JOHN E. POTTER
POSTMASTER GENERAL, CEO

UNITED STATES POSTAL SERVICE

September 2003

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

The publication of the *Five-Year Strategic Plan* of the United States Postal Service for the Fiscal Years 2004-2008 marks a significant milestone for the nation's postal system.

The President's Commission on the U.S. Postal Service has delivered its recommendations and Congress has been working on a number of postal-related issues. We look forward to greater legislative and regulatory flexibility to improve service, manage costs, empower employees, and respond to customer needs.

The Postal Service has provided Congress with plans for the use of the funds made available as a result of the recent enactment of the Postal Civil Service Retirement System Funding Reform Act. With this adjustment, the Postal Service has been able to reduce its debt levels and will be able to hold rates steady until 2006.

The Postal Service continues to implement its *Transformation Plan*, and has achieved both record service performance and four years of improved productivity. Postal managers and employees have improved safety and performance, and indicators of employee attitudes are also improving. The Postal Service has been recognized by independent surveys as providing very high levels of customer satisfaction.

The fundamental mission of the Postal Service remains unchanged: To provide prompt, reliable mail delivery at fair and equitable prices to all customers and all communities.

Our challenge continues to be to finance the growing universal service network as revenue from key categories of mail decline. Our response is to motivate all postal employees to achieve the performance goals of a highly trusted, fundamental government service, to transform postal processes by the effective execution of bold businesslike strategies that enhance the value of the mail, and to partner with the mailing industry to create a financially stable organization that meets customer needs and helps to grow the American economy.

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EXECUTIVE SUMMARY

Introduction and Purpose: Five-Year Strategic Plan

The Postal Service's™ *Five-Year Strategic Plan, FY2004–2008,* is structured around the mission, vision, and strategic goals of the organization.

- Mission
  The United States Postal Service provides universal mail delivery service and access to postal services for all customers and all communities.

- Vision
  The Postal Service will continue to enable committed employees to provide the fundamental, trusted government service of timely, reliable, and accurate mail delivery with convenient access to all customers and communities at the lowest possible prices.

  The Postal Service will continue its businesslike transformation by effective execution of bold strategies that improve the value of the mail and mail-related products and services. In partnership with the mailing industry, the Postal Service will create a financially stable enterprise that contributes to growth in the U.S. economy by providing flexible services that meet America's needs.

This plan provides an objective way for postal stakeholders, including Congress and the American people, to evaluate the performance of the Postal Service using valid measures and reliable data.[1]

The plan provides stakeholders with an assessment of the challenges facing the Postal Service and describes how the Postal Service will continue to respond to the needs of the American people and increase its value to the U.S. economy during the next five years.

The Central Challenge of Postal Strategic Planning

The Postal Service will no longer be able to rely on First-Class Mail volume growth to fund the maintenance and expansion of the delivery network.

The Postal Service enters the 21st century challenged by mail volume losses from diversion to technological alternatives and direct competition, changing markets, and a continuing soft economy.

The Postal Service's business model, as outlined in the Postal Reorganization Act of 1970, assumes that expansion of the U.S. economy will stimulate mail volume growth and increase revenue sufficient to finance the expanding infrastructure required to provide service to more than 1.7 million new delivery points annually.

Major losses in First-Class Mail® volume, which covers 66 percent of the Postal Service overhead expenses, indicate that the Postal Service will no longer be able to rely on growth of First-Class Mail volume to fund the maintenance and expansion of the delivery network. In fiscal year (FY) 2002 and FY2003, First-Class Mail volume will have declined by some 4.5 billion pieces below its FY2001 peak of 103.7 billion pieces. Through FY2004 the total decline is projected to reach 6 billion pieces. These are the greatest declines in First-Class Mail since the Great Depression. Should this trend continue, in combination with growth in costs for labor, employee health care and retirement, fuel, and facilities, the gap between revenue and expenses carries serious financial implications for the Postal Service.

[1] This third update of the *Five-Year Strategic Plan* addresses the requirements of the Government Performance and Results Act (GPRA) of 1993 by describing the mission and strategic vision of the Postal Service; establishing strategic performance goals and annual objectives; establishing quantitative targets based on verifiable data from reliable measurement systems; summarizing external trends and issues that may affect the ability of the Postal Service to achieve its mission, goals, and objectives; describing strategies that the Postal Service will implement to accomplish its mission and achieve its goals, objectives, and targets; and describing the resources necessary to accomplish the mission and achieve objectives. The strategic plan also includes a brief description of the management process used to establish goals and accountabilities, implement programs, review results, and link performance to budgets.

Exhibit ES-1 on the following page provides three different mail volume forecasts for the five years encompassed by this strategic plan: a baseline, a pessimistic, and an optimistic forecast. The baseline forecast presents the most probable scenario, based on the view that recent trends will continue into the future. The pessimistic scenario assumes continued weak economic growth and acceleration of First-Class Mail diversion. The optimistic scenario assumes the economy will grow at a faster rate than anticipated and that First-Class Mail diversion diminishes. This scenario is considered the least likely to occur, given the nature of the current economic recovery.

In fact, the current recovery has been classified as a "jobless" recovery, with employment now about 4 percent lower than at this stage of previous recoveries. This is particularly important for mail volume, since more than 70 percent of mail originates or destinates in American households. Mail volume growth, closely tied to the health of household finances, is negatively affected when consumer confidence is low, consumer debt is high, and consumer spending is faltering.

All three mail volume forecasts project that Standard Mail volume, for the first time in history, will exceed projected First-Class Mail volume, significantly impacting overhead cost coverage. Standard Mail, primarily advertising mail, is subject to intense competition which allows little room to increase Standard Mail prices without adversely impacting volume.

In addition, the Postal Service faces strong competition from private sector delivery companies and foreign posts in its package markets. These competitors, like the Postal Service, face an unfavorable revenue trend as cost-conscious customers shift from air transport to lower-cost ground business. Overall, postal services, long considered to be the beneficiaries of relatively inelastic demand, today are increasingly challenged by the growing availability of alternatives to the mail for many customers.

In FY2001, management began a progression of cost-cutting measures that were updated in the April 2002 *Transformation Plan* with a commitment to reduce costs by $5 billion by 2006. With no magic wand to reverse the decline in First-Class Mail volume, the Postal Service focused on the basics. It committed to streamlining operations, attracting new revenue by adding value to its core products, and motivating and empowering employees to meet the coming challenges within a performance-based culture.

Exhibit ES-1. Mail Volume Forecast Scenario, FY2004-2008 (Billion Pieces)

Forecast	Class	2002 (Actual)	2003 (Prelim.)	2004	2005	2006	2007	2008
Baseline	First-Class Mail	102.4	99.2	97.6	97.5	97.1	96.8	96.4
	Standard Mail	87.2	90.2	94.1	98.2	101.4	104.1	106.8
	Other Mail	13.2	12.8	12.6	12.4	12.3	12.2	12.3
	TOTAL	202.8	202.2	204.3	208.2	210.8	213.1	215.4
Pessimistic	First-Class Mail	102.4	99.0	96.2	95.0	93.4	92.4	91.5
	Standard Mail	87.2	90.1	93.3	95.7	97.3	98.0	98.7
	Other Mail	13.2	12.8	12.5	12.2	11.9	11.7	11.6
	TOTAL	202.8	201.9	202.0	202.9	202.6	202.0	201.8
Optimistic	First-Class Mail	102.4	99.8	99.5	100.1	100.2	100.2	100.0
	Standard Mail	87.2	90.6	96.0	100.6	103.6	106.8	110.8
	Other Mail	13.2	12.9	12.8	12.7	12.6	12.5	12.4
	TOTAL	202.8	203.3	208.2	213.4	216.4	219.5	223.2

Source: USPS Finance (some totals may not add exactly, due to rounding)

The Postal Service's Strategic Performance Goals

The Postal Service's *Five-Year Strategic Plan, FY2004–2008,* has four broad strategic goals focused on results that are important to its stakeholders: improve service, manage costs, enhance performance-based culture, and generate revenue.

Improve Service

The Postal Service remains committed to its fundamental mission to provide timely, reliable mail delivery to all households, which remains critical to economic progress in the 21st century. Since 2002, independently measured national service performance has increased and has now reached record high levels. First-Class Mail overnight service on-time performance has improved an unprecedented 10 points since 1995 to the current record levels. Two- and three-day service has shown similar improvement.

An independent survey of postal performance conducted for the financial industry[2] called 2002 a year of mail delivery improvement unmatched in recent history. The same survey in the spring of 2003 reported no signs of abatement in 2003.

[2] Phoenix-Hecht Postal Survey™, Fall 2002.

A June 2003 survey conducted for the President's Commission on the U.S. Postal Service reports that 79 percent of the respondents said they feel favorably toward the Postal Service, including 47 percent who report very favorable attitudes.[3] The American Society for Quality, which has conducted a multi-industry survey of customer satisfaction since 1994, reports that the Postal Service is the most improved in service of all industries measured.[4]

Exhibit ES-2 sets forth the Postal Service's performance objective, measures, and targets for the five years covered in this strategic plan.

Exhibit ES-2. Service Performance Objective, Measures, and Targets

Objective	Measures	FY2004 Target	FY2005–2008 Target
Provide timely, reliable and accurate mail delivery service to a growing universal network and convenient access to postal services for all customers and all communities	Priority Mail Service (Two- and Three-Day)	Improve over Prior Year (Proprietary)	Improve
	Express Mail Service (Overnight)	Improve over Prior Year (Proprietary)	Improve
	First-Class Mail Service (Overnight) (Two-Day) (Three-Day)	 94% 90% 88%	 95% 91% 91%

Service will continue to improve through the application of new technology for tracking the mail, effectively managing transportation performance, and improving operational processes that will reduce handlings and errors.

Partnerships with customers, suppliers, and the mailing industry to improve the quality of mail preparation and to enter the mail closer to the point of final delivery also will improve service. In addition, the Postal Service will continue to develop pricing incentives that reinforce efficiency and service improvement. Management will continue to emphasize the importance of customer service at all levels of the organization.

Manage Costs

The Postal Service must provide its timely, reliable universal delivery service as efficiently and affordably as possible. In each of the last four years the Postal Service has achieved improved productivity. Since September 2000, actual complement has declined by more than 60,000 employees through attrition, while the number of addresses served has increased by about 5.2 million.

The Postal Service will continue to reduce its workforce through attrition, limited early retirement offers in selected units and locations, and less need for temporary, part-time workers as career employees become more efficient through the use of new technologies.

[3] Black & Veatch, Peter D. Hart Research, Summary of Findings Report from a Consumer Survey about the U.S. Postal Service, June 9, 2003, p. 1.
[4] American Society for Quality, 2003 Transportation/Communications/Utilities and Services Industry Report.

Productivity improvements have enabled the Postal Service to reduce the rate of growth in costs and to hold postal prices relatively steady. After adjusting for inflation, postage rates today are nearly equivalent to the subsidized rates in 1971 when the Postal Reorganization Act of 1970 was implemented. Increasing productivity will continue to enable American households and businesses to enjoy one of the lowest rates of basic postage among developed nations.

Exhibit ES-3 below sets forth the Postal Service productivity objective, measures, and targets for the five years covered in this strategic plan.

Exhibit ES-3. Productivity Objective, Measures, and Targets

Objective	Measures	FY2004 Target	FY2005–2008 Target
Manage costs and improve productivity to maintain fair and equitable prices for all customers	Total Factor Productivity (TFP)	0.4% increase	Better than or Equal to Plan

The Postal Service's productivity program has three major areas of emphasis.

- Continue to evolve the automation program for letter mail and extend the program to flats, packages, and material handling.
- Realign the entire postal operating network to make better use of its facilities and transportation. The implementation of integrated information management systems will provide more relevant, accurate, and timely data that will enable managers to make more efficient use of postal resources.
- Identify and implement best internal and external business practices throughout the organization. Effective process management will lead to greater efficiencies through standardization.

Enhance Performance-Based Culture

The Postal Service employs some of the most dedicated workers in the nation. Day in and day out postal employees respond to the challenge of moving more than 650 million items a day, more than 200 billion items a year, across the country to 141 million addresses.

The tragic terrorist and anthrax events in New York, Trenton, and Washington, D.C., in 2001 were unprecedented in their magnitude and the scope of their disruption, but Postal Service employees provided unparalleled service to the American people. After floods, fires, tornados, hurricanes, and earthquakes, the first signs of normality returning to a community are often the sight of Postal Service letter carriers on their routes and Post Offices™ open for business.

As it moves into the 21st century, the Postal Service will maintain an accountable, motivated, and diverse workforce empowered to maximize performance in a safe and secure work environment. Such a performance-based culture will work to achieve the critical organizational goals of improving service, productivity, and revenue generation.

Since implementation of recommendations of the Commission for a Safe and Secure Workplace in 2000 and a transition to the use of measures required by the U.S. Occupational Safety and Health Administration (OSHA) in FY2001, the Postal Service also has been continually improving its safety performance. In the past year employee accidents and injuries at the Postal Service have been reduced by more than 15 percent.

Exhibit ES-4 sets forth the Postal Service safety performance objective, measures, and targets for the five years covered in this strategic plan.

Exhibit ES-4. Safety Performance Objective, Measures, and Targets

Objective	Measures	FY2004 Target	FY2005–2008 Target
Maintain an accountable, motivated, and diverse workforce empowered to maximize performance in a safe and secure work environment	OSHA Illness and Injury Rates	Better Than Previous Year (Actual data for FY2003 will be available after the end of the fiscal year)	Better Than Previous Year

The Postal Service is providing award-winning safety training programs and tools to its employees, and is partnering with the Occupational Safety and Health Administration (OSHA) of the U. S. Department of Labor to implement industry leading safety practices. The Postal Inspection Service is working with local management, using an enhanced safety model to identify facilities with higher external security risks, to minimize those risks.

In a difficult environment — one with continued concerns about possible job loss due to competition and reduced mail volume — the Postal Service will provide its employees with the support they need to manage their careers and to achieve the objectives of the organization. To determine how effectively it is communicating with its employees, each year all Postal Service employees may respond anonymously to a survey that tracks their opinions about the workplace. Even in the difficult circumstances faced by employees during the last three years, overall employee survey ratings have improved. In addition, the Postal Service has been rated by *Fortune* magazine as "one of the best places for minorities to work."[5]

Exhibit ES-5 sets forth the Postal Service employee opinion objectives, measures, and targets.

[5] Fortune, July 7, 2003.

Exhibit ES-5. Employee Opinion Objective, Measures, and Targets

Objective	Measures	FY2004 Target	FY2005–2008 Target
Maintain an accountable, motivated, and diverse workforce empowered to maximize performance in a safe and secure work environment	Voice of the Employee Survey	Better Than Previous Year (Actual data for FY2003 will be available after the end of the fiscal year)	Better Than Previous Year

As the fourth largest employer in the world and second largest in the United States after Wal-Mart, the Postal Service manages a workforce through initiatives that must consider size, diversity, and geographic dispersion. Many of these initiatives are among the best in government and many parallel best practices in the private sector. Nationwide programs are now being implemented to address employee retention, recruitment, and development, and by the end of FY2004, a pay-for-performance program will cover all non-bargaining unit employees. Through continuous communication with employees, management associations, and unions, the Postal Service will continue to improve the workplace environment and provide support to its employees.

Grow Revenue

The fundamental revenue generation strategy starts with continued service improvement (Chapter 2), while holding down the rate of increase in costs as much as possible to provide stable rates (Chapter 3). The Postal Service will also increase the value of the mail through product and service enhancements (Chapter 5). Exhibit ES-6 describes the revenue generation objective, measures, and targets.

Positive growth in the economy alone will not help improve the growth of mail volume. Mail volume has been affected by intense competition both from direct alternatives, such as FedEx and UPS, and from technological substitutes, such as e-mail and electronic bill presentment and payment systems.

Exhibit ES-6. Revenue Generation Objective, Measures, and Targets

Objective	Measures	FY2004 Target	FY2005–2008 Target
Enhance core services and provide greater value to customers	National Total Revenue Report	$68.9 Billion	Better than or Equal to Plan

The Postal Service will work with the mailing industry and its customers to develop innovative pricing approaches, such as the recently approved Negotiated Service Agreement (NSA), which allows the Postal Service for the first time to engage in volume-based pricing with a single customer. Other customers will be offered similar opportunities as the experiment provides the information necessary to implement additional NSAs.

Customers also will have more convenient access to postal products and services through a variety of alternative channels, such as the Internet and kiosks, and as postal products become available through commercial retail outlets. The Postal Service will improve the ease of use for both consumer and business customers and will enhance product awareness among customers.

The Postal Service's sales team will be more effective, using industry-standard techniques to target and address the specific needs of different customer segments. The Postal Service will also respond more effectively to customer inquires and problems.

The application of new technology to the mail will provide new opportunities for mailing industry entrepreneurs to increase the effectiveness of mail in meeting customers' needs. Besides new value in products, the Postal Service will continue as the nation's trusted third party, modernizing long-standing policies of privacy, security, and consumer protection that reaffirm America's need for mail and the U.S. Postal Service.

Another major program will be increased employee participation in revenue generation programs, particularly on the part of retail clerks and letter carriers. These employees, through the service they provide the public, are the Postal Service's front line salespeople. It is the employees in the field who explain enhancements to new products and educate the public about the advantages of using postal products and services. Each of them contributes to growing revenue and enhancing the bottom line.

Within the constraints of the current legislative and regulatory framework, the Postal Service will continue to develop and offer mail and mail-related products and services that meet the needs of America's businesses and households.

Pursue Legislative Change

Adjust Civil Service Retirement System Contributions

The Postal Civil Service Retirement System Funding Reform Act of 2003 adjusted the computation rates for Postal Service contributions to the Civil Service Retirement System (CSRS) to prevent future overpayments. The recalculation will reduce the level of Postal Service payments to CSRS. This will permit a reduction in Postal Service debt levels and a delay in the next rate increase until FY2006. Congress has required the Postal Service to provide further information on planned use of the funds in the future, and whether and to what extent the Postal Service should be responsible for funding the benefits attributable to military service of current and former Postal Service employees.

President's Commission on the U.S. Postal Service

As currently structured and regulated, the Postal Service's cost-cutting efforts alone will not be sufficient to guarantee continued fulfillment of its universal service obligation to the nation. Changes in the basic business model will be necessary in the near future. In December 2002, President Bush appointed a President's Commission on the United States Postal Service. The issues discussed by the Commission are outlined in Chapter 6 of this strategic plan.

U.S. Postal Service Vision: Trust, Transformation, and Partnership

The Postal Service will continue to enable committed employees to provide the fundamental, trusted government service of timely, reliable, and accurate mail delivery with convenient access to all customers and communities at the lowest possible prices.

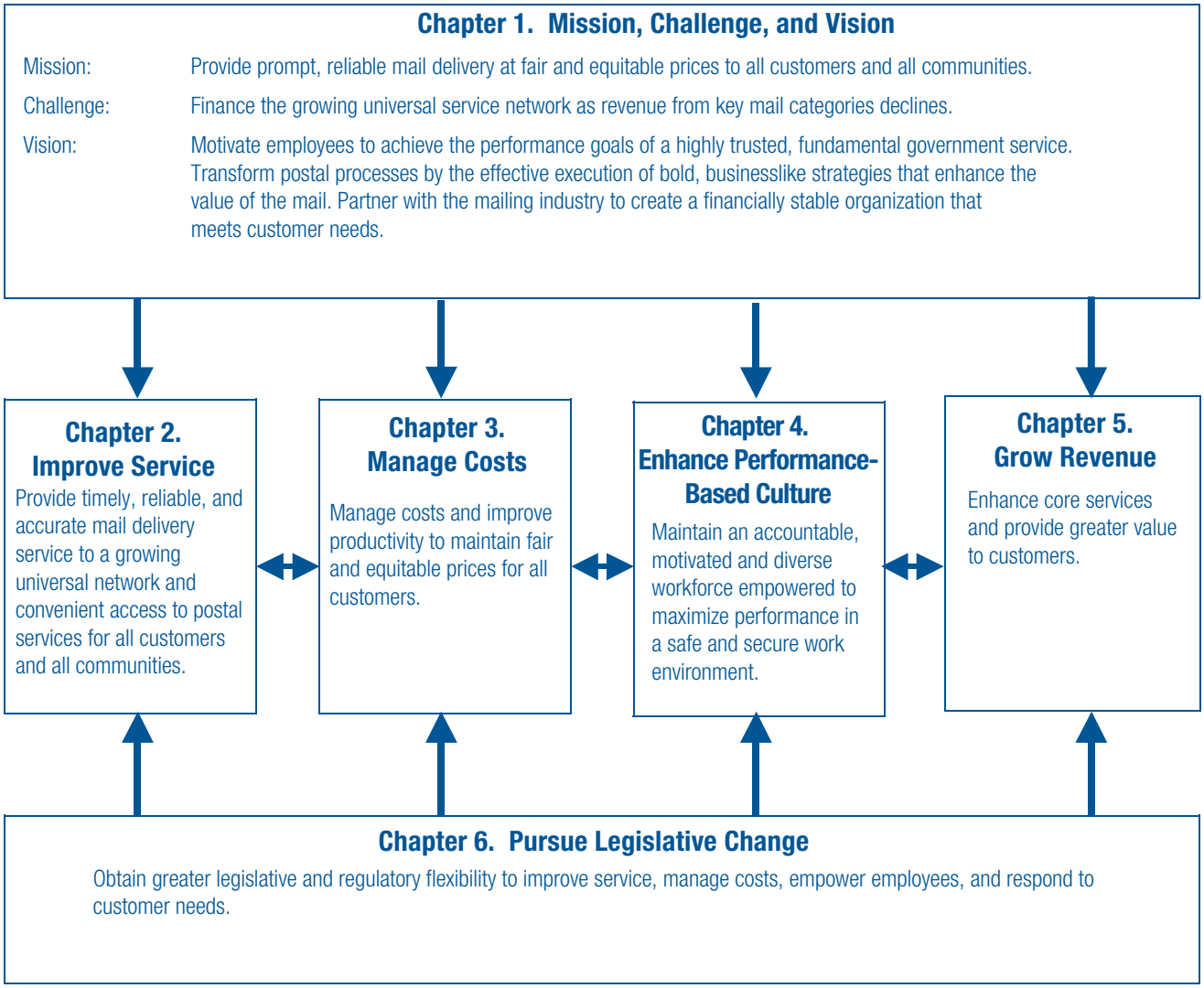
The Postal Service will continue its businesslike transformation by effective execution of bold strategies that improve the value of the mail and mail-related products and services. In partnership with the mailing industry, the Postal Service will create a financially stable enterprise that contributes to growth in the U.S. economy by providing flexible services that meet America's needs.

Exhibit ES-7 illustrates the framework of this strategic plan and shows the linkage among the mission and vision of the Postal Service and its strategic goals: improve service (Chapter 2); manage costs (Chapter 3); enhance a performance-based culture (Chapter 4); grow revenue (Chapter 5); and pursue legislative change (Chapter 6).

These initiatives will position the Postal Service as a highly efficient and effective businesslike public service. The improvements in service performance, productivity, safety, and employee opinion that have been achieved over the last several years will continue.

These initiatives, however, will not reverse market trends; the decline of First-Class Mail volume is likely to continue. Even small declines in First-Class Mail volume have a significant impact on the ability of the Postal Service to generate sufficient contribution to institutional costs and remain able to cover the fixed costs of a growing postal network. Without significant change in the current legislative and regulatory structure, the Postal Service will have increasing difficulty in the future in fulfilling its universal service mission.

Exhibit ES-7. Postal Service Strategic Planning Framework ("Business Model")



CHAPTER ONE: MISSION, CHALLENGE, AND RESPONSE

Introduction

Article I, Section 8 of the Constitution of the United States of America empowers Congress to establish Post Offices™ and Post Roads. Postal service is one of the oldest functions of the U.S. government, and the postal function has grown with the country and evolved to meet the changing needs of the American people.

POSTAL SERVICE MISSION, GOALS, AND BENEFITS TO THE PUBLIC

Universal Service Mission

Congress assigned the Postal Service™ the mission of "binding the nation together through the personal, educational, literary, and business correspondence of the people…It shall provide prompt, reliable, and efficient service to patrons in all areas and shall render postal services to all communities" at "fair and equitable" rates.[6]

This universal service obligation has been generally understood to include regular delivery of letters, periodicals, and packages to the expanding number of business and household addresses nationwide,[7] and access to postal services through an extensive network of retail facilities.[8] The universal service obligation also encompasses the Postal Service mandate to deliver one class of letter mail, sealed against inspection, at a uniform rate nationwide.

Despite the availability and growth of direct competitors and technological substitutes for mail services, a strong and vibrant universal mail system is essential to a fully developed economy.[9] The mission of the Postal Service remains as relevant as ever, and the Postal Service is committed to be as efficient and effective as possible, within the constraints of its legislative and regulatory framework.

Goals of the Postal Reorganization Act of 1970

The Postal Reorganization Act (PRA) of 1970 defined the Postal Service as an independent establishment of the federal government. It is expected to operate in a "businesslike manner" and generate sufficient funds to cover its costs through the sale of services to the public, rather than depend on appropriations from Congress.[10] The Postal Service is expected to be a financially stable organization that adds value to the U.S. economy and meets the needs of the American people.

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[6] Postal Reorganization Act of 1970, [Title 39, U.S. Code, August 12, 1970, 39 U.S.C. 101 (a,d)].
[7] The number of possible deliveries is currently more than 141 million, and the number has been increasing by more than 1.7 million new addresses annually.
[8] There are more than 38,000 Post Offices, stations, and branches.
[9] Electronic Signatures in Global and National Commerce, Report to Congress, National Telecommunications and Information Administration, U.S. Department of Commerce, June 2001.
[10] The Postal Service became self-sufficient in 1982. Cumulative postal deficits since 1971 are less than 0.5 percent of total revenues — essentially "break-even" as required.

Benefits the Postal Service Provides to the U.S. Economy and the American People

The timely, reliable delivery of more than 200 billion items annually — bills, statements, payments, business communications, personal correspondence, magazines, newspapers, advertising, and merchandise — at reasonable rates remains essential to the U.S. economy.

The Postal Service provides services that consumers want.

The Postal Service provides convenient, trusted services that consumers want. Consumers use postal services to manage personal finances, shop more effectively, obtain information and entertainment, and maintain business, organizational, and personal relationships.

Mail helps the U.S. economy grow because it increases awareness of products and services, increases store and Internet site traffic, increases trial of products and services, improves sales, and builds customer relationships, loyalty, and repeat sales. A viable Postal Service is essential to the continued growth of the paper, printing, and mailing industries — and is a major purchaser of transportation and other services. The Postal Service is at the heart of a large and growing mailing industry — representing nearly nine million jobs and annual revenues of about $900 billion.[11] It is a large, diverse, and stable employer — the second largest in the nation.

Mail helps the economy grow.

The Postal Service supports other public services as well, including providing reduced rates for non-profit organizations and periodical publications. The Postal Inspection Service provides valuable support for the security of the mail, postal employees, and customers, helps enforce consumer protection laws, and combats identity theft.

The Postal Service also manages and maintains industry standards, including an address management system that is used by delivery market competitors. This system of forwarding and address correction has no parallel in the Internet world. The Postal Service is one of the most familiar and trusted organizations in the country.[12]

BUSINESS ENVIRONMENT AND MAIL VOLUME SCENARIOS

External Trends and Issues

The Postal Service's current statutory model established a dual mission to operate according to sound business principles but always within the constraints of its public service mission. Functioning as a "businesslike public service" requires the Postal Service to accommodate financial, political, and social obligations while also ensuring that universal mail delivery service is provided to every American at affordable prices.

The central public policy issue facing the Postal Service is to continue to provide universal service to all Americans and still make it affordable in the face of potentially declining mail volume. The external environment is characterized by increasing uncertainty, greater risk, and a more demanding market place.

Mail and the Economy

There is a strong probability that mail volume will grow more slowly than the economy — a significant change from traditional planning assumptions. Key categories of First-Class Mail® volume may actually decline, threatening the financial foundation of the Postal Service.[13] Mail volume growth is increasingly

[11] Report of the Mailing Industry Task Force, 2001.
[12] Forrester Research, Winning the Changing Financial Customer, July 2003.
[13] Even limited diversion of First-Class Mail volume has a significant financial impact on the Postal Service. First-Class Mail service currently provides 54 percent of postal revenue, and 66 percent of contribution to the "fixed" costs of the universal service infrastructure. No other postal mail category can easily replace this loss.

dependent upon advertising mail, which fluctuates with the economy. The growth in household and business formation will continue to relentlessly drive increases in postal costs.[14]

Customer Needs, Competitor Initiatives, and Market Requirements

The Postal Service exists in a much more dynamic and competitive environment than foreseen by the PRA. Competition from electronic substitutes such as electronic bill presentment and payment systems, and e-mail, and from direct alternatives such as FedEx and United Parcel Service is expected to grow more intense. Even foreign postal administrations such as Deutsche Post (Germany) and TPG (Netherlands) have entered portions of the U.S. market.

The Postal Service exists in a much more dynamic and competitive market than foreseen by the Postal Reorganization Act.

Changing demographics will play an important role in determining the demand for mail services. Households are more fragmented, with more single heads of households or unmarried people living together, with fewer residents per household. The generation that is currently beginning to leave home and forming its own households is the first "Internet" generation and is likely to have a different relationship with the Postal Service and its competitors than previous generations.

The majority of residential deliveries do not generate enough contribution to cover the cost of delivery. Part of this is due to the increasing sophistication of mailers, who target the most affluent households. This segment is the most lucrative for the Postal Service and its competitors, and these households are more comfortable with the use of both direct alternatives and technological substitutes for mail services.

The Postal Service is limited in its ability to respond quickly to market changes.

The risk of mail volume diversion is increasing, but the Postal Service is limited in its ability to respond quickly to market changes, to develop innovative new products and services, or to adapt products and services to the needs of different customers.[15]

Technology and Business Process Improvements

There is significant potential for enhancing the mail, generating new revenue, improving service, and increasing productivity through the application of new integrated mail production, processing, and information systems. The PRA did provide important flexibility to the Postal Service to implement complex, multi-year capital investment programs such as mail processing automation, updated information technology systems, and large facility projects. However, the ability to fund these investments out of current cash flows under a break-even requirement is sometimes limited.

As a public organization, the Postal Service must be extremely careful in developing joint research and development programs. Such arrangements are typically more open to public scrutiny than private sector initiatives and are more subject to challenge. Furthermore, the Postal Service is more limited in its ability to form strategic alliances and partnerships.[16]

Labor Force Changes and Emerging Civil Service Reform

As one of the largest employers in the nation, the Postal Service faces particular challenges in managing a changing and diverse labor force. Postal Service personnel practices generally have paralleled other government agencies. The legislation that established the Department of Homeland Security has introduced new flexibilities into federal civil service, and other congressional initiatives on civil service reform

[14] Without management action, at an average of 500 deliveries per route, recent annual increases of 1.7 million new deliveries would require 3,400 new carrier routes, with 4,800 new carriers and associated vehicle, delivery, supervision, and administrative costs. Recent postal productivity improvements in delivery services have been the result of management programs that may be approaching the limits of their contribution (Source: USPS presentation to President's Commission on the U.S. Postal Service).

[15] It takes about 18 months to change rates or introduce new services, and competitors can obtain detailed advance information about Postal Service initiatives. Customer segmentation and customization of services is an important part of effective marketing, but the Postal Service has been restricted from implementing programs some claim would "unduly discriminate among customers."

[16] The Postal Service is also limited from making changes in service standards, operating networks, and facilities that most private sector organizations would implement to improve productivity and reduce costs.

are likely. The context of comparability with the private sector is also changing as the U.S. economy continues to transform from manufacturing to information-based service industries.

The Postal Service has been innovative in the development of worksharing programs with the private sector and in contracting with the private sector for a significant portion of its operating needs.[17] In the future, all government agencies — including the Postal Service — are likely to face increasing pressure to document the relative efficiency of their programs compared to the private sector.

The changing demographics of the workforce also create several important issues. The generation currently entering retirement eligibility is large and will generate increased health care costs. The Postal Service will be challenged to replace many executive, professional, and technical positions, and the mix of skills the Postal Service needs will change. There may be a geographic imbalance between the areas where the Postal Service needs to reduce staff, the areas where reductions are easily possible through attrition, and areas where staffing may need to increase to serve growing communities.

Administration and Congressional Priorities

The Report of the President's Commission on the U.S. Postal Service is expected to energize public policy-making on postal issues.

The pressure for improved government performance, documented with reliable data and accountability for results, will continue to increase. The President's Management Agenda and the Government Accounting Office (GAO) "High Risk List" for government-wide issues will continue to drive administration and congressional examination of government activities. The Postal Service will be expected to provide more data and detailed explanations about its operations and financial situation that are in line with expectations of the Government Performance and Results Act (GPRA) and other legislation related to government performance and accountability.

Public safety, information security, and personal privacy will continue to dominate congressional and administration attention. The Postal Service is committed to protecting the privacy of data for its customers and its employees. The threat of bioterrorism and other threats to public safety will require the Postal Service to continue to develop new measures to prevent, detect, and respond to potential hazards. Information security, especially in the area of identity theft, will be an increasing concern. Legislation on personal privacy, which has impacted telephone soliciting and online advertising, may affect mailing lists.

Strategic Mail Volume Scenarios

The outlook for mail volume and revenue growth for the next five years is less promising than the period covered by the previous strategic plan. Major mail categories have experienced the greatest volume declines since the Great Depression, and are expected to be weak into the future. While it is still not clear how much of the volume loss is due to the current business cycle and how much is due to more lasting factors of technological change and competition, there is ample evidence that both forces are at work.

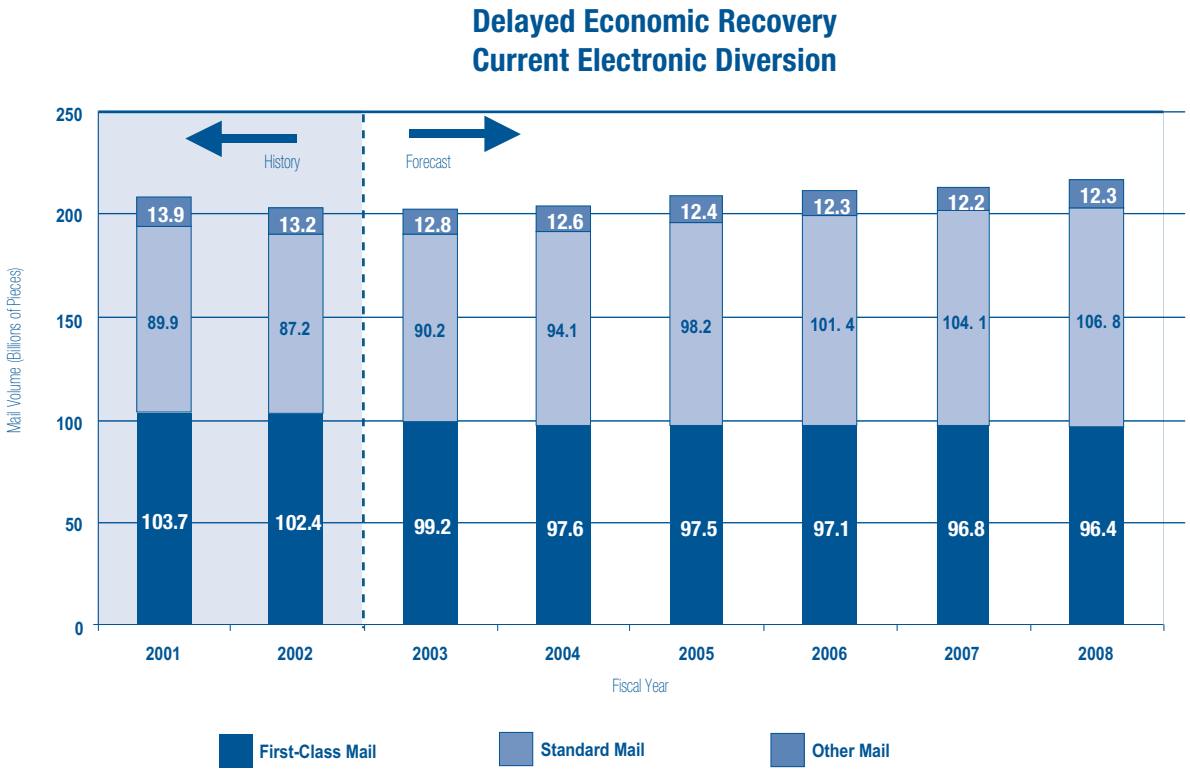
Mail volume growth or decline depends on a number of factors, including the state of the economy, market developments, technological advances, customer adoption rates of technological alternatives and competing services, postal and competitor prices, quality of service, and the marketing strategies of the Postal Service and its competitors. In a long-term mail forecast, such as is central to this strategic plan, it is useful to consider several different volume scenarios, due to the uncertainty associated with each of these factors.

[17] See "Hiding in Plain Sight: The Quiet Liberalization of the U.S. Postal System," Mary S. Elcano, Andrew German, and John T. Pickett, Seventh Annual Conference on Postal and Delivery Economics, Sintra, Portugal, June 23–26, 1999.

Baseline Forecast (Most Likely)

The baseline forecast represents the most probable scenario, based on the view that trends that have been emerging over the recent past are likely to continue. The baseline forecast is that total mail volume will increase from about 202 billion pieces in FY2003 to about 215 billion in FY2008. This represents an average annual growth of about 1.3 percent, which approximates the expected rate of growth of the U.S. population.

Exhibit 1-1. Baseline Forecast



The baseline scenario assumes that the present "jobless" recovery continues at its sluggish pace into FY2004 and accelerates thereafter. Employment is now about 4 percent lower than at this stage of previous recoveries. This is particularly important for mail volume, since more than 70 percent of mail originates and/or destinates in American households. Mail volume growth, closely tied to the health of household finances, is adversely affected when consumer confidence is low, consumer debt is high, and consumer spending is faltering. Credit card delinquencies, for example, rose in the first half of FY2003 to the highest level since they were first tracked in 1976.[18]

Diversion will continue to reduce First-Class Mail volume growth by about two billion pieces per year, consistent with the average impact in recent years. Economic recovery in the later years should help to counteract the impact of diversion on First-Class Mail, although volume will not recover to the level of

[18] Postal Service financial analysis of American Bankers Association data.

FY2003. This will have a serious impact on the financial situation of the Postal Service, since First-Class Mail service is central to the ability to support the growth of the operating network and associated public services, with a unit contribution of 18.4 cents and cost coverage of 161 percent.[19]

Regular (non-carrier route) Standard Mail service is the only significant source of projected volume growth in the baseline forecast. Without this increase, total mail volume would be projected to decline. Unfortunately, this subclass of mail has a relatively low unit contribution of 5.3 cents and cost coverage of 137 percent.[20] The Postal Service will also face intense competition in the package delivery market, and margins in this sector are decreasing as customers move from Express Mail® and Priority Mail® services to lower cost ground services.

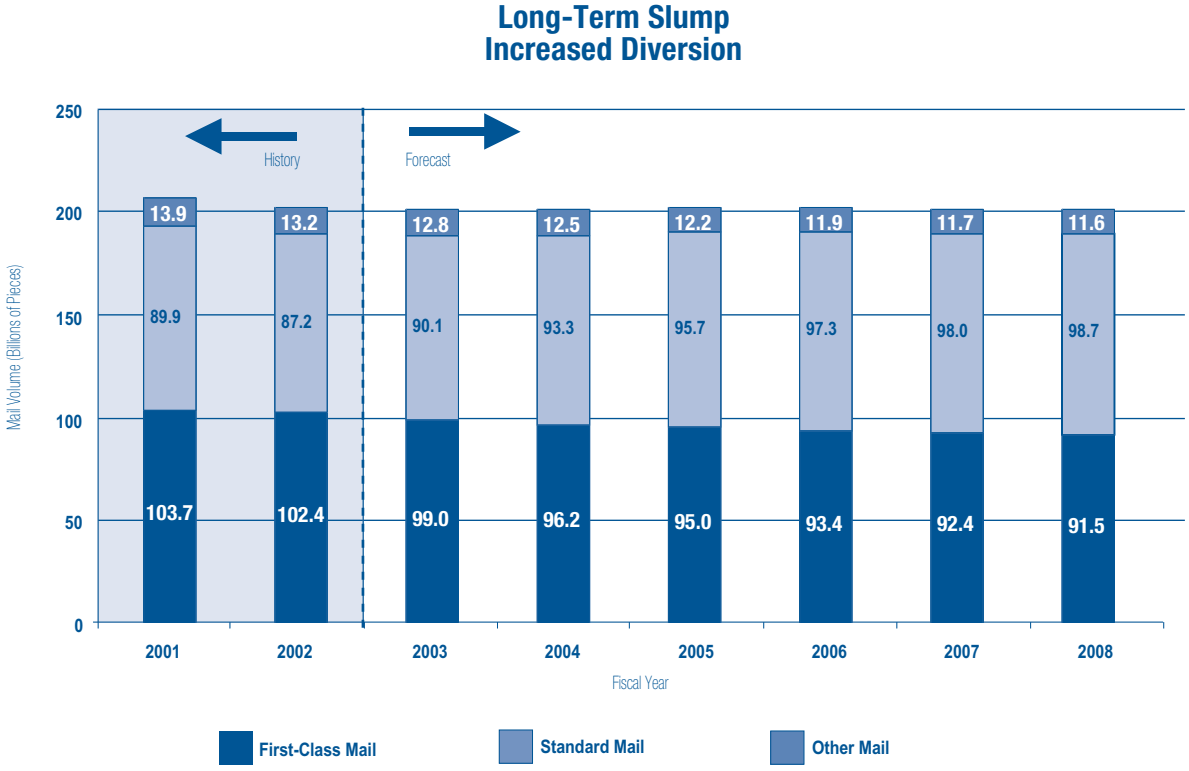
Without rate increases, projected revenue in the baseline scenario would be about $71.4 billion in FY2008, representing an average annual growth rate of 0.9 percent from 2003 to 2008.

Pessimistic Forecast (Next Most Likely)

In the pessimistic forecast, total mail volume is projected to be about 202 billion pieces in FY2008, which is about the same as the expected FY2003 volume. This is a no-growth scenario.

The pessimistic scenario differs from the baseline by assuming that the recent slow economic growth persists and evolves into a long-term economic slump. The pessimistic scenario also assumes that elec-

Exhibit 1-2. Pessimistic Forecast



[19] USPS Finance, FY2002 Cost and Revenue Analysis Report.
[20] Ibid.

tronic diversion of First-Class Mail volume will increase from its current rate of about two billion pieces to about three billion pieces per year. This projection is based on the stated plans of many large mailers in the financial industry to grow their electronic bill presentment and payment programs aggressively and on the predictions of many industry analysts.

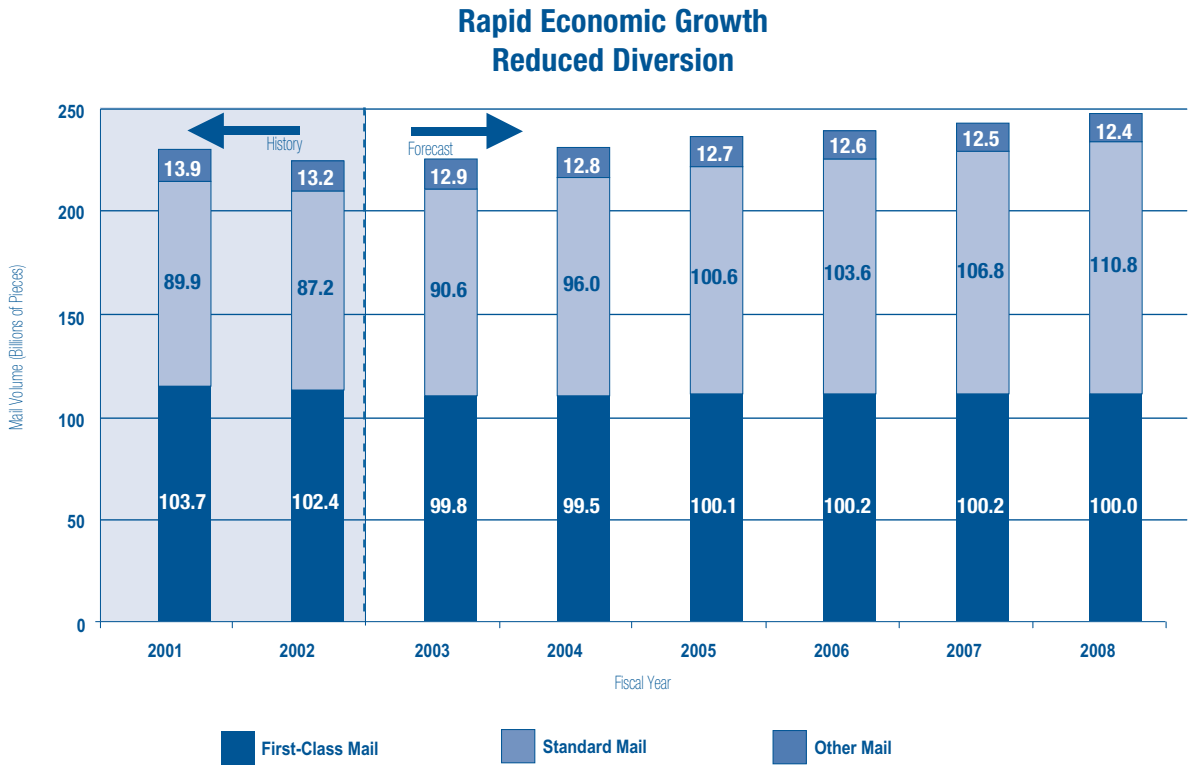
As a result, First-Class Mail volume falls to about 91 billion pieces in FY2008. Standard Mail volume is projected to grow at an annual rate of just 2.1 percent in this scenario, based on the assumption of a continued economic slump that affects advertising mail. As with the baseline scenario, regular Standard Mail service is the only significant source of mail volume growth. The growth in this category offsets the decline in First-Class Mail volume, but due to its low revenue contribution fails to compensate for the much higher contribution that is lost as First-Class Mail volume declines.

Without rate increases, overall revenue in this scenario would be projected to decline from the $68.7 billion expected in FY2003 to $67.4 billion in FY2008, representing an average annual decline of about 0.4 percent.

Optimistic Forecast (Least Likely)

In the optimistic scenario, total mail volume is expected to increase from 203 billion pieces in FY2003 to 223 billion in FY2008, an average growth rate of 1.9 percent.

Exhibit 1-3. Optimistic Forecast



The optimistic scenario assumes a more rapid and pronounced economic recovery than projected in the baseline. The optimistic scenario also assumes that electronic diversion will impact First-Class Mail volume more slowly than currently expected or that there will be compensating increases in the growth of statements and bills resulting from new accounts and financial applications.

As a result, First-Class Mail growth does not decline, but remains flat over the next five years. Standard Mail volume is projected to grow by an average of 4.1 percent, driven by the speed and intensity of the economic recovery.

Without rate increases, the optimistic scenario projects that revenues will grow by an average of 1.3 percent a year, reaching almost $74 billion by FY2008.

Fixed Costs and the Growth of the Universal Service Network

The universal service network will continue to grow as the population of the nation increases and new businesses and households are formed. The fixed cost of maintaining such a system will grow, regardless of the direction that mail volume and revenue take.

Almost half of total postal costs are fixed — they do not change when volume changes. Letter carriers travel their complete routes every day, trucks transport mail between facilities on regular frequencies in order to meet service requirements, and retail facilities are open each business day no matter what level of activity occurs.

STRATEGIC VISION AND PERFORMANCE MANAGEMENT SYSTEM

Strategic Vision: Trust, Transformation, and Partnership

The Postal Service will continue to enable committed employees to provide the fundamental, trusted government service of timely, reliable, and accurate mail delivery with convenient access to all customers and communities at the lowest possible prices.

The Postal Service will continue its businesslike transformation by effective execution of bold strategies that improve the value of the mail and mail-related products and services. In partnership with the mailing industry, the Postal Service will create a financially stable enterprise that contributes to growth in the U.S. economy by providing flexible services that meet America's needs.

Performance Management System

Postal transformation strategies will be described in the subsequent chapters. The key to successful implementation of these strategies is the use of an effective management process.

The GPRA legislation was expected to encourage agencies to establish more disciplined, results-oriented planning processes. Performance accountability was to be increased through the use of verifiable data from reliable measurement systems. Appendix I describes how the Postal Service meets these requirements through setting goals and objectives, implementing programs and budgets, and reviewing performance.

The *Five-Year Strategic Plan* is not intended as a complete guide to all Postal Service programs and initiatives. The plan is built on and incorporates the April 2002 *Transformation Plan*. Additional program level detail also is provided in the FY2002 *Comprehensive Statement on Postal Operations.* Details about the financial situation of the Postal Service are provided in the *Annual Report*, which includes management discussion and analysis and the audited financial report. Together, these documents provide the basis for evaluating the performance of the Postal Service.

CHAPTER TWO: IMPROVE SERVICE

Introduction

The Postal Reorganization Act requires the Postal Service to provide "prompt, reliable, and efficient services" to all customers. Service is one of the most fundamental indicators of postal performance, and the Postal Service has established relevant service performance standards, developed reliable measurement systems, and is implementing programs to continue to improve service performance.

The Postal Service remains committed to its basic mission of providing timely, reliable, and accurate mail delivery to all businesses and households in every community in the nation. The prompt delivery of bills and payments, reliable delivery of magazines, newsletters, and newspapers, the timely delivery of information that makes shoppers aware of products, services, and issues, and the convenient, accurate delivery of packages are all critical to economic progress in the 21st century.

Commitment to Service

Nothing demonstrates the commitment to service better than the efforts of Postal Service employees to restore service after a disaster. Following the September 11, 2001 attacks on the World Trade Center and the Pentagon, all commercial air transportation was grounded through September 15. When commercial air transportation resumed, mail on commercial flights was restricted to letters and flats and the movement of mail was hampered by erratic flight schedules and conflicting security directives.

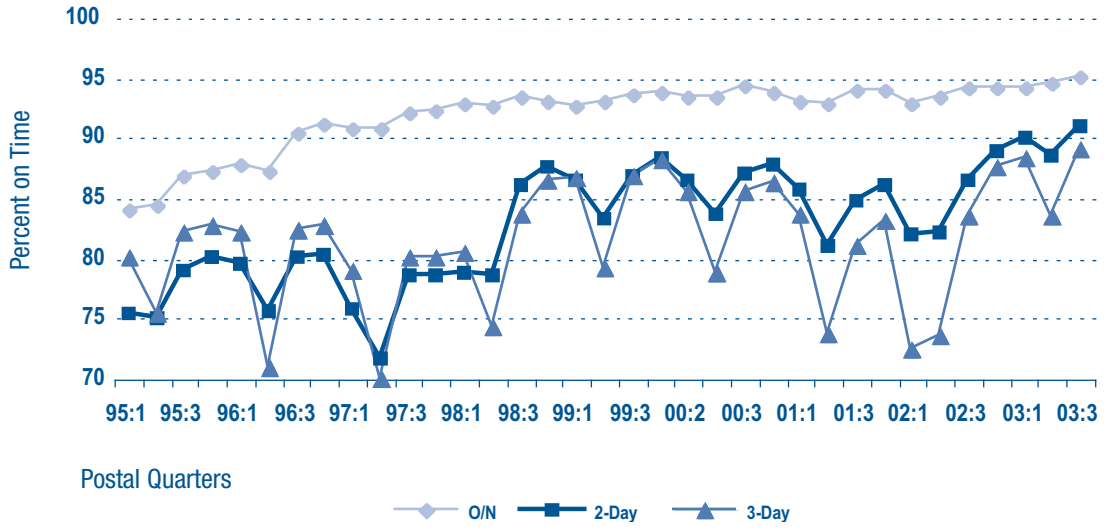
Postal logistics managers overcame enormous challenges in rerouting mail and rebuilding mail trans-portation networks. Mail movement schedules had to be adjusted as often as three times a day. Existing contracts had to be adjusted and new arrangements made during a time of industry turmoil and uncertainty, including moving significant mail volumes from air to surface transportation, and adding additional mail volumes to the Postal Service's dedicated air freight contract.

Postal Service employees met these challenges and there was little disruption in national mail service performance. After fire, floods, tornados, hurricanes, and earthquakes, the first signs of normality returning to a community are often the opening of the Post Office™ for business and the reassuring sight of Postal Service employees delivering the mail.

A Record of Service Performance Improvement

Improved operational processes, investments in transportation and in capital equipment, and employee commitment have combined to create continuous improvement in categories of First-Class Mail® service, as indicated by the External First-Class Measurement System (EXFC). The progress over the last eight years is shown in Exhibit 2-1.

Exhibit 2-1. First-Class Mail Service Performance History



Source: External First-Class Measurement System (EXFC)

Timely, reliable delivery is important for most customers, but timely delivery truly means money for mailers and receivers of payments. Improvement in First-Class Mail service means faster access to cash and improved financial management for the remittance industry.

The Phoenix-Hecht Postal Survey is an independent study, conducted by the financial industry, of hourly delivery of remittance mail from 170 cities to about 130 sites in 36 destination cities. It is a category of mail that is not measured by the independent EXFC performance sampling system used by the Postal Service. Referring to First-Class Mail service performance, the fall 2002 Phoenix-Hecht Postal Survey says, "Fall Survey Punctuates Year of Significantly Improved Delivery…Against the backdrop of the spring survey (Quarter 1, 2002), in which eight of ten participants posted national improvements, the results are really quite remarkable. The fall survey completed a year of mail delivery improvement unmatched in recent history."

The spring 2003 Phoenix-Hecht Postal Survey headline reads "Excellent Postal Performance Continues," and the report states, "The remarkably strong postal performance of 2002 showed no abatement in the 2003 Spring Postal Survey … Phoenix-Hecht sees nothing on the near-term horizon to derail continued strong performance."

More Rigorous Service Standards Have Been Established

The Postal Service has increased its performance standards for First-Class Mail service, making the achievement of record performance even more remarkable. The number of city pairs with overnight and two-day service standards has increased, as shown in Exhibit 2-2. Thirty-six city pairs have been shifted from two-day to overnight service, and a substantial number of city pairs have been shifted from three-day service to two-day. The overall number of city pairs included has also increased.

Exhibit 2-2. First-Class Mail Service Standard Improvement

Quarter	1-Day Service	2-Day Service	3-Day Service	Total Pairs
PQ 2 -00	8,744	157,081	683,218	849,106
PQ 2 -03	8,780	184,944	657,226	850,950
Change +/-	36	27,863	(26,055)	1,844

The overall result is a network that is designed to deliver mail sooner to more people. The Postal Service is virtually alone among the nations in the world where so much mail is designated for overnight and two-day service across such a large geographic area. For example, Canada has two-, three-, and four-day service standards, and Australia limits overnight service to the urban areas.

GOAL: IMPROVE SERVICE

The objective is to provide timely, reliable delivery service to the growing universal network and convenient access to Postal services for all customers. The Postal Service continues to focus on the performance of Priority Mail®, Express Mail®, and First-Class Mail services, as outlined in Exhibit 2-3. Wherever possible, the Postal Service has developed reliable independent measurement systems for these categories of mail. The Postal Service has been developing and testing performance measurement systems for other service categories.

Exhibit 2-3. Service Improvement Targets, FY2004–2008

Measure	FY2004 Target	Long-Term Improvement Target (FY2005–2008)
Priority Mail on time Air and Surface	Proprietary	Proprietary
Express Mail on Time	Proprietary	Proprietary
Overnight First-Class Mail on Time	94%	95%
Two-Day First-Class Mail on Time	90% (excluding 11/22/03 to 1/30/04)	91%
Three-Day First-Class Mail on Time	88% (excluding 11/22/03 to 1/30/04)	91%

Note: Starting in FY2004, the Postal Service will switch from 13 postal accounting periods to monthly reporting. The quarterly scores for FY2004 and subsequent years may not be strictly comparable to quarterly scores for previous years.

SERVICE MEASUREMENT SYSTEM

Service performance measurement for major categories of mail is provided by the postal Transit Time Measurement System (TTMS), which includes the following:

• Priority Mail service performance. Measured by the Priority End-to-End (PETE) system, providing an independent assessment of Priority Mail service performance. PETE is based on a series of carefully designed tests conducted by a contractor, and is designed to provide a reliable indicator of the consumer and small business experience with Priority Mail service.

• First-Class Mail service performance. Measured by the External First-Class (EXFC) Measurement System. EXFC externally measures collection box to mailbox delivery performance, continuously testing a panel of 463 ZIP Code areas selected on the basis of geographic and volume density from which 90 percent of First-Class Mail volume originates and 80 percent destinates. EXFC is not a system-wide measurement of all First-Class Mail performance.

The performance of Express Mail service is measured by the Product Tracking System (PTS), an internal measurement of retail acceptance to mailbox delivery performance. All domestic ZIP Codes and international postal codes are included. All pieces in the mailstream which have proper scan information are included.

Performance measurement systems for other service categories are being tracked although they are not independent measures. For example, many major mailers or mailing services use CONFIRM™ service to track the performance of some categories of Standard Mail pieces and Delivery Confirmation™ service to track Parcel Select® performance. While these indicators are useful for the Postal Service and for participating customers in identifying potential areas for service improvement, the data is not statistically representative for all mailers and for the mail category.

Recent Performance Trends

Exhibit 2-4 describes the recent performance trends for First-Class Mail pieces delivered to overnight service standards. The Postal Service has consistently improved performance in the overnight areas, and is currently providing record service performance levels.

Exhibit 2-4. Percent Overnight First-Class Mail on Time

	1998 (%)	1999 (%)	2000 (%)	2001 (%)	2002 (%)
Target	92.0	93.0	93.0	93.0	93.0
Actual	93.2	93.7	94.1	93.5	93.7

Source: USPS Annual Performance Reports

Exhibit 2-5 describes the performance to standards in the two- and three-day areas. Achieving service performance targets in two and three-day areas is more difficult, largely due to the unreliability of scheduled commercial airline service over the past several years. The Postal Service made significant changes in its operations in 2000 and 2001, and as a result had to establish a new baseline for service performance targets.

Exhibit 2-5. Percent Two- and Three-Day First-Class Mail on Time

	1998 (%)	1999 (%)	2000 (%)	2001 (%)	2002 (%)
Target	85.0	87.0	88.7	Not Applicable	88.0
Actual	86.1	87.7	86.8	83.8	86.8

Source: USPS Annual Performance Reports

Two- and three-day service performance will be measured separately, with separate targets. The Postal Service is also tracking service performance by transportation mode — air and surface — to ensure consistent and reliable service.

Change from Previous Five-Year Strategic Plan and Annual Performance Plan

The FY2004 service targets for First-Class Mail, overnight, and two- and three-day services were each increased over the preliminary targets established in the *FY2002 Comprehensive Statement on Postal Operations.* The target for overnight service was increased from 93 percent on-time delivery to 94 percent, the two-day target was increased from 88 percent to 90 percent, and the target for three-day service was increased from 87 to 88 percent.

All the goals have been adapted to reflect the Postal Service's *Transformation Plan* (published April 2002), and are structured around five strategic areas of emphasis rather than the three "voices" used in the previous strategic plan.

The goal in the previous strategic plan was described as "earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices." This goal is still valid. However, the clearest and most important expression of value and quality to customers is timely, reliable, and accurate delivery at reasonable prices.[21]

The previous strategic plan included separate objectives and targets for consistent and accurate delivery. The Postal Service continues to track consistency and accuracy of delivery as internal diagnostic tools for service improvement, but has removed them as separate performance indicators. Timely, reliable delivery requires and includes both consistency and accuracy of delivery, so only one high-level measurement is necessary.

The previous strategic plan used "Customer Satisfaction" as an overall measure of postal performance. While Customer Satisfaction is still measured extensively by the Postal Service, and reported on in the current strategic plan, it is not used as a goal. Similarly, the Ease-of-Use Index, based on selected questions from the consumer satisfaction survey, was found to be more relevant to tactical and program issues and was therefore removed as an overall performance goal.

The Postal Service has a long-term goal of measuring service performance for all major categories of mail, and has been developing reliable, cost-effective systems that can provide accurate and timely information to postal managers and customers. Currently, 498 publishers have registered 2,169 publications in the ePUBWATCH system, which tracks problems with Periodicals mail. Registration of new publishers and use of the program by customers is accelerating. Over 154 subscribers are now using the tracking services provided by the CONFIRM system for First-Class Mail, Standard Mail, and Periodicals automation-compatible mail. Included in these subscribers are major mailers and mailing services, which use the data to provide information on mailings for their customers. Delivery Confirmation service for Parcel Select provides customers using this service with robust service performance and quality metrics.

While the information provided by these systems is very useful for internal service improvement and is relevant for the participating customers, they are not yet representative for all mailers or the entire mail category. The systems cannot yet be used as general performance indicators for all mail or all customers. However, they do meet the needs of an increasing number of customers, and will be developed further.

The Postal Service has separated categories of mail performance by transportation mode (air and surface) for analysis in order to provide more detail and permit more focused improvements. Two- and three-day First-Class Mail performance will now be measured separately. Performance accountability for most measured categories has been extended to cover more of the year. Due to extreme weather chal-

[21] This has been determined through repeated customer surveys, focus groups, and meetings with key customers.

lenges, the period November 22, 2003 to January 30, 2004 will be excluded in FY2004. Service reporting will convert to a monthly basis from the 13 postal accounting periods used previously.

Priority Mail service improvement is critical both to the Postal Service and the customers who use it. The Postal Service has performance measures and service improvement targets, but the results are proprietary since they exist in a highly competitive marketplace where service performance data are not provided publicly by competing firms.

SERVICE IMPROVEMENT STRATEGIES

Strategies that support the overarching goal of improving service are closely tied with those that support productivity improvements. Focusing on improved distribution, delivery, and transportation as well as enhanced tracking technology has resulted in significantly improved service.

Through its automation program, the Postal Service has and will continue to invest capital in technology that improves the consistency and quality of service as well as the efficiency of operational processes. The automation program includes Letter Mail Recognition Enhancement, Readability Improvement Program, Delivery Bar Code Sorters, Automated Flats Feeder, Automated Flat Sorting Machine, and the Automated Tray Sleever. Postal Service engineering, research, and development efforts ensure a continuing stream of future improvements.

In conjunction with the automation program, improvements to the collection and acceptance process, as well as to distribution and delivery operations, ensure that operating plans can support the continued provision of excellent service by reducing handlings and moving the mail more promptly through the operating system with fewer errors. Pricing strategies that encourage worksharing with mailers and intermediaries also may have the additional benefit of reducing handlings by entering properly presorted and addressed mail closer to the point of final delivery.

Finally, the leadership of the organization, from the postmaster general to operations supervisors, continues to communicate consistently and regularly on the importance of service to our customers.

Specific service improvement initiatives are described on the following pages.

Priority Mail Service Improvement

Over the next five years, major initiatives will focus on improving Priority Mail handling and transportation. The primary objective is to obtain nationwide improvement of overnight and two-day Priority Mail service and to establish a standard process for the end-to-end actions required to provide customers with a time-sensitive Priority Mail product. The distribution processes are being standardized to increase productivity, improve distribution accuracy, and control costs. To help with operational objectives, procedures and instructions have been developed based on proven practices used in the field that have been shown to provide the level of performance necessary to meet aggressive targets for Priority Mail service. As the Postal Service implements these best practices nationwide, there will be a positive effect on Priority Mail service.

The Postal Service's contract with FedEx adds an expanded dedicated air network which complements ongoing reviews and redesigns of the surface transportation network. Both areas of focus have been critical for improving service despite the impacts of commercial airline restrictions after September 11, 2001. The Postal Service anticipates continuation of this relationship, and may seek additional partners to help improve Priority Mail service.

Transportation Management Information Systems

Much of the improvement in service will depend upon the development and implementation of information systems that will enable Postal Service managers to better control the work flow, evaluate where problems or bottlenecks occur, and allocate resources. This information will be essential to improving service performance, although cost savings may also result from the elimination or control of such service breakdowns.

Information collected from these systems will allow managers to measure the performance of each plane or truck and carrier as well as the performance of origin and destination terminals. This data will be used to optimize network design, improve transportation efficiencies, and enhance service. For example, certain systems will handle mail assignment to air carriers, while others will focus on ensuring service performance accountability and billing/payment accuracy. The Postal Service is also moving toward a more dynamic and industry-standard route optimization model for all transportation needs.

Service Performance Measurement Systems Development

The Postal Service recognizes the need for reliable service performance tracking for all categories of mail, and has been working on several programs to develop effective and efficient systems that will add value. Many customers are currently obtaining relevant data from these systems, but none have yet been accepted as measurement systems for GPRA service performance evaluations because they are currently only relevant to the participants and the data is not yet statistically valid for the entire class or for non-participating customers. The Postal Service works closely with business customers to regularly evaluate and improve overall service performance for these mail categories, and uses the data from these systems as a diagnostic tool for improving service.

CONFIRM Service

CONFIRM is a tracking system for letters and flats through the use of a second barcode. It allows mailers to make better business decisions based on knowing where mail is in the postal operating system and when it is scheduled for delivery. The CONFIRM system allows near real-time access to data through a convenient, easy-to-use Web site with dedicated customer support. It serves as a performance measurement system and diagnostic tool for postal service operations management, permitting managers to quickly identify and correct deficiencies. Standard Mail customers are expanding their participation in the program, and a database is being created that will permit participating customers and Postal Service management to use the system for performance tracking for key categories of Standard Mail service.

Electronic Publication Watch System

The Electronic Publication Watch System (ePUBWATCH) is a Web-based periodicals complaint tracking system which allows a registered publisher to enter a subscriber's postal related complaint, request an electronic publication watch, or request the assistance of a Periodical Service Improvement team member. The number of regular users and the number of publications using the system has been increasing. A bi-weekly and a bi-monthly reporting frequency feature has been added.

Delivery Confirmation and Signature Confirmation

Package service can be tracked through two delivery confirmation services. Currently, the Postal Service is working with a workgroup of the Mailers Technical Advisory Committee (MTAC) to develop a performance measurement tool for Parcel Select service. The service currently is used by a limited number of customers on a test basis involving almost a million parcels per week.

Participants are able to measure Parcel Select service performance by service commitment or by percent delivered each day on a weekly, monthly, or quarterly basis by national, area, district, bulk mail center, 3-digit, or 5-digit ZIP Code areas. The Postal Service receives aggregate reports to identify and correct service problems, while customers get reports on their own mailings (by individual company or consolidator).

International

The United States, Canada, and Europe are cooperating on the development of a valid and reliable external measure of international letter service between major cities. Called UNEX, the system is managed by the International Post Corporation and is conducted by an independent private contractor.

Intelligent Mail

These performance measurement and tracking services were developed for particular categories of mail and typically use different identifiers, codes, and systems. The Postal Service is taking advantage of recent advances in item identification and coding technology to develop an integrated system. A new organizational group has been established to study alternative approaches and to implement a program that significantly improves the ability of the Postal Service and its customers to manage the mail.

The initial plan envisions a system based on the use of a single code per type of mail that provides significant enhancements to the information on a mailpiece and creates the opportunities for improved service and new applications using timelier, accurate, and relevant information.[22] The vision of this important initiative is that "the Postal Service and its customers will code all mail, aggregates of mail, and business forms, each with a standardized, information-rich code that enables maximum internal and customer utilization of the embedded and derived information." Codes will be read passively (by automated equipment) as part of existing processes. The development of this system is expected to provide information that will enable mailers, the mailing industry, and the Postal Service to better manage the mail and to develop new strategies to improve service.

Address Management

Mail is the "raw material" for the postal operating system. Service performance depends on the quality of addresses on the mail, proper preparation, and where the mail is entered into the postal system. The Postal Service works closely with the mailing industry and major customers to establish relevant standards and effective systems to provide both the lowest total mailing cost and improved service.[23]

The Postal Service is pursuing an aggressive policy of ongoing quality reviews and implementing technological and procedural improvements to ensure better communication between delivery units and the address management program.

This policy is improving the address database and providing more timely and accurate delivery point addressing information to customers through a variety of address quality improvement services (Address Element Correction, Barcode Certification, Coding Accuracy Support System, Correct Address Notification, Delivery Sequence File, and Presort Accuracy Validation Evaluation). Mailing Industry Task Force members working on address quality improvement are at the forefront of integrating new technologies with practices whose efficiencies needed improvement, setting the stage for better cost management capabilities for both the Postal Service and the industry.

[22] For more information, see the "Intelligent Mail" initiative in the Mailing Industry Task Force Report, 2002 Update.

[23] For 25 years, the Mailers Technical Advisory Committee has shared technical information between industry and the Postal Service. Workgroups meet regularly to work with the Postal Service on the development of programs, policies, standards, and regulations.

Worksharing

The Postal Service has automated the labor-intensive process of evaluating bulk mailing eligibility for worksharing discounts. The Mailing Evaluation, Readability Lookup Instrument (MERLIN) system verifies nearly all mail preparation requirements for both letters and flats, and produces all reports necessary for mailing acceptance. The Postal Service and industry are working together to improve verification and acceptance processes to ensure accuracy and reliability.

The Postal Service has encouraged the mailing industry to perform certain functions if it can do them less expensively through the development and implementation of worksharing programs. Mailers may receive discounts if they make the extra effort of providing properly addressed mail that can be handled by automated postal equipment or can skip postal operations through presorting or using their own transportation to enter the mail into the postal system closer to the destination point (drop shipping). The process provides and verifies that all address elements are included to ensure timely delivery.

CONCLUSIONS

Overall consumer satisfaction ratings, shown in Exhibit 2-6, result from a wide variety of attributes important to customers. One of the most important issues for all customers is timely, reliable service performance. The time it takes for mail to be delivered — consistently and accurately — is a system-wide issue that involves virtually the entire organization, while many other attributes of service are more often relevant to conditions that must be managed at the local level.

Exhibit 2-6. Percent Consumers Rating Overall Postal Performance (Good, Very Good, or Excellent)

Customer Segment	1998 (%)	1999 (%)	2000 (%)	2001 (%)	2002 (%)
Residential	93	92	92	92	93
Business	90	90	90	88	91

Source: Customer Satisfaction Measurement System, USPS Consumer Advocate

While the Postal Service does not use customer satisfaction as a performance measure, overall ratings tend to parallel delivery service performance.

A different approach is taken by the American Customer Satisfaction Index, which has been publishing reports on customer satisfaction with different industries in the U.S. since 1994. The Postal Service is included in this comparative approach, shown in Exhibit 2-7.

Exhibit 2-7. Overall Customer Satisfaction Index Ratings

Firm/Industry	Baseline (First Measurement)	2003	Change from Baseline (%)
U.S. Postal Service	61.0	72.0	18.0
U.S. Postal Service (Parcel/Express Services)	69.0	75.0	8.7
Parcel/Express Delivery Service Industry	81.0	79.0	-2.5
Scheduled Airlines	72.0	66.0	-6.9
Telecommunication Services	75.0	72.0	-1.4
Energy Utilities	75.0	73.0	-2.7
Hotels	75.0	73.0	-2.7
Transportation, Communication, and Utilities Industry	75.5	70.9	-6.1
Service Industry	74.4	72.8	-2.2

Source: 2003 Transportation/Communication/Utilities and Services Industry Report, American Society for Quality

A recent study conducted for the President's Commission on the U.S. Postal Service found that Americans have an overwhelmingly favorable view of the Postal Service.[24] Seventy-nine percent say they feel positive about it, including 47 percent who rate the Postal Service very favorably. More Americans think the quality and reliability of the Postal Service generally is getting better (36 percent) than think it is getting worse (19 percent), results substantially more positive than results from the same question in 2001 (28 percent responding positively) and in 1994 (24 percent).

These results, from a variety of independent measures, indicate that the Postal Service is meeting its commitments to provide timely, reliable, and accurate services to the American people. The strategies described in this plan will help to continuously improve that service.

The Postal Service will continue to work closely with customers, suppliers, and the mailing industry to identify and address other service needs. In particular, the Postal Service will increase its focus on providing more convenient access to postal products and services for consumers, small businesses, and large mailers through a wide variety of channels. The Postal Service will also provide more accurate, relevant and timely information to customers, respond more effectively to problems, and develop new solutions to meet customer needs.

While such service improvements will help to retain current customers and may help attract new customers, service improvement alone will be insufficient to generate enough revenue to offset losses from declining mail volumes and support the cost of providing service to an expanding network and infrastructure.

[24] Peter D. Hart Research/American Viewpoint, June 9, 2003.

CHAPTER THREE: MANAGE COSTS

Introduction

The Postal Service must provide timely, reliable, and accurate universal delivery service as efficiently and affordably as possible.

The core of the strategic plan builds on an ongoing, multi-year operational plan that has the objective of managing the existing enterprise more effectively and efficiently. The *Five-Year Strategic Plan, FY2001–2005,* described this project as the "Breakthrough Productivity Initiative," an overarching strategy that also served as the foundation for the April 2002 *Transformation Plan.* The *Transformation Plan* also included other initiatives for managing costs, for enhancing a performance-based culture, and for generating revenue.

The Postal Service is on track to achieve the *Transformation Plan's* objective of $5 billion in cost reductions and avoidances over five years. The Postal Service is working to identify and implement programs that will result in additional savings beyond FY2006.

GOAL: MANAGE COSTS

The objective is to manage costs and improve productivity to provide service at the lowest possible price. The Postal Reorganization Act (PRA) expected that the Postal Service would be managed reasonably efficiently and that prices could be adjusted to cover the costs of providing service to a growing nation. The current postage rate, after adjustment for inflation, is about the same as it was following the implementation of the PRA, as shown in Exhibit 3-1.

Exhibit 3-1. Real Postage Rates (in $), 1972–2003

	1972–1975	1976–1980	1981–1985	1986–1990	1991–1995	1996–2000	2001–2003
Postage Rate (First-Class Mail)	0.08–0.10	0.13–0.15	0.18–0.22	0.22–0.25	0.29–0.32	0.32–0.33	0.34–0.37
Postage Rate (Adjusted for inflation, in 2003 dollars)	0.348	0.386	0.368	0.366	0.377	0.363	0.365
Other Factors	The starting point for evaluating the growth of postage costs since postal reorganization is artificially low as a result of both direct and hidden subsidies that existed at the time. The Postal Service transferred the costs of the public service subsidy, which represented about 20 percent of the budget before the implementation of the PRA, to the rate payers. Also, responsibility for retirement costs was increased in stages until fully funded.			The Postal Service eliminated the need for a subsidy, and has become largely self-sufficient. Although the Postal Service is authorized up to $460 million in public service appropriations annually, it has not received these funds since 1982, saving tax-payers over $9 billion. Beginning in 1987, the Postal Service had to absorb costs previously funded by the federal government as a result of a series of Omnibus Budget Reconciliation Acts. The total amount of this transfer is estimated at about $16.7 billion over the last 15 years in additional costs that had to be covered by postage rates.		Congress provides for reduced postage rates for certain categories of mail (revenue forgone), and reimburses the Postal Service for the difference from full postage rates. However, in 1993, about half the former subsidy to preferred mailers was ended. Since then, the unfunded portion of revenue forgone has been borne by regular-rate customers. Congress has committed to pay the rest of the $1.2 billion still owed in 42 annual appropriations of $29 million.	

Source: USPS Finance

The relative stability of inflation-adjusted postage rates over time indicates that the Postal Service has been reasonably successful in keeping prices affordable, especially since the workload has increased — mail volume has increased from about 87 billion pieces in FY1971 to over 202 billion in FY2002, and the number of possible deliveries has increased by about 50 million since FY1971.

Another indicator of affordability is that the Postal Service has maintained one of the lowest postage rates in the developed world, as shown in Exhibit 3-2.

Exhibit 3-2. First-Class Postage in Selected Countries

Country	Postage Rate in U.S. Dollars ($) for a 20-gram* letter
Japan	0.68
Germany	0.64
New Zealand	0.46
Great Britain	0.46
Netherlands	0.46
United States	0.37
Canada	0.35
Australia	0.33

Source: USPS International Services, postage and exchanges rates as of June 11, 2003

* Approximately 0.7 ounces.

Although the Postal Service has been able to keep postage rate increases at about the same level as the overall increase in prices in the economy, major mailers are more resistant to even modest price increases. The emergence of competition in postal markets — especially technological substitutes in what had previously been categories of mail protected by the Private Express Statutes — has increased the resistance of many mailers to continued postal rate increases.

The Postal Service has been increasing its focus on productivity improvement as an appropriate strategic measure of success in managing costs and providing affordable service.

Performance Indicator: Total Factor Productivity

Total Factor Productivity (TFP) is a widely accepted measure of efficiency based on measuring changes in the relationship between resources used (input) compared to changes in workload (output). Workload is adjusted by the work content and the volume of different mail categories and changes in the number of possible deliveries. Input is also adjusted to account for the different categories and costs of labor. This productivity calculation is not directly affected by changes in postal rates and resource prices (external factors not directly under the control of management).

Productivity measurement does not directly include service performance, but the output of the operating system measured by productivity is a set of services provided to customers. In the case of the Postal Service, overall customer satisfaction with the Postal Service has increased as service improved.

Simultaneously improving productivity, service, and customer satisfaction is a significant accomplishment. By comparison, since 1994 overall customer satisfaction with many private sector services has been declining, at least in part due to service reductions.[25] The Postal Service continues to make a conscious effort not to improve productivity at the expense of service.

PRODUCTIVITY MEASUREMENT SYSTEM

The TFP analysis is conducted by a well-respected private firm under contract to the Postal Service and results are reported publicly. The methodology is well known, and the underlying data is available from postal financial systems.

Recent Performance Trends

In each of the last four years, the Postal Service has improved productivity. Actual complement has been reduced by more than 60,000 employees.

Postal Service productivity, as measured by TFP, has improved and achieved its target as shown below in Exhibit 3-3. Year-to-year changes are based in part on the level of capital investment, which reduces measured productivity in the year the investments are made but is expected to increase productivity in subsequent years.

Exhibit 3-3. Comparative Productivity Performance, 1998–2002

Percentage change from prior year

	1998	1999	2000	2001	2002
Postal Service Total Factor Productivity	- 1.0	- 0.1	2.2	1.7	1.1
Target	Improvement over prior year	- 0.4%	3.1%	1.1%	1.1%

Source: USPS Finance
Note: TFP figures for FY2000 and 2001 have been adjusted and differ slightly from data published previously (see Appendix I for explanation). Final TFP figures for FY2003 will be available after the close of the fiscal year.

Analysts often attempt to compare postal TFP with the multifactor productivity measures developed by the Bureau of Labor Statistics, U.S. Labor Department. The comparisons are generally made to the private non-farm businesses and to manufacturing businesses. While the Postal Service's mail processing operations might be compared to a manufacturing establishment, Postal Service productivity is not strictly comparable to the manufacturing industry. Productivity figures for the manufacturing industry are dominated by the high-tech sector. If the electronic and computer manufacturing sector is excluded, postal productivity has actually exceeded the productivity of the remaining manufacturing sectors.

Exhibit 3-4 describes the productivity target for FY2004 and for the five-year planning period. It is important to note that annual productivity results may be volatile, and results should be assessed over a longer period.

[25] The American Customer Satisfaction Index, based on independent surveys conducted since 1994 for the American Society for Quality, indicates that the Postal Service is the most improved of the services measured since the survey began.

Exhibit 3-4. Productivity Performance Improvement Target

Measure	FY2004 Target	Long-Term Improvement Target (FY 2005–2008)
Improve Total Factor Productivity (TFP)	0.4%	Average annual TFP improvement better than or equal to plan

Breakthrough Productivity Initiative

Although TFP improvement is the overall summary objective for Government Performance and Results Act (GPRA) reporting, the Postal Service continues its emphasis on breakthrough productivity reported in the previous strategic plan. For the last two years, the Postal Service has recognized the field operating units with the best and most improved mail processing and delivery performance on an annual basis. This recognition is based on measured performance of specific elements of operational productivity that drive TFP results, and is part of the Postal Service effort to link strategic objectives with specific postal programs.

Six performance categories are measured as part of this "cascade" of linked performance measures. The categories are as follows:

- Best Overall Mail Processing Performance
- Best Overall Rural Delivery Performance
- Best Overall City Delivery Performance
- Most Improved Mail Processing Performance
- Most Improved Rural Delivery Performance
- Most Improved City Delivery Performance

Labor productivity, a component that contributes to TFP, has increased as a result of the achievements of these leading performers. Best practices for productivity improvement have been shared throughout the organization.

To achieve recognition, a field unit has to reach the performance level equal to the average of the top 25 percent performing organizations. Service scores are also factored into the equation to prevent service from deteriorating as a result of productivity initiatives.

Change From Previous Five-Year Strategic Plan and Annual Performance Plan

There are no changes from the FY2004 preliminary productivity target in the *FY2002 Comprehensive Statement on Postal Operations*.

All the strategic goals have been adapted to reflect the development of the Postal Service *Transformation Plan* in FY2002. They are structured around the strategic areas of emphasis identified in the *Transformation Plan* rather than the three "voices" used in the previous strategic plan.

The Voice of the Business goal in the *Five-Year Strategic Plan, FY2001–2005,* was expressed as "Generate financial performance that assures the commercial viability of the Postal Service as a provider in a changing, competitive marketplace and generate cash flow to finance high-yield investments in the future while providing competitively priced products and services."

Sustained productivity improvement is the most effective way to achieve that goal. The goal, objective, and target have been restructured to focus primarily on productivity. Overall productivity (TFP) is the GPRA corporate measure, while functional and unit productivity measures may be used for individual accountability under the National Performance Assessment (NPA) Program.

In the previous five-year strategic plan, "Net Income" was an objective (sub-goal). However, under the best of circumstances net income is limited by the break-even requirements of the PRA. Even in stable times, net income on an annual basis is difficult to achieve when the rate determination process takes eighteen months. While inappropriate for GPRA purposes, net income is an important metric and relevant data on performance is provided on a regular basis, with a detailed explanation available in the *Annual Report.*

PRODUCTIVITY IMPROVEMENT AND COST MANAGEMENT STRATEGIES

The Postal Service's cost management strategy has three major areas of emphasis:

• Continue to evolve the automation program for letter mail and extend it to flats, packages, and material handling;

• Realign the postal operating network to make better use of its facilities and transportation. The implementation of integrated management information systems will provide more relevant, accurate and timely data that will enable managers to make more efficient use of postal resources;

• Identify and implement best internal and external business practices throughout the organization. Effective process management will lead to greater efficiencies through standardization. The Postal Service must also implement programs that reduce the cost of labor, make more effective use of available employees, and improve management of fixed costs.

Replace Labor With Capital

Letter Mail Automation

Letter mail accounts for more than 71 percent of all mail volume, and by the close of FY2002, 89.5 percent of letters were distributed in automated operations. Letter mail processing is already highly automated and very efficient. Letter mail productivity in processing plants improved nearly 50 percent from 1993 to 2001. Between 1998 and 2002, the Postal Service reduced the number of clerk and mail handler positions by more than 40,000.

The Postal Service will continue to make incremental increases in letter mail processing productivity through equipment and software enhancements, and through improved operations processes based on more accurate, timely, and relevant information from new management information systems.

Postal Automated Redirection System

Forwarded and returned mail increases the cost to both the Postal Service and the mailer and delays service. In 2001, this amounted to more than 3 billion pieces of mail.

The Postal Automated Redirecting System (PARS) will intercept relevant mail earlier in the sorting process, resulting in a reduction in the number of handlings and improving the service. The system will enable notification of mailers of address changes electronically or by mail, and will support the automated processing of change-of-address forms.

Flats Processing Automation

The Postal Service receives approximately 52 billion pieces of mail annually that are "flats" — neither letters nor packages. This volume, about 26 percent of all mail, includes documents in large envelopes, magazines, newspapers, catalogs, and advertising circulars. These pieces are more expensive for the Postal Service to process, since there is more variety than in letter mail.

Although the Postal Service has introduced equipment to improve productivity, automating the processing of these pieces is more difficult than letter mail because of the variety of items. The Postal Service is still developing its flats automation strategies, based on emerging technology. In addition, the Postal Service will continue to explore new worksharing discounts with customers and the mailing industry that will create a mailing system with lower total cost.

Next Generation Package Sorting Equipment

The Postal Service delivered more than 1 billion packages in FY2002. In addition, many pieces of mail in other categories — First-Class Mail, Express Mail, and Priority Mail — are package shaped. Furthermore, some mail in other categories may be bundled or put into tubs, trays, and other containers and handled as a package at some point during processing.

The Automated Package Processing System (APPS) is the Postal Service's next generation of sorting machines for parcels and bundles of mail. It is designed to replace older, more labor-intensive machines. The system has an enhanced processing capacity and will introduce optical character reading and other advanced technologies to improve sorting accuracy and productivity.

Mechanization of Material Handling Operations

Tray sorting machines will reduce the manual handling of letters and flats trays as they enter and exit processing and dispatch operations. The Postal Service will also develop an integrated process for handling trays, bundles, sacks, and packages to replace the separate processes now in place.

The Postal Service will also work with customers to explore new initiatives that reduce the number of postal handlings of containers and bundles (see Develop Innovative Pricing in the Revenue Generation Strategies section of Chapter 5).

Intelligent Mail

The Intelligent Mail program will reduce operating costs through better network management using information about mail, and will further increase mail processing automation using standardized coding. The program will reduce investment costs through standardization and integration of coding structure, data acquisition, communications and storage infrastructure. It will enhance mail security by providing forensic evidence for investigation, emergency response, and emergency preparedness, and deter criminal activities involving mail, while ensuring the traditional privacy customers have come to expect from the Postal Service.

Shared Services

Most large organizations face challenges in balancing the need for specialized functional systems and services with the need for larger, more cost-effective integrated systems. The concept of shared services has been proven to be effective for both government and private sector applications, particularly in the information technology and the administrative services areas. Much of the savings in shared services programs comes from centralization of common functions and the reduction of overhead, enabled by technology.

- Information Technology

The Postal Service is upgrading its information technology infrastructure and providing integrated systems which are more readily accessible, easier to service and maintain, and capable of being upgraded or improved in a timely fashion. The objective is to create and maintain a more robust and reliable system while reducing operating costs.

To efficiently support both networks and applications, the Postal Service is implementing a shared services model for technical and corporate functions across the organization. Technical shared services involve building on infrastructure improvements to improve technology offerings such as data warehouse services, disaster recovery services, customer support, application hosting, and hardware and software deployment and support.

- Administrative Services

Corporate shared services focus on those initiatives that utilize the upgraded infrastructure to reinvent the Postal Service's back office. Examples include the Standard Accounting for Retail (SAFR) system, the Accounting Shared Services system, and a number of self-service activities. These initiatives improve convenience and accessibility for managers and employees, reduce the time required to complete standard administrative services, improve accuracy and timeliness of information, and reduce costs.

As one of the largest employers in the nation, the Postal Service's human resource function faces an enormous task of responding to employee inquiries and requests for assistance. In response, the Postal Service has created a variety of automated processes and self-service systems that allow employees to telephone an interactive voice response system or visit a Web site on the Postal Service Intranet to conduct their business.

Processes such as training, job bidding, award nomination, ideas and suggestions, travel, fleet card management, and purchasing have all been moved to such self-service applications. The Postal Service plans to move virtually all human resource functions to self-service applications. In doing so, the Postal Service can reduce the support complement and capture significant cost savings while improving the response times for employee services.

Network Optimization and Facility Utilization

Optimize Distribution Networks

The Postal Service has initiated a Network Integration and Alignment (NIA) effort with a charter to create a flexible processing and distribution system that reduces the Postal Service's and customers' costs, increases overall operational effectiveness, and improves consistency of service. The network optimization may offer the mailing industry an opportunity to identify impacts of alternative work sharing concepts through the use of sophisticated modeling.

The Mailing Industry Task Force workgroup has noted, "The Postal Service's investment in computer-based network modeling has been an important step forward in developing an understanding of system capacity and capabilities. The knowledge gained will serve as a critical tool in the decision-making process that will determine the shape, scope, and operational vision of the 21st century postal system."

Effective implementation of the optimization program depends on the complex interaction of a number of factors. These include the age, size, and location of the facility, the ability to support a standardized operating configuration and upgraded management information systems, the availability of air and ground transportation, current workload and productivity. The historical nature of some postal facilities must also be considered, as well as the availability of alternative locations. Service standards and expected worksharing programs are also part of the optimization equation.

The timing of network implementation will depend, in part, on how fast mail volume workload declines, how workload shifts among the facilities as a result of worksharing programs, how workflow shifts within a facility as a result of new equipment and improved processes, and the availability of capital to upgrade or to acquire new facilities.

Efficient and Responsive Transportation

The primary objective for all transportation programs is to help create a logistics network that reduces both Postal Service and customer costs, increases overall operational effectiveness, and improves the consistency of product service.

Initiatives like the surface air management system, the transportation optimization and scheduling tool, and the surface air support system are applications that are leveraging information in order to optimally align transportation resources while tracking service, costs, and payment reconciliation. The Postal Service will continue to seek improved partnerships and flexible contracts to meet changing needs, and will continue to work with the airline industry and the government to resolve the issue of mail screening.

Retail Network Optimization

The current retail network of about 38,000 Post Offices™, stations, and branches provides access to customers in communities throughout the nation. Changing work and travel patterns, shifting demographics, and growing communities are challenging the ability of the existing network to meet the needs of postal customers. Access to postal products and services is being redesigned in order to both reduce the cost of operating the network and to improve customer convenience. Customers will have more access to postal products and services through the implementation of partnerships with other retailers, through improved self-service facilities and equipment, and through new and alternative channels such as the Internet. The reliance on alternative retail channels to meet many of the needs of growing communities will reduce the capital requirements of the Postal Service.

Manage Real Estate Assets

The Postal Service is one of the nation's largest real estate holders. The Postal Service has developed strategies to identify opportunities to reduce costs or maximize the return on postal property. Standard building designs have been developed for the most commonly used sizes of facilities, thus reducing design costs. Space standards and design are reviewed on a regular basis, and post-occupancy evaluations of recently built facilities are conducted to identify future cost savings opportunities. In addition, with nearly 27,000 leased facilities, a proactive leasing program promotes the renewal of leases up to three years prior to expiration, providing maximum time to negotiate more favorable terms or relocate to alternative facilities.

A newly developed prioritization system will ensure that the limited funds available for new facilities will be used to address the most critical needs. The Postal Service has an active program to generate revenue from its assets and reduce the total cost of its facility operations. In the past six years, financing and trade of assets have generated gross revenues of over $475 million. Other initiatives include the disposal of excess or underutilized property, including air rights; leasing space to government or private tenants; and developmental real estate programs which maximize the value of high profile assets by obtaining improved zoning and other entitlements.

Postal Service management has re-examined the funding mechanisms that support the real estate acquisition program and determined that there is a critical gap in the ability of the Postal Service to generate funds to recover the cost of land associated with real estate purchases. Essentially, for accounting purposes, land is not recognized as an asset that is depreciated. Accordingly, in the postal rate-setting process, no funding is provided to cover the cost of acquiring land. Therefore, land costs are primarily financed through the issuance of debt, meaning that postal ratepayers have not funded land acquisitions. The Postal Service will be exploring the option of including a provision for requesting land acquisition costs in future rate increases. The goal would be to require customers who benefit from the use of the land and the facilities to fund the purchase of that land.

Procedural Standardization and Best Practices

An effort is underway to further establish organization wide procedures and standards that have been identified and validated as best practices. These efforts will lead to improvements in both management practices and processing efficiencies that will reduce costs and increase service.

Standardization of Mail Preparation, Containerization, and Entry Requirements

The efficiency of the overall postal delivery system is limited by the array of differing and inconsistent preparation and entry standards that exist among and between classes and subclasses of mail. This differing treatment gives rise to work redundancies and inefficient transportation, translating into additional costs for both the Postal Service and the private sector. Several preparation and entry initiatives have been implemented to help reduce these expenses. The Postal Service will develop and implement additional initiatives.

Delivery Efficiency Improvements

The annual increase in delivery points puts considerable upward pressure on costs. The Postal Service has achieved remarkable gains in delivery productivity during the past three years through the implementation of delivery point sequencing (DPS) and other management improvements.

In the past three years, the Postal Service has achieved remarkable gains in delivery productivity through the implementation of DPS for letter mail. A longer-term initiative is to apply this DPS technology to flats mail in order to automate its process of sequencing. The Postal Service is also examining the concept of delivery point packaging, a technology that will be capable of producing one package of letters and flats for each delivery. The packages would be automatically sorted for the letter carrier in walk sequence. Development of these initiatives is three to four years away, but is crucial to achieving the goal of virtually eliminating carrier in-office time. The Postal Service will continue to work with the mailing industry to refine this strategy and to explore other options.

Although the potential for future gains from these programs is diminishing, the foundation for future improvements was laid by the completion of the nationwide deployment of the Delivery Operations Information System (DOIS). This new management information system is designed to provide timely, accurate, and actionable data to delivery unit supervisors. The data will enable delivery unit supervisors to make effective local adjustments that will improve delivery productivity in the office and on delivery routes.

Another supporting program (Managed Service Points) was based on the recent national implementation of the Mobile Data Collection Device (MDCD) on city routes. City carriers using this device scan barcodes at the delivery unit and along the carrier's route, and management can evaluate whether routes are being traveled within the expected time frames. Other initiatives have focused on rural routes, such as the Rural Time Review and improved management training.

Some of the major initiatives that will assist in improving delivery productivity include:

- Delivery Performance Achievement and Recognition System

The Postal Service has been developing the Delivery Performance Achievement and Recognition System (DPARS) database, which groups the performance of similar offices together and creates "benchmarks" for top performing offices against a standardized target. Performance will be recognized for both "best in class" and "most improved" offices. DPARS will be incorporated into the compensation and rewards strategies.

• City Carrier Optimal Routing

The Postal Service is testing city carrier routing and travel optimization programs similar to those used by private sector delivery firms. If proven effective, this program should improve productivity and reduce costs.

• Increase Retail and Customer Service Productivity

Detailed transaction data from the Point of Service (POS) ONE equipment is allowing the Postal Service to create a data base that will be used to more effectively staff retail units and customize services to meet the local needs of the community. This data will be used to determine which products and services are the most requested, and to identify those that could be accessed through alternative channels. Continuing to develop these and other services not only provides customers with greater flexibility and convenience in doing business with the Postal Service, they also provide the organization with considerable cost savings as transactions are moved to less expensive alternative channels. Furthermore, the POS ONE system will enable postal retail associates to provide prompt, reliable information to their customers.

The Postal Service will also provide more alternatives to customers for conducting business without standing in lines at Post Offices. Moving many standard transactions to less costly alternatives will reduce the pressure on retail staffing.

Improve Performance Management

The Postal Service will depend on the ability of local managers to take advantage of standardization around best practices, and on the availability of improved management information tools to help local management improve local performance based on more accurate, timely, and relevant data.

Supply Chain Management

The Postal Service awards thousands of contracts every year that are cumulatively worth billions of dollars. Supply chain management maximizes the effectiveness and efficiency of these expenditures, using standardized practices that have been proven to be successful in the public and private sectors.

Web-Based Supply Chain Management Technologies

One major focus is to implement Web-based technologies to reduce the administrative cost of managing thousands of contracts and procurement actions, while increasing the ease of use for both customers and vendors. Such systems also enable the Postal Service to track contracts, contractor performance, and payments more effectively.

Effective Contract and Transactions Management

A second major initiative is more effective administration of commodity purchases, where the dollar value is often low but the transactions costs are high. Consolidation and centralization, supported by convenient and easy-to-use programs, provide ways to reduce the costs of obtaining ordinary items such as office supplies.

Strategic Sourcing

Another initiative is to more carefully manage the strategic sourcing of critical items by working more effectively with the vendor community. Partnerships, alliances, long-term contracts, and other nontraditional approaches will depend upon improved planning, outreach, and cooperation while maintaining the value of competition to ensure that the Postal Service obtains the best possible value from its purchases, particularly for transportation, fuel, and equipment.

The Postal Service has one of the largest and most complex information technology (IT) infrastructures in the world. The software that is built or purchased must be scaleable to accommodate the size and scope of the organization. Information technology components put in place rely on hardware and software developed by vendors being integrated seamlessly into the organization's existing infrastructure. Because the introduction of one faulty piece of software or one malfunctioning server could negatively impact operations across the nation, the Postal Service must be certain the vendors it does business with offer products and services that are of the highest quality.

The Postal Service has been working with leading IT vendors for many years in a typical customer-vendor fashion. The Postal Service is moving toward establishing relationships with vendors that follow the "partnership" model. In these arrangements, the Postal Service works with vendors who are not only able to sell the organization a product or service, but also who take the time and make the investment to learn about our business and offer technology that can support an organization the size of the Postal Service. Strategic partnerships with vendors are allowing the Postal Service to form long-lasting relationships with the companies that provide critical components of the information technology infrastructure.

Labor Cost Reduction and Employee Utilization Improvement

Reduce Labor

The Postal Service has reduced its complement by more than 60,000 since September 2000, and expects to make further reductions throughout the five-year strategic planning period. The Postal Service has received permission from the Office of Personnel Management (OPM) to allow employees in selected locations and functions to retire early.

The Postal Service has recently consolidated five of the 85 district offices, affecting 538 nonbargaining and 128 bargaining unit employees. The Postal Service will continue to adjust its structure and its workforce to the changing workload and improvement in business processes.

Effective Contract Management

The Postal Service has been working to improve communications between management and employees, and to involve employee organizations in the development of programs and policies. Managers and supervisors are receiving training in proper application of the contract and effective employee and labor relations practices. Management has deployed programs that should improve the workplace environment to reduce grievances and other employee complaints, and to handle those issues that arise more effectively and at less cost.

The Postal Service and employee organizations have been successful recently in achieving agreements that meet the needs of the organization and those of the employees. The Postal Service expects to build on recent successes to hold increases in wages and benefits at reasonable levels.

Explore Outsourcing Opportunities

Unlike other government organizations, the Postal Service faces competition on a daily basis. If postal services fail to deliver value to customers, most customers can use direct and indirect substitutes for mail.

The Postal Service has contracted for a number of nonpostal functions. Virtually all of the long-haul transportation is provided by the private sector, and the Postal Service will continue to examine opportunities to outsource activities that result in lower costs for Postal Service customers.

Managing Labor-Related Costs

As a large, labor-intensive organization where most employees are performing manual labor, the Postal Service faces significant potential costs from injury compensation claims. The primary strategy is to avoid accidents and injuries through effective safety programs. There are additional costs associated with the current administrative process for injury compensation, and the Postal Service is implementing a number of programs to reduce these costs.

- Extend Preferred Provider Organization Program

This program has been recently implemented nationwide and will reach all of the Postal Service's injured employees. This program should reduce medical fees and duplicate payments, while providing more consistent and effective medical care to employees.

- Transfer Federal Employees' Compensation Act (FECA) Recipients

Employees on the FECA program may receive benefits that are substantially greater than what an employee would receive through one of the OPM retirement programs. The Postal Service will seek relief from the Department of Labor in the form of a FECA-managed retirement program that will result in lower costs.

- Revise Office of Workers' Compensation Program Regulations

Prior to January 1999, Postal Service managers had the ability to contact an injured employee's treating physician directly to explain the options available to accommodate injured employees on the job with limited or light duty assignments. This often resulted in earlier returns to duty. The Postal Service is working to have this program restored, while still respecting the privacy of employee medical records and privileged conversations between physicians and their patients.

- Improve Interagency Cooperation

As the Postal Service reduces its workforce, especially in mail processing and mail handling operations, the Office of Workers' Compensation Program (OWCP) and the Postal Service will need to focus more effectively on private sector outplacement for injured employees returning to the workforce. The Postal Service will cooperate with the OWCP in developing new approaches to rehabilitation, retraining, and outplacement.

Using Labor More Efficiently

The Postal Service has developed and is implementing workforce planning and complement management tools that will enable field managers to match employees and skills to workload with a degree of precision not previously available. Among other benefits, this data will improve scheduling and staffing in order to reduce overtime and other costs that drive up the cost per workhour.

Technology Infrastructure

In order to support current and future business needs, the Postal Service must optimize its information infrastructure and reengineer its systems. One of the key initiatives supporting the distribution of innovative technologies within the organization is the Advanced Computing Environment (ACE) initiative. ACE involves replacing the entire distributed computing infrastructure, upgrading existing hardware, software, processes, and support while enhancing the stability, reliability, and availability of the infrastructure at 30 percent less cost.

The Postal Service's computing network is playing an increasingly important role in every business area of the organization. The effective and efficient implementation of advanced management information systems will enable Postal Service managers to improve service, reduce costs, manage employee complement, and track sales. The Postal Service is upgrading the network. The next phase will begin in calendar year 2004 and will take about two years to complete.

The Postal Service has also begun to integrate wireless technologies into its day-to-day operations. Wireless services — which currently support e-mail, scheduling, pager capabilities, task management, and Internet and intranet access — will enable the organization to offer continuity in critical operations for contingency purposes. By the end of FY2003, the top 2,000 managers in the organization began using wireless devices to assist them in managing their respective functions.

PROGRAM COSTS

The cost reduction and productivity improvement strategies are directed at all major expense categories of the Postal Service.

Postal Expense Trends

Overall expense trends have been moderate, averaging about 3.1 percent annually, as shown in Exhibit 3-5. Although costs in some categories are difficult to predict, the cost control and reduction strategies that have shown such success in the last few years should continue to provide overall favorable trends for the five-year planning period.

Personnel Compensation

Almost 90 percent of the Postal Service career workforce is covered by collective bargaining agreements. The Postal Service reached agreement through arbitration with the National Rural Letter Carriers' Association (NRLCA) and reached agreement through negotiations with the other three major unions. These agreements call for basic pay increases and cost-of-living adjustments (COLAs), but provide predictability and stability to postal labor costs until 2006. Although average hourly labor rates increased in FY2002 by about 2.8 percent, compensation costs declined by 2.8 percent due to reductions in postal workhours. This trend is expected to continue for the next several years.

Nonbargaining employees receive pay increases only through annual merit reviews. Unlike most of the federal government, these employees do not receive automatic salary increases, nor do they receive COLAs or locality pay.

Retirement

The Postal Service is the only agency to provide full funding (principal and interest) for the retirement costs associated with general pay increases to Civil Service Retirement System (CSRS) employees and COLAs for retirees. Reviews by the OPM, Office of Management and Budget, and General Accounting Office (GAO) found that the Postal Service was projected to over-fund its contribution, and Congress has passed legislation that will adjust the payment rate. This will produce immediate savings that will allow the Postal Service to decrease its current debt and keep rates stable until 2006.

Congress has limited the use of these funds, and has required the Postal Service to present a plan to describe how the funds will be allocated. This plan will be presented separately from the strategic plan. Congress also added military service liabilities to the Postal Service.

Exhibit 3-5. Postal Service Expenses, by Category (Billion $)

Expense Category	FY1998 ($)	FY1999 ($)	FY2000 ($)	FY2001 ($)	FY2002 ($)	Average Annual Change (%)
Personnel Compensation	34.7	35.9	37.0	37.9	36.9	1.5
Retirement	7.7	8.1	8.5	8.9	9.1	4.3
Health Benefits	2.6	2.8	3.1	3.3	3.7	9.2
Retirees' Health Benefits	0.6	0.6	0.7	0.9	1.0	13.6
Workers' Compensation	0.8	0.6	0.9	1.0	1.5	17.0
Other Compensation	0.9	0.9	0.9	1.0	1.0	2.7
Transportation	4.2	4.3	4.3	5.1	5.1	5.0
Supplies and Services[26]	3.2	2.6	3.3	3.3	2.9	-2.4
Building Occupancy	1.4	1.5	1.6	1.6	1.6	3.4
Depreciation and Write-offs	1.6	1.8	2.0	2.2	2.3	9.5
Borrowing Interest	0.2	0.2	0.3	0.4	0.4	18.9
Other	1.6	3.2	2.3	2.2	1.7	1.5
TOTAL	59.5	62.4	64.8	67.6	67.2	3.1

Source: USPS 2002 Annual Report, USPS Finance

The Postal Service has no deferred retirement liability for Federal Employees Retirement System (FERS) employees because FERS is funded so that all future costs, including retiree cost-of-living adjustments, are provided from present contributions related to active employees.

Health Benefits

The increases in health care costs and associated insurance premiums are a major concern to firms throughout the economy, and are a major reason for the rapid growth in Postal Service benefits.

Postal Service collective bargaining agreements provide for participation in the Federal Employees Health Benefits (FEHB) program. Until 1987, the cost of postal retirees' health benefits was paid from funds appropriated (tax dollars) directly to the federal Office of Personnel Management. Beginning in 1987, these costs were transferred to the Postal Service, including retroactive responsibility for all employees on rolls at the time of postal reorganization in 1971.

In May 2002, the GAO recommended that the Postal Service review the accounting treatment of post-retirement health benefits. Postal participation in FEHB most closely matches the characteristics of a multi-employer plan and the Postal Service accounts for these costs according to current accounting standards. As a result, funds to make future payments will come from future revenue. If the Postal

[26] As the Postal Service revised its transportation and contract programs, some costs have shifted between the transportation and supplies and services categories.

Service were not considered to be a participant in a multi-employer plan, the obligation for the present value of future costs — estimates of those costs range from $40 to $50 billion — would have to be treated differently. Retirement health benefit costs represent 1.5 percent of total operating expenses and are considered to be part of the postal rate base. In FY2002, the increase in these costs represented 0.2 percent of total costs.

Workers' Compensation

Postal Service employees are covered by the Federal Employees' Compensation Act (FECA), administered by the Department of Labor's Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. The Postal Service reimburses all postal workers' compensation claims as well as an administrative fee to OWCP. The Postal Service's bottom line is directly affected every time an employee is injured.

The Postal Service records as a liability the present value of all future payments it expects to make to those employees receiving workers' compensation. At the end of FY2002, the total liability for future workers' compensation costs was estimated at $6.7 billion.

Transportation

After the terrorist attacks on September 11, 2001, the Federal Aviation Administration placed restrictions on carrying mailpieces on scheduled passenger airlines. The Postal Service was forced to move virtually all Priority Mail volume onto other carriers, including the FedEx network and air taxis. This is costly and the Postal Service is moving more mail onto surface transportation. The Postal Service is currently working with the airlines and appropriate government agencies to develop effective screening methods that would allow some mail to return to scheduled airlines. It is unclear who would bear the costs of the additional monitoring.

All transportation modes will be affected by uncertainty about future fuel costs due to potential disruptions in world oil supplies.

Supplies and Services

Several years ago, the Postal Service began focusing on the use of supply chain management (SCM) best practices to control and reduce costs. SCM is based upon a close interaction among end users, buyers, and suppliers, focusing on long-term contracts and partnerships emphasizing the best suppliers with the most competitive advantages. The vast size of the Postal Service enables it to achieve major savings by leveraging previous local and regional fragmented buys into national contracts. This permits small local offices to order against these contracts and get the advantage of our market leverage as well as cost savings from reduced administrative expense.

Interest and Other Expenses

The Postal Service Retirement Funding Reform Act of 2003 requires the Postal Service to use any FY2003 savings attributable to the legislation, estimated at $3.5 billion, to be used for debt reduction in FY2003. The legislation also mandates that any savings realized for FY2004, estimated at $2.7 billion, be likewise applied towards debt reduction. Consequently, the Postal Service can have a maximum amount of debt outstanding at the end of FY2004 of $4.9 billion, a reduction of 56 percent from $11.1 billion outstanding at the end of FY2002. The Postal Service plans to exceed this statutory debt reduction requirement for FY2003 and reduce debt outstanding by $3.8 billion. Additionally, during FY2003, the Postal Service repurchased $6 billion of long-term debt and reissued the same amount of debt with maturities of less

than one year. The debt portfolio is now structured so that cash flows in excess of current needs can be efficiently applied to debt reduction whenever practical to do so. The reduction in debt combined with the debt restructuring will enable the Postal Service to manage its cash and debt on a daily basis and minimize interest expense going forward.

Five-Year Capital Investment Plan

In February 2001, the Postal Service instituted tighter controls on capital projects, due to cash flow problems. Priority was given to safety, security, and infrastructure maintenance projects. The Board of Governors approved a one year capital plan for FY2003, and is reviewing the status of future investments based on current conditions and expected resource availability. The current Five-Year Capital Investment Plan is described in Exhibit 3-6.

Automation/Mechanization Equipment

The Postal Service's best opportunities for reducing the dependence upon labor is still automating mail processing and mail handling functions.

Vehicles

Investments in global positioning technology will improve management and control of delivery vehicles for operational efficiency, customer service, and enhanced security. Since much of the increase in delivery points is occurring on rural routes, the Postal Service has a program to provide additional right-hand drive vehicles.

Retail Equipment

Investments in retail and acceptance automation will make processes more cost-effective, accurate, and responsive while new self-service equipment will assist in moving simple transactions from the window. These changes will provide expanded access up to 24 hours a day in some locations and will allow customers to use their debit or credit cards.

Exhibit 3-6. USPS Five-Year Capital Investment Plan (Millions $)

Program	2004 ($)	2005 ($)	2006 ($)	2007 ($)	2008 ($)
Automation/ Mechanization	1,689.6	972.6	895.8	1,020.1	1,152.5
Vehicles	189.8	134.9	98.4	158.6	68.7
Retail Equipment	64.9	51.3	179.0	185.6	125.2
Facilities	636.6	714.6	846.8	1,242.0	1,021.4
Postal Support	327.7	252.7	395.9	326.5	213.6
Environmental Protection Program	247.0	364.0	—	—	—
TOTAL	3,155.6	2,490.1	2,415.9	2,932.8	2,581.4

Source: USPS Finance, Strategic Capital Investment Plan
Note: Subject to change based on economic conditions and resource availability. Data are preliminary, pending Board of Governors' review and approval of updated plan.

Facilities

During the next five years, the emphasis will continue towards optimizing the use of existing space through the repair and alteration of existing facilities. The Postal Service's facility-related requirements are currently being evaluated and prioritized with the particular focus on high growth areas, facility obsolescence, and necessary maintenance on real property assets.

In addition, facilities programs will implement security measures that address the threat of terrorist activities. In conjunction with Engineering, the Postal Inspection Service and other security agencies, new building system applications will have to be developed, tested, and installed that will provide safety to the mail, employees, and customers.[27]

The *Emergency Preparedness Plan,* developed during late 2001 through February 2002, describes how the Postal Service intends to protect its employees and customers from exposure to biohazards in the mail while maintaining the current level of service and without unduly adding to the cost of operations. The Postal Service provided a confidential update to Congress in April 2003, and will continue to provide information to Congress and relevant agencies. As a result of new information about testing procedures, the Postal Service will develop and implement new procedures for ensuring that postal facilities are safe for employees. At the same time, the Postal Service will build on the close consultation developed with the employee organizations to provide more complete and timely information to Postal Service employees.

The Postal Service approach continues to rely on a multi-layered, multi-year set of initiatives that focus on deterrence, detection, containment, and neutralization. A cautious, considered approach is warranted when attempting to integrate emerging technologies and newly designed systems into a complex operating environment. Where initiatives have been validated as effective, implementation will follow. Wherever further testing and analysis is necessary, implementation will be slowed to ensure that the technology and processes truly reduce risk to employees and the public without sacrificing service or imposing significant costs.

Postal Support

Investments in postal support maintain and improve the communication and systems' needs of the Postal Service and the daily administrative and operational equipment requirements. Finance and Technology have transitioned the financial systems' infrastructure from an antiquated environment to a state-of-the-art integrated environment. The ACE ongoing infrastructure replacement initiative reflects the transition to a more centralized and controlled approach to information technology infrastructure that can more easily leverage current and future Postal Service system requirements.

CONCLUSIONS

The Postal Service is developing a more flexible, integrated network that is aligned with customer and operational needs, with highly efficient, information-based operations and reduced administrative costs. The operations strategies will continue to improve postal productivity and manage costs to keep postal prices affordable for the five-year strategic planning period. The Postal Service could further enhance its productivity performance and its ability to keep rates affordable if restrictions on cost reduction programs were removed and if there were more flexibility in providing universal service.

[27] Some of these costs may be funded or reimbursed by Congress.

CHAPTER FOUR: ENHANCE PERFORMANCE-BASED CULTURE

Introduction

Success in each of the strategic areas of emphasis will ultimately depend on the efforts of Postal Service™ employees. The Postal Service is and will remain a labor-intensive organization. As one of the largest employers in the nation, the Postal Service faces particular challenges in maintaining a diverse, skilled, and effective workforce. It will require a safe and fair working environment and a commitment to invest in human capital through effective recruitment, training and development, compensation and recognition, employee support programs, and succession planning.

Most Postal Service employees are already motivated and committed. Day in and day out, postal employees respond to the challenge of moving more than 650 million items a day — more than 200 billion items a year — across the country to more than 141 million addresses. Over the next five years, the focus of postal development programs will be to provide the necessary support — tools, training, leadership, incentives, and accountability — to become more innovative and results-oriented.

The tragic events in New York City were unprecedented in their magnitude, but Postal Service employees have performed similar service restorations after blackouts and floods, tornadoes, earthquakes, fires, and other natural disasters throughout the country.

Motivation and Commitment in New York City

"Hundreds of postal employees were working within a few blocks of the World Trade Center on the morning of Tuesday, September 11, 2001, and the Church Street Station, located across the street from the World Trade Center, suffered considerable damage. Managers coordinated orderly evacuation and protection of the mail and employees. At the Wall Street Station, where damage prevented the doors from locking, one supervisor stayed overnight to guard the facility. By Thursday, September 13, operations from four damaged facilities were set up in alternative locations and Church Street operations were relocated. Normal operations resumed in unaffected areas of New York City.

On Friday, September 14, offices in the affected area below 14th Street reopened. Caller Service for the financial district's highest volume mailers was available 24 hours a day from specially designated bays. Over the weekend, a massive operation got all floors of the Church Street station cleared. Human chains were formed to get the mail out to the street, and the mail was loaded onto eight 7-ton trucks and transported to other stations to be worked. Beginning on Monday, residential and business customers were able to pick up their mail. By Tuesday, an innovative system was established in which letter carriers from affected stations delivered mail to customers who gathered on the sidewalk beneath signs bearing station names and ZIP Codes. Arrangements were made for forwarding mail from addresses that no longer existed."

— David Solomon, Area Vice President, Operations, New York Metro

GOAL: ENHANCE PERFORMANCE-BASED CULTURE

Ultimately, a performance-based culture is demonstrated by achievement of the critical organizational goals. The events of the last two years have demonstrated that the Postal Service has motivated, committed employees who rise to the challenge — letter carriers checking on customers on their routes in lower Manhattan following the September 11, 2001 terrorist attacks; logistics specialists moving mail efficiently around the country following the grounding of the airlines and the subsequent limitations on the use of airlines for packages; and coping with the loss of postal employees and the closure of two major mail processing facilities due to terrorism. Few organizations — public or private — have faced such multiple, simultaneous, significant challenges and still achieved the kind of success that the Postal Service has in the last two years. The overall objective, which cannot be measured precisely, is to maintain an accountable, motivated, and diverse workforce empowered to maximize performance in a safe and secure work environment.

SAFETY AND EMPLOYEE ATTITUDE MEASUREMENT SYSTEM

The motivation and commitment of Postal Service employees has been clearly demonstrated during unusual and extreme challenges. It is also evident in the achievement of postal goals and objectives for service performance and productivity improvement over the very difficult period of the last few years.

Two critical factors that enable Postal Service employees to achieve organizational goals are a safe and fair workplace. Accordingly, the primary Government Performance and Results Act (GPRA) performance measures are the overall employee attitude on key workplace issues as measured by the Voice of the Employee (VOE) Survey, and workplace safety as measured by the Occupational Safety and Health Administration (OSHA) Illness and Injury rates.

The Postal Service also has intermediate process or program goals relevant to recruitment, training and development, labor-management relations, workplace improvement, employee support, equal opportunity, succession planning, and retention.

Voice of the Employee Survey

Every postal employee has the opportunity to participate in a survey every year. Participation is both voluntary and anonymous, and the entire survey process is handled by an independent contractor, using methods widely accepted as industry best practices.

Objectives and Targets

Exhibit 4-1 shows a summary measure of performance of how the Postal Service provides a workplace that supports motivation and commitment toward achieving postal objectives. The Postal Service tracks employee responses to questions about their attitudes on a number of issues. The positive responses to six key questions — performance recognition, accountability, exclusion, sexual harassment, being treated with dignity and respect, and workplace communication — are included in the measure that is used for tracking performance trends.

Exhibit 4-1. Voice of the Employee (VOE) Survey Rating Objective

Measure	FY2004 Target	FY2005–2008 Target
Improvement on VOE Survey Index Rating	Better Than End of Year 2003	Better Than Previous Year

Recent Performance Trends

The Postal Service is a large, diverse and geographically-dispersed organization. While dramatic year-to-year improvements are not likely, performance trends in employee responses to key questions about the workplace have been positive, as shown in Exhibit 4-2. Postal Service strategies over the next five years will support the continuation of this positive trend.

Exhibit 4-2. Performance Trends on Voice of the Employee Survey Objective

	1998	1999	2000	2001	2002
Target	Survey Under Development	Baseline	Better Than Previous Year	Better Than Previous Year	Better Than Previous Year
Actual		57.3%	57.5%	58.1%	58.8%

OSHA Safety Reporting

The Postal Service became subject to the reporting requirements of OSHA as a result of the Postal Employee Safety Enhancement Act. The Postal Service follows the criteria and the reporting methodology required by OSHA.

Objectives and Targets

One key element in improving the workplace is to provide a safe and secure environment. The safety objective shown in Exhibit 4-3 was established as a key GPRA objective on the basis of its impact on the workplace environment, employees, and finances.

Exhibit 4-3. Occupational Safety and Health Administration Illness and Injury Rate Objective

Measure	FY2004 Target	FY2005–2008 Target
Occupational Safety and Health Administration (OSHA) Illness and Injury Rate	Better Than Previous Year	Better Than Previous Year

Recent Performance Trends

The Postal Service switched in FY2000 from internal indicators to OSHA indicators. Safety performance trends have been generally positive, as shown in Exhibit 4-4.

Exhibit 4-4. Fiscal Year Performance Trends on OSHA Illness and Injury Rate Objective

	1998	1999	2000	2001	2002
Target	Baseline	2.04	1.90	7.86	8.41
Actual	1.84	1.92	1.93	8.58	7.72

Note: FY1998–2000 target and performance rates are Lost Workday Injuries; FY2001–2002 target and performance rates are OSHA Injury and Illness Rates.

Change From Previous Strategic Plan and Annual Performance Plan

There are no changes from the FY2004 preliminary safety target in the *FY2002 Comprehensive Statement on Postal Operations*. The VOE Survey target was changed from "better than or equal to the previous year" to "better than the previous year."

All the goals have been adapted to reflect the Postal Service's *Transformation Plan* (published April 2002), and are structured around five strategic areas of emphasis identified rather than the three "voices" used in the previous strategic plan.

When the previous strategic plan was under development, there was considerable concern that the postal work environment was hostile and unsafe. An independent commission was established to examine the issue in detail, and found that the postal work environment was much better than expected and was indeed safe and secure.[28]

The Postal Service was placed under the reporting requirements of OSHA, and previous postal measurement systems were replaced or brought into conformance with OSHA requirements. Subsequent developments, this time focusing on external threats to customer and employee safety, were addressed by a recent separate report.[29]

In the previous strategic plan, the goal was expressed as "foster an inclusive and welcoming workplace consistent with the values of fairness, opportunity, safety, and security, where everyone is given the knowledge, tools, education, and encouragement to be successful, and where everyone is recognized for and takes pride in his or her participation in customer and Postal Service success."

This goal is still valid, but it is difficult to develop relevant results – oriented measures for these activities that can be clearly tied to the achievement of the organization's strategic goals. Measures used in the previous strategic plan, such as training, the implementation of the REDRESS® (Resolve Employment Disputes — Reach Equitable Solutions Swiftly) process, and affirmative action are still important but are more appropriately managed at different levels of the organization.

A training objective, with a target of a specific number of hours for each category of employee, was established and used as a strategic performance indicator. However, this is a process goal more relevant to functional and individual needs. Training and development is still tracked, but at the local and unit level as part of the National Performance Assessment (NPA) program. It is no longer tracked as a GPRA objective.

[28] Report of the United States Commission on a Safe and Secure Workplace, National Center on Addiction and Substance Abuse, August 2000.
[29] Emergency Preparedness Plan, U.S. Postal Service, March 2002.

Employee grievances and complaints are a major concern, and the previous strategic plan introduced the implementation of the REDRESS program as a major initiative. The REDRESS program was designed to more effectively manage the EEO complaint process. The Postal Service implemented this program and the target availability and participation rates were achieved. The program was removed as a GPRA goal, but is still supported by the Postal Service as part of its efforts to improve the workplace environment.

The previous strategic plan also included, as a GPRA objective, "ensure an inclusive and fair environment with opportunities for all employees." The Postal Service is a large and diverse organization, and vigilance on this issue is necessary. Data on postal performance are summarized later in this strategic plan, and detailed information is regularly reported to other government agencies. Since it is reported elsewhere, the Postal Service transferred this from a GPRA corporate goal to the NPA program, which focuses accountability at the individual and unit level.

PERFORMANCE-BASED CULTURE STRATEGIES

Introduction

According to a recent issue of *Fortune* magazine, the U. S. Postal Service is the fourth largest employer in the world. Changing the culture in such a large organization is a complex undertaking, requiring careful coordination and interpretation among a number of different initiatives.

Retention, Recruitment, and Development

Over the next five years, 63 percent of officers and executives, 46 percent of managers and supervisors, and 35 percent of all other employees will reach eligibility for regular retirement. An analysis of actual data over the last five years, however, reveals that the Postal Service does not have a retention problem. Employees who are eligible to retire usually stay well beyond retirement eligibility. The Postal Service is also able to take advantage of the current economy to recruit effectively where needed, thus enabling it to prepare for the future.

Recruitment strategies must include more active and sophisticated internal and external searching for qualified applicants, especially for mid-level management and professional and technical positions. Technology will become the organization's key to linking opportunities and needs with qualified potential internal and external applicants through a flexible, centralized Web-based system. The increased demands for workplace security and safety has also led to the development of special training and recruitment programs for the Postal Inspection Service.

Three new programs have been introduced or reintroduced — the Management Intern, the Professional Specialist Intern, and the Professional Specialist Trainee/Industrial Engineer. The Postal Service will recruit individuals with advanced degrees to participate in these two-year training programs. Successful completion will result in a pool of skilled candidates capable of filling critical vacancies within the organization.

Also critical to continued effective leadership is proper succession planning. The Postal Service has had a functioning succession planning program since 1994. The majority of Postal Career Executive Service (PCES) replacements are accomplished through succession planning. The program has been improved by increasing the accountability for individual development plans (IDPs). Officers and executives will be held responsible not only for having IDPs for successors, but for ensuring that planned activities are accomplished, and new metrics have been developed to track achievement.

Effective development is not limited to potential executive successors, however. The Postal Service is establishing job pools for all major job categories. The pools will be filled by employees trained in their specific positions and developed through programs that support employee career paths. With such a

large labor force spread throughout the nation, the Postal Service will make maximum use of Web-enabled learning technologies to reach the widest possible audience with relevant, timely training programs. The Associate Supervisor Program has become the standard for developing both internal and external talent to fill critical initial level supervisor vacancies. The Advanced Leadership Program is designed to enhance the leadership skills and behaviors of high potential supervisors and managers through a combination of education and experience. The Postal Service will continue to support current executive development programs for high potential executives, and has deployed the newly-created Executive Development Program for all current executives.

Pay for Performance

The Postal Service has led the federal government in implementing market-based, performance-driven compensation systems. While these programs helped to drive considerable improvements in focusing employees on specific goals, there was room for improvement. The National Performance Assessment (NPA) program replaces the previous system, and places a greater focus on rewarding individual, rather than group, achievement. Firm in its belief that a performance-based pay system is invaluable in creating a workforce committed to achievement of organizational goals, the Postal Service continues to explore various options linking pay to performance, and to discuss those options on pay and performance with the unions.

Workplace Environment

The ability to attract, retain, and develop employees to provide continued leadership depends, in large part, on the environment in which employees are expected to work. The Postal Service will continue to work with both the labor unions and the management associations to address long-term improvement initiatives.

The Postal Service has developed new objective criteria for identifying troubled worksites and for tracking the progress of the action plans for improvement. All districts have Threat Assessment Teams and Crisis Management Teams that are trained and in place to assist with identification and management of problems.

The willingness of employee and management groups to meet in order to deal both with specific problems and with broad, long-term, strategic issues promotes trust and productive change. The Postal Service will continue consultations and negotiations as required by contract and law, and will expand the use of joint initiatives. The Postal Service will pay particular attention to properly applying the provisions of the national agreements to reduce grievance activity, and will develop and expand alternatives to traditional discipline and dispute resolution methods.

Another area where the relationship with the unions can potentially be improved is that of negotiations. As required by the Postal Reorganization Act (PRA) the Postal Service engages in collective bargaining with unions that represent employees for hours, wages, some benefits, and working conditions. When the parties are unable to reach agreement during the time specified, the process provides for a period of fact-finding prior to binding arbitration. This process is led by a three-person panel, and the Postal Service considers it to have been generally unsuccessful. There have been other alternatives proposed to the President's Commission on the Postal Service in the belief that a more successful system, and one less stressful to the relationship, should be implemented.

Another area critical to the work environment is the reduction of employee accidents. In the past year, employee accidents and injuries have been reduced by more than 15 percent. The Postal Service provided safety training to 30,000 supervisors, and will continue to update and refresh that training. The Postal

Service has created a Web-based Safety Toolkit training package available to all Postal Service managers, and a course tailored for managers in smaller facilities. This successful program earned an Excellence in Practice citation from the American Society for Training and Development. The Postal Service's *Safety Depends on Me* national communication program to employees earned two awards for outstanding achievements in employee communications and has helped to involve employees in accident prevention.

Further, the Postal Service has partnered with OSHA, the management associations, and the labor unions in developing and implementing the USPS Ergonomics Risk Reduction Program. This program provides training to employees in mail handling operations on how to properly lift and carry mail, turn, and generally to work safely around mail processing equipment. The Postal Inspection Service has developed a model for identifying postal facilities with higher safety and security risks, and will be working cooperatively with local management to minimize those risks.

In addition, the Postal Service is establishing OSHA Voluntary Protection Sites. This involves evaluating sites against OSHA criteria, implementing corrections to ensure physical conditions meet OSHA standards, and training all employees on their roles and responsibilities. The Postal Service will also be developing promotional items to increase awareness, using internal and external mentors, conducting OSHA on-site reviews, and maintaining best practices. OSHA's Voluntary Protection Programs require exceptional safety systems and culture that result in 50 percent fewer accidents than industry counterparts. This drives improvement in other areas of human resources, business, and customer relations. These efforts will provide the safest possible working conditions for Postal Service employees.

Emergency Preparedness

The Postal Service published the *Emergency Preparedness Plan* in March 2002. Since then, the Postal Inspection Service has taken the lead in overseeing implementation and improvement of the plan. The Inspection Service has established an Emergency Preparedness Group and an Intelligence Group, and is working with other agencies to develop and implement systems, plans, training, and other initiatives to protect employees and customers from the threat of biohazards in the mail. The Postal Service is examining and testing equipment, devices, and other techniques to detect these threats.

POSTAL SERVICE WORKFORCE

The Postal Service has a large workforce, and human capital development issues affect different employee categories differently. Overall, the Postal Service has reduced its total complement by more than 60,000 employees since September 2000. Recent trends, by labor category, are described in Exhibit 4-5. It is expected that the size of the postal workforce will continue to decline over the next five years.

The strategies described in Chapters 2 and 3, along with potentially declining volume, are expected to require reductions and adjustments in the workforce and specific operational activities. The Postal Service must prepare to redeploy personnel, and, where necessary, reduce the workforce. A centralized function will be responsible for gathering and analyzing relevant data and for providing the necessary action plans for local management.

As the Postal Service continues its efforts to provide a safe and harmonious workplace, where individual employees are recognized and rewarded for their efforts, and are provided with developmental opportunities so that their potential can be realized, it will become more and more the employer of choice.

Exhibit 4-5. Five-Year Labor Force Trends (by Category), FY1998–2002

Category	1998	1999	2000	2001	2002	Average Annual change
Headquarters	2,231	2,372	2,279	1,836	1,712	5.8 % decline
Headquarters-Related Field Support Units	4,307	4,357	5,566	5,653	3,848	2.7 % decline
Inspection Service (Field)	4,280	4,334	4,190	4,047	3,875	2.4 % decline
TOTAL HQ-RELATED	**11,041**	**11,450**	**12,699**	**12,249**	**10,157**	**2.0 % decline**
Area Offices	1,703	1,875	1,597	1,377	2,107	5.9 % increase
Postmasters and Installation Heads	26,156	26,108	26,121	26,113	25,771	0.4 % decline
Supervisors/Managers	36,508	38,835	38,797	38,754	37,829	0.9 % increase
Professional Administrative Technical	11,703	11,097	9,959	9,764	9,661	4.4 % decline
TOTAL FIELD MANAGEMENT, ADMINISTRATION, TECHNICAL	**76,070**	**77,915**	**76,474**	**76,008**	**75,368**	**0.2 % decline**
Clerks	293,829	292,400	281,956	269,792	256,656	3.2 % decline
Mail Handlers	62,247	62,237	60,851	60,102	59,259	1.2 % decline
City Delivery Carriers	240,813	242,300	241,079	240,295	233,639	0.7 % decline
Motor Vehicle Operators	9,026	9,270	9,347	9,325	9,092	No change
Rural Delivery Carriers (FT)	52,241	54,588	57,111	59,790	60,817	4.1 % increase
Building and Equipment Maintenance	41,054	41,873	42,284	42,604	42,275	0.1 % increase
Vehicle Maintenance	5,524	5,574	5,546	5,558	5,513	No change
TOTAL CAREER	**792,041**	**797,795**	**787,538**	**775,903**	**752,949**	**1.2 % decline**
Non-Career	112,596	107,971	113,700	115,102	101,427	2.5 % decline
Inspector General	223	387	664	713	722	55.9 % increase
TOTAL	**904,636**	**905,766**	**901,238**	**891,005**	**854,376**	**1.4 % decline**

Source: USPS On-Rolls and Paid Employees database, USPS Finance
Note: Total includes nurses and Special Delivery Carriers that are not included in the detailed break-out.

The Postal Service will continue to shrink administrative positions through the use of redesigned work processes using Web-based technology. The decrease in headquarters staff complement and related increase in area staff complement are the result of a restructuring of sales and retail staff.

Further reductions can be expected in clerk and mail handler positions. However, because much of the growth in the universal delivery network is taking place in suburban and rural areas, the number of full-time rural carriers is expected to continue to increase.

Workforce Profile

The postal workforce is large and diverse, and generally matches the civilian labor force. The disproportionate representation of males in the labor force can be attributed to veterans hiring preferences — veterans have, until fairly recently, been primarily males, and the Postal Service is the largest employer of veterans in the nation. Exhibit 4-6 summarizes the current diversity profile of the Postal Service compared to the civilian labor force.

Exhibit 4-6. USPS Diversity Profile

	Postal Service (%)	U.S. Labor Force (%)
Male	62.2	52.5
Female	37.8	47.5
TOTAL	100	100
White	63.7	68.2
Black	21.2	14.8
Hispanic	7.5	11.2
Asian American/ Pacific Islander	7.0	5.3
American Indian/ Alaskan Native	0.6	0.5
TOTAL	100	100

Source: USPS Diversity, data as of Postal Quarter I, 2003

Fortune magazine recently cited the Postal Service as one of the top ten (No. 8) best places to work in America in an article titled "50 Best Companies for Minorities."[30]

[30] Fortune, July 7, 2003.

The Postal Service also submits reports to other government agencies that monitor its performance on diversity and affirmative action. The Postal Service provides the *Affirmative Employment Program Multiyear Plan,* with an annual *Affirmative Employment Accomplishment Report and Plan Update,* and an annual *Affirmative Employment Program Plan Update and Report of Accomplishments for Individuals with Disabilities* to the Equal Employment Opportunity Commission. The Postal Service also provides an annual report to the Office of Personnel Management titled *Disabled Veterans Affirmative Employment Program.*

Diversity Development's Five-Year Strategic Plan

In February 2003, the Postal Service published a separate *Five-Year Strategic Plan for Diversity*. This plan is expected to be the framework for building a business culture that can successfully manage diversity in today's world. The U.S. Postal Service defines diversity as the uniqueness of our employees, customers, and suppliers in terms of background, experience, perspectives, and personal characteristics.

The Postal Service's diversity vision is to create, nurture, and sustain an inclusive organization by promoting change and growth. The diversity mission is to continue to build the Postal Service into a high-performing service provider that develops and capitalizes on its diverse human capital potential. The Postal Service will ensure there is representation of all groups at all levels of the organization, achieve a harassment-free and discrimination-free environment, and strengthen customer and community relations by better alignment of products, programs, and services with the needs of local communities and markets.

CONCLUSIONS

The Postal Service has one of the most dedicated and committed workforces in the nation. To continue to nurture its most valuable assets, the Postal Service will improve the workplace environment, as measured by the Voice of the Employee Survey, and provide a safe and secure workplace, as measured by OSHA Illness and Injury Rates. It is implementing an integrated plan to continue to develop its people for future leadership roles and to address the key issues in developing a culture that is more innovative and results-oriented.

The postal workforce will continue to be one of the most diverse and representative in the nation. The Postal Service will attract and retain well-qualified employees to career paths with well-planned training and development opportunities. Postal Service employees will be informed, innovative, and motivated, and will receive recognition and rewards appropriate to their contribution to the success of the organization. The Postal Service will continue to be among the leaders in government in implementing and managing effective performance accountability systems. The size and diversity of the Postal Service's workforce, as well as the geographic dispersion, mean that improvements will depend on goodwill and constant communication between management, employees, and their associations and unions.

CHAPTER FIVE: GROW REVENUE

Introduction

The Postal Service™ is responsible for generating enough revenue to cover its costs, invest in future productivity and service performance improvement, support the expansion of the universal delivery network, and provide public services. Generating sufficient revenue to accomplish these responsibilities in a dynamic, competitive environment that was not foreseen by the Postal Reorganization Act (PRA) is the central challenge of postal strategic planning.

The Postal Service is pushing the limits of what is allowable under current legislation in the attempt to meet this challenge. For example, in 2003, the Postal Service obtained approval for the first Negotiated Service Agreement (NSA) in Postal Service history, laying the groundwork for future innovations over the next five years. However, the mail volume forecasts in Chapter 1 strongly suggest that the challenge of funding postal operations at affordable rates, even after significant improvements in productivity, will be more difficult in the future.

GOAL: GROW REVENUE

The Postal Service expects to continue to improve productivity and reduce costs wherever possible. However, the growth of some costs can only be controlled, not eliminated. The Postal Service must grow revenue to cover these costs, but can no longer rely on either the growth of the economy or price increases to generate enough revenue.

In addition to improving service, increasing productivity, and enhancing a performance-based culture, the Postal Service must develop and implement new features and other relevant product enhancements to its core mail and mail-related services. Furthermore, the Postal Service must seek new revenue sources from innovative applications for mail from new technology or by leveraging its considerable infrastructure.

REVENUE MEASUREMENT SYSTEM

Actual revenue performance is tracked by a number of integrated financial systems that have been developed over time and are subject to external audit. These systems include the Postal Service Financial Report (PSFR), the Postal Service Sales Report (PSSR), and the Revenue, Piece, Weight (RPW) system.

Product Portfolio

Postal revenue is generated from a "portfolio" of mail products and services, as shown in Exhibit 5-1. The Postal Service is primarily dependent upon First-Class Mail® and Standard Mail revenue, especially to support institutional costs. The treatment of some services is established by law, and under current regulations the Postal Service does not have the flexibility to manage its portfolio to maximize revenue. Some services receive preferred rates, and the Postal Service cannot easily eliminate services that do not make significant contribution, or adjust pricing and services to cover the real costs of providing service.

Exhibit 5-1. Revenue by Mail Category

Mail Category	Total Revenue ($ billion)
First-Class Mail	36.5
Priority Mail	4.7
Express Mail	0.9
Periodical Mail	2.2
Standard Mail	15.8
Package Services Mail	2.1
International Mail	1.6
Special Services	2.3

Source: USPS Finance, FY2002 cost and revenue analysis data

Objective and Target

Each year the Postal Service prepares an integrated financial plan that matches expected revenues to expected costs. Postal Service executives, managers, and supervisors are held accountable for managing their budgets effectively and achieving productivity goals for their functions, units, or operations. The integrated financial plan generates the revenue target that will become the basis for the GPRA goal, as shown in Exhibit 5-2.

Exhibit 5-2. Revenue Generation Objective and Target

Measure	FY 2004 Target	Long-Term Improvement Target (FY2005–2008)
Achieve Revenue Plan (Integrated Financial Plan)	$68.9B	Better than or Equal to Plan (Integrated Financial Plan)

Note: Annual targets for the coming year are approved by the Board of Governors at the end of the fiscal year in September, based on the availability of audited and adjusted financial information and the latest financial forecasts. The specific approved targets are published and widely disseminated.

Recent Performance Trends

For the most recent five-year period, actual cumulative postal revenues of $319.8 billion were 98 percent of the break-even target (plan). Economic recession and a slow recovery, significant losses of advertising revenue, the impact of competition, and the disruptions caused by terrorism created a market environment where many firms missed their revenue projections by far more than 2 percent.

Achieve Revenue Plan

The break-even requirement is built into the pricing process, and means that the Postal Service will inevitably experience deficits at some point during the rate cycle, as shown in Exhibit 5-3.

Exhibit 5-3. Revenue Plan Achievement Performance

Total Operating Revenue	1998	1999	2000	2001	2002
Target (Plan)	$60.8 billion	$63.3 billion	$65.4 billion	$67.9 billion	$68.8 billion
Actual	$60.1 billion	$62.7 billion	$64.5 billion	$65.8 billion	$66.5 billion
% Plan	98.8	99.1	98.6	96.9	96.7

Source: USPS Finance, FY2002 Annual Report and Annual Performance Plan

The Postal Service's inability to respond quickly to changes in the business environment makes it very difficult to consistently achieve revenue plans. For example, competitors may impose surcharges when fuel prices increase unexpectedly.[31] Every economic forecast is subject to adjustment, but the 18-month rate cycle process — from development to implementation — locks in cost and pricing formulas that may not reflect changes in the environment during this time. The break-even requirement does not provide for the creation of a reserve or surplus, although there is some leeway for prior year loss recovery.

Change From Previous Strategic Plan and Annual Performance Plan

The FY2004 preliminary revenue generation target in the *FY2002 Comprehensive Statement on Postal Operations* is unchanged.

All the goals have been adapted to reflect the Postal Service's *Transformation Plan* (published in April 2002), and are structured around five strategic areas of emphasis identified rather than the three "voices" used in the previous strategic plan.

Revenue performance was not included as a GPRA goal or objective in the previous strategic plan. It was introduced in the *FY2003 Annual Performance Plan,* and reflects a growing concern with the ability of the Postal Service to grow sufficient revenue to support the expansion of the universal delivery network in a more competitive environment.

CUSTOMER REQUIREMENTS, COMPETITOR INITIATIVES, AND MARKET TRENDS

The Postal Service provides specific business applications to different customers in a variety of markets. Customer requirements and market trends differ as shown in Exhibit 5-4, but a common theme across all markets is an increasingly dynamic, competitive environment for which the current statutory and regulatory framework was not designed.

[31] Competitors in the package delivery industry also generally increase their rates on an annual basis.

Exhibit 5-4. Customer Requirements, Competitor Initiatives, and Market Trends

Market Applications	Customer Requirements	Competitor Initiatives	Five-Year Market Trends
Bills and Statements (hard copy delivery is partially protected by monopoly)	Low-cost billing and statement production and distribution process, fast access to funds, and customer loyalty.	Online financial service providers are offering free Internet billing and statement services while adding fees for use of paper checks. Advertising of these services is aggressive and pervasive.	The rate of growth for mail-based applications is slowing, and a growing number of customers are becoming more comfortable with electronic bill presentment and payment systems.
Payments (hard copy delivery is partially protected by monopoly)	Convenient, secure, and low-cost payment process with maximum control of funds.		
Business Communication (hard copy delivery is partially protected by monopoly)	Timely, reliable, and low-cost communication that generates desired response.	Use increased "bandwidth" to drive more features and variety. Introduce wireless communication with links to other applications.	The penetration of the Internet to business and residential locations has reached mass-market scale and may only increase gradually. Business will continue to encourage communication using the Internet, but further diversion of mail is likely to be incremental, and mailed communication may continue to grow slowly.
Personal Correspondence (hard copy delivery is partially protected by monopoly)	Build or maintain relationships.		
Information and Entertainment	Publishers want low-cost, reliable delivery and both publishers and subscribers want publications to arrive in good condition.	Publishers face strong competition for consumer discretionary income and time from other forms of entertainment and other information channels.	The delivery of subscription publications remains an important and necessary service; however, the industry has been unable to increase circulation, and no real growth in mailed subscriptions can be expected.
Advertising	Timely, reliable, and low-cost communications that generate desired response.	The market is intensely competitive, and Internet advertising is taking share from traditional advertising channels.	The effectiveness of direct mail provides an opportunity for volume and revenue growth but mail is more likely to be targeted to specific customer groups.
Merchandise Delivery	Timely, low-cost, and reliable delivery of items in undamaged condition with convenience options.	The market is intensely competitive, and major providers are focusing on the home delivery market that has been the traditional strength of the Postal Service.	It will be extremely difficult for the Postal Service to increase volume.
International Services	Combination of all of the above.	The market is intensely competitive, with domestic providers, foreign-based postal administrations, and technological substitutes for mail-based applications from the Postal Service.	Postal volumes and revenues are likely to continue to decline slowly.

REVENUE GENERATION STRATEGIES

The fundamental revenue generation strategy starts with continued service improvement, while holding down the rate of increase as much as possible to provide rate stability and the lowest prices possible. The Postal Service will increase the value of the mail through product and service enhancements.

Postal products and services have evolved over time to meet the needs of customers and the nation. However, postal product design, positioning, and pricing are currently subject to a complex and lengthy regulatory review process in which market conditions are only one of many elements used to determine what products and services the Postal Service may offer, and at what prices. Under current regulations, it is difficult for the Postal Service to respond to rapidly changing customer requirements with innovative products and services.

Postal revenue has, in the past, been protected by the Private Express Statutes, which provide for a monopoly on letter mail. This monopoly protection was originally intended to ensure that the Postal Service would be able to generate sufficient revenue to cover the cost of providing universal service. However, with direct competition and indirect technological substitution impacting mail volumes, the monopoly model and its associated price control process can no longer be relied upon to generate sufficient revenue. The Postal Service will not be able to replace contribution lost from declining First-Class Mail volume with contribution from other mail categories. Under current regulations, as the infrastructure grows, rates will have to increase to fund universal service, and ultimately rates will increase to the point where many customers may be forced to seek alternatives to the mail.

Develop Innovative Pricing

Pricing innovation is at the core of transformation efforts to maintain stable and affordable postal rates and to create the conditions necessary to spur growth. Pricing flexibility is critical for survival in today's competitive communication market and is key to further modernization of the Postal Service. The Postal Service's worksharing program is credited with providing customers with annual postage savings of about $15 billion.

Pricing is strategically located between external players (regulators, intervenors, competitors, and customers) and internal players (marketing, operations, finance, and law), and pricing innovations develop systems, tools, and new skill sets that support organizational change and help spur growth. Pricing changes underway at the Postal Service include the joint Postal Service-Postal Rate Commission (PRC) Rate Summit held in summer 2002 and the first-ever Negotiated Service Agreement (NSA) with Capital One. This NSA was approved by the PRC in 2003, and will pave the way for further such filings with other mailers. Experimental case filings such as those for Customized MarketMail™ represent the first wave of innovations that address the expressed needs of mailers to maximize their investment in mail as a key business tool.

Product redesign efforts continue to examine ways in which the Postal Service can improve its pricing and requirements to better meet customer needs. The Postal Service will simplify rates and services for consumers and small businesses, making mail more accessible and easy to use. For larger customers, rates and services will be customized to meet their more specialized and sophisticated needs. Overall, rate design will discourage behaviors that are costly, and will more effectively cover postal costs.

Over the next five years, these changes will allow the Postal Service to align more closely with customer capabilities and needs, move away gradually from cost-based pricing to value-based pricing, and help moderate price increases that could result in a death spiral for the Postal Service as customers seek alternative services at lesser cost.

Provide Convenient Access to Postal Products and Services and Improve Ease of Use

The Postal Service is working to maximize the use of its extensive retail network asset. By examining the usage patterns of customers and options available for alternate access to postal products and services, over the next five years the Postal Service is implementing a comprehensive plan to improve its retail operations by developing lower-cost alternatives that provide similar or easier access.

For example, the Postal Service and Hallmark have entered into an agreement whereby postal products and services will be made available to customers at Hallmark Gold Crown Stores. The first 400+ stores are already offering postal services, with more to follow. Self-service kiosks will allow postal customers to complete a variety of transactions away from Post Office™ windows, thereby reducing the amount of high-cost time at retail locations while offering access to postal products and services in more convenient locations.

Offering new retail products such as ReadyPost™ packaging products, providing services to other government agencies (such as processing passport applications for the Department of State), and partnering with private firms to leverage postal locations (such as placing FedEx drop boxes at selected postal retail locations) will provide greater customer convenience and additional revenue from the postal retail network. Additionally, the Postal Service continues to find new ways to leverage its intellectual property assets such as stamps, through continued support of stamp collecting, and licensing of other postal images, such as the Mr. ZIP™ character.

To improve ease of use, the Postal Service actively reaches out to customers through multiple initiatives. The Postal Service is consolidating and integrating its customer contact network. This effort streamlines and enhances customer access to postal products and services via telephone and the Web. Customers can find solutions for everything from basic questions to delivery status on numbered articles, scheduling redelivery of articles, or having their mail held while on vacation. Customers can also purchase stamps and have them delivered to their home or business. To measure customer satisfaction, the Postal Service employs a number of mechanisms, including the Consumer Service Card System which tracks and reports problems, suggestions, complaints, and information requests from customers.

The Postal Service's award-winning Web site, *www.usps.com,* offers business and residential customers easy access 24 hours a day, seven days a week, to a wealth of information about postal products and services, as well as direct access to many products. For example, customers can purchase stamps, print mailing labels, look up ZIP Codes, read mailing regulations, and design and mail direct mailpieces all online. The Customer Respect Group, an international research and consulting firm that focuses on how firms treat their customers online, recently released the results of its 2003 survey of the transportation, distribution, and logistics firms that rank among the country's largest 1,000 companies. Overall, the U.S. Postal Service scored highest.[32]

To better respond to its customers' needs, the Postal Service replaced the previous consumer feedback process with *We Want To Know,* a program which allows the Postal Service to be more proactive, timely, and responsive in addressing consumer concerns. It facilitates consumer feedback by providing three quick and easy options for contacting the Postal Service: (1) speak with postal management, (2) call 800-ASK-USPS, or (3) visit *www.usps.com.*

[32] The Customer Respect Index is a qualitative and quantitative in-depth analysis and independent measure of a customer's online experience when interacting with companies over the Internet. The index is based on 25 attributes that combine to create the entire online customer experience, and include privacy (respects customer privacy), principles (values and respects customer data), attitude (customer-focus of site), transparency (open and honest policies), simplicity (ease of navigation), responsiveness (quick and thorough responses to inquiries). The U.S. Postal Service index score was 8.8, compared to the industry average of 5.6.

The Customer Activity Response and Exchange (CARE) System is a centralized, real-time, service issue database that integrates customers' issues documented by Contact Center (800-ASK-USPS) and District Consumer Affairs personnel. The system provides the ability to collect customer data through multiple communication methods, using a standard coding structure to track and trend service issues nationally. In a continuing effort to further improve the integration of the consumer issues database, future development will incorporate consumer feedback received via *www.usps.com.*

Overall customer satisfaction is measured by the Customer Satisfaction Measurement (CSM) system, which represents the perceptions of all U.S. consumer and commercial customers.

Enhance Product Awareness

The Postal Service can no longer take for granted that all citizens and businesses are aware of all the services that it offers.

To help customers take full advantage of all the postal products and services that can help them in their businesses and daily lives, the Postal Service has developed advertising and other promotional materials to direct customers to all retail points of access and to its Web site, *www.usps.com.* In addition, the Postal Service has produced the first two redesigned modules of the *Domestic Mail Manual* (DMM), tailored to address the needs of household and small business customers. These redesigned modules make it easier to navigate postal rules and mailing requirements for these key customer groups. There will be three other such modules produced to address the needs of other key mailer segments. To help customers better understand and use the mail to grow their businesses, the Postal Service is producing a series of sales tools, called "Simple Solutions," which are available in Post Office lobbies.

The Postal Service also provides other value-added services to business mailers. The Business Service Network (BSN) is a nationwide network of service contacts that provides postal business mailers a local point of contact for resolving local concerns. The network is strategically located at major postal operational points around the country.

To further foster open communications with mailers and to provide mechanisms for enhanced product awareness and ongoing dialogue, the Postal Service sponsors multiple customer-focused groups, including Postal Customer Councils (PCC), which provide for regular meetings with customers at the local level; the Mailers Technical Advisory Committee (MTAC), which studies issues at the national level with major mailers; the National Postal Forum (NPF), a twice-yearly conference widely attended in the mailing community that offers working sessions on timely issues, as well as vendor exhibits for the open exchange of new information on products, technology, and systems; and *Memo to Mailers,* a monthly publication that keeps mailers up-to-date on the latest postal information.

Build a More Effective Sales Team

Over the next five years the Postal Service will leverage its greatest asset — its people — to maximize sales of its products and maintain superior service. To be more efficient at reaching customers with relevant and timely information, the Postal Service is segmenting customers into distinct needs clusters to allow for better targeting; evaluating its entire sales support material inventory; developing updated, standardized sales materials (such as Microsoft® PowerPoint sales presentations and interactive CDs for package services and direct mail); developing customer-focused sales tools (such as the Direct Mail Made Easy seminars geared to small businesses who want to improve their direct response advertising and Simple Formulas Toolkits, which help small businesses grow); and redesigning all national advertising programs.

The Postal Service is also working to develop business partnerships with other organizations to sell postal products and services internationally, and is training the postal sales force to work with the sales staffs from foreign postal administrations to sell postal products and services.

The Postal Service is implementing a new information system, the Sales Support Solution. This new sales system will replace five legacy systems that postal sales employees must currently use in their daily activities, with each system only addressing a single component of the marketing, sales, and service process. The lack of integration among these systems creates inconsistencies in customer interactions, inhibits effective teamwork across the organization, and leaves the Postal Service at a competitive disadvantage in the marketplace. The new system will greatly enhance sales effectiveness in evaluating additional revenue opportunities and identifying levels of service provided to the customer, and will reduce excessive administrative time, freeing the sales force to pursue additional sales opportunities.

The Postal Service is also involving its workforce in efforts to generate revenue to support the nation's universal service network. It has produced a series of Customer Benefits Models, brief and easy to use brochures that help employees quickly and easily identify the real benefits of postal products and services for customers, rather than just product features. The Postal Service is also exploring new initiatives involving letter carriers that will have carriers provide leads for postal products and services on their routes.

Develop Value Enhancements by Applying Technology to Core Products and Services

When businesses grow, the Postal Service has the opportunity to grow. The Postal Service uses technology to enhance the value of mail, both to help customers mail more efficiently and grow their businesses, and to create additional products that will evolve into the mail of the future. The Postal Service's Intelligent Mail initiatives will provide customers with a wealth of information on individual mailpieces, such as transit and delivery time. This information offers mailing industry entrepreneurs the opportunity to develop new applications for the mail that could result in both greater volume and, through greater value, more revenue. The Intelligent Mail program will also help improve the accuracy of the Postal Service's revenue assurance programs.

In addition, the Postal Service is leveraging technology to provide customers with added value now, with enhancements such as CONFIRM ™ service. The CONFIRM service allows mailers to receive information electronically to track their outgoing mailings or incoming reply mail. The service provides mailers with near real-time information about First-Class Mail, Standard Mail, and Periodicals items. The CONFIRM system uses PLANET barcode technology so that mailers can uniquely identify their mailpieces. Over the next five years, the Postal Service's value enhancements will help to position mail as a key communication and customer relationship management tool.

Maintain Trust

The value of mail is increased by the trust that most Americans have in the Postal Service. The Postal Service is improving long standing policies that will preserve the privacy and security of the information customers and others provide and that the Postal Service uses in the course of its operations. The Postal Inspection Service is taking specific steps to reduce and deter criminal attack on postal products, services, assets, and people, including exploring alternatives such as high security cluster box units. The Inspection Service is also cooperating with other agencies to reduce the use of mail and the postal system to defraud businesses and consumers, and has taken a lead role in working with the financial industry in combating the growing threat of identity theft.

CONCLUSIONS

While the business environment moves quickly, the current rate review process takes 18 months. For example, under current regulations, the Postal Service is unable to adjust prices based on new and unforeseen economic conditions, such as an increase in fuel prices and transportation expenses, while competitors can impose fuel surcharges.

Under current regulations, the Postal Service is limited in its ability to manage its portfolio of services, and must offer some services at reduced rates even as the cost of providing service to a growing network increases.

Achieving a revenue plan in any single year may be the most difficult objective for the Postal Service to attain. The Postal Service has been able to come very close to its break-even requirement over the last five years and overall since its reorganization. However, it is becoming clearer that this may not be enough to maintain the financial stability of the organization.

The Postal Service will not easily be able to replace contribution lost from declining First-Class Mail volume from other mail categories. Even with all of the strategies that have been identified and which are being implemented, the Postal Service will need transformation in order to maintain the universal service obligation that it holds in trust for the American people.

CHAPTER SIX: PURSUE LEGISLATIVE CHANGE

Introduction

The *Five-Year Strategic Plan, FY2001–2005,* anticipated a future mailing industry market in transition, questioning the viability of the economic model on which the Postal Service has been built. The plan concluded that the time to make changes is when the Postal Service is still strong and viable, when transformation is possible and before public policy options are limited. The General Accounting Office (GAO) endorsed this view,[33] and Congress requested that the Postal Service provide more detail on what could be done to strengthen the organization.

The Postal Service responded with the *Outline for Discussion: Concepts for Postal Transformation*, published in September 2001, and *Seizing Opportunity: The Report of the Mailing Industry Task Force*, October 2001. These reports documented the situation and options facing the Postal Service and the mailing industry. The *Transformation Plan*, published in April 2002, described what the Postal Service would do to improve performance in the next five years and offered alternative long-term structural changes.

The *Transformation Plan* has already resulted in major cost reductions and significant operational changes for the Postal Service. The *Transformation Plan* strategies, however, most of which focus on what is possible under the present statutory structure, will not mitigate the long-term risk of continuing First-Class Mail diversion. As it noted in the *Transformation Plan*, the Postal Service needs greater legislative and regulatory flexibility to improve service, manage costs, enhance a performance-based culture, and generate revenue by responding to customer needs. If the Postal Service is truly to operate in a "business-like" manner as envisioned by the Postal Reorganization Act (PRA), it needs legislative change.

Aware of this need, in December 2002, the administration established the President's Commission on the U.S. Postal Service, which has conducted hearings, sponsored studies, and requested comments from postal customers, the mailing industry, the public policy community, and the public.

Together, these efforts have laid the groundwork for change of the regulatory and legislative framework that currently shapes postal policy. The Postal Service is poised to be responsive to the recommendations of both the Commission and legislative efforts undertaken to enact appropriate recommendations into law.

ADJUST CIVIL SERVICE RETIREMENT SYSTEM CONTRIBUTION

One of the first results of this intensive analysis of the Postal Service's finances was an investigation of the funding of postal obligations to the Civil Service Retirement System (CSRS). At the request of the GAO, the Office of Personnel Management (OPM) conducted an analysis of the Postal Service's share of the federal government's retirement fund and projected a $78 billion long-term overpayment of retirement obligations for its employees and retirees enrolled in CSRS. The Office of Management and Budget (OMB) and the Department of Treasury validated OPM's analysis, which was also reviewed by the GAO.

[33] General Accounting Office, U.S. Postal Service: Financial Outlook and Transformation Challenges, GAO-01-733T May 15, 2001.

The Postal Civil Service Retirement System Funding Reform Act of 2003 adjusted the computation rates for Postal Service contributions to CSRS to prevent overpayment. The recalculation will reduce the level of Postal Service payments to CSRS, which permit a reduction in Postal Service debt levels and a delay in the next rate increase until FY2006.

Congress directed that OPM, in consultation with the Postal Service, submit a plan by July 31, 2003, to the oversight committees of the House and Senate describing the actuarial methods and assumptions by which OPM will compute any savings the Postal Service realized from the legislation. The Postal Service can request reconsideration and review by the Board of Actuaries of the CSRS.

On September 30, 2003, the Postal Service, Department of the Treasury, and OPM are to prepare and submit to the president, Congress, and GAO proposals detailing whether and to what extent the Department of the Treasury or the Postal Service should be responsible for the funding of benefits attributable to the military service of current and former Postal Service employees. No later than 60 days following these submissions, the GAO must prepare and submit an evaluation of each proposal to the House and Senate oversight committees. There are significant differences among the different approaches, and the potential cost implications for the Postal Service are serious, as shown in Exhibit 6-1. The President's Commission on the U.S. Postal Service recommends that the responsibility for funding CSRS benefits relating to the military service of Postal Service employees be returned to the Department of the Treasury.

Exhibit 6-1. Preliminary Approaches for Funding Military Benefits of Postal Service Employees ($ Billion)

Proposal	USPS Responsible for ...	Present Value of Future Benefits	Postal Fund	Current Unfunded Liability	Present Value Future Contributions	Projected Unfunded Liability	Treasury Share Forward
OPM	All military for post-June 1971 hires. Pro-rated military for pre-June 1971 hires.	190.4	168.4	22.0	17.2	4.8	0
GAO One Option	All military for post-June 1971 hires only.	189.1	174.2	14.9	17.2	(2.3)	7.1
Prospective	Military service for benefits paid in future only.	190.4	185.0	5.4	17.2	(11.8)	16.6
No Military	Treasury continues to pay for all military benifits	179.1	185.0	(5.9)	16.5	(22.4)	27.2

Source: USPS Finance

The Postal Service is one of the largest employers of veterans in the nation. Imposing this additional cost will make these employees more expensive, and will significantly increase the costs which must be passed along to postal customers.

The Postal Service will submit a separate proposal to the President, Congress, and the GAO detailing how any savings attributable to the bill in any fiscal year after 2005 should be expended. The Postal Service considered debt repayment, pre-funding post-retirement healthcare benefits, productivity and capital investments, and delaying or moderating rate increases. No later than 60 days after submission of this proposal, the GAO will submit a written evaluation of the proposal to the House and Senate oversight committees.

The Postal Service report is required to include the amount applied toward reducing the postal debt, and the size of the debt, before and after application of savings attributable to the bill. If OPM, in consultation with the Postal Service, determines that a surplus will exist beyond the date that all Postal Service employees covered by CSRS will have retired, the postmaster general is required to submit to Congress a report describing how the Postal Service will use the surplus.

PRESIDENT'S COMMISSION ON THE U.S. POSTAL SERVICE

By Executive Order, the President of the United States established a Commission on the U. S. Postal Service on December 11, 2002. The Commission was to examine the state of the Postal Service and recommend legislative and administrative reforms needed to ensure the viability of postal services.

The Commission considered a number of issues and made recommendations on the following:

- Governance
- Management Flexibility
- Accountability and Public Oversight
- Rate-Setting Procedures
- Business Model
- Private-Sector Partnerships
- Technology
- Workforce

The *Five-Year Strategic Plan, FY2004–2008,* does not directly address the specific legislative and statutory changes recommended by the Commission. The detailed report, published July 31, 2003, requires careful consideration and further consultation with stakeholders and Congress. The final form and passage of the recommendations by Congress is uncertain.

The postmaster general, in testimony before the Commission on May 29, 2003, outlined the Postal Service's legislative priorities in the near term.

Pricing flexibility is most critical. The review process should not stifle the ability to meet customer preferences and finance the national mail system for the future. Although the ratemaking process should ensure that all appropriate costs are covered, the Postal Service should have the latitude to charge value-based prices — based on the value of the service in the marketplace — instead of the traditional cost-plus institutional markup.

Commercial customers have long told the Postal Service that small annual price changes are preferred to price shocks every couple of years. The public prefers a uniform rate for single-piece First-Class Mail service that would change less frequently, at convenient increments. The current system does not provide any clear path to meet these varying preferences. The Postal Service recommends a model that gives the Board of Governors the authority to set prices, with an after-the-fact review process that would address issues such as cost coverage, consumer interests, and impact on competition.

The Postal Service recommends that the current mandate for it to break even be set aside. Instead, the Postal Service should be allowed to retain earnings from year to year. In a businesslike manner, retained earnings could be used to bridge economic slowdowns and invest in new technologies and infrastructure.

The Postal Service also believes that the collective bargaining process can be brought to a new level of fairness and equity for all participants. The negotiating process should include not only wages and work rules, but also all benefits — health, leave, and retirement. The bargaining process can be streamlined. Since the Postal Service does not support the employee's right to strike, some mechanism to resolve impasses must be put in place. The current process should be replaced with a mediation-arbitration approach.

The Postal Service must be allowed room to implement infrastructure changes including — but not limited to — changes in the number and location of Post Offices™ and processing plants, and changes in our transportation networks.

If these steps are not enough, there are a limited number of other options available. Service standards might be adjusted — for example, a two-, three-, and four-day standard similar to that used by Canada Post, might replace the current overnight, two-, and three-day standard. Delivery service might be reduced in some areas or the number of delivery days might be reduced, perhaps driven by some volume requirement as a triggering mechanism. Revenue sources could be diversified to find other ways to finance the universal service requirement such as leveraging postal facilities to offer services not now offered. Current preferred rate categories could be expected to make a greater contribution to covering institutional costs. Taxpayers could assume the cost of the universal service obligation or certain public service costs.

Recommendations Possible Under Current Law

Like the *Transformation Plan* published in April 2002, the President's Commission on the U.S. Postal Service recognizes that extensive and far-reaching changes within the Postal Service can be made now, today, without legislative change. Like the *Transformation Plan,* the Commission's recommendations fall into the following four major areas:

- Improved operations
- A focus on employee performance
- Creation of value in products and services
- Use of modern technology to improve efficiencies

Recommendations That Require Statutory Change

The Commission made a series of recommendations regarding the governance of the Postal Service, labor relations, pricing flexibility, and operational changes that will require changes in current law, the 1970 Postal Reorganization Act. The Postal Service is now reviewing the scope of those recommendations and their combined impact on the organization. The Postal Service will be forthcoming about its analysis and reaction to specific recommendations and will work with the President, Congress, the mailing community, employees, and all interested parties to ensure that the Postal Service evolves to continue its role as a unique government enterprise that must compete successfully in the global communication market.

The submission of recommendations by the President's Commission on the U.S. Postal Service represents an intermediate step in postal legislative change. Major postal reform legislation has been considered in the House of Representatives since 1996. The Government Reform Committee of the 108th Congress has established a Special Panel on Postal Reform and Oversight to review the Commission's recommendations and advance legislative change in Congress. A comprehensive postal reform bill was introduced in the Senate concurrent with the Commission's deliberations. This Senate bill was modeled on postal reform legislation previously introduced in the House. It is anticipated that legislation again will be introduced in the House in the fall. Both the Senate and the House postal oversight committees will hold several hearings on the Commission's recommendations. It will be the first time since postal reorganization that comprehensive legislative changes are being considered simultaneously in the House and Senate with substantial input from the executive branch.

APPENDIX I: PERFORMANCE MANAGEMENT SYSTEM

The Government Performance and Results Act (GPRA) legislation was expected to encourage agencies to establish more disciplined, results-oriented planning processes. Performance accountability was to be increased through the use of verifiable data from reliable measurement systems. This appendix describes how the Postal Service™ sets goals and objectives, implements programs and budgets, and reviews performance.

The General Accounting Office (GAO), in its most recent review of the Postal Service, added the implementation of the *Transformation Plan* to its list of major challenges.[34] This appendix is intended to describe how the performance management system of the Postal Service will achieve effective implementation of *Transformation Plan* initiatives.

A study conducted for the President's Commission on the U.S. Postal Service concluded that the fundamental management structure of the Postal Service is appropriate for an organization that is committed to operational excellence.[35] The study also said that the current management structure was appropriately lean, and that roles are generally clear with good line of sight. Information is shared across management levels and boundaries.

Annual Management Planning Cycle

The annual management planning cycle, based on the Malcolm Baldrige National Quality Awards, is a formalized approach for developing the Postal Service strategic direction. It is comprised of the following four phases:

- **Establish.** Review of the previous year's performance and the establishment of goals, objectives, and targets for the coming year, based upon projected resources.
- **Deploy.** Negotiate performance targets with field operational units and headquarters functional departments through a formal process. Allocate resources to operating units and functional programs to achieve those goals.
- **Implement.** Implement programs and activities.
- **Review.** Continuously review performance using reliable data that is readily accessible to management and shared widely with employees and the public. Recognize and reward achievement of goals.

[34] GAO-03-118, Performance and Accountability Series: Major Management Challenges and Program Risks: U.S. Postal Service, Government Accounting Office, January 2003.
[35] Management Structure Study, Unisys/Watson Wyatt, July 8, 2003.

Customer Focused Goals and Objectives

The Postal Service devotes a significant amount of effort and resources to determine the requirements of each stakeholder group, to work out reasonable compromises among the different needs, and to assess the effectiveness of postal programs. The methods employed include surveys, focus groups, and other forms of market research; media content analysis; consultant studies; industry task forces and working groups; and meetings with customers, employee groups, suppliers, the mailing industry, the public, and oversight groups.[36]

The Postal Service established an office to track the implementation of transformation initiatives.

Implementing Transformation Initiatives

The Postal Service published the *Transformation Plan* in April 2002 at the request of Congress. The initiatives outlined in the plan are incorporated in this update of the *Five-Year Strategic Plan.* The Postal Service established an office to track the implementation of transformation initiatives and to report on progress to senior management.

The Postal Service is also increasing the emphasis on program management discipline, process, and support. Program management guidelines have been established and tools have been developed. Both are readily available on the Postal Service Intranet, and training for individuals and teams is being provided.

Linking Program Performance with Budgets

One of the weaknesses in government agency strategic planning identified by the GAO has been a failure to link program performance with budgets. The Postal Service has implemented a Program Performance Assessment (PPA) process that links key programs to the corporate goals. This process assesses program effectiveness using relevant quantitative measures based on reliable data systems, and provides these results in a standardized format for making budget decisions. The PPA is similar in purpose to the Performance Assessment Review Tool (PART), which the Office of Management and Budget (OMB) uses.

Program Evaluation Methods and Investment Management

The GAO also identified a government-wide problem with the methods used by agencies to evaluate programs and manage capital investments, particularly for information technology projects, and has developed a model it uses to evaluate agency processes.[37] The Postal Service has a well developed Decision Analysis Review (DAR) process to evaluate proposed programs and a five-year Capital Investment Plan. The GAO noted that the Postal Service executes most key foundational practices, and that the Postal Service is making progress on managing its Information Technology (IT) investment portfolio. The Postal Service is working on improving other elements of IT and capital investment planning.

Finance will monitor major investments as they make their way through the five phases: (1) concept, (2) planning, (3) design, (4) implementation, and (5) review and close-out. A cross-functional team is developing requirements for a program management tool that will provide a standardized, validated model for analyzing investment decisions.

[36] Most notable are the Postal Customer Councils, Mailers Technical Advisory Committee (MTAC), Supplier's Council, Mailing Industry Task Force, and National Postal Forum. See Appendix III.

[37] GAO-03-3, United States Postal Service Opportunities to Strengthen IT Investment Management Capabilities, Government Accounting Office, October 15, 2002. According to the Assistant Director for Information Technology at GAO, the Postal Service is more successful than most at establishing ways to manage investments that ensure that IT dollars are spent effectively, stating "There is quite a bit other agencies can learn from them." (See Federal Times, November 18, 2002.)

These policies and procedures apply to all types of investment programs and projects undertaken by the Postal Service, regardless of size, cost, or complexity. Data is tracked by the Budget Planning System. The Capital Investment Plan is aligned with the strategic plan and is tracked by senior management and periodically reviewed by the Board of Governors.

Performance Measurement Systems

The GAO has noted that few agencies report on the completeness and reliability of performance data.[38] Postal performance reporting is based on highly reliable measurement systems that have been developed to provide timely, relevant, and accurate data. Whenever possible, the Postal Service has opted for the use of independent external measurement systems. Detailed descriptions of the systems used for GPRA performance tracking are included in Appendix II.

Wherever possible, the Postal Service has opted for the use of independent external measurement systems.

National Performance Assessment

One of the fundamental issues in performance management is to reliably link individual contributions to the achievement of important organizational goals and with unit or functional objectives. The Postal Service has implemented the National Performance Assessment (NPA) program to improve individual evaluations. The NPA program replaces the Economic Value Added program and places more emphasis on individual and functional or unit performance.

Indicators will be based on relevant quantitative data from reliable measurement systems. Performance will be evaluated in terms of results (e.g. service performance improvement, cost reduction, employee satisfaction, productivity, and revenue generation) rather than processes or activities, wherever possible.

Postal Rate Commission Reviews

A significant amount of detailed postal financial and operational data is made available as a result of formal proceedings before the independent Postal Rate Commission. Postal commissioners are nominated by the President of the United States and confirmed by the Senate. They are assisted by a full-time professional staff.

During rate hearings, interested parties have the opportunity to file discovery requests, examine postal data, interrogate postal witnesses under oath, and submit alternative analyses. The public is represented by the Office of Consumer Advocate (OCA) at the Commission. Commissioners have the responsibility to review this material and make recommendations on postal pricing proposals to the Board of Governors.

Independent Audit of Financial Reports

Postal data is audited by an independent outside firm, and an annual report is published. The annual report includes a detailed management discussion and analysis of financial issues. Since 1971, the Postal Service has received unqualified or "clean" audits[39] and the Postal Service *Annual Report* has received recognition and awards from the financial reporting community for its clarity and presentation.

Since 1971, the Postal Service has received unqualified or "clean" audits from independent auditors.

The Postal Service is making more detailed financial information available to the public on a quarterly basis so that relevant financial information is more accessible and timely. The Postal Service will also be converting from 13 "postal accounting periods" to standard monthly reporting to make relevant financial information more comparable with nonpostal data. This change will occur in FY2004.

[38] GAO-02-372, Performance Reporting, Government Accounting Office, April 2002.
[39] One exception was in FY1982, when the Department of Labor was unable to provide relevant workers' compensation data.

Program Audits and Reviews

The Postal Service publishes an annual *Comprehensive Statement on Postal Operations.* This report includes the annual performance report required by the GPRA legislation. The *Comprehensive Statement* provides details on a wide variety of postal programs and activities and is part of the GPRA reporting process. Postal programs and measurement systems are subject to review or audit by the Office of the Inspector General (OIG) and the GAO. The Postal Service has established an office to track responses to the OIG and the GAO and to ensure that appropriate action is completed.

Board of Governors

Members of the Board of Governors are nominated by the President of the United States and confirmed by the Senate. The Board selects the postmaster general and the deputy postmaster general, and meets monthly to review major postal policies, investments, programs, and performance. The monthly meetings include sessions that are open to the public.

Congressional Oversight

The Postal Service is subject to the same oversight requirements as other government agencies. The Postal Service touches virtually every business and every resident of the United States on almost a daily basis — with one of the largest workforces in the nation, a presence in every state, district, and community, and a large mailing industry that is dependent upon the success of the Postal Service.

The Postal Service is restructuring and reengineering long-established practices to implement more informative financial measurement systems.

Data Availability and Transparency

The Postal Service provides public access through its Web site to a wide variety of information about postal products and services, regulations, operations, and finances. Financial reports provided include Annual Reports, Cost and Revenue Analysis Reports, Financial and Operating Statements, and Revenue, Pieces, and Weight Reports. These reports provide a wide variety of financial information including income statements and balance sheets, as well as product revenues and volumes and product cost coverage information. Financial and Operating Statements provide basic financial and related information on an accounting period (28 days) basis. Revenue, Pieces, and Weight Reports provide class and sub-class data on a quarterly and annual basis.

Additional analysis and outlook information is included on a quarterly basis in the Financial Condition and Results Report. Beginning in FY2004, the use of 28-day accounting periods will be discontinued and all reporting will be provided in a monthly format. The Postal Service is also replacing its current general ledger system with a state-of-the-art, off-the-shelf system allowing improved internal access to postal financial data. Other enhancements to internal utilization of financial information includes the deployment of an Activity-Based Costing (ABC) Model for over 300 mail processing plants. ABC provides a tool for field managers to more effectively manage operational costs by identifying high-cost areas of opportunity. It also allows benchmarking activity costs within plants and among similar facilities.

APPENDIX II: PERFORMANCE MEASUREMENT SYSTEM

EXTERNAL FIRST-CLASS MEASUREMENT SYSTEM

Indicator: Timely, Reliable First-Class Mail Service

This indicator measures the percentage of First-Class Mail® pieces delivered within the Postal Service™ standard. The service areas (overnight, two-day, and three-day) are determined by operational and logistical factors, such as distance and availability of transportation.

Overnight service areas are generally defined as the local area or city, and sometimes may include neighboring or adjacent areas, based on operational and logistical practicalities. *Two-day service areas* are generally defined as non-overnight destinations which can be reached by surface transportation within a reasonable drive time (usually a maximum of 12 hours) while allowing for operational and logistical practicalities. *Three-day service area* mail includes all other areas.

Scope

The External First-Class (EXFC) system externally measures collection box to mailbox delivery performance, continuously testing a panel of 463 ZIP Code areas selected on the basis of geographic and volume density from which 90 percent of First-Class Mail volume originates and 80 percent destinates. EXFC is not a system-wide measurement of all First-Class Mail performance. The EXFC system has been operating continuously since 1990, and provides a consistent measurement of First-Class Mail service performance.

It provides estimates for First-Class Mail transit time and performance against standard. The system was established to emulate the actual mail flow of First-Class Mail items, as well as to provide a controlled environment to facilitate monitoring service performance across geography and over time.

The measurement process involves the production of test mailpieces that are designed to look like First-Class Mail items. Service time is tracked from the time mail is deposited in a collection box or building mail chute to receipt in order to provide an assessment of service from the customer's perspective. Each test mailpiece is assigned a service standard by matching the origin and destination ZIP Codes to the Postal Service's published service standards. The transit time for a piece is calculated by computing the number of delivery days that elapsed between deposit and receipt. Mailpieces for which the transit time is less than or equal to the service standard are considered to be on time.

The system is designed to be a destination-based measurement, meaning that each of the 85 Postal Service local performance clusters (PCs), usually based around a major city, receives approximately the same number of test pieces in order to achieve the same level of statistical precision for each performance measure. The system measures overnight, two-day, and three-day service achievement. Each PC typically includes one district and one or more processing and distribution facilities. PCs are led by a district manager who is responsible for retail customer services, delivery, and sales operations, and a senior plant manager who is responsible for sorting operations.

Statistical Reliability

Each estimate has an associated margin of error range so that 95 percent confidence intervals can be constructed. In addition to service performance levels for each local cluster, estimates are computed for areas and for the nation.

Limitations

The panel of ZIP Codes was not randomly selected. Out of a possible 930 ZIP Codes, the 463 selected were chosen to ensure that every major mail processing and distribution center is included, every state is included, and major volume origins and destinations are included.

The EXFC system does not measure all flows of First-Class Mail items. It specifically omits large volume business mailers who typically use intermediaries which merge volumes of mail from different mailers or work sharing arrangements to bypass some postal operations. It also does not include high volume receivers of mail in the testing procedure. In this case, the private sector already has a subscription-based service performance report.

Source

EXFC is designed and operated by a contractor as an independent, objective measurement system for evaluating First-Class Mail service performance.

Data Verification and Validity

The EXFC system has built quality checks into each stage of the process. In addition, the contractor has established a trained panel of individuals to enter and receive mail. The contractor also has well-defined processes to identify and investigate suspicious data. During the investigation process, data deemed inaccurate or unreliable is removed from the results.

Qualitative verification is available from the Customer Satisfaction Measurement system, based on surveys conducted by an independent contractor for the Postal Service Office of Consumer Advocate. The surveys include specific questions on satisfaction with the length of time it takes a piece of mail to be delivered locally and to other areas.

Internal verification is available from the Origin Destination Information System (ODIS), which samples mailpieces upon acceptance for delivery. It is not strictly comparable to EXFC, but both measures show the same trends and both identify areas where opportunities exist to improve service.

PRIORITY END-TO-END MEASUREMENT SYSTEM

Indicator: Timely, Reliable Priority Mail Service

The Priority End-to-End (PETE) system is an end-to-end service performance measurement system; it measures identified Priority Mail® performance from the time mail enters the mailstream until it is delivered to a household, small business, or Post Office™ box. PETE measures service performance from a customer perspective and produces accurate, independent, externally generated results.

The service areas (overnight and two-day) are determined by operational and logistical factors.

Overnight service areas are generally defined as the local area, or city, and sometimes may include neighboring or adjacent areas, based on operational and logistical practicalities. *Two-day service areas* — the predominate standard for Priority Mail items — are generally defined as non-overnight destinations that can be reached by surface or air transportation within operational and logistical requirements.

Scope

The PETE system is designed to provide quarterly estimates of destinating Priority Mail service performance for the 80 performance clusters (PCs), encompassing 301 3-digit ZIP Codes, from their overnight and two-day service areas. The ZIP Codes selected were based on geography and volume density. These networks represent about 70 percent of the nation's destinating, identified Priority Mail volume.

The system was established in Postal Quarter II FY1997 to emulate the actual mail flow of Priority Mail items, as well as to provide a controlled environment to facilitate monitoring service performance across geography and over time.

The PETE measurement process involves the production of test mailpieces that are designed to look like actual identified Priority Mail items. Service time is tracked from the time mail is deposited in a collection box, at a Post Office, or from a small business to delivery in order to provide a view of service from the customer's perspective. Origin and destination ZIP Code pairs must have a Postal Service standard of one or two days to be included in PETE. The transit time for a piece is calculated by computing the number of delivery days that elapsed between deposit and receipt. The primary statistic of interest is the percentage of mail delivered within two days.

The system is designed to be a destination-based measurement, meaning that each of the 80 Postal Service PCs receives approximately the same number of test pieces in order to achieve the same level of statistical precision for each performance measure.

Statistical Reliability

Performance estimates are calculated at three levels — performance cluster, area, and national — and each estimate has an associated margin of error so that 95 percent confidence levels can be constructed. Results are also presented by service standard (overnight and two-day), and by origin and destination of the test mail. An origin/destination composite score is computed as a weighted average of the origin and destination scores to provide a total view of the level of service provided by a geographic area and its partners. Results are also computed by transportation mode (surface and air) in order to identify areas of opportunity for improvement.

Limitations

The PETE system provides an estimate of service in a fixed panel of 301 out of a possible 930 ZIP Code areas, rather than measuring all Priority Mail performance. PETE test mail does not include parcels weighing more than two pounds. The panel of ZIP Codes was not randomly selected, but was instead chosen such that every major processing and distribution center is included, every state is included and major volume and mid-sized volume origin and destination ZIP Codes are included. PETE measures service from collection boxes, Post Offices, and small businesses to receipt at residences, Post Office boxes, and small businesses.

The PETE system does not measure service for all flows of Priority Mail items, specifically omitting large volume business mailers and large volume receivers. Large volume mailers may use intermediaries or may drop-ship volumes (use their own or contracted transportation to enter mail into a postal operating system closer to the point of delivery).

Source

The PETE measurement system is external — designed and operated by a contractor as an independent, objective measurement of Priority Mail service performance.

Data Verification and Validity

The PETE system has built-in quality checks at each stage of the process. In addition, the contractor has established a trained panel of individuals to enter and receive mail. The contractor also has well-defined processes to identify and investigate suspicious data. During the investigation process, data deemed as inaccurate or unreliable are removed from the results.

Qualitative verification is available from the Customer Satisfaction Measurement system, based on surveys conducted by an independent contractor for the Postal Service Office of Consumer Advocate. The surveys include specific questions on satisfaction with the length of time it takes a piece of mail to be delivered locally and to other areas.

Internal verification is available from the Origin Destination Information System (ODIS), which samples mailpieces upon acceptance to the availability for delivery. It is not strictly comparable to PETE, but both measures should show the same trends and both should identify areas where service could be improved.

A number of Priority Mail items are also being tracked using the Delivery Confirmation™ service. The results are not strictly comparable to the results achieved with the PETE system, but this measure should show the same trends and should identify areas where service could be improved.

PRODUCT TRACKING SYSTEM

Indicator: Timely, Reliable Express Mail Service

The Postal Service implemented the Product Tracking System (PTS) to provide information-based services and enhancements that make traditional postal products more valuable. Internal users and customers can obtain access to delivery information. These capabilities have been used to develop internal service measurements for several mail categories, including Express Mail® service. The other products with PTS service metrics are Package Services (including metrics for Parcel Select, Priority Mail, and First-Class Mail and Standard Mail parcels). Suites of diagnostic reports have been developed to highlight areas where greater management attention is required to improve service performance. Information is provided to customers through a Web site.

Scope

PTS measures the percentage of Express Mail items delivered on time — within the Postal Service's standard for delivery, based on geographic location.

PTS is an internal measurement of performance from retail acceptance to mailbox delivery. All domestic ZIP Codes are included. Mailpieces with manifest acceptance and custom designed service are excluded, but these represent less than one percent of volume. Quality screens exclude pieces which have incomplete or questionable scan information.

Statistical Reliability

Since the system is based on recording all mailpieces, there are no relevant statistical sampling issues.

Limitations

The system depends upon a high degree of compliance with scanning procedures.

Source

PTS is an internal system, based on scanning virtually every Express Mail item. On-time performance is determined automatically by the system by comparing the delivery or attempt date and time with the scheduled delivery date and time as calculated by the system. Performance goals are set for combined origin and destination of the mail.

An origin/destination composite score is computed as a total of the origin and destination pieces to provide a total view of the level of service provided by the geographic operating unit.

Data Verification and Validity

The Express Mail Validation System (EMVS) is an external validation of Express Mail service performance. EMVS provides a side-by-side service standard comparison of Express Mail test pieces with PTS. Additional comparisons include matches with attempt to deliver (ATD) scans and the customer label service standard.

VOICE OF THE EMPLOYEE SURVEY INDEX

Indicator: Developing People (Workplace Improvement)

The Voice of the Employee (VOE) survey is administered to one-fourth of the career postal employees each quarter so that each employee receives a survey once a year.

An index score is computed from six of the survey questions. The six items focus on key barriers to an improved workplace as perceived by employees on items that can be addressed at the local level.

Scope

The VOE survey was implemented nationally in 2000, and every career postal employee receives an invitation to participate once a year. Participation is voluntary and anonymous. Employees are given an opportunity to complete their surveys at a designated time and place during the normal workday.

The survey has 34 questions that address key issues in the workplace environment. The six questions that make up the index address recognition, accountability, exclusion, sexual harassment, being treated with dignity and respect, and communication.

Statistical Reliability

The survey is essentially a census of all career employees. It is structured to provide statistically reliable data at the national, area, and performance cluster levels. Data can also be analyzed by other factors, such as age, craft or position, and length of service.

Limitations

Participation in the survey is voluntary, and not every employee completes a survey. The Office of Personnel Management, which conducts employee surveys for several agencies, reports average participation rates of about 50 percent. Participation of Postal Service employees is generally higher — recently about 60 percent — and has been increasing over time.

Care is taken to ensure proper administration of the survey in each facility, with very specific instructions about the handling of the completed surveys. Outside consultants review the Postal Service approach, an approach that is consistent with industry best practices.

Source

An independent contractor administers the process from end-to-end. The contractor prints, mails, and collects all surveys and plans and tracks who will receive the survey, so that every employee receives a survey once a year. The contractor compiles the results and develops quarterly and year-to-date reports in hard copy and electronic formats.

The use of an independent contractor throughout the process allows objectivity, protects employee anonymity and confidentiality, and ensures that standard industry practices are used.

Data Verification and Validity

The data has been found to be extremely stable, as might be expected from such a large survey. The data tracks with other measures, such as grievance activity and equal employment opportunity complaints. The Postal Service uses the data to implement proactive intervention programs in areas where problems are indicated.

OSHA ILLNESS AND INJURY RATE

Indicator: Safety (OSHA Illness and Injury Rate)

The Occupational Safety and Health Administration (OSHA) Illness and Injury Rate is a government mandated, industry-wide indicator of the effectiveness of organizational safety programs. OSHA sets the definitions and requirements for the indicator, which tracks injuries and illnesses per 100 employees or 200,000 workhours.

Scope

The indicator is an organization-wide measure of employee safety and health. The Postal Service implemented this measure as a result of the Postal Employee Safety Enhancement Act.

Performance measurements are calculated at the end of each postal accounting period, and are deployed for individual facilities, PCs, and areas, as well as nationally. The rate is computed for an accounting period, each quarter, and year to date. The Postal Service also computes and distributes reports on lost workday injury rates and on motor vehicle accidents.

Statistical Reliability

The report is derived from all actual incidents, not a sampling. Sampling issues do not apply.

Limitations

This is an internal, self-reported system. However, the Postal Service follows all OSHA reporting procedures.

Source

OSHA Illness and Injury Rates rely on data from several internal sources. Accident reports are developed by front-line supervisors following an employee report of an accident or injury. Workhours are derived from Postal Service payroll reports.

Data Verification and Validity

Safety Performance Management has a well-defined process for ensuring the accuracy and reporting of OSHA injuries and illnesses. An illness or injury becomes an OSHA illness or injury when OSHA accepts the claim as job related. All are reported to OSHA. At the end of FY2001, every facility responsible for OSHA reporting underwent a 100 percent end of year review. The reviews are conducted by area office staff. In FY2002, these reviews were required quarterly, and in FY2003 every PC was reviewed at least once during Postal Quarter IV.

TOTAL FACTOR PRODUCTIVITY

Indicator: Cost Reduction and Affordable Prices

The Postal Service measure of productivity includes all factors of production. Total Factor Productivity (TFP) measures the growth in the ratio of the outputs to the inputs, or resources, expended in production. TFP provides an historical measure of efficiency.

Scope

The Postal Service's main outputs are mail volumes and servicing an expanding delivery network. To account for variations in resources used to process different types of mail, TFP weighs each mail type according to its workload content. Weighing is determined by factors such as size, weight, level of mailer preparation, and mode of transportation used. In addition to labor, TFP also measures capital and materials used, such as equipment, facilities, transportation, and other nonpersonnel costs.

Reliability

Multiple factors may cause TFP to vary in the short term. Expenditures to enhance service, improve customer satisfaction, or other investments may cause short-term declines in TFP growth. TFP can fluctuate from one year to another because of time lags between making major investments and the capture of the actual savings. Consequently, when assessing short term productivity performance, the factors affecting TFP should be taken into consideration. Because TFP can be volatile over the short term, performance evaluations are best made by observing trends over several years.

Historical data used in developing the TFP results are periodically revised. Price indexes released by the Bureau of Labor Statistics and the Bureau of Economic Analysis that are used to calculate resource usage are subject to regular revision. When these revisions are made, they are incorporated into the TFP calculation and previous data is revised. TFP for the reporting year is also subject to revision when the final Postal Service cost data for the reporting year is available. Generally, this revision occurs in April of the following year.

Statistical Issues

The TFP calculation relies on audited financial data, and on data from the Revenue, Pieces and Weight (RPW) Report.

Limitations

Worksharing discounts given to mailers affect Postal Service productivity performance. These incentives have shifted a greater proportion of the workload associated with automation-compatible mail to business mailers and mailing industry partners. These discounts provide cost savings for the Postal Service, and enhance the productivity of the economy as a whole. Worksharing, however, transfers the Postal Service's prime opportunities for productivity improvements to our partners and the mailers. In effect, the real productivity of the mailing industry, including the Postal Service, is understated.

In addition, TFP does not account for improvements in service or quality, although investments in service improvement may reduce productivity growth.

Source

The TFP analyses and reports are provided by a well-respected independent firm under contract to the Postal Service. The data sources come from the Bureau of Labor Statistics, the Bureau of Economic Analysis, and audited postal cost accounting systems.

Data from every class and subclass of mail are extracted from the RPW Report, and are used to calculate workload related to mail volume and mail services. Specific weighting factors for each subclass of mail are derived using subclass cost data from the Cost and Revenue Analysis (CRA) Report. Resource usage (inputs) includes labor, material, and capital.

Labor usage is based on hours worked, differentiated by occupation and employment status, the mix of occupations and status (full-time, part-time, casual, etc.), and adjusted for employee years of experience. Data comes from the National Payroll Manhours Summary (NPMHS) Report, and indexes of employee experience are constructed from the Active Employee Reference File. The experience-adjusted hours for each occupation and employee status group are weighted by their relative levels of compensation from the National Consolidated Trial Balance (NCTB).

Materials usage is estimated by adjusting materials expenses for changes in the prices paid for the materials. The data are taken from the NCTB. Price information is obtained from a variety of sources, including the Consumer Price Index (CPI) and the Producer Price Indexes (PPI), published by the Bureau of Labor Statistics, and the National Income and Product Accounts (NIPA) and Gross Domestic Product (GDP) published by the Bureau of Economic Analysis.

The quantity of owned capital is based on the stock of owned capital, which represents the plant and equipment in service. The data comes from the NCTB, the personal property asset manager, and a proprietary database that contains information on each item of Postal Service property.

Data Verification and Validity

TFP is a widely accepted measure of efficiency. Traditionally, Postal Service TFP has been benchmarked against Multifactor Productivity (MFP), an index used by the Bureau of Labor Statistics. The most relevant index is the MFP of the private nonfarm sector, since this includes manufacturing, transportation, and service sectors of the economy. The Postal Service contains similar components — processing, logistics and delivery, and retail.

However, the exceptional productivity growth of the U.S. economy has been generally driven by just two industries within the manufacturing sector — computers and electronics. If these two industries are excluded, Postal Service TFP and the MFP for the remaining private nonfarm sector is similar. The average rate of MFP growth for the remaining industries is 0.4 percent, which is only slightly above the Postal Service rate of TFP growth since 1990 (0.3 percent), but is below the Postal Service rate for the past four years (1.9 percent). If the Postal Service's TFP growth in 2003 is at least 0.6 percent, the average rate of growth since 1990 will match the 0.4 percent growth rate average for manufacturing industries, excluding high-tech manufacturing.

REVENUE GENERATION

Indicator: Revenue Performance

Postal operating revenue is all revenue from field sales (commercial and retail) plus congressional appropriations for revenue foregone on free mail for the blind and overseas voting. *Total national revenue* is operating revenue plus investment revenue.

Scope

Total national revenue is derived from combining field and Headquarters revenues. Field revenue comprises commercial, retail, and other revenue. Headquarters revenue comprises congressional appropriations, interest income, and other revenue. The vast majority of the revenue comes from mail and mail-related special services, and payment occurs in the field where mail is entered (bulk revenue) or postage is purchased (retail revenue).

Reliability

There are established procedures and strict controls for recording and depositing receipts.

Limitations

Revenue is credited at the point where mail is entered into the system (acceptance) where payment is made.

Source

The Postal Service Financial Report (PSFR) is supported by a number of internal financial management information systems.

Data Verification and Validity

Total national revenue is verified and validated through internal control processes in postal accounting systems down to the operating unit level. Additionally, revenues are verified and validated through bank reconciliation. Postal Service financial data is subjected to independent external audit.

APPENDIX III: POSTAL STRATEGIC PLANNING STAKEHOLDER OUTREACH

Consultation With Stakeholders

As required by the Government Performance and Results Act (GPRA) of 1993, a wide range of stakeholder input to the *Five-Year Strategic Plan, FY2004–2008,* was requested and obtained.

This section describes the process used to gather that information and lists the number of responses received by stakeholder group.

This section also contains a list of the subjects that were most frequently mentioned by stakeholders and provides a breakdown of those subjects that were of most interest to each group.

Also provided in this section are some quotations from a representative sample of some of the stakeholders.

Finally, this section contains a copy of the *Federal Register* notice that was used to solicit comments during the development of the plan.

Outreach Process

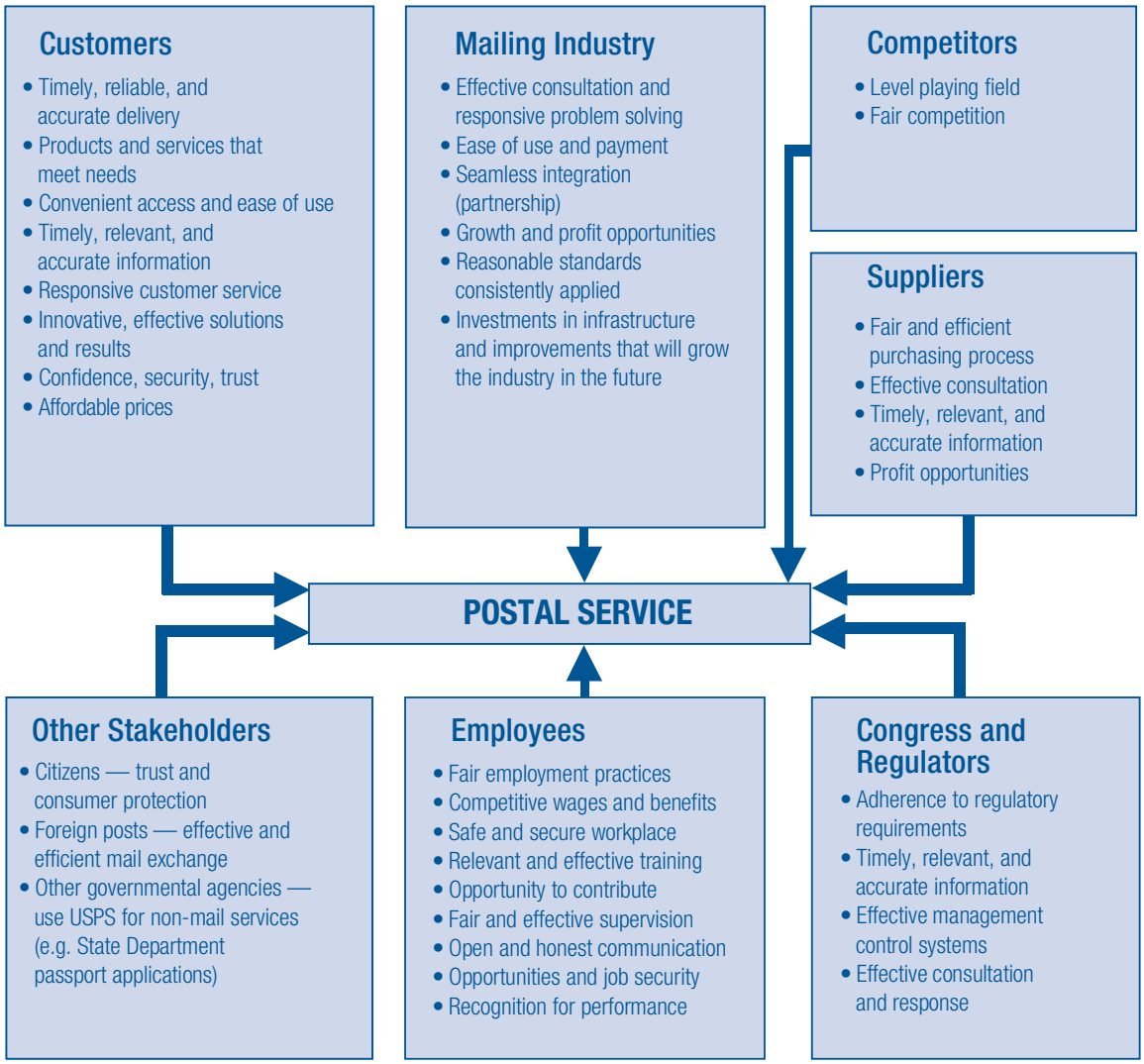
An element of the Postal Service's strategic plan is consultation with stakeholders. In its report of June 16, 1993, the Senate Committee on Governmental Affairs wrote:

In developing its strategic plan, the Postal Service . . . shall solicit and consider the views of other interested parties. The Committee recognizes that the Postal Service already provides substantial avenues for such input in regular meetings with groups of major mailers and other postal customers, and urges that there also be established and published a name and address for the receipt of suggestions and comments from the general public.

The strategic plan, and the associated goals, objectives, performance indicators, and targets, is developed in a process that relies heavily on participation by postal stakeholders. Postal Service management attempts to balance the competing demands by effectively addressing the key requirements of stakeholders.

In order to effectively reach the stakeholder community the Postal Service has attempted to map out what it feels is an all inclusive list of key stakeholders (see Exhibit A3-1).

Exhibit A3-1. Mapping Postal Stakeholder Requirements



The Postal Service devotes a significant amount of resources to determine the requirements of each stakeholder group, to work out reasonable compromises among the various groups, and to assess the effectiveness of postal programs.

The methods employed include surveys; focus groups; market research studies; consultant studies; media tracking and analysis; complaint analysis; meetings with customers, employees, union and management associations, suppliers, and the public; working groups and industry task forces; participation in public policy and industry conferences; and oversight hearings and testimony.

It should be noted that the process is significantly more complex than represented by the summary graphic. Each stakeholder represents a high-level aggregation of different groups, each of which may have significantly different interests or priorities. For example, customer requirements may vary depending upon the intensity of their use of the mail (major mailers, medium and small mailers, and consumers),

whether customers are viewed as senders or recipients, by industry (e.g., finance, publishing, retail), by the use of different postal services or application (e.g., First-Class Mail® service for bills and statements), or by geography (e.g., urban, suburban, rural). Each of these levels of detail adds further dimensions and complexity to customer requirements.

During the last three years, the Postal Service has intensively sought stakeholder input and comments on its goals, objectives, performance and its future through a variety of means as outlined in the table below.

Postal Outreach Initiative	Summary Description
Mailers Technical Advisory Committee (MTAC)	MTAC meets regularly to discuss, in detail, postal regulations, operations requirements, performance, and opportunities for improvement. Industry subgroups work with postal functional experts to develop solutions to specific problems. Progress is reported publicly.
National Postal Forum (NPF)	NPF, an independent group, sponsors two forums every year attended by thousands of customers. The Postal Service and the mailing industry give briefings, hold workshops, and are available to discuss issues with customers.
Outline for Discussion	Published September 30, 2001, this document provided background data, outlined the challenges and the opportunities, and described a detailed process for gathering customer input on major postal issues. That process was implemented and the results were summarized.
Postal Service *Transformation Plan*	Before and after the publication of the *Transformation Plan* in April 2002, the Postal Service informed stakeholders about the initiatives to be implemented to meet current challenges within the allowable framework of existing legislation and regulatory flexibility.
Intelligent Mail Task Force	The Postal Service participated in an inter-industry task force to determine the future of paper, printing, and other technologies that could enhance the value of mail. Task force members visited a number of sites and prepared reports and briefings.
Mail Security Task Force	The Postal Service sponsored inter-industry meetings to draw upon the expertise of the security and scientific communities, and to involve the mailing industry in examining potential solutions to detect and control potential biohazards in the mail.
Mailing Industry Task Force	The Postal Service and the mailing industry determined that mutual success depended upon a much higher level of cooperation, and established a number of high-level working groups to focus on broader, longer-term issues not generally addressed by MTAC or other groups. By the spring of 2003, more than 120 executives from 65 companies, along with 50 Postal Service officers, executives and managers had participated in at least one of more than 20 workgroups associated with the task force's eight recommendations.
Rates Summit and Postal Pricing Redesign	Instead of meeting as adversaries as part of the rate regulation process, the Postal Service, the Postal Rate Commission, the mailing industry, and mailers met to discuss and review alternative approaches to developing Postal Service rates and improving the regulatory process.
Market Research	The Postal Service conducts extensive market research and consumer satisfaction research each year. This research supplements direct contact with major mailers by Postal Service account representatives, who work on identifying and resolving issues raised by their customers. Market research is also supplemented by analysis of consumer and business complaints.

Postal Outreach Initiative	Summary Description
Strategic Research	The Postal Service participates in multiyear, multiclient research on the future of mail, communications, shopping, transportation, and retail. The Postal Service meets with customers, suppliers, paper companies, envelope manufacturers, printers, and others who are also examining long-term industry trends.
President's Commission on the U.S. Postal Service	The commission sought information from stakeholders through *Federal Register* invitation, hearings, and examination of publicly available documents.
Strategic Plan	The strategic plan emerges from these extensive discussions, and, where key concepts have not been already extensively discussed with major stakeholders, direct contact with stakeholders is made through meetings, presentations, discussions, focus groups, and other methods.

To comply in both spirit and intent with the GPRA requirement that comments be solicited in the development of the plan, the Postal Service went beyond its traditional current interactions with customers and other stakeholders.

• Beginning in January 2003 and until the President's Commission on the U.S. Postal Service filed its report, the Postal Service has taken the opportunity to review, digest, and glean information from the comments and testimony submitted to the Commission.

• Throughout the year, the Postal Service has also carefully reviewed the testimony of witnesses appearing before the United States Congress on postal-related issues and reports issued by the General Accounting Office and the postal inspector general on postal-related matters.

• On June 13, 2003, the Postal Service published in the *Federal Register* a "Request for Comments on Revising and Updating the Five-Year Strategic Plan, Pursuant to the Government Performance and Results Act of 1993." This notice was used to alert postal stakeholders of its efforts to update and revise the five-year strategic plan and to request comments on that effort.

• On June 13, 2003, the Postal Service vice president of Labor Relations sent a letter to the presidents of the postal unions and management associations seeking their comments.

• The Postal Service broadened its outreach effort on June 16, 2003, when it posted a request for comments on its internal and external Web sites. Linking stakeholders back to the *Federal Register* notice via the Postal Service's Strategic Direction Web page, the Postal Service encouraged stakeholders to respond electronically using the specially designed e-mail address, *5YearStrategicPlan@usps.gov.*

• To further broaden the reach, on June 17, 2003, the Postal Service's acting vice president for Strategic Planning sent out 850 letters containing the *Federal Register* notice to postal customers, trade associations, suppliers, business partners, government agencies and departments, the General Accounting Office and the Postal Rate Commission. In the letter, stakeholders were told about the Postal Service's efforts to revise and update the plan and they were encouraged to provide feedback.

• An announcement regarding the updating of the plan and request for comments also appeared in the following Postal Service publications:
- June issue of *Mailers Companion,* a Pricing and Classification publication.
- The June 26 issue of the *Postal Bulletin,* a biweekly publication.
- The June 12 USPS News Link, a corporate-wide electronic mail medium published by Public Affairs and Communications Department.
- The June issue of *Memo to Mailers,* a monthly publication for the mailing industry.

• Announcements on the Postal Service's *Five-Year Strategic Plan, FY2004-2008,* also appeared in many postal-related trade association publications such as:
- PostalNews.Com
- PostCom.Com
- Business Mailers Review

Stakeholder Responses Received

Stakeholder	Number of Responses	% of Total
Employees	94	58
Customers	16	10
General Public	33	20
Associations	7	4
Suppliers / Business Partners	11	7
Others	1	1
TOTAL RESPONSES	**162**	**100**

Most Frequently Cited Subjects

Subject	Number of Responses	% of Total
Businesslike Operations	94	30
Labor Relations	57	18
Productivity	38	12
Rates & Pricing	34	11
Universal Service	31	10
Mission & Goals	31	10
New Products & Services	31	10
Total *	**316**	**100**

** Total may not equal 100% due to rounding*

RESPONSES BY STAKEHOLDER GROUP

	Employee	Customer	Public	Association	Supplier & Bus. Partner	Other	TOTAL	% of total
Labor Relations	50	1	3	1	1	1	**57**	*18%*
Universal Service	16	4	4	4	3	—	**31**	*10%*
Mission & Goals	14	4	4	5	3	1	**31**	*10%*
Businesslike Operations	45	12	21	7	8	1	**94**	*30%*
Rates & Pricing	15	8	5	4	2	—	**34**	*11%*
New Products and Services	10	5	5	5	6	—	**31**	*10%*
Productivity	21	7	2	2	5	1	**38**	*12%*
TOTAL *	**171**	**41**	**44**	**28**	**28**	**4**	**316**	*100%*
% of total	*54%*	*13%*	*14%*	*9%*	*9%*	*1%*	*100%*	

* *Total may not equal 100% due to rounding*

Representative Sample Quotations

Employees

We suggest another major goal should be articulated: "The preservation of the franchise" — an explicit assertion by the USPS that the Private Express Statues, and the sanctity of the mailbox, are very much in the public interest and held by USPS as a public trust… We note that the Plan [Transformation Plan] lists as one long-range organizational goal, a "motivated, productive, and inclusive workforce," with which we are in complete agreement… We suggest that the [Postal] Service explore a more challenging set of sub-goals — challenging not only to the [Postal] Service, but to its employees and their employee organizations.
— Postal Labor Organization

There are many restructuring options available to save millions of dollars in costs and that are necessary in making our U.S. Postal Service a strong and vibrant organization for the future. Due to the reduction in mail volume, the heaviest being in First-Class Mail, the nation's processing and distribution centers (P&DC) can be consolidated, thus closing inefficient facilities and maximizing the surviving centers. Many districts can consolidate DMUs (detached mail units) and bring their automation equipment into the local P&DC. Through the consolidation of associate offices (Post Offices), with many towns and cities having several offices will allow for the savings of millions of dollars. The consolidation of district offices already underway should continue reducing redundant office administrative positions. This excess capacity of property, plant, equipment, and personnel must be reviewed and tough decisions made for the future survival of our organization.
— Postal Employee

I am a 25 years-of-service city letter carrier. I have the following proposals to save time and money. 1. Stop forwarding First-Class Mail. Simply return the piece of mail to sender with the new address. Our CFS system is clogged with the same letters because the sender has no incentive to change the address. If they knew it would cost them a new stamp, they would be more likely to get the address right. 2. Place a fee on hold mail. 3. Close small under performing post offices, or have 1 postmaster be responsible for the small offices in their area. 4. Place fax machines or e-mail terminals in Post Office lobbies. 5. Replace gasoline delivery vehicles with electric operated vehicles.
— Postal Employee

We need to capitalize on the cost savings available through distributed printing by providing some type of destination entry discounts for First-Class Mail. With no current incentive, there is little to drive the electronic transmission of mailing data closer to the ultimate destination for printing and mailing. We need to be careful on rates, ensuring that any discount is more than captured in cost savings. Yes, this would reduce revenue. Through careful rate-setting, we should be able to achieve a more profitable product. While it will not eliminate electronic diversion, by offering a product with lower combined costs, we could at least slow/postpone diversion to some degree. This could be achieved either through an NSA or a niche classification.
— Postal Employee

1. City routes should be evaluated under a similar concept as rural routes. Carriers should be paid a salary by route not by an hourly rate, and overtime should be eliminated. 2. Centralized delivery should be established for all residential areas. Initial cost would be high but would have considerable savings after implementation. You would be able to reduce the number of routes in each station and carrier injury costs would decrease dramatically. 3. USPS should charge customers to forward all mail. A cost of $50 per each Change of Address Card per family or person would increase revenue. 4. Suggest a 5-day workweek with set day off not necessarily Saturday. 5. USPS should be able to notify the State Department of Motor Vehicles and employees insurance when employees have a vehicle accident. Currently, both DMV and employees insurance companies are not notified when employees have a vehicle accident and thus Postal accidents have no effect on the employees' driving record and insurance costs. With these changes implemented the United States Postal Service would operate effectively and efficiently and employees would have a sense of ownership for the USPS.
— Postal Employee

Customers

The three areas of mutual interest are Negotiated Service Agreements (NSAs), Stamps by Mail, and the current USPS Corporate Flats Strategy. We believe all three of these initiatives represent potentially positive changes for the Postal Service and an opportunity for the USPS to operate more like private industry – by focusing on new ways to grow volume and increase revenue… While we support the initiative to increase productivity, the Postal Service must remain cognizant of its customer's needs. Creativity of design is what makes direct mail advertising work and it cannot be sacrificed too severely in the name of productivity, or volume will suffer.
— Major Mailer

...new information we would like to bring to your attention is a recent study entitled "An Evaluation of Postal Service Worksharing: Postal Revenues and Costs from Workshared Activities"… This study concluded that the Postal Service was subsidizing its non-workshared services by several billion dollars annually, and financing the subsidy by overcharging for its workshared services. The study calls for accurate costing of the Postal Service's non-workshared services, and elimination of subsidies to its upstream services.
— Major Mailer

The Postal Service mission should not change during the period covered by the Strategic Plan. It should still be the institution that binds the nation together for universal hard copy delivery. Universal service should be defined as delivering to every American address, six days per week. Our firm receives millions of dollars in premium payments per day. Loss of a day's delivery would have a dramatic impact to our cash flow. [We] support the Post Office reviewing the closing of unprofitable Post Offices and postal routes, as long as the current level of service is maintained. USPS should have freedom to manage its services. A big challenge for the Post Office will be to continue to handle the increasing number of deliveries. The Post Office should be given the freedom to move urban and suburban addresses from costly door-to-door, to curbside or cluster box delivery.... The Post Office should continue to explore ways to leverage buildings and vehicles to generate revenue helping to offset expenses. The notion of advertising on postal vehicles or buildings should be reopened. Also, the Post Office could consider retail sales of products related to or aligned with its services, or additional private sector vending machines. If the effort to retain volume fails, USPS must be in a position to develop a strategy to deal with expanding deliveries, while downsizing their overall system's infrastructure.... There are processes in place ... that will have the potential of reducing mail volume. However, by the Post Office reducing infrastructure costs, adding value to mail, and maintaining quality service, it may at least be in a position to slow volume erosion.
— Major Mailer

In these uncertain economic times it becomes imperative that new ways be found to help streamline the operation while maintaining customer service and satisfaction... consider moving a kiosk into the lobby for your customer to use. There are several applications that come to mind which would speed each transaction at the counter, thus shortening your lines creating a happier and informed customer while helping the clerk service more customers with less waiting. 1. The customer would choose from the selections what kind of service they wanted and be given a customer service number which would be used by the clerk to further help the customer and close the sale. 2. This could be written into several languages which would improve the USPS cultural sensitivity towards those who do not have a good command of the English language and improve the information received and given to the customer it would also help in sales by prompting them in that customer's own language. 3 .The use of this program can also determine how long it takes for a customer to be serviced and can track customer needs and buying habits.
— Major Mailer

General Public

I'm hoping that in the plan you will consider allowing Post Offices to cancel mail from each city post office, rather than a regional mailing facility. My mail, mailed from our city in Rancho Palos Verdes, California, is processed mostly at a mailing facility in Marina Del Rey or one in Hollywood. I do not live, nor never have lived, in either of these places. In addition, my parent's mail, from a town half an hour away, is also postmarked at the same place. I understand the need to automate and cut costs, but I know how much people appreciate having the cancel marks from the places of origin (or why would people mail Valentine Cards to be marked from places with appropriate names?).... Please consider allowing for individual Post Office cancellation.
— Postal Customer

As a resident of Sierra Vista for the past 15 years, I have seen a significant growth in our city population and in the surrounding Cochise County. However, the U.S. Post Office building on Fry Boulevard has experienced little or no growth in that time. As a result, this lack of accompanying growth has diminished service and lengthened wait-times at this USPS facility. Although I'm sure our city planners and economic council members could prepare a much more detailed and professional analysis to justify an upgrade of USPS service in Sierra Vista, my intent is to give you an average concerned citizen's view of a situation that needs to be included in your strategic planning objectives. As alternative mail options become more available (Internet, FedEx, etc.), I often opt for these alternatives when faced with the inevitable wait at the USPS facility in Sierra Vista, AZ.
— Postal Customer

According to the plans outlined, the USPS seeks to control costs, but some actions I see are indicative of an agency run amok. Case in point: sponsoring of Lance Armstrong and the American team participating in the Tour de France. While I'm paying 37 cents to mail a letter, I expect that 37 cents to go toward the costs of moving the mail, not doing what corporate sponsors should be doing. Is this really what we need to be paying our money for? In an age where e-mail is replacing much of what was traditionally postal work, the USPS should be endeavoring in areas where there will be a return on money invested, or at the very least investing in personnel, not in areas where there will be absolutely no return on money invested. It was just announced that Lance Armstrong earned $16 million last year. A person who earns that kind of money deserves what he earns, but could re-invest some of his money back into Team America. Leave the sponsorships to corporate America, not to Americans who are paying 37 cents to mail their letters.
— Postal Customer

Trade Associations

Local newspapers are a critical component in the mail mix. As First-Class Mail declines, continuing reliable service of the local paper will bring people to the mailbox…Delivery Point Processing and Flats Sequencing schemes being considered by the Postal Service would not be cost-effective. Instead, they would drive newspapers out of the mail stream and irritate consumers with slow service. Rather, USPS should continue its development of a last mile strategy, provide bottoms-up costing for local service and provide every possible incentive for mailers to avoid processing units.... Negotiated Service Agreements with volume-incentive components are inherently unfair to small mailers, which can never be similarly situated to a large-volume competitor.
— Trade Association

We continue to believe that universal service is one of the most important attributes of a viable national system of mail delivery. The high fixed costs associated with a universal service obligation are difficult to sustain in times of economic downturn, but, nevertheless, must be born if the postal system is to be viable.... The USPS has done an excellent job restoring public confidence in the mail system but still must do more to prepare itself for future [anthrax] attacks of this type.... The "s" for service has come a long way, but there is still a long way to go. Local postal people are becoming friendlier and customer-centric. Lines are still long but better lobby design is making the waiting more bearable.
— Trade Association

We applaud the fact that the Postal Service recognizes that this is a critical transformation period for the Postal Service, and that it must implement an integrated plan to improve the financial health of the organization and position the organization for the future. The publication of the Transformation Plan *in 2002 was an important step to provide the mailing community with a clearer sense of the Postal Service's vision of the future. Now, in 2003, as postal transformation proceeds, your customers need: • a clear timeline for the implementation of the various initiatives that will alter the postal network structures, the services provided, and mail preparation and entry requirements; and • opportunities to exchange information on an ongoing basis regarding the specific initiatives under development and implementation, to facilitate meaningful dialogue between the Postal Service and its customers which may influence Postal Service decision-making; and • customized services implemented with an eye towards fostering innovation, to reduce combined mailing costs of the Postal Service and the customer.*
— Mailing Industry Association

[We] believe that the Transformation Plan *remains a valid blueprint for the future of the Postal Service. The plan presents a clear picture of the problems facing the Postal Service, and the actions that must be taken to solve those problems. Additionally, [we] believe that the long-range organizational goals and objectives set forth in the Federal Register Notice are valid.... The Postal Service has not yet adopted pricing policies that conform to the reality of marketplace demand. In particular, the rates for Standard Mail ECR remain excessive and have served to dampen mail volumes. Further, electronic diversion represents a threat to Standard Mail, particularly for catalogs. The time to set market-based rates is now; it should not await the time when electronic diversion has become an even more serious threat, by which time it may be too late... The Postal Service's Five-Year Strategic Plan should take into account the recommendations that will be made by the President's Commission on the U.S. Postal Service. Although many of those recommendations will require legislation, it is also clear that much can be done within existing authority. For example, although [we] fully support the Commission's recommendation that the Postal Service be given greater latitude in the implementation of worksharing and negotiated service agreements, the Postal Service should continue to pursue those rate approaches under existing authority.*
— Mailing Industry Association

The universal service mandate is a service goal that will cause ever increasing costs because of the ever increasing delivery points, a 72% increase since 1971. In the past, mail volume increased at a greater rate (133% since 1971) than delivery stops, so that, even though delivery points were increasing, the average pieces of mail per stop were increasing. That changed in 2002. Average pieces per stop declined for the first time since 1971, from 1500 pieces to 1460 pieces. And for the first time, average revenue per stop declined. And much of the volume decline, 5 billion pieces since 1998, was in First-Class Mail, the most profitable category of mail. There is mounting concern this trend may continue, particularly in First-Class Mail. Happily, the Postal Service's rigorous management has mitigated the full impact of this decline. The USPS' future would be less clouded if one could assume that volume will continue to grow so that more and more pieces of mail can share the non-variable network, or institutional, costs. That is the assumption of the current business model. Increasingly, the hard reality is undermining that assumption. Absolute volume declines, particularly in First-Class Mail, seem inevitable. What is the best response to this volume decline? Should Congress change the universal service mandate so that USPS delivers sometimes, but not 6 days a week, delivers only to some places, or provides no home delivery to new address extensions? [We] don't think so. While universal service imposes cost burdens, it is what makes USPS so valuable to the American people, most particularly to American business (94% of all mail is business related). It is what makes it unique. But the business model that was successful for the last 30 years is broken and a new one is needed.
— Mailing Industry Association

[We] recognize that the postal system suffers from many diseconomies in pursuit of universal service. A large number of Post Offices and other facilities, as well as numerous postal routes, for example, cost the Service more money than is returned from their use. USPS should look more closely at closing unprofitable facilities, and finding alternatives for those mail recipients on costly routes. So long as service is made available to all on six days in some fashion — centralized pickup points, for example — USPS should have much more freedom to manage its services. As in several other areas, relaxation of legislative and regulatory restrictions may be necessary to achieve this kind of streamlining. In addition, some focus might be placed on retrofitting urban and suburban addresses which currently have costly to-the-door delivery. More economical approaches such as curbside delivery or cluster boxes could be considered, with resultant savings directed elsewhere in the system.... [We] would like to suggest increased emphasis on two- and three-day First-Class Mail. While USPS' focus on the one-day turnaround has been beneficial, the same kind of approach on two and three-day turnarounds would be helpful. Specifically, [we] recommend that a list of critical indicators for national mailers in this category be developed to help them help USPS meet its goals and commitments. [We] also suggest greater use of Web-based tools to assist mailers, and reduce costs. Here, as we indicated above, the more information that can be packed into Intelligent Mail, and then reflected online, the better. Means to specifically track pieces would be particularly welcome.... [We] endorse the USPS partnership with Federal Express. The dropship reshipments worked out with FedEx have helped expand volumes. More such innovative products and joint ventures, in our view, should be explored.
— Mailing Industry Association

Suppliers / Business Partners

Focus on longer term contracts. Provide flexibility in the contract where long range planning requires it. Longer term contracts provide more security and more efficient amortization of capital and risk, and should provide better value to the USPS.... Allow USPS purchasers of goods and services to utilize Best Value rather than focus solely on cost. Best Value is still in the book, but it is not utilized by the USPS transportation purchasers.
— Transportation Supplier

Although a supplier, we view ourselves more as a partner to the U.S. Postal Service. We have invested our own resources and money to help the USPS find ways to increase productivity.... The Strategy should pursue the vision of the intelligent mail stream.... The Strategy should consolidate the postal network and capture savings from existing assets.
— Equipment Supplier

We strongly believe that a viable, healthy USPS is vital to the future of commerce in this country.... We believe the real strength of the Postal Service is in its first and last mile delivery networks. It seems obvious that any USPS strategy should begin with determining how best to focus on and further leverage that robust capability.
— Business Partner

We view two basic options for the USPS moving forward. It can migrate toward global expansion or remain status quo. Either path will highlight the USPS premier status as the best first and last mile provider in the United States.... The USPS has long been critical of the service provided by the passenger airlines and the lack of capital dollars invested by the carriers to improve airmail transport reliability. The truth is the airlines have made significant investments to improve airmail reliability… In a highly competitive market, marketing opportunities exist to increase brand preference for the USPS by leveraging airline customer and distribution channels.
— Transportation Supplier

The results-driven improvement efforts, service-quality metrics and customer satisfaction programs designed to result in the Postal Service operating "more like a business" are good guideposts. All touch the customer and affect his/her perception of value and desire to use additional services and products in the future.... Developing a response to challenges/threats like electronic bill presentment and payment with a Postal solution will be important. Continued promotion of the Postal Service mission and value will continue to shape public opinion (sponsorship of the bicycle racing team for example) and ultimately influence future rate setting discussions.... In the area of motivated, productive and inclusive work force, the development of a culture of focus on the customer will have a huge impact on public perceptions of value using Postal offerings.
— Supplier

Others

Our formal comment to the President's Commission notes that regardless of the organizational model used, the Postal Service business model may be sustainable if held accountable for results. As the Postal Service works to transform itself for the future, it must rely on performance management principles to measure progress and ensure accountability into programs and operations. In order to improve accountability, the Postal Service should clearly articulate its organizational goals, its methods for achieving those goals through programs and initiatives, and the ways it will monitor success. The Postal Service's pledge in its April 2002 Transformation Plan *to create a performance-driven culture is a positive step in that direction. . . .the issue of controlling workers' compensation costs may be particularly relevant because the Postal Service is the largest participant in the Federal Workers' Compensation Program and accounts for approximately $760 million, or over one-third, of the $2.2 billion in total federal workers' compensation cash outlays from claims for reporting year 2002. The Postal Service's workers' compensation cash outlays from claims have risen dramatically, increasing by approximately 35 percent over the last 3 years. In addition, the administrative fees that the Office of Workers' Compensation Programs charges the Postal Service to administer its program have increased 137 percent, from $19 million in FY 1997 to $45 million in FY 2002.*
— USPS Office of the Inspector General

June 13, 2003, Federal Register Notice

Request for Comments on Revising and Updating the *2004-2008 Five-Year Strategic Plan,* Pursuant to the Government Performance and Results Act of 1993

AGENCY: Postal Service.

ACTION: Request for comments.

SUMMARY: The Government Performance and Results Act of 1993 (GPRA) mandated, in 1997, that the Postal Service publish a 5-year plan outlining its goals, targets, and strategies, and that the Postal Service update and revise its 5-year plan at intervals of no less than 3 years. In so doing, GPRA states that the Postal Service must, as an aspect of its strategic planning process, solicit and consider the ideas, knowledge, and opinions of those potentially affected by or interested in its *2004-2008 Five-Year Strategic Plan.* This notice, therefore, asks for public comment concerning the development and drafting of the Postal Service's *2004-2008 Five-Year Strategic Plan.*

DATES: Comments must be received by July 18, 2003.

ADDRESSES: Written comments should be directed to Julie S. Moore, Acting Vice President, Strategic Planning, United States Postal Service, 475 L'Enfant Plaza, SW., Room 5016, Washington, DC 20260-5142. Comments may also be sent to *5YearStrategicPlan@usps.gov.*

FOR FURTHER INFORMATION CONTACT: Paul Van Coverden, (202) 268-8130.

SUPPLEMENTARY INFORMATION:

Statutory Background

The Government Performance and Results Act of 1993 (GPRA), Public Law 103-62 was enacted to make Federal programs more effective and publicly accountable by requiring agencies to institute results-driven improvement efforts, service-quality metrics, and customer satisfaction programs. Other statutory goals were to improve Congressional decisionmaking and the internal management of the United States government, as cited in Public Law 103-62, section 2(b), 107 Stat 285. Because of the Postal Service's role as an independent establishment of the Executive Branch of the government of the United States, section 7 of the law establishes separate provisions that apply to the Postal Service. (See 39 U.S.C. 2801-2805.)

Section 2802 of title 39, United States Code, required that the Postal Service submit to the President and Congress a strategic plan for its program activities no later than September 30, 1997. Additionally, section 2802 requires the Postal Service to update and revise its strategic plan at least every 3 years. This plan is to contain the following:

(1) A comprehensive mission statement covering the major functions and operations of the Postal Service.

(2) General goals and objectives, including outcome-related goals and objectives, for the major functions and operations of the Postal Service.

(3) Descriptions of how these goals and objectives are to be achieved and of the operational processes; skills and technology; and the human, capital, information, and other resources required to meet the goals and objectives.

(4) A description of how the performance goals included in the annual performance plan required under section 2803 will be related to the general goals and objectives in the strategic plan.

(5) An identification of the key factors external to the Postal Service and beyond its control that could significantly affect the achievement of its general goals and objectives.

(6) A description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program evaluations. (See 39 U.S.C. 2802(a).)

GPRA also requires the preparation of annual performance plans covering each program activity set forth in the Postal Service budget. (See 39 U.S.C. 2803.) These plans link the organizational goals in the Strategic Plan with ongoing operations. Finally, the law requires the preparation of annual performance reports, which review and compare actual performance with the performance targets stated in the annual plans. (See 39 U.S.C. 2804.)

In order to continue to involve the public in this planning process, GPRA also requires the Postal Service, as it develops each new iteration of the Strategic Plan, to "solicit and consider the views and suggestions of those entities potentially affected by or interested in such a plan, and shall advise the Congress of the contents of the plan." (See 39 U.S.C. 2802(d).)

Discussion of the Postal Service Mission, Vision, and Objectives

In 1970, Congress enacted the Postal Reorganization Act, transforming the former Post Office Department into the United States Postal Service. Its intent was to ensure that the former department became a self-sustaining Federal entity, which operates more like a business. While fulfilling its basic mission of providing affordable and universal service, the Postal Service, as a unique Government enterprise, would also focus more clearly on all its customers' needs than had its predecessor Executive Branch department.

The Postal Reorganization Act states that the Postal Service will have the "basic and fundamental" responsibility to provide postal services to bind the nation together through the personal, educational, literary, and business correspondence of the people. Prompt, reliable, and efficient postal services, the legislation mandates, will be extended to patrons in all areas and to all communities.

In recent years, the historic mission of the Postal Service, as described in 39 U.S.C. 101, has been amplified by additional organizational statements of purpose published most recently in the April 2002 *Transformation Plan.* In the Plan's opening message the then-Chairman of the Board, Robert F. Rider, and the current Postmaster General and CEO, John E. Potter, note that the Postal Service must transform "to successfully carry out its long-standing mission of providing universal service." They state that transformation "is about maintaining a fundamental principle and vision that delivery of mail is an important government service, regardless of where one lives or what one's station in life might be. Equal access and opportunity to communicate through the mail to meet personal

and commercial needs support a basic American value of equality." In the introduction to the *Plan*, the Postal Service explains that "At stake is the future of what has been, since this nation's founding, the right of every American to send and receive mail. The Postal Service exists as a governmental entity whose mission is universal service to all. That mission is a direct reflection of the values on which this country was founded, and it is those values of equality of opportunity that drive Postal Service management today just as they drove the managers of the Post Office Department."

The authors of the *Transformation Plan* further say that "In developing this report, we gratefully acknowledge the assistance of the full range of stakeholders in the postal industry. At the outset, therefore, we would like to articulate a firm commitment to all of these stakeholders, and especially to our customers. During this crucial transformation period, in order to maintain our financial viability and fulfill our universal service mission, we commit that we will:

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

In their opening message, Mr. Rider and Mr. Potter recognize their responsibility "to take definitive action to offer the citizens of America a clear and compelling view of current and planned actions and our vision of where we are headed. At the same time, we want to encourage all our stakeholders to remain actively engaged in discussions about postal issues and the Postal Service's future."

It is in this spirit, as the Postal Service develops the *2004-2008 Five-Year Strategic Plan,* that we ask stakeholders to once again share their views on its future.

Solicitation of Comments

The United States Postal Service solicits identification of and comment on the key factors external to the Postal Service and beyond its control which could significantly affect the achievement of its mission, vision, and goals. During development of the *Transformation Plan* and during subsequent Postal Service testimony before the President's Commission on the U.S. Postal Service, the following fundamental changes were identified as those reshaping the delivery services marketplace:

- Changing customer needs. With access to more information and options than ever before, customers have a broad range of choices for delivery of messages, money, and merchandise—our three businesses. Customer requirements for postal services and entrenched network structures and service patterns may be changing.
- Eroding mail volumes. Electronic alternatives, particularly bill presentment and payment, pose a definite and substantial risk to First-Class Mail volume and revenue within the next 5–10 years. This could, in turn, have a negative impact on First-Class Mail rates.
- Rising costs. Despite major gains in efficiency and productivity through letter mail automation, the costs of maintaining an ever-expanding postal network are rising faster than revenue, especially costs outside the direct control of the Postal Service, such as retirement and health benefit liabilities.
- Fixed costs. Universal service requires a significant infrastructure to deliver postal services. Almost half of current Postal Service costs are spent on these resources, and that level does not change when volume or productivity increases or decreases. This makes cost containment challenging.
- Merging of public and private operators into global networks. Former national foreign postal services, some privatized, have entered the U.S. domestic market; giant private firms that dominate global parcel and express markets are entering an increasing portion of the postal value chain.
- Increasing security concerns. Rising security concerns will require expensive and sophisticated countermeasures.

Are these factors still relevant? Which ones are relevant and which are not? Are some more important than others? Is the rate of change for each factor increasing or decreasing? Are there other factors that warrant consideration? What are they? In developing the *2004-2008 Five-Year Strategic Plan,* the Postal Service would like to receive stakeholders' views and comments on these and other long-term external changes, issues, and trends.

Finally, stakeholders should include their comments that were made to the President's Commission on the U.S. Postal Service regarding the United States Postal Service if reviewing such comments would help the Postal Service in developing its *2004-2008 Five-Year Strategic Plan.*

The Postal Service also invites comment on its long-range organizational goals, or objectives, published most recently in the *Preliminary Annual Performance Plan for 2004* as part of the *FY2002 Comprehensive Statement on Postal Operations.* The Postal Service has employed long-range goals, or objectives, as part of a strategic planning process for over two decades, along with systematic performance assessments. The Postal Service has developed a disciplined process to establish the goals, objectives, indicators, and targets; assign resources to programs that support achievement of the targets; implement the programs; and review performance. Stakeholder input will support and enhance both the performance process and the new *2004-2008 Five-Year Strategic Plan.*

Specifically, the Postal Service solicits stakeholder comment on the following long-range organizational goals and objectives:

Goal	FY 2004 preliminary performance Goal objective (sub-goals)
Growth	• Timeliness and consistency. • Priority Mail® (Air) On Time. • Priority Mail (Surface) On Time. • Express Mail® On Time. • Overnight First-Class Mail On Time. • Two-Day First-Class Mail On Time. • Three-Day First-Class Mail On Time.
Motivated, productive and inclusive workforce	• Minimize impacts from accidents and absences. • Employees committed to Postal Service success.
Affordability	• Improve productivity to control costs, improve contribution levels, and grow the business.

Any comments pertaining to the means by which the Postal Service can best achieve these goals are welcome. Comments on other aspects of strategic planning, goal-definition, and performance measurement are also welcome.

This request for comments initiates a formal process for the development of the *2004-2008 Five-Year Strategic Plan,* and offers an opportunity for stakeholder comments to be given careful consideration in the development of the plan's goals, targets, and strategies. While its July 18 deadline corresponds with a need and requirement for formality in the development of this plan, the strategic planning process itself is continuous and welcomes ongoing input from all stakeholders in the development of annual business environmental assessments, and annual performance plans and reports.

Stanley F. Mires,

Chief Counsel, Legislative.

APPENDIX IV:
EVOLUTION OF POSTAL STRATEGIC PLANNING, FY2000–2003

	FY2000	FY2001	FY2002	FY2003
Key Document	*Five-Year Strategic Plan, FY2001–2005*	*Mailing Industry Task Force Report*	Postal Service *Transformation Plan*	President's Commission on the U.S. Postal Service
Supporting Documents	Report of the Commission on a Safe and Secure Workplace	GAO-03-118, Performance and Accountability series: *Major Management Challenges and Program Risks — U.S. Postal Service*	*Emergency Preparedness Plan*	GAO-03-119, *High Risk Series: An Update*
Business Environment	The Postal Service faces an environment likely to be as challenging as any in postal history.	Anti-terror restrictions on mail carried on scheduled airlines cause disruption to postal transportation networks. Anthrax attacks cause disruptions of postal operations.	The growing impact of electronic diversion of mail volume (electronic bill presentment and payment, e-mail, etc.) causes declines in First-Class Mail volume. Reductions in advertising spending by U.S. businesses reduce Standard Mail volumes.	Increasing global political uncertainty and risk continue to slow economic growth. Postal Service overpayments to Civil Service Retirement System are verified by OPM, OMB, and GAO.
Strategic Themes	The Postal Service faces an increasingly dynamic and uncertain environment. There is significantly higher risk to the ability of the Postal Service to achieve its mission than foreseen in the Postal Reorganization Act. The Postal Service requires greater flexibility and innovation, and the ability to respond effectively to the needs of its customers and to changes in market requirements.	The Postal Service is vital to U.S. economic growth. A major sector of the U.S. economy depends upon an effective and efficient Postal Service. The success of both the Postal Service and the mailing industry will depend upon unprecedented levels of cooperation, greater flexibility and innovation, and improved responsiveness to market needs.	The Postal Service can and will make significant internal improvements in managing costs (productivity), generating revenue (adding value and creating financial stability), improving service (providing timely, reliable delivery), and developing people (creating a workplace that supports employee commitment and motivation). The Postal Service will also seek legislative change.	The Postal Service needs legislative flexibility to achieve additional improvements in operations, marketing, finance, and human resource development while still providing universal service.

	FY2000	FY2001	FY2002	FY2003
Strategic Goals and Objectives	Based on an independent, organization-wide Malcolm Baldrige Assessment and intensive internal strategic discussions, the Postal Service developed three "voices" that represent major strategic themes: • Customers (Service Performance). • Employees (Safety and Workplace Improvement). • Business (Cost Management and Productivity).	The Postal Service has developed a customer-focused outreach program that is among the most extensive in government and industry. The focus of the MITF effort was to develop an integrated mailing system (Postal Service, suppliers, mailing industry partners, and customers) that provides the best value to customers in different markets. Employee and customer safety from external threats was added to the ongoing programs of the Postal Service and the mailing industry.	After investigation, testing, and development of a number of "e-initiatives," the Postal Service determined that customers could best be served by applying new technologies to enhance existing services and improve current operations. The three voice strategic framework was expanded to five areas of emphasis. The existing goals were restructured as follows: • Service Performance. • Managing Costs. • Developing Employees. The following two areas were added: • Generating Revenue. • Pursuing Legislative Change.	Recommendations of the President's Commission on the U.S. Postal Service.
Strategic Indicators and Performance Measures	The Postal Service developed performance indicators and targets for the following: • Timely, reliable delivery. • Employee commitment and motivation. • Financial performance. Valid measurement systems, using independent contractors wherever possible, were developed to provide reliable data to support performance tracking and accountability.	The Postal Service was required to align its safety measurement system with federal OSHA guidelines. The Postal Service began developing and testing performance measurement systems for other categories of mail, and tested the use of a number of other performance indicators as GPRA organization-wide performance measures.	Total Factor Productivity (TFP) was adopted as the key indicator of financial performance, due to limitations of other indicators (such as net income, which was restricted in usefulness due to the internal contradictions of the Postal Service break-even requirement and the 18-month rate approval cycle).	The Postal Service determined that certain indicators, such as REDRESS availability, training hours, and affirmative action initiatives, were intermediate or process measures more appropriate to unit or local evaluations, and removed them as GPRA organization-wide results objectives. They continue to be monitored as part of the individual merit evaluation process for supervisors, managers, executives, and officers.

	FY2000	FY2001	FY2002	FY2003
Strategic Planning and Implementation System	The Postal Service developed and implemented the continuous four-part CustomerPerfect! management cycle (Establish, Deploy, Implement, and Review). The Postal Service had a well-developed Decision Analysis Review (DAR) program and a Five-Year Strategic Capital Investment process to evaluate proposed projects and to track performance.	The Postal Service developed a sustained, interactive and iterative process to negotiate targets and to link budgets and performance accountability. The Postal Service implemented an innovative performance incentive system based on private sector practices (Economic Value Added or EVA) that replaced traditional Civil Service seniority increases. The Postal Service established recognition programs for the achievement of GPRA goals.	The Postal Service increased its emphasis on effective tracking and implementation of programs, especially those that are long-term and cross-functional. The Program Performance Assessment (PPA) tool is similar to the Performance Assessment Review Tool (PART) used by the Office of Management and Budget.	The EVA program was replaced by the National Performance Assessment (NPA). The NPA places more accountability for intermediate or process goals that contribute to the achievement of organization-wide goals with individual supervisors, managers, executives, and officers. The Postal Service is developing integrated management information systems to provide timely, accurate and relevant data to monitor and evaluate performance.

	FY2000	FY2001	FY2002	FY2003
Public Accountability	Major issues are discussed publicly at monthly Board of Governors meetings, with press releases summarizing information and detailed data available on the public Web site. The *Comprehensive Statement on Postal Operations* and the *Annual Report* are published annually. Detailed data on postal costs and assumptions are available through proceedings before the Postal Rate Commissions, where a postal witness can be questioned under oath and information obtained through discovery and interrogatories.	An increasing amount of detailed data is made available on the public Web site. Postal programs and performance are discussed regularly through the Mailers Technical Advisory Committee, Postal Customer Councils, Mailing Industry Task Force, National Postal Forums, and other venues. The Office of Inspector General supplements GAO audits and reviews of postal programs. GPRA *Annual Performance Plans* and *Performance Reports* are available.	Congress continues oversight hearings and requires additional reports *(Transformation Plan* and *Emergency Preparedness Plan).* *Outline for Discussion* provides background data on major issues in support of extensive public outreach for *Transformation Plan.*	President's Commission on the U.S. Postal Service conducts hearings and gathers documentary evidence. Accounting and reporting problems are widespread throughout the public and private sector, and the Postal Service responds to requests for more consistent and frequent reporting of financial data.

Note: Timelines are approximate, since activities may have started in a prior period and continue through subsequent periods.