

**REMARKS OF JOHN E. POTTER
POSTMASTER GENERAL AND CEO OF THE U.S. POSTAL SERVICE
NATIONAL POSTAL CUSTOMER COUNCIL DAY
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Please note: Mr. Potter may deviate from the prepared remarks

Thank to all of you for taking time out from your busy schedules to join us today.

I'd like to congratulate St. Louis on their selection as PCC of the year and thank them for hosting this year's national event.

Before we get down to business our thoughts and prayers go out to those whose lives have been disrupted by Hurricane Ike – all the way from the gulf right up through the Midwest. For some, the effects will be short lived—for others the road to recovery will be a much longer journey.

My congratulations to Pat Donahoe and his postal team for their constant communication as the storm moved ashore and for quickly reopening facilities and delivering mail when safe conditions allow.

You can count on us to do our small part to help bring a sense of normalcy back to the affected areas.

I also know the outreach to those affected goes well beyond the postal service. The postal industry is reaching out to those impacted mailers to lend assistance. At times like these I am especially proud to say that I am a member of the greater Postal family.

Let me be candid, the mailing industry and the postal service are in the midst of a hurricane of events that as an industry we have little control over. As a result, our industry finds itself in the most difficult time since the 1960s.

When we met last year, no one could have predicted the severity of today's economic climate, fluctuating oil prices, inflation in paper prices, the collapse of financial institutions, tightening of the money supply, weak retail sales, and just this week a one day drop in the market of over 500 points.

When combined with diversion of hard copy messages to the internet and growing environmental concerns about mail's impact, mail volume is down by some 9 billion pieces in 2008.

The trend is not good and, unfortunately, there is no sign that the economy will turn around in the near term.

Our marketplace -- the American people and American business -- is in transition. Both groups are looking for new and innovative ways to streamline and speed communication.

We must accept that fact.

We cannot sit around and wring our hands. We cannot sit around and ignore the reality of what's happening.

We have to do what we have done time and time again: we have to refocus on the basics of the business and reinvent ourselves.

We have to take hard-copy mail to the next level. And we must do it together.

All of us have to reach out to new audiences. We have to innovate. We have to develop new ways for the American people and American business to use mail.

All of us have to talk about -- and demonstrate -- the value of mail with our bosses and perhaps with our boss' boss!

The days when hard copy mail would sell itself and when marketing directors and product managers would say, "Let's see what mail can do?" are passed. We have to approach the business in a whole new way.

I promise you that the postal service is approaching the business in a whole new way.

Let me assure you that we will keep our priorities in order. The postal service will focus on you.

You – and your clients -- are the star of the show and the reason that we exist. For us, it is simple—provide timely universal mail and shipping services that meet your needs.

Yes—service is what we are all about. It is our franchise, the very reason for our existence.

The American people and American business entrust us with letters, magazines, catalogs and packages. It's our job to get them delivered on time.

Transit time performance has steadily improved over the years and this year is no exception with new all time highs in first-class mail.

Under the new law, the transparency bar has been raised for our market dominant products. Working with the mailing community and the postal regulatory commission, we have developed a new set of modern service standards for each class of mail.

We will begin measuring performance against these standards this year.

There is more to good service than just transit time. Let me assure you that we look at service in a broader sense.

For example - a few areas we are working hard to innovate and improve are:

- Our external measure of customer satisfaction
- Package scan rates
- Business service network effectiveness
- Our web site - usps.com

For us, service has no limits—service is number one and always will be.

I want to assure you that even with the challenges we all face, we will not lose our focus on you and the service you require.

Ladies and gentlemen, the marketplace is changing rapidly, as customer demand changes. The mailing industry cannot afford to stand still one day longer. Failure to make the changes necessary to compete tomorrow, and invest in those changes today, will doom the mailing industry.

We plan to continue to invest in the future to create a robust information network that will increase mail accuracy, affordability, and speed.

Of course, I am talking about the intelligent mail barcode.

The future needs to be built on a strong value foundation. We've already talked about service. But, the other important element of the value equation is price.

And here – given the economy and just like all businesses - the postal service faces a significant challenge - managing costs in a slow business environment.

You know, we have taken great pride in reducing our costs by \$1 billion or more in costs each of the last seven years. However, when I look at the next fiscal year, the magnitude of the need to lower costs is greater than anything we have ever accomplished.

We have worked hard to improve our productivity.

First, by matching our use of resources to changing workload resulting from volume fluctuations and the mail makeup. It all comes down to basic scheduling and staffing.

Second, through capital investment in processing and handling equipment.

And third, by changing and streamlining our processes as an industry from creation to delivery of mail, eliminating waste and redundancy

We'll continue to do these, but we will also concentrate on a new element: building revenue through innovative growth.

We will strengthen our product offerings and use the new pricing flexibility afforded by the recent change in law, to grow volume.

Will we be successful in eliminating the gap between next years' expected revenues and our growing costs?

Well, we'll do our best!

We have the management team in the field and at headquarters that can do it!

We have a robust industry that is actively engaged, for example, 14,000 of you with us today.

And I am convinced we can mobilize all our employees in the effort!

And you have my assurance, that we won't jeopardize the future for short term results.

It is a business imperative that we take the actions today necessary to assure affordable prices into the future.

Internally, we are aggressively managing costs:

- consolidating tours
- restructuring delivery routes
- reducing administrative costs

We're counting on your support as we make these transitions

Balancing the strengths of labor and capital are powerful tools to address costs. And it has worked well for the postal service.

For example, the product of our investment in letter automation is mail walk sequenced, ready for delivery by postal carriers.

Utilizing the letter game plan, we have begun to walk sequence flats using the flat sequencing system (FSS).

My thanks to Postal Customer Councils and the mailing industry for all their advice and assistance in developing the flats sequencing concept. A special thanks goes to the Mailers Technical Advisory Committee.

What is FSS?

Simply stated it is a sophisticated piece of equipment that will replace the most labor intensive part of the letter carrier's workday – organizing flats in delivery sequence.

What does it mean for you?

- affordable prices
- improved on time performance
- greater transparency
- and reduced mailer preparation costs.

In an FSS environment you will not be required to sort flats to the carrier route to qualify for a lower rate: the sort requirement will be to the 5 digit level or a group of 5 digits

FSS clearly benefited from your ideas. Please continue to share ideas on how we can innovate to reduce our costs – and ultimately yours.

Our industry has a long history of working together. Mailers and the postal service together have looked at our processes to find the least-combined-cost-method for getting the mail delivered.

Whichever side could process the mail more efficiently, got the work. This strategy led to presorting and pre-barcoding.

The results speak for themselves – the most efficient letter mail system in the world.

These are exciting times. Innovative times.

We have built our industry by working together, by comparing notes, and sharing ideas.

Rest assured that we will look at every idea – wherever it comes from – and evaluate its potential. The next great work sharing idea just might be yours.

So, speak up and help us keep mail affordable.

I am the first to acknowledge that cost cutting alone won't bring long term success. I am also the first to acknowledge that the business model we relied on for success –

That is, the cost of servicing an ever growing number of deliveries will be paid for by price increases at the rate of inflation and volume growth, can no longer be taken for granted.

That may have worked when we had a true monopoly.

However, those days are gone. And we compete for every dollar of revenue we receive.

So, besides aggressive cost management strategies we are committed to efforts to expand and grow our revenue base.

The first step was the recent realignment of our marketing functions.

Our new structure will help us innovate and bring to market new products and pricing, while we continue to provide you with even more responsive customer support.

I'm excited about our new management team.

David Shoenfeld, person with 20 years of marketing experience at FedEx, has joined us as senior vice president of mailing services

Steve Kearney has stepped up to the position of senior vice president of customer relations.

We were fortunate that Bob Bernstock, a person with strong private sector consumer product and marketing experience joined us as president, mailing and shipping service.

So far – service, future investment, affordability, which yields growth.

The absolute key to success is the human element – our people. And I am talking about your people as well as ours!

Each, regardless of their role, is a vital link in the long mail value chain.

We need to keep the lines of communication open across the mailing industry—including to every member of the industry, regardless of their role.

Make them part of the team that will help all of us refocus and innovate, and move the mailing industry to the next level.

I remain convinced that once the economic storm passes, our industry will rebound and we'll come out even stronger.

Yes, there will be tough days ahead, but, if we all remain focused on the fundamentals of our industry, And if we reach out to new audiences, we will again reach new heights.

And I am certain that PCCs and their members can lead the way!

Thanks for coming . . . I look forward to seeing you at the National Postal Forum in Washington next May.