

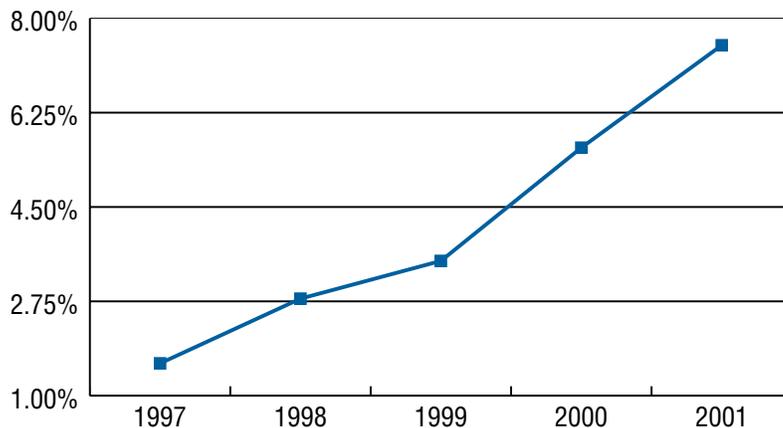
Meeting The Challenge

Section 2 — Meeting the Challenge

An internal transformation of the United States Postal Service has already begun.

In the summer of 2001, Postal Service leadership was reorganized and an executive committee was created to develop and to implement policy approved by the Board of Governors. At the time, the Postal Service was achieving record levels of delivery performance and customer satisfaction. During the previous 24 months, total factor productivity improvements had saved the Postal Service \$2.5 billion in expected costs. In addition, as the Output per Workhour graph below indicates, cumulative labor productivity increased 7.5 percent since 1996, with larger gains in 2000 and 2001. This was largely driven by the intense focus on improving productivity that resulted in a reduction of 21 thousand career employees. The organization recorded nine consecutive quarters of increased productivity, while adding almost 4 million new addresses over the same period.

CUMULATIVE CHANGE IN OUTPUT PER WORKHOUR



Yet that performance record, the Postal Service concluded, was insufficient to keep up with rapid and significant changes in its business environment. To succeed in 2002 and beyond, the organization would need to go much further. An additional 26 million workhours—the equivalent of 13,000 jobs—would be cut. Administration of the Postal Service would be streamlined—“the most sweeping organizational changes in ten years,” the Postmaster General would state—with new emphasis on the traditional mail delivery business. There would be 20 percent fewer officers, 800 fewer employees assigned to postal headquarters, and 2,000 fewer administrative workers systemwide. Selected mail processing operations and facilities would be consolidated.

The national tragedy of September 11, 2001, and October’s bioterrorism raised unexpected obstacles to transformation, but at the National Postal Forum held in Denver in the fall of 2001, Postmaster General Potter asserted that the broad change initiative would continue. “Our operationally-driven culture has to find new ways, under our existing regulatory structure, to add value to our existing products,” Potter stated. “It also means that this same operationally-driven culture must take on new ways of

encouraging revenue growth....To develop the types of breakthrough performance I am convinced we can achieve, we are going to have to continue the businesslike methods of the last ten years....We're going to have to take on internal and external issues where we previously said, 'Oh, we can't do that.'"

Today, the Postal Service has initiated a series of transformational strategies across all its functional areas. The program of strategies and initiatives outlined in this section of the *Plan* flow from three overarching imperatives that were identified by the Postal Service during the process of transformation planning:

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

To achieve these imperatives, basic support functions are also undergoing transformation. Taking fundamentally new approaches in its enabling functions, the Postal Service will enhance financial management; adopt flexible, business-driven purchasing procedures; strategically apply technology; and ensure the safety, security, and privacy of the mail.

TRANSFORMATION IMPERATIVES



Foster Growth Through Customer Value:

The Postal Service will improve the quality, affordability and convenience of its products and services.

Improve Operational Efficiency:

The Postal Service will utilize cost management, new technology, and workforce planning to improve operational efficiency.

Enhance Performance-Based Culture:

The Postal Service will manage its human capital to create a performance-based corporate culture.

The principles of management that flow from these transformational imperatives support numerous improvement strategies that can be implemented with only modest changes to existing regulations and laws. To foster growth by increasing the value of products and services, the Postal Service must both reshape the channels through which customers access products and services and improve the reliability, effectiveness, and convenience of the products and services themselves. To improve operational efficiency, the Postal Service must rethink all aspects of its logistics systems, including mail processing, material handling, purchasing, and managing transportation services. To enhance a performance-based culture, the Postal Service must redesign the incentives and workplace environments for its human capital, both managers and employees. For the Postal Service to be successful in the near term, enabling strategies and moderate legislation must be implemented. Each of these strategies is discussed on the following page.

2.1 Foster Growth through Customer Value²¹

In today's economy, creating customer value means both improving quality and affordability of products and services and providing the ability to access and use these products and services at times and places that are most convenient to the customer. For major mailers, the Postal Service will increase the range of customizable products that respond to the specific needs of these businesses. For small businesses and consumers, the Postal Service will improve the simplicity and accessibility of its products and services. Retail and products and services are the main areas of growth in the Postal Service.

2.1.1 Retail: Expand Access to Postal Services

Most Americans purchase postal products and services at retail outlets. Post offices provide local access to more than seven million Americans daily, be it to mail a bill payment, send a package overseas, pick up a certified letter, or buy a money order. Post offices also serve as delivery locations where 18 million customers receive their mail at post office boxes. The postal retail network is vast and includes more than 38,000 post offices, stations, and branches staffed by Postal Service employees. Limited counter services are also offered at more than 4,400 privately operated contract retail units. Finally, customers can also purchase postage stamps through the mail, from more than 32,000 vending machines, online at www.usps.com, and at 40,000 commercial retail outlets and ATMs.

The Postal Service's major retail challenge is to meet its customers' ever-increasing needs for access while reducing infrastructure and operating costs. The enormous scale of the retail infrastructure and the status of post offices as community centers in many areas have traditionally limited options for responding to population growth and changes in market demand. As customer expectations change and demand shifts geographically, the retail infrastructure has not kept pace, particularly in high-growth, metropolitan communities.

About 31 percent of all customers visit post offices for stamps only in spite of several underutilized alternative channels. Customers could bypass a post office trip by buying stamps at vending machines, supermarkets, ATMs, online, and by mail. Many of these options are available 24 hours a day, seven days a week. These alternatives are also less expensive for the Postal Service than selling stamps at a post office. However, a large percentage of customers are unaware of these services, and for anything more complex than buying First-Class Mail® stamps, many customers believe they must go to a post office. This is an inconvenience to consumers and an unnecessary cost to all postal ratepayers.

During the next five years, the Postal Service will provide customers with easier and more convenient retail access. Postal services will be available where customers need them—at home, at work, where they shop, or at the post office. The Postal Service will promote the convenience of existing, underutilized alternatives and develop new low-cost solutions using technology, partnerships, and product simplification.

²¹ See Appendix K, *Growth- and Value-Based Strategies*, for more information.

The local post office will remain the core of the retail network, increasingly integrated into a flexible set of customer contact options, including the Internet, letter carriers, call centers, and partnerships with commercial retailers. Redirecting simple transactions away from expensive counter operations will produce cost savings and two important customer benefits. First, customers will have more choices. The Postal Service will serve them where they live and work. Second, customers who have more complex needs and require service at a post office will find shorter lines and more efficient operations. New services will be introduced that meet the needs of these customers and produce new revenue.

Improving customer service, increasing customer choice, and reducing retail costs will only be possible if the Postal Service eliminates, aggressively, redundancy in its physical network. A retail optimization process will be used to achieve a stable and efficient network capable of providing tailored services to the market. While this effort will initially focus on contract postal units, the current moratorium on post office closings will also be lifted so that a comprehensive approach can be applied across the entire retail network.

The following four strategies will transform retail operations:

- Move simple transactions out of post offices;
- Create new, low-cost retail alternatives;
- Optimize the retail network; and
- Develop new retail services that increase customer value and postal revenue.

Retail Strategy 1: Move Simple Transactions Out of Post Offices

Approximately 450 million stamps-only transactions take place in post offices each year. Given the number of low-cost alternatives already in place, these transactions present an immediate opportunity for productivity gains. However, shifting simple transactions to less expensive operations will require the Postal Service to change customer behavior—particularly the mindset that all stamp purchases and mailing transactions must take place at the post office.

Although the Postal Service markets a straightforward product line, many customers are unfamiliar with some of the basic services and how best to use them. Addressing this need for product information is central to the retail component of the *Transformation Plan*. Improvement will be accomplished through communicating aggressively and continuously with customers, highlighting the ease and convenience of buying stamps and completing simple mailings without having to visit a post office.

COMPARISON OF ACCESS OPTIONS

Stamps Sold At	Share of Sales	Cost to Postal Service per Dollar	Customers Aware of Service
Post Office Counters	80%	\$0.240	100%
Supermarkets Drug Stores, and Other Large Retailers	7%	\$0.016	70%
USPS Vending Equipment	6%	\$0.140	64%
Contract Postal Units	5%	\$0.100	n/a
Through ATMs	1%	\$0.016	18%
Stamps by Mail, Stamps Online, and all Other Means	1%	n/a	n/a

Retail Strategy 2: Create New, Low-Cost Retail Alternatives

Although opportunity exists to make better use of existing low-cost retail alternatives, entirely new solutions are needed to extend the times and places service is available without the addition of new post offices. This objective will be accomplished by making self-service easier and a trip to the post office unnecessary.

Major competitors offer a range of convenient options for customers to handle most aspects of shipping without visiting a service center. Unlike the Postal Service, these competitors do not enjoy an expansive retail network. Thus, out of necessity, these companies offer billing and credit accounts; pursue retail partnerships and aggressive self-service and drop box deployment; offer reliable, affordable pickup service; and lead many industries in the adoption of new technologies, notably call centers and the Internet. These services are an important cost and competitive advantage and are valued highly by customers.

Expand Self-Service

Vending equipment has long been an important component of postal retail service, but performs a relatively narrow function—selling stamps for cash. Three-quarters of the Postal Service's vending equipment is located in post offices, offering customers an alternative to counter service. The Postal Service is testing new self-service equipment that provides more services than just selling stamps. The Automated Postal Center, for example, is a secure kiosk that accepts credit and debit cards and provides customers with access to 80 percent of the services they currently receive at the counter. This equipment enables customers to weigh a package, determine the most appropriate mailing solution, print required forms, print the postage, and mail the package. Of course, customers will also be able to buy stamps. Expanded self-service capabilities will allow the Postal Service to serve its customers where they work, shop, and live.

New Functionality for www.usps.com

The Postal Service's Web site, www.usps.com, is a vital tool for providing low-cost retail access. The site has the potential to handle most of the transactions that commonly take place in post offices, especially when combined with carrier pickup directly from the home or office. Customers can now use www.usps.com to file address changes. Soon they will be able to weigh packages, pay for postage, and print postage indicia from their personal computers. If promoted aggressively to retail customers, these services and others that follow will increase the quality and decrease the cost of access to postal services.

Retail Partnerships

The Postal Service is pursuing a number of partnerships with commercial retailers. These partnerships will range from supermarkets selling postage stamps to business service retailers offering a full range of postal products and services. A particularly promising solution is now being tested with a national retail chain. The stores offer only those services most commonly requested by nonbusiness customers, for example, First-Class Mail, light weight domestic Priority Mail, and selected special services such as delivery confirmation. The limited product line minimizes training, equipment, and cost. This service extends the Postal Service brand, improves access for infrequent shippers, and enables post offices to concentrate on high-value business customers.

Product Simplification

While the complexity of the rate and classification schedule is appropriate for large shippers, it does not necessarily serve retail customers. A number of opportunities exist to simplify service for retail customers such as, prepaid mailers, and billing by mail for post office box holders. Billers, catalogers, online shippers, and other business-to-consumer mailers will be encouraged to expand the use of courtesy reply and prepaid returns. This approach will not only help speed the payment or merchandise return; it will also save the customer a trip to the post office.

Leverage Commercially-Developed Innovations

The Postal Service will continue to support and leverage commercial innovation in the postal industry. An excellent example is PC Postage™, which allows customers to pay for and print secured postage using a personal computer. Products such as this have the potential to increase dramatically the number of customers that have access to the convenience of metered postage, while adding simplicity and reducing costs.

Another opportunity currently under discussion is the installation of commercial ATMs in post office lobbies. This proposal would give customers the ability to conduct their banking business as they would at any other ATM, and also provide self-service for stamp purchases.

Retail Strategy 3: Optimize the Retail Network

As simple transactions are redirected to lower cost alternatives, post offices will scale down staffing and concentrate resources on more complex, higher-margin business. Offices will handle these transactions more efficiently by improving staff scheduling, converting to a more flexible workforce, collecting and using better data on customer traffic and transactions mix, and setting and meeting post office-level productivity targets. A rigorous network optimization process will be used to ensure that the Postal Service provides the right level of retail access at the least possible cost. Redundant retail operations will be consolidated, starting with poor-performing contract postal units.

See Appendix N, Procedures for Closing Postal Facilities, for more information concerning Congressional oversight of Postal facilities.

The objective of the Retail Network Optimization program is to tailor retail services to the individual needs of communities. This program will implement a Retail Network Plan that expands services in markets where the Postal Service is underrepresented and reduces the physical infrastructure in markets where the organization is overrepresented. The result will be a balanced network that meets customer needs through a variety of alternatives. The program will include a baseline review of the existing retail network to identify redundancy and service gaps; to document costs associated with support; and to develop service standards based on community type, travel time, distance, and hours of operation.

A national database of the approximately 38,000 post offices, stations, and branches that comprise the retail network is being created. The database will contain all operating costs, revenue, productivity, market penetration, customer valuation, logistics, demographics, and technology connectivity. The baseline review will be the foundation for decision-support modeling of network optimization and restructuring scenarios.

The Postal Service will employ a criteria-based methodology using this database to accommodate growth and eliminate redundancies. Threshold values including proximity to other postal facilities, retail productivity indicators, number of households, deliveries, walk-in revenue, small business accounts, and other criteria will determine the appropriate channel to be used to serve customers. Redundant, low-value access points will be replaced with alternative access methods.

Retail Strategy 4: Develop New Retail Services That Increase Customer Value and Postal Revenue

Shifting simple transactions away from counters provides an opportunity to concentrate on the needs of many retail customers, especially businesses. Select offices with high concentrations of business customers will be converted to business service centers. New services built around the Postal Service's core mission and unique capabilities will be provided to add value to customer visits and revenue to the Postal Service.

Government and Other Services

Post offices also provide a number of services for government organizations. In the

near term, the Postal Service will expand and enhance existing nonpostal services such as passport applications and international electronic funds transfers. Concurrently, several new services are also being explored, including identity verification, retail bill payment, and a variety of services related to package mailing and returns.

Leverage Retail Assets

Beyond its vast retail infrastructure, the Postal Service possesses a number of valuable assets, including its long-established and trusted brand, ubiquitous customer contact, and extensive retail capabilities. These assets are attractive to many potential partners and are one reason that FedEx decided to place its drop boxes at thousands of post office locations, an arrangement that has benefited both organizations. The Postal Service will explore additional opportunities to partner with other organizations.

Complementary Retail Products

In past years, the Postal Service experimented with the sale of a variety of merchandise in post offices. These offerings provided invaluable insight into product procurement, distribution, inventory control, and pricing strategies. As a direct result, the Postal Service has been able to successfully launch the ReadyPost® line of packaging supplies, a \$60 million business.

In the near term, the Postal Service will prioritize merchandise sold at post offices to products that directly complement traditional businesses. Further, the Postal Service will manage and market its products more aggressively, more intelligently, and with greater attention to bottom-line returns. Most post offices will sell merchandise in three main categories: packaging supplies, stationery, and stamp-related products. All categories will be managed against tight cost and revenue thresholds, with products and in-store merchandising support provided by dedicated national vendors (e.g., Hallmark produces the ReadyPost products).

Rationalization of the retail network is an essential step to ensure increased value for Postal customers. The following section addresses strategies to improve and grow Postal Service products and services to further enhance that value.

2.1.2 Products and Services: Improve Value and Growth

To increase the use of traditional products the Postal Service will leverage technology and will develop new features and services to make the mail channel more competitive. Using product design and pricing strategies, the Postal Service will tier its customers and develop customized and innovative services for large mailers, and simpler, more convenient services for smaller mailers. To this end, the Postal Service will engage in effective channel management approaches to analyze how its customers differ in terms of contribution, growth potential, and needs—and then align its resources according to these differences to optimize the demand chain.

In particular, the Postal Service will:

- Use technology to enhance the value of mail;
- Design rates and mail preparation to match customer capabilities and needs;
- Position mail as a key communications medium and as a customer relationship management tool;
- Enhance package services;
- Map channel strategies around customer needs, contribution, and growth potential;
- Develop new products and services; and
- Leverage existing assets.

Each of these strategies is discussed below.

Products and Services Strategy 1: Use Technology to Enhance Value

The capture of real-time information has revolutionized postal products and services. In the global delivery market “track and trace” services are becoming the norm rather than the exception. In coming years customers large and small will expect immediate feedback regarding the status of their letters and packages. This was a key message in *Seizing Opportunity: The Report of the 2001 Mailing Industry Task Force*.²² Meeting this expectation will require a complex union of postal services and digital technology. In addition, business customers will need other forms of “intelligent mail” that not only feature the ability to track and trace from origin to delivery, but also allow integration of postal information into the entire cycle of multiple business transactions.

Technology integration into the mail system via intelligent mail could greatly expand the mailing industry’s business.

—Mailing Industry Task Force Report

The Postal Service stands on the threshold of this delivery service enhancement. The organization currently offers delivery confirmation services for packages and “accountable items,” such as certified mail and return receipt service. Large business mailers can now track their mailings in near real-time with Confirm™, a new service that uses PLANET CODE™ technology to store information about the mailer’s identity and the mail piece itself in a unique barcode.

To retain existing customers and attract new ones, the Postal Service must expand application of this technology and implement new services that increase the “intelligence” of the mail. In the near term, Confirm and PLANET CODE will provide customers with transit and delivery information for virtually every piece of mail. Emerging Postal Service technologies, such as image lift, two-dimensional barcodes, and print-to-Web applications, will build on this concept and provide seamless service between Postal Service operations and the customer.

²²The Mailing Industry Task Force, a group composed of chief executives of 11 industry-leading companies and the Deputy Postmaster General, was convened to assess the current state of mail as a communications channel and to determine how mail could be enhanced to ensure its viability in the future.

Delivery information is only as good as the quality of the address data. The Postal Service aims to help customers deliver to the correct address each and every time. To meet this objective, the Postal Service will work with customers to make sure databases are updated frequently and accurately. The Postal Service will also explore the use of publicly available databases to improve the overall accuracy of address information.

These efforts will make mail more measurable, providing clear signals to operations managers where bottlenecks are slowing delivery. This, in turn, will lead to service improvements, making mail more predictable and reliable. By knowing when a mail piece will be delivered, businesses can create marketing and advertising events based on day-certain communications and can plan their remittance and other inbound operations around a more predictable mailstream.

Products and Services Strategy 2: Design Rates and Mail Preparation to Match Customer Capabilities and Needs

To generate new revenue growth in the future, the Postal Service must offer products and services that can accommodate customers of varying sizes and mailing capabilities. Postal Service rates, preparation requirements, and payment options must be flexible enough to attract small, medium, and large businesses and consumers. Communications efforts must be targeted to reach segments of the market that have been reluctant to use postal services. Rate rationalization, innovative preparation requirements, and targeted communications are key strategies for growing revenue in the future. The current joint mailer/Postal Service Product Redesign initiative will be the primary vehicle to accomplish these strategies.

Postal Service customers need simple solutions for their mailing needs. Ease of use will be an essential ingredient for increasing the customer base in the future. As part of the *Transformation Plan*, the Postal Service is looking at developing pricing strategies for packages which emphasize size rather than content. The Postal Service will continue to promote the deposit of mail closer to the point of delivery, producing the least combined-cost mailing solution. For businesses that mail in bulk, but only in moderate amounts relative to their overall operations, the Postal Service will offer the option of simpler requirements and preparation rules. As a result, these mailers will be able to avoid most of the complex requirements they are now compelled to master.

At the other end of the spectrum, the capabilities of “mail-intensive” customers (businesses for which mail is a core part of their operations) have developed to the point that they should be recognized with additional cost savings. The Postal Service will offer these sophisticated mailers a rate and preparation structure that rewards additional types of cost reduction while providing flexibility for mailers to select the preparation activities they wish to perform to obtain discounts.

Pricing of products is a key transformation area.²³ In order for customers to evaluate internal investment decisions, they need advance knowledge about rate changes. Therefore, the Postal Service will propose a system of phased rates so customers can anticipate postage costs and plan appropriately.

²³ See Appendix L, *Transforming Pricing in the U.S. Postal Service*, for more information.

Many customers have unique relationships with the Postal Service based on their business models and mailing requirements. While they exist within the current pricing and preparation requirements, unique service agreements could provide efficiencies for the customer, the Postal Service, and the mailing community at large. The Postal Service will pursue customized pricing arrangements which might include negotiated service agreements (NSAs).

The Postal Service will also transform the *Domestic Mail Manual* (DMM) into series of hard copy documents and electronic systems. This initiative will make it easier for customers to understand and use postal mailing requirements. In addition, the Postal Service is in the process of developing a Corporate Pricing Plan that will describe and define the scope of change needed to transform the current approach to pricing.

Expanded payment options are also a key ingredient in maintaining a strong customer base. In the future, the Postal Service will offer more flexible payment options, such as third-party credit/debit accounts and “smart cards.”

In order to successfully transform, the Postal Service must reach out to untapped segments of the market. Future revenue growth will rely on communicating specific product information to target markets. Through the use of personal messaging and hands-on seminars, the Postal Service will focus on product requirements for small and medium businesses.

Products and Services Strategy 3: Position Mail as a Key Communications and Customer Relationship Management Tool

Today’s communications market is more volatile than ever before. In the face of constant predictions of threats from electronic media, traditional service providers like the Postal Service find that the key to growth lies in providing customers personalized and relevant information and communications, when, where, and how they want them. Mail has become a critical component of a value chain that links businesses to consumers and businesses to other businesses. The Postal Service will position itself as the primary provider of universal paper-based communications services.

A large part of First-Class Mail is driven by remittance mailers, who depend on the Postal Service for timely and reliable fulfillment of their payments. Fulfillment involves far more than delivering merchandise. It involves delivering a relationship—a mortgage payment received on time or a tax filing obtained and confirmed. Businesses in all industries use mail as their trusted service fulfillment provider. In this increasingly connected economy, the Postal Service will promote mail as a customer acquisition, service fulfillment, and customer retention tool. It will continue to enhance mail to position it as a customer relationship management tool. The Postal Service will continue to analyze its customers’ business processes and will identify innovative ways to help customers optimize these processes.

Products and Services Strategy 4: Enhance Package Services

While the future of hard copy letters and transactions is subject to debate, there is little disagreement that package services are a growing market. The transformation strategy for package services centers around controlling costs, managing price, and enhancing service.

In order to acquire a competitive position in package services, the Postal Service will focus on reducing processing and transportation costs. It will work toward consolidating and aligning its processing points to realize economies of scale in Priority Mail processing and to leverage surface transportation. It will look to merge Priority Mail with similarly-shaped mailstreams on automated equipment to reduce the manual sorting that is required to prepare Priority Mail for carrier delivery.

Rate and product design simplification will be key package strategies. Today the Postal Service has nine different rates for mailing a book: Express Mail, Priority Mail, First-Class Mail, Standard Mail, Parcel Post, Parcel Select, Bound Printed Matter, Media Mail, and Library Mail. To control costs and promote ease of use the Postal Service will seek to standardize rate structures, mail preparation and parcel processing regardless of weight and content.

The Postal Service must also enhance service by making it convenient for customers to access the full range of package services at home or the office. The Postal Service is building an Internet capability that will allow expedited package customers to print and pay for postage online as well as to schedule carrier pickup service.

As more and more Americans shop by mail, an increasingly important component of the parcel business is returns. The Postal Service will develop package return services that meet the needs of shippers and are easy to use for the consumers who need to return items. This may include the use of shared information systems and the development of new products that encourage mailers to pick up returns at the facilities where they are entered in bulk. Improved and expanded refusal and forwarding endorsements will also be pursued.

Products and Services Strategy 5: Map Channel Strategies around Customer Needs, Contribution, and Growth Potential

In today's competitive markets, differentiation is achieved as much through the services surrounding the products as through the products themselves. Managing relationships with customers is critical to growing competitive advantage. The Postal Service is challenged with limited resources and must optimize its channel strategies to realize the full potential of the demand chain.

To this end, the Postal Service is evaluating its customer base to understand how its customers differ by contribution, growth potential, and needs, so as to align its resources to optimize the demand value chain. The Postal Service employs numerous customer-facing channels such as a direct sales force, retail outlets, mail acceptance units, carriers, and the Internet. To acquire and sustain a competitive advantage, it is

imperative that the Postal Service optimize its channel strategies so that sales and service functions are organized around value tiers and resources are allocated accordingly. By leveraging customer values and needs, the Postal Service can deploy differentiated treatment for high growth potential customers. By allowing for change in current processes, employee behavior can be better aligned with determined business objectives.

Customer relationship management strategies will be employed to retain valuable customers, to increase revenues from those customers who show the greatest potential, and to acquire new customers.

International mail accounts for a small but significant portion of the Postal Service's total revenue. The Postal Service will retain and increase international market share by improving service quality, introducing end-to-end services that consistently meet or exceed customer needs, and enhancing existing product offerings, and introducing line extensions and new services to meet the value chain requirements of customers.

Products and Services Strategy 6: Develop New Features and Services

Customers will continue to demand new features for existing products and new products that leverage the Postal Service's core competencies. The Postal Service has recently explored initiatives in the e-commerce area and is evaluating and reviewing each initiative for its growth potential and relevance in the marketplace. Using new criteria the Postal Service will seek opportunities that minimize direct investment and leverage its strong brand and assets. Relationships with partners will produce revenue shares commensurate with risk, value, and investment.

Products and Services Strategy 7: Leverage Existing Assets

In the future, the Postal Service may leverage existing assets and infrastructure affected by network and operational changes. These assets could include postal-owned vehicles and retail and distribution space. The enterprise will consider revenue-generating opportunities that may result from the sale or new use of these assets.

The Postal Service operates one of the largest transportation services in the world. Consequently, there is great potential to add revenue through the innovative use of the transportation infrastructure. Utilizing excess capacity on postal-owned and contract vehicles, the Postal Service could offer transportation services for nonmail items or mail that has not yet been inducted into the postal system.

Postal Service retail and distribution units may have the capacity to generate revenue by incorporating nonpostal services that would complement the existing structure. Such retail ventures could offer customer accessibility and convenience, especially in thinly populated areas. On the distribution side, space may become available for warehousing and merchandise fulfillment as the result of operational consolidation.

2.2 Increase Operational Efficiency²⁴

The Postal Service is implementing strategies in nine operational areas to improve the efficiency and effectiveness of its network and processes. These areas are:

- Enhance already efficient letter processing;
- Complete automation of flats processing;
- Expand mechanization of material handling operations;
- Improve delivery efficiency;
- Deploy next generation package sorting equipment;
- Optimize transportation and distribution networks;
- Increase retail/customer service productivity;
- Improve performance management; and
- Manage realty assets.

Operational Efficiency Strategy 1: Enhance Already Efficient Letter Processing

Collecting, sorting, transporting, and delivering the nation's mail to every household and business across the country—from Alaska to Puerto Rico—is an enormous task. To accomplish this task, the Postal Service utilizes a physical infrastructure that includes more than 38,000 post offices and contract units, 270 processing plants, 63 airport mail facilities, 21 bulk mail centers and a number of other facilities. The Postal Service also partners with private sector contractors for highway, air, rail, and water transportation services.

The Postal Service handles three basic shapes of postal items: letters and cards, larger size pieces called flats, and packages. Letters—generally First-Class Mail and Standard Mail letters and cards—account for 71.3 percent of total mail volume. Flats consist of large First-Class Mail, Priority Mail, and Standard Mail envelopes, magazines, or large advertising circulars and account for 27.3 percent of volume. The remaining 1.4 percent of volume primarily contains Priority Mail and Package Services.

Like other large businesses, the Postal Service relies heavily on modern technology to improve efficiency and to control costs. Automation equipment has been central in this respect. During the 1990s capital investments for equipment focused on development and installation of high-speed letter sorting equipment and today the Postal Service has a world-class letter distribution system. Letter mail productivity in processing plants improved nearly 50 percent from 1993 to 2001. Reductions in time devoted to sorting allowed the Postal Service to reduce the number of city delivery routes by 4,100 from 1995 to 2001 while simultaneously absorbing an increase in the number of delivery points.

The Postal Service will invest in additional equipment and software technology to automate the forwarding of letters, an investment that will produce significant savings in 2004 and 2005. The Postal Automated Redirection System (PARS) will handle the forwarding of undeliverable-as-addressed (UAA) letter mail more efficiently than today's

²⁴ See Appendix M, *Efficiency-Based Strategies*, for more information.

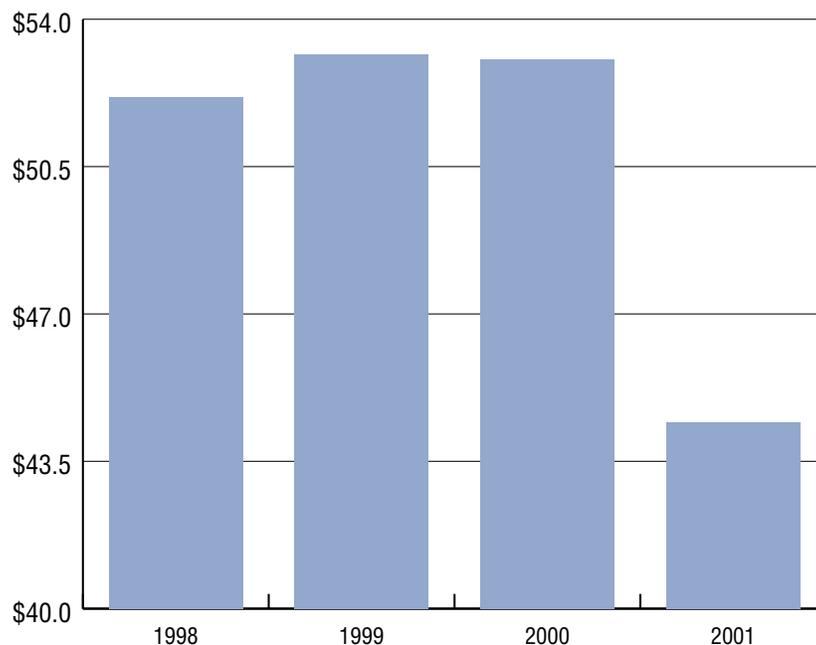
manual or mechanized processes, with the UAA mail intercepted earlier in the sorting process, resulting in a reduction in total handlings.

With the exception of mail forwarding, there are no new major automated equipment initiatives left for letter mail. The Postal Service will continue to improve the quality of automated letter operations and will work to reduce/eliminate the nonautomated letter mailstream through equipment modifications and customer incentives.

Operational Efficiency Strategy 2: Complete Automation of Flats Processing

New automation programs are now being developed for the flat mailstream. The Postal Service has deployed the new Automated Flats Sorting Machine 100 (AFSM 100) to improve productivity and control costs for flat-sized pieces. The AFSM 100 is based on state-of-the-art flat sorting technology and processes mail more efficiently than older, mechanized equipment. As the Total Flats in Plants graph indicates, in fiscal year (FY) 2001 flats distribution costs in plants decreased approximately \$8 per thousand when compared with the prior year.

TOTAL FLATS IN PLANTS: COST PER 1,000 PIECES



The innovative design of the AFSM 100 offers several key features, including an automatic feeder, a tray take-away conveyor with adaptability to robotic handling, and online video coding for non-OCR readable flat mail. Earlier generation FSM 1000 models sort thicker, hard-to-handle, flat-sized pieces. Automated flats feeders and optical character readers will now be installed on all FSM 1000 models. These enhancements will increase machine throughput and permit more than 70 percent of the mail pieces fed to this equipment to be sorted automatically rather than keyed manually. Additional technology upgrades will improve address recognition, enhance feeder systems, and add tray handling systems. The Postal Service will expand flats processing initiatives to include walk sequencing and is exploring changes to customer preparation requirements as discussed further in the *Plan*.

Operational Efficiency Strategy 3: Expand Mechanization of Material Handling Operations

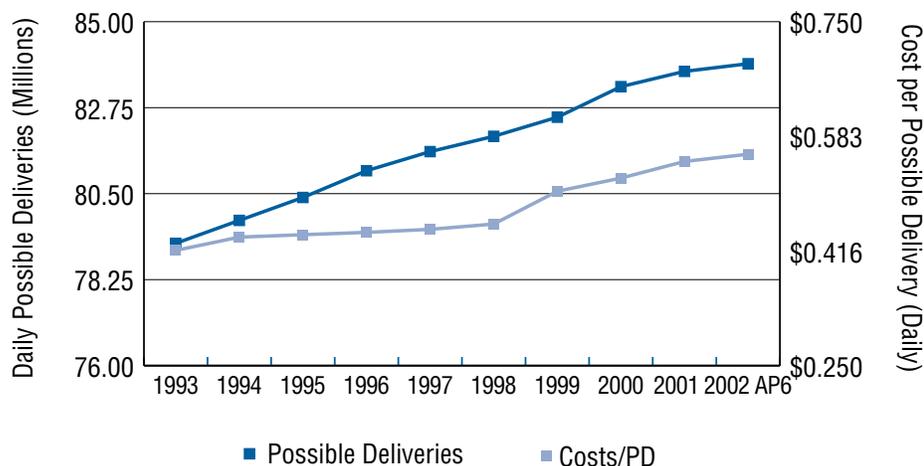
To improve the movement of the nearly 86 million pounds of mail processed daily, the Postal Service is investing in tray sorting machines that will reduce the manual sorting of letter and flat trays. A recommended strategy for achieving savings in material handling operations is to deploy low cost tray sorters (LCTS). Limited deployment of the LCTSs has helped reduce material handling workhours. LCTSs have been deployed for inbound tray sorting operations and outbound dispatch operations.

For the future, the Universal Tray System (UTS) is under development at the Integrated Processing Facility in Fort Myers, Florida. Ultimately, the UTS will be the primary means for achieving physical integration within the plant and will be capable of handling trays, bundles, packages, and sacks. The Postal Service will also continue to work with customers and the mailing industry to explore product redesign and worksharing options that will reduce the number of tray and piece handlings and improve efficiency in postal operations.

Operational Efficiency Strategy 4: Improve Delivery Efficiency

Capital investment in equipment to improve delivery operations is also a priority. The delivery function is the largest cost center and is growing due to the addition of approximately 1.7 million new delivery points each year. Much of the cost for street delivery is fixed and does not vary with volume, i.e., driving to the route, walking or driving the route, and accessing the customer mailbox take the same amount of time each delivery day regardless of volume. In order to control this growing cost area, new equipment needs to be developed that will allow the Postal Service to reduce costs in delivery operations at a rate greater than the rate of growth in delivery points. As the chart on the following page shows, between 1993 and 2002, the number of possible city delivery points has grown approximately 6 percent and the cost per delivery point has grown approximately 33.5 percent. While approximately 72 percent of letters to carriers are automatically sorted in delivery point order ready for street delivery, flat-size pieces must be sorted manually to delivery point order. The Postal Service has not yet developed an automated sequencing equipment system for flats that is operationally feasible. Automated sorting of flats in Delivery Point Sequence would offer significant new opportunities for savings. The Postal Service has tested a number of pieces of equipment, but none has produced the desired result. The Postal Service intends to continue testing equipment and concepts that may enable it to capture this opportunity.

CITY DELIVERY TRENDS



The long-term vision for delivery operations is a seamless operation that culminates in one bundle of mixed letters and flats for each delivery point, called the Delivery Point Package (DPP). This vision is dependent on having high-speed mail sorting and packaging equipment that will efficiently sort and merge the letter and flat mailstreams in delivery sequence for the letter carrier with the addresses on all of the pieces properly oriented. If the processing equipment can be designed, the labor-intensive manual preparation of mail in sequence for street delivery would be reduced using state-of-the-art packaging technology. The packaged volume would then be made available at a central carrier point or location, making the need for delivery unit sortation obsolete.

The Postal Service is evaluating the benefits and costs of implementing this delivery vision. As a first step, the Postal Service will evaluate the use of additional flat firm holdouts and carrier shelf sortation for flats based on the barcode or the ZIP+4® code. The next step will be to determine what customer and operational changes will be needed to sort flats in Delivery Point Sequence and to formulate methods for capturing any resulting savings. The final steps will be to gradually reduce the number of bundles that a carrier must handle on the route from the current three to two to one, culminating in DPP.

The current definition of a flat is broad and allows a wide latitude for size, thickness, and materials. This latitude significantly increases the complexity, cost, and time needed to adapt technology. Success with the above concepts could mean that the definition of a flat may need to be narrowed or standardized in the future. The Postal Service is working with customers and the mailing industry to determine if product redesign changes can be incorporated into the mailing regulations for flats that would enable greater processing efficiencies in the future.

“The largest challenge to the organization as I see it is the continually rising cost of the delivery infrastructure.”

—Postal Service Employee

In the near term, the Postal Service is actively deploying the Delivery Office Information System that provides timely data to delivery supervisors to enable them to make more efficient decisions. The Postal Service is also pursuing the following productivity improvement initiatives in delivery operations:

- Managed Service Points system improves the uniformity of daily delivery and has produced savings in street delivery operations.
- Delivery Performance Achievement and Recognition System uses benchmarking techniques to improve and recognize good performance.
- Rural Delivery Improvement process is designed to improve performance through enhanced training of supervisors.
- Carrier Optimal Routing system is being tested to optimize carrier routes and travel paths using optimization algorithms. If successful, it will allow the Postal Service to structure more efficient routes and reduce vehicle costs.

The Postal Service is also testing the Segway™ Human Transporter (HT), a two-wheeled, battery-powered transport device that the carrier stands on to move between delivery points. If successful, use of the HT would reduce the carrier's time on the street and allow the expansion of the number of delivery points per route. This device is being tested on a variety of routes, terrain and climates. Tests will continue through 2002, and if successful, deployment could begin in 2003.

Operational Efficiency Strategy 5: Deploy Next Generation Package Sorting Equipment

Package volumes and bundles of mail prepared by customers as part of worksharing, whereby the customer pays less postage in exchange for performing certain mail processing functions, have increased. To improve the Postal Service's ability to handle packages, two equipment projects are planned. The Singulate, Scan, Induction Unit (SSIU) equipment is being deployed to 19 of the 21 bulk mail centers (BMCs) to improve productivity and sort accuracy. The SSIUs will allow parcels to be sent, one at a time, through a dimensioning unit, a weigh-in-motion scale, and a scanning tunnel that will read the package's barcode. Packages will then be automatically inducted onto sortation equipment. Deployment began in January 2001 and is expected to be completed in November 2002.

Automated Package Processing Systems (APPS) is the Postal Service's next generation of sorting machines for small parcels and bundles of mail. It will replace the older labor-intensive machines in larger offices. APPSs will increase processing capacity and introduce optical character reading and other advanced technologies to the small parcel and bundle operation in processing plants. APPS will improve productivity and sort accuracy.

Operational Efficiency Strategy 6: Optimize Transportation and Distribution Networks²⁵

The Postal Service manages a vast transportation infrastructure that moved over 27 billion pounds of mail through its network last year at a cost of \$5.5 billion. Over the past decade transportation costs have been rising faster than mail volumes. Recent events have further exacerbated this situation by restricting commercial airlift for Priority Mail products and requiring a heightened state of physical security.

To address these challenges the Postal Service has implemented several tactical measures for containing costs and improving service, including diversion of volume from air transportation to service-responsive surface transportation.

New information systems to improve transportation performance are also planned. These will enable managers to route mail and record its location as it moves through the network. The Postal Service will use these information systems to measure the performance of each transportation lane and carrier as well as the performance of the origin and destination terminals. Information from such systems will be used to optimize network design, improve transportation efficiencies, and enhance service. The following systems are critical to improving network operations in the future:

- Surface Air Management System is a replacement system for the aging Air Contract Data Collection System and handles mail assignment to air carriers and supporting payments to the carriers.
- Transportation Optimization Planning and Scheduling system will replace the automated dispatch generation system and will introduce a more dynamic and industry-standard route optimization engine for all transportation.
- Surface Air Support System is a logistics information platform system that will integrate scanned data from existing postal transportation systems to ensure service performance accountability and accurate payment verification.
- Transportation Contract Support System will support the solicitation, award, and administration of highway, air, rail, and water contracts.

The Postal Service implemented a dramatic change to its transportation network by initiating an alliance with FedEx, which in the fall of 2001 began transporting nearly four million pounds of mail daily on its day and nighttime air networks. The FedEx network replaced a disparate set of air transportation networks with a more streamlined network that meets the needs of Express Mail, Priority Mail, and First-Class Mail. The transportation agreement with FedEx provides many improvements over the former network design, including:

- Lower costs through the use of shared FedEx capacity as opposed to dedicated capacity purchased from other providers;
- Opportunities for improved service performance;
- Simplified and centralized network management resulting from the replacement

²⁵ See Appendix N, *Procedures for Closing Postal Facilities*, for more information.

of multiple providers and networks with a single air transportation solution; and

- Improved information technology capabilities through the integration of Postal Service systems with FedEx's vast information collection infrastructure.

For surface transportation, the Postal Service has developed a national hub-and-spoke network to efficiently move mail volumes that are insufficient to justify direct transportation. The Postal Service has also developed a Mail Transport Equipment Service Center program that directly contributes to improving mail processing productivity and business mailer satisfaction. Network complexities are inherent in a system that provides service to a multitude of mail classes and shapes, which are transported between approximately 932 three-digit ZIP Codes.

For mail processing the Postal Service has deployed the most advanced automation technology available in order to keep pace with productivity demands. While the Postal Service is exploring more comprehensive network initiatives as discussed below, there are some opportunities that have already been identified. For example, the Postal Service will eliminate costly annexes through better space utilization. The Postal Service intends to announce plans for plant consolidations by the end of 2002.

The Postal Service's present financial situation coupled with rapid advances in supply chain management technology make this the ideal time to initiate sweeping logistics changes in transportation and distribution processes throughout the organization.

To this end the Postal Service has initiated a network optimization effort, the Network Integration and Alignment (NIA) initiative, with a charter to create a flexible logistics network that reduces Postal Service and customers' costs, increases overall operational effectiveness, and improves consistency of service. NIA will offer the analytical means to redesign the existing network and provide rapid response capability. This initiative is intended to develop the blueprint for future network operations management within the Postal Service.

This process will produce a set of network optimization and simulation models that will enable the Postal Service to analyze a variety of network alternatives that address the complexities and uncertainties of the operating environment. These models will also determine which facilities remain viable and necessary within the future infrastructure and which distribution and transportation roles will be performed by those facilities that remain as parts of an optimal, fully integrated network.

The NIA effort will enable the Postal Service to balance distribution strategies against service needs and logistics costs. The new network design will offer the mailing industry an opportunity to identify impacts of alternative workshare concepts.

NIA mandates a shift in focus from optimizing the performance of a particular product line or geographic area to optimizing the performance of the entire logistics network and mailing industry value chain. NIA will focus on balancing the distribution strategy against service needs and logistics costs. The mail processing network infrastructure will be redesigned to meet volume forecasts, customer requirements, and competitive pressures. Streamlining and simplifying the distribution network will permit consolidation of sorting facilities and elimination of excess resources. Optimization analysis will determine the design of a least-cost, service-responsive logistics network configuration. Processing facility roles and functions will be determined by overall system requirements. This effort will also contribute to the overall strategic objective of a 10 percent transportation cost avoidance by FY 2006.

NIA will be aligned with the Mailing Industry Task Force's recommendation that the Postal Service-private sector postal network should be treated as interdependent components of the mailing industry value chain. The mailing industry and customers at large will benefit from restructuring through increased efficiencies. Worksharing strategies will be evaluated in coordination with product redesign efforts. By jointly improving business practices, the Postal Service can move aggressively to become more efficient.

Network redesign will provide an opportunity for new business development strategies. Further contracting of logistics services and distribution activities will be analyzed. The Postal Service may also position itself to become a provider of transportation management services for the private sector.

The NIA effort affects \$5.5 billion in transportation costs and approximately \$20 billion in processing and distribution costs. As a national initiative, the NIA will model more than 500 facilities, including processing and distribution centers/facilities, bulk mail centers, Priority Mail processing centers, international service centers, air mail centers, facility annexes, and hub-and-spoke facilities. The network strategy will be developed by the fall of 2002.

Operational Efficiency Strategy 7: Increase Retail and Customer Service Productivity

The most significant cost savings in post office operations will result from the following:

- Standardization of operations to ensure optimal efficiency throughout the postal network.
- Continued automation of mail processing operations that occur in the backroom of post offices.

Retail / Customer Service Productivity Improvement

The Postal Service will continue its efforts to deploy processing equipment and implement best practices that standardize operations to increase productivity and to reduce costs. This continued effort is expected to provide significant productivity improvements.

The Postal Service has detailed retail transaction data from approximately 9,600 of its largest post offices as a result of the deployment of Point of Service (POS) ONE equipment. This data will be used to determine customer demand at counters and to staff accordingly. The information also enables the Postal Service to determine the number and types of transactions that can be shifted from the full service counter to other alternatives.

In addition, improvements from letter and flat mail distribution efforts discussed earlier will contribute to backroom retail cost reductions. A significant contribution will come from the deployment of PARS.²⁶

Facility Design Changes

The Postal Service will also review the design of its post offices. As new vending alternatives are developed and deployed, the Postal Service will determine the best way to provide access to postal services for up to 24 hours a day, seven days a week. Design changes will reduce construction costs and provide easier access.

Operational Efficiency Strategy 8: Improve Performance Management

In addition to capital investment to drive down operating costs and network modeling to ensure an optimal distribution and transportation structure, the Postal Service will continue its focus on improving productivity by standardizing and monitoring performance.

The Postal Service has established national productivity targets for all operations. Cost reductions are budgeted based on the relative performance of each plant or district compared to those targets. Expectations for organizational goals and targets for the next fiscal year are established and communicated during the budget planning phase so that managers throughout the organization are familiar with and have a plan for attaining their goals.

Best practices have been identified and operations are being standardized around these best practices. Numerous tools have been developed to assist the field operations managers in monitoring their performance, planning their complement and properly scheduling their people.

This intense focus on productivity and standardization of operations has produced two of the most productive years in Postal Service history.

²⁶ See Appendix M, *Efficiency-Based Strategies*, for more information.

Operational Efficiency Strategy 9: Manage Realty Assets

Facilities management strategies are designed to ensure that the disposition, by sale or lease, of excess or underutilized real estate assets held by the Postal Service is conducted in a manner consistent with the best interests of the organization. Funds derived from such actions become available for redeployment across the full spectrum of identified postal operational priorities.

Revenues come principally from the following:

- **Postal Service properties for sale.** The sale of fee simple, leased fee, and leasehold interests (including excess land, buildings, and air rights/other developmental rights).
- **Short-term leasing.** Leasing of excess space in postal owned buildings to the private sector (outleasing) and the General Services Administration.
- **Developmental leasing.** The long term leasing of excess space and development rights via a third-party developer.
- **Developmental added value properties.** Enhancement of the value of select high-profile properties suited for commercial development, including disposition strategies.
- **Other programs.** Tax appeals and acquisition of properties with favorable rents and purchase options.

In the future, it is expected that the inventory of excess properties will decrease—fewer new facilities will mean fewer former facilities available for sale. However, consolidation of processing may generate excess space for disposal.

The Postal Service is committed to improving operational efficiency through a highly motivated workforce.

2.3 Move Toward a Performance-Based Culture²⁷

The Postal Service will implement the following strategies to move the organization towards a performance-based culture and maximize the performance of Postal Service employees:

- Retain and recruit quality employees;
- Develop future leaders;
- Ensure training and development;
- Create a performance-based pay system;
- Build a highly effective and motivated workforce;
- Improve labor/management relations;
- Improve workforce planning;
- Expand shared services and explore outsourcing;

“The Postal Service of the future must find a way to restructure their employment model to encourage and capture the creativity and capabilities of every individual within its organization and to discover more effective methods to manage this...expense.”

—Business Customer

²⁷ See Appendix O, *Performance-Based Strategies*, for more information.

- Improve the collective bargaining interest arbitration process; and
- Reduce workers compensation costs.

Performance Strategy 1: Retain and Recruit Quality Employees

Changing business needs are altering the skill requirements of Postal Service employees. Additionally, the Postal Service must compete with private industry to retain and recruit job candidates in many parts of its organization, from lower-skilled positions to essential technical and professional positions. This competition comes as the postal workforce is aging. By 2006, 55 percent of executives and officers, 36 percent of managers and supervisors, and 19 percent of career employees will reach eligibility for regular retirement.

As one of the nation's largest employers, the Postal Service enjoys a workforce rich in talent and skills. By providing developmental opportunities, and recruiting from within for needed skills, it has the ability to use this talent base to its advantage. To the extent there are gaps, particularly in areas requiring a specialized skill that cannot adequately be met from this talent base, the Postal Service will seek candidates from the external labor market.

In retaining and recruiting managers and employees, the Postal Service faces two major challenges. The first challenge is to retain employees with skills that are critical to the future success of the organization. The second challenge is to concentrate recruitment efforts on bringing talent, skills, and experience from within the organization and the outside labor market to address potential loss of postal leadership.

The implementation of retention strategies begins with the collection and analysis of geographic turnover rates by job category over time. The Postal Service is currently conducting a detailed study of retention rates, with preliminary analysis to be completed by August 2002. This analysis will provide the evidence of turnover trends arising from the loss of specialized skills, and also provide the Postal Service with the ability to monitor shifts in the diversity of the workforce makeup. This data will help in the development of any new pay initiatives as well as identify any employment practices that could be barriers to retention. This information will be compared with similar federal government and private industry trends for the same periods in the same geographic areas.

Upon completion of this initial analysis, a Human Resources team will determine which positions are affected and make retention recommendations by specific position. Wider application of current pay incentives will be introduced on a case-by-case basis. The Human Resources team will continue to explore other avenues for retention and develop further pay recommendations in an additional report to be completed by 2003.

The Postal Service can demonstrate that one of the factors constraining its ability to provide compensation that is comparable to the private sector is the statutory salary cap. Current salary compression for selected manager, executive, and officer positions

makes it more difficult to retain and recruit key talent. However, several pay strategies have been successfully used to address retention issues for nonbargaining positions. One strategy gives higher-graded positions which are difficult to fill, larger standard salary adjustments than those in lower grades. The second strategy is to allow an employee a salary level above the maximum range under special circumstances. Finally, retention incentives within the maximum salary range have been used to retain specialized skills. These initiatives and others may be expanded to retain and recruit the specialized skills required.

The Postal Service will modify and automate recruitment and hiring processes to make them easier to use and more accessible to potential employment candidates. The Postal Service will further utilize technology to improve application processes at all levels, will pilot redesigned hiring procedures in several sites by the end of 2002 and will implement a comprehensive recruitment plan based on an attrition analysis that will address redeployment and recruitment needs over the longer term. All recruitment efforts will be mindful of the need to have a diverse workforce and will be used in conjunction with Postal Service retention efforts.

The Postal Service will concentrate recruitment efforts on bringing talent, skills, and experience from within the organization and the outside labor market to the Postal Service. For critical line supervisor positions, the Associate Supervisor Program will be the standard for retaining and recruiting the best talent. For other critical positions in the field and at headquarters, the Postal Service is introducing new Management Intern (MI) and Professional Specialist Intern (PSI) programs open to internal and external applicants to build a strong bench for hard-to-fill positions. The MI program will provide two years of training and outplacement to a field manager position. The PSI program will focus on developing a candidate to assume technical or professional responsibilities at headquarters. In addition, the Postal Service will pilot a centralized recruitment effort composed of human resources teams that will attract skilled technical candidates for positions, such as CPAs, accountants, economists, and psychologists. The Postal Service will begin testing centralized recruitment for specialized jobs by the end of 2003 and increasing hiring visibility by holding hiring activities at relevant industry events. The Postal Service will also use a centralized recruitment approach for selected craft positions such as electronic technicians, automotive mechanics, and truck drivers. Finally, to expand alternative recruiting and hiring options, the Postal Service will develop partnerships to outsource recruitment activities.

Performance Strategy 2: Develop Future Leaders

Since 1994, the backbone of the Postal Service's leadership strategy has been the succession planning program which incorporates identifying, developing, preparing, and selecting individuals for executive positions in the Postal Service. Each officer discusses successor recommendations individually at an annual succession planning meeting with the Postmaster General and Deputy Postmaster General. A successor list is then prepared for each executive position and distributed to all of the officers. Officers refer to this plan for "successor" candidates when filling executive positions.

Having a strong succession planning program has enabled the Postal Service to meet its current demand in filling executive positions. However, as the Postal Service experiences an increase in executives leaving for other federal agencies and private sector firms, and as retirements begin to increase, more will have to be done to identify and prepare talent for executive positions. Strategies include reinforcing leadership accountability in the entire planning process with particular emphasis on developing high potential individuals. Additionally, the Postal Service will continue its commitment to provide educationally enriching opportunities as well as challenging leadership assignments to key executives. Finally, as both recruitment and training initiatives, the Postal Service will implement the MI and PSI programs to establish a baseline pool for future leadership.

Performance Strategy 3: Ensure Training and Development

The Postal Service continually faces the challenge of developing and maintaining a pool of well-prepared potential successors at all levels of the organization. Development programs and job skills training are available to support employee career paths from entry level, through supervisory and management, and into executive positions.

To train a flexible and agile workforce, the Postal Service offers training that is “just in time,” dynamic, current, and widely available. Development programs such as the Associate Supervisor Program, Career Management Program, and the Processing and Distribution Management Program form the foundation for managerial training and development. To build reserves for executive positions, the Advanced Leadership Program (ALP) is continually refreshed and kept current with both internal and external curricula.

Leadership development for mid-level managers, supervisors, and postmasters addresses the need for leadership development in critical field operations positions. This program focuses on developing talent around specific leadership competencies, especially critical positions where skill gaps exist. The process allows local management teams to forecast future needs using data and trends analysis, establishing pools of qualified employees for all major job families. It also uses technology to deliver, to track, and to administer training.

The Postal Service will be implementing a number of leadership development activities beginning in 2002. Plans are currently underway to implement the MI program. Executive Development/Training will focus on emerging business trends and enhancing coaching skills. By 2003 the Postal Service plans to have partnerships with universities and/or learning organizations to provide ongoing executive development. Also in 2003, the PSI program will be developed.

Performance Strategy 4: Create a Performance-Based Pay System

The Postal Service has led the federal government in building market-based, performance-driven compensation systems. While considerable organizational success has resulted from these innovations, there remains room for improvement in the total compensation strategy that will help drive transformation of the Postal Service. The performance-based pay program is currently being redesigned.

"[The Postal Service] needs to establish a pay for performance process that is equitable for everyone."

—Labor Organization

The foundation for the redesigned performance-based pay program, to be known as the National Performance Assessment, will be a solid performance evaluation system that will clarify expectations and provide feedback on progress towards performance objectives. The development of objective performance measures through the use of metrics will provide clear links between performance and rewards and help improve accountability at all managerial levels and at all operational levels of the organization. A multifunctional group will develop objective performance measures for administrative and enabling groups.

As the first step in implementing the new performance management system, Human Resources will consult with the management associations as required by law. The consultation process should be completed in 2002 and will focus on three primary pay plans for building performance-based compensation now and into the future: 1) individual merit pay programs to build individual accountability throughout the managerial ranks, 2) exceptional individual performance programs to recognize outstanding individual performance, and 3) team incentive plans to encourage cooperation towards organizational success.

The Establish Committee, a senior level officer group that approves goals and ensures that they align with the overall objectives of the organization, will deploy the National Performance Assessment goals to the appropriate levels of the organization. Operations and functional managers will then develop local goals and objectives and target levels of performance to achieve the national goals. This process will enable the organization to have clear expectations and line-of-sight to all levels of management, and will motivate managers to achieve challenging organizational goals.

The new performance assessment system will be implemented in phases. In 2002, operations executives are being evaluated under this system; in 2003, headquarters/field support executives will be evaluated under this system, including key field operations managers and EAS 18 and above grade levels. By 2004, the Postal Service intends to have the National Performance Assessment System in place for front-line supervisors at the EAS 16 grade level.

Performance Strategy 5: Build a Highly Effective and Motivated Workforce

Among the mechanisms the Postal Service currently uses to assess the workplace environment are employee surveys, identification of nonharmonious worksites, counseling for troubled employees, the Employee Assistance Program (EAP), and workforce training so all employees recognize and correct unacceptable workplace behaviors.

The transformation challenge is to build on programs already in place to create managerial accountability for workplace environment issues. In addition to improving Voice of the Employee (VOE) survey results, the Postal Service will make district and area leadership accountable for the following activities: identifying troubled worksites and developing effective plans for correcting problems, supporting the District Joint Employee Assistance Plan (EAP) Advisory Committees, maintaining trained Threat Assessment Teams and properly prepared Crisis Management Teams, supporting continuous education initiatives on diversity, and providing violence awareness and sexual harassment prevention training with acceptable regularity. The Postal Service will also develop data systems that can predict potential problems before they arise so that proactive actions can be taken.

Performance Strategy 6: Improve Labor / Management Relations

Building a solid relationship with unions, management organizations, and employees does not happen overnight. Good labor/management relations are built over time through communication, shared experiences, and cooperative efforts.

A voluntary program, developed by the Postal Service in the mid-1990s called REDRESS[®], uses mediation to resolve disputes in the workplace that relates to the Equal Employment Opportunity Act. More than 78 percent of the complaints referred to REDRESS are resolved by the parties prior to litigation. In addition, the number of employees who file formal complaints decreased from 1.25 per 100 employees in 1999 to .85 per 100 employees in 2001. During the past two years, the Postal Service has shifted control of the REDRESS program from headquarters to the field, allowing greater innovation and autonomy in managing the program, reducing headquarters staffing, and improving dispute resolution rates overall.

The Postal Service has also worked cooperatively with employee organizations. Development of Joint Contract Interpretation Manuals with the National Association of Letter Carriers (NALC) has improved the ability to resolve issues and disputes with that union. Both parties identify their jointly shared interpretations of contract provisions and ensure that their field counterparts understand this information. Coupled with joint training initiatives, this effort has improved the Postal Service's ability to deal with workplace problems. A similar Joint Contract Interpretation Manual is nearing completion with the National Postal Mail Handlers Union (NPMHU).

In another innovation between labor and management, alternatives to the Postal Service's traditional grievance process have proved highly successful with the NALC. Use of labor and management dispute resolution teams has cut disputes in half and is reducing the prior backlog of NALC grievances by more than 1,000 cases per month.

The anthrax incidents exemplified how the Postal Service's employee and management groups can pull together to address a shared problem. The Mail Security Task Force was composed of the top leadership officials of the Postal Service, the management

organizations, and the labor unions. The presidents and officers of these organizations met on a daily basis to share concerns and to map strategy to deal with the unprecedented assault on the mail system, on employees, and on the American public. The task force was mobilized within hours of the anthrax incidents and became the information and strategy focal point in the weeks that followed. Communication and cooperation among all Postal Service employee groups have never been more productive, and the Postal Service intends to build on these successful efforts.

Performance Strategy 7: Improve Workforce Planning

The current restructuring efforts within the Postal Service are designed to provide an effective and efficient organization that is responsive to its core mission. Structure and staffing are designed to be flexible and accommodate future transformation. At the same time, the focus is to ensure that sufficient resources are available to support the core mission of processing and delivering the mail. The Postal Service will continue to assess its organizational structure and alignment as business changes. The measures of success are support of the core mission, alignment with the mission, elimination of duplication, and reduced costs.

The Postal Service strategy is to build and maintain a flexible workforce that can be readily adjusted to changes in customer demand and operational efficiencies. Use of data driven assessment tools will assist in determining skill needs and availability by location. Once needs are determined, the Postal Service will use cost-efficient ways to reposition employees. The Postal Service will continue to standardize complement management activities and provide staffing strategies that not only increase workforce flexibility but also meet business demands and operational requirements. Repositioning employees will require using all currently available processes as well as considering additional options for rightsizing.

Performance Strategy 8: Expand Shared Services and Explore Outsourcing

To reduce administrative costs, the Postal Service is expanding a “shared services” approach, a consolidation of services that delivers administrative services better, faster, and less expensively. Used successfully in a growing number of companies, “shared services” refers to sharing technology, people, and other resources within and across administrative functions in order to reduce costs and improve quality. In the Postal Service, effective shared services efforts include three key components: 1) reengineered, standardized processes; 2) technology integration (standards, shared tools, pieces that fit together); and 3) effective planning and implementation of staffing changes.

The Postal Service will apply the shared services model to most high-volume or repetitive administrative activities, and because the Postal Service employs nearly 770,000 career employees in a very large network, many administrative functions lend themselves to a shared service approach. For example, the Postal Service is making a significant investment in new enterprise technology, replacing 30-year-old human resources and payroll systems.

By the end of 2002, shared services in accounting will begin a national rollout, a pilot of injury compensation shared services will be completed, and pilots of shared services in hiring and testing and personnel benefits will be underway. During 2003, the Postal Service expects further developments in human resources, purchasing, and facilities shared services efforts. These efforts will pave the way for full implementation of the shared services model in transactional processes in these functions during 2004. Finance estimates that shared services in accounting will be fully implemented by 2004.

In addition to moving administrative processes toward shared services, the Postal Service will also continue its decades-long history of outsourcing many noncore activities, including purchased transportation services, contract stations for retail services, and equipment and vehicle maintenance. The Postal Service has traditionally obtained the best source services in order to better utilize internal resources, reduce cost, and increase quality.

In the future, the Postal Service will explore the possibility of outsourcing additional activities including mail preparation, retail services, terminal activities, and container distribution. By exploring the potential for outsourcing other activities, the Postal Service will be able to determine the cost efficiencies and service enhancements that may be available. This process will also permit the Postal Service to determine how employee impacts may be minimized.

The Postal Service is also studying establishment of an Employee Stock Ownership Plan (ESOP) for EEO investigative work. Through an ESOP, the Postal Service can maintain the continuity of needed expertise and knowledge while allowing for a more efficient and cost-effective means of providing this service. Overhead costs of the Postal Service would be reduced by an employee-owned company through which employees would earn incentives for increased productivity and profitability. As the Postal Service gains experience during this initial ESOP endeavor, it will explore opportunities for additional ESOPs in the areas of vehicle maintenance, transportation networks, and administrative functions.

Performance Strategy 9: Improve the Collective Bargaining Interest Arbitration Process

In the near term, the Postal Service will explore a revised interest arbitration process. Under current law, 39 U.S.C.1207(b), a fact-finding process is led by a panel of three persons chosen by the Federal Mediation and Conciliation Service. Generally, this fact-finding process has been unsuccessful, and the parties have frequently waived the process in favor of proceeding directly to interest arbitration. The Postal Service proposes that legislation be enacted to replace this statutory process with one in which a single mediator is selected by the Secretary of Labor. The selected mediator would be required to be an individual of nationwide reputation and professional stature and a member of the National Academy of Arbitrators. Such credentials should ensure that the individual selected would be able to mediate a dispute affecting hundreds of thousands of employees and a vital national communications network.

Performance Strategy 10: Reduce Workers Compensation Costs²⁸

As the Postal Service continues to be more operationally efficient by eliminating manual jobs and consolidating operations, there are fewer positions available for employees with on-the-job injuries. Many of the traditional positions that these employees have filled have recently started to evaporate at an ever-increasing rate. If the Postal Service cannot accommodate an injured worker, then it must find new job responsibilities that fill an organizational need to ensure optimal human capitalization. If a sufficient number of positions cannot be found within the Postal Service, then postal management will endeavor to expedite the out-placement process to private industry through the Department of Labor.

Workers' compensation costs could also be reduced by appropriate legislative and regulatory changes to the Federal Employees' Compensation Act (FECA). Areas of possible regulatory change include mandatory FECA retirement at age 65 for all present and future disabled employees, expedited outplacement of rehabilitated employees to private industry, and the use of private industry companies to reduce costs.

Certain enabling strategies are critical if the Postal Service is to increase the value of its products and services, to improve operational efficiency, and to foster a performance-based culture.

2.4 Enabling Strategies²⁹

The transformation of the Postal Service now underway necessarily involves a restructuring of functional activities that facilitate and enable the work of the organization. These enabling strategies encompass: 1) enhancements in financial management that will ensure that the Postal Service reduces outstanding debt, improves its financial reporting transparency, finances expansion of the delivery network on a current basis and explores alternative investments for deferred retirement liabilities; 2) expanded use of supply chain management business practices; 3) enhancements to the Postal Service technology infrastructure that will guarantee security and universal connectivity to support modernization in all areas; and 4) commitments to ensure the safety, security, and privacy of the mail.

2.4.1 Enhance Financial Management

The Postal Service is implementing three strategies to enhance financial management:

- Reduce outstanding debt;
- Improve financial reporting transparency; and
- Finance delivery network expansion on a current basis and explore alternative investments for deferred retirement liabilities.

²⁸ See Appendix P, *Federal Employees' Compensation Act Overview*, for more information.

²⁹ See Appendix Q, *Enabling Strategies*, for more information.

Financial Strategy 1: Reduce Outstanding Debt

The Postal Service's strategy for debt management is to reduce outstanding debt through generating net income. Debt will be used in the future for capital improvements where the value added by the investment exceeds the cost of the debt. Under current law the Postal Service may increase its outstanding borrowing by up to \$3 billion annually, which includes a \$2 billion increase for capital investments and a \$1 billion increase for operating expenses. The Postal Service is subject, however, to a total debt limit of \$15 billion, which has been in place since 1992, when it was raised from \$12.5 billion.

Debt is a reflection of capital spending and overall financial performance. Over time, changes in debt are largely determined by the difference between cash flow from operations and capital cash outlays. Cash flow from operations is influenced by net income or losses, and noncash expenses such as depreciation. Capital cash outlays are the funds invested in capital improvements such as facilities, automation equipment, and information technology. From 1997 through 2001 Postal Service capital cash outlays exceeded cash flow from operations. Consequently, debt increased by \$5.4 billion, from \$5.9 billion to \$11.3 billion, during that time. Cash on hand at the end of 2001 totaled approximately \$1 billion, or less than one payroll.

While interest rates may or may not remain relatively low, a more important consideration is that the increase in debt, however necessary to preserve liquidity, has also increased financial risk by adding to the obligations of the Postal Service. In light of risks to mail volume growth, which create risks to cash flow, the Postal Service's capacity to service growing debt is limited.

Since cash flow from operations is linked to net incomes (or losses), stabilizing and reducing debt will require that the Postal Service recover its prior year losses and carefully plan its capital cash outlays so they do not exceed cash flow. As the past two fiscal years have demonstrated, the Postal Service cannot simultaneously generate net losses and reduce its borrowings.

The Postal Service will also continue to manage its mix of short- and long-term debt to lower its interest expense over time. By remaining within its \$15 billion debt limit, reducing outstanding debt, and by managing its interest expense, the Postal Service can limit its risks.

Financial Strategy 2: Enhance Reporting Transparency

The Postal Service posts its annual report, quarterly financial reports, and quarterly revenue, pieces, and weight reports on its Web site, www.usps.com. The Postal Service has further enhanced reporting transparency by publishing its Accounting Period Financial and Operating Statements on its Web site. Revenue, pieces, and weight reports will continue to be published on a quarterly basis, as will the quarterly financial reports, with the exception of Quarter IV, which will be covered by the audited financial statements in the annual report. In addition, the Postal Service plans to further increase its reporting transparency by replacing the twenty-eight-day accounting period with calendar months.

The Postal Service, for financial reporting purposes, currently uses both a postal fiscal year (PFY) and a government fiscal year (GFY). Largely, the PFY is used for internal reporting and the GFY is used for rate cases and reporting annual audited financial statements. The PFY consists of 13 four-week accounting periods. Accounting period reporting is not unknown in private industry, but monthly reporting is far more common. Much of the data about the economy from state and federal government agencies and forecasts from governmental, commercial and educational sources are presented in a monthly format. In addition, much of private industry invoices, pays, and mails on a monthly cycle. Most of the Postal Service's customers and competitors report in a monthly format.

Conversion to calendar month reporting will provide the Postal Service financial data on a basis that enables comparative analysis with competitors as well as consistency in current external reporting of financial results. Financial data will be aligned with the vast majority of corporate reporting, external databases, government reports on economic data, and standard forecasts of economic activities. When implemented, this change should eliminate the present confusion that is created by the use of two reporting systems.

Certain expense and revenue data will also be more stable when reported on a monthly basis. Holidays will consistently fall in the same reporting period. The end of the month burst in transactional activities will occur consistently every reporting period. The change to monthly reporting will also facilitate conversion to any alternate fiscal year deemed appropriate in future reporting requirements.

Financial Strategy 3: Finance Delivery Network Expansion on Current Basis and Explore Alternative Investments for Deferred Retirement Liabilities

The universal service obligation requires that the Postal Service provide service to all communities and delivery points in the United States and its territories. In FY 2001, the number of delivery points served by the Postal Service increased by 1,736,256. Historically, the annual growth in mail volume has served to help finance the cost of a growing delivery network. The equivalent of 3,400 new carrier routes is required to serve this expanding network that totaled 137.7 million delivery points at the end of FY 2001. Serving these new routes requires hiring more carriers, purchasing new vehicles and equipment and building new facilities. At an average of 45 routes per facility, the equivalent of eighty new facilities is required at an average cost of \$5 million. The resulting annual capital need for network growth is approximately \$400 million for facilities alone. This requirement is in addition to the cost of maintaining and/or replacing older facilities.

There is no inherent return-on-investment associated with construction of facilities to support the Postal Service's expanding delivery network. Rather than debt financing, a mechanism should be provided to include these ongoing cost increases in the revenue requirement in future rate cases to provide their recognition on a current basis.

Postal Service retirement costs are expected to exceed the rate of inflation over the next 10 plus years. In FY 2001, the Postal Service paid \$3.75 billion on its Civil Service Retirement System (CSRS) deferred retirement liability which exceeded \$32 billion at

the end of the year. The increasing number of CSRS annuitants and their annual cost-of-living-adjustments contribute to the increase in CSRS deferred retirement liability and to the escalation in retirement costs. Investment of CSRS retirement assets currently managed by the Office of Personnel Management in other than government securities at higher rates of return could increase income generation and minimize the increase in CSRS deferred retirement costs. Private sector, state, and local government pension funds diversify investments to maximize investment return and minimize risk. Investments are made in a combination of fixed income securities, common stocks, real estate, and other investments.

2.4.2 Expand Use of Supply Chain Management

The Postal Service has identified the supply chain management philosophy and attendant business practices as central to its efforts to further the business and competitive objectives of the Postal Service. Over the past several years, supply chain management has become one of the most important aspects of successful contemporary businesses; a few years ago, it became a major tenet of the Postal Service's Breakthrough Productivity Initiative. In general terms, supply chain management is the analysis of the purchase process and the supply stream, from the supplier's supplier to the customer's use and disposal, in order to increase customer satisfaction and decrease overall cost. Its institutionalization, in terms of business practices, organizational design and deployment, and supplier relations will lower overall costs and improve customer service.

2.4.3 Strategically Apply Technology

To raise the efficiency of postal operations and develop a performance-based culture, the Postal Service must make more effective use of information technology. Using industry-accepted practices and building on its current, robust technology infrastructure, the Postal Service will continue to reengineer its infrastructure and systems to take advantage of new technology and better business processes.

The Postal Service's technology infrastructure is one of five largest in the world with a network of more than 540,000 devices located across the nation and in many international locations. These devices control data and voice communications, process transactions, produce reports, and handle back-office processing. This array of devices supports more than 200,000 postal managers and employees, who use this infrastructure 24 hours a day, seven days a week, 365 days a year to conduct the business of the Postal Service. Approximately 1,800 employees nationwide are dedicated to support information technology at a cost of nearly \$878 million annually.

Despite the enormity of this technology infrastructure, the Postal Service invests a significantly smaller percentage of its total budget on information technology than technology expenditures reported by other federal agencies and private sector competitors. Although the current technology environment is adequate to run today's business, the Postal Service has deferred investment in new technology infrastructure. The present infrastructure averages five to seven years old and some components are

no longer supported by vendors, requiring the Postal Service to provide technical, operational, and maintenance support. During the next five to ten years, one of the major challenges faced by the Postal Service will be to reengineer and upgrade the technology infrastructure.

Technology Strategy: Designing Enhanced Technology Infrastructure

The Postal Service is actively working toward development of an “Information Platform” that will provide high-value, reliable, and accurate information to improve service and productivity for its internal customers. To build this Information Platform, the Postal Service is focusing on standardization and speed to market, eliminating costs wherever possible. The Information Platform will integrate applications and data, encapsulating it within a secure environment in order to deliver value-added capabilities to internal and external customers.

To accomplish the transformation described in this report, the technology organization of the Postal Service must continue to evolve into a service provider that supplies internal customers with technology that is easy to use and an infrastructure that is robust, reliable, universally accessible, and secure. This evolution will be accomplished through three major substrategies:

- Enhance security across all technology;
- Upgrade the infrastructure; and
- Ensure universal computing connectivity.

Enhance Security Across All Technology

The Postal Service has earned the trust of the public by bringing security and privacy to the nation’s mail. To accomplish its mandate of providing universal service while protecting public trust in the current technology-driven economy, the Postal Service must continually invest in the security of information technology. The Postal Service technology infrastructure supports a vast array of communications—including 1.3 million e-mail messages per day and 10.5 million visits to the www.usps.com Web site per month. These figures are projected to increase steadily.

The Postal Service’s *Information Security Five-Year Strategic Plan* provides the framework for identifying and managing risks associated with critical information and resources of the Postal Service. As a part of its strategic plan, the Postal Service will adopt the following information security initiatives during the next five to ten years:

- **Education and training.** Promote security awareness, training, and security risk management.
- **Certification process.** Certify and accredit Postal Service applications, focusing on those applications that are critical to operations or contain sensitive information.
- **Contingency planning.** Update and test business continuity and contingency plans.

- **Intrusion protection.** Enhance and improve external and internal protections and expanding intrusion protection capabilities to guard against emerging threats and vulnerabilities.
- **Automated monitoring.** Aggressively monitor compliance through oversight and automated monitoring.

The Postal Service will use a variety of performance metrics to ensure the effectiveness of these initiatives, including industry benchmarks and government best practices.

Upgrade the Infrastructure

The Postal Service is leveraging existing resources to create additional efficiencies and reduce operating costs. The Postal Service's greatest information technology asset is an existing data network that provides a dedicated information conduit to more than 15,000 locations. The network can be optimized by upgrading its three levels of computing—distributed, mainframe, and midrange—and by supporting shared services. The two types of shared services—corporate and technical—focus on streamlining internal application development and business processes (building integrated versus stove-piped applications) and internal back-office processes (restructuring finance and human resources). To best leverage the existing infrastructure, the Postal Service's initiatives include the following efforts:

- **Upgraded distributed computing infrastructure.** Replace out-of-warranty hardware and software products, including e-mail system and workstations. Consolidate ninety-four help desks into three help desks.
- **Upgraded mainframe computing infrastructure.** Upgrade backup capabilities, operating system software, and computer hardware.
- **Upgraded midrange computing infrastructure.** Improve midrange computing capabilities and production support.
- **Technical shared services.** As part of the infrastructure upgrades, these services provide mechanisms to build integrated rather than stove-piped applications.
- **Corporate shared services.** This initiative focuses on leveraging the upgraded infrastructure to reengineer enterprise-wide, back-office functions, such as systems that restructure accounting and human resources (e.g., SAFR and ICPAS).

Through these initiatives, the Postal Service is striving to provide greater value with information technology investments that reduce long-term support costs.

Ensure Universal Computing Connectivity

The technology infrastructure supports a vast number of voice and data requirements via its data communications network. This network provides a highly reliable infrastructure with 99.9 percent availability to its users 24 hours a day, seven days a week. Currently more than 8,200 of the Postal Service's largest sites have either fully redundant network connectivity or backup capability. This capability, which includes satellite support, allowed the Postal Service to continue communications at New York sites during the terrorist attacks on September 11, 2001.

Like other large organizations, the Postal Service is becoming more mobile and more reliant on technology. With network technology demands growing daily, it is imperative that the network infrastructure be able to meet the business needs of the Postal Service's internal customers and its business and interagency partners. The Postal Service is managing the following efforts to ensure universal computing connectivity:

- **Consolidated voice, data, and video networks.** The current local network infrastructure provides high-speed access to video, voice, and other high-speed applications. The Postal Service is focusing its effort on developing a single network infrastructure to support movement of the mail and access by the thousands of users that require enterprise technology resources.
- **Wireless technology.** Wireless technology will enable anytime/anywhere management of mail operations, applications, and business continuity/contingency processes.

Summary

The Postal Service is aggressively moving to expand its Information Technology capabilities. Future enhancements to support its objectives include:

- Expansion of systems, infrastructure, and functional areas served;
- Improvement in overall performance;
- Expansion of user tools that facilitate access and analysis;
- inclusion of a wireless capability to provide mobility to the manager; and
- Enhancement of the security of information and systems.

2.4.4 Ensure Safety, Security, and Privacy of the Mail

The U.S. Postal Inspection Service is the federal law enforcement agency with jurisdiction in criminal matters affecting the mail. Founded by Benjamin Franklin, its historic and current mandate is to provide safety and security for postal employees, customers, and the general public. The security work of the Inspection Service addresses several aspects of Postal Service operations. The Postal Inspection Service is responsible for protecting the general public by denying criminal use of the mail to further illegal activities. Recent events have added terrorism to the list of such threats. The Inspection Service is also charged with protecting the Postal Service against robberies, assaults on employees, destruction of postal property, and similar crimes. The Inspection Service ensures the safety of postal employees, customers, and facilities so that all have a safe work and business environment. To continue and extend these critical functions, three strategies are envisioned.

Security Strategy 1: Prevent Use of the Mail to Defraud Consumers or Convey Dangerous Mailings

Protecting the public against criminal use of the mail is accomplished through investigations in the areas of mail fraud, illegal drugs in the mail, money laundering, and child exploitation. The Inspection Service often takes the lead in responding to mail

fraud schemes relating to telemarketing, mail orders, insurance, and investments. This type of fraud is expected to increase as more promoters take advantage of the perceived anonymity of the Internet. While maintaining its proficiency with traditional mail fraud investigations, the Inspection Service must improve skills related to Internet cases. To meet these challenges, the Inspection Service will continue to:

- Reduce and deter use of the mail for procurement or delivery of materials that promote the sexual exploitation of children;
- Reduce and deter multistate illegal domestic and international telemarketing operations and direct mail operations;
- Reduce and deter deceptive mailing operations;
- Reduce and deter the use of the nation's mail system by organized groups to transport illegal narcotics; and
- Reduce and deter use of postal money orders to launder money.

Security Strategy 2: Reduce Theft of Mail and Other Criminal Attack of Postal Products, Services, and Assets

Providing for the security of the mail and postal products, services, and assets is integral to the Inspection Service's mission to protect the Postal Service from criminal attack. Inspection Service security programs address crimes which can undermine postal operations and erode the financial stability of the Postal Service.

Combating mail theft is essential to ensuring that the Postal Service is successful in its traditional function of delivery. Mail theft techniques have become more sophisticated. Criminals no longer focus on taking the single piece of mail from the mailbox, but on capturing large volumes of mail, from which they obtain information used to perpetrate other criminal endeavors. While the Inspection Service was successful in past years in reducing the number of these volume thefts, these illegal activities have resurfaced in certain geographical areas. To meet these challenges, the Inspection Service will:

- Reduce and deter attacks on postal vehicles, apartment panels, collection boxes, and collection box units;
- Identify and resolve domestic and international in-transit mail theft;
- Reduce and deter theft-related identity theft and identity take-over crimes; and
- Reduce and deter embezzlements, criminal misuse of Postal Service's workers' compensation, and postage fraud schemes.

Security Strategy 3: Ensure a Safe, Secure, and Drug-Free Work Environment

The Inspection Service must enhance its services, both in number and rigor, in order to protect postal employees and customers. Through its unique role of providing security and investigative services, the Inspection Service fosters a safe working environment and helps prevent injury. The Inspection Service will:

- Reduce and deter employee-on-employee assaults and credible threats;

- Deter robberies of postal employees and facilities; and
- Reduce and deter illegal drugs in the postal environment.

Security Strategy 4: Ensure that the Postal Service Maintains its Trusted Brand and Provides Top-Rate Privacy Protection

The Postal Service Privacy Office, established in November 2000, is responsible for ensuring that the Postal Service maintains its trusted brand in the changing privacy landscape. The Privacy Office is also responsible for managing Privacy Act and Freedom of Information Act (FOIA) compliance.

The Postal Service was among the first federal agencies to appoint a Chief Privacy Officer, who ensures that appropriate cross-functional groups are involved with setting policies and processes. The Privacy Office establishes and implements privacy policies that reflect best practices of both government and industry and develops processes to ensure compliance with statutes and policies.

The Postal Service currently complies with both federal requirements and commercial guidelines. Adherence to federal privacy laws strengthens the trusted brand of the Postal Service and allows the Postal Service to offer privacy assurances, backed by federal law, which private sector competitors do not. However, federal laws limit the ability of the Postal Service to collect, use, and sell customer data like other businesses. Federal privacy and FOIA laws also impose certain compliance requirements on the Postal Service that do not apply to private sector competitors.

The Postal Service has a trusted brand, developed over its 225-year history, based in large part on privacy and security protections. To ensure that the Postal Service provides top-rate privacy protections in today's world, it will be vigilant in adapting to ever-changing legal and policy frameworks, new technologies, and business models and practices.

While the Postal Service commits to continue reducing costs and enhancing revenues now, the strategies of improving service, enhancing growth of products and services and promoting an incentive-based culture from within will not be enough to alter the fundamental challenges facing the Postal Service. Some moderate regulatory and legislative reforms are also needed in the near term. These are discussed in the following section.

2.5 Seek Moderate Regulatory and Legislative Reforms

The success of the Postal Service's internal efforts to meet its three overarching transformational imperatives—*increase customer value, improve operational efficiency, and promote a performance-driven culture*—will require more than the implementation of the strategies outlined in the preceding pages. To meet the fundamental challenges facing the Postal Service, some moderate regulatory and legislative reforms must be adopted. These reforms will allow postal management to test new opportunities, to prepare for transformational reforms that will be needed in the future, and to

"We support the need to change legislation in order to encourage competitive pricing and alternative delivery methods".

—Government Agency

prove its ability to deliver in a less constricted environment. With these considerations in mind, the Postal Service urges the Postal Rate Commission (PRC) and Congress to consider several steps that can be addressed in the near term.

Reforms required in the near term are summarized in this section and fall into four categories:

- Seek the maximum flexibility consistent with the current rate-making process;
- Rationalize retail network facilities;
- Adopt more businesslike supply chain management practices; and
- Reform labor and employment provisions.

Reform Strategy 1: Seek the Maximum Flexibility Consistent with the Current Rate-Making Process

Within the framework of the current rate-making process, the Postal Service will seek several reforms to respond to customer pricing needs and to restore postal finances to a more sound footing. The Postal Service believes that the following reforms can be implemented administratively by the PRC. The Postal Service will therefore ask the PRC to revise and update certain procedural regulations.³⁰ In the event that this effort identifies hurdles that cannot be cleared within the scope of existing statutes, the Postal Service will ask Congress to remove those hurdles legislatively.

Negotiated service agreements. Many of the Postal Service's customers want access to prices and services targeted to their specific business needs. One way to accommodate this need is through customized agreements such as negotiated service agreements (NSAs). The Postal Service, the PRC, and mailers have discussed this concept since at least the 1970s. The Postal Service will ask the PRC to develop more workable procedural rules to enable mailers and the Postal Service to put NSAs into place. To assure that the postal system and public benefit from this program, each agreement will be designed to increase overall contribution to the Postal Service, whether through increased revenues, reduced costs, or a combination of both. As the law stipulates, these agreements will not unduly discriminate against other mailers.

Targeted pricing incentives. Other industries routinely provide price incentives to attract and retain high-volume business. The Postal Service intends to evaluate the selective use of incentives within the existing classification structure to stimulate additional demand. This could include, but would not necessarily be limited to, seasonal incentives, peak period pricing, and declining block rates (incentives that increase in value as customer volume increases). These strategies could be used to help the Postal Service retain and increase volume otherwise subject to diversion.

Experimental classification. The PRC's current rules for expedited consideration of experimental classifications have been used sparingly. Changes are needed to make the process more workable. The Postal Service will ask the PRC to work with it and its customers to improve the process. The current process devotes considerable litigation time to whether the PRC considers the proposal to be an experiment and whether to invoke an expedited process. Opposition to an experiment prolongs the litigation. To

³⁰ See Appendix R, *Postal Regulation*, for more information.

address these kinds of issues, the Postal Service will ask the PRC to make several changes: 1) to define an experiment more concretely, 2) to assure a prompt recommended decision, and 3) to allow quick fine-tuning adjustments over the course of an experiment as data are obtained.

Phased Rates. Postal Service customers generally have a strong interest in having postal rate increases become more predictable. Inconsistent increases in terms of magnitude and timing make it difficult for them to plan and run their businesses. The Postal Service will approach the PRC to request that it work with mailers and the Postal Service to revise procedural rules to facilitate adoption of phased rates. In a phased rate proposal, the Postal Service would request that the PRC adopt rules permitting rate changes to be implemented at defined intervals over a multiyear period. In addition to better planning for customers, rate phasing would provide the Postal Service a more predictable revenue stream without extensive litigation of every rate change. A well-designed phased rate proposal also may allow the organization to propose a series of rate changes that meet longer-term strategic goals.

“We would welcome a streamlined rate-making process which may allow for more moderate and predictable rate increases”.

—Business Customer

Finance delivery network expansion on a current basis. As discussed earlier in the Financial Management section, the Postal Service will pursue a mechanism to include cost increases in the revenue requirement in future rate cases to provide on a current basis the cost for new facilities to serve the expanding delivery network.

Reform Strategy 2: Rationalize Retail Network Facilities

Recognizing that there are a growing variety of channels through which the Postal Service can provide high-quality services to its customers, the organization will begin to rationalize its retail network of facilities to offer alternative, less expensive customer access. Under existing law, the Postal Service will begin to implement the following actions:

- Lift the self-imposed moratorium on post office closings and consolidations. The continuing moratorium on closings hinders both service improvements and cost savings that could be produced through an optimal network of facilities.
- Coordinate the closing and consolidation of post offices and the closing of unnecessary contract postal units with retail access strategies to assure that customers retain adequate access to products and services. Issues such as access, efficiency, savings, and the impacts on small communities and employees will be taken into account.
- Work with the PRC to streamline the post office closing process to minimize turnaround time.

The Postal Service's internal effort to rationalize the facilities network will not be wholly successful, however, as long as existing statutory restraints remain in place. The Postal Service will therefore urge Congress to repeal administrative notice and appeal procedures mandated for closing post offices or replace them with more flexible procedures. In addition, the Postal Service will ask Congress to refrain from adding amendments to annual Postal Service appropriations bills that discourage post office closings and freeze service levels at the 1983 level. Without greater flexibility to adapt and change, the traditional network will grow increasingly obsolete and needlessly expensive, draining postal resources that could be used to improve the Postal Service's overall ability to serve the American public.

Reform Strategy 3: Modernize Purchasing Procedures

Consistent with the way businesses purchase goods and services, the Postal Service will revise its purchasing regulations to the extent allowed by present law. While much progress has been made over the years to make purchasing regulations reflect commercial best practices, more progress will be made. For example, the regulations, but not the Postal Reorganization Act, currently allow potential suppliers to protest sourcing or other business decisions if the supplier is dissatisfied with the process or the result. The revised regulations will further the business and competitive interests of the Postal Service by allowing the purchasing of goods and services under policies that will lead to favorable long-term relationships with important suppliers, will result in more expeditious purchases at superior, overall values and lower administrative cost, and will allow for dispute resolution with less litigation.

Reform Strategy 4: Reform Labor and Employment Provisions

In an organization that remains overwhelmingly labor-intensive, compensation and labor policies are too critical to the performance and cost of the postal system to ignore in the near term. The Postal Service believes that two areas should be addressed by Congress now.

Impasse Resolution

When labor and management fail to agree on wages and working conditions, the present statute empowers one individual, an outside arbitrator, to determine the final agreement. Labor agreements are, by far, the largest single element of the Postal Service's costs and therefore the primary determinant of prices and the key factor in the Postal Service's overall financial viability. The Postal Service believes that laws should be amended in the near term to increase the opportunity for the parties to resolve such disputes themselves.

Prior to arbitration, the current statute authorizes a fact-finding process (39 U.S.C. 1207(b)). In the past, the parties have found this process unsatisfactory and have frequently waived it. In place of this stage, the parties should have the benefit of a single mediator selected by the Secretary of Labor. The selected mediator should, by law, be an individual of nationwide reputation and professional stature and a member of the National Academy of Arbitrators. Such professional credentials should ensure that the arbitrator has the ability to mediate a dispute affecting hundreds of thousands of employees and a vital national communications network.

Salary Cap

Challenges faced by the Postal Service in today's environment place a premium on effective management. The Postal Service must be able to improve upon levels of cost reduction and productivity realized in the past, while still improving service for its customers. Achieving these goals is rendered more difficult by the current statutory limitation on salary, which may not exceed Executive Schedule Level I. As the organization endeavors to retain mail volume against diversionary threats, no competitor of the Postal Service will be similarly encumbered.

The upper limit on salaries prevents the Postal Service from approaching comparability to the private sector at the executive level. This limitation should be eliminated. The Postal Service should provide compensation for officers, executives, and other nonbargaining unit employees equivalent to compensation for comparable positions in the private sector. Comparable pay levels would not only help improve performance but also facilitate recruitment and retention for key positions.

2.6 Near-Term Commitment

The strategies presented in this section of the *Transformation Plan* identify steps that can and should be taken in the near term by the Postal Service, the PRC, and the Congress to begin the process of postal transformation. For its part, Postal Service leadership is committed to implementing those initiatives within its discretion as it strives to make postal products and services more valuable to customers, operations more efficient, and the workforce more effective. In addition, the Postal Service respectfully urges the PRC, and where necessary Congress, to address as soon as possible the moderate regulatory and legislative reforms identified in this chapter and committed to their respective authorities.

In total, the customer-focused, operational, and performance-based strategies outlined in this *Plan* will generate \$5 billion in savings and cost avoidance through 2006, of which \$1 billion will be in post office operations. These savings will enable the Postal Service to achieve some debt repayment and to hold prices steady from mid-2002 until calendar year 2004. If a rate increase is necessary at that time, a moderate, negotiated increase will be pursued.

While these near-term reforms will provide the Postal Service incremental additional opportunities and incentives to begin the transformation, in the longer term, a fundamental restructuring of the legislative and regulatory framework for the Postal Service will be required. The need to address these larger issues and reach a national decision on the future of the Postal Service is the subject of the next chapter.

