

FY2002
**Annual
Performance Plan**

October 2001





October 30, 2001

To the President of the United States, the United States Congress, the Members of the Postal Community, and the American People:

I am pleased to present the Annual Performance Plan for FY2002 as required by the Government Performance and Results Act (GPRA) of 1993. In this plan we describe how the United States Postal Service will build on its record of prior success in improving service performance, customer satisfaction, employee safety, diversity, and commitment.

Today the Postal Service is at a crossroads in its efforts to maintain and improve service to the American people while maintaining financial stability. Postal stakeholders are engaged in a critical effort to transform the Postal Service and the mailing industry to meet the needs of the American people in the 21st century. We have to find ways to come together to make the changes in our thirty-year-old legislative structure that will enable the Postal Service to continue to provide its universal service mission. Management needs better tools to meet the changing times, and reform must represent the best interests of all our stakeholders.

These efforts to improve the organization are challenged by a difficult economic environment. Mail volume and revenue traditionally grow with the economy, and, like most organizations in the United States, the Postal Service faces increased uncertainty on the direction of the economy over the next year.

The Postal Service has taken bold actions this year, with one of our most stringent budgets ever. We have reduced 26 million work-hours, the equivalent of 13,000 jobs. We have just begun the most sweeping organizational changes in ten years, reducing officer positions by 20 percent and eliminating more than 800 headquarters and headquarters-related positions. We have also eliminated over 2000 positions through administrative staffing reductions at our area and field offices.

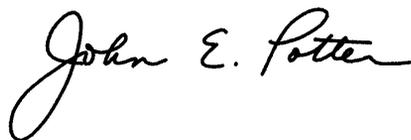
Yet, we have maintained record levels of service performance and customer satisfaction. We have achieved nine straight quarters of positive productivity, up almost 4 percent in the last two years, while adding 1.7 million new deliveries last year alone.

Our focus will be on maintaining these performance and customer satisfaction levels. If we do that, I am convinced we can transform the Postal Service and make it ready for the future.

We also have a major responsibility to assure the nation and postal employees that the mail system is safe. We cannot allow our nation's confidence in the mail to erode. The U.S. Mail is too important to the nation. It represents an industry that helps drive American commerce and serves every family in the country. The Postal Service and its partners in the mailing industry are taking immediate action to improve security and to reassure Americans that it is safe to use the mail.

The Postal Service has a heritage that the mail must go through, no matter what. *The FY2002 Annual Performance Plan* documents the Postal Service's planned efforts to improve service, reduce cost, develop its people, and maintain financial stability over the next year. This plan describes the day-to-day efforts of the Postal Service to carry on its mission of binding the nation together.

During the next year the Postal Service and the nation will face extraordinary challenges. The Postal Service is working intensively with its stakeholders to discuss the long-term challenges of performance, productivity, growth, financial stability, human capital development, and universal service. We will prepare a Comprehensive Transformation Plan that addresses these concerns. As these issues are resolved, the *Annual Performance Plan* and the *Five-Year Strategic Plan, FY2001–2005*, will be adjusted accordingly.



John E. Potter

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I. INTRODUCTION

The Postal Service is a key element of the nation's infrastructure. In FY2002, the Postal Service will have an operating budget of over \$70 billion and will be the eighth largest organization in the United States, as measured by sales. At the end of FY2001, the Postal Service had 775,900 career employees and over 100,000 casual, temporary or other non-career employees, making it one of the largest civilian employers in the country. It will deliver some 207 billion pieces of mail this year – more than 680 million pieces each delivery day to over 135 million addresses across the nation.

Mail volume per customer has increased over 80 percent since 1970. The delivery network has increased by two-thirds and is currently increasing at about 1.7 million new addresses every year – new workload roughly equal to adding a city the size of Chicago to our delivery base. Despite these dramatic increases in workload, postal employment has increased only about 20 percent since 1970.

If for no other reason than the scope of its organization and the breadth of its responsibilities, the USPS faces a significant management challenge. The *Annual Performance Plan* provides a disciplined written summary of performance goals and measures.

One of the major objectives of the Postal Reorganization Act of 1970 was to make the Postal Service self-sufficient, that is, financed almost entirely by users. That was accomplished by 1982 in what the National Academy of Public Administration called “outstanding implementation of the Postal Reorganization Act.”¹ Since then, the Postal Service has dramatically improved service performance and customer satisfaction, leading the American Center for Service Quality to call the Postal Service “the most improved service” among a wide variety of services measured.² This is the backdrop for the Postal Service's implementation of the Government Performance and Results Act.

GOVERNMENT PERFORMANCE AND RESULTS ACT REQUIREMENTS

The Government Performance and Results Act (GPRA)³ requires federal agencies to:

- n establish performance goals to define the level of performance;
- n express such goals in an objective, quantifiable, and measurable form, where possible;
- n briefly describe the requirements to meet the performance goals;
- n establish performance indicators to be used;
- n provide a basis for comparing actual program performance with goals;
- n describe the means to be used to verify and validate measured values.

¹ Evaluation of the Postal Reorganization Act of 1970, National Academy of Public Administration, 1983.

² American Service Quality Index, American Service Quality Center, 2000.

³ [Title 39, U.S. Code, Sec. 2083(a)]

The *FY2002 Annual Performance Plan* addresses these requirements as follows:

| GPRA REQUIREMENT | SECTION |
|---|--|
| Establish Performance Goals | Section II. Postal Strategies |
| Objective, Quantifiable, and Measurable Goals | Section III. Goals, Objectives, Indicators and Targets |
| Describe Requirements (Targets) | |
| Establish Indicators | |
| Compare Goals with Actual Performance | Chapter 5. FY2000 Annual Performance Report, in <i>2000 Comprehensive Statement on Postal Operations</i> Appendix 2. Recent Performance Summary |
| Verify and Validate Measured Values | Section IV. Measurement Systems Section V. Verification and Validation |
| Describe Programs and Link Resources to Goals | Section VI. Programs and Resources |

The development of the Performance Plans and Strategic Plans outlined in the Government Performance and Results Act has led to an ongoing dialogue about continuous improvement of the Postal Service management systems. In addition to the internal parts of this conversation, there has been an ongoing dialogue with the General Accounting Office about finding ways in which the Performance Plan might be improved. The GAO Report of April 14, 2000, which reviewed the FY2001 preliminary *Annual Performance Plan*, provided guidance which has been incorporated into the final Performance Plan. The GAO recommended a number of enhancements to the Postal Service planning and reporting process.

| GAO COMMENT | USPS® RESPONSE |
|--|--|
| Prior year subgoals – and their associated indicators and targets – were not carried forward, but no detailed explanation was provided | A detailed description of changes to GPRA subgoals, indicators, and targets is provided in Appendix 1 |
| The criteria the Postal Service used to measure its success toward achieving certain goals were unclear | For FY2002, USPS management has clarified the objectives and the criteria for measurement |
| The descriptions of strategies to accomplish certain results were incomplete | More detail is included in Section II and VI |
| Information contained in prior years’ plans was carried forward without being updated to reflect known or anticipated changes | A brief description of the changes in the postal environment since the publication of the <i>USPS Five – Year Strategic Plan, FY2001-2005</i> and the <i>FY2001 Annual Performance Plan</i> is included. Additionally, the latest available information from the USPS Integrated Financial Plan is incorporated. |
| Little or no explanation was given on why the plan lacked baseline data for some indicators | More explanation on the development of indicators and baseline data is provided in Appendix 1 |

The Postal Service responded to the GAO recommendations on September 1, 2000, and has incorporated these changes into the final *FY2001 and FY2002 Annual Performance Plans*. Furthermore, the Postal Service is actively engaging the GAO as part of its efforts to improve its performance planning and reporting process.

The public may sometimes assume that government managers promote all the goals spelled out in an agency’s authorizing statutes and appropriations laws. This is not always feasible in practice. Resource scarcity and inherent conflicts among the goals compel public organizations to make trade-offs every day. Setting performance goals will not resolve scarcity problems and inherent conflicts about agency objectives. It does, however, make more explicit how an agency chooses to deal with them.⁴

⁴ *Executive Session on Performance Management*, Harvard University, Kennedy School of Government, sponsored by the Smith Richardson

One key aspect of the management system that has been created by the Postal Service has been the prioritizing process. To give added emphasis to key performance targets, the Postal Service created the Pay for Performance (PFP) system. Over the five years in which the Postal Service has used PFP indicators and targets, the system has been responsible for performance achievements that have exceeded historic experience in such areas as productivity improvement and safety.

The Postal Service has incorporated the principles of the Government Performance and Results Act into its management process that is used throughout the Postal Service, and has established direct accountability between performance on GPRA targets to personal and organizational evaluation. The Annual Performance Planning process is focused primarily on continuous, incremental improvement of the Postal Service – regardless of the current economic environment, under the existing regulatory and legislative structure. The process has led to significant improvements over time in all the measured criteria – service performance, customer satisfaction, safety, training, diversity, complaint resolution, employee satisfaction, and productivity. The question of whether this incremental improvement will be sufficient to address more fundamental structural obstacles to postal performance in the future is a different subject from the focus of this *Annual Performance Plan*. The requirements of more fundamental, transformational change were described by the Comptroller General of the United States in testimony before the House Committee on Government Reform on April 4, 2001 and the Senate Governmental Affairs Committee on June 14, 2001. The Postal Service is addressing these issues in the *Comprehensive Transformation Plan*, due to Congress on December 31, 2001.

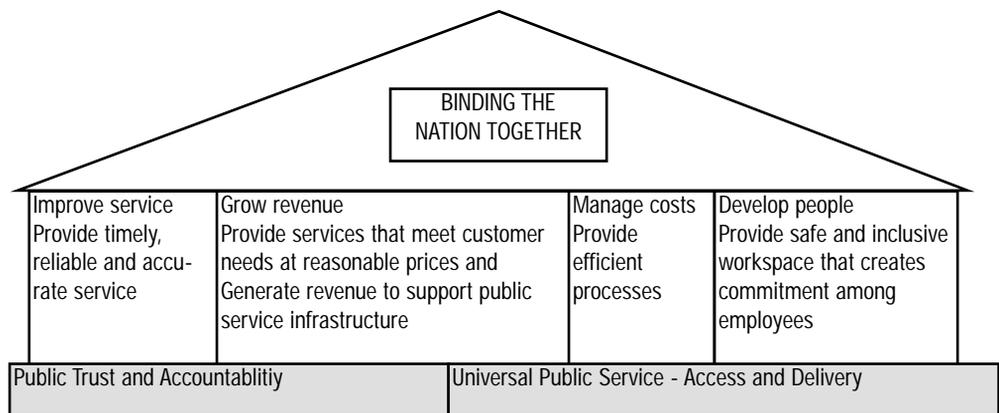
The Mission of the United States Postal Service®

The mission of the United States Postal Service is described by the Postal Reorganization Act of 1970.⁵

“The Postal Service shall have as its basic function the obligation to provide postal services to bind the nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.”

This mandate has resulted in the development and maintenance of a postal network to provide universal service, which has been generally defined as daily delivery to every address in the nation and access to the postal network through Post Offices located in communities throughout the nation.

THE MISSION OF THE USPS



Strategic Vision (Focus)

The long-term vision described in the *Five-Year Strategic Plan, FY2001–2005*, is that the Postal Service will become “flexible, innovative, and responsive to the changing needs of different customers in competitive markets.”

USPS Strategic Values

The Postmaster General has provided an outline of the underlying values that will drive the strategies for daily operations of the Postal Service. Incremental improvements are described in the *Strategic Plan* and the *Annual Performance Plan* and changes in the organization will be described in the *Comprehensive Transformation Plan*. Through all these changes in programs and policies, the Postal Service will continue to focus on Strategies for Success.

⁵ [Title 39, U.S. Code, August 12, 1970]

UNITED STATES POSTAL SERVICE

STRATEGIES FOR SUCCESS

KEEPING OUR FOCUS

DEVELOPING PEOPLE

1. Treat everyone with dignity and respect
2. Value diversity and its benefits
3. Communicate workplace changes openly and honestly
4. Don't just say it – do it!
5. Maintain values: accountability, integrity
6. 800,000 partners

PURSUING REFORM

1. Positive, constructive changes:
 - a. Legislative, regulatory frameworks
 - b. Postal culture
2. Work with all stakeholders
3. Current statute no longer provides tools to manage organization effectively
4. Not reform for sake of reform
5. Reform that gives us tools to maintain universal service and a healthy USPS
6. Maintain values: accountability, integrity
7. 800,000 messengers

MANAGING COSTS

1. We have to get back every penny we spend from our customers
2. Customers facing same tough economy we are
3. Must show we are doing *everything* possible to hold down our costs and theirs
4. The small things add up
5. 800,000 productive people

GROWING REVENUE

1. Start with the \$68 billion core business
2. Every penny below revenue plan is a penny less to support universal service infrastructure
3. More efficient, timely transportation
4. Develop new products and services
5. Use postal products
6. Electronic initiatives
7. 800,000 sales reps

IMPROVING SERVICE

1. Heart of our brand
2. It's our promise
3. Provide best service and value possible
4. Find the problems and fix them
5. Generate better information about customers' mail in our system
6. 800,000 service reps

The Role of the Postal Service

Although there are now many communication channels that serve to “bind the nation together,” only one – the United States Postal Service – is truly universal and operated primarily in the public interest.

The mailing industry that depends on the Postal Service is critical to the success of the U.S. economy. The Postal Service reaches every household and business in the United States on a daily basis. The Postal Service delivers about 207 billion items annually, compared to less than 4 billion items for UPS and less than 1 billion for FedEx. The mailing industry and the most intensive users of the mail, which depend upon a healthy Postal Service, employ more than 9 million U.S. workers. A viable Postal Service is vital for the U.S. economy.

External Environment

The next few years will be very challenging for the Postal Service. Postal volume and associated revenue are closely associated with the growth of the U.S. economy. Before September 11, economic forecasts estimated that the current softness in the economy would continue through the second quarter of 2002. Inflation in labor costs and other nonpersonnel items has outpaced revenue growth in this slow economic environment. As directed by the Board of Governors on September 10, 2001, management filed an omnibus rate case on September 24, 2001.

The impact of Internet-related applications on mail volume continues to be uncertain. It is possible that if - and as - the economy improves, mail volumes will also maintain the

traditional relationship with the economy and grow accordingly. At the same time, however, the impact of electronic mail, electronic bill presentment and payment, and other competitive alternatives may shift the mix of applications in the mail. While total mail volume could continue to grow, the most attractive mail – with the highest contribution to costs, and therefore, system (infrastructure) maintenance – may not grow as fast and may even begin to decline.

Most external predictions still maintain that a fundamental change in business processes and customer behavior is inevitable, although at an admittedly slower pace than previously expected. Several trends and resulting projections described here are likely to be impacted by the September 11 terrorist attack on the United States, the U.S. response, and the economic aftermath. As the economy adjusts, there has already been moderate decline in mail volume which is likely to continue at a greater rate than currently forecasted.

It is this uncertainty about the future that leads to the need for greater flexibility, innovation and responsiveness to the market if the Postal Service is to be able to continue to finance its mission. Certainly, the Postal Service will assist in the national security efforts through further improvements in mail security. The Postal Service will support the deployment of U.S. personnel overseas through its historic relationship with the Department of Defense and ensure that Americans continue to get their mail wherever they may be stationed or how often they may have to move as deployments change.

USPS Management Process

The Five-Year Strategic Plan of the United States Postal Service, FY2001-2005, described a management process that developed through the application of Malcolm Baldrige National Quality Award principles. This process was recently reviewed as part of the Federal Performance Project, a collaborative effort between the Department of Public Administration at George Washington University and *Government Executive*⁶ magazine. The project, funded by the Pew Charitable Trusts, has evaluated the management capacity of 27 different federal agencies over the past three years. The results of the evaluation of the Postal Service were published in the April issue of *Government Executive*, noting that the Postal Service is one of the better-run agencies in government – focused on results, and given high marks for:

- n mission clear, linked to performance plans
- n sophisticated business forecasting
- n balanced scorecard with integrated planning
- n outcome-focused measures
- n reliable data

⁶ Special Issue: Federal Performance Report, *Government Executive*, April 2001, page 55-64.

Postal goals, indicators and targets are developed during an annual planning cycle.

USPS PLANNING CYCLE

| Jan | Feb | Mar | April | May | June | July | Aug | Sept | Oct | Nov | Dec |
|---|--|-----|-------|-----|------|------|-----|-----------------------------------|-----|-----------------------------------|-----|
| Establish – Goals, Indicators, Targets, and Resource Allocation | | | | | | | | | | | |
| | Deploy – Issue resolution, resource requests | | | | | | | | | | |
| | | | | | | | | Implement– Plans to reach targets | | | |
| | | | | | | | | | | Review – Performance against plan | |

Preliminary performance plans are in the *Comprehensive Statement on Postal Operations*, published in April. During FY2001, postal management paid particular attention to improving the “Deploy” phase. This phase involves extensive interactive and iterative discussions of field and headquarters operating program managers with finance and senior management of the Postal Service on the allocation of resources needed to achieve targets set for the coming year.

The Relationship of the *FY2002 Annual Performance Plan* with Other USPS documents

The *FY2002 Annual Performance Plan* is part of the intensive planning process of the Postal Service. There are a number of other related documents and initiatives that together present a complete description of the goals, strategies, programs and performance of the Postal Service. They include:

Five-Year Strategic Plan

The *Annual Performance Plan* is based on the strategic goals and objectives described in the *Five –Year Strategic Plan of the United States Postal Service, FY2001-2005*. It reflects changes in the postal operating environment since the publication of the *Strategic Plan* in September 2000. For FY2002, these changes result from a slowing U.S. economy that has led to reduced postal revenue/volume projections and from unexpected increases in costs.

The effects of the September 11 attack on the United States and its impact on the economy are not yet clear but are likely to extend the poor economic conditions beyond the second quarter. The Postal Service is also constantly updating scenarios on volume forecasts based on the most recent economic trends and on the latest information on issues such as mail diversion to other media. As a result, the current forecast has been updated from that presented in the *Five-Year Strategic Plan*.

The *Annual Performance Plan* provides more detail than the *Strategic Plan* on the year-to-year programs that support the basic mission of the Postal Service. It’s focus is on annual, incremental improvements.

Operations and Functional Department Plans

The *Annual Performance Plan* does provide some information on major postal programs that support the strategic goals. However, it is not meant to serve as a detailed description of postal programs. The Postal Service publishes an annual *Comprehensive Statement on Postal Operations* that provides a summary of most major postal programs. Many of these programs also publish separate plans that provide additional detail.

Integrated Financial Plans and USPS Annual Report

The *Annual Performance Plan* is aligned with the FY2002 Integrated Financial Plan of the Postal Service.

The Postal Service publishes a separate *Annual Report of The U.S. Postal Service* that presents independently audited financial results and highlights major achievements during the year

The Comprehensive Transformation Plan

As a result of Congressional oversight hearings and GAO review, the Postal Service was asked to develop a *Comprehensive Transformation Plan* by December 2001.

As the postal stakeholder community responds to the Transformation Plan, the Strategic Plan will be updated.

II. FY2002 Postal Strategies

For the past several years, the Postal Service has three basic improvement strategies focused on service, the workplace, and operating efficiency. This balanced approach is likely to remain in place in any future business environment or regulatory structure.

Growth (Voice of the Customer)

The Postal Service is completely dependent upon customers to provide the revenues necessary to support a growing public service infrastructure. These customers have direct substitutes and indirect alternatives to mailing services. The strategic goal is to provide services that meet the needs of different customers in competitive markets and to grow the revenue necessary to support the public service mission of the Postal Service.

The Postal Service will do this by providing consistent service across all classes of mail against the service standards relevant for each category of mail. The initial focus has been on First-Class Mail® delivery in the overnight service area. The Postal Service has improved service performance against the standard for First-Class Mail service significantly over the last several years and is now maintaining service at very high levels. This will remain the “threshold” requirement for postal operations.

For FY2002, additional attention will be paid to First-Class Mail, two- and three-day mail, and to Express Mail® and Priority Mail® service. The transportation contract with FedEx is a major part of this strategy, as is the initiative to reduce costs and improve service consistency by replacing air transportation with ground transportation where feasible.

The Postal Service will lay the groundwork for further improvement in Standard and Parcel Select categories in FY2002 and will examine the accuracy of delivery indicator for First-Class Mail service. The Postal Service will continue to focus on maintaining high levels of business and consumer satisfaction.

Motivated, Productive and Inclusive Workforce (Voice of the Employee)

The Postal Service is a labor-intensive operation, and future success will depend on a motivated, productive and inclusive workforce. Significant improvements have been made over the last several years in providing relevant training and a safer, more inclusive, work environment. The Postal Service has implemented an improved system for handling EEO complaints (the REDRESS® program) and has been measuring employee satisfaction. For FY2002, the Postal Service will continue to focus on developing its employees and in providing a safe, inclusive and fair workplace.

Affordability (Voice of the Business)

The ability of the Postal Service to provide services at rates that are affordable and reasonable in competitive markets will depend on productive use of the available resources. Improved productivity will reduce the rate of growth in key postal operating costs.

For FY2002, the Postal Service will focus on achieving and maintaining high levels of productivity, using Total Factor Productivity (TFP) as a measure. TFP measures the change in relationship between outputs, or workload, and all resources used in producing those outputs. During FY2001, TFP is projected to grow. When compared to other years with a strong productivity growth, the FY2001 achievement is significant. In prior years, strong TFP was produced by absorbing workload growth. In FY2001, productivity has been achieved by substantial constraint on resource use, including a reduction of work years used compared to the years before absorbing the workload of 1.7 million new deliveries.

The FY2002 financial plan contains a 1.1 percent increase in TFP. This is expected to mark the third consecutive year of significant productivity growth. The FY2002 financial plan calls for smaller expense growth than in FY2001, while total workload growth resulting from mail volume and delivery changes will be less than one percent.

III. FY2002 Goals, Objectives, Indicators and Targets

The Postal Service has developed a “balanced” scorecard that meets the major concerns of key postal stakeholders – customers, employees, and the policy community. The scorecard has evolved over time to encourage both organizational and individual accountability for achieving specific performance objectives, as developed through the management process and described in the *Annual Performance Plan*.

The first set of goals, objectives, indicators and targets focuses on the performance of the Postal Service as a whole, to which everyone contributes and are used in our Pay for Performance Program. This program, currently with over 80,000 officers, executives, managers, supervisors and postmasters participating, provides financial incentive for achievement of these goals, objectives, indicators and targets. This year’s goals and subgoals produce ten clearly defined measurable indicators and targets.

FY2002 GOALS, INDICATORS AND TARGETS PAY FOR PERFORMANCE PROGRAM (PFP)

| Goal | Sub Goal | Indicator | Weight | FY2002 Target | Strategic Goal (FY2005) |
|---|---|--|---|--|---|
| <u>Voice of the Customer</u> Growth | Timeliness and Consistency | First-Class Overnight on Time (EXFC) <i>Originating and Destinating Composite</i> | Threshold | 93% | Consistency of Performance Across All Classes of Mail vs. Service Standards |
| | | Express Mail on Time (Product Tracking System) <i>Originating and Destinating Composite</i> | 30% | 94% <i>PQ III and IV</i> | |
| | | Priority Mail on Time within 2 days (PETE network) <i>Originating and Destinating Composite</i> | 30% | 91% <i>PQ III and IV</i> | |
| | | First-Class Mail on Time, 2-3-days (EXFC) <i>Originating and Destinating Composite</i> | 30% | 88% <i>PQ III and IV</i> | |
| | | Delivery Confirmation™ Scan Rate Priority Mail | 10% (2.5% per Quarter) | 98% <i><5% Manual/ Multiple Scan Composite (PQ I, II, III, IV)</i> | |
| <u>Voice of the Employee</u> Motivated, Productive and Inclusive Workforce | Minimize Impact from Accidents and Injuries | OSHA Illness/Injury Rate | Threshold | 2% National <i>allocated by opportunity</i> | "Available for Duty" Rate |
| | | Employees Committed to USPS Success | Voice of the Employee Survey (VOE) Survey PFP | Equal to or Better Than FY2001 (20% per Quarter, + 20% Year-end) | |
| <u>Voice of the Business</u> Affordability | Improve Productivity | Total Factor Productivity (TFP) | Threshold | 1.1% Over FY2001 | Increased Contribution on Different Product Lines |
| | | Area Productivity Improvement | PFP | Improve Over Hurdle | |
| | | Performance Cluster Productivity Improvement | PFP | Improve Over Hurdle | |

Explanations

Items in parenthesis describe the relevant measurement system

Italics indicate clarifications of relevant goal for operational implementation

Threshold items are basic requirements for maintenance; they must be achieved in order to qualify for consideration in other categories

All targets are subject to change to adjust for external factors, such as economic conditions and workload changes

A second set of indicators and targets, based on the same goals, has been developed that is more relevant to individual accountability. Performance on these indicators and targets is tied to individual merit evaluations for managers of work units, rather than overall organizational measures of success.

FY2002 GOALS, INDICATORS AND TARGETS INDIVIDUAL MERIT PROCESS

| Goal | Sub Goal | Indicator | FY2002 Target | Strategic Goal (FY2005) | |
|---|---|--|--|---|--|
| Voice of the Customer Growth | Timeliness & Consistency | Delivery Confirmation Scan Rate – Parcel Post | Baseline | Consistency of Performance Across All Classes of Mail vs. Service Standards | |
| | | Improve Parcel Select™ | Baseline | | |
| | | Improve Standard Carrier Route bundles within delivery window; All others within standard | Baseline | | |
| | Reliability | Accuracy of Delivery Index | 98.5% | | |
| Customer Satisfaction | Customer Satisfaction (Customer Survey) | Overall Residential Customer Satisfaction | Maintain FY2001 | | |
| | | Overall Business Customer Satisfaction (Customer Survey) | Maintain FY2001 | | |
| Voice of the Employee Motivated, Productive and Inclusive Workforce | Minimize the Impact from Accidents and Absences | "Available for Duty" Rate | Baseline | "Available for Duty" Rate | |
| | | Skilled Workforce | Training in Prescribed Curriculum <i>4 hours mandatory workplace environment</i> n <i>EAS > 15 (20 hours)</i> n <i>EAS < 14 (8 hours)</i> n <i>Craft (8 Hours)</i> | 97% Employees | |
| | Sound Dispute Resolution Processes Inclusive | REDRESS | | 100% Work Units | |
| | | | | 100% availability 70% Participation | |
| | Workforce | n <i>Representation of all groups in details and special assignments</i> n <i>Representatives of all groups in succession plans</i> n <i>Activities supporting affirmative action plan</i> | Quarterly Reviews for Officers | | |
| Voice of the Business Affordability | Improve Productivity | Flats and Parcels Contribution | Developing Indicator | Increased Contribution on Different Product Lines | |
| | Improve Financial Strength | Retail Revenue | Achieve Plan | | |
| | | Commercial Revenue | Achieve Plan | | |
| | | Expense Budget Total Operating Expense | Achieve Plan | | |

Explanations

Shaded areas represent goals where indicators were developed in FY2001, and baseline data is being developed for FY2002. Targets will be set, based on these baselines, in FY2003.

Items in italics are for clarification in operational implementation

Revenue and expense plans are finalized at the end of the preceding year and are subject to change during the year, as economic conditions and workload changes

Taken together, the two sets of goals, indicators and targets represent an effort to focus accountabilities and set priorities for resource allocation. They do not represent all the initiatives and programs the Postal Service must implement during the course of the year. They are primarily focused on field implementation, and postal management is developing additional enhancements to clarify the accountability and contribution of headquarters managers and employees. Furthermore, these *Annual Performance Plan* targets represent incremental improvements in current programs and do not necessarily represent more strategic initiatives that are currently under development.

IV. Measurement Systems

The indicators are supported by a variety of measurement systems that have been developed to provide accurate and reliable information to postal managers. It should be noted that some measurement system results show significant seasonal variations, based on unpredictable extreme weather conditions that may adversely affect the transportation and delivery networks in different parts of the country. The target - setting process at the local level attempts to adjust for these variations.

External First-Class Mail® Measurement System (EXFC)

EXFC is an independent externally measured deposit-to-delivery service performance measurement system. It measures First-Class Mail performance from the time mail enters the mailstream until it is delivered to a household, small business, or post office box. EXFC measures service performance from an individual customer perspective and produces accurate, independent, externally generated results. EXFC is designed to provide quarterly estimates of First-Class Mail service performance for 85 Performance Clusters. The Performance Clusters encompass 463, 3-digit ZIP Codes™, from their overnight, two- and three-day service standard areas.

The EXFC system provides information about service performance to our internal and external customers. The Postal Service strives to continuously improve service performance and uses the information provided by EXFC as a reference point and a measure of success. Field managers in the Postal Service use the information provided by the system to improve service performance to our customers.

The accounting firm of PricewaterhouseCoopers independently administers the measurement system, under contract. The official results are published ten days after the end of the quarter by PricewaterhouseCoopers and presented to headquarters personnel for final review. Interim reports and information are shared with the Office of the Consumer Advocate on a daily, weekly, accounting period, and quarter-to-date frequency. Special analyses are performed by PricewaterhouseCoopers to verify that the information is accurate and fairly represents the actual work performed by our employees in the field. The Office of the Consumer Advocate issues quarterly performance reports to the public after review.

Express Mail® Reporting System (EMRS)

The indicator measures the on-time performance of Express Mail based on an analysis of data scanned at origin (usually a retail window) and by the delivery employee. The system is designed to report service and tracking information.

Priority Mail® End-to-End (PETE)

PETE is an independent, externally measured end-to-end service performance measurement system. PETE measures identified Priority Mail performance from the time mail is deposited into the mailstream until it is delivered to a household, small business, or post office box. PETE measures service performance from an individual customer perspective and produces accurate, independent, externally generated results. PETE is

designed to provide quarterly estimates of destinating Priority Mail service performance. It measures those Performance Clusters currently served by FedEx and surface networks.

The PETE system provides information about service performance to our internal customers. The Postal Service strives to continuously improve service performance and uses the information provided by PETE as a reference point and a measure of success. The information provided by the system highlights where work is needed to improve performance. The accounting firm of PricewaterhouseCoopers independently administers the system, under contract. The official results are assembled ten days after the end of the quarter by PricewaterhouseCoopers and presented to Headquarters personnel for final review. Special analyses are performed by PricewaterhouseCoopers to verify that the information is accurate and fairly represents the actual work performed by our employees in the field. Over the next several years, the Postal Service will move to an automated system based on Delivery Confirmation™ service.

Accuracy of Delivery (ADI)

The Accuracy of Delivery Indicator is an independent, externally measured quality indicator for misdelivered and damaged mail. Transit-Time Measurement System reporters provide continuous, ongoing measurement and quarterly results for each of the 85 Performance Clusters. The ADI data is collected across mail classes from both household and business reporters. The data from the system is used to complement the customer satisfaction measures for accuracy.

The reporters collect information about the mail pieces including time of delivery, number of pieces received, the condition of the mail (minor/major damage), and information about misdeliveries. The four mutually exclusive categories of misdelivery are:

- n name is incorrect and everything else is correct;
- n name is incorrect and street number is incorrect while street name and ZIP Code™ are correct;
- n name is incorrect and street name is incorrect while ZIP Code is correct; and
- n name and 5-digit ZIP Code are incorrect.

The accounting firm of PricewaterhouseCoopers independently administers the contract. The results are published on an ongoing basis by accounting period or quarter by PricewaterhouseCoopers. Special analyses are performed by PricewaterhouseCoopers to verify that the information is accurate and fairly represents the actual work performed by our employees in the field. There is no public release of information concerning ADI.

Customer Satisfaction Measurement (CSM)

Since 1991, the Postal Service has measured customer satisfaction independently and objectively for residential household customers. In 1994, measurement was expanded to include business customers, thus providing a complete picture of customer satisfaction for the entire Postal customer base. The primary focus of CSM is improving customer satisfaction and service.

CSM data is collected and reported by four major customer segments including Residential Households and three groupings of business customers; National, Premier and Business Accounts. CSM is designed to provide quarterly estimates of rating and diagnostic results from surveys conducted on a continuous basis. Key results are tracked over time to monitor changes in performance and measure effectiveness of service initiatives.

The CSM system provides independent measures of customer experience with postal products and services. The CSM survey process provides reliable and actionable information to Postal Service managers by identifying opportunities for improvement and focusing on overall customer satisfaction. Survey results supply rating and diagnostic information for reporting and analysis that promote positive change by linking management actions with customer satisfaction. Postal Service field managers use survey results to develop initiatives geared towards improving service to customers.

Telephone surveys are conducted for National and Premier Account customers using Computer Assisted Telephone Interview technology and skilled interviewers. Results are reported by Postal Accounting Period, Quarter-to-Date, Quarter and Year-to-Date. Reports are made available through the Corporate Mainframe and Intranet. The Gallup Organization, an independent, world-class research firm, administers the contract. Overall Performance results for Residential Households are included in quarterly performance reports that are issued to the public after review by the Office of the Consumer Advocate.

OSHA Injury and Illness Rate

This indicator follows the reporting requirements established by the U.S. Occupational Safety and Health Administration. The rate formula is the number of all OSHA recordable injuries and illnesses multiplied by 200,000 and then divided by actual work-hours. Data collection and reporting is conducted internally by Postal Service employees.

Training

This measurement system tracks performance towards corporate training goals. The information is collected internally by postal employees and is entered into the National Training Database. Typically, the system measures completed training, not training in progress, and may therefore underreport total training hours.

Voice of the Employee (VOE)

The Voice of the Employee Survey is administered to one-fourth of career postal employees each quarter so that each employee receives a survey once a year. The survey is conducted and analyzed by an independent outside firm for the Postal Service. An index score is developed from six of the key survey questions and computed by averaging the percent favorable responses for the surveyed issues, with each item receiving equal weight.

Diversity Development's Plans and Tracking Reports

Diversity Department has a series of reports that reflect the performance and progress of the field, area, and headquarters demographics and employee workforce development. These reports are used as part of our tracking and monitoring activities for affirmative employment program requirements. The reports are "Quarterly Workforce Profile," "Quarterly Performance Review," and "Quarterly Tracking Accomplishment Report." We also provide annual accomplishment reports ("Affirmative Employment Plan," and "Employment Plan for Disabled Veterans") to the EEOC. The "Employment of People with Disabilities" report is sent to OPM.

Total Factor Productivity (TFP)

Total Factor Productivity measures the change in the ratio of "outputs" to "inputs." Output is defined as change in workload (adjusted for content and additional delivery points) and inputs are all the resources used in providing postal services. Data is developed internally. Analysis and reports are provided by Christensen Associates.

Area/Performance Cluster Productivity Improvement

This productivity indicator is a Voice of the Business target for both the area and performance cluster organizations. It is a productivity measure based on economic value added concepts which includes all aspects of workload. Marginal cost data is derived from the Cost and Revenue Analysis (CRA) system and treated as "standard" costs. Actual costs, including a 12 percent capital charge, are compared against "standard" costs. The ratio of actual costs, including capital, to the standard costs is the Productivity Indicator. Productivity improvement targets are established at the cluster and area level based on planned expenditures and planned workloads.

V. Verification and Validation

Postal Service financial statements are audited by an independent firm and reported publicly in the *Annual Report of the U.S. Postal Service*. Postal programs and measurement systems are subject to audit by the Office of the Inspector General⁷ and the General Accounting Office. In addition, the Postal Service is subject to review by the Occupational Safety and Health Administration and certain other government agencies. The Postal Rate Commission and interested parties critically review postal data during extensive rate cases.

⁷ A detailed listing of audits is available in the *Semiannual Report to Congress*, from the Office of the Inspector General. This includes significant activities of the Postal Inspection Service.

VI. FY2002 Resources and Programs⁸

The Postal Service is facing severe resource constraints in FY2002. Total revenue is expected to grow 3.7 percent, from \$66.3 billion to \$68.8 billion. This revenue growth reflects the carryover of the FY2001 rate increases and modest volume growth expected during FY2002. The current revenue projections, by mail category, as outlined below, are based on our forecasting model utilizing actual results through Quarter III, FY2001.

REVENUE (IN MILLION \$)

| Mail Category | FY2001 Estimate | FY2002 Plan | Change | % Change |
|------------------------|-----------------|-----------------|----------------|-------------|
| First-Class Mail | \$35,751 | \$36,357 | \$606 | 1.7 |
| Priority Mail | 5,139 | 5,500 | 361 | 7.0 |
| Express Mail | 1,023 | 1,077 | 54 | 5.2 |
| Periodicals | 2,275 | 2,379 | 104 | 4.6 |
| Standard Mail | 15,914 | 16,740 | 825 | 5.2 |
| Parcel Post® | 1,123 | 1,191 | 68 | 6.1 |
| Other Package Services | 886 | 933 | 47 | 5.3 |
| International | 1,773 | 1,838 | 65 | 3.7 |
| Other Revenue | 2,456 | 2,805 | 349 | 14.2 |
| TOTAL | \$66,340 | \$68,820 | \$2,480 | 3.7% |

The Postal Service expects costs to continue to rise, despite aggressive productivity and cost reduction programs, leading to a FY2002 year-end deficit currently estimated at about \$1.35 billion:

FY2002 EXPENSES (IN MILLION \$)

| Category | FY2001 Estimate | FY2002 Budget | Change | % Change |
|---------------------------|-----------------|-----------------|----------------|-------------|
| Field | \$54,800 | \$56,010 | \$1,210 | 2.2% |
| Corporate Transportation | 3,020 | 3,220 | 200 | 6.7 |
| Corporate-Wide Activities | 2,210 | 2,590 | 380 | 17.2 |
| Interest | 1,970 | 2,040 | 70 | 3.6 |
| HQ Administrative | 1,400 | 1,400 | - | - |
| OIG and PRC | 110 | 125 | 15 | 13.6 |
| Servicewide | 4,480 | 4,785 | 305 | 6.8 |
| TOTAL | \$67,990 | \$70,170 | \$2,180 | 3.2% |

In FY2002, planned expenses will increase by only 3.2 percent due to further reductions in expenses and work hours. Over the last two years, career complement has been reduced by 22,000 employees while productivity has grown by about 4 percent. The continuation of these trends is incorporated in the FY2002 Operating Plan, with a reduction in work years of 13,000 and productivity growth of 1.1 percent.

⁸ Will require adjustment as a result of economic impact of September 11 events on U. S. economy and terror attacks on mail.

Field Expenses

Field expenses are projected to increase by \$1.2 billion in FY2002, with the majority of the increase attributed to inflation in labor costs. Health benefits grew by 10 percent in FY2001 and are expected to grow 13 percent to 17 percent in FY2002.

Three labor contracts expired in November 2000 and are either in or expected to go to arbitration.

The growth in field costs will be restrained by \$795 million in planned cost reduction efforts, including an \$80 million reduction in administrative work hour costs at the Area and District offices.

Corporate Transportation/Other Expenses

National network transportation, which accounts for over 60 percent of total transportation costs, was significantly impacted by fuel costs in FY2001. Continuing efforts to reduce the cost of transportation from air to ground will limit network transportation cost increases to a total \$3.2 billion.

Corporate-Wide Activities

Programs and corporate expenses are budgeted at \$2.6 billion in FY2002, compared to the year-end estimate of \$2.2 billion for FY2001. Almost 75 percent of this part of the budget is devoted to ongoing activities that represent legal or contractual requirements, or are needed to support operations. The FY2002 planned expense holds total program spending at FY1999 levels and represents an increase of only \$279 million over what was originally planned for FY2001. The FY2001 budget for these items was reduced to offset the impact of reduced revenue.

Further, information technology and infrastructure expense programs are planned to increase in FY2002. Included are programs to install security software, to support the transition from older information technology to web-based systems, and to automate manual operations.

Interest

In FY2002, interest expense on debt will be about \$395 million, representing a minimal increase of \$30 million over FY2001 due to higher debt levels offset somewhat by lower interest rates. The current interest expense on Civil Service Retirement System (CSRS) deferred retirement liabilities is expected to increase by \$40 million and will total \$1.6 billion.

Headquarters Administrative

This includes the headquarters organizations and their field service units. The Postal Inspection Service is included. There is no increase planned for headquarters costs from the FY2001 estimate. In FY2001, complement was reduced by 500 positions, resulting in \$34 million in cost savings. Plans are being developed to reduce 800 additional positions in FY2002.

Office of the Inspector General (OIG) and Postal Rate Commission (PRC)

The OIG and PRC are funded by the Postal Service.

Service-wide

These are national expenses that cannot be isolated and charged to individual operating or functional units, and are outside local management control. These expenses are expected to increase by \$305 million in FY2002, driven largely by cost-of-living allowances (COLAs) and health benefits for postal retirees.

The Postal Service is forecasting the costs of major programs as follows:

FY2002 TOP TEN PROGRAM SPENDING (IN MILLION \$)

| Program | FY2001 Estimate | FY2002 Plan | Change | % Change |
|--|--------------------|----------------|-------------|-------------|
| Mail Transport Equipment Service Centers | \$325 | \$313 | (\$13) | (3.6%) |
| Point of Service ONE | 128 | 160 | 32 | 24.8 |
| Mail Transport Equipment | 137 | 159 | 23 | 16.7 |
| Corporate Advertising | 148 | 140 | (8) | (5.5) |
| Stamp Manufacturing | 152 | 140 | (12) | (7.6) |
| Expedited Supplies | 138 | 125 | (13) | (9.4) |
| Corporate Contact Management | 101 | 99 | (2) | (2.0) |
| Delivery Confirmation Associate Office | 57 | 69 | 12 | 21.3 |
| Infrastructure | 69 | 67 | (2) | (3.5) |
| Environmental Field Support | 55 | 55 | - | - |
| TOTAL | \$1,310 | \$1,327 | \$17 | 1.4% |

Major Program Descriptions

Mail Transport Equipment Service Centers

The USPS supports a network of Mail Transport Equipment Service Centers (MTESC). These facilities are outsourced units dedicated to processing, repairing, storing and redistributing sacks, trays, pallets, and wheeled containers for USPS and mailer use. Separating these activities from plant operations, where they were previously conducted by postal employees, allows mail processing operations to focus on processing mail. This program directly contributes to USPS strategic goals by improving mail processing productivity and business mailer satisfaction.

Point of Service ONE

Point of Service (POS) ONE is a sophisticated retail point of sale information system that replaces outdated retail terminals at postal retail windows. This system provides more information to window clerks thereby enabling them to provide more timely and accurate information to their customers. It can reduce the average time per transaction while providing better records on sales. The information will be more readily available for reporting and analysis. Currently, POS ONE has deployed about 46,000 terminals at over 10,000 retail sites. When fully deployed, POS ONE terminals will serve over 15,000 retail sites.

Mail Transport Equipment

The Postal Service has an ongoing program for standardized and safe equipment such as rolling containers, sacks, trays, and pallets to help move over 200 billion pieces of mail through the operating system. Without this equipment, mail would be subject to greater damage, processing and handling costs would be significantly higher, service would be reduced, and our employees could be at risk for more work-related injuries.

Corporate Advertising

Postal Service advertising familiarizes postal customers with core services. Other services require additional publicity in order to create awareness and use. Some of these services are discretionary, or are upgrades of basic services that generate additional revenue for the Postal Service. Part of the Postal Service advertising program is targeted to the growing minority populations in the U.S, many of whom have foreign language requirements and are not necessarily familiar with the services offered by the Postal Service.

Stamp Manufacturing

The Postal Service produces approximately 42 billion postage stamps, 600 million stamped envelopes, and 350 million stamped cards each year. Production is accomplished through interagency agreements with the Bureau of Printing and Engraving and the Government Printing Office, as well as through contracts with private manufacturers. In addition to manufacturing, the Postal Service invests in research and development, leading to innovations such as holographic stamps, recyclable self-adhesive stamps, double-sided stamp booklets, and linerless self-adhesive stamp coils.

Expedited Supplies

Approximately 42 percent of postal customers use Postal Service supplied packaging products. These supplies make it easier for customers to use postal products while improving the image and awareness of expedited postal services. These supplies improve service performance because their clear identification and label design improves their visibility throughout the operating system.

Corporate Contact Management (CCM)

Corporate Contact Management gives postal customers easy access to a broad range of services through a network of National Service Centers (NSC). The overall goal of CCM is to improve customer service and operating efficiency, decrease redundant calls to Post Offices and increase revenue through establishment of an effective national call-

handling infrastructure. Presently, two centers, located in Denver, CO and Kansas City, MO, respond to 55 percent of the nation's inquiries regarding general information, mailing rates, hours and locations of local postal facilities and service opportunities. NSC also handle calls for national programs including Express Mail®, Delivery Confirmation™ and DineroSeguro® services.

The Postal Service is in the process of making customer-friendly enhancements to the NSC's phone prompts. One such example affords customers the option of receiving local Post Office phone numbers in order to resolve local service issues directly.

Delivery Confirmation™

The Delivery Confirmation program provides services postal customers with the ability to determine when a mail piece was delivered or when delivery was attempted. Pieces are scanned using a hand-held optical device and the information is transmitted to a centralized tracking system where it can be accessed either by calling a toll-free number or by using a web site. Delivery Confirmation service is a value-added service that provides additional revenue for the Postal Service.

Associate Office Infrastructure

The Associate Office Infrastructure (AOI) program deploys and supports a common information system "backbone" to support retail, delivery, and administrative operations in post offices, stations, and branches. The program is designed to eliminate older specialized systems, and provide relevant, timely, and accurate information to assist in managing postal operations more efficiently and effectively.

Environmental Field Support

The Postal Service is a leader in environmental improvement programs and has been recognized by the public and private sector for its efforts in energy conservation. The Postal Service has the world's largest fleet of alternative fuel vehicles, is involved in recycling programs, and has won awards for energy efficient building design. This program provides funding for locally managed initiatives to comply with laws and other regulations.

FY2002 COST REDUCTION OVERVIEW

| Program Activity | Planned Savings (in million \$) |
|--|---------------------------------|
| Flat Sorting Machines | \$239 |
| Remote Encoding Centers | 60 |
| Time and Attendance Collection Systems | 25 |
| Tray Management Systems | 23 |
| Automatic Airline Assignment/SWYB | 13 |
| Identification Code Sort Program | 11 |
| Robotics | 11 |
| Parcel Singulators | 9 |
| Delivery Bar Code Sorters | 6 |
| Other | 5 |
| Program Activity Subtotal | \$402 |
| "Bold Actions" | |
| Operations | 280 |
| Administrative | 120 |
| Supply Chain Management | 42 |
| Transportation | 30 |
| "Bold Actions" Subtotal | 472 |
| TOTAL | \$874 |

Cost Reduction Programs

Much of the effort of the USPS in FY2002 will be on cost reduction programs:

Program Descriptions

Flat Sorting Machines

The Postal Service receives over 50 billion pieces of flat mail annually, of which approximately 50 percent have been presorted by the mailer to the carrier route level and can be forwarded in bulk directly to the carriers. The remaining 50 percent requires sorting. The majority of flat mail sortation is currently performed using the Flat Sorting Machine (FSM) 881, the FSM 1000, or the newer Automated Flat Sorting Machine (AFSM) 100.

The FSM 1000 was developed to handle a wider variety of flat shapes and sizes than the FSM 881, whereas the AFSM 100 was designed to replace the aging 881 with a faster machine equipped with the most recent advances in flat sorting technology. These advances include an automated feeder that inducts flat mail pieces into the machine, an optical character reader (OCR) that reads any barcode and the address content, and a video coding system (VCS) that allows real-time processing of mail pieces that cannot be read by the OCR. These features eliminate the slower manual feeding and keying operations required on the FSM 881, thereby providing a significant improvement in overall productivity. Similar modifications are currently being implemented on the FSM 1000.

Remote Encoding Centers

Recent advances in optical character and address recognition technologies have produced a significant improvement in automated read rates. However, a certain percentage of mail piece addresses cannot be resolved by automated means. In these instances, the address image is "lifted" from the mail piece via a scanning camera and

sent to a Remote Encoding Center (REC), where operators view the image on a video display terminal and, using minimal key strokes, enter the address information. This information is then transmitted electronically to a bar code sorter where the correct bar code is applied to the mail piece. This keeps the mail in the automated mail stream rather than transferring it to more expensive mechanized or manual processing.

Due to improvements in automated read rates, only 25 of the original 55 RECs are still in operation, and additional REC closures are planned as a result of continuing read-rate improvements and other consolidation options.

Time and Attendance Collection System (TACS)

The Time and Attendance Collection System enables more efficient labor resource allocation by providing supervisors with accurate, real-time labor hour data by type of work being performed at the local level. It ultimately will replace five existing time and attendance systems, operating on different platforms, with a single web-based system. It will provide a single source for information on hours worked by postal employees.

Tray Management Systems

The Tray Management System (TMS) is an intelligent material handling system used to automate the transfer of mail between processing operations within a major mail processing plant. The goal of the program is to improve plant efficiency by reducing manual intra-plant handlings of letter and flat trays and providing real-time information to plant supervisors about the quantity, location, and dispatch requirements of that mail. TMS is currently installed at 28 processing and distribution centers around the country.

Automatic Airline Assignment (AAA) and Semi-Automatic Scan Where You Band (SASWYB)

Mail that is shipped via commercial air transportation is processed through our Surface – Air Management System (SAMS). This mail must be shipped in trays and sacks, or as outside parcels, weighed, assigned to a particular flight, and have a Dispatch and Routing (D&R) label applied. The AAA and SASWYB systems represent the latest generation of equipment designed to utilize the SAMS-generated data to provide mail assignment to the designated air carriers. This new equipment creates a more efficient dispatch operation by enabling fewer dispatch employees to process more pieces, thereby improving both productivity and on-time service. Implementation has also enabled improved data collection and tracking throughout the transportation network.

Identification Code Sort

In support of the barcode automation system, a phosphorescent identification code is sprayed on the back of each letter mail piece. This secondary barcode is used internally by the Postal Service to facilitate the application of a delivery barcode to the correct mailpiece after address resolution by the Remote Barcode System. The ID Code Sort system is also used as an additional information source to reduce barcode sort rejects and proactively manage our service commitments by tracking the status of individual mail pieces during automated processing operations. ID Code Sort is part of a larger effort to create an “information rich” mail stream that can be used by the Postal Service and our customers to develop new opportunities to improve performance, reduce costs, and add value to postal products and services.

Robotics

The Robotics Containerization System (RCS) is designed to eliminate the manual distribution labor associated with loading letter trays and flat tubs on mail containers and pallets for dispatch. The RCS is a self-contained module that automatically removes loaded trays and tubs from a conveyor system, uses a camera to read the bar-coded distribution labels, and distributes the trays and tubs into the appropriate mail containers or pallets for dispatch. The RCS operation is typically integrated into a plant's existing conveyor systems and is completely enclosed by a safety cage to avoid potential safety hazards.

Parcel Singulators

In addition to the letter and flat mail automation programs, several innovations in parcel sorting technology have recently been implemented or are currently under development. New Singulate, Scan, Induction Units (SSIUs) automate the induction of bar-coded parcels into sortation equipment at Bulk Mail Centers (BMCs). The SSIU automatically orders parcels one behind the other in a single line, scans the destination barcode, and inducts the parcels at high speeds into the parcel sorting machine that sorts them into the appropriate container for dispatch. This eliminates the manual lifting, carrying, facing, and keying operations previously required to induct mail into the parcel sorters. Each new SSIU replaces up to four manual induction stations and nine induction clerks.

Another equipment innovation currently under development, the Automated Package Processing System (APPS) will further automate the processing of small parcels and flats bundles in mail processing plants. Current Small Parcel and Bundle Sorter (SPBS) equipment requires manual keying of address information for distribution. The proposed new APPS machine will employ OCRs, barcode readers, and Video Code Systems (VCSs) to read the address and barcode information, thereby eliminating manual keying operations and increasing machine throughput speeds. In addition, the APPS offers in-route Delivery Confirmation tracking.

Delivery Bar Code Sorters

Several programs are being developed and implemented to increase the operational efficiency of the Delivery Bar Code Sorter (DBCS), our primary automation equipment for sorting letter into delivery point sequence (DPS). Planned DBCS enhancements include increasing the number of sortation bins to provide a greater depth of sortation with fewer manual handlings and equipment modifications that permit the handling of thicker and thinner letter mail that previously required manual sortation. New material handling systems are also in development that will automate the intra-plant transfer of letter mail to the DBCS and the manual second handlings now required for final DPS processing. Together, these innovations will significantly increase machine productivity and reduce manual labor requirements.

FY2002 CAPITAL COMMITMENTS (IN MILLION \$)

| | FY2001 Estimate | FY2002 Plan |
|--------------------------|--------------------|----------------|
| Equipment | \$ 455 | \$1,230 |
| Facility | 373 | 520 |
| Infrastructure | 205 | 472 |
| Vehicles | 48 | 94 |
| Retail | 62 | 80 |
| Research and Development | 9 | 11 |
| Total | 1,152 | \$2,407 |

Major Capital Commitments**Equipment**

The equipment category of the FY 2000 capital commitment plan totals \$1.2 billion, or 51 percent, for programs that generate reduced operating costs. Automated equipment not only saves work hours and associated indirect costs but also improves speed and service quality. Automation provides management with data gathering capabilities that can be used in future information-based services. For example, the material handling systems can be integrated with the Next Generation Small Parcel and Bundle Sorting Machine that utilizes optical character readers and video encoding to process over 11,000 pieces of mail per hour. Completion of the AFSM 100 program will improve processing of periodicals and flat mail volume.

Investment in the Postal Automated Redirection System (PARS) is expected to yield large savings by eliminating multiple downstream handling and moving the process of all undeliverable as addressed letter mail into the automated mail stream. It will also improve service by significantly reducing the amount of time to process this letter mail volume.

Facilities

In FY2002, \$520 million will be committed for facilities. These are only emergency facility needs. Consistent with the freeze on new commitments, management will optimize use of existing space whenever possible and avoid investing in more costly new construction. With average annual growth in delivery points of 1.5 percent, the customer service facility infrastructure will be maintained via ongoing repair and alteration projects, accounting for more than half of the FY2002 facilities plan. Also included are commitments for major mail processing facilities such as the New Jersey Metro Processing and Distribution Center in Teterboro, New Jersey.

Infrastructure

Infrastructure projects maintain and meet communication, computer, and network system needs. In FY2002, \$472 million will be committed. One project (Mailing Evaluation Readability and Lookup Instrument) improves the consistency of bulk mail acceptance and payment verification. Another (Delivery Operations Information System) provides supervisors with more timely and accurate data on available resources to

improving staffing utilization.

The Postal Service also plans to continue its investments in improving the ability to control air routing and transportation costs (Surface and Air Management System), and is investing in a Human Resources and Payroll Enterprise project, to re-engineer and replace current personnel and payroll systems. Finally, the Postal Service is implementing an enhanced security capability program to permit more secure communication.

Vehicles

In FY2001, the planned commitments for vehicles were delayed. Due to continued growth in deliveries and the increasing age of the vehicle fleet, the FY2002 capital plan includes \$94 million for cargo vans and carrier vehicles.

Retail

In FY2002, \$80 million will be committed for retail operations. Over 76 percent of this amount is earmarked for Stage 3 of Point Of Service (POS) ONE. When fully deployed, POS ONE will capture detailed sales and customer information. This, when integrated with the technology platform, will reduce accounting workload in district offices, integrate debit/credit card functionality, provide inventory management, enable automatic reordering, and provide for Post Office box administration.

Appendix 1: Changes in GPRA Goals, Indicators and Targets

The Government Performance and Results Act of 1993 (GPRA) required the creation of goals, objectives, indicators and measures, and targets as part of a process to improve the performance of government agencies and to assist Congress in holding agencies accountable for results.

An effective, dynamic process should show changes over time in how an agency develops and communicates its GPRA-related requirements. The Postal Service moved from essentially a “top-down” headquarters oriented approach to one that involved considerable consultation with the field operating units. The Postal Service is an extremely large organization with many different components, and it has been important to focus on simplicity to assist in effective communication of a relatively limited number of relevant goals.

The purpose of this appendix is to assist stakeholders in tracking the development of Postal Service goals, objectives, indicators and measures, and targets as they assess the effectiveness of the Postal Service in providing the desired results.

VOICE OF THE CUSTOMER

| GOALS | SUB-GOALS | INDICATORS | FY99 TARGETS | FY00 TARGETS | FY01 TARGETS | FY02 TARGETS |
|--|----------------------------|---|--------------|--------------|---|-------------------|
| <u>Voice of the Customer</u> FY99-01 Earn our customer's business in a marketplace where they have choices by providing them with world-class quality at competitive prices. | Timeliness and Consistency | Express Mail On Time | | | 95% PQ I, III, IV 89.1% for PQ II | 94% PQ III, IV |
| | | Priority Mail On Time | 87% | 87% | 94% | 91% PQ III, IV |
| FY2002 Growth | | Overnight First-Class Mail On Time | 93% | 93% | 93% | 93% |
| | | Two- and Three-Day First-Class Mail On Time | 87% | 87% | 87% | 88% PQ III, IV |
| | | Advertising Mail On Time | 88% | 94% | 98% | Baseline |
| | | Parcel Post On Time Improve Parcel Select | | Baseline | Baseline | Baseline |
| | | Provide Consistent D+1 ON FCM Provide Consistent D+1 2/3 Day FCM | | | Baseline | |
| | | Scan Rates | | | Baseline | 98%<5% manual |

EXPLANATION OF VOICE OF THE CUSTOMER CHANGES

| GOALS | SUB-GOALS | INDICATORS AND TARGETS |
|---|--|--|
| <p>The Postal Service has spent a considerable amount of time and effort to become more customer and market oriented in response to a changing business environment and to increase the awareness of postal employees of these changes.</p> <p>The original goal was more reflective of a necessary internal cultural change to enable the Postal Service to focus on the desired result: to continue to generate sufficient revenue to support the public service mission of universal service that "binds the nation together."</p> | <p>No change; These "attributes" have been determined by extensive market and customer satisfaction research, as well as other customer outreach programs.</p> <p>They are generally regarded as the most important attributes by most customer segments, and, in some cases, requiring the greatest improvement compared to alternatives or substitutes available to customers in the market.</p> | <p>The long-term goal is to provide timely, consistent delivery across all classes of mail.</p> <p>The Postal Service began its improvement efforts before the GPRA required reporting process, focusing first on overnight First-Class Mail service.</p> <p>The Postal Service has been applying the process of best practices, benchmarking, and process standardization to other mail service categories, beginning with those where measurement systems were readily available (e.g. EXFC and PETE).</p> <p>Where measurement systems were not available, the Postal Service has been experimenting with the development of such a system (e.g. ADVANCE for Advertising Mail, to be replaced as the CONFIRM® system is implemented nationwide, or as the ability of the Postal Service to scan packages improves over time). This will lead to changes in both measurement systems and targets. For Advertising Mail, the initial focus is on properly prepared and entered mail (typically with a request to deliver within a specific period of time) – generally defined as carrier route bundles.</p> <p>In some cases (D+1 measurement, which measures the percent of mail delivered one day past the delivery standard), it was determined that the results were already captured by another indicator (First-Class Mail Measurement), and the indicator was eliminated as a GPRA measurement, although still in use as an internal process measure.</p> <p>As the Postal Service involved field-operating units in the development of indicators and targets, it became clear that some service related targets were dependent upon weather conditions and other issues unique to certain areas that would limit the achievement of national targets. This has been addressed, in part, by taking the time periods most affected from the national scores as a measure of system performance.</p> <p>In the case of overnight First-Class Mail service, the system has generally reached "stability" and is not likely to increase significantly without substantial additional resource commitment or process change; customer surveys indicate a very high level of satisfaction with current performance and very limited demand for additional improvement.</p> <p>For two- and three-day service areas, the Postal Service has had to make major changes in its transportation network. Due to the increasing delays and limitations of the nation's scheduled airline system, the Postal Service has developed an agreement with FedEx that should significantly improve the ability to provide timely, consistent service to two- and three-day service areas. The Postal Service is also substituting more consistent and cost-effective surface transportation for air service, where appropriate, and has also implemented minor changes in service standards where timely, consistent and cost-effective network connections are not available. As a result, FY01 targets applied to Surface Priority Mail, while FY02 targets are based on new transportation network capabilities. PQ III and IV are to be used allowing for an implementation period.</p> |

VOICE OF THE EMPLOYEE

| GOALS | SUB-GOALS | INDICATORS | FY99 TARGETS | FY00 TARGETS | FY01 TARGETS | FY02 TARGETS |
|---|---|--|------------------|--------------|-------------------------------------|--------------------|
| <u>Voice of the Employee</u> | | | | | | |
| FY99-01 Foster an inclusive and welcoming workplace consistent with the values of fairness, opportunity, safety, and security; where everyone is given the knowledge, tools, training and encouragement to be successful; where everyone is recognized for and takes pride in their participation in our customer's and the Postal Service's success | FY99-01 Ensure that every employee is given the knowledge, tools, training, and encouragement to successfully meet the expectations for their position | Training in prescribed curriculum n EAS 15 and over(20 hours) n EAS 14 and below (8 hours) | 97% of employees | | | |
| | | Craft (8 Hours) | 100 % work units | | | |
| FY2002 Motivated, Productive and Inclusive Workforce | Skilled workforce | n Training in prescribed curriculum n EAS 15 and above (20 hours) n EAS 14 and below (8 hours) | | | | 97% of employees |
| | | n Craft (8 Hours) | | | | 100% of work units |
| | | Proficiencies of Automation Maintenance and Operations | 633 | | | |
| | | Proficiencies of Retail Unit and Processes | 794 | | | |
| | | Proficiencies of Business Mail Entry Unit and Processes | 422 | | | |
| | FY99-01 Improve workplace relations by building leadership skills and behaviors | REDRESS Availability | Baseline | | 100% Available 70% Participation | |
| | FY2002 Sound Dispute Resolution Processes | | | | | |

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VOICE OF THE EMPLOYEE CONTINUED

| GOALS | SUB-GOALS | INDICATORS | FY99 TARGETS | FY00 TARGETS | FY01 TARGETS | FY02 TARGETS |
|-------|-----------|---|--------------|------------------------|---|--|
| | FY99 | Employee Knowledge of Goals | 90% | | | |
| | FY00-01 | VOE Survey Index | | 0.5% improvement by PC | Improvement over FY2000 VOE Survey Index Score, by PC | Equal or Better than FY2001 |
| | | Improve understanding of employee issues and concerns | | | | |
| | FY02 | Employees Committed to USPS Success | | | | |
| | FY99-01 | Improve employee's safety, security, and well-being | | | | |
| | FY2002 | Lost Workday Injuries 200,000 Work Hours | 2.04 | 1.9 | | |
| | | Minimize Impact from Accidents and Absences | | | | Replaced by OSHA Injury / Illness Rate |
| | | Safety Program Evaluation | | 3 | | |
| | | Total Accidents/200,000 Work Hours | | 11.44 | | |
| | | Motor Vehicle Accidents/million miles driven | | 11.08 | | |
| | | OSHA Injury/Illness Rate | | | 7.96 | 2% improvement, by PC |
| | | "Available for Duty" Rate | | | | Baseline |

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VOICE OF THE EMPLOYEE CONTINUED

| GOALS | SUB-GOALS | INDICATORS | FY99 TARGETS | FY00 TARGETS | FY01 TARGETS | FY02 TARGETS |
|--|---|---|---|-----------------|-----------------|-----------------|
| FY99-01 | FY99-01 | Indicators for inclusive and fair environment are part of the merit process | Included in PCES Evaluations | | | |
| Foster an inclusive and welcoming workplace consistent with the values of fairness, opportunity, safety, and security; where everyone is given the knowledge, tools, training and encouragement to be successful; where everyone is recognized for and takes pride in their participation in our customer's and the Postal Service's success | Ensure an inclusive and fair environment with opportunities for all employees | | | | | |
| | FY2002 | Inclusive Workforce | | | | |
| FY2002 | | | | | | |
| Motivated, Productive and Inclusive Workforce | | | | | | |
| | | Representation of all groups in details and special assignments | Quarterly Review of Affirmative Employment Plan | | | |
| | | | Area VP with COO PC's with Area VP's HQ Officers with Appropriate Management Committee Member | | | |
| | | Representation of all groups in succession plans | | | | |
| | | Activities supporting the Affirmative Action Plan | | | | |
| --Continued-- | | | | | | |

EXPLANATION OF VOICE OF THE EMPLOYEE CHANGES

| GOALS | SUB-GOALS | INDICATORS AND TARGETS |
|--|---|---|
| <p>Improvement of the workplace environment has been a major focus of the Postal Service. Success in the other two parts of the “balanced scorecard” (“Voice of the Customer” and “Voice of the Employee”) is dependent upon the ability to develop and motivate employees.</p> <p>The FY1999-2001 goal remains the detailed background description for the more concise formulation used for communication within a large organization.</p> | <p>In each case, the sub-goal has been changed to reflect the need to communicate more effectively and to focus on specific areas of improvement.</p> <p>The particular sub-goals have been generated through intensive study (e.g. the Commission on a Safe and Secure Workplace), extensive employee surveys, and through consultations with employee organizations, or, in at least one case, imposed by statute, that is, USPS internal safety performance measures were replaced by the use of national measures required by the U.S. Occupational Safety and Health Administration.</p> | <p>An emphasis on developing a skilled workforce has been a consistent theme for GPRA reporting. The initial detailed function-specific indicators were deleted in favor of functional flexibility in training needs.</p> <p>The overall OSHA indicator replaced a number of USPS internal measures. However, these are still used internally to focus specific functional initiatives.</p> <p>The USPS Diversity Department publishes a detailed quarterly report that outlines the current status of the Postal Service as an inclusive work environment.</p> |

VOICE OF THE BUSINESS

| GOALS | SUB-GOALS | INDICATORS | FY99 TARGETS | FY00 TARGETS | FY01 TARGETS | FY02 TARGETS |
|--|---|---|--|--------------------------|---|------------------|
| <u>Voice of the Business</u> FY99-01 Generate financial performance that assures our commercial viability as a service provider in a changing, competitive market place and generate cash flow to finance high yield investments for the future while providing competitively prices products and services | Net Income | Net Income | \$200 mill. | \$100 mill. | Replaced by TFP Target | |
| FY2002 Affordability | Improve productivity to control costs and improve contribution levels to grow business | Total Factor Productivity Labor Productivity | -0.4% 0.8% | 2.9% 2.9% | 0.7% 2.0% | 1.1% over FY2001 |
| | | Productivity Improvement | | Improve ment over Hurdle | | |
| | | Area Productivity Improvement FY2000 | | | Improvement over Hurdle | |
| | | PC Productivity Improvement FY2001-02 | | | | |
| | Overall VOB | Achieve Capital Commitment | \$4.4 bill. | \$4.0 bill. | 3.6 bill. | |
| | Performance Net income from existing or enhanced products and services | Commercial and Retail Revenues (PSSR) | \$52 mill from sales; \$92 mill from pro-grams | | Replaced by Improved Financial Strength | |
| | Controlling costs through reengi-neering, decreasing rework and cycle time, process man-agement, and substituting capital for labor | Expense Reduction Indicator | \$734 mill. From pro-grams, local initia-tives, and HQ reduc-tions | | | |
| | Using pricing as a competitive tool while keeping rate increases below infla-tion | Postal Price Index vs. Consumer Price Index | \$0.01 increase 1/1/99 | | | Baseline |
| | | Flats and Parcels Contribution | | | | |
| | Improve financial strength | Retail Revenue | | | | Achieve |
| | | Commercial Revenue | | | | Plan |
| | | Expense Budget (TOE) | | | | |

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EXPLANATION OF VOICE OF THE BUSINESS CHANGES

GOALS

The USPS generates revenue from the services described in the "Voice of the Customer" section, through an operating network at least in part defined by the universal service obligation to a growing nation. However, these services are provided in competitive markets where customers have alternatives. In addition to meeting the quality expectations described in the VOC, the USPS must operate efficiently enough to remain affordable to its customers. Maintaining this affordability is the central focus of the "Voice of the Business."

INDICATORS AND TARGETS

There has been considerable discussion on the proper sub-goals and relevant indicators for "Voice of the Business."

In some cases (e.g. Net Income), the indicator is significant, but is not under sufficient control of postal management to be used reliably as a measure of performance (the Postal Service has restrictions on pricing, product development, and other market-related responses available to private sector firms).

Several of the indicators selected initially have been restated (sales and expenses) or have been absorbed by current indicators (productivity). For example, the FY01 financial performance and sales measures were replaced by Total Factor Productivity (TFP) targets.

The major focus of the USPS's Voice of the Business affordability initiative will be productivity, using Total Factor Productivity measures at the national level, and allocating improvements based on opportunities in local operating units.

Appendix 2: Baseline Postal Performance

VOICE OF THE CUSTOMER

| INDICATOR | FY2000 PERFORMANCE (END OF YEAR) | FY2001 PERFORMANCE (AP11) | | FY2002 PERFORMANCE TARGET (PLAN) |
|---|--|---|----------|--|
| | | TARGET | AP11/QII | |
| Express Mail On-time | | 95% - PQ I, III, IV 89.1% - PQ II | 90.7% | 94% (PQ III, IV) |
| Priority Mail On-time | 86.83% | 94% | 94% | 91% (PQ III, IV) |
| First-Class Mail On-time | 93.83% | 93% | 93.43% | 93.0% (PQ I, II, III, IV) |
| First-Class 2-3 Day Mail On-time | 88.52% | -- | 82.23% | 88% (PQ III, IV) |
| Provide Consistent D+1 ON | | | 98% | |
| Provide Consistent D+1 2D | | | 95% | |
| Provide Consistent D+1 3D | | | 93% | |
| Advertising Mail On-time | 97.3% | | 98.5% | |
| Improve Parcel Select Serv. | NA (not provided) | Baseline | NA | Baseline* |
| Accuracy of Delivery | | -- | 98.2% | 98.5% (PQ I, II, III, IV) |
| Delivery Confirmation Scan Rate (Priority) | | | | 98% <5% Manual/Multiple Scan Composite (PQ I, II, III, IV) |
| Delivery Confirmation Scan Rate (Parcels) | | | | Baseline* |
| Standard | | | | Baseline* (Confirm) |
| CSM Residential Overall | | | 91% | Maintain |
| CSM Business Overall | | | 88% | Maintain |
| Composite Ease of Use | 654 | | | |
| Residential Ease of Use | 688 | | | |
| Premier Acct. Ease of Use | 625 | | | |
| Sm./Lg. Bus. Ease of Use | 659 | | | |
| National Acct. Ease of Use | 643 | | | |

VOICE OF THE EMPLOYEE

| INDICATOR | FY2000 PERFORMANCE (END OF YEAR) | FY2001 PERFORMANCE (AP11) | | FY2002 PERFORMANCE TARGET (PLAN) |
|---|--|--|----------|---|
| | | TARGET | AP11/QII | |
| "Availability for Duty" Rate | | | | Baseline* |
| Training in Prescribed Curriculum | | Data collected on end of FY basis only | | |
| EAS >15 - 20 Hrs. | 99.95% | | | 97% of Employees |
| EAS 14 and Below | 99.17% | | | 97% of Employees |
| Craft | 98.47% | | | 100% of Wk Units |
| Safety Program Evaluation | 3.41 | | | |
| Lost Workday Injuries | 1.93 | | | |
| Total Accidents/200,000 Work Hours | 12.52 | | | |
| Motor Vehicle Accidents Million Miles Driven | 11.47 | 11.56 | | |
| OSHA Injury Illness Rate | | 7.83 | | 2% National Improvement allocated by opportunity |
| REDRESS Availability | 72% | 76.1% | | 100% Availability and 70% participation |
| VOE Survey Index | 57.5 | Improvement over FY2001 | 59 | Equal or Better than FY2001 (20% Each Q + 20% Year End) |
| Indicators for fair and inclusive environment | | | | Incl. In PCES |
| Representation of all groups in details & special assignments | Included in merit reviews of individual managers | Included in merit reviews of individual managers | | Quarterly reviews of Affirmative Employment Plan |
| Representation of all groups in succession plans | | | | n Areas w/COO |
| Activities supporting Affirmative Employment Plan | | | | n PCs w / AVPs n HQ w / Mgmt. Committee |

VOICE OF THE BUSINESS

| INDICATOR | FY2000 PERFORMANCE (END OF YEAR) | FY2001 PERFORMANCE (YTD) | FY2002 PERFORMANCE TARGET (PLAN) |
|--------------------------------|---|--|---|
| Net Income Generation | -\$133.8 Million | | |
| Total Factor Productivity | +2.5% | +2.0% (Subject to Audit) | 1.1% Over FY2001 |
| Area Productivity Improvement | Improvement over prior year | .35 | Improvement Over Hurdle |
| PC Productivity Improvement | Improvement over prior year | .19 | Improvement Over Hurdle |
| Achieve Capital Commitment | \$3.161 Billion | \$1.152 Billion | |
| Flats and Parcels Contribution | | | Develop Indicator |
| Retail Revenue | | | Achieve Plan** |
| Commercial Revenue | | | Achieve Plan** |
| Expense Budget (TOE) | | | Achieve Plan** |

*Indicators being developed or baselined in FY2002: As baselines are established, the indicators will become Threshold or Pay for Performance (PFP) Targets in the following Fiscal Year.

**Plans are finalized at the end of the preceding fiscal year and are subject to change during the year.

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