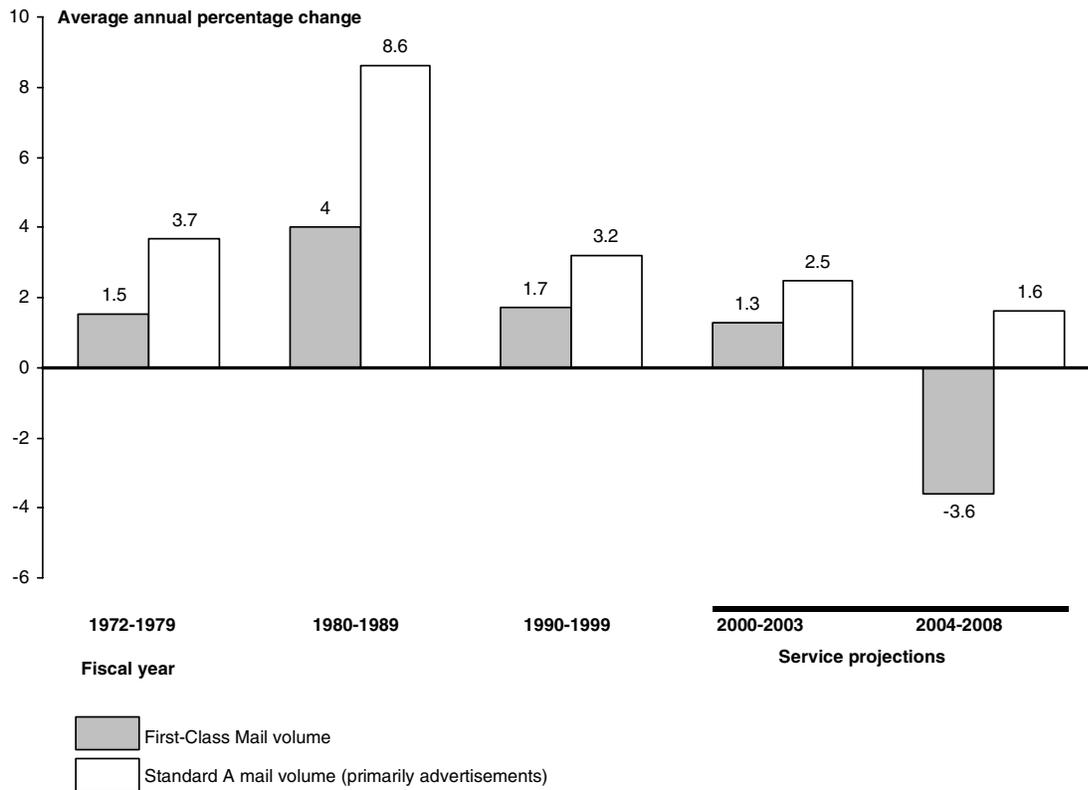


Recently, the Service initiated a study to determine the potential cost savings from reducing mail delivery from 6 to 5 days each week. Can the Postal Service continue to maintain the scope and quality of its retail and delivery services? The answer, at least in the short term, is “yes” – but in the long term, the Service’s prospects are uncertain.

Competition is already increasing from private delivery companies and foreign postal administrations accepting outbound international mail from within the United States. For example, United Parcel Service (UPS) is offering a hybrid mail service in which letters are electronically sent to a recently acquired UPS company and then printed and inserted into the U.S. postal system. In addition, at least eight foreign postal administrations now offer services from within the United States to American consumers.

Although it is difficult to predict the timing, magnitude, and potential financial impact of further mail volume diversion to other competitors and to electronic alternatives, according to the Service’s latest 5-Year Strategic Plan, longer-term projections suggest that about half of mailed bills and payments will eventually be replaced with electronic billing and payment alternatives. Thus, under the Service’s baseline forecast that is included in its 5-Year Strategic Plan, First-Class Mail volume would decline at an average annual rate of 3.6 percent from fiscal years 2004 through 2008 (see fig. 11).

**Figure 11: Postal Service Projects Decline in First-Class Mail Volume**



Source: U. S. Postal Service.

If First-Class Mail volume declines and the revenue loss is not offset by increasing mail volume in other areas, such as advertising mail or by revenues from new initiatives such as e-commerce, rates would need to rise for any mail categories that take on a larger burden of supporting postal overhead costs. The Service would also face the challenge of responding to any volume declines or changes in the mail mix by attempting to reduce mail processing, personnel, and other costs that have traditionally been considered to vary with changes in the mail volume. However, these costs may be difficult to adjust in the short term. Adding to rate pressure, postal infrastructure costs continue to grow. The Service maintains a delivery and retail network that includes more than 235,000 city and rural delivery routes; more than 38,000 post offices, stations, and branches; and more than 350 major mail processing and distribution facilities. Each year the Service adds new delivery points for new households and businesses—a projected 1.8 million in fiscal year 2001.

**Human Capital Challenges**

The Postal Service faces additional difficult human capital challenges that must be successfully addressed to maintain organizational effectiveness and improve the workplace environment as well as control workforce costs. These challenges include (1) restructuring the postal workforce of about 900,000 career and non-career employees

and establishing succession planning for impending retirements; and (2) ameliorating the persistent problems in the workplace that have been exacerbated by decades of adversarial labor-management relations and that hinder efforts to improve productivity. The Postal Service's human capital problems can be seen as part of a broader pattern of human capital shortcomings that have contributed to programmatic problems and risks across the federal government.

The Service's Strategic Plan stated that the expected decline in postal workload—in part due to automation and the implementation of information technology—“will inevitably result in both restructuring and a reduction in the workforce.” Some of the planned reductions are to be accomplished through eliminating staff vacancies and the work associated with them. These reductions should be done in a carefully planned manner to avoid negatively affecting the workplace environment, operations, and service quality. The Service will be increasingly challenged to deal with human capital issues related to succession planning, maintaining continuity, and the associated cost issues. With a large percentage of the postal workforce nearing retirement eligibility, the Postal Service has the opportunity to realign its workforce and assure that it has the leadership, knowledge, and skills necessary to efficiently and effectively carry out its mission. Given the nature of these issues, the Service will need to include effective participation of its employees in planning and implementing workplace improvements. The Service will also need to maintain the continuity of service to customers as many experienced managers and workers retire and the Service restructures its workforce.

Fundamental improvement is needed in postal labor-management relations. The Service and its major unions and management associations need to resolve long-standing labor-management problems that have hindered improvement efforts, including efforts to cut costs and increase productivity. For example, the Service has made progress in reducing the number of grievances, but at the end of fiscal year 2000, the Service reported about 147,000 pending or appealed grievances. For the Service to be successful, it is critical that it achieves and sustains collaborative working relationships with its labor unions and management associations.

### **Transformation Questions**

If the Postal Service is to transform itself into a modern, efficient, high-performance organization that continues to provide affordable, universal postal service in the 21<sup>st</sup> century, the starting point is to define and clarify the Service's mission and role over the long term. The Service needs to address questions about its basic mission—that is, the type of postal services that should be provided on a universal basis to meet business and residential customer needs, how these services should be provided, and how they should be financed. Further, questions arise related to what kind of governance and regulatory framework is needed to ensure public accountability. Some of the specific questions that need to be addressed as part of the structural transformation include the following:

- What is the appropriate mission and role of the Postal Service in the 21<sup>st</sup> century? How should “universal postal service” be defined? How should universal postal

service obligations be provided? Should the postal monopoly be narrowed or ended? Should the Postal Service be allowed to compete in areas served by the private sector and, if so, under what circumstances? To what extent should the Service be subject to the same laws as its competitors?

- Can the Postal Service remain self-supporting under a break-even mandate? If not, what types of financing options should be considered? Should the Service be allowed to make a profit? Should universal postal services be subsidized?
- What changes to the governance and organization structure are needed to realign the organization so that it can successfully achieve its mission? What type of governing board is appropriate? What should be its role? What criteria would be appropriate for selecting board members?
- What should be the related regulatory framework providing oversight in the areas of rate setting, new postal products, and fair competition? How much flexibility should the Service have to change rates? What oversight is needed to protect customers with few or no alternatives to the mail? How should the Postal Rate Commission and other pertinent regulatory authorities exercise oversight with respect to competition and antitrust issues?
- How is the Service to use its employees to accomplish its mission in an efficient, effective, and economic manner? What are the Service's current and future human capital needs? How will the Service ensure that it has the knowledge, skills, and the abilities that are needed? How will the Service make the necessary changes to its workforce, including its size, organization, and deployment?
- What performance management and incentive systems are needed to improve individual and team performance? How can the Service ensure that its managers and supervisors are prepared and trained to provide effective leadership? What labor policies are needed? How can the Service's management and postal unions and management associations develop a shared understanding of the Service's vision; undertake a mutual effort to achieve it; and resolve problems and conflicts over wages, work rules, and individual cases in a fair and effective manner?
- What operational changes are needed to support the Service's mission? How can technology help the Service improve productivity, reduce costs, and enhance customer service?
- Are fundamental changes needed in how the major functional areas are carried out—mail collection, transportation and mail processing, delivery, and retail services? Is the Service's current physical infrastructure aligned to efficiently and effectively support operations? What types of and how many facilities are needed? Should certain existing facilities be consolidated or eliminated? Should certain functions be contracted out or addressed via public/private partnerships?

- What performance and cost information is needed and collected to support Service operations and measure results? What information on projected and actual performance should be periodically reported to the public? How well integrated are the Service's financial, management, and performance reporting systems?

In addition, several issues need to be addressed related to how the Service should be held accountable for results. We have reported that the Postal Service's annual performance plans and its first performance report under the Government Performance and Results Act of 1993 have not been as useful to Congress, postal managers, and customers as they could have been. In our view, the Service's recently published preliminary performance plan for fiscal year 2002 did not fully address the concerns we previously raised about the Service's approach to setting goals and reporting on results. For example, the preliminary plan dropped important goals for net income and for the timely delivery of 2- and 3-day First-Class Mail.

Also, a number of issues have been raised related to the reliability and credibility of the data the Service uses for ratemaking. Timely, accurate, and relevant information will be critical for effective management as well as communications with customers, Congress, and other stakeholders.

### **Engagement with Postal Stakeholders**

Engaging with stakeholders will be an essential part of developing a consensus to address the Service's transformational issues. When the Service begins to engage with its stakeholders to develop a comprehensive transformation plan, it will face a stakeholder community far from consensus on what needs to be done. It would be useful for the Service to develop an approach for engaging with its stakeholders in the development of its comprehensive plan.

In response to the joint request to us from this Committee and Subcommittee, we are working to identify improvement options suggested by various stakeholders and will summarize the results in our subsequent report to you. We have begun this effort and have talked to several stakeholders and plan to continue these discussions. Some of the stakeholders we have talked to so far have included postal unions, mailer groups, competitors, the Service's Office of Inspector General, and Postal Rate Commission officials. They provided a variety of suggestions for action, some within the existing legal framework and others that would require statutory change, as follows:

- *The Service's mission and role.* Representatives of a mailer group and a Service competitor said that the Service's mission should be more clearly defined and raised the issue of whether the Service should be changed to a stock-owned corporation. In the mailer's view, making the Service a corporation with shareholders would hold it accountable and create incentives for success. In the competitor's view, the Service should either be restricted to offering monopoly services that do not compete with the private sector or be held to the same rules as its competitors.

- *Regulation of postal rates:* A mailer group and a union representative favor statutory changes to give the Service more flexibility to set postal rates. For example, a union representative said that the Service should be able to adjust postal rates in response to economic trends. However, Postal Rate Commission officials and a mailer group representative stated that the Service has the flexibility under current law to request alternative rate structures, such as peak-load pricing and phased rate increases.
- *Transparency and accountability:* Postal Rate Commission officials and mailer group representatives recommended that the Service provide more frequent and complete financial and service quality information to the public. For example, they said the Service should regularly disclose the on-time delivery of different classes of mail so that it can be held accountable for the quality of service it provides.
- *Workplace environment:* Several stakeholders stated that better communication is needed among employees, management, and external stakeholders to improve the atmosphere in the workplace and increase productivity. A postal union representative noted that a different management style is needed to encourage employees to give additional discretionary effort. For example, the representative suggested initiating more “bottom-up” communication from employees.
- *Pay and performance incentives:* Some stakeholders noted that greater incentives are needed to maximize productivity and efficiency. For example, a mailer group representative said that management and employees need more effective incentives to further organizational achievement of goals. On the other hand, union officials said that the existing management bonus system encourages managers to take unwarranted action to receive bonuses. Further, a union official noted that city and rural carriers work side by side in some suburban areas under different pay systems, different ways of setting and adjusting the workload, and different incentives for good performance.
- *Flexible staffing:* A mailer group representative favored greater use of flexible staffing procedures to minimize compensation costs, such as using more noncareer workers to handle peak mail volumes. Union officials expressed a different view, favoring the elimination of noncareer jobs to save money.
- *Retail infrastructure:* Mailer group representatives said that the Service should consider, as part of a package of changes, restructuring the retail network by closing post offices and/or relocating retail operations from some post offices to postal retail operations provided in other locations such as retail stores. For example, a mailer group representative suggested a reevaluation of the statutory restrictions on closing post offices, including a reconsideration of the prohibition against closing post offices solely for operating at a deficit. The mailer group representative suggested that the military base-closing model could be used when evaluating the possibility of closing unprofitable post offices.

- *Mail processing network:* Some stakeholders said that the Service could become more productive by using existing automation equipment more efficiently and continuing automation efforts. A mailer group representative advocated that the Service achieve greater standardization of mail processing operations by adopting best practices throughout the system to the maximum extent possible. A representative of an equipment manufacturer said that the Service needed better long-term planning in this area, as well as working more effectively with its major suppliers.
- *Delivery network:* A mailer representative said the Service could save money if some existing residential customers (e.g., customers with mailboxes attached to their homes) were required to use cluster boxes, thus increasing route efficiency.
- *Worksharing discounts:* A union official stated that worksharing discounts—that is, discounts to mailers for mail preparation such as barcoding, presorting, and dropshipping mail—should be greatly reduced or eliminated. In the union official’s view, the Service could improve its net revenue by doing the worksharing functions in-house at less cost. In contrast, a mailer group representative said more worksharing incentives are needed for the Service to process mail efficiently, save money, and encourage growth in mail volume. Further, Postal Rate Commission officials said that the Service has the ability under current law to request additional types of worksharing discounts.
- *Productivity initiatives:* A mailer group representative stressed the importance of the Service improving its productivity through cost cutting. For example, he said that the legislatively established rate-setting process provides little incentive for innovation and efficiency since the Service can cover its costs by increasing postal rates. Union officials said that unions and employees could contribute toward developing initiatives to improve the Service’s productivity if there was greater prior consultation. At the same time, however, one union official described the Service’s current productivity initiatives as harassment of employees.
- *Administrative improvements:* The recent statement of the Service’s Inspector General before the House Committee on Government Reform suggested a number of actions the Service could take to improve its performance, accountability, and financial position. One area cited where additional efficiencies could be improved was in the Service’s contract management practices. For example, one Inspector General investigation reported that the Service paid over \$800,000 for asbestos abatement work that was either over-billed or not performed. The report suggested that the Service needed to strengthen its quality assurance procedures and training of Service contracting officials to ensure accurate contractor billings.
- *New products:* Some stakeholders have said that the Service should have a more business-like approach to its new product initiatives so that the Service would stop spending money on projects that are not generating a positive return.

- *Debt limit.* A mailer group representative and a union official favored raising the statutory debt limit to give the Service the flexibility to borrow instead of raising rates.

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Mr. Chairman, that concludes my prepared statement. I would be pleased to respond to any questions that you or the Members of the Committee and Subcommittee may have.

### **Contact and Acknowledgments**

For further information regarding this testimony, please contact Bernard L. Ungar, Director, Physical Infrastructure Issues, on (202) 512-8387. Individuals making key contributions to this testimony included John H. Anderson Jr., Teresa L. Anderson, Hazel J. Bailey, Gerald P. Barnes, Joshua M. Bartzen, William J. Doherty, Michael J. Fischetti, Jeanette M. Franzel, Kenneth E. John, Roger L. Lively, Albert E. Schmidt, and Charles F. Wicker.

**LETTER SENT TO POSTMASTER GENERAL,  
JOHN E. POTTER, JUNE 14, 2001  
FROM SENATORS LIEBERMAN, THOMPSON, AKAKA, AND COCHRAN**

**United States Senate**  
WASHINGTON, DC 20510

June 14, 2001

The Honorable John E. Potter  
Postmaster General  
United States Postal Service  
475 L'Enfant Plaza, SW  
Washington, DC 20260-1000

Dear Postmaster General Potter:

We share your concerns about the current financial difficulties and the future of the U.S. Postal Service. We agree that fundamental change is needed, but it must be made in a comprehensive manner that includes input from postal management, employee unions and associations, and other stakeholders, and addresses the underlying weaknesses in the current system.

At the joint hearing we held on May 15, the Comptroller General testified that the Service faces many challenges that call for a structural transformation if the Service is to remain viable in the 21<sup>st</sup> Century. He emphasized that incremental rate increases alone would not solve the Service's fundamental financial problems. GAO has placed the Postal Service's transformation on its High-Risk List and called for the Service to develop a comprehensive transformation plan that would identify the structural changes needed to address its short-term and long-term financial, operational, and human capital challenges. GAO also called for the Service to provide summary financial reports on a quarterly basis so that all postal stakeholders would have a better understanding of the Service's financial situation.

We endorse the GAO's recommendations and believe it is critical that a comprehensive plan and quarterly financial reports be developed. We request that you provide us with this comprehensive transformation plan by the end of this year. We also endorse the suggestion of the Comptroller General that this plan should analyze several options. GAO's testimony laid out many of the key questions that need to be addressed as part of the transformation assessment.

Further, we think the Service needs to address another key financial issue--how it plans to reduce its mounting outstanding debt. We understand that the Service may reach its statutory debt limit by the end of fiscal year 2003, and we believe that a plan to address this potential financial crisis is needed as soon as possible.

The Honorable John E. Potter  
June 14, 2001  
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We want to continue working with the Postal Service, GAO, and other stakeholders in developing improvements that will provide better postal services for the American people. Thus, we plan continued oversight of the Service's financial situation and its plans for a comprehensive transformation of the Postal Service that will better position the organization to meet America's postal service needs for the 21<sup>st</sup> Century.

Sincerely,



Joseph I. Lieberman  
Chairman  
Committee on Governmental  
Affairs



Fred Thompson  
Ranking Member  
Committee on Governmental  
Affairs



Daniel K. Akaka  
Chairman  
Subcommittee on International  
Security, Proliferation and  
Federal Services



Thad Cochran  
Ranking Member  
Subcommittee on International  
Security, Proliferation and  
Federal Services

TC:acf

**POSTMASTER GENERAL JOHN E. POTTER'S  
JUNE 25, 2001 RESPONSE TO CONGRESS FOLLOWING SENATE  
LETTER OF JUNE 14, 2001**



June 25, 2001

Honorable Fred Thompson  
Ranking Minority Member  
Committee on Governmental Affairs  
United States Senate  
Washington, DC 20510-6250

Dear Senator Thompson:

On April 24, 2001, Mr. Bernard Ungar, director, Physical Infrastructure Issues, of the General Accounting Office (GAO), wrote to former Postmaster General William J. Henderson. As provided by 31 U.S.C. 720, the head of a federal agency is required to submit a written statement to the oversight committees on actions taken on recommendations from the GAO. This letter fulfills that requirement and responds to your June 14 follow-up letter regarding GAO's recommendations.

Comptroller General David Walker testified before the House Committee on Government Reform on April 4. Two recommendations were made at that time (as summarized in Mr. Ungar's April 24 letter):

- (1) "The Service should provide summary financial reports to Congress and the public on a quarterly basis. These reports should present sufficiently detailed information for stakeholders to understand the Service's current and projected financial condition, how its outlook may have changed since the previous quarter, and its progress toward achieving the desired results specified in the comprehensive plan."
- (2) "The Service should develop a comprehensive plan, in conjunction with Congress and other stakeholders, such as the postal unions and management associations, customers, and the Postal Rate Commission, that would identify the actions needed to address the Service's financial, operational, and human capital challenges, and establish a time frame and specify key milestones for achieving positive results."

Since the time of this April 24 letter, my staff has met with the GAO staff on a number of occasions. Deputy Postmaster General and Chief Marketing Officer John Nolan and Chief Financial Officer and Executive Vice President Richard Strasser have met with the comptroller general, and I have spoken with Comptroller General Walker personally. Together we have developed a plan of action that will, we believe, be fully responsive to the GAO's recommendations. Further, we plan to continue to stay in close touch to address the concerns that Comptroller General Walker raised when he noted that the transformation of the Postal Service is at risk.

### **Financial Reports**

With respect to this recommendation, Chief Financial Officer Richard Strasser makes a quarterly presentation of financial results to the Board of Governors at its public meetings. Mr. Strasser has met with the GAO and has discussed methods to provide additional transparency related to its financial condition. A major step in that direction, and in direct response to GAO's recommendation that summary financial reports to Congress and the public be made on a quarterly basis, in the near future we will place our Quarter III Financial Statements, similar to

what publicly traded enterprises provide, on our Web site at [www.usps.com](http://www.usps.com). We will continue this practice quarterly, with the audited fiscal year report as the Quarter IV version. Our *FY2000 Annual Report* is also available on the Web site.

### **Comprehensive Plan for Transformation**

*In the twenty-first century business environment, for the Postal Service to continue providing the people of the United States affordable, high-quality universal service without relying on taxpayer subsidy, the Postal Service must be transformed to meet a new and rapidly evolving set of financial, operational, and human capital challenges. Over the last five years, the Postal Service, the Congress, and other stakeholders have invested a great deal of thought and effort in developing needed postal reforms. That process continues. In his testimony on April 4, Mr. Walker announced that the GAO has placed the Postal Service's transformational efforts and long-term outlook on its High-Risk List. To introduce a new planning framework for public consideration of needed postal reform, the GAO has recommended that the Postal Service work with stakeholders to offer a formal, comprehensive plan for accomplishing transformation. Building and extending from work already completed, such a plan could provide the opportunity for the Congress and the public to evaluate what kinds of postal policies and structures are most appropriate for the twenty-first century. We agree that such a plan is needed and have begun the work of coordinating with affected stakeholders to develop such a plan.*

*Our Comprehensive Transformation Plan will provide a first step in describing our future direction and the pathway to reaching our goals. The Plan will in fact consider multiple pathways and include a range of options for both administrative and legislative changes. The Plan will discuss the pros and cons of each option and appropriate time frames and milestones for accomplishing the required transformation. Our Plan will address the three key themes that Comptroller General Walker has highlighted: the financial, operational, and human capital challenges that must be met to sustain our universal service mission. But most importantly, the transformation plan, as the comptroller general points out, must address fundamental legislative reform.*

*Work on the transformation plan is proceeding in tandem with continued efforts to restore the Postal Service to a sound financial condition in spite of the current economic slowdown. As discussed with the committee in your recent oversight hearing, from the beginning of this calendar year, the Board of Governors and management of the Postal Service have initiated numerous steps to cut costs at a time when the sluggish economy held revenues below expectation. We have achieved record productivity and maintained our broad service commitments during this time. These efforts to restore balance between income and expense will continue as we work on planning for longer-term structural reform.*

*The U.S. Postal Service (USPS) mandate is to "breakeven" over time. Limited flexibility has been provided to bring down the debt in the statute or in our rate regulations. The rate process allows for reduction of debt through Prior Year Loss Recovery (over a nine-year period).*

*The rate process also provides for a contingency in the test year, which if unused, can help pay down the debt. There are a number of economic assumptions made when projecting the revenue requirement in the test year of a rate case. Should these assumptions go badly for the USPS, the contingency is used to cover the added costs or revenue shortfall.*

*Finally, revenue growth would, in theory, be the most effective way for the USPS to generate positive financial results to permit debt reduction. If growth is better than plan and/or costs are lower than plan, there is an opportunity to pay down debt. However, the process is flawed in that the burden of the rate process does not allow for annual increases in price. The limited revenue growth opportunities (particularly with First-Class Mail) and the inflexible rate process point to the need for pricing reform.*

With respect to human capital transformation, we have an extensive effort under way to restructure the workforce, to reduce administrative staffing, and to reduce bargaining unit positions in accordance with applicable collective bargaining agreements. We are investing extensively in preparing future leaders, in making employees more productive, in improving labor relations, and leveraging their contribution with enterprise technology.

In a search for transformational changes that might be accomplished by the Postal Service and its customers together under existing authority, we have helped to organize a Mailing Industry Task Force to explore specific proposals for improving service and efficiency in our operations. I am personally meeting with our unions and management associations to listen to their views and work with all of them to explore what can be done to improve the long-term prospects for continued success of this vital public service, to which we are mutually committed.

We are working to improve the substantive quality of our interactions with our stakeholders. In the continued effort to advance needed legislative changes, on May 15, the Board of Governors wrote to your committee to provide its views on the kinds of reforms that seem needed to put the Postal Service on a more stable, businesslike basis for the preservation of universal service. These reforms address fundamental issues including the definition and preservation of universal service, more market-driven structures for pricing and product changes, and labor and employment reforms. We recognize that successful legislative reform will require building a coalition across a broad range of postal stakeholders. We continue to meet with members of Congress to learn their views and hear their concerns. We will be working with the Coalition to Preserve Universal Mail Service and others who also seek legislative reform, to exchange views, develop options, and advance the process.

The legislative reform process is dynamic. As we outline our plan to respond to the GAO's recommendations, the shape of the Comprehensive Plan is likely to change to accommodate the state of the discussion of postal reform legislation.

Recognizing that the timing and scope of our plan may change depending upon the legislative process, we expect to conduct discussions of the broad plan with stakeholders during the July-August time frame and to review the results of these conversations with the Board of Governors at their September meeting. We should then be ready to provide everyone with a draft Comprehensive Plan by September 30 of this year. Future updates to the plan will very likely be required.

The process of structural transformation of the Postal Service will be an ongoing, challenging task requiring regular communication and consensus building with all stakeholders. We have been participating in this important discussion of public policy since 1995 and this subject will continue to be a priority for the Postal Service. A transformation plan will need to propose an ongoing, evolving, common vision for the future of universal postal service for the benefit of all of America.

In summary, we find the GAO's recommendations to be very helpful, and we look forward to our ongoing interaction with Comptroller General David Walker and his staff.

Sincerely,

  
John E. Potter

JOHN E. POTTER  
POSTMASTER GENERAL, CEO



June 25, 2001

Honorable Dan Burton  
Chairman  
Committee on Government Reform  
House of Representatives  
Washington, DC 20515-6143

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- (2) "The Service should develop a comprehensive plan, in conjunction with Congress and other stakeholders, such as the postal unions and management associations, customers, and the Postal Rate Commission, that would identify the actions needed to address the Service's financial, operational, and human capital challenges, and establish a time frame and specify key milestones for achieving positive results."

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Our *Comprehensive Transformation Plan* will provide a first step in describing our future direction and the pathway to reaching our goals. The *Plan* will in fact consider multiple pathways and include a range of options for both administrative and legislative changes. The *Plan* will discuss the pros and cons of each option and appropriate time frames and milestones for accomplishing the required transformation. Our *Plan* will address the three key themes that Comptroller General Walker has highlighted: the financial, operational, and human capital challenges that must be met to sustain our universal service mission. But most importantly, the transformation plan, as the comptroller general points out, must address fundamental legislative reform.

Work on the transformation plan is proceeding in tandem with continued efforts to restore the Postal Service to a sound financial condition in spite of the current economic slowdown. As discussed with the committee in your recent oversight hearing, from the beginning of this calendar year, the Board of Governors and management of the Postal Service have initiated numerous steps to cut costs at a time when the sluggish economy held revenues below expectation. We have achieved record productivity and maintained our broad service commitments during this time. These efforts to restore balance between income and expense will continue as we work on planning for longer-term structural reform.

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We are working to improve the substantive quality of our interactions with our stakeholders. In the continued effort to advance needed legislative changes, on May 15, the Board of Governors wrote to your committee to provide its views on the kinds of reforms that seem needed to put the Postal Service on a more stable, businesslike basis for the preservation of universal service. These reforms address fundamental issues including the definition and preservation of universal service, more market-driven structures for pricing and product changes, and labor and employment reforms. We recognize that successful legislative reform will require building a coalition across a broad range of postal stakeholders. We continue to meet with members of Congress to learn their views and hear their concerns. We will be working with the Coalition to Preserve Universal Mail Service and others who also seek legislative reform, to exchange views, develop options, and advance the process.

The legislative reform process is dynamic. As we outline our plan to respond to the GAO's recommendations, the shape of the Comprehensive Plan is likely to change to accommodate the state of the discussion of postal reform legislation.

Recognizing that the timing and scope of our plan may change depending upon the legislative process, we expect to conduct discussions of the broad plan with stakeholders during the July-August time frame and to review the results of these conversations with the Board of Governors at their September meeting. We should then be ready to provide everyone with a draft Comprehensive Plan by September 30 of this year. Future updates to the plan will very likely be required.

The process of structural transformation of the Postal Service will be an ongoing, challenging task requiring regular communication and consensus building with all stakeholders. We have been participating in this important discussion of public policy since 1995 and this subject will continue to be a priority for the Postal Service. A transformation plan will need to propose an ongoing, evolving, common vision for the future of universal postal service for the benefit of all of America.

In summary, we find the GAO's recommendations to be very helpful, and we look forward to our ongoing interaction with Comptroller General David Walker and his staff.

Sincerely,

  
John E. Potter

# APPENDIX B

**DATA DEVELOPED FOR MAILING INDUSTRY TASKFORCE REPORT:  
MARKET INTELLIGENCE AND SEGMENTATION GROUP, 2001**



## The Mailing Industry

Segment	Estimated Revenues Year 2000 (\$ billions)		
	Total	Domestic	International
<b>Postal/Package Stakeholders</b>			
Direct Mailing Services	180	180	
Indirect Mailing Services	<u>250</u>	<u>250</u>	
Direct/Indirect Mailing Services subtotal	<b>430</b>	430	
USPS	65	65	
Foreign Posts	65		65
Foreign Domestic Packages	15		15
Foreign Int'l Packages	11		<u>11</u>
UPS/FedEx/Airborne	<u>50</u>	<u>50</u>	
<b>Subtotal</b>	<b>636</b>	<b>545</b>	<b>91</b>
<b>Mail Intensive Customer Segments</b>			
Mail Order	111	111	
Publishing	100	100	
Printing*	24	24	
<b>Subtotal</b>	<b>235</b>	<b>235</b>	
<b>Core Mailing Industry</b>	<b>871</b>	<b>780</b>	<b>91</b>
<b>Associated Stakeholders</b>			
Advertising: US (Non-Direct Marketing)	134	134	
Advertising: Foreign	230		230
Domestic Telephone**	250	250	
Electronic Messaging	37	37	
Broadcast/Cable	60	60	
Electronic Payment Services	<u>14</u>	<u>14</u>	
<b>Subtotal</b>	<b>725</b>	<b>495</b>	<b>230</b>
<b>Total</b>	<b>1,596</b>	<b>1,275</b>	<b>321</b>

\* An additional \$66 billion is included as direct/indirect mailing revenues in the Postal/Package segment.

\*\*An additional \$20 billion is included in indirect mailing revenues related to Direct Marketing

Sources: ADL Evaluation of the Mailing Industry 10-98, USPS, Collography Inc, Dun and Bradstreet, Direct Marketing Association, Applied Value Inc.

## The Mailing Industry

<b>Segment</b>	<b>Employment (millions)</b>
<b>Postal/Package Stakeholders</b>	
Direct Mailing Services	
Indirect Mailing Services	
Direct/Indirect Mailing Services subtotal	6.3
<b>USPS</b>	
Foreign Posts	0.8
Foreign Domestic Packages	
Foreign Int'l Packages	
UPS/FedEx/Airborne	0.6
<b>Subtotal</b>	<b>7.7</b>
<b>Mail Intensive Customer Segments</b>	
Mail Order	0.3
Publishing	0.9
Printing*	
<b>Subtotal</b>	<b>1.2</b>
<b>Core Mailing Industry</b>	<b>8.9</b>
<b>Associated Stakeholders</b>	
Advertising: US (Non-Direct Marketing)**	
Advertising: Foreign	
Domestic Telephone	1.9
Electronic Messaging	0.1
Broadcast/Cable	0.2
Electronic Payment Services	NM
<b>Subtotal</b>	<b>2.2</b>
<b>Total</b>	<b>11.1</b>

\* 1.0 million are included in the Postal/Package-Mailing Services Segment

\*\*0.7 million are included in the Postal/Package-Mailing Services Segment

NM: Not Meaningful (estimated as under 100,000 employees)

Sources: ADL Evaluation of the Mailing Industry 10-98, USPS,  
Collography Inc, Dun and Bradstreet

# APPENDIX C

**TRANSFORMATION PLAN  
STAKEHOLDER PRELIMINARY CONCEPT DISCUSSION  
AUGUST – SEPTEMBER 2001**



Scenario Components	Action Under Current Law	Moderate Legislative Change Three Alternative Approaches			Fundamental Structural Change
	Incremental Administrative Title 39 Model	Traditional Core Service Model	Enhanced Service Model	Enhanced Service / Structural Separation Model	Transformational Legislative Reform Corporatization Model
Mission	Current universal service definition	Current definition Possible Narrowing	Current definition New efficiency would be sought	Current definition New efficiency would be sought	Contract to provide universal service granted by federal government.
Legal Construct	Retention of current monopoly	Current monopoly Modification of non-profit status Possible modification of debt limit	Current monopoly Modification of non-profit status Modification of debt limit Authority to invest	Current monopoly for selected products and competitive freedom for others Modification of non-profit status Modification of debt limit Authority to Invest	Creation of a phased-in Postal Corporation leaving the ownership with the federal government for the time being
Service Offering	Today's services	Focus on current services with potential narrowing	Core plus enhanced products and services	Core plus enhanced products and service	Market defined service offerings
Pricing	Current rate-making process	Increased flexibility	Increased flexibility Reduction of scope of PRC	Increased flexibility Reduction of scope of PRC	Phase-out of price regulation and market place standards are created.
Governmental Control	Congress and Rate Commission	Reduced PRC role Base Closings type authority would reorganize oversight	Modification of the current PRC role Base Closings type authority for postal management	Modification of the current PRC role Base Closings type authority for postal management	Phase out of current oversight role and creation of marketplace standard
Legislative Change	None	Pricing Reform For- Profit Debt limit Base Closings Authority	Pricing Reform Investment Authority	New law creating a monopoly service and a competitive service	Legislation creating a corporate entity



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