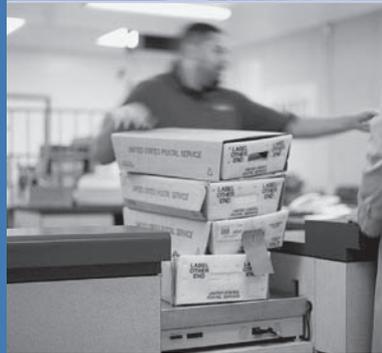


Strategic Transformation Plan

2006 – 2010

September 2005



MESSAGE FROM THE CHAIRMAN OF THE BOARD, JAMES C. MILLER III AND POSTMASTER GENERAL & CEO, JOHN E. POTTER

Transformation became the watchword of the Postal Service in 2002. Our goal was to position the Postal Service to navigate a dynamic market environment and communications landscape successfully. The results speak for themselves.

Our product and service offerings are marked by innovation, ease-of-use, and accessibility. We have reduced costs and increased productivity. Our people, the men and women of the Postal Service, have brought service performance and customer satisfaction to record levels.

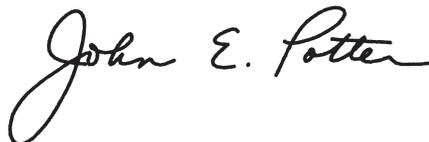
This is just the beginning. The Strategic Transformation Plan 2006-2010 has been created to take the next step. It builds on the momentum of our original Transformation Plan and stays focused on our core business and the strategies we know produce results. We will promote growth by creating more value for every customer. We will continue to reduce costs by improving efficiency in all our operational and business processes. We will bring service performance to even higher levels. We will use the best technology to make the mail a rich source of information both for our customers and our operations managers. We will achieve all this with an energized, customer-focused workforce.

The *Strategic Transformation Plan* will be updated annually. The business environment in which we operate continues to change almost daily. We cannot predict when or how today's technology will be overtaken by more advanced technologies. We cannot predict how events halfway around the world—or in our own backyard—will affect our costs. We cannot predict the final form of postal reform legislation—or even if it will occur. But we can do our best to prepare for the impact of these external factors. We understand that our Plan must be dynamic and adaptable. It must help us manage and succeed through periods of uncertainty.

We offer our commitment to continue the transformation of the United States Postal Service. Our goal is to ensure that the Postal Service can provide affordable, high-quality mail service to everyone in America—today and well into the future.

A stylized, handwritten signature in black ink, consisting of a large, sweeping leftward stroke followed by a vertical line and a horizontal line.

James C. Miller III

A handwritten signature in black ink that reads "John E. Potter" in a cursive, flowing script.

John E. Potter

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Year References

All references to a specific year or "the year" refer to the government fiscal year ending September 30. However, specific month and year references pertain to the calendar date.

EXECUTIVE SUMMARY

Transformation continues at the United States Postal Service. In the almost 4 years since publication of the first *Transformation Plan*, the Postal Service has delivered on its promise of focus and results. The *Strategic Transformation Plan 2006-2010* builds on the foundation of the earlier plan and continues its momentum.

In 2002 the Postal Service was emerging from the multiple shocks of an economic slowdown, September 11, and the anthrax attacks. Mail volume fell, and America's confidence in the mail was undermined. The 2002 *Transformation Plan* became the roadmap to recovery. It reinstilled confidence among postal employees and set challenging but achievable targets in service and cost management.

Today, service is the best it has ever been for all classes of mail. Productivity growth has been steady and strong. More than 80,000 jobs have been reduced through attrition and cumulative savings of at least \$13 billion will have been realized by the end of 2005. Better service and stable rates have attracted new business. Direct mail volume is up 10 percent in 2 years. So far, at least, increases in direct mail revenue have offset losses caused by competitive, technological changes that are moving bills and payments online.

In the *Strategic Transformation Plan 2006-2010*, the Postal Service commits to making further advances in service, productivity, and employee engagement. The Postal Service will maintain a tight focus on core products to ensure that universal, affordable postal services continue to have the power to communicate, reach key audiences, and help bind America together. The Postal Service commits to continue taking \$1 billion out of its cost base each year through 2010 while employing equally aggressive measures to grow the business.

BEST VALUE IN THE MARKETPLACE

For postal customers, value is defined by quality of service, price, and ease of use. Over the next 5 years the Postal Service will continue to improve the value of its products to promote growth. It will focus primarily on advertising mail and package delivery services.

In the advertising market the focus will be to offer services that help businesses grow. New features will be added to First-Class Mail to make it a more powerful communication tool for advertisers and financial service providers. Small businesses remain an enormous engine of the nation's commerce, and the Postal Service is developing ways to make advertising mail more accessible and easier for them to use.

Customers of all sizes will see continued improvements in package delivery services as the Postal Service continues to automate operations, increase ease of use, and expand track and trace capabilities. These changes will better serve households and small businesses that use end-to-end package service. Improvements will also benefit consolidators who rely on the Postal Service for delivery only.

The Postal Service earns 85 percent of its revenue from businesses and institutions, all of which have choices in how they communicate, bill, and ship. To keep prices predictable, the Postal Service will transition to adjusting commercial rates annually, generally in line with the Consumer Price Index. To meet the unique needs of business customers, customized prices will be developed where possible.

Customers are now finding that the Postal Service is more convenient. Services are available via *usps.com*, 1-800-ASK-USPS, by mail, at Post Offices, self-service kiosks, grocery stores, and ATMs. The Web is making it easier and faster to deposit commercial mailings as transactions such as manifesting, postage payment, and entry scheduling move from paper to electronic media.

BEST RUN COMMUNICATIONS AND DELIVERY SERVICE

Each day the Postal Service receives and delivers over 680 million pieces of mail. Distribution and transportation of these letters, parcels, catalogs, and magazines occur across a network of 38,000 Post Offices and retail outlets and 400 mail processing facilities. The mail is securely and reliably delivered to 143 million addresses. No single operation in the world comes close to this level of connectivity with households and businesses across America.

Over the past 4 years, operations have improved to produce better, more consistent service with fewer resources. Today, the Postal Service delivers more than twice as much mail as it did 2 decades ago, with the same number of employees. In the next 5 years, there will be more change. Delivery remains the largest cost center and will be the focus of intensive efforts to find new savings. The entire mail flow will be streamlined, made more flexible, and managed as a single, integrated network, not as multiple separate operations.

In the longer term, a standardized postal network will contain fewer types of processing facilities. Larger regional distribution centers will serve as primary nodes for multiple products, and smaller local processing facilities will process all mail destinating in their geographic areas. These changes will reduce costs and improve reliability.

Implementation of industry best practices throughout the mail value chain will eliminate costly rework and standardize operations that will benefit both the Postal Service and its customers. The Postal Service and the mailing industry must work together to raise quality levels by assuring correct and complete addresses and routing information.

Customer mail preparation requirements to qualify for discounts will evolve as postal networks are streamlined and new automated processing equipment is deployed. New tools will help handle fluctuations in demand at the lowest possible cost. Advance notification systems will tell how much mail is arriving. Tracking systems will show how mail flows across operations. Planning models will calculate required resources. Internal processes will also be further streamlined to reduce costs and allow the Postal Service to be more nimble.

BEST PLACE TO WORK

The entire Postal Service will hold itself accountable to its customers to deliver more consistent quality and higher levels of customer service. The higher the quality of service targeted, the greater the importance of identifying and maintaining a skilled and committed workforce. The goal is an environment that encourages employees to strive to be the best. Therefore, the Postal Service will continue to build a performance-based culture and improve the skill sets of its workforce at all levels. Training and leadership development will emphasize teamwork and customer focus.

Postal employees are known for a deep commitment to service, which is witnessed daily in the thousands of communities they serve. Building on this commitment, the Postal Service will increase employee involvement at all levels and will continue to recognize high performers. Every employee will have the opportunity to move up in the ranks of the organization through outstanding performance and career development opportunities.



THE POSTAL SERVICE IN 2010

The Postal Service exceeded most of the aggressive targets that it set in its first phase of Transformation. In the course of executing that *Plan*, postal employees gained invaluable experience and new levels of confidence in the organization's ability to meet challenges.

Despite the challenges ahead and the unresolved status of pending postal reform legislation, the Postal Service is confident that it will also achieve the goals in this next phase of Transformation. Certainly, the challenges are great, especially the declines in First-Class Mail and continuing increases in the number of delivery points. But the opportunities are greater. They include the promise of Intelligent Mail technology, the prospect of new savings through standardization, the power of the Postal Service's unique connection with every American household and business, and the potential of a fully-engaged 700,000-strong workforce committed to meeting customer needs.

INTRODUCTION

The *Strategic Transformation Plan 2006–2010* is the Postal Service’s blueprint for the future. Like the *Transformation Plan*, published in 2002, it describes how the Postal Service will improve the value of mail and, by doing so, help sustain a financially stable enterprise that best serves the nation’s mailing needs as it provides affordable and reliable universal service.

The 2002 *Transformation Plan* helped the Postal Service become a far leaner, more effective and modern organization. It attained record levels of service and customer satisfaction, and will achieve its goal of \$5 billion in cost reductions ahead of its 5-year target. Postage rates have been stable since 2002 as a result of improvements in postal productivity and a legislative change that temporarily eliminated postal overpayments to the Civil Service Retirement Fund.

Under the 2002 *Transformation Plan*, the Postal Service has been using the flexibility available within current law to think beyond what was perceived as possible only a few years ago. This is consistent with recommendations of the Government Accountability Office (GAO) and The President’s Commission on the United States Postal Service.

Government Accountability Office Review

The 2002 *Transformation Plan* was developed to address the challenges outlined by the GAO in 2001.¹ In its most recent follow-up to that study, the GAO concluded that the Postal Service:²

- Has had a notable result in controlling costs and improving productivity.
- Addressed a number of critical financial issues.
- Improved human capital.
- Greatly improved the transparency and quality of its financial information.

The President’s Commission on the United States Postal Service

In July 2003 the President’s Commission on the United States Postal Service offered recommendations for improving the Postal Service. Progress has been made on many of its recommendations, including expanded customer access to postal services, negotiated service agreements, testing personalized stamps, and pay for performance.

Purpose of the *Strategic Transformation Plan 2006–2010*

This plan enables the Postal Service to maintain and build upon the momentum of the 2002 *Transformation Plan*, while helping ensure that the organization can respond to changing customer needs, market requirements,

¹ *Major Management Challenges and Program Risks: U.S. Postal Service*, GAO-01-262, January 2001.

² *Major Management Challenges at the U.S. Postal Service*, GAO-05-207, January 2005.

This Plan is the Postal Service's blueprint for the future. It describes the strategies that will improve the value of the mail, helping to sustain a financially stable enterprise that provides affordable, reliable universal mail service.

technological developments, and legal requirements. The Postal Service will continue its commitment to take \$1 billion out of the cost base each year, which, in combination with revenue growth strategies will sustain the mission of providing universal service at reasonable rates.

The Postal Service's challenges are considerable. Up to 2 million new delivery points are added to the postal network each year, equivalent to adding cities the size of Chicago and Baltimore. Meanwhile, First-Class Mail, which produces the greatest contribution to cover network costs, has been declining. Therefore, the Postal Service will require other means of financing growth of the universal service network. The ability to find financial relief through growth in other postal products is challenged by intense competition. Postal costs, especially for employee compensation, retiree health benefits, and fuel, are rising at rates much greater than inflation.

How the *Strategic Transformation Plan 2006–2010* is Organized

The *Plan* is organized around the Postal Service's four strategic goals:

- Generate Revenue.
- Reduce Costs.
- Achieve Results with a Customer-Focused, Performance-Based Culture.
- Improve Service.

Each chapter includes strategic challenges and trends relevant to the goals. These are followed by the Postal Service's transformation strategies for 2006–2010. Recent accomplishments are discussed where they contribute to an understanding of future plans.

The *Plan* integrates and satisfies the requirements of four previously separate publications: the *Transformation Plan*, the *Five-Year Strategic Plan*, the annual *Performance Plan*, and the annual *Transformation Progress Report*. Appendix A provides details required by the Government Performance and Results Act.³ Appendix B summarizes the stakeholder outreach program that supports the transformation process. Appendix C provides an overview of the Postal Service's fixed versus volume variable costs.

In addition to the *Strategic Transformation Plan 2006–2010*, the Postal Service will continue to publish its *Annual Report* and the annual *Comprehensive Statement on Postal Operations* (including the annual *Performance Report*). Each publication is available at usps.com, along with other substantive information on postal operations and finances. Together, these reports provide stakeholders with detailed information on postal policies, programs, resources, and performance.

³ The Government Performance and Results Act (Public Law 103–62) requires federal agencies to publish a 5-year strategic plan and an annual performance plan.

I. GENERATE REVENUE

The Postal Service is a self-sufficient agency deriving its revenues almost entirely from postage and fees paid by mailers. Postal operations are not supported by tax dollars. Revenue must completely cover the cost of operations, including growth of the universal delivery network, investments in future improvements, and numerous public service functions. The Postal Service must set prices to cover costs.

STRATEGY: FOSTER GROWTH THROUGH CUSTOMER VALUE

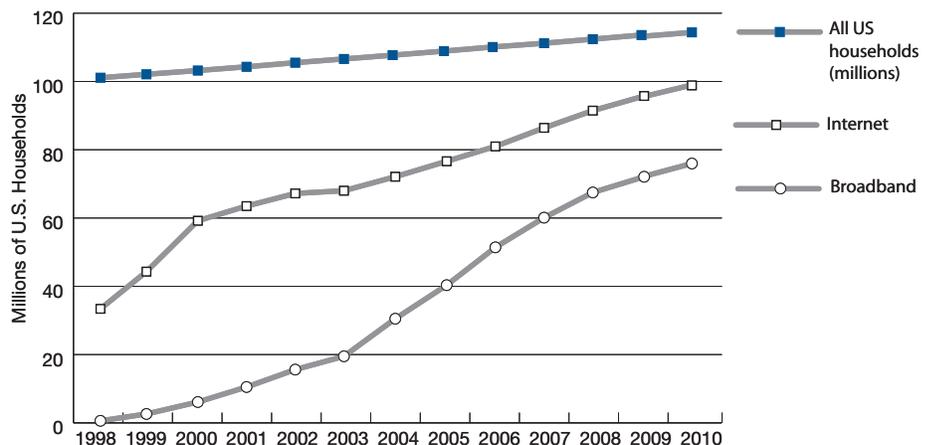
Create more customer value in core products and services to increase mail volume and revenue to continue financing universal service and the growing delivery network. Value includes increased product utility, improved ease of use and access, and more reliable, predictable performance at affordable prices.

A. STRATEGIC CHALLENGES AND TRENDS

A number of key trends will influence customer use of the mail over the 5-year planning period:

- The Internet now reaches more than 71 percent of households and penetration is expected to increase. High-speed broadband makes Internet-based services easier to use and will likely increase the use of online alternatives to mail. The projected decline of First-Class Mail impacts the Postal Service’s ability to continue to finance the growing universal service network. This is the single greatest challenge facing the Postal Service.
- Businesses attempting to contact and influence customers are finding it more difficult to reach mass audiences and are turning to more sophisticated techniques and technologies to reach selected audiences with more relevant messages.
- Consumers want readily accessible, relevant information to make better decisions, and the Internet is fast becoming their primary

Projected Growth of Internet and Broadband



Source: Forrester Associates

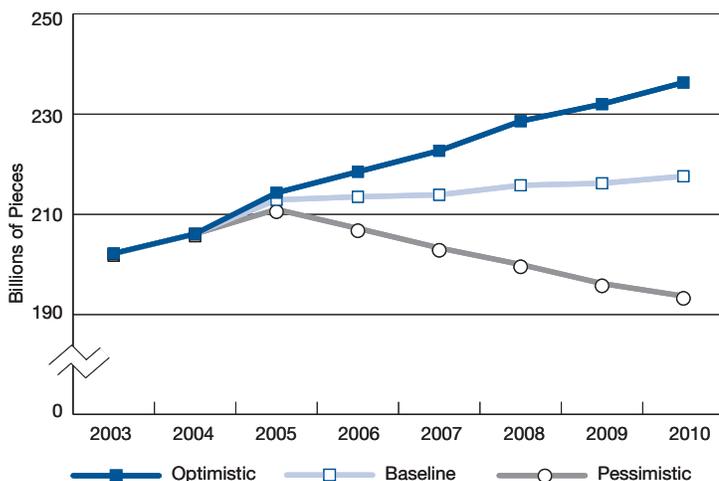
source of information. Consumers also value services that provide safeguards against threats to privacy, identity theft, and fraud.

- Household demographics are shaping attitudes and behaviors about the use of mail for applications such as bill payment. Younger consumers have grown up with alternatives, and cannot automatically be expected to repeat the pattern of mail use of previous generations. The “Baby Boomer” generation will be healthier, wealthier, live and work longer, and be more mobile than previous retiree generations.
- When making a purchase and shipping decision, customers are increasingly aware of the importance of the entire order and fulfillment

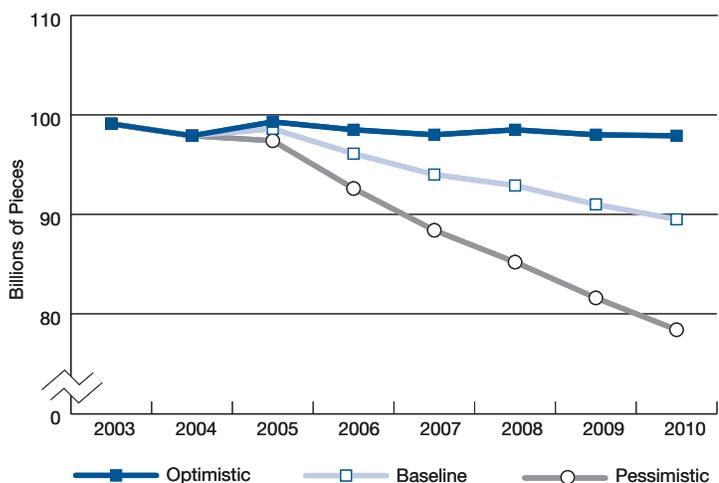
process, and they balance the total cost with value. Timely information on the status of an order and the anticipated delivery date have become a baseline customer expectation.

- Customers are demanding services tailored to their needs. They want a choice of features and the option to bundle or unbundle services. They expect customer support, such as Web sites and help desks, to be part of a product offering. They will use multiple channels for different purposes, perhaps collecting information and comparing options through one channel and completing a purchase through another.

Total Mail Volume, Future Scenarios



First-Class Mail Volume, Future Scenarios



The two charts at the left illustrate a range of expectations for total mail and First-Class Mail volumes from 2006 through 2010. In each chart, the *Baseline* scenario (center line) reflects historical volumes and econometric projections. The *Baseline* assumes implementation of postage rates as requested in the R2005-1 Public Law 108-18 rate case filing, a further increase in 2007, and annual increases at a rate approximating the Consumer Price Index (CPI) in the years thereafter. The *Optimistic* scenario (top line) in each chart assumes less electronic diversion and a stronger economy. The *Pessimistic* scenario (bottom line) assumes the opposite — increased electronic diversion and an implied slower economic growth.

B. TRANSFORMATION STRATEGIES

The Postal Service's revenue challenge is to cover an expected decline in First-Class Mail, driven primarily by single-piece full-rate letters, with growth in other segments of First-Class Mail and in other products and services. The organization is confident it will meet that challenge based on its progress under Transformation to date and the clear potential to develop new customer value through the power of mail. The Postal Service will focus revenue generation efforts in four areas:

- Create more customer value with products and services.
- Customize and simplify pricing.
- Enhance access and ease of use.
- Aggressive sales, promotions, and outreach.

1. Create More Customer Value with Products and Services

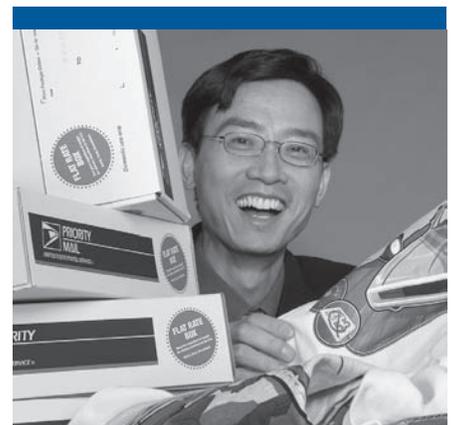
To take greater advantage of its unique set of services and presence in every community, the Postal Service will continue to transform product offerings by making them easier to use and better tailoring them to the needs of specific customers. By incorporating new technology and leveraging important assets, including its daily customer contact and widespread network, the Postal Service has a major opportunity to create valuable new solutions that increase the benefits of mail for all customers.

Make it Simple

Customers want simple and easy-to-understand products and services. An example of this is the response to the Priority Mail Flat-Rate box, launched as a test in November 2004. The convenience of the flat-rate feature — one price regardless of weight or destination — has generated high interest among households and small businesses because it takes the guesswork out of postage.

The Postal Service will apply this principle — making it simple — across its entire package line. Currently, package services are defined by shape, weight, content, and/or delivery commitment. Packages may be mailed in multiple classes and subclasses, including Express Mail, First-Class Mail, Priority Mail, Standard Mail, Parcel Post, Media Mail, Library Mail, and Bound Printed Matter. The Postal Service will simplify its offerings to ensure that customers have clearer expectations across the range of available package services. Products will be differentiated by clearly defined service commitments, and price will be based on value as well as cost. As with its domestic package product line, the Postal Service will simplify international package services in order to attain a growing share of the international mail and package business. Global Express Guaranteed, Global Express

Creating more customer value in core products and services will increase mail volume and revenue to support universal service and the growing delivery network.



Mail, and Global Priority Mail products will be the focus of the redesigned offering. These products will be evaluated for conversion to day-certain services (i.e., 2-, 4-, 6-day service) to key countries.

The Postal Service will redesign and simplify its portfolio of Special Services to offer customers a more logical set of integrated, value-based mailing solutions. It will determine customer mailing needs for safety, control, and assurance, and adapt existing services to best respond to those needs. An example is the introduction in September 2004 of the Electronic Return Receipt, which lets customers obtain a record of delivery as a PDF file attached to an email message. Similar enhancements will add utility to other Special Services and will be made in tandem with continued efforts to simplify requirements and processes. The goal is to make Special Services better understood and more useful to a wider range of customers.

The Postal Service is simplifying its regulations and mail-acceptance procedures to encourage more small businesses to use the mail to find new customers and manage relationships.

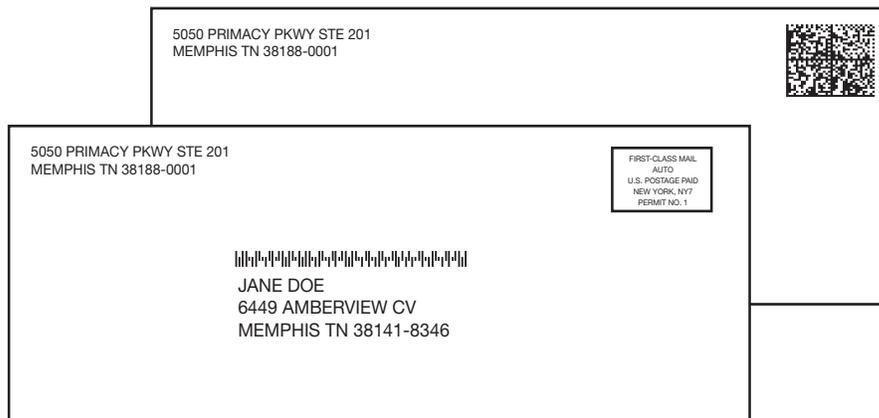
The Postal Service will continue to encourage more small businesses to use the mail to find new customers and manage relationships. It will continue efforts to expand access to services where it is most convenient to customers and enhance the number and utility of its online resource. For example, the Business Reply Mail Web site (usps.com/replymail) makes it easier for businesses to learn about and use reply mail. Customers can use the site to apply for permits, pay fees, confirm ZIP+4 codes, and electronically create pre-approved camera-ready reply mail formats. Another site (usps.com/directmail) contains a variety of tools, advice, and easy-to-use tutorials on direct mail.

Make Mail Intelligent

Over the last 20 years the Postal Service has successfully applied automation technology to improve service and reduce costs. Barcodes have been the technological foundation for these efforts and for the development of new product features, allowing the Postal Service to add value by providing information about mail in transit. Development of CONFIRM, a commercial service that uses barcodes to track First-Class Mail, Periodicals, and Standard Mail through the mailstream, has helped business customers manage their operations more efficiently.

The Postal Service will explore new product structures so that these customers can use information about mail to better manage their business and further reduce costs by improving their operations. Emerging Intelligent Mail technology will enhance CONFIRM and allow the Postal Service to create additional features, with pricing based on value. For First-Class Mail, the Postal Service will use the 4-state barcode and information-based indicia to build a robust platform of data about mail, which is obtained in-process using passive scanning. These data will pinpoint where mail is in the system and when delivery is expected. Products developed from this information could be advantageous to many commercial customers and strengthen First-Class Mail's position as a cost effective vehicle for

business transactions. With advanced notice of the delivery of individual mailed payments, remittance companies could reduce the time and total cost to process the payments. There will be opportunities for Periodicals and Standard Mail customers to use this same technology to enhance the visibility of their mail. For example, an advertiser will know with greater certainty when a direct mail promotion has reached a customer, which can help the advertiser prepare for the customer's response and fine tune the timing of future mailings.



The 4-state barcode (front envelope) includes sorting, tracking, service, and customer information — all in a single code. The information-based indicia (in the “stamp” area of the rear envelope) provides secure postage for Internet and meter users. It also offers the future capability to include service and tracking information. The Postal Service developed and set standards for these codes to dramatically increase the amount of information carried while requiring minimal space on the envelope.

To better compete in the package marketplace, the Postal Service will increase the capability for customers to track packages. For most of its package services the Postal Service now provides confirmation of delivery only (Delivery Confirmation and Signature Confirmation). However, customers expect more information about package status; they want to know when a package enters the postal network, where it is enroute, when delivery is expected, and when delivery occurs. The Postal Service will work with customers and partners to determine how best to address these requirements. Offering this expanded level of visibility will require a tracking and distribution barcode on all packages and network coverage of automated package sorting equipment to ensure that cost-effective passive scans of packages are obtained.

In 2006 the Postal Service will deploy 300,000 Intelligent Mail devices (IMDs) to help collect information on mail. The IMD is a hand-held scanner with the capability to read both current barcodes as well as the newer 4-state barcode and information-based indicia. These features, along with the IMD's electronic signature capture, will supplement in-process scanning to make more mail visible from the time a piece is received until it is delivered. The ultimate goal is to better integrate postal data with customer information, extending visibility even further — starting with creation of the mail piece all the way through to delivery. The Postal Service will continue to evaluate the potential of evolving technology such as radio frequency identification devices to collect information.

The Postal Service will actively pursue opportunities to use scanning equipment and barcode technology to improve Business Reply Mail (BRM) performance and offer customers new mailer-paid services. One such service is expected to use passive scans of mailer-applied barcodes to count, rate, and bill BRM postage fees while the mailpieces are being processed. This alternative payment method will minimize processing cost and speed delivery. Another potential service would simultaneously capture images from both sides of BRM cards and make the images available to mailers online. An additional option would convert the images to text and transmit the file to a database for customer retrieval. These potential services would all be designed to increase BRM utility, ease of use, cost effectiveness, and performance.

Differentiation

The Postal Service will continue to pursue opportunities to better differentiate First-Class Mail from other products, particularly Standard Mail. The traditional attributes that distinguish First-Class Mail have long been content, delivery service, and the inclusion of value-added services such as forwarding. Over time, however, developments in mail preparation and improvements in processing have made differences between First-Class Mail and other services less clear cut. To begin to remedy this, the Postal Service will take advantage of the 4-state barcode and related technologies to add new value-added features designed and priced specifically for First-Class Mail. Barcode technology will also improve ease of use. With PC Postage and next-generation postage meters, the process of adding Special Services, such as Certified or Registered Mail, to First-Class Mail will be much easier because information about the additional services will be incorporated within the indicia.



Leverage First Mile / Last Mile

The Postal Service is the only carrier that visits virtually all households and businesses six days a week. When combined with its nationwide retail presence, the Postal Service offers an extremely efficient gateway to connect shippers with homes and offices. Parcel Select is a good example of how the Postal Service leveraged the last mile and created new customer value. With Parcel Select, shippers enter packages at a Post Office or plant near the point of delivery. Because the packages bypass steps in handling and transportation, the Postal

Service can offer customers an attractive price, while the efficient postal delivery network is able to assure reliable, predictable delivery. Offered in partnership with package consolidators, Parcel Select has been popular for fulfillment with catalog and online retailers. Postal Service package competitors are using the product as well, because they recognize that the Postal Service is able to deliver to residential and rural addresses more cost-effectively than they can deliver themselves.

Opportunities exist for the Postal Service to further leverage its first mile/last mile strengths to meet emerging needs. Products such as the Premium Forwarding Service, an experimental, personalized reshipping service using Priority Mail, capitalize on the organization's ability to deliver anywhere in the nation. Continued online commerce growth will increase demand for cost-effective delivery and create the opportunity for additional destination-entry products. The Postal Service also will continue to focus on first mile opportunities in the returns market by having carriers pick up packages while on their routes. The experimental Parcel Return Service launched in 2003 allows merchants to collect returned packages at the same postal facilities where the mail was initially entered. The Postal Service is exploring options to grow the market for the return of recycled and take-back items. It also plans to develop a service to enable customers to have high-value packages held for pickup at Post Offices.

Innovative Customer Solutions

The Postal Service will continue to pursue customized solutions, such as negotiated service agreements, that add value to existing products. These may include bundling traditional products with special services, "round-trip" product offerings (both outgoing and reply pieces), and cross-product initiatives. One area of focus will be package services. The Postal Service's success in increasing the value of package services for small businesses and consumers resulted in revenue growth from both segments. For larger commercial shippers, the Postal Service has leveraged its last-mile capabilities to residences, especially for light-weight packages, but it has tended to lose high volume customers in other categories to competitors who offer steeply discounted or bundled prices. The Postal Service is committed to providing cost-effective solutions to meet commercial customers' package needs. These solutions will include evaluating a customer's entire process and developing customized solutions, which may include pricing flexibility based on volume, entry requirements, and bundled products.



Customized MarketMail gives advertisers new design freedom to help their messages stand out.

Internationally, the Postal Service will consider mutually beneficial bilateral agreements with high mail volume trading partners. This will allow the Postal Service to provide better services at more competitive rates in markets attractive to U.S. businesses. The Postal Service will also explore alliance opportunities with non-postal companies that provide delivery service in foreign countries where the relaxation or elimination of postal monopolies has occurred. The Postal Service's Global Express Guaranteed product to foreign addresses is an example of leveraging the strengths and capability of a partner to improve product performance and reliability.

Customization and Personalization

Among advertising media, mail is without equal as a tool to customize messages and manage individual customer relationships. The Postal Service recognizes that advertising mailers must continue to be innovative for direct mail to stand out in the battle for customer attention. That is why the Postal Service developed Customized MarketMail and Repositionable Notes. Launched in 2004, Customized MarketMail is for customers seeking more creative freedom in mailpiece design as a way to attract new customers. Designs can take virtually any shape so long as the size of the piece falls between the smallest mailable letter and largest mailable flat. Repositionable Notes, introduced as a pricing experiment in 2005, explores the use of self-adhesive notes on the outside of mail.



Preliminary test results of personalized postage indicate that for some customers the product increases postage purchases and mail use. The most popular subjects have been brides, babies, and pets.

New options for customizing mail will not be limited to businesses. The Postal Service is currently testing customized postage, and continues to evaluate ways to expand access and penetrate new markets. Research shows that many customers, particularly the youth market, value self-expression in personal correspondence. Based on initial testing of this concept, personalized postage enhances the value of correspondence for both sender and recipient. The Postal Service will work closely with PC Postage providers, the greeting card industry, and envelope manufacturers to fully develop the program's potential. Customized postage products may ultimately also be available for commercial use to help organizations increase brand awareness.

2. Customize and Simplify Pricing

Price plays a major role in shaping customers' perceptions of the Postal Service. While business customers seek prices that meet their particular needs, and consumers seek simple, easy to understand prices, all customers gauge the value of the products they use relative to the prices charged. The Postal Service will use the appropriate regulatory processes to customize prices to meet the needs of business customers, while simplifying price structures for all customers. In every instance, price will more accurately reflect the value provided to the customer.

Evolve to Annual Price Adjustments for Commercial Services

The Postal Service has worked closely with the Postal Rate Commission to use the rate-making process to better meet pricing objectives. The many pricing experiments and negotiated service agreements (NSAs) underway demonstrate that pricing challenges can be met. Another challenge for the Postal Service and its customers is the current multi-year Omnibus rate case cycle. Pricing uncertainty associated with the cycle can have a debilitating impact on a mailer's ability to plan, to maintain customer relationships, and to develop and market products for new audiences. The time between rate changes makes it difficult to implement longer-term pricing strategies and causes postal prices to lag behind changes in the marketplace and operating environment. To bring more predictability and responsiveness to pricing, the Postal Service will move to annual price changes for commercial volume products.

Annual price changes will bring predictability to commercial volume mailers. For households and other small volume mailers, rates will be consistent for longer periods.

For households and other small volume mailers, the Postal Service will keep prices consistent for longer periods. These customers have consistently requested this to minimize the confusion and disruption that they associate with rate changes.

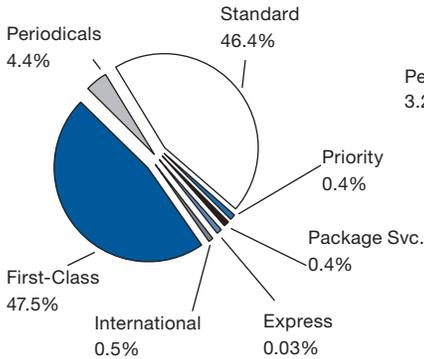
Price to Market Value and Ensure Reasonable Margins

Under 2002 *Transformation* the Postal Service introduced new services such as Repositionable Notes to increase the value of mail for customers. As it continues to introduce products and enhancements, the Postal Service will price them based upon market value, not solely on costs. The goal is to allow customers to make clearer choices among products based on their particular needs.

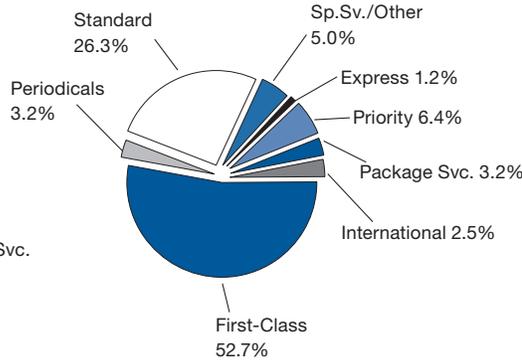
The Postal Service will ensure that all products provide a reasonable margin, or contribution. Some postal services, by virtue of averaging within larger groupings of mail, have been under-priced and have done little to cover Postal Service institutional costs. To ensure that mail remains affordable, every product must help fund the universal service network by contributing to institutional costs. *Appendix C, Fixed Versus Volume Variable Costs*, provides more detail on product contribution to cover institutional costs. Institutional cost coverage has become particularly important in the face of continuing growth in the number of new deliveries and declines in high-contribution First-Class Mail.

The following illustrations show mail volume, revenue, and contribution for 2004.

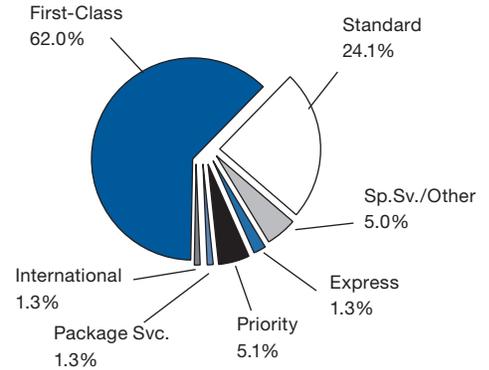
Volume



Revenue



Contribution



Source: U.S. Postal Service, Cost and Revenue Analysis, Fiscal Year 2004. Numbers shown may not add due to rounding.

Pricing Innovations for Volume Mailers, Simplified Pricing for Consumers and Low-Volume Mailers

First year results of the first NSA with CapitalOne resulted in over \$21 million in new net contribution. Benefits came from 87 million additional First-Class Mail pieces and conversion of physical returns of undeliverable mail to electronic address change notices. Similar successes are now being realized with Discover Financial Services and Bank One (now J.P. Morgan Chase).

Like other businesses serving the commercial sector, the Postal Service will seek to use volume pricing as a tool to retain and grow volume. Pricing innovations such as NSAs and Parcel Return Service effectively customize prices for larger specialized mailers. They add customer value and increase contribution. All customers benefit because the resulting volume helps underwrite universal service. The Postal Service will build on these successes by expanding NSAs, creating bundled services, and tailoring offerings to customer needs. For households and low-volume business mailers, the Postal Service will offer more simplified options, extending the successes of Priority Mail Flat-Rate boxes and envelopes and the new Premium Forwarding Service. By making it easier to use the mail, the Postal Service will build customer loyalty, control costs, and leverage the value of the postal network.

3. Enhance Access and Ease of Use

Transformation initiatives enabled the Postal Service to greatly enhance and expand access to products and services. As a result of a number of innovative new solutions and improvements to traditional services, customers now have more ways than ever to transact postal business. By taking advantage of the power of the Internet and the reach of its delivery network, the Postal Service provided customers with a new level of access to products and services.

Expand Access to Products and Services

Two key innovations were the development of Click-N-Ship, which allows customers to print postage and labels online, and online notification of Carrier Pickup, which provides customers with free next-day pickup of packages at their residence or business. The combined result is a major breakthrough in convenience and represents a significant opportunity for new business. Customers can complete virtually all of their postal shipping business, order mailing supplies, buy stamps, and do any number of other common postal transactions — without leaving their home or office. Customers have responded enthusiastically, but the Postal Service believes it has only begun to scratch the surface. Each day thousands of customers schedule carrier pickups for tens of thousands of packages. The opportunity to grow is greater still, considering that more than 7 million customers visit a Post Office each day and the Postal Service delivers to 143 million addresses — almost 20 times as many daily deliveries as the next biggest competitor.

In 2004 the Postal Service introduced another breakthrough in customer access — the Automated Postal Center, or APC. This award-winning mailing kiosk gives customers a convenient alternative to counter services often when Post Offices are at their busiest. For customers who prefer to do their mailing after hours, many APCs make basic services available at any time of the day or night, including weekends and holidays. At present, 2,500 APCs are available at busy Post Offices around the country.

All together, these successes helped the Postal Service achieve a major objective of the 2002 *Transformation Plan* — to meet its customers' ever-increasing need for convenient access without relying exclusively on traditional, and costly, “brick and mortar” solutions.

The Postal Service has found a number of partners eager to team up to extend convenience. For example, the organization's alliance with eBay allows eBay users to calculate postage, print mailing labels, and pay postage without ever leaving the eBay site. When used in tandem with free next-day Carrier Pickup, the arrangement is helping tens of thousands of small businesses without requiring them to make a trip to the Post Office. The Postal Service has also been forging an increasingly beneficial partnership with postage meter firms to apply advanced information-based indicia technology to next-generation postage meters, adding one-button access to special services and other postal products. Similarly, PC Postage partners offer customers the capability to print postage at home or the office, along with providing other value-added services. The Postal Service will also continue to expand its partnerships with retailers, making postage stamps available at more places than the 60,000 supermarkets, drug stores, and convenience stores where they are now sold.



Through an expanded alliance with the U.S. Department of State, two-thirds of all passport applications are now submitted at Post Offices. The Postal Service will pursue additional opportunities to maximize the value of its retail network.

Optimize Use of Retail Locations

The local Post Office has long served an important function in most communities. In many cities and towns it is the community center. Frequently, it is the only local link with the federal government. Not surprisingly, many private sector businesses also use Post Offices to help expand their delivery reach and visibility. Few national organizations enjoy the Postal Service's status as a trusted service provider. Nowhere is this more evident than the U.S. Department of State's alliance with the Postal Service to accept passport applications. Transformation efforts enabled the Postal Service to expand the availability of this critical service by 50 percent. As a result, two-thirds of all passport applications are now submitted at Post Offices. The value of the Postal Service as a partner will only grow as passport requirements are expanded in the future.

The Postal Service will pursue additional opportunities to capitalize on its presence as the preferred, trusted provider for state and federal agencies, becoming their local link with communities nationwide. It will also explore mutually-beneficial alliances with partners in banking and financial services in under-served communities, and with other businesses that require the same trusted presence. The Postal Service's goal is to maximize the value of its retail assets and further develop the powerful potential of employees to meet the needs of the communities they serve.

Simplify Business Mail Acceptance and Payment

The business mail entry channel is an essential customer contact point. It produces about \$37 billion (54 percent of postal revenue) and 13 million mailings per year – representing about three-quarters of all mail. By any estimation, business mail entry is an important link in the mail value chain.

The Postal Service's 2003 deployment of PostalOne! was a key milestone in the business mail entry function. This integrated electronic system records mailing transactions, receives payments, and greatly simplifies record keeping and the retrieval of mailing data. However, the introduction of PostalOne! is only the beginning. Over the next 5 years, the Postal Service will move to a totally electronic system that allows customers to transact all of the business of entering mail — documentation, payment, scheduling, and entry — without the need to submit paper. Mail induction information will be forwarded “downstream” to postal facilities advising them of upcoming mailings. In-process scanning operations will help close out the transaction. Because everything will be barcoded, mail will be visible from creation, to entry, to delivery.

Adopt Risk-Based Verification

Every mailing does not need the same level of verification. The Postal Service will build a risk-based verification approach that speeds acceptance for proven mailers and focuses resources to support those who can improve quality. Companies that consistently provide high-quality mailings do not require the same time and attention as untested mailers. The Postal Service will deploy mailer risk profiles based on past performance to determine the right level of verification to apply to each mailing. This system will have the capability for dynamic modeling, using data from several sources to determine the frequency and sample size of verifications to perform. Criteria include the mailer's prior verification results, mailing size, and the potential cost impact of not verifying the mailing. This customized solution will ensure that the Postal Service's limited verification resources are used most efficiently beginning in 2006.



Over the next 5 years, mailers will benefit from a totally electronic system for all mail-entry transactions — documentation, payment, scheduling, and entry. A risk-based verification process will speed mail acceptance and improve quality.

Convenient Payment Options and Seamless Mail Acceptance

PostalOne! now allows customers to create centralized accounts and select from a suite of electronic payment options, which include ACH credit and debit, FedWire, and eCheck. Customers of all sizes can structure account portfolios to better meet their needs. The centralized payment system will be expanded to more customers and a wider variety of services, such as post office boxes and meters, stamps, pickups, and Click-N-Ship. These electronic payment options will be accessible across more customer channels, such as the Web, phone, and business mail entry units. Online reports will give customers a view of their postage expenses and account status. In the longer term, customers will be able to open a centralized account, fund the account electronically, and mail at any location.

The Postal Service is integrating new and existing tools to create a more seamless mail acceptance process. Using PostalOne!, customers will be able to send electronic documentation and postage payment and request appointments via FAST, the Facility Access and Shipment Tracking system. With FAST, mailers can schedule appointments online and provide advance information about mailings, allowing the Postal Service to match resources with expected workload. These tools will optimize the Business Mail Acceptance process and allow for continuous customer feedback.

The Postal Service will promote adoption of barcodes on all mail containers. Current barcodes designed to promote unique identity of containers are the Mail Transport Equipment Label and the 24-digit Enhanced Distribution Label. The 4-state barcode is a new information-rich barcode designed to identify bundles and mail pieces. These barcodes will be scanned during automated processing to provide a platform for automating visibility throughout the system.

The Postal Service will explore an in-process verification approach to enhance efficiency. The process entails analyzing mail at induction and as it flows through automated processing equipment, and reconciling data against the electronic documentation and postage charges.

Provide Continuous Mailing Intelligence and Transparency

Data obtained from mail in-process has great potential to improve mail quality and make it a more responsive, measurable, and an indispensable business solution. Through technology, the Postal Service will make mailpiece data available for a fee to customers so they can manage their marketing campaigns and operations more effectively. Postal Service management will have access to the same secure data so it can maintain a continuous feedback and dialogue loop with customers, and deliver consistent, timely, and accurate information. Design and testing of this visibility feedback is scheduled for 2007, with implementation by 2008.

4. Aggressive Sales, Promotions, and Outreach

The Postal Service has an enormous opportunity to reach out to potential customers and markets. Its goal is to develop the potential of customer relationships and equip the entire workforce of 700,000 employees to work together to grow business for the Postal Service.

Employee Outreach to Households and Small Businesses

The Postal Service has achieved initial success with its Customer Connect and Business Connect programs, which equip selected employee groups to identify and develop new business opportunities. Customer Connect prepares carriers to talk with their customers about using the mail to grow business. Moving forward, the Postal Service will expand Customer Connect to more offices with significant growth opportunity, to double participation and revenue.

Postmasters have always been a vital part of the communities they serve. With Business Connect, they receive the tools and training to identify targeted small businesses, make professional presentations about postal products and services, and establish themselves with these customers as the primary local resource for business growth and success. In the first 3 months of Business Connect, postmasters across the country met with 137,000 small businesses to discuss how the mail can help acquire

new customers, retain current customers, and grow their business. As the success of this program builds, more tools and training will be provided to increase Business Connect to 3 million annual contacts by 2010.

Focus Sales Approaches to the Commercial Market

The commercial sales organization of the Postal Service has made important strides since the 2002 *Plan*. Bringing private-sector expertise to lead the sales force, the Postal Service has built new disciplines and processes to pave the way to success. These include:

- Increasing the number of managed accounts from 15,000 to 40,000.
- Adding direct selling resources (“feet on the street”) to help commercial customers better understand the power of the mail.
- Blending six previously disconnected sales support systems into a single integrated system to better serve customers.
- Renewing focused training and metrics, which now include commercial customer satisfaction as a measure of success.
- Experimenting with compensation strategies that support results within the professional sales force.

In April 2005 the Postal Service launched *Branding through the Mailbox*, a marketing campaign that positioned the Postal Service as a strategic partner uniquely equipped to help companies build brands and achieve more effective direct mail communications. This award-winning campaign has been very successful in generating awareness in the advertising industry. The Postal Service will build on this success with additional sales campaigns based on market opportunities and technology shifts. It will also leverage field successes by identifying new mailer applications and replicating them nationwide.

The integrated market approach will include personal selling techniques, team selling, customer engagement strategies, training, direct mail lead generation, sales support, and advertising coverage. The change in focus from product-specific sales training to continual professional sales leadership training ensures a professional sales force that provides commercial mailers with Postal Service solutions. To bring products and resources to market in a consistent manner that drives business results, postal sales professionals will work cross-functionally within the Postal Service to represent the needs of customers. Every opportunity to become a strategic partner with America’s largest companies and organizations will be taken to make certain that these high-potential customers consider the value that mail can deliver to their bottom line.

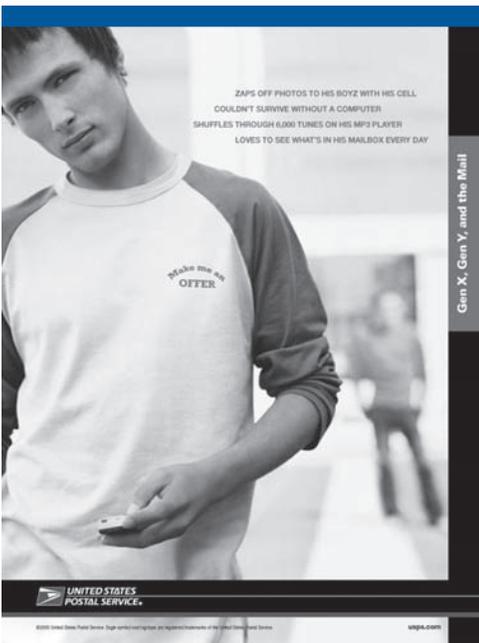


Integrated advertising, promotional and public relations activities, with the direct involvement of postmasters, carriers, and retail employees, will help deliver a persuasive, consistent message about postal products.

Integrate Advertising and Promotion

To deliver a persuasive and consistent message about its products, the Postal Service will use the full spectrum of marketing tools, integrating traditional media with more targeted channels such as direct mail, Internet, and point of sale messaging at Post Offices. At the local level, Postal Service managers are empowered to advertise locally using customized direct mail, print and radio ads, and point of sale materials available through the online communication tool *MessageMaker*. In addition, national and local promotional events held in Post Offices and at non-postal venues will be used to give customers hands-on experience with products and services.

Postmasters, carriers, and sales and service associates have been selected as postal ambassadors in each district and professionally trained to act as spokespersons in advertising and public relations. The Postal Service will continue to draw upon the enthusiasm of these ambassadors by creating new opportunities to communicate with fellow employees and promote the Postal Service to customers.



Over the past 5 years the Postal Service has equipped and mobilized many of its employees to promote postal products to their customers. Research shows that employee awareness of products, features, and services has increased as a result. The postal workforce remains the organization’s greatest marketing asset. The Postal Service will continue to help employees generate interest among the customers they serve by sending frequent informational mailings to households and businesses. A new bi-monthly magazine called *Impact* will also be tested with current small business customers. It will share information about innovative uses for the mail and feature customer success stories.

The Postal Service has many valuable sales tools, research studies, and other information that are useful to postmasters, managers, and the professional sales force when they meet with customers. In the next year, these materials will be made easier to access and use through an online marketing intelligence library. Valuable research, such as that on *Gen X, Gen Y, and the Mail* and *The Value of Mail in a Multi-Channel World*, will be available to postal employees engaged in customer outreach and to the Postal Service’s industry partners.

Research on the evolving market for mail will be shared with industry partners and employees engaged in customer outreach efforts.

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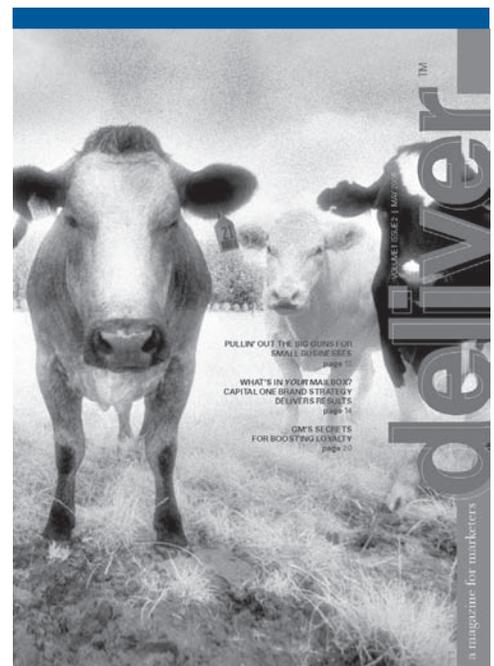
Revitalize Customer / Industry Outreach

The Postal Service and its customers have long benefited from collaborations through grassroots organizations such as Postal Customer Councils (PCCs) and national groups, such as the Mailers' Technical Advisory Committee (MTAC). To remain relevant and promote greater participation, new structures and educational programs are being developed to ensure participants and the companies they represent are using the mail successfully. Going forward, the Postal Service will increase the return on investment from these affiliations. The Postal Service will work with MTAC to capitalize on the participants' expertise. PCCs will become more effective teaching and outreach vehicles for postmasters to help novice business mailers. The Postal Service also will make better use of the National Postal Forum — the mailing industry's premier advanced education venue — to help larger mailers expand and fine-tune their effectiveness in using the mail.

The Postal Service will also develop new relationships with customer groups. A Small Business Marketing Council has been created to help develop this vital sector's ability to grow and prosper by using mail as a business and marketing vehicle. The Council is comprised of the National Small Business Foundation, Association of American Chamber of Commerce Executives, National Black Chamber of Commerce, the U.S. Hispanic Chamber of Commerce, the U.S. Pan Asian American Chamber of Commerce, National Association of Women Business Owners, National Restaurant Association, Association of Small Business Development Centers, and American Society of Association Executives. More such relationships will be established in the years ahead.

Thousands of businesses and millions of jobs depend upon the mail. Each of these companies and its employees have a vested interest in the growth and continued success of the mail. The Postal Service will forge new private-sector partnerships with advertisers and advertising associations to promote the mail as the cornerstone for effective multi-channel marketing. Key postal executives will play a more active role in advertising/marketing industry trade associations, such as the American Advertising Federation, the Association of National Advertisers, and the Direct Marketing Association. Partnering in joint promotions, research, and co-branded events will create greater awareness and use of the mail.

The Postal Service will sponsor memberships in key organizations for area and district personnel. Postmasters and managers will be encouraged to participate in local chapters, take advantage of speaking opportunities, and continue to place postal messaging in local newspapers and publications.



Distribution of Deliver magazine, started in 2005, will be expanded to provide marketing executives nationwide with best-practice examples of how mail can effectively reach customers with a selling message.

Summary

The 2002 *Plan* helped focus the Postal Service squarely on satisfying customer needs for reliable, convenient, and affordable products and services. In the future the Postal Service will grow by maintaining its priority to satisfy essential customer needs. It will build on the foundation of recent successes by using technology to help the mail work harder for customers. It will continue to enhance access and ease of use. And it will use all of its resources and the support of its partners to promote the power and value of mail.

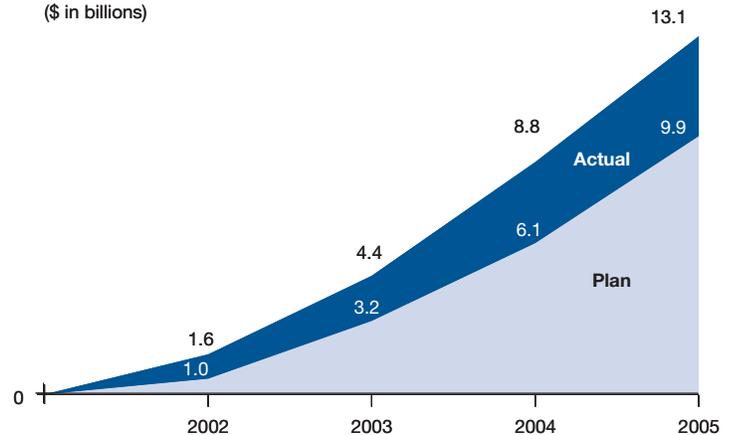
II. REDUCE COSTS

By operating as a much leaner, more efficient organization, the Postal Service has been able to improve service at the same time it recorded significant gains in productivity and reductions in cost. The cumulative cost savings under Transformation will be at least \$13 billion by the close of 2005. Total Factor Productivity has improved for five consecutive years, and is on track to increase again for a record sixth straight year in 2005.

By the end of 2004 the Postal Service had cut outstanding debt by \$9.5 billion, to the lowest debt level since 1984. More than 5.5 million new delivery points have been added since 2002, roughly equivalent to the number of delivery addresses in the state of Ohio. Over the same period, 465 million fewer workhours were used. Career staffing has declined to the extent that it now stands at pre-1985 levels, when the Postal Service delivered 57 percent less mail than today.

Transformation Plan Cumulative Savings

(\$ in billions)



Postal prices are driven by operating costs, and reasonable postage rates are the ultimate result of sound cost management. Along with reliable service, maintaining affordable products is the most important measure of success for postal customers. The Postal Service's cost saving achievements under Transformation and legislated changes in the Postal Service's contribution to the Civil Service Retirement System have helped hold postage rates steady from mid-2002 until 2006.

STRATEGY: IMPROVE OPERATIONAL EFFICIENCY

Expand standardization and process control. Reduce the cost of meeting universal service obligations by focusing on major cost drivers, especially delivery operations. Fully capture improvements from existing equipment and technology and target new investments to further drive productivity gains. Continue to partner with customers to minimize total cost and to develop new, low-cost forms of customer access using technology and product simplification. Examine facility capacities to consolidate operations and transition from overlapping single-product networks to an integrated multi-product network.

The Postal Service commits to reduce an additional \$5 billion in costs by 2010.

A. STRATEGIC CHALLENGES AND TRENDS

The following trends will place continuing cost pressure on the Postal Service as it pursues cost savings between now and 2010:

- The universal delivery network expands annually by up to 2 million new addresses, while revenue per delivery is decreasing. Delivery operations remain the largest and most challenging cost area.
- Postal Service transportation costs totaled nearly \$5 billion in 2004, or 7.5 percent of total expenses. Recent increases in transportation costs have been driven largely by the rising price of fuel. In 2004 the Postal Service's cost of fuel was \$973.3 million, an 82 percent increase over 1999 costs for the same amount of fuel. Unlike many commercial delivery services, the Postal Service has not imposed fuel surcharges on its customers.
- Population continues to shift to the South and West and within metropolitan areas. Increases in mobility and immigration will place pressure on address management, the mail forwarding system, postal retail operations, and delivery, especially in rapidly growing communities.
- Firms are becoming more sophisticated about shared services, outsourcing, and strategic alliances. They expect tighter integration and cooperation among suppliers and partners, and are adopting new technologies to change business practices.

B. TRANSFORMATION STRATEGIES

Two factors — standardization and innovation — were most responsible for the Postal Service's cost savings achievements under Transformation. The organization very effectively implemented a methodical, data-driven, and persistent effort to standardize dozens of its critical processes. The effort succeeded because it engaged employees at all levels and functions to identify process improvement opportunities and target cost saving solutions.

In this new *Plan* standardization and innovation will again be central to the Postal Service's cost reduction strategies. Potential exists to further reduce costs in all operations and functions. The introduction of new technologies will drive investments in new systems and equipment, and will continue to influence mailer behavior. As equipment is deployed and mailing practices evolve, the Postal Service will aggressively review and update its processes, establish new standards, train its employees on best practices, and manage to challenging process management objectives.

As in the past, the introduction of new equipment and technology will provide new opportunities to reduce costs. But fully capitalizing on the opportunities will depend largely on standardization and innovations developed by employees and mailing industry partners. The goal is to ensure that postal customers recognize the full benefit of mail, achieving an

even greater return on their investment. The Postal Service's cost savings effort will focus on the following six strategies:

- Expand standardized processes.
- Continue equipment, technology, and facility investments.
- Broaden customer partnerships.
- Rationalize facility networks.
- Streamline and create flexibility in the transportation network.
- Optimize business processes.

1. Expand Standardized Processes

Breakthrough Productivity

Launched in 2001, the Breakthrough Productivity Initiative (BPI) helped focus and structure efforts to use process improvement to drive productivity gains throughout the organization. BPI uses comparative monitoring and performance ranking in operating units across the country. Higher performing units are used as models and are studied to identify best practices. Standard procedures are established based on best practices and training is developed to share performance expectations. Targets are set to drive performance toward the highest levels. When BPI targets are achieved, responsible teams and employees are recognized and rewarded.

BPI will continue to be one of the major tools driving performance to the highest levels in all operations. The Postal Service's experience with BPI is an excellent base for targeting new cost savings from opportunities that remain in many areas. During 2006–2010, the Postal Service will significantly expand standardization activities. Quality control methods such as Six Sigma and Lean Management will be used to reduce variation and improve critical processes.

Delivery

The Postal Service has had success controlling rising delivery expenses through automation efforts such as delivery point sequencing for letters. However, delivery remains the largest cost center, accounting for 43 percent of all expenses. Each year up to 2 million new deliveries are added to the network. Over 3,500 new routes would have to be added every year if the delivery infrastructure were to grow by the same rate.

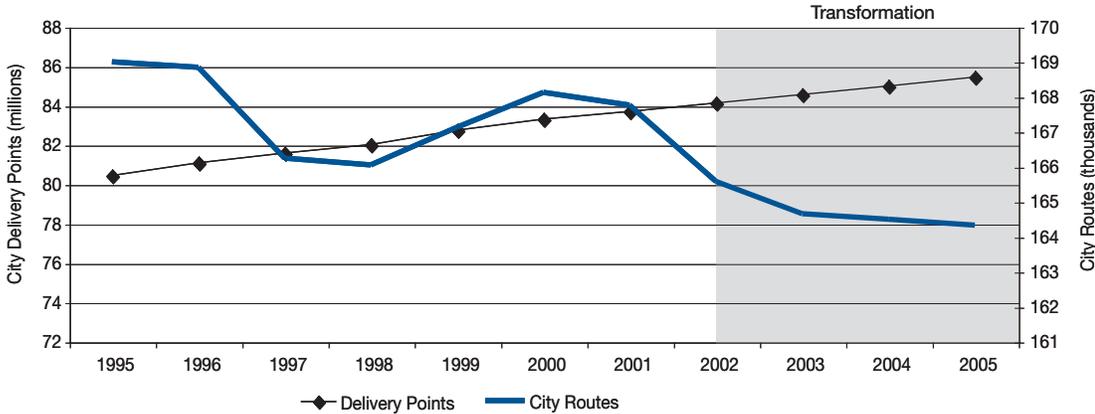
Controlling growth in costs from new deliveries is a key challenge. Combined with slower revenue growth, increasing costs would create a gap in cost coverage that will impair postal finances. Aggressive management has minimized delivery infrastructure expansion, as the following charts

Each year the Postal Service delivers more than 206 billion pieces of mail — 44 percent of the world's total mail volume.

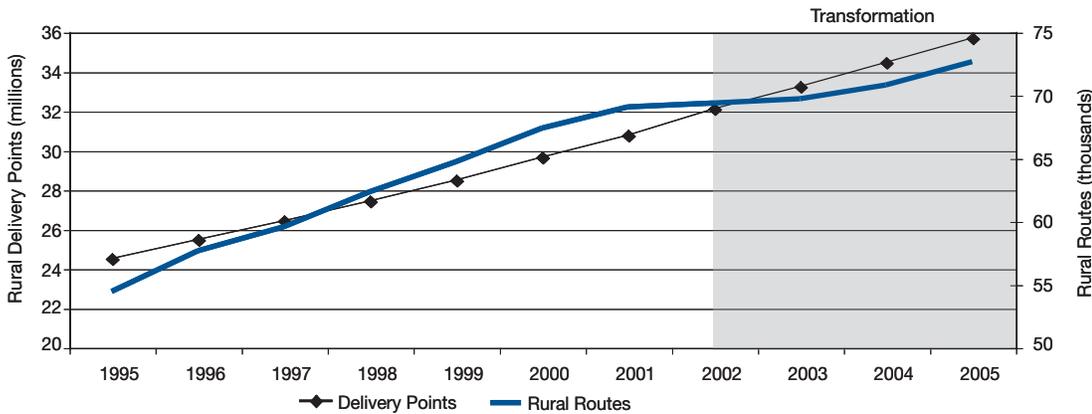
illustrate. Although 5.5 million new deliveries were added since 2002, the number of city delivery routes declined over that period. The number of rural routes increased, but at a rate slower than the growth in new deliveries.

Route Management Performance

City Delivery



Rural Delivery



Automation has reduced the time that carriers spend sorting mail, resulting in a 15 percent reduction in the time that carriers spend in the office. To ensure that automation savings are fully captured, near-term plans call for rigorous standardization of existing delivery operations to reduce variability and leverage investments in technology.

To further capture the benefits of automated sortation, targets will be established to increase the percentage of letters sorted to delivery point sequence from 77 percent currently to 95 percent by 2010. The Postal Service's vision for delivery also includes automating flats sequencing for carriers, which will remove much of the remaining office time now spent sorting flats. Flats are larger mail pieces such as magazines and catalogs.

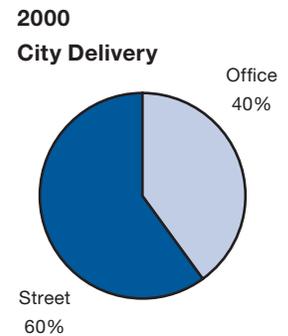
Prototype equipment will be tested in 2006 for possible deployment starting in 2008. The Postal Service expects more rapid deployment of flats sequencing than it achieved for letter sequencing given the experience gained from that earlier effort. Industry participation is critical as this technology evolves. Postal and industry efforts will focus on ensuring that the lowest combined processing costs are realized as flats sequencing may require some changes to mail make-up and entry at high-volume locations. The Postal Service will work with customers to maximize the number flats barcoded to delivery point. Concurrently, the Postal Service will study standardized work methods related to flat sorting because the equipment will significantly alter delivery operations.

The Postal Service will create route structures that reduce office time and capture savings from improvements in street productivity, automation, and the handling of undeliverable-as-addressed mail. The current standardization of morning delivery operations will be expanded by standardizing operations on the street and when carriers return to the office. The goal is to decrease variance in office time and help reduce the number of routes. An alternative approach to delivery, where office work is decoupled from street work, will be explored. The Postal Service also intends to consider new delivery strategies to redefine how mail is delivered. New approaches to street delivery are essential to control the overall cost of delivery and ensure the continued affordability of mail.

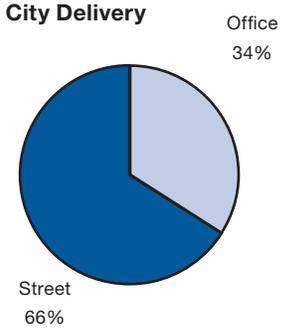
The Carrier Optimal Routing (COR) system introduced in 2004 will help design more efficient routes to minimize street time, reduce vehicle-related expenses, and establish safer lines of travel. COR will be used to make initial route adjustments that can result in immediate savings. It will also be beneficial to prepare for future route restructuring required by implementation of flats sequencing.

The Postal Service must address the need to replace or retrofit the current fleet of 180,000 delivery vehicles over time. The fleet includes 142,000 long life vehicles (LLVs) that are an average of 14 years old, with some as old as 18 years. The Postal Service is examining options to extend the LLV's 24-year service life. However, it must address other factors as well, including the need to reduce life-cycle costs and improve safety, fuel consumption, and maintenance requirements. The Postal Service is working with the automotive industry to evaluate prototype and off-the-shelf replacement vehicles. Significant capital investments are planned to replace or retrofit the aging delivery fleet. The Vehicle Operations Information System will be implemented in 2006, providing actionable maintenance and management data for improved control of vehicle cost per delivery. The Postal Service will strive to further expand adoption of alternative fuel vehicles.

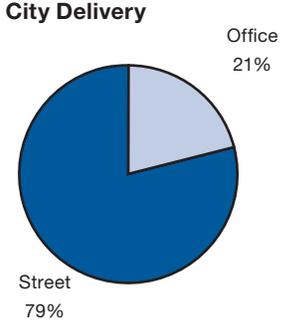
2000



2004



2010 (projected)



Increased delivery point sequencing for letters, new sequencing for flats, and expanded standardization are projected to further reduce the time used to prepare mail in the office.

Mail Processing

Integrated operating plans will improve mail processing performance and reduce process variability between tours and among plants and Post Offices. These plans, to be implemented nationally in 2006, will set critical entry and clearance times by operation to ensure service targets are met consistently. The Postal Service will further standardize equipment and floor layouts at plants and Post Offices to reduce mail flow inefficiencies. To further capture the benefits of automation, the Postal Service has set a target to reduce manual letter distribution volume to 10 percent and manual flat distribution volume to 45 percent in 2007. Mail processing activities will continually be reviewed and refined in all plants and operations in conjunction with the introduction of new technologies and equipment. BPI will also be employed to replicate successes from the top-performing plants to those plants that are performing at a lower level.

Retail

The Postal Service will continue to focus on standardization to ensure consistency in retail locations. A retail standardization initiative introduced in 2005 will improve employee product knowledge and management of merchandising and promotion. Workload standards developed from the Retail Data Mart Window Operations Survey (WOS) will improve productivity and staffing efficiency. WOS uses retail transaction data to calculate required staffing in half-hour increments. This allows managers to schedule the right number of counter personnel and optimize cost per retail revenue dollar. In 2006 WOS workload standards will be applied to all 15,000 offices equipped with Point of Service terminals. The Postal Service will also expand its Customer Service model office concept in 2006. This model applies workload standards to manual distribution, dispatch, and other backroom activities in Post Offices.

Maintenance and Mail Handling

Reliability Centered Maintenance (RCM) is a new predictive approach to maintenance on equipment deployments. RCM reduces operational downtime and the cost of maintenance by matching the amount of necessary maintenance with the level of equipment usage. Over the next 2 years, RCM will be introduced for existing Automated Flat Sorting Machines 100, Delivery Barcode Sorters, and Advanced Facer Cancellor Systems. At selected facilities, remote video maintenance support will also be evaluated to shorten repair cycle times, reduce maintenance costs, and improve operational readiness.

The Postal Service will also explore further standardization of Mail Transport Equipment (MTE), the sacks, trays, and containers used to transport unit loads of mail. MTE standardization can increase utilization and reduce the

cost of maintaining a large and complex inventory of equipment types. Ultimately, there could be many fewer types of sacks, trays, and rolling stock.

2. Continue Equipment, Technology, and Facility Investments

The Postal Service will continue to invest in equipment, technology, and facilities to support service and productivity improvements.

Letter Equipment

Letter distribution efficiencies have been achieved by improving read rates on existing equipment through better software, deploying equipment enhancements and scanners, and increasing the volume of letters sorted in delivery point sequence. The most recent major investments in letter automation were for the Postal Automated Redirection System (PARS), which reduces costs associated with handling mail that must be forwarded or returned to sender. Phase II of PARS will complete deployment during 2007. Scheduled investments include upgrading cancellation/postmarking equipment by 2006. Other programs will reduce piece handlings and sorting errors. These include the addition of automated “doubles detectors,” which will reduce errors that result when two or more letters become stuck together in production or processing. By 2007 state-of-the-art Delivery Input/Output Subsystem (DIOSS) equipment will replace aging Multiline Optical Character Reader machines and either reduce or eliminate Mail Processing Barcode Sorters. With up to 302 separations, DIOSS sorts mail to up to three times as many separations than the machines it will replace.

Flats Equipment

Much of the successful application of automation to letters has been duplicated for flats. In 2002 the Postal Service completed deployment of the Automated Flat Sorting Machines (AFSM) 100. Featuring high-speed automated processing and online video encoding, the AFSM 100 produced dramatic improvements. Flats productivity almost doubled in processing facilities, with about 80 percent of flats now processed on the AFSM 100. New investments to enhance the equipment include automatic induction and sweeping, which began deployment in 2005. Flats sequencing technology will also be examined. Similar to letter sequencing, flats would be automatically arranged in the

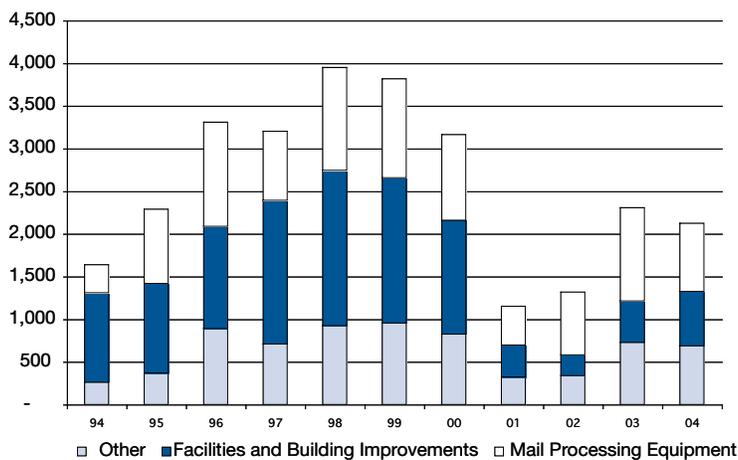


order of delivery for carriers. If practical and cost effective, automated flats sequencing holds great promise to reduce remaining manual mail sortation. Initial deployment could begin in 2008.

Packages, Bundles, and Material Handling Equipment

Automation of package and bundle sorting is being addressed by the current deployment of 74 Automated Package Processing Systems (APPS), which is expected to be completed in 2006. APPS uses optical character and barcode readers to improve distribution productivity. APPS is replacing many of the older technology Small Parcel Bundle Sorters and is driving the need for 100 percent readable and accurate package barcodes. Bulk Mail Center secondary parcel sort systems will also be upgraded to improve read rates and productivity. Universal sorters will be deployed at select processing centers to improve package, bundle, and tray sorting.

Capital Commitments (\$ in millions)



Implementation of the Integrated Dispatch and Receipt (IDR) system, coupled with off-the-shelf mechanical systems and high-speed robotics, will assure better workflow and material handling. IDR systems automate mail dispatch and receipt at processing facilities. Each IDR system is a site-specific combination of different equipment and includes seven previously deployed equipment types and three new systems. Deployment is expected to be complete in 2006. Additional material handling improvements will replace outdated sack sorting equipment with high speed tray sorters where applicable.

Facilities

In the 2002 *Transformation Plan*, the Postal Service developed and implemented strategies to improve management of its real estate assets including the sale and leasing of unneeded postal properties. Since then, revenue from disposal and leasing of postal properties has averaged about \$65 million annually. The Postal Service will continue to identify and dispose of excess facilities and eliminate redundant floor space. In 2006 the Postal Service will benchmark its Building Design Standards against comparable industry practices. Cost effective best practices will be adopted, including flexible standards that accommodate changing operational requirements

and future disposal potential. Reductions are targeted for both facility delivery time (site selection, community process, project approval, design, and construction) and total construction costs.

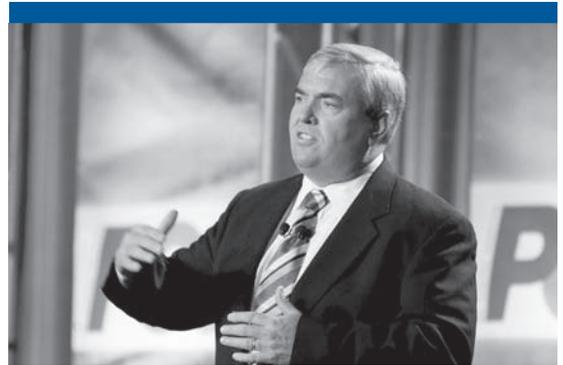
Retail and delivery facility requirements will be reviewed and national priority lists for new facilities will continue to be maintained and updated on a consistent basis. This will ensure that the Postal Service is spending wisely on its highest need projects. The Postal Service will reduce construction costs by 25 percent at large facilities and 10 percent at small facilities.

The Postal Service will also explore consolidation of repair and alteration administration at the Facilities Services Office level. A renewed emphasis will be placed on reducing repair costs through more focused routine building assessments and better planning to fix small problems as soon as possible.

3. Broaden Customer Partnerships

Today, more than three-quarters of all domestic mail is presorted and/or barcoded by mailers and mail service providers (presorters, printers, and consolidators). Presort and entry rate incentives encourage mailers to prepare letters, flats, and parcels in ZIP Code groupings and deposit the mail at postal facilities closer to recipients. This allows the mail to bypass one or more upstream processing operations and often avoids postal transportation costs. The Postal Service works closely with the industry through the Mailers' Technical Advisory Committee (MTAC), the Mail Technology Strategy Council, Postal Customer Councils (PCCs), the National Postal Forum, and other industry meetings to optimize mailer preparation requirements consistent with the Postal Service's automated network. Better alignment of customer mail preparation with postal operations will result in the lowest combined costs by optimizing the use of automation for material handling activities, as well as for distribution.

As the network evolves and new technologies develop, the Postal Service will increasingly focus on address and barcode quality, labeling changes, and the number and organization of destination entry points. Improvements in postal technology are only part of the solution, and the Postal Service will work with mailers and industry partners to optimize mailer preparation requirements and communicate these changes. The Postal Service will also work closely with the mailing industry to improve address quality of automation compatible letters and flats to achieve 95 percent barcoding to



Postmaster General John E. Potter at National PCC Day 2005. With more than 120,000 members, PCCs bring large mailers, small businesses, and local postal managers together to focus on ways to make mail more effective.

a unique delivery point. These improvements will be based on enhancing the industry's ability to maintain address quality through standardization, validation, and updates.

Over half of all mail qualifies for discounts based on having an address and barcode that permits sorting on automated processing equipment. Continuous improvements in the standardization of addresses have helped to increase the level of delivery point sequenced letter mail to 77 percent since the program was introduced in the early 1990s. The Postal Service will increase the percentage of addresses that can be uniquely identified by developing new methods of coding addresses in small multi-unit buildings that currently share a delivery point code. Mailers will be encouraged to move from the address standardization and ZIP+4 coding currently required, toward address validation that ensures the addresses are complete, accurate, and represent delivery points that exist in the Address Management System (AMS). The Postal Service will develop tools to enable continuous analysis of AMS data to ensure that it is complete, as well as to reduce the lead time for updating the AMS data and postal sort plans.

Mailers can further contribute to improved address quality by implementing processes that validate their customers' delivery addresses as new

accounts are being set up. By validating addresses as early as possible, mailers can improve the deliverability of mail to those customers. These efforts will realize the goal of having mailers provide all automation compatible mail with correct and unique delivery point barcodes at time of entry. Improving address and list quality helps ensure that all mail reaches its intended recipient, and mailers receive the maximum return on their investment in the design, production, and postage paid for their mail.



Mailer-prepared presort bundles allow the Postal Service to bypass one or more operations that are required when handling individual pieces. Poorly prepared flats bundles that come apart in transit needlessly increase cost and impact service. Improving bundle integrity will be a renewed priority in 2006. Longer-term efforts include maximizing full trays of mail and the use of pallets, improving container labeling and tracking, and working with customers to obtain advance information about mailings to enable more efficient resource planning.

The Postal Service will eventually eliminate sack usage and evaluate the economies of using super sized units of flats that high-volume mailers could prepare.

4. Rationalize Facility Networks

Throughout its history the Postal Service has continually adjusted its mail processing networks as customer needs changed and new technologies became available. Efforts to create a flexible network to increase productivity and effectiveness — formerly called Network Integration and Alignment — will continue as an evolutionary process. Now more accurately called Evolutionary Network Development, this effort encompasses opportunities to improve both distribution and transportation.

The mail distribution system has evolved over time as a series of overlapping, single-product networks. Generally plants process all classes of mail. However, some plants also have specialized network responsibilities, linking transportation and distribution for specific classes or types of mail. Examples include facilities that serve as distribution centers for Periodicals, bulk mail centers for Standard Mail and parcels, and automated distribution centers for automated letters. These networks often have separate transportation.

The Postal Service is transitioning from these single-product networks to a more efficient network designed to handle multiple products. Regional Distribution Centers (RDCs) will be created from existing facilities and will support local processing centers. In addition to other responsibilities, RDCs will consolidate parcel and bundle distribution to take advantage of shape-based efficiencies. Currently, packages are often processed on separate networks based on their class (i.e., Standard Mail parcels in one location and Priority Mail packages in another). In the future, RDCs will serve as mailer entry points and consolidation centers to enable shared product transportation. Shape-based processing has already produced substantial efficiency gains for letters. The transition to RDCs will extend shape-based efficiencies to other types of mail as well.

Redesigning network responsibilities in conjunction with reviews of distribution and transportation capacities has permitted the closing of 50 annexes over the past few years and consolidation of their operations. In the past year the Marina mail processing plant in southern California was closed and its operations consolidated into Los Angeles and Long Beach. Since 2002 ongoing capacity reviews, process improvements, and technological changes have permitted ten remote encoding centers (RECs) and five district offices to be closed and their operations consolidated. The Postal Service will continue to close RECs in line with improvements in recognition technology.



Local offices will continue to review operations for area mail processing (AMP) opportunities. AMP is the consolidation of selected processing functions, typically from several facilities into one centralized facility. It eliminates excess capacity and makes better use of space, staffing, equipment, and transportation. AMP will result in some consolidation of mail cancellation and outgoing distribution. Consolidation among existing facilities will also be identified for processing of First-Class Mail 2- and 3-day service areas. Consolidating mail from multiple plants improves productivity, increases mail density in containers, and achieves better utilization of transportation capacity. The role of airport mail centers will also be re-examined, case by case, to determine if high-cost on-airport facilities can be reduced and better coordinated using third-party facilities.

For its retail network, the Postal Service will continue to ensure that customers obtain quick, easy, and convenient access. Criteria for locating retail services will be customer need and cost effectiveness. The current policy for Post Office closings will be maintained.

5. Streamline and Create Flexibility in the Transportation Network



An important opportunity to increase value exists in the Postal Service's continuing efforts to optimize logistics. Since 2002 it developed several systems to scan, transport and effectively route mail, and support longer-term plans to streamline the transportation network. Significant efforts have been made to assess utilization and performance of contracted transportation. The Transportation Optimization Planning and Scheduling (TOPS) system is being further developed to plan and manage transportation resources. TOPS analyzes alternative scenarios to determine the lowest cost transportation network given service commitments. Changes in capacity requirements will be rapid and responsive to customer and marketplace demands.

Through 2010 the Postal Service will reduce the volume of mail transported via air by as much as 25 percent by reconfiguring the surface transportation network. The transportation network will be streamlined by establishing national surface transfer

centers and using data from TOPS and surface visibility applications. Surface transfer centers will consolidate containers from multiple facilities to maximize transportation utilization. This will permit a large portion of mail currently transported by air to be carried on less expensive surface vehicles. The surface transportation network will be expanded concurrently with the evolution of existing facilities into RDCs. Surface transfer centers, with standardized operations, will be established in six new cities. The existing 14 surface hubs will be brought into conformity with this distribution concept.

Today's air transportation network must satisfy national security requirements as well as customer service commitments. Efforts to reduce domestic and international air costs include the prospect of increased use of shared cargo aircraft and commercial aircraft as well as consideration of postal owned point-to-point cargo aircraft.

6. Optimize Business Processes

Beyond mail processing, delivery, and related mail operations, a number of critical business processes in support areas will also benefit from expanded standardization and process improvements. Over the next 5 years, the Postal Service will optimize its business processes to reduce cycle times and provide greater quality performance. The goal is to maximize the value created by all processes, both internally and with partners, suppliers, and mail consolidators. Specifically, the Postal Service will:

- Optimize information technology infrastructure.
- Establish a single shared services organization.
- Broaden supply chain management.
- Dedicate teams to identify major process improvement opportunities.
- Enhance corporate financial responsibility.
- Evaluate opportunities for outsourcing and insourcing.

Optimize Information Technology Infrastructure

Information Technology (IT) is an essential component of all Postal Service business and administrative processes. Under Transformation the Postal Service implemented the Advanced Computing Environment (ACE) initiative, a comprehensive effort to modernize, simplify, and secure its computer infrastructure. Standardizing the IT environment with ACE allows the organization to streamline application management procedures and future system integrations.

The Postal Service will take a number of actions to ensure that the IT infrastructure continues to meet performance and productivity demands. By 2007 it will implement computing connectivity and deploy computers to additional sites, eliminating paper and manual processing wherever cost effective. This will be achieved by replacing 14,000 dial-up locations with DSL or cable connectivity. Centralization of technology functions within the IT organization will be accelerated and field IT support functions will be realigned to better meet demand and reduce costs. Use of high-cost IT contractors will be greatly reduced as the Postal Service transitions IT knowledge to career employees to improve service and reduce costs. By 2008 the capabilities of the existing Enterprise Data Warehouse will be broadened to allow full cross-functional analysis and decision-making. The Postal Service will standardize printers, scanners, photocopying, and other equipment to reduce costs by 2009.

Establish a Single Shared Services Organization

Shared Services centralizes transactional, non-core business services within a separate internal entity. Centralizing transactions previously performed by multiple units achieves economies of scale. In 2003 Shared Services was successfully implemented for the Accounting function. The Postal Service reengineered and automated accounting processes and consolidated residual transactions, eliminating transactional processing in the field and enabling 80 district accounting offices to close.

Applying lessons learned from that initiative, the Postal Service currently is developing a Human Resources (HR) Shared Services initiative that will centralize certain transactional HR services. The *Postal/PEOPLE* system will standardize and automate these processes by replacing multiple existing processes with one, fully integrated HR system by 2007. The Postal Service will consider centralizing other non-core support services in Shared Services applications that can yield gains in enhanced customer service, reduced cost, improved service quality, and improved control. Examples of transactional services with potential for centralization include IT services, facility services, insurance support services, legal, and purchasing.

Broaden Supply Chain Management

Great strides have been made in managing the postal supply chain, with a total of \$1.7 billion in cost reduction and cost avoidance from mid-2000 through mid-2005. Most was achieved through over 200 initiatives focused on the roughly \$12 billion spent annually with suppliers for goods and services. The Postal Service will continue to build on this success through broader penetration of supply chain practices. It will benchmark successful industry applications, identify opportunities to integrate supplier capabilities, and seek new opportunities to involve suppliers in product design and

enhancements. Teams with the right mix of knowledge, skills, and expertise will implement specific initiatives designed to improve processes and reduce costs. Integrated supply chain management activities will continue to contribute to the \$1 billion annual cost reduction commitment.

The Postal Service will use external benchmarking, increased spend analysis capability, and a second round of strategic sourcing to reduce costs in office products, utilities, vehicles, equipment, telecommunications, and information technology. It will target cost reductions for a variety of services essential to day-to-day operations, including janitorial and maintenance, travel, advertising, printing, and environmental and emergency preparedness services. The Postal Service has established an efficient framework for managing environmental responsibilities. In particular, it developed the Environmental Management System (EMS) to identify high-priority areas for improvement, and used it to implement several cost-saving recycling and energy programs.

For mail equipment and facilities, the Postal Service will use strategic sourcing, lean manufacturing, and total cost of ownership techniques to better align supplier capabilities and improve life cycle costs. The Postal Service will increase inventory visibility, improve parts availability, and reduce inventory investment by implementing a best-in-class service parts management system and efficient logistics. Costs for mail processing equipment spare parts will be reduced through inventory pooling at strategic locations.

The Postal Service will continue to develop and maintain a strong, competitive supplier base that reflects the diversity of the American supplier community. Small, minority-owned, and woman-owned businesses are integral to the supplier base. They are agile, responsive, and effective, continuously providing a valued source of innovation.

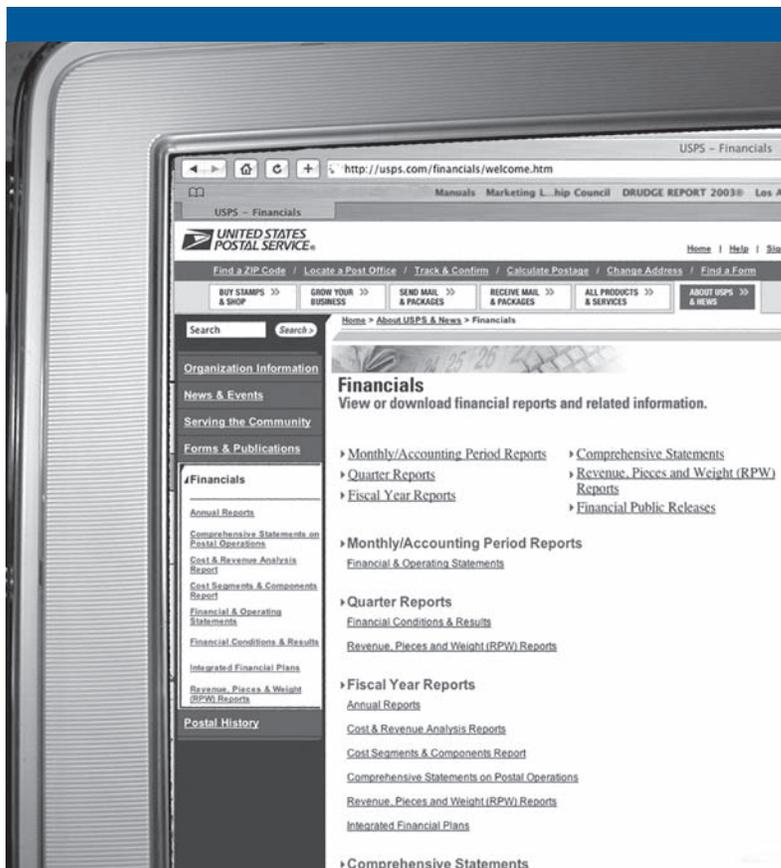
Dedicate Teams to Identify Major Process Improvement Opportunities

The Postal Service will accelerate the integration of business processes across functions (e.g., operations, finance, marketing), for complex initiatives that require significant effort. Dedicated cross-functional teams will be established to determine where the greatest value can be added through process integration. Teams will identify both non-value and new value-added processes, increase standardization, and improve essential processes and cycle times. Examples under consideration where dedicated teams will be used to concentrate attention are insurance claims procedures, distribution of materials and supplies to Post Offices, and the stamp production process, including printing, distribution, and inventory management.

Enhance Corporate Financial Responsibility

Since the 2002 Plan the Postal Service has acted to enhance corporate financial responsibility. An Internal Control Group was established in 2003 to assure integrity in financial reporting. In 2004 the Postal Service voluntarily began reporting financial results in conformance with SEC standards and requirements. Consistent with its status as a government entity that achieves break-even financial results over time, the Postal Service observes SEC-like reporting. Adoption of these commonly understood requirements and standards has contributed to greater clarity in reporting that better serves all stakeholders. The Postal Service also provides detailed costing and revenue data in rate case proceedings, and provides an analysis of its financial condition and an audited financial statement as part of its *Annual Report*.

Over the next 5 years, the Postal Service will make further improvements to its financial reporting. Even as it continues SEC-like reporting of financial



results, the Postal Service will observe SEC time requirements for financial reporting and follow the enhanced financial reporting requirements of the Sarbanes-Oxley Act. Through Enterprise Risk Management, the Postal Service will enhance its system of internal controls to evaluate and control risk and enhance business performance. It will act to eliminate risk revealed by internal control reviews. Managers will be held accountable for the ongoing application and assessment of internal controls in their areas of responsibility. Assessments of internal controls in business units will be prioritized, with priority being given to those units which, by their sheer size or the nature of the functions, pose the greatest risk.

The Postal Service maintains sophisticated statistical systems to estimate costs attributable to specific products. Thousands of carrier routes, facilities, and transportation modes are sampled each year. These attributable cost estimates are reviewed by an independent auditor, the Postal Rate Commission, and the Office of the Inspector General. In 1999 the A.T. Kearney review of the cost systems, sponsored by the Postal Service, Postal Rate Commission, and General Accounting Office, concluded that these systems produced complete and accurate subclass cost estimates. The Postal Service is committed to continuous improvement of its cost systems. It will explore ways in which new data systems can contribute to obtaining the most accurate attributable cost estimates as expeditiously as possible and at the lowest cost. Systems with potential include Point of Service, Intelligent Mail, PostalOne!, and Surface Visibility. The Postal Service will continue to study the way in which volume changes cause costs to change. It will also continue to examine institutional costs to ensure that costs caused by providing specific products are attributed to those products by 2008.

Evaluate Opportunities for Outsourcing and Insourcing

The Postal Service recognizes the benefits of concentrating resources in core competencies while considering the outsourcing of activities that can be performed more efficiently and at lower cost by others. Historically, the Postal Service contracted out specific services relating to mail transportation, vehicle maintenance, information technology, custodial services, and investigations of Equal Employment Opportunity (EEO) complaints. Contracting out EEO investigations, which began in 2005, has proven to be cost efficient and an operational success. Over the next 5 years, the Postal Service will draw on its outsourcing experience to explore additional opportunities for outsourcing services.

The Postal Service would insource by contracting to provide services for which it has developed expertise, on a fee basis, to other organizations. For example, the Postal Service may find insourcing opportunities in the increasing centralization of services among federal agencies and in government initiatives that encourage agencies to share support systems such as information technology. Another opportunity is to provide management expertise to foreign postal services.

Summary

By any standard the Postal Service achieved extraordinary success reducing costs under 2002 *Transformation*. In large part those savings were possible because the organization was able to engage all employees to target cost-savings opportunities. Opportunities for new savings remain. Finding them will be more challenging and will require that the Postal Service question every dollar it spends as to whether or not it will increase customer value. In most areas, it will require not just that the Postal Service work and compete harder; it must also work *differently*. The Postal Service is committed to doing just that. New Intelligent Mail technologies will help. So will new automation and planning tools. In the end, however, the organization's most important resource will again be its employees. They have the confidence and experience it takes to make the Postal Service even more efficient and effective than it already is today.

III. ACHIEVE RESULTS WITH A CUSTOMER-FOCUSED, PERFORMANCE-BASED CULTURE

Postal Service employees are the organization's most important asset. As one of the nation's largest employers, the Postal Service is ultimately dependent upon the quality and commitment of its employees to meet its objectives. Since the initial 2002 *Transformation Plan*, the Postal Service achieved great results improving both safety and the workplace environment, while better focusing employee development and compensation programs on achieving objectives. The Postal Service will build on this foundation in the years ahead, and continue the transition from an internally-focused workplace culture to one focused squarely on postal customers and business results.

STRATEGY: ENGAGE AND MOTIVATE THE WORKFORCE

The Postal Service will focus on four critical human resources strategies – engaging employees, developing and managing talent, establishing and maintaining market-based compensation, and managing complement to assure flexibility.

A. STRATEGIC CHALLENGES AND TRENDS

Significant shifts in the workplace are being driven by changes in the environment, workforce, and operating requirements:

- Sixty-eight percent of the current Postal Career Executive Service (PCES) will be eligible to retire by 2010. Retirement rates are similar for other critical management and professional staff. Over 240,000 craft employees are eligible to retire during the same timeframe. Recruitment, career development, and succession planning are key issues.
- Younger employees have different attitudes, behaviors, and expectations for their careers and the workplace. Overall, they are more flexible and likely to move, and therefore are expected to change employers and jobs several times. They are also looking for more flexibility from employers and greater support at work.
- As postal operations become more information-driven, the workplace will need to become more flexible to balance changing workload, evolving networks, productivity improvements, and the need to engage all employees in support of revenue generation activities.

B. TRANSFORMATION STRATEGIES

During the next phase of *Transformation*, the Postal Service will focus on four critical Human Resources strategies built on a solid groundwork of engaging and motivating employees through transformation:

- Engage employees.
- Develop and manage talent.
- Establish and maintain market-based compensation.
- Manage complement to assure flexibility.

1. Engage Employees

Customer-Focused Employees Continue to Grow the Business

The Postal Service recognizes the enormous potential of its employees to generate new and repeat business through positive day-to-day interactions with customers. The more employees know about the Postal Service's business, products, and services, the greater the value they can offer to customers. In 2004 special attention was focused on recruitment and hiring — getting the right people for the right job. The Postal Service changed the hiring process to place a premium on customer focus, attitude, and teamwork. Research was completed to support revising the Postal Service entry level selection process and a new entry level employment exam for five entry level positions: city carrier; mail handler; mail processing clerk; sales and services associate; and sales, services, and distribution associate. The revised examination and improved interview process now help identify potential employees who bring these important behaviors to the job.



Carriers are highly rated on courtesy and professionalism.

The Postal Service continued to develop this customer-focused approach in 2004, when several carriers and customer service employees were selected to serve as local spokespersons, called Postal Ambassadors. Through the Postal Ambassador program, Customer Connect for carriers, and Business Connect for postmasters, employees are placing new emphasis on responding to customer needs. These programs provide positive actions that help deliver results and engage employees in growing the business.

Performance is Recognized and Rewarded

During 2002 the Postal Service designed and implemented a pay for performance program to encourage a culture of performance instead of across-the-board pay increases. Goals are set for individuals based on the individual's position in the organization and the level of contribution that can be made from that position toward achievement of organization goals. The program was initially deployed for field operations executives. In 2003 the program was expanded to include all executives in the field and Headquarters (HQ). The program expanded again in 2004 to include

all field and HQ Executive and Administrative Schedule (EAS) employees. Compensation is based on the achievement of defined corporate, unit, and individual goals eliminating automatic or across-the-board pay increases for executives and nonbargaining employees.

Over the next 2 years the Postal Service will reassess the current system to enhance and refine it as appropriate and will continue to explore the possibility of incorporating pay-for-performance initiatives at every level of the organization. Proposed models for including bargaining unit employees in a pay-based performance system will be studied. Private sector practices and alternative models will also be analyzed and considered.

Continue Workforce Environment Improvements

Under the 2002 *Transformation Plan* the Postal Service began to build a highly effective and motivated workforce. The Voice of the Employee (VOE) survey is an employee opinion survey designed to assess the workplace environment. Each year, all career employees have the opportunity to respond to the VOE survey, which compiles their opinions on a wide range of work-related issues. The VOE survey gauges employee perception of the Postal Service overall, of the specific environment in which they work, and of the employee's immediate supervisor.

The VOE survey reveals that the workplace environment has improved substantially and continues to improve. Current efforts, initiatives, and systems have all contributed to an increase in the Postal Service's VOE survey index. The index is comprised of six questions about key workplace factors that can impact employee performance and thus affect business outcomes. The index rating is composed of favorable responses to these six questions. Nationally, the VOE index rating has improved steadily, from 58.1 in 2001, to the current 2005 rating of 63.3. Analyzing survey results helps identify organizational issues in order to plan improvement strategies. The Postal Service will continue to maintain a workplace that is safe and conducive to performance, values the uniqueness of all employees, and leverages the talents that every individual brings to the organization.

Perhaps the greatest investment the Postal Service can make for employees is maintaining a safe work environment — making sure they return home to their families each day the same way they came in to work. Under the 2002 *Transformation Plan*, several innovative programs were implemented to improve employee safety. The "Safety Depends on Me" campaign is a series of multimedia safety communications designed to target employees' attention and cooperation to prevent safety hazards, such as slips, trips and falls, materials handling and lifting, industrial accident reductions, and motor vehicle safety. Two programs that had major impacts were the Ergonomic Risk Reduction Process (ERRP) and the Voluntary Protection Program (VPP). Through partnership with the American Postal Workers and the National Postal Mail Handlers Unions, in conjunction with OSHA,

Over 25,000 postal employees have joined the National Marrow Donor Registry through the "Delivering the Gift of Life" campaign. Sixty of these employees have made a life-saving donation.

Since 1993, the National Association of Letter Carriers and Postal Service have sponsored the nation's largest one-day food drive, collecting an average of over 60 million pounds of food a year.

During times of natural disasters, thousands of postal employees have received assistance from the Postal Employees' Relief Fund (PERF). PERF is operated by the various management and union organizations of the Postal Service.

the Occupational Safety and Health Administration, ERRP teams at 69 sites developed solutions that have reduced lifting and handling accidents 75 percent more than in non-ERRP sites.

VPP was also launched in cooperation with OSHA. VPP emphasizes cooperative efforts by managers, craft employees, and union representatives to identify and eliminate unsafe working conditions and practices to reduce the number and severity of job-related injuries and illnesses. The Postal Service was the first federal entity accepted into OSHA's corporate pilot and has 26 VPP worksites participating. Union leadership, expanded safety committees, and management commitment have been key to the current program success. The Postal Service's commitment to safety will remain firm. While ERRP and VPP are still relatively new, they are proven concepts that work. The Postal Service will expand ERRP and VPP throughout its operations. Overall, the Postal Service will build upon its partnership with OSHA and the unions to continue reducing injuries and illnesses.

To further enhance the environment, the Postal Service has made it easier for employees to manage their benefits by using Web-based technology. Employees can now process a number of personnel transactions using the telephone and kiosks as part of self-service offerings and year-to-date successfully completed two million transactions by using these services. *PostalPeople* will feature redesigned processes that streamline, standardize, and automate HR processes by replacing existing, outdated technology with one, fully integrated HR system that will include a Shared Service Center and enhanced self-service. The result will be "one-stop shopping" for all employees and managers to conduct their personnel activities.

Reduce Disputes

Engaging employees at the workplace has produced some very positive results. Through the use of dispute resolution and intervention process, the Postal Service has dramatically reduced the number of workplace disputes.

A reorganization of the Equal Employment Opportunity (EEO) function is underway, in an effort to place emphasis on and renewed accountability in the EEO system and drive the functional performance toward beneficial goals. Goals include reducing the number of workplace disputes, early resolution of disputes, improving workplace environment issues, and reducing costs associated with formal complaint processing. EEO professionals will continue to use the highly successful REDRESS (Resolve Employment Disputes Reach Equitable Solutions Swiftly) mediation program to help employees and management reach resolution of their disputes. Since 2001 formal complaints in the Postal Service have been reduced by 24 percent while at the same time a 19 percent reduction occurred for informal complaints.

Due to the overwhelming success of the REDRESS program, mediation will be expanded to the formal complaint process. Under this expansion, mediation will be offered to those employees who have filed a formal complaint of discrimination. The expansion of the mediation program will ultimately reduce investigative costs as well as the number of cases that proceed to hearing. EEO professionals will also be challenged to find alternative means to bring parties together outside of mediation. This renewed focus on early dispute resolution positions the EEO function to continue to reduce formal complaints with a target reduction of 20 percent by 2010.

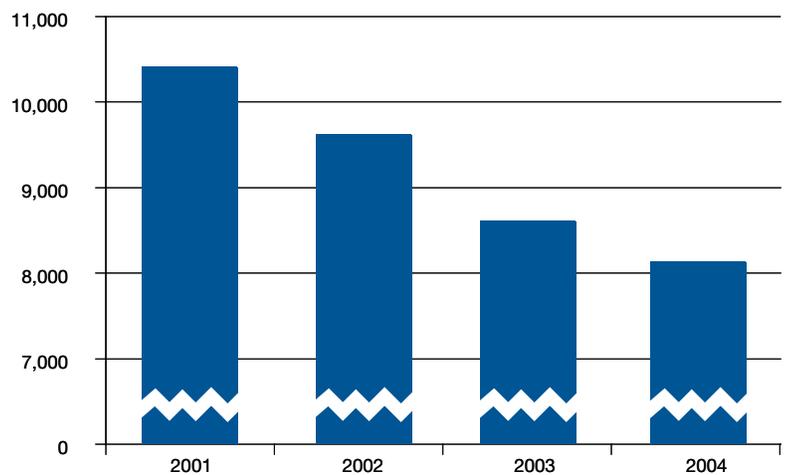
Outsourcing of the EEO investigations has significantly reduced operating costs, addressed quality and timeliness issues, and completely eliminated the backlog of investigations. This process has been cited by other federal agencies as a best practice. The Postal Service will continue to look for additional opportunities to streamline processes and identify proactive approaches to reduce future complaints.

Fostering an Inclusive Environment

Serving as a champion of diversity has played a major role in the Postal Service's ability to provide excellent service to all Americans. The uniqueness of all employees is valued, and the Postal Service will continue to seek out and develop the talents and skills that each individual brings to the organization. As evidence of this commitment, the Postal Service has been recognized by *Fortune* magazine as one of "50 Best Companies for Minorities" in 2005 for the fifth straight year, and Equal Opportunity Publications, Inc. ranked the Postal Service as one of the top 20 government agencies for individuals with disabilities. In addition the Postal Service received the outstanding employer award from *Careers and the DisABLED* magazine.

The Postal Service not only wants to be considered the best employer in government, but the best employer overall. For over 200 years, people representing a diverse pool of individuals, with diverse cultures, beliefs, and perspectives built the Postal Service. Building on this legacy of diversity, the Postal Service will further expand recruitment efforts to women and minorities for key technical and managerial positions and continue to promote workplace practices that provide opportunities for the best

EEO Formal Complaint Filings



and brightest talent available. Employees will be provided with the tools and knowledge needed to do their jobs today and prepare them for the leadership challenges of tomorrow.

2. Develop and Manage Talent

Recruit and Retain

The Postal Service recognizes the need to recruit people who have the specialized training and skills. It has implemented two new recruitment and development programs. The Management Intern Program brings in individuals with Masters degrees. Through a series of highly-focused assignments, each individual is given experiences in managing a wide range of functions prior to outplacement in a key operational position. The Professional Specialist Trainee Program recruits people with advanced technical skills, such as engineers, information technology experts, certified public accountants, and economists — key players for conducting business in the 21st Century. Over the past 4 years, over 145 participants in both programs have graduated and been placed in permanent positions.

The Postal Service realizes the importance of identifying talent and improving employee skills. Talent management strategies will result in a workforce that possesses the skills and competencies necessary for organizational success. In addition to the Management Intern and Professional Specialist Trainee Programs, partnerships with professional organizations and associations will be pursued to attract new, high-caliber candidates from both internal and external sources. The Postal Service will continue with aggressive approaches to recruit student interns, and attract seasoned business and technical professionals who have proven track records in both the public and private sectors.

The Postal Service will explore opportunities to enhance the competitiveness of pay for technical and non-executive manager positions, monitor trends that draw talent from the workplace, and identify retention and recruitment strategies to address the needs of future labor pools. The Postal Service will continue to identify the critical skills and abilities, and update its selection, assessment methods, and training curriculum. The organization will reassess needed critical skills and abilities and conduct ongoing reviews of all job descriptions and qualification standards.

Prepare New Leaders with Corporate Succession Planning

To retain and develop the valuable employees who make the many contributions to successful Transformation, the Postal Service redesigned Corporate Succession Planning to make the process more transparent and standardized, yet highly competitive and performance-based. Through this new process over 1,300 employees at the PCES and Executive and Administrative Schedule (EAS) Level 22 and above have been identified as

potential successors for 785 executive, senior executive, and officer-level positions. These employees are monitored through an automated system which tracks individual development.

Recognizing that 68 percent of current officers and executives are eligible to retire by the year 2010, the Postal Service will meet the challenge posed by this potential turnover through the use of a standardized executive assessment process. Leadership and competency models will be updated to include identified critical skills. Customer-focused orientation, and enhanced business and economic acumen will be part of the model. Corporate Succession Planning



will continue to be a process by which future Postal Service leaders are identified and developed. Augmenting this process in 2007 will be the implementation of an EAS Leadership Development process for non-executive management positions. These processes will be enhanced by incorporating a more rigorous assessment of candidate's skills and developmental needs. Individual development will be tracked and will follow a more structured and monitored plan. The entire approach to preparing new leaders will be built on identifying the best performers who meet the leadership competencies for future success. This approach will be supported with the introduction of best practice assessment methods and standardized selection criteria for future executives.

Develop Employees

As part of the effort to develop leaders, the Postal Service has focused on education and development specifically tailored to the internal aspects of successful performance and leadership. In 2004 the Postal Service delivered the Executive Development Program Phase I, a comprehensive program designed to meet the varied and changing needs of the organization's diverse executive ranks. Moving forward, the Postal Service will develop a comprehensive learning continuum to address leadership development at all levels of the organization. While numerous developmental initiatives are already well underway, the Postal Service will revisit some programs to ensure that they remain effective in meeting future business needs. These include the Advance Leadership Program and Mid-Level

The Postal Service is increasingly developing online training, offering over 300 eLearning courses to employees via the world's largest intranet.

Managerial Development Program. The Postal Service is addressing the critical challenge of development at the executive level by introducing a comprehensive, tiered program for new executives and those executives meeting certain performance criteria.

The Postal Service employs a range of training and performance support strategies to help employees be successful in meeting performance goals. Training will include more learning activities that simulate real work situations and provide the learner with the opportunity to practice and strengthen job-related skills. These learning activities begin with new employee orientation and continue throughout the employee's career. The newly designed city carrier and rural carrier training programs incorporate new operational initiatives such as Customer Connect and Carrier Pickup as part of the day in the life of a carrier. A full spectrum of highly interactive and hands-on courses is designed to evolve in step with changing business needs. Systematic assessment of all courses will be conducted to ensure that training is linked directly to job performance. Examples of other key craft development efforts include the Associate Supervisor Program, which helps craft employees transition into management positions, and specialized skills-focused training in the areas of maintenance, safety, revenue generation, and driving. Effective job skills training is dependent on the quality of the total learning experience. The Postal Service will emphasize the currency of all training content, establish standards for a model Postal Employee Development Center, and require certification of all craft skills academies and instructors.

As the Postal Service continues to review knowledge, skills, and abilities, training curriculums will be linked to ensure new and current positions are supported by the appropriate training. So that employees can quickly and readily access learning that is relevant to their job and developmental needs, the Postal Service will conduct a comprehensive review of training curriculum. It also will catalogue and map the test training titles to competencies and job classifications. The goal is to ensure that training and development infrastructure and learning systems are effective, comprehensive, and responsive to the business environment. Where appropriate, on-demand learning opportunities will be created through Web-based technologies.

3. Establish and Maintain Market-Based Compensation

Maintaining market comparability is a key Postal Service strategy and opportunities to keep wages and benefits in line with the private sector will be reviewed. The Postal Service must ensure that compensation is comparable to the private sector, and must not pass on any unnecessary costs to its customers. The Postal Service continues to use comprehensive studies of bargaining and nonbargaining unit jobs to establish and maintain wages and benefits comparable to the private sector, which is

in keeping with its statutory mandate. In negotiations with unions, the Postal Service has applied the principle of moderate restraint of wage growth in seeking to address wage rates that exceed comparability standards.

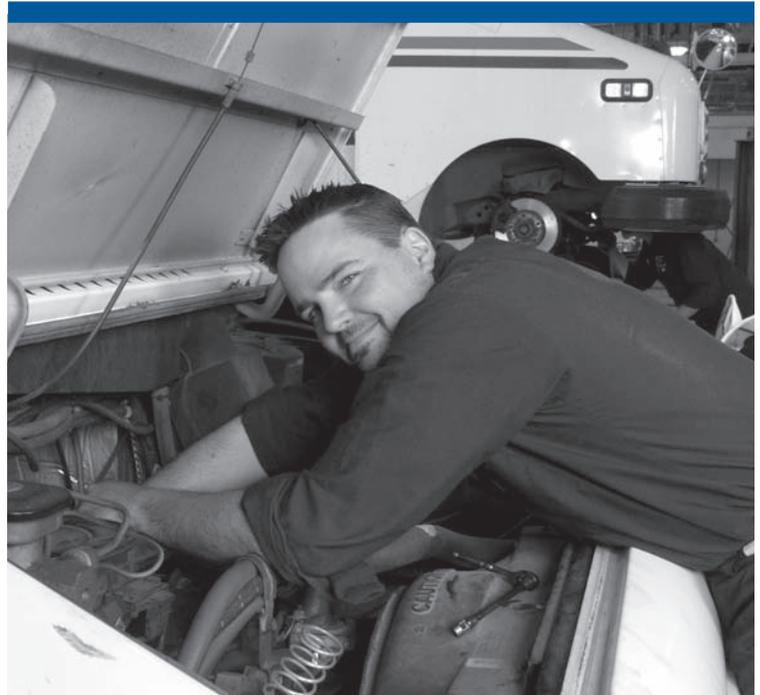
Postal executives have long managed operations that are equivalent to the size and complexity of a *Fortune 500* company. For example, these executives effectively balance service to customers, manage tens of thousands employees, and oversee operating budgets and revenue goals often in excess of a billion dollars, while receiving compensation below private sector levels.

The Postal Service will continue to work with other agencies to explore potential modifications to other compensation components to achieve the current statutory comparability mandate. Retirement plans, injury compensation, unemployment compensation, territorial cost of living allowances, and the salary cap are all linked by law to federal sector practices, but do not necessarily reflect private sector levels of compensation. Any modification would require action on the part of Congress.

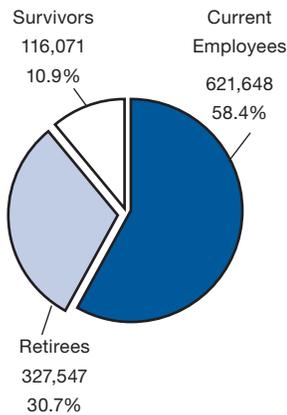
Expand Employee Participation in Pre-Tax Benefit Programs

The Postal Service will continue to encourage employee enrollment in programs that allow pre-tax payroll contributions as permitted under the Internal Revenue Code. These programs are widely used in the private sector. Current Postal Service pre-tax offerings include health insurance premiums, flexible spending accounts, and the Commuter Program.

In 2004 the Postal Service sponsored a pilot Commuter Program through an interagency agreement with the Department of Transportation, administered by WageWorks. This program allows employees to save money on eligible public transportation and parking commuting expenses through pre-tax payroll purchases. The Postal Service's objective is a 20 percent increase in the rate of participation in pre-tax programs by career employees by 2010. This excludes the Federal Employee Health Benefits (FEHBP) pre-tax premiums since enrollment is automatic for career employees.



FEHBP Enrollment 2004



Retirees and their survivors represent 41.6 percent of those receiving health benefits. As the nation's second largest employer with an obligation to be fiscally responsible, the Postal Service is committed to providing the best care at the lowest possible cost.

Postal employees are eligible to participate in the Thrift Savings Plan (TSP), which offers a tax-deferred (not pre-tax) savings opportunity. Employees covered under the Federal Employees Retirement System (FERS) receive automatic and matching contributions from the Postal Service of as much as 5 percent of pay. The Postal Service will continue to work with the Federal Retirement Thrift Investment Board, which administers TSP, to publicize this program and encourage employee participation.

Explore Benefit Options

The Postal Service will work with the Office of Personnel Management to explore the possibility of applying private sector best practices to the FEHBP program for current employees and the over 440,000 postal retirees and survivors receiving benefits. Options include having a single program provider for pharmaceuticals or mental health services, diverting high-cost cases to centers of excellence with lower costs and medical expertise, and expanding the number of coverage tiers. The Postal Service will continue to pursue the possibility for applying for the Medicare Part D (prescription drug) rebates for eligible retirees enrolled in FEHBP. Finally, the Postal Service will continue to explore alternatives to the current health benefits programs for future employees, including wellness programs.

Aggressively Manage Workers' Compensation

The focus of the workers' compensation program has been to ensure that postal employees receive the appropriate medical care for on-the-job-injuries while managing the associated cost. The First Health program has been successful in reducing medical costs through their medical network. This program has resulted in gain share payments and additional savings through cost avoidance. The Outplacement Rehabilitation Program has been successful as over 500 former employees have either been placed with a new employer, retired, or had a compensation reduction. Successes of these and other programs are tied to the close working relationship and common goals with the Department of Labor. The Postal Service will improve the First Health process to capture greater savings. The Postal Service is also exploring a prescription drug card program and is currently obtaining bids from major prescription drug networks to reduce costs.

Manage Employee Availability

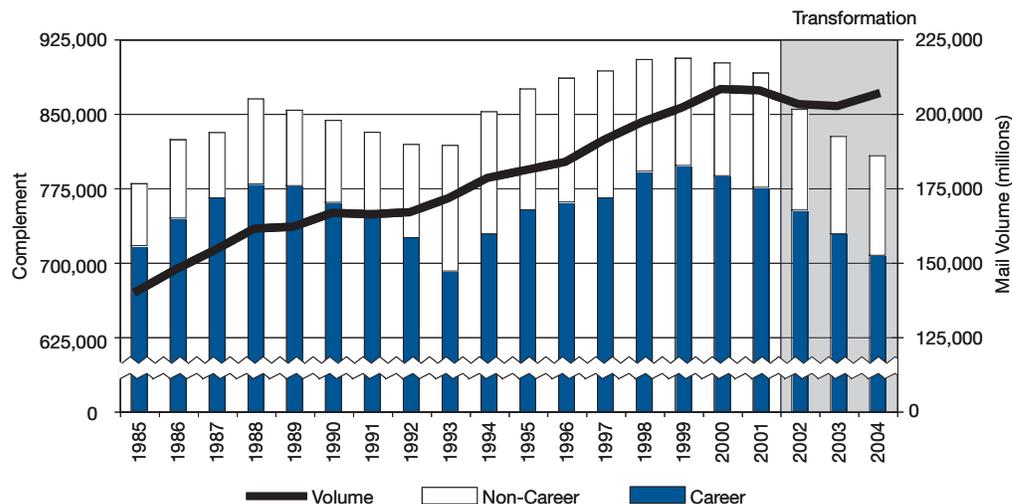
Employee absences from work as a result of on- and off-the-job injuries and illnesses also represent a significant cost for the Postal Service. Employee absences from work will be managed by expanding the Resource Management system from a sick leave tracking system to a comprehensive tool to manage and increase employee availability. By the end of 2007, this comprehensive approach to resource management, which includes a national wellness program, will be measured by the percentage of employees available for duty.

4. Manage Complement to Assure Flexibility

Managing the workforce, combined with increased productivity and efficiency in all areas, has allowed the Postal Service to take costs out of the system and improve customer service. Through productivity and workforce management, the career complement has been reduced to pre-1985 levels.

Workforce planning will also be critical for future success and will contribute to greater flexibility and efficiency. The Postal Service will continue to review the organizational structure to realize other performance improvements. Redundancies and overlaps of responsibility will be eliminated and the organizational structure will be aligned with business goals.

Complement and Mail Volume Trends



Standardize Complement Management Tools

The Postal Service uses a national complement planning, tracking, and management system with standardized procedures and processes. By standardizing complement management, district level managers have forecasting tools to help determine appropriate complement plans by installation and function. Emphasis in complement management has concentrated on:

- Providing standardized analysis tools to plan complement requirements.
- Developing accurate models to project future needs.
- Utilizing more detailed data to drive complement decision-making.

In the future the Postal Service will build on competencies developed under Transformation for data-driven complement management. Standard complement planning tools and processes are now being used by complement committees, formed within each district and area, to create

district and area-level complement and staffing plans. To anticipate and respond to changes in operations, these efforts will focus on transitioning the workforce to capture efficiencies while minimizing disruptions to service.

Increase Flexibility

The Postal Service will continue to enhance and develop additional workforce planning and tracking tools. These tools will provide standardized data reports and modeling tools to meet the needs of field operations. Additionally, for individual operations within a facility, a wide-range of diagnostic tools will be developed to allow managers to assess the improvement potential of their operations through scheduling and staffing changes. Diagnostics will identify staffing/scheduling alternatives to address common problem situations (high overtime, stand-by time, frequent temporary schedule changes, etc.) and potential solutions. With both facility-wide and unit complement modeling with diagnostic tools, the Postal Service will have more accurate plans for determining current staffing and scheduling needs. This modeling effort will also provide the ability to plan for future opportunities to gain greater staffing flexibility and efficiency.

These efforts will analyze future needs and build needed scheduling flexibility into planning assumptions. By utilizing part-time and non-career employment opportunities, the Postal Service can ensure maximum flexibility and efficiency in operating alternatives. Since an evolving incremental approach to changes in the current network is anticipated, efforts will concentrate on managing the associated complement transitions to maintain productivities and service throughout the period of change. In this way individual operating unit performance will not suffer during the implementation of staffing adjustments.

The Postal Service has developed considerable field expertise planning for and achieving the overall complement numbers needed in an operation. Future efforts will concentrate on maintaining maximum flexibility in staffing alternatives and in managing the transition of complement to achieve maximum efficiency.

Summary

Engaging employees, managing current and future talent, developing market-based compensation, and aligning complement to customer needs are the right things to do. Changes in these areas will be needed in order for postal customers to benefit from the many opportunities identified in this *Plan*. Implementing change is difficult — no matter what the industry. While postal employees have a proud history of delivering quality service during adverse situations, changing the culture to be more customer- and business-focused will not happen overnight. The Postal Service and its 700,000 employees have a solid start and will continue to be proactive in preparing to meet the challenges and opportunities ahead.

IV. IMPROVE SERVICE

The Postal Service has been very successful in improving service under Transformation, even as it has reduced operational costs. Compared with 2002, postal customers now have more consistent and reliable mail service, easier access to products and information, and many more options for using the mail to maintain business and personal relationships.

STRATEGY: PROVIDE TIMELY, RELIABLE DELIVERY, AND IMPROVED CUSTOMER SERVICE ACROSS ALL ACCESS POINTS

Improve the quality of postal services by continuing to focus on the end-to-end service performance of all mail. Ensure that postal products and services are designed and delivered to meet customer expectations and that all customer services and forms of access are responsive, consistent, and easy to use.

A. STRATEGIC CHALLENGES AND TRENDS

The following challenges and trends are factors in planning for service improvements:

- Customers have increased expectations for service. They expect more personalized service across all channels without necessarily giving up the benefits of low cost and privacy.
- Express and package delivery providers are the most highly rated services in the country, according to the *American Customer Satisfaction Index at Ten Years* report published in 2005. Customers form their expectations based on experience with these companies and expect the Postal Service to provide equal value and features such as track and trace.
- More households are comprised of single heads of households or working couples, often with longer work hours, uncertain schedules, longer commutes, and frequent travel. Convenience is a critical service factor in accessing and receiving products and services.
- Customers are more likely to seek and compare information from a number of sources, increasingly using the Internet. They expect to be able to access information and manage their relationships with businesses, at least in part, on the Internet.

B. TRANSFORMATION STRATEGIES

The preceding three sections of the *Plan* describe actions designed to create more value for customers, a strong, stable financial bottom line, and a more engaging and rewarding workplace. However, none of these outcomes are possible without the Postal Service keeping its eye fixed

squarely on its paramount goal to provide great service while protecting customer privacy and preserving the sanctity of mail. For postal customers, service has two key dimensions:

- The speed and reliability of end-to-end mail delivery.
- The quality of customer service provided at all customer contact points — at home, at their business, at the Post Office, on the phone, and online.

Under the 2002 *Transformation Plan*, the Postal Service successfully improved service performance across all product lines. At the same time it enhanced the quality of customer service and expanded access to postal services and information. Much of the success in end-to-end service performance resulted from the Postal Services' ability to make the most of advances in information technology. In addition to independent measurement systems, data from the passive scanning of mail containing Delivery Confirmation, CONFIRM, and Indicia Based Information (IBI), helped to pinpoint quality problems and improve service across all product lines.

Efforts will be focused on all components of the mail value chain, from mail creation through delivery. The Postal Service will continue to work closely with mailers to improve address quality, to maximize barcoding on all mail, and to improve the accuracy of information about their bulk mailings. New service measurement approaches will be developed to allow for an even more open and transparent mail system. More data will become available to help target processing bottlenecks and untimely or inconsistent distribution or transportation handoffs.

New customer access channels have been developed to give customers many more options for conducting postal transactions. Customers have the flexibility to do business with the Postal Service in person, over the phone, over the Internet, and by mail. Even so, there are still opportunities for improvement across all contact points. The Postal Service will continue ongoing efforts to make it easier than ever to use the mail, while providing a level of service that exceeds customer expectations — as is expected of one of the nation's premier service providers.

The Postal Service will continue its aggressive efforts to provide timely, reliable, and high quality mail service, and improve the exchange of information with customers.

1. Provide Timely, Reliable End-to-End Service

Customers expect timely, reliable mail service, and the Postal Service has delivered. For 2 years running, 95 percent or more of First-Class Mail with a next-day standard has been delivered on time. First-Class Mail service performance improved in all measured categories — overnight, 2-day, and 3-day service areas. Express Mail and Priority Mail continue to meet or

exceed objectives. Customers have taken note and customer satisfaction scores have never been higher. For 15 consecutive quarters, more than 93 percent of residential customers rated their overall satisfaction as excellent, very good, or good. Similar ratings came from the three categories of business customers surveyed. Ratings are from the Customer Satisfaction Measurement system, an ongoing independent assessment of customers' experience with the Postal Service.

An additional indicator of First-Class Mail service quality is the *Phoenix-Hecht Postal Survey™*, an independent measure of remittance mail (bill payments) processing performance. This survey is designed to measure and report total float, in the same manner that a remittance processing customer would experience it. The survey reports that since 2001 the average amount of time for delivery of remittance-type mail pieces has been reduced more than 8 hours.

Improved service was the result of refinements to sort plans to minimize handlings, improved OCR recognition technology, surface transportation reviews, and use of diagnostic tools, including feedback from mailers' own tracking systems. Approaches have been focused on improving service for all products.

The Transformation strategies described in the following sections will help the Postal Service attain even higher levels of service.

The Postal Service's goal is to provide visibility through the entire mail value chain for all of its products — from mail creation, through deposit, processing, transportation, and delivery. Aggressive efforts will continue to improve quality by further expanding standardization, developing new data on in-process quality problems, and improving the exchange of information with customers. The Postal Service will place special emphasis on improving address quality, reducing undeliverable-as-addressed mail, and improving distribution performance using technology. Standardized operating processes, discussed in more detail in Chapter II (*Reduce Costs*), will generate better control of each handoff during the 24-hour operating window and will result in more consistent service for all mail.



Increase Visibility Across All Product Lines

For many customers, information about the mail is becoming almost as important as the mail itself. The quality and timeliness of information is often a determining factor in the customer's choice of a service provider. In 2006 the 4-state barcode will begin to provide new information about the mail, and enhancements to IBI information will also help. Service improvements for all products will continue to be made and be responsive to customer expectations. Potential adjustments to service levels will be reviewed to assure close alignment with customer expectations, market demand, and cost. As mentioned in Chapter I (*Grow Revenue*), the Postal Service will provide product visibility throughout the system to enable customers to obtain information about their own mailings, regardless of shape and class.

Expand Service Measurement Capabilities

The Postal Service will continue to measure end-to-end transit time for First-Class Mail to maintain current high levels of service and identify further improvement opportunities. The current system was designed to measure service for single-piece First-Class Mail from the time the mail piece starts its journey at deposit to actual delivery. The Postal Service's goal is to assure that bulk-entered First-Class Mail attains the same high level of service given to single pieces. Standard Mail next-day certain service has been achieved for letter-size mailings entered at the destinating Sectional Center Facility. In addition, the Postal Service makes every effort to meet requested in-home delivery date windows for Standard Mail. Customers currently using CONFIRM or Delivery Confirmation can now track service on their own mailings, and additional reports will become available. The Postal Service also uses these systems with seeded mail to generate diagnostic data.

By combining the passive scanning of the various barcodes with improved start-the-clock acceptance information via improved bulk acceptance systems, it will be possible to measure service performance for all classes. To support service improvements for various commercial products, data from PostalOne!, Delivery Confirmation, CONFIRM, transportation tracking, and product tracking will be integrated and reviewed. In-transit scanning will be enhanced to create better diagnostic data so that bottlenecks can be eliminated throughout the system. This will assist in reducing cycle times over the entire mail supply chain. Priority Mail service strategies to extend current overnight reach will also be explored. In all cases, the objective is to provide highly reliable estimates of service performance while minimizing measurement cost.

In 2006 the 4-state barcode will begin to provide new information about the mail. The Postal Service will explore expanding its service measurement capabilities for all mail.

Reduce Undeliverable-As-Addressed Mail

The Postal Service will continue to increase the value of mail by working with the mailing industry to reduce undeliverable-as-addressed (UAA) mail by 50 percent by 2010. UAA mail is mail that must be forwarded, returned to sender, or treated as waste because the recipient information or address is incomplete, incorrect, or out of date. The handling and processing of UAA mail costs the Postal Service over \$1 billion annually. In addition, because the return on mailers' investments in mail is reduced by the amount of mail that cannot be delivered, address quality has been identified by the Mailers' Technical Advisory Committee as one of its major areas of focus.

The Postal Service is developing new or enhanced services to ensure that mail is delivered to the right recipient, at the right address, the first time. New address hygiene services such as Address Element Correction will be offered to improve the completeness and accuracy of mailing addresses. Mailing lists that are sold commercially will be certified as to their use of these hygiene services.

Mailers will be encouraged to update customer information more frequently and closer to the date of mailing to reduce the need for forwarding services. Policies such as MoveUpdate requirements will be reviewed and strengthened for these mailers. Other types of UAA will be reduced by providing mailers with address hygiene tools and products based on secure technologies that identify incomplete or incorrect delivery address information before mail entry. Once UAA mail is entered into the mail stream, new processes will become available with the implementation of the 4-state barcode, such as OneCode/Address Change Service, to provide efficient feedback to mailers regarding their UAA mail. This will ensure that addresses are corrected before the next mailing.

Customers will benefit from the Postal Automated Redirection System (PARS), which reduces the number of days required to redirect mail that requires forwarding to a new address by recognizing and redirecting mail earlier in the distribution process. PARS is expected to substantially reduce UAA costs and greatly reduce the need for computer forwarding units that handled this mail before.

2. Improve Customer Service Across All Contact Points

Postal customers define quality as reliable, courteous, and responsive service. Further, they expect accurate, consistent information regardless of whether they come to a Post Office, contact the Postal Service by phone or the Internet, or ask their carrier about a product or service. The

Postal Service recognizes that customers form expectations on critical attributes such as waiting time in line based on their experience with other similar services, and compare Postal Service performance to best-in-class providers.

The Postal Service is committed to continuously improving the quality and functionality of its customer services and continues to focus on customer convenience across various access points. Strategies to provide online access from the home or office are being enhanced for more services and products. In order to reduce waiting time in line at many post offices, automated postal centers (APCs) have been introduced and later evening and Saturday hours have been implemented. Call center performance has been enhanced to improve both online and telephone access for problem resolution.

To stay abreast of rising customer expectations, the Postal Service is committed to incorporating new features and technologies to further enhance customer access. It will pursue strategic alliances where partners can help speed development and/or reduce shared costs. It will continue to place special emphasis on enhancing online and self-service capabilities to further reach out to customers where they live, work, and shop.

Continue to Improve Delivery Service Quality

In multiple sections throughout this *Plan*, the Postal Service identifies areas where it is working to build upon the longstanding relationship between carriers and the customers they serve each day. Carriers will be more prepared to discuss customer needs and postal services. The strength of the carrier-customer relationship and the uniqueness of the Postal Service's daily connection to home and office is the basis for many business development strategies described in this *Plan*. In order for those strategies to succeed, however, current high levels of delivery performance must be maintained.

Under 2002 *Transformation*, the Postal Service implemented very rigorous efforts to isolate and eliminate problems in delivery service quality. Emphasis has been placed to minimize the largest customer dissatisfiers, notably time of delivery and misdelivery. Where these quality problems still exist, they will be reduced further. For areas where service levels are less than expected, additional focus will be received. The Postal Service will also step up efforts to minimize deliveries occurring late in the day.

Build Customer Awareness of New Forms of Access

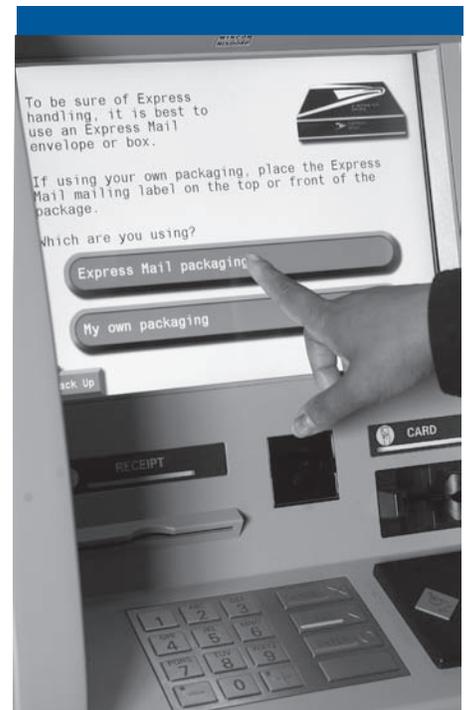
Major efforts have been made to make mail services quick, easy, and convenient, including the development of new ways for customers to obtain information and access postal services. Progress includes *usps.com*, the award-winning Web site, where customers can easily compare mailing options, print package labels with postage, schedule pickups, hold mail, and track shipments. Combined with a carrier coming to the home or office 6 days a week, this has been a major advance for time-starved customers. Customers can also purchase stamps in over 60,000 retail locations such as grocery stores, convenience stores, and ATMs. APCs have been installed in many Post Offices across the country, and now allow customers to mail on their own time, including evenings and weekends, when the retail counters are closed. The Postal Service's goal is to double the percent of retail transactions via alternate access channels to 40 percent by 2010.

Increasing awareness and use of these options is a high priority for the Postal Service. Many customers are unaware of all the ways and locations they can purchase postage stamps, not to mention all the other services that can now be completed quickly and easily right from their home or office. The Postal Service will expand on recent successful efforts to increase awareness. Advice and information about *usps.com*, Click-N-Ship, Carrier Pickup, and other services will continue to be featured in advertising and communications. The 700,000 employees of the Postal Service, who know their customers best, will continue to spread the word as well.

To stay abreast of rising customer expectations, the Postal Service is committed to incorporating new features and technologies to further enhance customer access. It will pursue strategic alliances where partners can help speed development and/or reduce shared costs. It will continue to place special emphasis on enhancing online and self-service capabilities to further reach out to customers where they live, work, and shop.

Tailor Retail Improvements to Serve Customer Needs

Innovations such as Click-N-Ship and the APC build upon what is already America's most robust and ubiquitous retail network. Customers can now access many services online, with pick up and delivery to their door. But that does not mean that the services available at Post Offices will be reduced in any way. Customers with more complex needs will continue to find full service at Post Offices, with retail associates prepared to explain the full ranges of services available or offer advice on how best to use mail to grow a small business. Services will be streamlined



The APC features an integrated scale and easy-to-use touch-screen menu, making self-service mailing easier than ever. It was recognized with the "Best Retail Kiosk" award from the Kiosks.org Association, which represents the electronic self-service kiosk industry. KIOSK magazine said the APC has the potential to "do for the Post Office what ATMs did for banking."

and made more uniform from one location to the next, so customers can quickly and easily find the products that are right for them. The Postal Service made great strides simplifying forms and product information, and this work will continue in tandem with steps to simplify the product offerings themselves. The Postal Service will also continue to explore ways to better meet the needs of non-English speaking customers in Post Offices and on *usps.com*.

The Postal Service will continue efforts to serve customers at Post Offices in 5 minutes or less. This will be accomplished through more efficient staffing and scheduling, enabled by detailed data on transactions volumes and customer traffic. Incremental improvement targets will be established to improve performance to assure that by 2010 customers are served within the 5 minute standard.

Extended evening and/or Saturday hours are being offered at select Post Offices where customers support extended service with adequate revenue. The goal is to align service with customer needs without increasing total cost. This will be done by adjusting staffing to more closely match customer traffic.

Promote New Technologies that Improve Change-of-Address

Each year, 45 million change-of-address (COA) requests are submitted, roughly equivalent to the combined populations of New York, New Jersey, and all of New England. The Postal Service has recently introduced several improvements to make the process more convenient and efficient. It simplified the COA form, allowing customers to provide more complete and accurate information about their old and new addresses. With a strategic partner, the Postal Service reduced the cost to produce and distribute COA forms and notification letters, and continued to add new value for customers, including the introduction of Internet and telephone COA. These processes provide more accurate changes because customer-supplied address information is validated against address databases at the same time the request is submitted. The Postal Service's goal is to increase the annual number of COAs submitted online from almost 5 million today to over 20 million in 2010.

There are a number of other efforts underway to improve the convenience of changing addresses. This year the Postal Service will test email notification to customers that mail forwarding has begun, as well as follow-up reminders when forwarding is about to expire. It will also improve the availability of information about changing addresses and develop a secure automated process for customers to correct, modify, or cancel a COA submission if necessary.

The Postal Service has implemented a new, more secure process for mailers to update their mailing lists with change-of-address information. To improve the performance of mail forwarding, the Postal Service has worked closely with the mailing industry to enhance address quality, improve the filing and processing of COAs, and ensure more frequent use of move update products by qualified mailers. New NCOALink technology has allowed the Postal Service to license more companies as change-of-address providers, and made it possible to directly license COA data to end users. This improved process has increased the volume of verified addresses as well as the overall match rate. All of the improvements continue the high degree of privacy protection that postal customers have come to expect.



The Postal Service will improve the convenience of changing addresses. With 45 million change-of-address requests each year, the goal is to have over 20 million submitted online by 2010.

Enhance Support for Customers and Employees

The Postal Service maintains a national network of integrated call centers handling more than 65 million contacts a year. It operates 24 hours a day, 365 days a year. Recent successes include automation of change-of-address and hold-mail transactions, handling of leave requests for most bargaining unit employees, fielding requests for advertising and mailing supplies, while continuing to provide product information to customers. In addition, over 29,000 Post Offices use the postal intranet to access *My Post Office* to retrieve customer service requests taken at 1-800-ASK-USPS or *usps.com*. *My Post Office* links these requests with local units, giving customers the benefit of a simple national contact point combined with local postal knowledge and expertise. While these successes have increased the total volume of contacts, annual cost savings continue to be realized. The Postal Service will continue to improve operation of the customer contact centers and related customer response groups by providing high-quality and complete first contact resolution that is faster, better, and less expensive. When necessary, it will ensure timely and efficient follow-up contact and resolution.

Nationally Recognized Privacy Policies

The Postal Service's ability to safeguard the mail is a fundamental component to providing high-quality, reliable service. Mail remains one of the most private and secure means of communication. The Postal Service has long protected its customers from crimes involving the mail, including

identify theft. A recent Federal Trade Commission survey entitled, *Identity Theft Survey Report*, indicates that only 4 percent of identity thefts in the United States are attributed to stolen mail. As it adds new channels to access its services, the Postal Service will continue to assure the highest levels of protection for personal information collected from postal customers, employees, and business partners. The Postal Service will maintain the highest levels of trust in its privacy policies by measuring satisfaction and driving adjustments to policies or communication. In addition, it will simplify privacy policy compliance by increasing process efficiencies while reducing costs. Records management will improve by standardizing data retention practices, developing new policies based on industry standards, and more effective Freedom of Information Act processing.

Maintain Security and Trust

The Postal Service's commitment to improved service continues with protecting the mail, employees, and customers. As a trusted and treasured national asset, the Postal Service faces a variety of security challenges which require aggressive investigative, preventive, and security responses. The Postal Service will continue to align its resources to provide vital services that secure end-to-end delivery of mail, protect employees in their work environment, protect the Postal Service infrastructure, and protect and educate consumers through fraud awareness initiatives.

The Postal Service will work collaboratively with internal and external groups to ensure new postal products and services are secure, thus maintaining customers' confidence in the mail and satisfying their personal and business needs. Providing the highest possible quality of service is the foundation of the Postal Service. Without service quality, growth would not be possible regardless of price.

Summary

If there is one thing postal employees believe more than any other it is that the Postal Service exists for one reason – to provide universal service to all Americans, with the highest levels of quality, and at reasonable, affordable prices. The *Strategic Transformation Plan 2006-2010* is about continuing to deliver on the Postal Service's commitment to the nation. It is about working methodically to improve what is already the world's best mail service. Under this new phase of Transformation, the Postal Service will continue to exceed customer expectations – by focusing on core business, isolating and eliminating quality problems, managing to tough standards built around the customer, and quickly replicating successes across the organization. The Postal Service is also committed to changing with its customers, designing new products to meet new needs, and creating new solutions that customers value.

CONCLUSION

The *Strategic Transformation Plan 2006–2010* is the blueprint for the future of the Postal Service. It responds to changes in the current business environment and attempts to anticipate further changes. Management will communicate the results of this planning effort to postal stakeholders and work with interested parties to adapt and refine strategies. The success of the *Plan* depends on close cooperation with the mailing industry and postal employees.

The four primary strategic goals — generate revenue, reduce costs, engage employees, and improve service — are not likely to change under any future legislative or regulatory environment. The performance objectives and strategies in the plan are designed to support achievement of the goals under most expected future conditions.

No plan can anticipate the future perfectly. Therefore, the *Strategic Transformation Plan 2006–2010* will be updated annually to reflect continued developments in the business and regulatory environment, including any legislative changes. Management will continue to report on performance annually, and objectives and strategies will be updated. Performance measures will also continue to evolve in order to drive results that matter to customers, employees, and the American public.

The Future of the Postal Service

The *Plan* provides the necessary priorities and strategies for the Postal Service to be:

- More convenient and easy to use, with products and services that respond to customer needs and meet market requirements;
- A more effective communication and delivery channel by adding value to the mail through technology, with sufficient revenue generated by these improvements to continue to support the universal service network;
- A well-managed organization with high productivity levels and prudent financial management;
- One of the best places to work with a fully engaged workforce in a safe workplace;
- A leader in customer service and satisfaction, providing timely, reliable, and accurate delivery to every address at reasonable rates.

The Postal Service will continue to transform. It will continue to deliver on its commitment to customers, employees and the American public. The Postal Service will continue to provide timely, reliable delivery to every address at reasonable rates.



APPENDIX A

GOVERNMENT PERFORMANCE AND RESULTS ACT REQUIREMENTS

The *Strategic Transformation Plan 2006-2010* fulfills the requirements of the Government Performance and Results Act (GPRA), and includes:

- Mission and Vision.
- Management Challenges, Goals, Strategies, and Resource Requirements.
- Annual Performance Targets, Measurement Systems, and Performance Trend Report.

Mission

The *Strategic Transformation Plan 2006-2010* describes the mission as providing universal service. This mandate results from the Postal Reorganization Act of 1970. Congress assigned the Postal Service the mission of “binding the nation together through the personal, educational, literary, and business correspondence of the people...the Postal Service shall provide prompt, reliable, and efficient service in all areas and shall render postal service to all communities at fair and equitable rates.”¹

Vision

The *Plan* describes a vision of a continuous business-like transformation. Working with the mailing industry, the Postal Service will execute bold strategies that will improve the value of mail and mail-related products and services. The Postal Service of the future will be a financially stable enterprise that enables its employees to provide convenient, easy to use, timely, reliable, and accurate service that responds to the needs of businesses and consumers, as both senders and receivers of mail.

The *Plan* describes the management challenges to sustaining the mission of providing universal service, and outlines the strategies that will be implemented to achieve the goals that support the mission.

Purpose

This appendix addresses additional GPRA requirements:

- Sets annual performance objectives and measurable improvement targets;
- Describes recent performance trends;
- Describes performance indicators and measurement systems.

The appendix follows the same outline as the *Strategic Transformation Plan*, focusing separately on each strategic goal: Generate Revenue, Reduce Costs, Achieve Results with a Customer-Focused, Performance-Based Culture, and Improve Service.

The Postal Service employs a disciplined four-step management process based on criteria used in the Malcolm Baldrige National Quality Assessment program:

- Establish, in which strategic goals, performance indicators and measurement systems, objectives, and annual improvement targets are set.
- Deploy, in which performance, accountability, and necessary resources (budgets) are developed in a negotiated process with those responsible for program management.
- Implement, in which accountable managers take action to achieve the targeted improvements.
- Review, in which results are assessed on an interim and annual basis.

¹ Postal Reorganization Act [Title 39, U.S. Code, 101 (a, d), August 12, 1970].

The Postal Service maintains a balanced set of goals and objectives, measured by stable, verifiable systems. The stability of the goals and the reliability of the systems allows stakeholders to monitor performance over time. The strategic goals are based on an assessment of stakeholder needs, and are not expected to change. However, the specific objectives and measurement systems may change over time as customer requirements and the business environment changes. New capabilities or technologies may also give the Postal Service access to more effective and efficient measurement systems. The Postal Service will continue to evaluate its performance against the best practices in the public and private sector.

1. GENERATE REVENUE

The Postal Service is charged with being self-sufficient; taxpayer dollars do not fund its operations. The Postal Service is mandated to set prices to cover costs. Few other federal government organizations operate in this manner.

2006 Target

The Postal Service's revenue target is an incremental increase over the estimated 2005 revenue requirements. The longer-term target is to continue to achieve the break-even requirement while supporting the growth of the universal delivery network, investing prudently in improvement initiatives that improve the value and effectiveness of mail for postal customers, and building a financially stable organization.

Recent Performance Trends

Economic trends and the timing of rate increases affect this requirement on an annual basis, while postage rates have not increased since 2002. For 2005 the plan at the beginning of the year was a negative net income.

Net Income (Loss) Since 2002 (\$ millions)

2002	2003	2004	2005
(\$ 676)	\$3,868	\$3,065	\$1,000+ (est.)

The Postal Service benefited from P.L. 108-18, which adjusted overpayments to the Civil Service Retirement Fund. A full discussion of the financial position is included in the *Annual Report*.

Performance Indicator and Measurement System

A national revenue target is established each year, based primarily on mail volume forecasts. Achieving the goal on an annual basis is affected by changes in economic conditions and competitor initiatives which affect mail volume. Postal strategies, such as pricing and product development, service performance, customer service, sales, and marketing communication, also affect revenue.

The Postal Service uses its financial and budget systems to develop the data and track performance. The data are verified annually by independent auditors, and financial processes and systems are subject to review by an internal audit group, an independent Office of the Inspector General, and the Government Accountability Office.

As the Postal Service becomes more customer-focused, it has developed additional customer and market data systems. The Postal Service intends to supplement its current revenue indicator, and different options will be examined and tested over the next several years.

2. REDUCE COSTS

Because the Postal Service is required to set prices to cover costs, many private sector measures of financial performance are not applicable to its operations. The Postal Service has adopted Total Factor Productivity (TFP) as an indicator of postal efficiency. TFP is a comprehensive measure similar to the multi-factor productivity index used by the Bureau of Labor Statistics to measure the productivity of different industries and the overall economy.

2006 Target

The target for 2006 is to continue the 5-year trend of positive productivity, increasing performance over 2005. The longer-term goal is to extend productivity improvements and cost reductions far into the future, enabling the Postal Service to reduce costs by an average of about \$1 billion annually.

Recent Performance Trends

Economic trends also affect productivity performance. TFP can be volatile over the short-term as a result of time lags between investment expenditures and the actual capture of savings. The trend over several years is a more reliable indicator of performance.

Total Factor Productivity, Improvement over Prior Year

2002	2003	2004	2005 (YTD Q3)
1.0%	1.8%	2.4%	1.4%

Performance Indicator and Measurement System

TFP is a ratio of the workload to resources used. Workload includes the number and type of delivery points, and mail volume adjusted for weight, size, level of mailer preparation, and mode of transportation. Resources include labor, equipment, facilities, and transportation costs. The assessment is conducted by an independent firm, using audited postal financial data.

TFP is supplemented by a variety of other productivity measures which focus on the contribution of individual functions such as delivery, mail processing, and retail. Performance against functional and unit budgets is also used to assess cost control or reduction programs and to hold managers accountable for budget performance.

The Postal Service is refining additional performance objectives and indicators around operations quality, process standardization, and other activities.

3. ACHIEVE RESULTS WITH A CUSTOMER-FOCUSED AND PERFORMANCE-BASED CULTURE

The Postal Service is one of the largest employers in the nation, and its workforce is its most important asset. To achieve success, the Postal Service must fully engage employees and develop people to meet the challenges of the future.

2006 Targets

Develop People and Improve the Workplace Environment

One of the strategic objectives under this goal is to provide a workplace that encourages employees to give their best efforts to meet customer needs, provide service, and reduce cost. However, it is difficult to measure this directly. Every postal employee is given the opportunity every year to respond to a survey which is designed to assess progress in workplace improvement. The improvement is measured by an index rating (based on key questions) provided by the employees, and the target is to improve the workplace environment every year.

Improve Safety Performance

The second strategic objective is to provide a safe workplace. The Postal Service is subject to the reporting requirements of the Occupational Safety and Health Administration and follows the required criteria and reporting methodology. Providing a safe workplace is a demonstration of the commitment the Postal Service has to its employees. The target is to improve safety (reduce job-related illnesses and injuries) each year.

Recent Performance Trends

In a large, labor-intensive organization, improvements require a long-term commitment, and performance will improve incrementally in most areas, given the recent trend of annual performance improvements.

Voice of the Employee Survey Ratings

2002	2003	2004	2005 (YTD Q3)
58.8	61.1	62.1	63.3

OSHA Illness and Injury Rates per 200,000 Workhours

2002	2003	2004	2005 (YTD Q3)
7.7	7.1	6.3	5.7

Performance Indicators and Measurement Systems

Voice of the Employee Survey

The Voice of the Employee (VOE) survey addresses issues of recognition for performance, accountability, feelings of exclusion, incidence of sexual or other forms of harassment, treatment of employees, communication, and other aspects of the workplace important to employees. Participation rates have generally been over 60 percent.

The survey is based on best practices in the commercial sector, and is conducted by an independent contractor. Participation is voluntary and anonymous. The survey provides statistically reliable data at the national, area (regional office), and district (local operating unit) levels. The results are validated by other systems such as equal opportunity and affirmative action complaints, grievances, and quit rates.

OSHA Illness and Injury Rates

The measurement system is an industry-standard process that conforms to requirements set by OSHA. It is supplemented by a variety of specific safety indicators relevant to different operating functions within the Postal Service.

4. IMPROVE SERVICE

Service improvement has traditionally been defined as the time it takes mail to be delivered. This is the single most important customer requirement and is very closely correlated with customer satisfaction. The Postal Service has been focusing on its premium services: First-Class Mail, Express Mail, and Priority Mail. National service performance data will be posted on *usps.com* for First Class Mail, Express Mail, and Priority Mail. The data will be posted on a quarterly basis.

As the Postal Service reaches stability at high levels of delivery service performance, the organization will be prepared to extend its definition of service improvement to include measures for other mail classes, customer access, convenience, and responsiveness. These measures are under development and will be used to increase customer satisfaction and to create more value for customers.

2006 Targets

The Postal Service has reached record levels of service performance for First-Class Mail. The current objective is to maintain this service level, although further incremental improvements are possible and will be encouraged at the local level where performance is not yet at the national average. Further nationwide improvements are likely to be expensive, and would not result in improvements in customer satisfaction or increased mail volume.

Percent First-Class Mail Delivered on Time, by Service Commitment

Overnight	2-Day	3-Day
95%	92%	90%

Recent Performance Trends

Percent First-Class Mail Delivered on Time, by Service Commitment

	2002	2003	2004	2005 (YTD Q3)
Overnight	94%	95%	95%	95%
2-Day	85%	90%	91%	91%
3-Day	80%	88%	89%	86%

Performance Indicators and Measurement Systems

Since 1990, First-Class Mail service performance has been measured by an independent reporting organization, using test pieces sent and received by trained panelists. The External First Class Measurement (EXFC) System is an external measurement of collection box to mailbox delivery performance. EXFC continuously tests a panel of 463 ZIP Code areas selected on the basis of geographic and volume density from which 90 percent of First-Class volume originates and 80 percent destines. EXFC is not a system-wide measurement of all First-Class Mail performance. The system mirrors the consumer experience, but does not reflect volumes entered by large mailers or intermediaries. Service for these customers is addressed separately, using systems such as the Business Services Network (BSN).

The External First-Class Measurement (EXFC) system is statistically reliable and is validated by comparative analysis with the Postal Service's internal Origin—Destination Information System (ODIS), and externally by the Customer Satisfaction Measurement (CSM) survey.

Express Mail is measured with the Product Tracking System (PTS), an internal measurement from retail to mailbox delivery. All domestic ZIP Code areas are included. All pieces are scanned at acceptance and upon delivery. The system is validated by the Express Mail Validation System (EMVS), an external system which compares EMVS delivery results to PTS information for the test mail pieces. The validation report provides a side-by-side comparison of what PTS and EMVS indicate are the percent of mailpieces meeting the PTS service standard. Priority Mail will be measured by an internal measurement system that uses Delivery Confirmation scans. Service will be validated by the Priority Mail validation system, an external measurement.

APPENDIX B

STAKEHOLDER OUTREACH

Why Stakeholder Outreach?

There are many reasons why the Postal Service solicited stakeholder input as part of the *Strategic Transformation Plan 2006–2010* development process. First, it is required by federal law. The Government Performance and Results Act (GPRA) of 1993 requires agencies to engage with stakeholders to identify the impact of agency actions, and to solicit their thoughts, opinions, and ideas as business activities and strategic plans are generated. Second, the Postal Service understands the impact of stakeholder involvement in the successes of the *2002 Plan* and recognizes that continued stakeholder involvement is needed. It makes fundamental business sense to solicit ideas from all constituencies with an interest in a robust and healthy Postal Service.

During the past 4 years, the Postal Service has benefited from stakeholder feedback for various plans, documents, and studies:

- **Transformation Plan.** Before and after publication of the *2002 Plan*, the Postal Service informed stakeholders about the initiatives to be implemented within the framework of existing legislation and regulatory flexibility.
- **President's Commission.** In July 2003, the President's Commission on the United States Postal Service submitted its final report. As part of the process that produced the report, the Commission engaged in a very dynamic stakeholder outreach process: public meetings were held across the United States, and the Commission heard and read statements from hundreds of Postal Service employees, customers, partners, and postal experts. The Commission, in its own words, "encouraged and received an open and frank exchange of ideas and opinions." This stakeholder feedback was reviewed by the Postal Service and included in its *Transformation Plan Progress Reports*.
- **FY 2004–2008 Five-Year Strategic Plan.** The *Plan* was published in September 2003. The Postal Service reviewed the feedback from the President's Commission and conducted an independent outreach effort to continue its activities to solicit and consider the views of all interested parties.

The postal stakeholder community is a very diverse and sometimes divided community of interests. The Postal Service devotes significant resources to work with stakeholders to better understand the various groups, propose and evaluate reasonable compromises among them, and to assess the effectiveness of postal programs, products, and services. Certain requirements do tend to emerge consistently from key stakeholder groups:

Customers — Timely, reliable, and accurate delivery; products and services that meet needs; responsive, knowledgeable, and courteous employees; convenient access and ease of use; timely, reliable, and accurate information; confidence, security and trust; affordable, reasonable prices; consumer protection.

Mail Service Providers, Industry Associations — Effective consultation and responsive problem solving; ease of use and payment; seamless integration; growth and profit opportunities; reasonable standards consistently applied; investments in infrastructure; lowest possible prices.

Employees — Fair employment practices; competitive wages and benefits; safe and secure workplace; relevant and effective training; opportunity to contribute; fair and effective supervision; open and honest communication; development opportunities and job security; recognition for performance.

Congress and Regulators — Universal service; adherence to legislative and regulatory requirements; transparency; effective management and control systems; effective consultation and response; public services; community and corporate responsibility; high ethical standards.

Competitors — Level playing field; fair competition.

Suppliers — Fair and efficient purchasing processes; effective consultation; timely, relevant and accurate information; profit opportunities.

Foreign posts — Effective and efficient mail exchange.

The Outreach Process

The Postmaster General launched the *Strategic Transformation Plan 2006–2010* development process at the March 2005 National Postal Forum in Nashville. Attendees were asked to complete the *Strategic Transformation Plan 2006–2010* survey and respond to five open-ended questions. In April 2005, the Postal Service published a *Federal Register* notice requesting comments on the *Strategic Transformation Plan 2006–2010*. A copy of the notice is provided at the end of this Appendix.

For the *Plan*, the Postal Service developed various feedback avenues: surveys, open-ended questions, and free-form stakeholder commentary. The stakeholder survey consisted of 18 statements about the Postal Service today and in the future, and survey respondents were requested to indicate, on a five-point scale, their level of agreement or disagreement with each statement. Five open-ended questions asked the respondent to express opinions on key postal subjects. Copies of the 18 survey statements and results are provided in the next section. The five open-ended questions are included in the body of the *Federal Register* notice.

While the outreach program solicited ideas and input from all stakeholders, a particularly aggressive outreach effort was conducted to involve the Postal Service's 700,000 employees. The long-term success of postal transformation activities requires employee support, and Postal Service employees have a wealth of knowledge that can significantly assist the Postal Service's long-term transformation.

Dedicated feedback channels were created to receive stakeholder input. Unique Web sites were used not only to provide information about the *Plan* and stakeholder outreach to interested individuals and organizations but to provide a quick, easy, and convenient channel for providing feedback. The Web sites contained an overview of Postal Service transformation history, links to key Postal Service transformation publications, and the *Federal Register* notice requesting stakeholder comments, an online survey, and dedicated email and postal addresses where feedback could be sent.

Press releases and targeted mailings were sent to approximately 33,000 key individuals and organizations, including major mailers, major postal contractors and suppliers, Postal Customer Council members, financial institutions, trade associations, and major postal advisory groups, such as the Mailing Industry Task Force, the Mailers Technical Advisory Council, and the Mail Technical Strategy Council. Concurrently, senior Postal Service executives contacted postal oversight organizations, including congressional committees, the Postal Rate Commission, the USPS Office of Inspector General, and the Government Accountability Office to inform them of our stakeholder outreach. Postal Service management also sent letters to postal unions and management associations informing them about this stakeholder outreach effort. Internal employee messaging channels such as the Postal Service intranet and electronic newsletter continuously highlighted employee feedback as it was received, and solicited additional comments.

Feedback Result

Response to this focused stakeholder outreach campaign has been strong. Compared to previous outreach efforts (the April 2002 *Transformation Plan* and for the FY 2004–2008 *Five-Year Strategic Plan*) the Postal Service has received almost ten times more feedback responses for the *Strategic Transformation Plan 2006–2010*. Of the more than 1,400 discrete items of individual feedback received from stakeholders, approximately 550 were survey responses and 850 were e-mails and letters. All of the feedback was read and categorized for key themes, trends, concerns, and suggestions, and reviewed by management as part of the development and approval process for the *Plan*.

Multiple-Choice Survey Responses

A complete list of survey questions and results is presented in the following exhibit.

Survey Question (5 = Strongly Agree) (1 = Strongly Disagree)		Non- Employee	Employee
1	The Postal Service has provided stakeholders with information on its future challenges, objectives, and strategies (Strategic Plan, Transformation Plan, etc.).	3.4	3.1
2	The Postal Service is basically on the right track in its efforts to “Transform” (improve service, increase productivity, develop people, improve the workplace).	3.5	3.2
3	The Postal Service can do a lot more to reduce costs and improve productivity in the future without adversely affecting service.	3.8	3.7
4	The decline of First-Class Mail (due to technological competition, such as Electronic Bill Payment and Presentment Systems, E-Mail, etc.) is inevitable.	3.8	3.8
5	The Postal Service must continue to provide universal delivery service (every business and residential address at least six days a week).	4.0	3.9
6	The Postal Service needs flexibility to consolidate operating facilities, close or combine post offices, adjust service standards, and manage the distribution network in order to manage costs in the future.	3.8	3.9
7	The Postal Service needs greater flexibility to manage its prices.	3.8	4.2
8	The Postal Service should have the ability to adjust its products and services to meet the changing needs of different customers and to meet market requirements.	4.2	4.4
9	The Postal Service should be allowed to develop new mail-related products and services to replace the expected revenue shortfall caused by the decline of First-Class Mail.	4.2	4.4
10	The Postal Service should continue to improve customer convenience and customer service, even if it causes costs to increase.	3.7	4.1
11	There is little need for a government-sponsored mail delivery organization (Postal Service).	2.0	1.9
12	The Private Express Statutes (the legal monopoly granted to the Postal Service in exchange for providing public services) are no longer necessary, and they should be limited or eliminated.	2.3	1.7
13	Overall, the Postal Service has done a good job of managing its recent transformation.	3.6	3.4
14	The Postal Service will be able to continue its Transformation during the next five years.	3.6	3.6
15	The major challenges the Postal Service will face are external (competition, technological change, regulation).	3.6	3.6
16	The major challenges the Postal Service will face are internal (cost management and productivity, labor and workplace environment, culture, structure, and processes).	3.8	3.7

Survey Question

(5 = Strongly Agree) (1 = Strongly Disagree)

		Non-Employee	Employee
17	A modern, efficient, and effective Postal Service will be necessary to support a growing economy.	4.4	4.4
18	The single MOST CRITICAL ISSUE facing the Postal Service in the future (pick only one):		
	Declining volume / revenue	28%	24%
	Lack of flexibility in managing infrastructure costs	24%	28%
	Inability to manage pricing	16%	18%
	Increasing labor costs, including benefits such as health care	23%	13%
	Inability to develop new products and services	10%	18%
	TOTAL	100%	100%

Open-Ended Responses

There were significant differences in the profile of the open-ended comments between the external and employee respondents. Forty-one percent of the external comments fell in the “Improve Service” arena; only 10 percent of the employee comments did. Conversely, “Operational Efficiency” and “Performance-based Culture” each drew about 25 to 30 percent of the employee comments, yet only 16 percent and 14 percent of the external comments, respectively. Only in the area of “Growth through Customer Value” was there relative parity — 29 percent of external and 36 percent of employee comments.

	External		Internal	
	Number of Responses	Percent	Number of Responses	Percent
Generate Revenue	128	29%	233	36%
Reduce Costs	72	16%	191	29%
Achieve Results with a Customer-Focused, Performance-Based Culture	62	14%	163	25%
Improve Service	181	41%	66	10%
TOTAL	443	100%	653	100%

External Stakeholders

Seven specific topic areas accounted for 60 percent of the comments by external stakeholders: service performance, rate structure, customer-friendliness, retail/lobby/self-service, cost control, pricing/reform, and motivating good employees and dealing with poor ones. A number of topics that are discussed a great deal in policy forums were notable for the infrequency with which they were mentioned: international service, financial transparency, address management, universal service, communicating success, limiting unsolicited advertising mail, closing plants and Post Offices, and privatization. These topics together accounted for less than ten percent of external comments.

Extended comments, both in the form of e-mails received at the Web site and in letters, were received from approximately a dozen external stakeholders. These included major mailers, industry associations, and key suppliers. While the majority of these more extended comments were specific to the needs of the particular segment of the mailing community represented, a number offered quite extensive and broad-ranging recommendations on postal reform, pricing, classification, universal service and means to assure the Postal Service's continued viability.

External Feedback Topics

	Number of Responses	Percent
Improve Service	49	11%
Rate Structure	45	10%
Customer Orientation	40	9%
Retail / Lobby Self-service	37	8%
Cost Control	33	7%
Pricing Flexibility / Reform	31	7%
Motivate Employees	30	7%
New Products / Services	28	6%
Enhance Online Services	27	6%
Cut Delivery Days	27	6%
Improve Tracking	22	5%
Labor Negotiations Flexibility	20	5%
Cut Overhead	12	3%
Close Facilities	8	2%
Privatize	8	2%
Stop 'Junk' Mail	7	2%
Communicate Success	7	2%
Protect Universal Service	7	2%
UAA / Address Tools	3	1%
Financial Transparency	1	0%
International Services	1	0%
TOTAL	443	100%

Internal Stakeholders

Nearly 50 percent of the employee comments fell in two topic areas — products and services and operational efficiency. Many employees made specific suggestions for enhancing existing products and services and introducing new ones. There were an almost equal number of specific suggestions for enhancing the efficiency of various postal processes.

A strong secondary theme emerged from a cluster of topics in the “Performance-Based Culture” area: workforce structure and staffing, human resources systems, training and employee development, labor relations and employment climate issues. Together, comments in this area represented 28 percent of the total. Improving service drew far fewer employee comments, though some of the comments in products and services and operational efficiency had an element of service improvement in them. Service performance, which had the highest number of external comments, had one of the lowest number of employee comments.

Internal Feedback Topics

	Number of Responses	Percent
Products and Services	167	26%
Operational Efficiency	149	23%
Workforce Structuring / Staffing	57	9%
Universal Service / Delivery Days	40	6%
Retail / Lobby / Self-service	38	6%
Human Resources - general	33	5%
Training and Development	27	4%
Evaluated Routes	26	4%
Addressing / Forwarding	24	4%
Labor Relations / Climate	20	3%
Cost Control	18	3%
Tracking	15	2%
Communicate success / Advertise	13	2%
Customer Orientation	13	2%
Rate Structure	7	1%
International	3	0%
Service Performance	3	0%
TOTAL	653	100%

Among the common themes that emerged from the employee comments were:

Generate Revenue

- Offer additional services
- Improve tracking and tracing for products
- Charge fees for enhanced services (mail forwarding, change of address, etc.)
- Enhance integrated retail terminal and point-of-sale capabilities

Reduce Costs

- Streamline routes and centralize delivery points
- Reduce travel by videoconferencing
- Close excess facilities
- Implement stamp fulfillment online for Post Offices
- Outsource maintenance
- Improve vehicle fuel efficiency

Achieve Results with a Customer-Focused, Performance-Based Culture

- Offer sick leave buyback / compensation for FERS employees at retirement
- Address impact of light- and limited-duty workers
- Implement evaluated city routes
- Combine job classifications
- Improve training resources for line units
- Include bargaining unit employees under a pay-for-performance plan

Improve Service

- Automated Postal Centers in all Post Office lobbies with 24-hour access
- Extend Post Office hours
- Streamline mail classification

Selected Stakeholder Quotes

Increase Revenue

“... If all mail must be processed through a machine prior to delivery, then there is an excellent opportunity to track mail. By addressing each piece with a machine-readable code, both the Postal Service and mailers will make it possible to know when to expect delivery.”

Business Mailer

“Each year the Postal Service experiences significant growth in its delivery network. We view this growth not as a burden but an opportunity.”

Industry Association

“USPS services and prices must be both cost-based and market-based. A market-focused Postal Service should be committed to universal service, to a competitive pricing strategy and to modern business practices particularly in the areas of stimulating incremental volume, in generating more mail per delivery address and in the areas of payment and credit.”

Business Mailer

Reduce Costs

“It appears that the Postal Service is reluctant to attempt to change service standards. ... My personal belief is that approach wastes several billion dollars per year on a service standard customers don’t need; and it’s a service customers wouldn’t choose if they had the option.”

Retired Postmaster

“In the area of address quality, we can suggest another goal which needs some more work in order to be precisely defined: that of achieving the finest depth of code as often as possible. ... In working toward goals such as these, the Postal Service will be raising the bar in various ways for address quality requirements.”

Business Mailer

“To remain viable, the Postal Service must identify additional methods for reducing costs. Since labor is the largest cost, it must receive significant attention in the 2010 plan.”

Business Mailer

“Could it be that universal service should be defined differently in an era of shrinking mail volume?...Would such a change hurt efforts by the USPS to retain current mail volume or reduce the value of mail as a medium of personal and business communication?”

Industry Association

Achieve Results with a Customer-Focused, Performance-Based Culture

“Upper management has got to continue to drive toward success. Complacency should not be tolerated at any level. I commend the Postmaster General for his efforts and continuous drive in this area. While changes are taking place for the better, there is much more to do. I’m with you on this one.”

Postal Supervisor

“We need to revamp the hierarchy, pay structure, and staffing in a way that will attract quality people to seek promotion...We need to...then hold them accountable to do what must be done.”

Postal Supervisor

Improve Service

“The United States Postal Service is not broken. Our current system provides all Americans with quality, dependable, low-cost postal services. Replacing the United States Postal Service’s public service obligation with a profit-seeking mandate would only serve to weaken the nation politically and economically, and would further alienate our Nation’s already struggling rural population.”

State Legislator

“The one change not currently included in your performance goals that needs to be addressed ... is the development of a comprehensive corporate communications plan for the Postal Service. This plan should reach across the entire organization and incorporate all areas of the Postal Service to ensure that all affected departments are aware of key initiatives and that awareness of these initiatives is spread to all appropriate organizational levels.”

Mail Service Provider

FEDERAL REGISTER NOTICE

A copy of the Postal Service's notice published April 18, 2005, in the *Federal Register* is shown below.

POSTAL SERVICE

Request for Comments on the *Strategic Transformation Plan 2006–2010*

Agency: Postal Service.

Action: Request for comments.

Summary: This Notice addresses the Postal Service's *Strategic Transformation Plan 2006–2010*.

By law, beginning in 1997, the Postal Service™ is required to publish a five-year plan outlining its goals, targets, and strategies, and to update and revise its five-year plan at intervals of no less than 3 years. In support of its strategic planning process, the law requires the Postal Service to solicit and consider the ideas, knowledge, and opinions of those potentially affected by or interested in its Five-Year Strategic Plan.

In addition, at the request of Congress, in 2002 the Postal Service prepared a comprehensive plan for the structural transformation of the postal system to meet the challenges of serving the American public. This first Transformation Plan covered the years 2002–2006. A major component of the next Five-Year Strategic Plan, covering 2006–2010, will be the extension of the Postal Service's Transformation Plan through the same period. This notice asks for public comment concerning the development and drafting of the Postal Service's combined document, the *Strategic Transformation Plan 2006–2010*.

Dates: Comments must be received by May 15, 2005.

Addresses: Those responding are requested to email their comments to transform@usps.gov. Those wishing to send written comments should mail them to USPS Office of Strategic Planning, Stakeholder Feedback, 475 L'Enfant Plaza SW, Room 5142, Washington, DC 20260-5142. All stakeholders are encouraged to view the Postal Service's Web page dedicated to soliciting comments on its Strategic Transformation Plan 2006–2010 located at <http://www.usps.com/strategicplanning/2006-2010.htm>. Stakeholders are requested to review the content of this Web site before submitting comments.

For Further Information Contact: George R. Bagay (202) 268-4159.

SUPPLEMENTARY INFORMATION:

Five-Year Strategic Plan Statutory Background

The Government Performance and Results Act of 1993 (GPRA), Public Law 103-62, was enacted to make Federal programs more effective and publicly accountable by requiring agencies to institute results-driven improvement efforts, service-quality metrics, and customer satisfaction programs. Other statutory goals were to improve Congressional decision-making and the internal management of the United States government. Because of the Postal Service's position as an independent establishment of the Executive Branch of the government of the United States, section 7 of the law amended the Postal Reorganization Act to insert similar provisions for performance management in the Postal Service. (See 39 U.S.C. 2801-2805.)

Section 2802 of title 39, United States Code, requires the Postal Service to update and revise its strategic plan at least every 3 years. This plan must contain:

- (1) A comprehensive mission statement covering the major functions and operations.
- (2) General goals and objectives, including outcome-related goals and objectives, for the major functions and operations.
- (3) Descriptions of how these goals and objectives are to be achieved and of the operational processes; skills and technology; and the human, capital, information, and other resources required to meet the goals and objectives.
- (4) A description of how the performance goals included in the annual performance plan required under section 2803 will be related to the general goals and objectives in the strategic plan.
- (5) An identification of the key factors external to the Postal Service and beyond its control that could significantly affect the achievement of its general goals and objectives.
- (6) A description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program evaluations. (See 39 U.S.C. 2802(a).)

The law also requires annual performance plans linking the organizational goals in the Strategic Plan with ongoing operations. Finally, the law requires the preparation of annual performance reports, which review and compare actual performance with the performance targets stated in the annual plans. (See 39 U.S.C. 2804.)

In order to include public participation in this planning process, the statute provides that the Postal Service, as it develops each new iteration of the Strategic Plan, “shall solicit and consider the views and suggestions of those entities potentially affected by or interested in such a plan, and shall advise the Congress of the contents of the plan.” (See 39 U.S.C. 2802(d).)

TRANSFORMATION BACKGROUND

On April 4, 2001, the Comptroller General of the United States advised the House of Representatives Committee on Government Reform that the Postal Service “faces major challenges that collectively call for a structural transformation if it is to remain viable in the 21st century.” He called on the Postal Service, in conjunction with all stakeholders, to prepare a comprehensive plan identifying “the actions needed to address the Service’s financial, operational, and human capital challenges and establish a time frame and specify key milestones for achieving positive results.” On June 14, 2001, the Chair and ranking members of the Committee on Governmental Affairs and its Postal Oversight Subcommittee wrote to Postmaster General John E. Potter asking that a Transformation Plan be developed. The Postal Service presented this first Transformation Plan covering the years 2002–2006 to Congress in April 2002. The Transformation Plan has made possible a number of successes to date: postal rates have remained stable since mid-2002, debt has declined by \$9.5 billion, and a total of \$4.3 billion in incremental annual savings have put the service well on its way to five straight years of productivity gains. At the same time, the Postal Service has achieved record customer satisfaction levels, provided record end-to-end service performance, and developed innovative postal products and services including Click-N-Ship®, Negotiated Pricing Agreements (NSAs), and Priority Mail® flat-rate boxes.

Following up on the April 2002 Transformation Plan, the Postal Service published two Transformation Plan Progress Reports, one in November 2003, and one in November 2004, and incorporated a discussion of Transformation Plan progress into its annual Comprehensive Statement on Postal Operations to Congress. All of these Postal Service plans and documents, along with other key Postal Service transformation, planning, and financial documents, can be found online at www.usps.com/strategicplanning.

To maintain this significant momentum, the Postal Service plans to extend its ongoing transformation by developing the Strategic Transformation Plan 2006–2010 with the participation of its stakeholders. This plan will focus on Postal Service-wide organizational strategies along with detailed cross-functional strategies engineered to enhance value to our customers. Publication is planned for September 30, 2005, with subsequent annual updates.

As a nation, we need to know how we can best structure our postal system in the years ahead to meet evolving needs. The Postal Service has a mission to serve every address in a growing nation. Its networks, with associated costs, are constantly expanding to accommodate new deliveries roughly equivalent to those for the cities the size of Chicago and Baltimore, year after year. Until recently, during a long period of strong economic expansion, the Postal Service benefited from growing mail volumes, with increasing postage revenue sufficient to pay for the expanding network, and kept postage rates in line with inflation. Because of the successes achieved as a result of the April 2002 Transformation Plan, the Postal Service has improved its productivity during this period at an unprecedented rate. Nevertheless, changes in competition and technology suggest that, while a system for delivery of hard-copy mail will still be important, the volume of mail in the system may not grow enough in the future to keep pace with the growth in infrastructure required to serve an ever-growing number of addresses. The Postal Service currently lacks many of the tools that private businesses have to deal with revenue deficiencies. In addition, its service responsibilities prevent abandoning unprofitable locations or new addresses.

DISCUSSION OF THE POSTAL SERVICE MISSION, VISION, AND OBJECTIVES

In 1970, Congress enacted the Postal Reorganization Act, transforming the former Post Office Department into the United States Postal Service. The intent was to ensure that the former department became a self-sustaining Federal entity, operating more like a business. The Postal Reorganization Act states that the Postal Service will have the “basic and fundamental” responsibility to provide postal services to bind the nation together through the personal, educational, literary, and business correspondence of the people. Prompt, reliable, and efficient postal services must be extended to patrons in all areas and to all communities.

The objective of transformation was stated in the April 2002 Transformation Plan and the Strategic Plan 2004-2008. The plans acknowledge the assistance of the full range of stakeholders in the postal industry and a firm commitment to all stakeholders, especially our customers. In order to maintain our financial viability and fulfill our universal service mission, we commit that we will:

- Foster growth by increasing the value of postal products and services to our customers;
- Improve operational efficiency; and
- Enhance the performance-based culture.

It is for the purpose of maintaining its transformative vision and momentum through the Transformation Plan 2006-2010 that we ask stakeholders once again to share their views on the future of the nation’s mail service.

SOLICITATION OF COMMENTS

Although all comments and feedback are welcome, we are seeking current, updated suggestions and commentary rather than resubmission of material already provided as part of previous stakeholder outreach efforts. Comments can be especially helpful to the Postal Service in analyzing external trends that will shape the demand for postal services over the next five years. The following fundamental changes have previously been identified as likely to reshape the delivery services marketplace:

Changing Customer Needs

With access to more information and options than ever before, customers have a broad range of choices for delivery of messages, money, and merchandise—our three businesses. Customer requirements for postal services and entrenched network structures and service patterns may be changing. The Postal Service’s Strategic Transformation Plan 2006–

2010 is intended to meet these changing customer requirements while continuing to transform the Postal Service into an organization that is “easier to use” and more responsive to customer needs. The Postal Service intends to “partner” with customers and industry participants to add value to customer transactions.

Eroding Mail Volumes

Electronic alternatives, particularly bill presentment and payment, pose a definite and substantial risk to First-Class Mail volume and revenue within the next 5-10 years. This could, in turn, have a negative impact on First-Class Mail rates.

Rising Costs

Despite major gains in efficiency and productivity through automation, the costs of maintaining an ever-expanding postal network are increasing, especially costs outside the direct control of the Postal Service, such as retirement and health benefit liabilities.

Fixed Costs

Universal service requires a significant infrastructure to deliver postal services. Almost half of current Postal Service costs are spent on these resources, and that level does not change when volume or productivity increases or decreases. This makes cost containment most challenging.

Merging of Public and Private Operators into Global Networks

Former national foreign postal services, some privatized, have entered the U.S. domestic market.

Increasing Security Concerns

Rising security concerns require sophisticated countermeasures.

Are these factors still relevant? Which ones are relevant and which are not? Are some more important than others? Is the rate of change for each factor increasing or decreasing? Are there other factors that warrant consideration? What are they? In developing the Strategic Transformation Plan 2006–2010, the Postal Service would like to receive stakeholders’ views and comments on these and other long-term external changes, issues, and trends.

The Postal Service also invites comment on its long-range organizational goals, or objectives, published most recently in the Preliminary Annual Performance Plan for 2005 as part of the FY 2004 Comprehensive Statement on Postal Operations. The Postal Service has employed long-range goals, or objectives, as part of a strategic planning process for over two decades, along with systematic performance assessments. The Postal Service has developed a disciplined process to establish goals, objectives, indicators, and targets; assign resources to programs that support achievement of the targets; implement the programs; and review performance. Stakeholder input will also support and enhance the performance process.

The United States Postal Service maintains a Web page dedicated to soliciting comments on its Strategic Transformation Plan 2006–2010: <http://www.usps.com/strategicplanning/2006-2010.htm>. Stakeholders are requested to review this Web site, and may submit emails or send written comments. Interested parties are encouraged to complete the survey presented on the Web page, and, if desired, respond to the following questions included on the survey:

- If there were one change you could write into Transformation 2006–2010 for the Postal Service, what would it be?
- What is most important to your organization in the next five years, and how can the Postal Service best help you?
- What should the Postal Service look like in five years? What are the most important changes that should be made?

- What is the proper balance among the multiple goals of the Postal Service (universal service, financial self-sufficiency, public services, cost management and productivity, workplace and workforce improvement, effective products and services, responsive customer support)?
- What information should the Postal Service be providing to stakeholders?

Stanley F. Mires,
Chief Counsel, Legislative
United State Postal Service

APPENDIX C

FIXED VERSUS VOLUME VARIABLE COSTS

The universal service obligation and the nature of postal operations require a significant infrastructure investment. Due to this infrastructure, over 40 percent of total postal costs are fixed. Examples include most of the cost related to more than 38,000 Post Offices, stations and branches, 244,000 delivery routes, and 212,000 vehicles. Technology infrastructure and other overhead costs are also partially fixed.

Fixed costs are those costs that the Postal Service incurs regardless of changes in mail volumes and operations. Volume variable costs are those that change with mail volumes and operational activities. Contribution (margin) is the difference between the revenue from a class of mail and its volume variable costs.

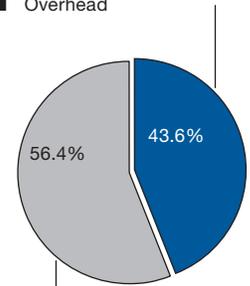
The fixed cost nature of postal operations is demonstrated in two ways by carrier costs. First, carrier costs do not vary with volume changes since carriers will stop at most of the homes and businesses on their routes regardless of the volume to be delivered. Changes in total delivery costs are not proportionate to changes in volume. Statistical analyses have shown that a 10 percent increase (or decrease) in volume leads to a little less than a 5 percent increase (or decrease) in total delivery costs. \$12.8 billion of the \$24.8 billion delivery-related costs were fixed in 2004. Second, the normal growth in the number of delivery points (residences and businesses) increases the number of routes and carrier costs. Holding total volumes constant, growth in the number of delivery points raises the average cost per piece of mail delivered. Mail volumes must grow at the rate of the increase in delivery points just to keep average delivery costs per piece constant.

The universal service obligation contributes significantly to fixed costs. Carriers travel their complete routes, making over 600 million new delivery stops annually (2 million new delivery points multiplied by the annual number of delivery days), trucks transport mail between facilities each day to meet service commitments, and retail facilities are open each business day no matter what level of activity occurs.

Fixed vs. Volume Variable Costs 2004

Fixed Infrastructure

- 143 million Delivery Points
- 38,000 Post Offices, Stations and Branches
- 244,000 Delivery Routes
- 212,000 Vehicles
- Technology Infrastructure
- Annuitant Health Benefits
- Overhead



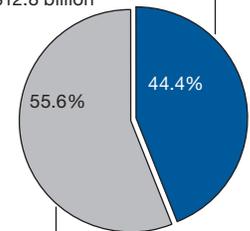
Volume Variable Activities

- Transportation
- Volume Distribution
- Mail Transport Equipment
- Fuel
- Retail Transactions
- In-Office Sortation

Total Fixed Costs 2004

Fixed Delivery-Related Costs

\$12.8 billion



All Other Fixed Costs
\$16.0 billion

