MAIL COMMITTEE MEMBERSHIP

The Task Force's subcommittee on intelligent mail includes representatives from Canon USA, Hewlett Packard, IBM, Lockheed Martin, MBNA, NCR, the White House Office of Science and Technology, Quebecor World, Pitney Bowes, Symbol Technologies, DST Output, Stamps.com and Neopost North America. The subcommittee is chaired by Michael Critelli, the Chairman and CEO of Pitney Bowes, and by Postal Service Vice President Charles Bravo, the Service's Chief Technology Officer, and Vice President, Engineering Tom Day.



MAILING INDUSTRY TASK FORCE

Develop a Strategy to Optimize the Postal Network for Customer Value, Pricing, Security and Reliability

RECOMMENDATION RECAP

The October 2001 report of the Mailing Industry Task Force urged the industry and the Postal Service jointly to 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.

Last fall, the Task Force concluded the combined USPS-private sector postal network should be configured in a way that encourages the mailing industry to present mail at that point in the postal stream where the USPS and the industry operate in combination with maximum efficiency.

The Task Force, as a result, made two decisions going forward. First, that it would embrace the Postal Service's Network Integration and Alignment (NIA) project, which has a charter to create a flexible logistics network that reduces Postal Service and customers' costs, increases overall operational effectiveness, and improves consistency of service, as the initiative most likely to achieve this recommendation's objective. Second, that it would integrate the work being done by members on mail preparation and entry optimization with the network committee's efforts, to ensure that both industry teams worked towards complementary solutions. The Task Force applauded the Postal Service's decision to include in its April 2002 Transformation Plan a recommendation to "redesign the postal logistics network" by optimizing the location and number of processing centers and transportation nodes.

"The NIA network model will be a powerful tool for decisionmaking," commented Task Force Steering Committee member William Davis, Chairman and CEO of R.R. Donnelley. "With it, the Postal Service should be able to plan how to reconfigure its network in ways that will provide significant benefits to our industry, the Service itself, and the American people."

TASK FORCE PROGRESS

During the late spring and summer, the Postal Service conducted a series of workshops with key postal and mailing industry stakeholders to develop various strategic scenarios to model. The objective of the modeling process is to analyze costs, capacities, and volume flows for each mail processing facility. These models will also determine which facilities remain viable and necessary within the future infrastructure and what distribution and transportation roles will be performed by those facilities that remain as parts of an optimal, fully integrated network. The eventual findings will support a set of recommendations on how to redefine the network — a blueprint for future network operations management.

In its deliberations, the Task Force cautioned Postal Service executives to make certain that postal network optimization didn't result in external mailing network sub-optimization. "We want to make sure that the Postal Service is looking at locations where mailers or partners have their plants," noted Task Force co-chairman Michael Critelli.

"The goal is to reduce total system-wide costs, both for the Postal Service and our customers," commented USPS NIA manager Pranab Shah.

One benefit to the mailing industry may be enhanced Postal Service ability to accurately identify and quantify impacts of alternative work-share concepts within a simulated environment. "The opportunity for streamlining is there," stated Deputy Postmaster General John Nolan, co-chairman of the Task Force. "We have to seize the day, and understand that it's the right thing to do."



FUTURE ACTIONS

Additional Modeling and Initial Recommendations. Scenarios tested on the national models will be validated in early fall through additional tests using regional simulation models. Those validated findings will then be used by the Postal Service in determining its first set of network optimization recommendations, which are tentatively planned to be made public in November. The Task Force will provide feedback and commentary on those recommendations, when they are presented.

NETWORK OPTIMIZATION COMMITTEE MEMBERSHIP

The Task Force committee includes representatives from R.R. Donnelley, ADVO, Advance Presort Services, Inc., Automated Data Processing, Capital One, Lockheed Martin, Mid-America Mailers, Quad Graphics, Quebecor World, Time, Inc., Gruner & Jahr, McGraw Hill, Time Customer Service, Inc., and the PSI Group. The committee is co-chaired by William Davis, Chairman and CEO of R.R. Donnelley and by John Rapp, Senior Vice President, Operations of the United States Postal Service.



MAILING INDUSTRY TASK FORCE

Create Enhanced Payment Systems and Commercial Credit Options

RECOMMENDATION RECAP

The October 2001 report of 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.

As the Task Force worked with the Postal Service to advance its recommendations, members developed a set of principles upon which payment-system enhancement should be constructed in order to realize appropriate levels of value for customers. When the Postal Service presented a proposal to develop a system called *PostalOne!*[®] incorporating Web-based scaleable technology, the Task Force immediately offered encouragement, support and feedback on how the new system might best serve the mailing industry.

“Single-source access and transaction tracking are keys to making it easier for mailers like ourselves to use the channel,” said Gary Mulloy, Chairman and CEO of ADVO. “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.”

TASK FORCE PROGRESS

Enhanced Payment System Development and Deployment. *PostalOne!* will move from the conceptual to its initial deployment this fall. That rollout will take three years, with new functions and components to be released every six months. When fully operational, *PostalOne!* will have the following attributes:

- New account management functions, including a core permit function that creates a single national numbered permit account for multi-site mailers.
- New acceptance and processing tools, including streamlined verification.
- Enhanced postage payment, with expanded Centralized Account Processing System (CAPS) participation and a single corporate account.
- Electronic access through a single business mailer portal, with consolidated payment reporting.
- Better interface with postal operations, allowing for improved mail flow management and forecasting, and service measurement.

The Task Force supports the Postal Service plan to build and release the system's modules incrementally, to ensure that it can be adapted to any future policy or procedure changes and to minimize disruption for postal clerks, who will also be managing legacy PERMIT systems. *PostalOne!*'s initial target customers are mailers entering at Detached Mail Units (DMU), and the small mailer doing multiple mailings at Business Mail Entry Units (BMEU).

Deferred Payment Options. Task Force members asked the Postal Service to join with 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 is breakeven at best. Therefore, it is likely to constitute suboptimal use of limited Postal Service capital resources. “While deferred payment does respond to preferences communicated by certain customers, and may increase market share, the financial analysis indicates that it is likely a breakeven scenario at best. At worst, the Postal Service could end up deploying scarce capital resources in unprofitable fashion,” Postal Service Treasurer Robert Pedersen told the Task Force.



Surety Bonds, Letters of Credit, Equalized Payments. The MITF proposed that financial instruments such as surety bonds, letters of credit, or equalized payments, could be utilized in the future to enhance competitiveness and offer customers greater payment flexibility. The Postal Service 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. Currently, one payment method has been approved for proof-of-concept testing by the Postal Service. In this test, the Postal Service will accept a PIN-based debit card, which would be used to pay postage at selected large Business Mail Entry Unit pilot sites. PIN-based debit cards are a safe, affordable, secure alternative to cash, and can be used for both bulk mail payments and trust fund deposits. When implemented, the test will include business mailers who already use PIN-based debit cards for purchasing.

Third-Party Financial Intermediaries. Two other proof-of-concept tests were proposed by the subcommittee. Both tests involved third-party financial intermediaries that would be enrolled in CAPS. Currently, participation in CAPS is restricted to businesses that purchase at least \$50,000 in postal services annually and mail from at least three permit locations. One test was to focus on Business Reply Mail (BRM) for mailers too small to be a CAPS participant. In this test, CAPS-eligible third parties could contract with smaller mailers to allow them to access the third party's debit account, improving the performance of the smaller mailers' BRM programs by eliminating any chance that those mailers might not have sufficient funds to cover their BRM replies. When *PostalOne!* is deployed, the restriction for participation in CAPS will be lifted and the need for a third-party intermediary work-around will no longer be necessary.

A second proposal considered would allow third-party intermediaries selected by CAPS-enrolled mailers to offer those mailers credit terms, with the Postal Service debiting the third parties for the mailers' postage. The Postal Service approached a majority of its relationship banks about participating in this test. After these discussions, the Postal Service concluded that the appropriate third-party relationship should be between mailers and their own banking institutions.

The Task Force Steering Committee asked the Postal Service to revisit third-party facilitation from the perspective of ease of use for the customer, rather than lowest cost of mailing. Customers might be willing to pay for the convenience of deferred payment, which would allow the Postal Service to avoid absorbing financing costs, the Task Force suggested. The proposals, if developed with third-party sources, would be third-party facilitation of payment rather than credit. The Postal Service is currently exploring this recommendation.

FUTURE ACTIONS

The Payments Subcommittee has successfully completed the tasks set forth in the Mailing Industry Task Force report. In the future, the Payments Subcommittee will meet as needed, for example, to revisit third-party facilitation.

ENHANCED PAYMENT COMMITTEE MEMBERSHIP

The Enhanced Payment committee has members representing ADVO, Capital One, Computer Services Corporation, the Department of Defense, DST Output, JC Penney, McGraw Hill, Pitney Bowes, Relizon, R.R. Donnelley, Time Customer Service, Inc., Quebecor World and SBC Communications. The committee is co-chaired by Gary Mulloy, the Chairman and CEO of ADVO, and by Robert Pedersen, Vice President, Treasurer of the U.S. Postal Service.



MAILING INDUSTRY TASK FORCE

Standardize Mail Preparation, Containerization and Entry Requirements

RECOMMENDATION RECAP

The October 2001 report of the Mailing Industry 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.

Through its deliberations, the Task Force concluded that a standardization initiative, sensitive to policy and market issues, could help substantially reduce the expense associated with redundant preparation and entry requirements which add no system value. If processors and mailers could reach consensus on the most effective and efficient way to prepare mail for entry into the channel, then the upside potential of the lowest combined cost network would be more fully achieved.

Task Force members, led by William Davis, CEO of R.R. Donnelley, developed a set of principles for standardization that included the value of differentiation in the mailbox, predictability in the value chain, emphasis on shaped-based processing, the future of postal operations as the gateway to the household, and alignment between processing and preparation and entry. Eventually, the Task Force integrated its work on prep and entry with other Task Force efforts dedicated to postal network optimization, and recast prep and entry standardization as prep and entry optimization.

“The foundation for optimization initiatives has been laid,” commented Davis. “Now we must begin the process of prioritizing what is to be done, and turning it into reality.”

TASK FORCE PROGRESS

Principles of Standardization. Task Force members met regularly with Postal Service executives to align its recommendations with standardization and optimization initiatives underway at the Postal Service.

Preparation Initiatives. The Postal Service, with the Task Force's support, has developed several mail preparation initiatives in conjunction with the Mailers' Technical Advisory Committee (MTAC) and Product Redesign efforts. Implementation on several of these initiatives will begin early this fall. One initiative is a five-digit flats scheme about which mailers will be notified in October, and be able to participate soon thereafter. Another is a three-digit container of value program about which mailers will also be notified in October, and be able to participate soon thereafter, as well. A third initiative will establish a flexible minimum for five-digit bundles of AFSM-100 compatible Standard Mail flats. A final effort is enhanced drop-shipping, which will officially go online this October. The enhanced drop-ship program, the Task Force concluded, would offer both mailers and the Postal Service better information on entry points than currently available, and would serve as a Web-based tool with which to facilitate shape-based entry.

Preparation Feasibility Pilots. Three pilot initiatives will be launched this fall, testing the feasibility of periodical reconsolidation and co-palletization, and a new container for flats prepared on pallets. Development of the reconsolidation process was to conclude this summer, with the pilot to start in the fall. The Postal Service will focus on collecting data on the costs of bundling and unbundling periodicals, and try to use rates to drive mailer behaviors. The feasibility pilot in Northern Illinois will take 3/5-digit mail from a number of participating printers and reconsolidate the volume in carrier route packages. This is expected to eliminate the processing at the originating plants, reduce Postal Service costs, and have mail entered directly to an Associate Office for delivery. The Task Force intends to actively participate in the evaluation of the test, because a substantial portion of mail-processing costs are incurred prior to sorting. The co-palletization



test — like reconsolidation — is designed to encourage additional worksharing. It's aimed at smaller publishers who could palletize bundles of their titles with those of others. The Postal Service has decided to propose co-palletization as an experimental niche classification rate, and will present its case to the Postal Rate Commission this fall, with implementation planned for next spring. The experimental flats container being tested will carry from 20 to 60 pounds of mail, loaded at a printer's bindery line, placed on a pallet, and transported directly to a processing plant. A prototype is currently being tested at the Postal Service's plant in Fort Myers, Florida.

Preparation Modeling. Two modeling initiatives are also planned. One is to determine the optimum bundle size for Standard flats. That effort gets underway in September with new options for flat bundles, and is part of a Postal Service effort to replicate its letter automation success story with flats — reducing both customer preparation and USPS processing costs. The second modeling program is longer term. It will develop a preparation-based cost model aligned with the network optimization modeling that began last spring. The preparation cost modeling will start this fall, and the data should be evaluated and recommendations made by next spring.

Node-Based Presort. The Task Force examined an alternative approach to presort schemes, presented by Task Force member Jim O'Brien of Time, Inc. This approach, based upon the concept that the parent container should drive the packaging, would align with grid pricing and cost-based presort, and would offer efficiencies and cost savings. The Task Force concluded that node-based presort fits well with present concepts about optimization and should be included with ongoing efforts.

Mail Entry Acceptance. *PostalOne!*, the web-based scalable technology platform that the Postal Service will use to support an enhanced payment system, will also streamline the labor-intensive, paper-driven entry process. By moving mail entry transactions into an electronic environment, *PostalOne!* will facilitate standardization, efficiency and consistency.

FUTURE ACTIONS

The Task Force intends to support the following next steps:

- Monitor the outcomes of the feasibility tests for reconsolidation and co-palletization, to help the Postal Service determine how to best move forward with both initiatives.
- Participate in the modeling of both bundling optimization and preparation-based costing, by providing data and feedback.
- Support the Postal Service's implementation of enhanced drop-shipping, five-digit flats scheme, and three-digit container of value, and advise on how to improve all three.
- Continue to develop new preparation and entry approaches.
- Determine the cost benefits of prep and entry initiatives for the entire mailing industry.

PREPARATION AND ENTRY COMMITTEE MEMBERSHIP

The Task Force subcommittee on preparation and entry has members representing Advance Presort Services, Inc., ADVO, Inc., Automated Data Processing, Capital One, Gruner & Jahr, JC Penney, JLS Mailing Services, McGraw Hill, Mid-America Mailers, PSI Group, Publishers Press, Quad Graphics, Quebecor World, R.R. Donnelley, Time Customer Service, Inc., and Time, Inc. The committee is co-chaired by William Davis, Chairman and CEO of R.R. Donnelley, and John Rapp, Senior Vice President, Operations, United States Postal Service.



MAILING INDUSTRY TASK FORCE

Develop a Competitive Pricing Strategy

RECOMMENDATION RECAP

The October 2001 report of 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.

TASK FORCE PROGRESS

Pricing Plan Development and Target Pricing. The first-phase development of a Postal Service corporate pricing plan was launched last spring by USPS Vice President Steve Kearney. In this initial phase, the Postal Service has worked closely with its customers and executives to identify the leading-edge pricing strategies employed in the private sector and other postal administrations, and to determine which components might best be employed in future postal pricing. Over 150 pricing “ideas” have been generated through activities that include:

- A “breakthrough pricing” workshop involving over 40 USPS staff from all departments.
- Interviews with USPS senior executives, Postal Rate Commission staff, Task Force participants and pricing experts.
- A review of all previous USPS pricing activity.
- Compilation of 50 profiles of best-practice pricing companies.
- Several brainstorming sessions.

The Postal Service’s pricing organization is currently analyzing and prioritizing the generated ideas, based on their feasibility and potential economic impact. The focus of the plan, postal executives have told the Task Force, will be in six areas that characterize “world-class” organizations: creativity, customer value, detailed economics, perceptions, competitive dynamics and transactional capabilities. The principal filters through which each pricing idea will be assessed are its potential contribution to Postal Service revenues, its operational simplicity, and its regulatory feasibility.

Coming out of the pricing research and analysis were two targeted pricing initiatives that are designed to encourage greater efficiencies and to take advantage of the Postal Service’s existing pricing flexibility. Both were approved by the Board of Governors on September 6 and will be filed with the Rate Commission. The first is an experimental niche classification for Periodicals. The other supports a negotiated service agreement (NSA) between the Postal Service and Capital One Services, Inc., its fourth largest customer and the largest single producer of First-Class Mail.

“We believe that the NSA will produce benefits for all postal users,” Vice President Kearney told the Task Force. “It protects citizens in this way. If we grow volume or increase revenues, that will lessen the cost burden on individual users of mail.” NSAs, the Task Force was told, needed to be large enough in value to be worth the parties’ investment in litigation and satisfy the Rate Commission requirement that NSAs be at worst contribution-neutral. The Task Force determined that there is, in fact, no specific “NSA process.”



Rather, the Postal Service will likely seek to apply the rules for expedited classification filings, and may consider asking the Rate Commission to establish specific rules for NSA proceedings.

The filings reinforce the Task Force's conclusion that the pricing plan has great potential to realize the objective set by the pricing strategy recommendation.

Streamlined Ratesetting. Task Force members participated in two ratemaking "summits" jointly sponsored by the Postal Service and the Rate Commission over the past summer. 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. Due to be officially launched in September, CONFIRM was first presented to the Rate Commission in April, and approved by the Governors in August. Postal officials have also told the Task Force that they anticipate that the next omnibus rate case will include phased-in rates.

FUTURE ACTIONS

The Task Force intends to pursue the following:

- Collaborate with Postal Service pricing specialists to continue to develop new pricing ideas for economic and operational feasibility testing. Specifically, support consideration of time-based and bundled pricing schemes.
- Help identify additional candidates for negotiated service agreements, and encourage the creation of a uniform process for structuring and implementing NSAs.
- Develop consumer-focused pricing initiatives.
- Direct its pricing subcommittee to meet on an as-needed basis, since the recommendation to develop and implement a competitive pricing strategy is underway.

PRICING COMMITTEE MEMBERSHIP

The Task Force subcommittee on pricing includes members from JC Penney, ADVO, Capital One, Computer Sciences Corporation, DST Output, Pitney Bowes, PSI Group, Quebecor World, Time Customer Service, Inc., and R.R. Donnelley. The subcommittee is chaired by Gary Mulloy, chairman and CEO of ADVO, and by Steve Kearney, the Postal Service's Vice President for Pricing and Classification. A representative of the Postal Rate Commission also participated in committee deliberations.



MAILING INDUSTRY TASK FORCE

Fall 2002 Overview Collaborative Progress Towards Postal Transformation

In April 2002, the United States Postal Service delivered to Congress a Transformation Plan that described the steps and actions the Service would take to maintain its financial viability and fulfill its universal service mission. While the Plan called for a long-term restructuring of the current legislative and regulatory framework, it also set forth near-term strategies to grow the customer value of its products and services, to improve its organization efficiency, and to develop a performance-based culture. A number of the transformation strategies echoed and built upon recommendations made by the Mailing Industry Task Force in its October 2001 report, *Seizing Opportunity*.

The publishing of the Transformation Plan came as the Task Force was concluding its first six-month effort to develop programs and initiatives in support of its eight broad recommendations. The recommendations were to improve address quality, support intelligent mail, build a competitive postal pricing strategy, enhance postal payment systems, design consumer gateway services, create a CEO-level industry council, standardize mail preparation and optimize the postal network. While that period brought significant activity, progress has accelerated in the ensuing six months. Driven in part by the Postal Service's commitment to its Transformation Plan, meaningful results have been generated in each of the Task Force's recommended areas of focus.

"The good ideas developed in 2001," said Task Force co-chairman Michael J. Critelli, the Chairman and CEO of Pitney Bowes, "have been able to move quickly from concept to reality because of the remarkable collaboration between the industry members and the Postal Service. These ideas will add quality to postal services and make the combined industry and Postal Service network more efficient. Individual consumers will find postal products of greater value and easier to access."

"The mailing industry shares the understanding that a vital Postal Service providing universal communication and delivery service to the American people is critically important," said Task Force co-chairman John M. Nolan, Deputy Postmaster General. "This has never been more evident than in the work of the Mailing Industry Task Force. We've shared knowledge, resources and effort, and made great strides to meet our objectives to better respond to customer needs, to make mail more competitive, and to help unify this industry."

By this fall, more than 120 executives from 65 companies, along with 50 Postal Service Officers, executives and managers will have participated in at least one of more than 20 workgroups associated with the Task Force's eight recommendations.

Among the achievements highlighted in the Task Force progress reports made available at the September 2002 National Postal Forum in Boston are programs and initiatives in the following areas:

ADDRESS QUALITY

A test sponsored by the Task Force has led to several recommendations that will improve how the Postal Service uses its address database to successfully forward mail, and how address correction information is solicited and captured. Other achievements include the publication of a Federal Register notice on Undeliverable-As-Addressed mail volume, the planned launch of the Postal Automated Redirection System, and preprinted address change service codes. "The Task Force members working on address quality improvement are driving a tremendous amount of change," commented Acxiom Company Leader Charles Morgan. "We intend to keep the momentum going."



INTELLIGENT MAIL

Several enhanced products and services either became available to the public this summer, or will be unveiled early this fall, including CONFIRM. Together, they form the first-phase building blocks for intelligent mail, that is, mailpieces which are uniquely trackable and traceable. “With the commitment to intelligent mail as a driver of the revenue-generation aspect of transformation,” said Task Force co-chairman Critelli, “the Postal Service has not only validated the Task Force’s analysis, it has taken a significant step towards more reliable and measurable service, better security, and improved data and performance.”

PREPARATION AND ENTRY STANDARDIZATION

The Postal Service, with the Task Force’s support, has developed several mail preparation initiatives in conjunction with the Mailers’ Technical Advisory Committee (MTAC) and USPS Product Redesign efforts. The first group — a flexible minimum for five-digit bundles of AFSM-100 compatible Standard Mail flats, a three-digit container of value program, and enhanced drop-shipping, using Web-enabled labeling — will start to be implemented early this fall. “The foundation for optimization initiatives has been laid,” commented Bill Davis, Chairman and CEO of R.R. Donnelley. “Now we must begin the process of prioritizing what is to be done, and turning it into reality.”

NETWORK OPTIMIZATION

The Task Force has supported the Postal Service’s Network Integration and Alignment (NIA) project, which has a charter to create a flexible logistics network that reduces Postal Service and customers’ costs, increases overall operational effectiveness, and improves consistency of service. With the completion of its baseline network computer model, the Postal Service will test industry-suggested volume scenarios and plans to announce the initial results of its network modeling later this year.

ENHANCED PAYMENT

Task Force support for *PostalOne!* — the Web-based, scalable technology platform for an enhanced Postal Service payment system — has helped move it from the conceptual to its initial deployment this fall. That rollout will take three years for completion, with new functions and components to be released every six months.

CONSUMER GATEWAY SERVICES

The Task Force has supported development of gateway services to enhance ease of use, increase access, and leverage postal assets. They include kiosks, a Parcel Select™ merchandise returns initiative and a carrier pick-up program. “Postal transformation should, by necessity, reach out to consumer gateway services and the related revenue generation opportunities,” observed Jerry Swartz, Chairman and Chief Scientist of Symbol Technologies. “These services will be a creative way to leverage the tremendous potential of the Postal Service’s capabilities in meeting customer needs.”

COMPETITIVE PRICING STRATEGY

The first-phase development of a Postal Service corporate pricing plan was launched last spring. In September, targeted pricing initiatives for a negotiated service agreement and an experimental niche classification were approved by the Board of Governors and will be filed with the Postal Rate Commission. “With a corporate pricing plan in development,” said Steering Committee member Hamilton Davison, “we want to support initiatives directed towards the benefit of all consumers, from the large mailer to the individual.”

INDUSTRY COUNCIL

The Mailing Industry CEO Council was incorporated as a non-profit business league on June 26. Its founding board members — Michael Critelli, Gary M. Mulloy, William Davis, Hamilton Davison, Charles Morgan, Nigel Morris, David Sable, Michael Sherman and Dr. Jerome Swartz — were joined by Judy Marks, Thomas Ryder, Dave Dyer, Charles Schellhorn and Richard Hochhauser. The Council intends to be active in lobbying, promoting and advocating industry standards for the mail.

“Our work and support for postal transformation is already reaping dividends,” concluded Task Force co-chairman Michael Critelli. “Aligning the industry and the Postal Service around shared objectives is the best possible path this journey of change could follow.”



MAILING INDUSTRY TASK FORCE

MAILING INDUSTRY TASK FORCE STEERING COMMITTEE

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