





## **APPENDIX B — Executive Summary of *Outline for Discussion: Concepts for Postal Transformation*, U.S. Postal Service, September 30, 2001**

The United States Postal Service is one of America's most enduring institutions, an enormous communications network designed to "bind the nation together through the personal, educational, literary, and business correspondence of its people."<sup>1</sup> An independent entity of the federal government, it is directed by law to provide universal postal communications to all persons residing in the United States. It was established before the American Revolution and has functioned without interruption for 226 years. Today, with annual revenues approaching \$68 billion, it is the eighth largest organization in the country, and, if included, would rank as the twenty-sixth largest enterprise on *Fortune* magazine's Global 500. It has a career workforce of nearly 800,000, which makes it one of the largest employers in the nation, and its diverse products and services anchor an \$871 billion mailing industry, which in turn employs nearly 9 million Americans.

However, today's soft economy, changing global markets, new technologies, and the need to deliver mail to an ever-increasing number of addresses are combining to put the future of the Postal Service at risk. The Congress and the General Accounting Office have taken note of this and asked the Postal Service to produce a *Comprehensive Transformation Plan* by the end of the year that will address how the Postal Service proposes to meet these challenges. This document, *Outline for Discussion: Concepts for Postal Transformation*, is a progress report on the Postal Service's first steps toward transformation and an open invitation to stakeholders to join the discussion. The Postal Service is reaching out to the American public and policy makers and asking them to consider how the Postal Service can best serve them and the American economy in the 21<sup>st</sup> century.

### **The Postal Environment**

While much of the previous decade was marked by financial success for the Postal Service, significant marketplace shifts – emerging alternative communications technologies, new competitors both domestic and international, and changing consumer attitudes and behaviors – have altered the landscape. Within the next decade technological innovations such as mobile commerce, broadband Internet access, interactive TV, data mining software, and new printing technologies will change the way businesses and consumers interact. Domestic delivery firms, such as United Parcel Service (UPS) and FedEx, and liberalized foreign posts, such as Deutsche Post World Net and TPG of the Netherlands, are aggressively competing in Postal Service markets. These drivers for change are moving rapidly and will continue to change the traditional postal business whether or not the Postal Service transforms.

Meanwhile, although the six major markets in which the Postal Service operates – retail, financial services, communications, advertising, logistics and delivery services – are expected to grow, the long-term role of the Postal Service in those markets is uncertain. Electronic billing and payments, pre-authorized debits to bank accounts and

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<sup>1</sup> Title 39, U.S. Code, Sec. 101 (a).

credit cards, and Internet-enabled Electronic Data Interchange will reduce the need for and use of paper bills and payments. Electronic communications will grow at a much more rapid pace than traditional hard-copy communications, particularly on the Internet. Using modern technology, advertising will be more targeted, personalized, and interactive. The logistics and delivery markets will use increasingly sophisticated information systems to provide integrated, supply chain management solutions to customers' needs. Global liberalized posts are acquiring logistics companies and other mail-related businesses both in and outside of the United States to position themselves as communications and logistics global conglomerates. The United States Postal Service, operating under current law, has not joined them.

## Challenges

The current legal framework is but one of several challenges that has led the Postal Service and its stakeholders to seek change. Future challenges to success exist within postal operations, in the structure of postal finances, and in the necessity to find, train, and equip the workforce and its future leaders. Each of these areas requires attention in any discussion of the future. Among the specific issues to address is that possible reduced mail volume, when combined with cost increases for labor, employee health care and retirement costs, fuel, and facilities will drive a continuing gap between revenue and expense with severe financial implications for the Postal Service.

As the Postal Service nears its statutory \$15 billion debt ceiling, it faces a critical challenge in terms of cash flow and capital investments. Capital investments have reduced costs through mail processing automation, but future productivity gains may be harder to find. Technology investments, likewise, are necessary to transform service offerings and prices to meet future customer requirements. The break-even requirement of the Postal Service and the uncertainty of the future economy will also make these investment needs difficult to fulfill.

Controlling the costs associated with the universal service obligation is another challenge. A transformed Postal Service must consider alternative methods of reducing these costs and providing universal service as mail volume growth declines and the delivery network expands. Network improvements will be considered in the *Transformation Plan* to reduce these costs. Challenges in the human capital arena include workforce planning and complement adjustments within the constraints of current labor agreements. Today's binding arbitration processes eliminate the threat of labor stoppage, but many believe that these processes could be improved. Postal Service compensation must also be reviewed, since today's salary caps drive some potential leaders as well as skilled, experienced executives to other organizations.

Taken together, these internal and external issues form a series of challenges that the Postal Service, as currently structured and regulated, must address. If a private corporation faced these same challenges, it might close facilities, reduce output or services, sell assets, abandon some unprofitable ventures, merge with another company, or even close its doors. These are not options for the Postal Service. It must continue to operate to fulfill its obligation to the nation. How it will do so and in what structure are the challenges of transformation.

## Transformation Strategies

The *Outline for Discussion* proposes three phases of organizational transformation for consideration and, within each phase, discusses several strategies. The three parallel phases to be considered are:

- Incremental administrative and operational improvements possible under current law;
- Moderate legislative reforms; and,
- Fundamental structural transformation.

Current Postal Service actions to freeze capital expenditures, reduce the number of managerial employees, and take costs out of operations are examples of incremental administrative and operational transformation, and fall within the legal and public policy framework that exists today. Through administrative and operational action that is permitted under the current law, the Postal Service would continue to use existing authorities to reduce costs, increase efficiency and generate new revenues. The model for this phase is continuous improvement of the current Postal Service.

The objective of moderate legislative reform would be to improve the flexibility of the Postal Service and prepare it for the future. Key reforms could include more flexible pricing, allowing the Postal Service to make a profit, adoption of network improvements, and compensation changes. The options for legislative reform range from modest reforms that would enable streamlined rate-setting processes, to reforms that would grant the Postal Service greater commercial freedom. One aspect of this change might be structural separation between monopoly services and competitive services, a topic discussed for several years during debate over legislative reform.

Fundamental structural transformation would reconstruct the basic postal model based on a redefinition of a universal service obligation. This phase could entail transformation into a for-profit corporate enterprise, owned either by the government, Postal Service employees, or the public through an offering of stock. Still other fundamental structural reform models may be suggested by stakeholders in coming weeks. All would seek to achieve fundamental reform of the factors that contribute to postal costs and revenues and the basic business model of the Postal Service that has existed since 1970.

## Stakeholder Input and Next Steps

A Steering Committee of senior executives selected by the Postmaster General will formulate the *Transformation Plan*. The Postal Service will coordinate stakeholder input and internal analysis of the transformation phases. Subject matter experts and specialists throughout the enterprise will develop strategies and analyze the impact of proposed changes. Specialists from other government agencies and the private sector will also be asked to focus on and address Postal Service transformation issues.

To obtain stakeholder participation in the development of the *Transformation Plan* the Postal Service has developed a two-step stakeholder engagement plan. Step One was designed to provide background for this *Outline for Discussion* and entailed a dozen informal meetings in August and September 2001. Postal Service executives and representatives of postal policy makers, unions, management associations, the Postal

Rate Commission, major mailers, and postal trade associations participated. Outreach during Step Two will include publication of the *Outline for Discussion* on the Postal Service's Strategic Direction web site at [www.usps.com/strategicdirection](http://www.usps.com/strategicdirection). In addition, a special notice will be placed in the *Federal Register*, directing interested parties to the web site for their comments. Focus groups of small business owners and consumers will be convened, and postal employees will be reached through internal communications. Additional meetings will be conducted with representatives of postal unions, management associations, the Postal Rate Commission, major mailers, suppliers, competitors, critics and others. A summary and analysis of stakeholder comments will be incorporated in the *Comprehensive Transformation Plan* to be submitted at year end.

This *Outline for Discussion* is a "living document," the first step in a complex, ongoing process. The collected input, analysis, and conclusions will assist policy makers as they guide the future of the United States Postal Service. The basic questions that are raised in this document are:

- To best serve the needs of the American people and the American economy in the 21st century, what should America's postal system be like (or transform to) in the next decade?
- Should that postal system provide universal service and what should that entail?
- What should the "core" services of the future postal service be?
- How should the nation structure a future postal system to be as productive and efficient as possible and to ensure that consumers pay only what they wish to pay, for as much service as they can afford?
- Can the Postal Service continue to provide universal service under the current financial arrangements if volume slows or declines significantly? Are there other financing mechanisms needed?
- What steps should be taken today to anticipate the human capital requirements of the future postal system in a manner that embodies core values of respect, dignity and diversity while providing incentives to encourage continuous service improvement?
- Is it possible to design a government postal system in the United States that operates more commercially and still serves important social objectives including universal coverage?
- How would a privately owned postal entity or entities perform against public expectations for postal services? Are there other models that may do a better job for the American people?

Informal discussions with stakeholders and policy makers have reconfirmed that there is a lack of policy consensus about the answers to these questions and others. There may not be a need for all stakeholders to agree on every question. But it is expected that there may need to be a process of public policy discussion before issues can be resolved and a widely accepted transformation plan can be crafted. The purpose of this *Outline for Discussion* is to facilitate that process.