UNITED STATES
POSTAL SERVICE ®

Transformation Plan
Progress Report
November 2003

Message from the Postmaster General & CEO, John E. Potter

In early April 2002, the United States Postal Service® submitted to Congress and the president a *Transformation Plan* that analyzed both the challenges facing the Postal Service™ and our long-term future.

The *Transformation Plan* identified near-term strategies and reexamined the organization's current business model for the long term. Today's business model dates to the Postal Reorganization Act of 1970, which transformed the former cabinet-level Post Office Department into a more businesslike enterprise. Absent legislative changes to the 1970 Act, the Postal Service continues to focus on the near-term internal transformation commitments described in the *Plan*, transformational commitments that began officially in fiscal year (FY) 2002 and which now are integral to all Postal Service decisions.

This November 2003 *Transformation Plan Progress Report* focuses on accomplishments that have been made to transform and modernize the Postal Service since April 2002. A full explanation of the Postal Service's strategies for the future is found in the *Transformation Plan* and the *Five-Year Strategic Plan, FY2004–2008.*

Over the past two and a half years, the Postal Service has focused on making changes to modernize and improve every aspect of our business. In the near term, our focus has been on making those changes that are within the framework of current legislation. We have made significant progress toward our transformation goals and we have prepared the groundwork for long-term legislative reform.
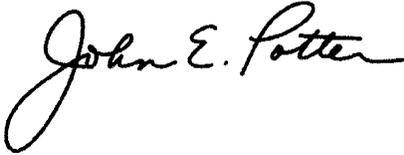
- Service performance and customer satisfaction scores have reached record high levels.

- Cost reductions and avoidance measures have kept us on track to take $5 billion out of our costs by 2006. Thanks to the administration and Congress, legislation passed in 2003 allowed us to reduce our contributions to the Civil Service Retirement System pension fund. These reductions and our efforts to reduce costs have allowed us to reduce our debt by $3.8 billion and enabled us to keep rates stable until 2006.

- More than 45,000 career positions have been eliminated through attrition since the beginning of FY2002. At the same time, our employee survey scores show record levels of satisfaction.

- Innovative use of technology has added value to the mail for our customers. Intelligent Mail™ gives mailers the means to track and trace their mailings and increase reliability and predictability.

This past year, the President's Commission on the U.S. Postal Service conducted a comprehensive review of the Postal Service and submitted recommendations to ensure that the Postal Service will continue to provide universal, affordable service to all Americans well into the future. The Commission's recommendations and our progress

toward transformation will provide the groundwork for long-term legislative changes in the future.

In the meantime, we will continue to pursue and implement the strategic initiatives outlined in the *Transformation Plan* and seek new opportunities to build our business and improve service to the American people.

John E. Potter

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Section 1: Introduction

Meeting the Challenge

> In order to address the challenges we face today and to prepare for transformation, we must push business effectiveness and operational efficiency to the limits permitted by current postal laws. With the support of customers, employees, and policymakers, there is much we can do, and are doing now.
>
> *— Transformation Plan, page iii*

Faced at the turn of the 21st century with declining volume due to a soft economy and the technological diversion of messages, plus inroads to the mailstream from both domestic and international competitors, the Postal Service has embraced transformation and commenced major change.

The first two years covered by the *Transformation Plan* (FY2002–FY2003) have been characterized by sweeping organizational changes, including a reduction of 45,000 employees.

During the same time period, through new operational efficiencies, both labor productivity and Total Factor Productivity have increased, despite the addition of 1.8 million new addresses to the universal delivery network in both FY2002 and FY2003. At the end of FY2003 the Postal Service had approximately the same number of career employees it had in 1994, yet it delivered 22 billion more pieces of mail (more than 200 billion in FY2003, up from 178 billion in FY1994) to 19 million more addresses (143 million addresses in FY2003, up from 124 million addresses in FY1994). At the same time service performance reached record levels. Overnight First-Class Mail® service, measured externally, hit a record-breaking 95 percent during the last two quarters of FY2003, and record service levels were also achieved for two- and three-day service commitments.

As this *Transformation Progress Report* shows, the Postal Service's transformational journey is well underway. Nonetheless, the Postal Service continues to believe that legislative change is necessary, and looks forward to working with all stakeholders to effect appropriate change.

Meanwhile, the Postal Service continues to face today's challenges by pushing the envelope of current law and pursuing the most business-like organization and operationally efficient model possible. The three overarching *Transformation Plan* strategies—*Foster Growth Through Customer Value, Increase Operational Efficiency,* and *Enhance Performance-Based Culture*—are all designed to meet this objective. In addition, progress has been made on additional strategies—*Enable the Organization*—that support the objectives of the *Plan.*

Foster Growth Through Customer Value strategies seek to maximize already profitable product lines and develop complementary products and services and state-of-the-art access that will provide value to the customer, thus increasing overall volume. *Operational Efficiency* looks to streamline and optimize the massive Postal Service infrastructure in order to remove costs from postal operations and improve efficiencies, while the strategy of *Enhance Performance-Based Culture* recognizes the immeasurable value of the more than 730,000 career employees and aims at placing the right person in the right job at the right time in the right place so that all strategies will be implemented successfully. Finally, *Enable the Organization*, a support function, is geared to improving the underpinnings of the Postal Service—finance, administration, technology, privacy, and security.

Commitment to Transformation

The commitment of the Board of Governors and postal management to the *Transformation Plan* begins with strategic direction from the Board and the Executive Committee. Their decisions then flow through the organization at all levels. All Postal Service managers are responsible for postal transformation and have been directed to play the key role of educating all employees on the importance of the transformation effort. The integrated process that developed the *Transformation Plan* across the various functional areas continues as the *Plan* is implemented. The Office of Strategic Planning facilitates the effort to ensure integration of transformation project plans.

Since publication of the *Transformation Plan,* the postmaster general and Executive Committee have conducted regular, formal reviews of project plans associated with transformation strategies. The Postal Service budget process, the *2003 Comprehensive Statement on Postal Operations,* and the *Five-Year Strategic Plan, FY2004-2008,* have all been aligned with the strategies, goals, and objectives outlined in the *Transformation Plan.* Cross-functional meetings at all levels of management have assured and will continue to assure that postal managers understand the *Plan's* interdependencies, structure, and milestones.

In order to create greater transparency and obtain feedback, all of these planning efforts have been and will continue to be communicated to the Administration, the Congress, the General Accounting Office, the Office of Inspector General, the Postal Rate Commission, and other appropriate executive agencies, as well as major stakeholders and the general public.

Section 2: Progress and Outlook

Project plans have been developed and are being implemented for all near-term strategies contained in the *Transformation Plan*. This report focuses on progress made in FY2002–FY2003, although it does provide a glimpse at some of the key deliverables scheduled for FY2004.[1]

The body of this report spotlights major milestones and initiatives. The Appendix provides a summary view of strategies and substrategies contained in the *Plan*. As this report shows, the Postal Service has made significant progress.

2.1 Foster Growth Through Customer Value

> In today's economy, creating customer value means both improving quality and affordability of products and services and providing the ability to access and use these products and services at times and places that are most convenient to the customer.
>
> — *Transformation Plan, page 13*

The Postal Service must maintain a sound financial foundation. This is dependent upon the revenues generated by postal products and services. In the *Transformation Plan* the Postal Service, under the overarching strategy of *Foster Growth Through Customer Value*, analyzed opportunities to increase Postal Service revenues via two main avenues: (1) by enhancing retail access to its products and services and (2) by adding value to and encouraging the growth of postal products and services.[2]

2.1.a Retail: Expand Access to Postal Services

In the *Transformation Plan* the Postal Service promised to provide customers with more and better access to its products and to make better, more efficient use of its extensive retail network. The shifting geography of Postal Service customers, the changes in customer lifestyles and behaviors, and the rise of new technology all affect how the Postal Service provides access to its products and services. As a result, the Postal Service is assessing how best to use its 38,000 retail locations and examining how technology and partnerships with other retailers can expand the use of self-service options and alternative points of access.

Move Simple Transactions Out of Post Offices

Stamp sales comprise the overwhelming majority of transactions conducted in Post Offices™. However, there are more convenient alternatives for selling stamps that save time for customers and avoid the costs associated with window transactions (e.g., vending machines, Stamps by Mail®, Stamps Online™, and Stamps on Consignment). Many customers are simply unaware that alternatives exist. Therefore, the Postal Service began actively promoting these alternatives, emphasizing that services

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[1] United States Postal Service Fiscal Year is October 1–September 30 starting with FY2004.
[2] For better management control some of the *Growth Through Customer Value* strategies listed in the *Plan* have been consolidated under other strategies. These are noted in the appendix.

are available where customers need them—at home, at work, where they shop, or at the Post Office.

In November 2002 the Postal Service launched a national campaign promoting alternative access to postal products and services to create customer awareness of stamp purchasing alternatives. This campaign included television and print ads, in addition to new logos and postal product signs that are displayed at 60,000 locations selling stamps, including over 16,000 ATMs.

Create New, Low-Cost Retail Alternatives

The Self Service Platform/Automated Postal Center (SSP/APC) is a next-generation self-service kiosk that enables customers to purchase postage and weigh and rate letters, flats, and parcels. The SSP/APC dispenses information based indicia (IBI) postage in any First-Class Mail, Priority Mail®, Parcel Post®, and Express Mail® denomination. It also dispenses First-Class Mail ATM stamp sheetlets; prints the Click-N-Ship™-style electronic label and Return Receipt; and provides Postal Service and mailing information, including ZIP Code lookup. The SSP/APC provides a touch-screen customer interface, an integrated scale for weighing and rating mailing items, and a debit/credit card swipe and pin pad. The SSP/APC does not accept or return cash. While the SSP/APC offers an alternative to full-service, it also replaces obsolete vending equipment.

The SSP was approved in March 2003, for the design, manufacture, and deployment of 2,500 units. Initial deployment for field evaluation will begin in mid-FY2004, and full deployment is scheduled for completion by the end of December FY2005.

To further customer access, the Postal Service is partnering with commercial retail outlets to sell postal products. An agreement with Hallmark was signed in September 2002 for the use of postage meters and the introduction of postal retail services at approximately 1,200 Hallmark Gold Crown stores to be completed by the end of FY2004.

Optimize the Retail Network

This strategy entails determining when and how to modify the retail network so that a different design will result in equivalent or better retail services for customers, in addition to avoiding unnecessary future expenditures.

Recognizing that there are many postal transactions that will still require visiting a Post Office, the Postal Service will address the types and levels of retail services best suited to customer needs by optimizing its retail network. Through retail optimization the Postal Service will provide more access to underserved areas, often fast-growing suburbs, while consolidating underutilized retail offices.

To determine how best to provide access to retail services the Retail Network Optimization initiative is developing a consistent and systematic methodology to maximize retail access strategy, which will result in equal or better value for Postal Service customers, in addition to avoiding unnecessary future postal expenditures.

At the same time, in preparation for rationalizing the retail network, field training for closing Post Offices was completed in August 2002, and Phase One of closing currently suspended Post Offices was finalized in November 2002. Phase One involved 230 offices. Phase Two, involving the closing of 281 currently suspended post offices, will be finalized in mid-FY2004.

Develop New Retail Services that Increase Customer Value and Postal Service Revenue

While the Postal Service will rationalize its retail network and continue to provide more convenient, lower-cost access alternatives to customers, it will maintain a nationwide network of retail locations to provide full service for postal products.

To generate additional revenue, the Postal Service is developing new services that will be offered at some postal retail locations. One successful initiative is the alliance agreement with FedEx, which included the installation of some 5,000 FedEx drop boxes at postal retail locations as of August 2002.

In the near term the Postal Service also is expanding and enhancing services it already provides for government and commercial partners, such as acceptance of passport applications.

2.1.b   Products and Services: Improve Value and Growth

Postal volume is inextricably tied to the nation's overall economy. However, even when the economy recovers, the Postal Service must find other ways to replace revenue and contribution that have been and will continue to be diverted to other communication alternatives. Since these alternatives impact First-Class Mail most directly, and since First-Class Mail funds the majority of the Postal Service's overhead costs necessary to maintain nationwide delivery, initiatives to enhance volume are being analyzed not only for revenue but also for potential contribution to overhead.

Use Technology to Enhance Value

The Postal Service is currently competing in an environment where information about the mail is valued as much as the mail itself. Providing and using information about the mail will be increasingly important to remain viable in the marketplace. To improve customers' ability to identify and track mailpieces, the Postal Service completed a number of initiatives in FY2002 and began and reassessed others in FY2003.

- Delivery Confirmation™ service was incorporated into the base price of Parcel Select in June 2002. That same year both Delivery Confirmation and Signature Confirmation™ services were expanded to First-Class Mail parcels. This offered customers a lower-cost option for receiving delivery information than traditional Certified Mail or Registered Mail.

- During FY2003 the Postal Service began offering CONFIRM® service, a mail tracking service that enables senders or recipients to follow mail as it passes through the automated mailstream. It is considered the first Intelligent Mail product (see below). CONFIRM is priced using a three-tiered, flexible subscription price structure. Recent enhancements include development of a CONFIRM Certification program to improve

quality of CONFIRM data for performance measurement, improvement of the CONFIRM Web site and Web-based shared reports used to report service performance information and data problems, and improvement in resources available to customers to learn about CONFIRM and interpret information.

- Bulk Certified Mail and Signature Download Subscription Service were implemented for Express Mail and Signature Confirmation (First-Class Mail, Priority Mail, and Package Services) in June 2003.

- The Track and Trace e-mail notification was completed in FY2003. Customers are able to use an email notification system, via *www.usps.com,* to check on the status of services supported by CONFIRM and e-mail the results to others.

The Postal Service is not only providing information about mail to its customers, it also has developed a long-term vision where end-to-end visibility of mail in the mailstream will become a reality. This vision is termed "Intelligent Mail." There are three main strategies that currently drive this effort:

- Uniquely Identify Mail and Aggregates. A key element of Intelligent Mail is the OneCode™ Vision, which refers to creating one distribution code per mail type to identify mail and aggregates uniquely. The Postal Service began the effort in FY2003 to develop unique coding for letters, flats, parcels, trays, and mail containers. It will take several years to achieve the OneCode Vision to integrate technology and change postal and mailer barcoding processes.

- Develop and Deploy Enabling Infrastructure. The information-sharing requirements of a successful Intelligent Mail effort depend on a suitable infrastructure being in place. The Postal Service began work in FY2003 on developing and deploying a set of enterprise-wide common infrastructures that will capture codes on mail and disseminate the information to customers and Postal Service managers in near real time. The Board of Governors approved funding in May 2003 to build the Mail Processing Infrastructure (MPI) for 62 processing and distribution centers. The MPI initiative will maximize performance by ensuring flexibility, data integrity, and adequate bandwidth for communication between mail processing equipment and systems. Deployment of this and other enabling infrastructures will take several years to complete because each facility must be upgraded with new computer wiring.

- Enhance Address Quality. Efforts, which began in FY2002, continue to improve the postal address database by using commercial address databases, improving the process of filing change-of-address orders, and simplifying the use of Address Change Service. A focus was placed on increasing the use of the Internet Change-of-Address, which is the least expensive, most accurate, and most timely way to collect change-of-address information. In FY2003, customer usage of the Internet for change-of-address service increased by more than 60 percent over FY2002.

Design Rates and Mail Preparation to Match Customer Capabilities and Needs

The Postal Service recognizes the wide range of needs and capabilities within its customer base. Streamlining the postal ratemaking process and developing more flexible procedural solutions to rate and classification cases will allow the Postal Service

to increase its responsiveness to customer needs. A number of key initiatives have been undertaken in this area.

- The Postal Service and the Postal Rate Commission jointly sponsored a rate-making summit in the spring of 2002 that solicited stakeholder input on postal rate-making issues. The discussion focused on improvements in the presentation of data, on suggestions to make the rate setting process more transparent, on implementation of phased rates, and on negotiated service agreements (NSAs).

- The first-ever NSA allowed the Postal Service, beginning in September 2003, to implement an experimental contract pricing agreement with Capital One Services aimed at increasing volume and revenue and reducing costs. Additional NSAs are expected to be filed in FY2004.

- The Postal Service is examining its products through an initiative known as Product Redesign, and during FY2002 worked closely with customers to identify potential product changes and enhancements. The objectives of Product Redesign are to identify opportunities to reduce combined mailer/Postal Service costs as well as to examine the potential for a more shape-based rate system. Internal review of the ideas generated occurred during FY2003, and discussions with industry groups will continue in FY2004.

- In April 2003 an additional discount to encourage the combining of small-circulation Periodicals mailpieces into pallet loads and depositing those pallets closer to their destination was implemented. This classification will reduce costs for Periodicals service and make efficient mail preparation more attractive for relatively high-cost and typically smaller volume, Periodicals' mailers.

- In August 2003 a classification case for Customized MarketMail™ was implemented that allows customers to mail innovative, high-impact, non-rectangular, direct mailpieces that previously had not been mailable. The unique nature of these pieces makes the service attractive to advertisers seeking a select, targeted audience.

Position Mail as a Key Communications Medium and as a Customer Relationship Management Tool

Mail has long been a key tool for mailers to communicate with and manage their relationships with customers. The Postal Service is improving its efforts to position its products more effectively. In January 2003 the Postal Service re-launched its award-winning Web site, *www.usps.com,* to focus on the needs of consumers and small businesses.

The Direct Mail Affiliate Merchant program was launched in FY2002. This program includes creating online partnerships with companies offering online direct mail services, such as list services, artwork, design, printing, and production.

Volume One of the Simple Formulas Toolkit was distributed during FY2002. This toolkit is a series of easy-to-read brochures that focuses on best practices and proven strategies for using mail to acquire new customers, increase sales, and create loyalty. In early FY2003 this series expanded to include a Spanish language and an Internet edition.

A series of Direct Mail Made Easy seminars were held throughout FY2002 to educate small businesses on how to use direct mail effectively. Possible expansion and continuation of these seminars, including a pilot Spanish language offering, were evaluated in FY2003.

Enhance Package Services

The Postal Service has a number of continuing strategies to position itself better in the package market, a significant area for revenue growth opportunities.

- A two-year experimental Parcel Return Services (PRS) case, which began in October 2003, will allow the Postal Service to evaluate opportunities to improve processing and transportation of parcels and flats. Commercial shippers will be able to pick up returned packages in bulk at facilities near the recipients' addresses and receive discounts for the handling and transportation costs avoided when the Postal Service no longer has to return the pieces all the way to the original shipper.

- In early FY2003 the Postal Service launched an online postage label application, Click-N-Ship, which enables third parties to integrate postal products and services into their applications. More than 6.2 million labels have been printed by customers online since the program started, making it a very popular service.

Also under development are programs to improve the scan rates for Priority Mail and offering customers a prepaid, flat-rate Priority Mail envelope.

Map Channel Strategies Around Customer Needs, Contribution, and Growth Potential

In early FY2003 the Postal Service improved its marketing effectiveness by implementing plans to target its marketing programs against key mailing segments.

Postal Service sales initiatives now focus on the highest growth opportunities while high levels of customer service are provided by the Business Service Network. Alignment of sales and service activities will lead to higher sales productivity, improved ability to meet customer needs, and better ways to help postal customers meet their business objectives by using the mail.

Develop New Features and Services

In addition to positioning mail as a key communication tool, the Postal Service is working hard to develop products and services to meet growing customer needs and provide mailers different options.

A number of new product initiatives such as Repositionable Notes™ and Friend-to-Friend™ mail were developed in FY2003.

- Repositionable Notes allows advertising mailers to put a Post-it® type note on letters. The note is not damaged by mail processing equipment and can be removed by the customer and "repositioned" on a desk, refrigerator, telephone, or other object as a reminder. The application of Repositionable Notes on letters is currently available, while testing is still being performed for flats.

- Friend-to-Friend mail provides advertisers with a way to obtain new leads and increase customer loyalty. The advertiser gives a postcard promoting its business to a customer, who sends a similar postcard along to a friend or friends. Friend-to-Friend mail ended acceptance of new customers and/or new mailings for its operational test in July 2003 and is currently being evaluated.

- The Electronic Postmark® service, which leverages the Postal Service brand and enforcement authority, was launched in January 2003.

Develop a Corporate Pricing Plan

The first step in developing a corporate pricing plan is to make it easier for customers to use postal products and services. To this end the Postal Service is making mailing rules and regulations more market responsive.

The Postal Service is redesigning the *Domestic Mail Manual* (DMM) to address more effectively the needs of specific customer segments, thereby providing customers with easier-to-access "modules" that target their segment-specific requirements. The first of four DMM publications, DMM 100, *A Customer's Guide to Mailing*, addresses the needs of household mailers and was completed at the end of FY2002. A Spanish version of DMM 100 has been released and a Chinese-language version is under development. The DMM 200, *A Guide to Mailing for Businesses and Organizations*, designed for small business mailers, was released in April 2003. These DMM publications are available to customers on *www.usps.com*. The next two versions, DMM 300 (a general guide to mailing), and DMM 400 (a supplemental technical guide) will be released in FY2004 and FY2005.

Generate New Revenue for the Postal Service by Retaining and Increasing International Market Share

The Postal Service is moving actively in the international mail market as it seeks to retain a viable share of the growing international mail and package business. These efforts place greater emphasis on delivery performance for all classes of international mail, particularly the lucrative package market. In FY2003, the Postal Service actively participated in establishing consistent service for Postal Service customers sending Global Express Mail (EMS) and Air Parcels to 22 European countries using the Royal Mail/General Logistics System (GLS) Pan-European delivery network. The Postal Service has also achieved the following:

- Established a joint U.S.-Canadian work team to develop improvements in the U.S.-Canadian market.

- Reduced the cycle time for international customized mailing agreements, which can greatly improve the value and contribution of these agreements.

- Developed a strategic business case in FY2003 for the consideration of chief executives of the Pacific Rim nations.

2.2 Increase Operational Efficiency

> The Postal Service will utilize new technology, cost management and planning to improve operational efficiency...In total, these near-term, customer-focused, operational, and performance-based strategies will generate $5 billion in savings and cost avoidance through 2006, of which $1 billion will be in Post Office operations.
>
> *— Transformation Plan, page M-2 and vii*

The *Transformation Plan* described 10 specific, efficiency-based strategies that will take further costs out of the Postal Service's operating systems. Progress made to implement each of these strategies is described below.

Enhance Already Efficient Letter Processing

Already the world's leader in applying automation technology, both to read addresses and sort mail, the Postal Service continues to rely heavily on technology to improve efficiency and to control costs. The Postal Service's extremely efficient automated letter processing will soon add another component through implementation of a contract awarded in June 2002 for development of a new application to improve the forwarding of letter mail. Known as the Postal Automated Redirection System (PARS), the system will allow the Postal Service to intercept undeliverable-as-addressed mail very early in the distribution process and "redirect" those mailpieces to their appropriate next handling, thereby reducing time and handlings.

A successful first article test is expected in early FY2004, with national deployment beginning mid-FY2004 and taking about eight months to complete.

Complete Automation of Flats Processing

The successful application of automation technology to letter operations is being duplicated for flat mail distribution. New automation programs are being developed for the flat mailstream, where the investments will improve productivity and control flats handling costs. The *Transformation Plan* discussed strategies to increase machine throughput, improve address recognition, enhance feeder systems, and add tray handling systems. Investments were made and progress is outlined below regarding the deployment of the automated flat sorting machine 100 (AFSM 100); the automated flat feed/optical character reader (AFF/OCR) modification to the flat sorting machine 1000 (FSM 1000), which will become the upgraded flat sorting machine 1000 (UFSM 1000); the Automatic Tray Handling System for the AFSM 100; the Automatic Tray Handling System (ATHS) for the UFSM 1000 (ATHS 1000); and the flats remote encoding system.

In July 2002 the Postal Service completed national deployment of 534 AFSM 100s. With its automated feeders and online video encoding system for non-machine-readable flat mail, it allows the Postal Service to process flat mail more efficiently than ever before. Flats productivity has increased dramatically in processing facilities with about 80 percent of flats distribution currently being processed on the AFSM 100.

Flats distribution technology is being improved even further as a result of acceptance of the AFF/OCR modification to the FSM 1000 in FY2002. The FSM 1000 has the capability to sort thick, hard-to-handle flat-sized pieces, and the AFF/OCR modifications will increase machine throughput. Deployment of these modifications began in June 2002 and was completed in November 2002 for the first 336 machines. Four systems

are impacted by the anthrax contamination of Trenton and Washington, DC Processing and Distribution Centers. These units will be deployed when the facilities are decontaminated and/or the equipment relocated to another location.

Research, development and field testing began in July 2002 on the ATHS for the AFSM 100. This system would replace take-away conveyors with a state-of-the-art system that can automatically extract and replace trays, as well as label the trays. A vendor has built a prototype of the ATHS, and Postal Service engineers are currently evaluating the unit. Field testing was completed in April 2003, and funding was approved at the August 2003 Board of Governors' meeting. A contract to produce 350 ATHS 100 systems was awarded at the end of FY2003. Deployment is scheduled to begin by the end of FY2004.

A system similar to the AFSM 100 ATHS, is being considered for the UFSM 1000. Postal Service Engineering is currently in discussions with vendors.

Another significant improvement to flats distribution will be the consolidation of remote encoding of non-machine-readable addresses on flats at the remote encoding centers. This effort will enable the Postal Service to concentrate and improve the efficiency of the AFSM 100 video encoding operation. It will also provide an infrastructure that will support other remote encoding demands for PARS and the Automated Package Processing Systems and enable downstream distribution operations to take advantage of codes applied via the remote encoding process. This concept was approved and funded at the end of May 2002. National deployment is scheduled to take place throughout FY2004.

Expand Mechanization of Material Handling Operations

In addition to the highly successful letter and flat automated distribution strategies the Postal Service has put into place, there have been a number of initiatives focused on material handling activities. Two projects to expand mechanization of material handling operations, the low-cost tray sorter and the universal tray system, were highlighted in the *Transformation Plan*.

The original plan calling for 127 low-cost tray sorters has been increased to 200. Full deployment is expected to be completed by mid-FY2004.

In addition, the universal tray system under development passed its acceptance test in June 2002. This system will be able to transport trays, as well as bundles, parcels and sacks, through the plant. Integration of future components is projected for FY2005.

Improve Delivery Efficiency

Delivery is the Postal Service's largest cost center and grows each year. In both FY2002 and FY2003 the Postal Service added approximately 1.8 million new delivery points. There are eight transformation strategies focused on improving delivery efficiency. Significant research and development efforts are the delivery point sequencing of flat-sized mail and the delivery point packaging of both letters and flats into individual delivery point packages. These efforts are designed to examine the feasibility of these sequencing initiatives. If one of these initiatives proves feasible, the Postal Service will work with the affected constituencies to assure a smooth implementation. Even during

the research and development phase, the Postal Service will continue to work with all parties to obtain their input in assessing the feasibility.

Delivery point sequencing of flats will replace the need for an individual to sort flats manually into the sequence in which they are to be delivered. It requires the development of an automated Flats Sequencing System. Multiple contract awards are in process and proposals are due early in FY2004.

Delivery point packaging consolidates delivery point sequenced letters and flats into a single unit that can be delivered as a single piece. This is a six-year project planned through FY2008. The Board of Governors has approved research and development funding for this project. Three other strategies that focus on improving delivery efficiency are at the following stages of development:

- Deployment of the Delivery Operations Information System (DOIS), which replaces three stand-alone applications with a new system that provides delivery supervisors with timely data, was completed in FY2002.

- The Managed Service Points (MSP) program, an effort to support tracking of consistent delivery times each day, was started in January 2002 and was completed early in FY2003. This system records the time a carrier reaches various locations on his/her route and compares those times with the planned or expected times. A reduction in workhours on the street has occurred for the first time, which, in part, is attributable to MSP. (DOIS and MSP were integrated in 2003.)

- Progress on the development of the Delivery Performance Achievement and Recognition System (DPARS) resulted in its use as one of the budgeting tools used to develop the FY2003 field operations budget. DPARS is based on the concept that the demonstrated performance of top offices within peer groups of like-sized offices will set the benchmark target. The actual performance compared to the target performance serves to identify opportunities for improvement. The recognition system established goals and the best performing offices are recognized.

There are three initiatives aimed at improving rural delivery: rural time review, managing rural delivery, and ongoing electronic Operations newsletters focusing on rural issues. This strategy focuses on training postmasters and supervisors about rural timekeeping and offers help in managing Post Offices.

Savings opportunities for the Postal Service have also been explored through delivery route modeling and an effort to improve delivery using motorized scooters. Development of an optimization model, which will determine the best way to route carriers (Carrier Optimal Routing), began in January 2002 with alpha testing. A decision on national deployment was made in September 2003. The route optimization process will assist in reducing workhours, vehicle mileage, and costs while improving safety.

The highly publicized Segway™ Human Transporter (HT) is a motorized scooter which the Postal Service deployed experimentally along various postal routes. The test was designed to determine the feasibility of using the Segway HT to assist carriers in delivering the mail. The Segway HT allows letter carriers to travel more quickly while reducing the physical burden of carrying the mail. A contract was signed in spring

FY2002 to test 40 units. There are no plans to expand this testing beyond this current phase until Segway can provide an extended-life battery.

Deploy Next Generation Package Sorting Equipment

The Postal Service sees package delivery as a revenue growth opportunity and is pursuing greater efficiency in package sorting activities. Two package sorting equipment strategies are progressing.

- The singulate, scan, induction unit (SSIU) has been deployed to 19 of the 21 bulk mail centers (BMCs). This device allows parcels to be sent one at a time through a dimensioning unit, a weigh-in-motion scale, and then through a scanning tunnel that reads the package barcode.

- A contract for the next generation of sorting equipment for parcels and bundles, the Automated Package Processing System, was awarded in early FY2003. First article is projected to be completed by mid-FY2004 with deployment through FY2005.

Optimize Transportation and Distribution Networks

There was progress on a number of transportation management systems. These systems have developed and enhanced the Postal Service's ability to assure that mail is planned and routed effectively and that transportation contractors and the Postal Service have the data by which to assess costs and service performance more accurately.

- The Surface Air Management System supports planning, assignment, and tracking of transported mail. National deployment of distribution tables was completed at the beginning of FY2003. The last major component of this effort, the automatic repossession and reassignment of mail, was completed in June 2003.

- Transportation Optimization Planning and Scheduling will help actively plan and execute transportation processes. A statement of work was completed in April 2002. The decision analysis and review process is expected to be completed by mid-FY2004. Phase One, the conceptual design, is complete. Phase Two, the design optimizer, is awaiting the ability to synchronize with the logistics scanning pilot.

- The Surface Air Support System (SASS), which links assigned transportation created in the SAMS to payment reconciliation and service performance assessment, is underway. By September 2001 scanners were deployed to support Postal Service Amtrak facilities, terminal handling services, and surface tracking. SASS will become the central repository for all mail assignment information and scanning data, as well as a payment reconciliation system for FedEx, commercial air, and terminal handling suppliers.

- The Transportation Contract Support System, which replaces the Highway Contract Support legacy system, is on track with application development completed in November 2002. Deployment was completed April 2003.

A strategy to optimize transportation of mail transport equipment through the use of available empty highway and rail backhaul trips, as well as existing highway mail hauling

trips, was fully implemented in FY2002. Conversion from high-cost cloth to low-cost plastic mailbags was completed in FY2003 with an estimated $8.4 million in savings.

The Postal Service has initiated a comprehensive redesign of its distribution and transportation networks. The Network Integration and Alignment (NIA) project will develop and use optimization and simulation models to analyze a variety of network alternatives. The goal is to streamline the distribution and transportation network to reduce total costs, increase operational effectiveness, and improve service. A by-product of optimizing the national distribution network will be the expansion, consolidation, and/or closure of processing facilities. The Postal Service has developed the models, collected and validated data inputs, and completed simulation exercises that examined the feasibility of optimization results.

Opportunities are expected to be identified that could significantly reduce processing and transportation costs. To develop NIA, several major efforts were completed in FY2002. A baseline analysis was completed in May 2002, and extensive operational and volume data were collected through the first quarter of FY2003. The recent report of the President's Commission on the U.S. Postal Service indicated support for this program, and stakeholder meetings regarding the new system have started and will continue through early FY2004.

Increase Retail and Customer Service Productivity

Customer service productivity improvement strategies include continued automation of Post Office backroom activities, automation of mail forwarding, and standardization of operational best practices.

A review process to baseline the Computerized Forwarding System (CFS) was completed in October 2002. Updates to the CFS management guidelines began in February 2002 and were finalized at the end of July 2003.

A review of retail facility designs was conducted in order to reduce overall construction costs; provide 24-hours-a-day, seven-days-a-week access to critical products and services; and to incorporate new retail options as they are developed. An evaluation of construction costs given existing retail standards has been completed. Full benchmarking of the current Postal Service standards against Canada Post and private sector retailers was completed in July 2003. Consultation with Canada Post regarding its standards for customer access is scheduled for early FY2004.

Improve Performance Management

Another strategy to enhance operational efficiency is to consolidate and standardize processes and to monitor performance. The Postal Service is actively engaged in both.

Initial studies have been completed that identify opportunities to consolidate mail processing (Area Mail Processing) operations. Improvements to the process for conducting such studies are also finished. Recommended Area Mail Processing consolidations, however, are currently on hold until the NIA effort is completed, as NIA is analyzing processing options on a national level.

Efforts are underway to reduce the number of processing annexes in an effort to increase operating efficiencies. Other efforts to improve performance management are focusing on a review of specific material handling operations activities and Priority Mail processes.

A major cost center in operations is identified as other direct processing or Labor Distribution Code (LDC) 17 operations. LDC 17 includes functions such as preparing mail for distribution and dispatching of mail. Standardization of these processes has been reviewed in order to accomplish three objectives: (1) identify, realign, and standardize operations and establish a standardized work center; (2), develop workload measures for each operation; and (3) establish performance targets and indicators for the work centers. The first step of this strategy was focused on identifying requirements and developing plans for standardization. This was completed in mid-FY2002. From FY1999 through FY2003 LDC 17 workhours will have decreased by approximately 17 million.

Priority Mail operations have also been targeted for standardized processing. A design team established to study the issue completed a project plan in August 2002, and a review of existing process documentation has been completed. Standardized processes for mail preparation, flats processing, parcel processing, and dispatch operations are currently being implemented.

To ensure the success of standardization efforts to improve operational efficiency, the Postal Service has established an Internal Control function that minimizes the risk associated with each operational process and ensures that accountability is maintained. The new Internal Control function is directed by Headquarters and operates through a team of staff experts who are trained internal control analysts. Control analysts are assigned as consultants to the management of each performance cluster to assist those managers in optimizing performance under existing internal controls and policies within their cluster.

Manage Realty Assets

Through efforts to review and streamline its facilities, in FY2002 the Postal Service realized proceeds of $24.5 million. After subtracting the book value of disposed assets, the Postal Service had a net gain of $9 million. The FY2003 realty activity is pending final audit.

International Air Transportation Deregulation

This effort is designed to study deregulation of air transportation rates for the transportation of international and military mail and convey to the Postal Service the authority to contract competitively for such transportation in the open market. In June 2002, a project plan was developed to begin this effort. In FY2004 the Postal Service will proceed with analyses and will continue to seek legislative sponsorship.

2.3 Enhance Performance-Based Culture

> The Postal Service will implement strategies to move the organization toward a performance-based culture and maximize the performance of Postal Service employees.
>
> —*Transformation Plan, p. 33.*

The Postal Service knows it can achieve the levels of performance necessary for transformation only if it establishes an effective, diverse, and motivated workforce of individuals who know what is expected of them and are recognized for their personal and team accomplishments. To that end, a number of performance-based initiatives are already complete, some are in the early stages of implementation, while others remain in development. All are aimed at fulfilling the Postal Service's commitment to position the right people, with the right skills, in the right places, at the right time.

2.3.a Right People, Right Skills, Right Place, Right Time

Retain and Recruit Quality Employees

The Postal Service must understand the influences causing its employees to leave and determine what it can do to reverse the trend, especially in skilled positions. The Postal Service also must be prepared to replace those who leave with trained and qualified employees. The organization has increased its recruitment efforts through a series of new initiatives.

A comprehensive retention study was completed during March 2003. This study examined historical turnover rates and future attrition projections for executive, managerial, and other positions requiring specialized skills. The study found that the Postal Service, in general, does not have a national retention problem. The average turnover rate during the five-year period ending FY2002 was 4.8 percent. The study did find isolated pockets of higher turnover in the Washington metropolitan area, due in large part to the availability of a wide range of other federal employment opportunities.

In order to ensure long-term continuity of succession for Postal Service leadership positions requiring managerial, operational, professional, and technical skills, the Postal Service has developed a number of intern programs.

- An initial recruitment effort to bring professional and specialist interns into an intensive two-year training program designed to prepare them for certain critical positions, including accountants, statisticians, economists, compensation specialists, and psychologists, was concluded in FY2003. This is an ongoing activity.

- In the spring of FY2002 an initial group of 23 interns was hired for the new, two-year Management Intern Program. A second group of 33 interns began in April 2003. A third group is currently being recruited. This two-year program provides training in Customer Services, Processing and Distribution, Finance, Employee Resource Management, and Administrative Services. These training experiences are designed to prepare the interns to assume leadership responsibilities in field operations.

- Initial recruitment for the new Industrial Engineer training program is complete. Industrial engineer trainees were hired in February 2003 and June 2003. This effort will provide engineers who have been exposed to every facet of postal operations, making them better prepared to position the Postal Service hardware, software, and human resources to their maximum efficiency. This is an ongoing activity.

- The Associate Supervisor Program has now been established as the standard for recruiting and developing internal and external talent for initial level supervisor positions.

The Postal Service also has entered into partnerships with seven colleges, universities, and vocational-technical schools in six metropolitan areas. These partnerships are part of a new recruitment strategy for hard-to-fill automotive mechanic and technician positions. The pilot will focus specifically on attracting skilled candidates to fill these positions and evaluate the examination process to streamline and reduce cycle time. Information sessions were conducted in May 2003.

Develop Current and Future Leaders

One of the keys to ensuring the succession of future leaders of any organization is the development of high-potential employees. In FY2002 the Postal Service completed the development of a Web-based Individual Development Plan (IDP) system. Using the IDP, individuals already holding management positions must identify their skills, training, areas of expertise, and areas of developmental focus. This information is tracked to ensure that all potential candidates for higher-level or more specialized jobs are following a plan that includes the training and work experiences necessary to enable these individuals to fill vacant positions and lead the organization into the future.

In FY2003 the Corporate Succession Planning (CSP) process was redesigned. Through an online process, all Executive and Administrative Schedule Level 22 and above employees, as well as current executives, can nominate themselves for executive positions. The components of this new process include self-nomination, self-assessment based on eight key competencies, a leadership assessment survey, IDP, and review of nominees by a succession planning committee. The CSP process was opened to all eligible employees in September 2003. During FY2004 all applications will be evaluated and reviewed.

Ensure Training and Development

As part of the effort to develop its leaders, the Postal Service is committed to ensuring that a dynamic training continuum is available to its employees. A variety of solutions is being investigated and implemented to guarantee that Postal Service employees have access to the most up-to-date training available. To this end, a number of new initiatives have been initiated.

- An Executive Development Program has been designed and developed, and Phase One is being implemented. Pilot offerings were held in January 2003; program rollout began in February 2003. This program is significantly ahead of schedule and will continue through FY2005.

- Several electronic training programs were piloted and implemented during FY2002, including the Leadership Excellence at the Desktop (LEAD) Training program and a pilot of the Electronic Leadership Development program. These new e-learning initiatives allow the Postal Service to deliver leadership training directly to its employees on a continual basis in a very cost effective manner.

- A Learning Management System (LMS) is designed to coordinate administration, scheduling, tracking, assessment, and testing of learners in both classroom and e-learning settings. Phase One implementation began in April 2003 with full deployment expected in mid-FY2004.

Create a Performance-Based Pay System

The Postal Service is on target for improving accountability through greater use of performance-based pay to recognize individual and team efforts. In FY2003, 800 executives participated in a new pay-for-performance program based on the National Performance Assessment (NPA) system and evaluations of core requirements of their positions. As a result of successful consultations with the three postal management associations, beginning FY2004, 78,000 other non-bargaining employees will be evaluated under the same evaluation system and participate in the pay-for-performance program.

The new performance evaluation systems are designed to make meaningful distinctions in performance based on an objective, independently verifiable measure of organizational and individual success. While the weights and makeup of certain components of the evaluation system will vary from one employee group to another, three basic components are used to measure employee performance: corporate indicators, unit indicators, and core requirements of an individual's job. In all instances, these performance indicators have been aligned to improve customer service, generate revenue, manage costs, and enhance a performance-based culture.

The new pay systems are based solely on these performance evaluations. There are not automatic or across-the-board pay increases for executives or non-bargaining employees. All pay actions are made within a salary structure that is market-based following an independent and comprehensive market analysis of postal positions. Salary structures at the top levels of the organization are compressed by the statutory salary cap.

Build a Highly Effective and Motivated Workforce

In the transformation effort to build a highly effective and motivated workforce, the Postal Service is focusing and building on programs currently in place. The first step in this process is to create managerial accountability for workplace environment issues. To this end a focus on improving the percentage of favorable responses to questions on the Voice of the Employee (VOE) survey has continued and is now a part of the NPA for FY2003. Each area and district is required to improve their VOE Index.

As a further part of this effort the district and area leadership of the Postal Service has been encouraged to support the work of the District Joint Employee Assistance Program (EAP) Advisory Committee and Diversity Development's continuous education initiatives. Each district must maintain both a Threat Assessment Team and a Crisis Management Team to provide violence awareness and sexual and workplace harassment training according to policy.

The Workplace Environment Improvement Advisory Committee has established new, objective criteria to identify troubled worksites and track progress of action plans for remediation. From FY2002 to the end of FY2003 the number of troubled worksites has been reduced from 39 to 14. These efforts will continue into FY2004.

Improve Labor/Management Relations

For the first time since 1987 the Postal Service reached negotiated agreements with its four largest unions, thereby avoiding lengthy and highly contentious arbitration processes. This represents a significant accomplishment: not only that the agreements were reached, but also in their terms and conditions.

The agreement with the National Association of Letter Carriers (NALC), which covers more than 230,000 Postal Service letter carriers, extends for a period of five years. This allows the Postal Service to anticipate its carrier labor rates well into the future, enabling it to better forecast future revenue needs.

The agreement with the National Rural Letter Carriers Association, which represents some 60,000 carriers, provides increases in compensation that are directly reflected in negotiated increases in productivity.

In efforts to improve communications between management and the unions, the Postal Service is working with all its major unions to produce manuals that provide a joint understanding of the interpretation and administration of the provisions of the various national agreements. This communication effort has proven invaluable in reducing tension between labor and management on the workroom floor, as it eliminates disagreements over the meaning of the provisions of the national agreements. The ability to produce such products is a direct manifestation of the improving and maturing relationships with postal labor organizations at the national level and of the desire of all parties to achieve harmonious relations at all organizational levels.

Indicative of that maturing relationship is an agreement signed with the NALC in April 2003. The agreement recognizes that the model created by the Postal Reorganization Act of 1970 does not work in today's environment and that the Postal Service must change how it does business. The parties agreed to establish a joint task force to explore alternate delivery models that will successfully position the Postal Service as the premier provider of delivery services to every home and business in the nation. In FY2003 the task force considered the impact of business and technological changes on delivery services and letter carriers and explored opportunities for change that will provide opportunities for greater revenue generation.

Improve Workforce Planning

Complement management is critical to an organization with more than 730,000 career employees. The Postal Service has centralized responsibility for workforce planning and complement management for operations under the direction of the chief operating officer.

The Postal Service has developed and deployed several tools that will allow it to plan, adjust, and track complement, as well as project complement needs based on changes in business and operational requirements. The Postal Service has also created and filled new field complement coordinator positions, through which all complement management information will flow, and has trained the coordinators in the use of these management tools.

These efforts to address the question of employee complement have provided the Postal Service with the ability to determine the right people and skills to meet current mail volumes, to project what skills will be required in a changing environment, and to facilitate employee movement to meet those changes.

2.3.b Reduced Costs

Expand Shared Services and Explore Outsourcing

No matter how successful its retention efforts or how effective it becomes at moving current employees from their present locations or assignments to those of greater need, the Postal Service always faces the need to hire new employees. Hiring has long been an extremely labor-intensive, paper-intensive, time-consuming process. The Postal Service is currently testing, in partnership with the Office of Personnel Management (OPM), a process which reduces the amount of time, energy, and paper involved in hiring.

Shared Services/Accounting (SS/A) reengineered and automated accounting processes, and consolidated residual transactions, thereby eliminating the requirement for employees to conduct transactional processing at individual field district offices across the nation. As a result of implementing SS/A in FY2003, all 85 district accounting offices have been closed as of September 5, 2003, eliminating 800 positions. Other cost reduction activities include fully automating the Postal Service timekeeping system which resulted in reduction of 1,005 timekeepers. Automation of this system also resulted in reducing the necessity for payroll adjustments by 13.5 percent through FY2003. These transformational efforts to reduce finance administrative costs, to enhance management information, and to improve internal controls contribute significantly toward enhancing the performance-based culture of the Postal Service and also to the commitment of $5 billion in savings and cost avoidance through FY2006.

A strategic roadmap was completed in April 2003 for Human Capital Management. It provides a plan for implementing the necessary processes and technology for transformation to a shared services environment for all Human Resources processes. An enterprise resource planning system will be the backbone for process engineering and transactional automation. The first component is the Organizational Management system, which was deployed in August 2003.

The Postal Service Employee Self-Service kiosk program was piloted from July 2002 through September 2002. The pilot was successful. More than 300 employee self-service kiosks have been purchased and 197 have been installed.

Finally, negotiations to establish an Employee Stock Ownership Plan (ESOP) company to contract Postal Service Equal Employment Opportunity (EEO) investigations were terminated in June 2003 due to prohibitive costs. An alternate plan, which maintains internal, centralized Postal Service management while continuing to outsource investigations, was developed. The goal to outsource investigations has not changed. The new plan calls for investigations to be conducted by independent contractors retained by the Postal Service. The Postal Service will continue to seek additional outsourcing opportunities in FY2004 and beyond.

Improve the Collective Bargaining Interest Arbitration Process

Of particular importance in the Performance-Based Culture initiatives in the *Transformation Plan* is the Postal Service's commitment to improve the Collective Bargaining Interest Arbitration Process. To this end the Postal Service is working to convene a series of meetings with both management and labor representatives where changes will be discussed.

Reduce Workers' Compensation Costs

Like all federal agencies and private sector employers, the Postal Service faces continually rising costs attributable to providing health care to employees who are injured on the job. The Postal Service has just completed the national implementation of its Preferred Provider Organization (PPO) program with First Health, which through its hospital and physician network will reduce medical fees below what Office of Workers' Compensation Programs (OWCP) allows through its fee schedule. The bills submitted by First Health's network providers are paid at agreed contract rates, which are usually substantially lower than the OWCP allowance.

The First Health-Postal Service program was fully deployed to all 12 of the Department of Labor's OWCP offices in the summer of FY2002, producing substantial benefits. In addition, the First Health Preferred Provider Program is fully deployed nationwide with favorable results attained in reducing Postal Service medical costs. To date, the Postal Service has received more than $1.4 million in gain share payments and avoided $48.6 million in medical payments.

A cooperative effort between the Postal Service and the OWCP also exists in private sector outplacement of injured employees. For the past two years, OWCP has been working diligently with the Postal Service to identify outplacement opportunities in the federal or private sector for rehabilitation candidates. The successful outplacement of employees with new employers is critical. This program ensures that gainful employment is available for work-capable employees with either the Postal Service or new employers.

2.4 Enabling Strategies

...Enabling functions support attainment of the [Postal Service] commitments...

— *Transformation Plan, p. vi*

During FY2002 and FY2003 significant progress was made on numerous enabling transformation initiatives in support of the Postal Service's commitments to foster growth through customer value, improve operational efficiency, and enhance performance-based culture. These initiatives range from financial management to privacy and are at various stages of completion as discussed in the following paragraphs.

2.4.a Enhance Financial Management

Reduce Outstanding Debt

In the April 2002 Transformation Plan the Postal Service committed to reducing outstanding debt by recovering prior year losses and maintaining a disciplined capital investment program.

The Financial Plan for FY2002, formulated in August 2001, projected a net increase of $1.6 billion in debt outstanding for the year. The plan was based on an estimated loss of $1.2 billion and capital expenditures of $1.7 billion. As a result of an accelerated rate case and decisive actions to control expenses and capital spending, the Postal Service achieved a lower net loss than planned for FY2002. This enabled the Postal Service to reduce outstanding debt by $200 million. The Postal Service ended FY2002 with $11.1 billion in total debt.

A debt reduction plan was incorporated into the FY2003 Integrated Financial Plan (IFP), the first planned reduction in debt since 1997. However, the Postal Civil Service Retirement System Funding Reform Act of 2003 (Public Law 108–18), enacted in April, dramatically changed the Postal Service's debt management. The legislation not only reduced the required payments into the Civil Service Retirement System (CSRS) by the Postal Service, it also mandated that all savings, as defined in the Act, be used to reduce postal debt in both FY2003 and FY2004. Implementation of Public Law 108–18 provided cash savings estimated at $3.5 billion in FY2003; these savings were applied to debt reduction. In FY2003 debt was reduced by $3.8 billion to an outstanding balance of $7.3 billion.

The FY2004 IFP includes debt reduction of $4.2 to $4.7 billion, well beyond the estimated $2.7 billion required by Public Law 108–18. To facilitate this debt reduction plan the Postal Service refinanced $7.3 billion of long-term debt with short-term debt during FY2003. The Postal Service conducted multiple debt refinancing transactions throughout FY2003, ultimately refinancing all of its long-term debt. Refinancing transactions included $1.3 billion from January through July at zero up-front cost. In August 2003, the Postal Service paid an upfront premium of $360 million, a reduction to FY2003 net income, to refinance the remaining $6 billion of long-term debt. The retired debt carried an average interest rate of 5.1 percent and was replaced by short-term debt with an average interest rate of 1.1 percent. As a result of all the 2003 refinancing transactions, not only did the Postal Service save $62 million in interest in FY2003 and will save an additional $336 million in FY2004, but the refinancing allows the Postal Service the flexibility to pay off a substantial amount of debt in FY2004 as required by the Act.

Enhance Reporting Transparency

As part of the strategy to increase reporting transparency, a major concern of the General Accounting Office (GAO) when it urged Congress to request that the Postal Service prepare a *Transformation Plan*, the Postal Service began posting quarterly financial conditions and results on its public Web site, *www.usps.com,* in May 2002.

The conversion to monthly reporting in early FY2004 will eliminate confusion about the postal calendar year and will allow comparisons of Postal Service financial results with

results of competitors and customers and with government and other econometric databases, which are most frequently in calendar quarter and monthly formats. The Postal Service will also implement a new General Ledger system in FY2004. This "commercial off-the-shelf" system will enable monthly reporting. Monthly reporting will enhance the transparency of the Postal Service financial reporting, consistent with recent GAO recommendations.

Finance Delivery Network Expansion on Current Basis and Explore Alternative Investments for Deferred Retirement Liabilities

The Postal Service examined the funding mechanisms that support its delivery and retail networks and found that there is currently no way for the Postal Service to generate funds to recover the cost of acquiring land. Full financial self-sufficiency requires that all costs, including land acquisition costs, be recovered through revenues. If a land acquisition cost allowance is added to rate case revenue requirements, then the customers who benefit from land purchases would also fund the purchase of that land. Accordingly, the Postal Service is considering adding such a provision to the revenue requirement in the next general rate case.

Included in Public Law 108–18 was the transfer to the Postal Service the CSRS benefit cost associated with military service previously funded by the U.S. Treasury. This amounted to a retroactive cost transfer of $27 billion. Without this change the Postal Service would not only have fully funded its CSRS obligations as of the end of FY2002, it would have overfunded CSRS by $10 billion. Accordingly, all Postal Service funding for CSRS now relates to the military service costs. Recognizing that this is a significant departure from previous public policy, Public Law 108–18 provided an opportunity to reconsider funding responsibility of these costs. The Postal Service, the Department of the Treasury, and the Office of Personnel Management (OPM) each submitted proposals to Congress on September 30, 2003, "detailing whether and to what extent the Department of Treasury of the United States should be responsible for the funding of benefits attributable to the military service of current and former employees of the Postal Service" as required by the law. The Postal Service recommended that the responsibility for these costs should be returned to the Treasury.

2.4.b Expand Use of Supply Chain Management

By continuing to implement and expand supply chain management (SCM) initiatives, the Postal Service has achieved $700 million, including $145 million of capital, in cost reductions, cost avoidance, and revenue generation since FY2002 in the following three areas:

- *Strategic sourcing* where, for instance, the Postal Service consolidates local and regional purchases into national contracts, leveraging previously fragmented buying power.

- *Continuous improvement,* using reverse auctions, mandatory contracts, reducing the variety of items, brands, and parts purchased, or having suppliers manage inventory.

- *Innovations in product or service design,* where the Postal Service uses e-business technology to integrate electronic systems across supply chains, eliminating manual processes and improving cycle time.

The Postal Service has realized savings and cost reductions to date from more than 100 submitted SCM initiatives. Efficient use of SCM techniques has yielded significant savings in buying commodities as varied as copiers, labels, trailers, packaging, boxes, forklifts, and tow trucks.

The use of volume leveraging for copier purchases, for example, yielded savings as high as 65 percent simply by contracting with one supplier nationwide instead of buying every available brand. Cost reductions of 35 percent were achieved by reducing the number and types of labels and using a reverse auction to obtain the best competitive pricing. By consolidating 16 trailer contracts into one, and again using a reverse auction, the Postal Service saved nearly $2 million in FY2002. Efforts to improve expedited packaging will save almost $4 million annually through innovations in product design. These innovations include printing directly on the box instead of on paper applied to the box, leveraging cost reductions from the suppliers' own suppliers, and other SCM approaches. The Postal Service also saved $2.7 million a year on corrugated boxes by reducing the number of box sizes it bought from 20 to 6, and by consolidating its buying from 20 suppliers a year to two. The Postal Service's consolidation of forklift and tow truck purchases to one leveraged supplier is yielding savings as high as 39 percent through the usage of a single brand and standardized parts.

The Postal Service continues to pursue aggressive SCM cost reduction and cost avoidance goals. During FY2002 and FY2003 the Postal Service restructured its Supply Management organization, redesigned its Supply Management position descriptions, and retrained its Supply Management personnel to focus on supply chain management.

In recognition of these efforts, the Postal Service's eBuy program, which contributed to the supply chain management savings, was awarded the E-Gov 2002 Trailblazer Award for service to the U.S. government. E-Gov recognized eBuy as one of the most innovative information technology programs in government.

The Postal Service plans to revise its purchasing regulations to maximize the flexibility given to it under current law and to reflect commercial best practices. Development of policy design objectives and criteria for purchasing deregulation began in FY2002 and continued in FY2003. Next steps in FY2004 include finalization of language for the Code of Federal Regulations (CFR) to establish purchasing regulations/procedures that have the force and effect of law. Purchasing deregulation should be fully implemented by the end of FY2004.

2.4.c Strategically Apply Technology

The Postal Service continues to apply information technology to support its business needs. The Postal Service uses industry-accepted software and practices, while leveraging its robust technology infrastructure to enhance its performance-based culture and improve the efficiency of postal operations.

Enhance Security Across All Technology

To ensure the security, privacy, and continuity of the nation's mail, the Postal Service is enhancing security across all technology. Strategies to accomplish this initiative include education and training, application certification, contingency planning, intrusion protection, and automated monitoring. These activities are well underway for completion

by FY2006. Some examples of progress made thus far include (1) certification of 46 percent of critical/sensitive applications; (2) establishment of compliant recovery plans for 57 percent of critical applications; (3) deployment of more than 3,200 sensors to monitor intrusion attempts; (4) securing 10,600 servers to current standards; (5) reducing attempts to access inappropriate Web sites by 87 percent; (6) scanning of more than 5.5 million Internet emails monthly, which has prevented an average of 66,000 viruses and harmful emails from entering the system; (7) establishment of the information security Web site and reading room in FY2002; (8) publication of role-specific learning plans in FY2003; and (9) training more than 150,000 employees on information security through FY2003.

Upgrade the Infrastructure

▪ In FY2003 the Postal Service continued development of the Information Platform to integrate applications and data within a secure environment in order to deliver value-added capabilities to internal and external customers. Activities associated with accomplishing this strategy have been integrated into the Enterprise Data Warehouse (EDW) and into applicable Information Technology and other transformational initiatives. The EDW is the repository that collects Postal Service data from multiple sources for reporting and analysis. EDW looks across systems throughout the entire Postal Service to pull data that represent a single and accurate source of information. EDW will integrate the data on a continual basis, providing a self-service reporting model, which will reduce the number of reporting systems.

▪ During FY2002 the Postal Service began modernizing, securing, and simplifying its infrastructure with a program called ACE, the Advanced Computing Environment. ACE will realize significant savings by FY2006 through centralizing and reducing support functions for 130,000 computer users among 28,000 postal facilities nationwide. This is an example of an effort that does more with less — a key focus throughout the Postal Service — as it works to transform itself.

▪ Through the implementation of ACE, 270 software packages operating today will be reduced to 60. In FY2003 the 85 district help desks were reduced to one, 125 of 147 national applications were converted to ACE, and 3,000 servers have been removed from the field. While the number of servers, support sites, and therefore costs are decreasing, capacity is being increased. Service will not suffer because the system is less cumbersome, less complex, more reliable and easier to maintain and manage. Renegotiated contracts, such as a recent contract with Microsoft, will result in reduced labor rates paid to the contractor, some by as much as 30 percent. Consolidation and use of remote management tools are also lowering support costs, including the elimination of some 800 contractor positions from FY2002 through FY2004. ACE will also support the Postal Service's Intelligent Mail products and other transformation initiatives. ACE will be fully deployed to the field in mid-FY2004.

▪ In FY2003 the Postal Service also began upgrading its midrange computing infrastructure. The midrange computing infrastructure supports new technological and application changes without jeopardizing legacy computing on mainframes. The midrange computing level has the least costly applications, operations, and support services. The upgrade started in FY2003 and will continue through FY2006. It will provide additional UNIX computing capabilities, improved UNIX production support expertise, and the consolidation and replacement of all VAX computing. When fully

implemented in FY2006, approximately 30 percent of the workload from the Postal Service's mainframe environment will migrate to midrange computing, thereby reducing costs.

Provide Universal Computing Connectivity

- Like other large organizations, the Postal Service is becoming more mobile and more reliant on technology. With network technology demands growing daily, the network infrastructure must be upgraded. To this end the Postal Service is employing consolidated voice, data, video networks, and wireless technology to ensure universal computing connectivity. In FY2002 the Postal Service began deployment of wireless solutions for daily management and contingency planning that will replace employees' pagers, cell phones, and personal digital assistants (PDAs). Using BlackBerry technology, which provides remote access to emails and ultimately the Internet, postal managers can instantly communicate with each other. As a 24/7 operation, the Postal Service has a critical need for constant communications among its entire management team. Deployment of wireless solutions to Headquarters was completed in FY2002, and deployment to the field was completed a year ahead of schedule in FY2003.

- In mid-FY2002 the Postal Service started migration to a single network infrastructure to support movement of the mail and access by the thousands of users that require enterprise technical resources. Critical sites were transitioned to this high speed data network in FY2003 and the next part of the network (15,000 sites) are scheduled to migrate in the next two to three years.

2.4.d Ensure the Safety, Security, and Privacy of the Mail

Safety and Security

Security of the United States mail is the purview of the Postal Inspection Service, a federal law enforcement agency with jurisdiction in criminal matters relating to the Postal Service. The Inspection Service protects the Postal Service, its employees, and its customers from criminal attack and protects the nation's mail system from criminal misuse.

In FY2003 the Inspection Service's major accomplishments included completing the Facility Risk Rating for high-profile Postal Service facilities. The Facility Risk Rating is assigned to Post Office facilities based on certain criteria, such as 24-hour service, high-crime, and high-traffic locations. Other major programs completed in FY2003 were as follows:

- Determinations as to which neighborhood delivery and collection box units (NDCBUs) in high-mail attack areas should be converted to high security collection box units (HSCBUs). The HSCBU prototype mailbox is currently undergoing a pilot test in Phoenix, AZ. To date, more than 1,900 HSCBUs have been installed. The decision to convert will be based on results at the end of the test.

- Additional videos produced by the Fraud Prevention Program that focus on large-scale fraud schemes. The videos complement the library of consumer-fraud videos and serve as a public awareness tool. The Money Laundering/Detecting Terrorist

Activities training program was completed. Training will be provided to postal Inspectors and forfeiture specialists.

- Establishment of Emergency Preparedness and Homeland Security functions within the Inspection Service. This new function enabled the establishment of links with the Department of Homeland Security, the Central Intelligence Agency, national law enforcement agencies, and interagency working groups that have counter-terrorism and emergency preparedness responsibilities. This new function is also responsible for training inspectors to respond to hazardous material and Biological Detection System alerts.

Other initiatives in FY2003 included the following:

- Implementation of improved technologies and workforce initiatives to ensure a safe, secure, and drug-free work environment.

- Reducing the theft of mail.

- Reducing and deterring criminal attack on Postal Service products, services and assets.

- Reducing and deterring embezzlements.

- Identifying misuse of the Workers' Compensation program.

Also in FY2003 the Inspection Service enhanced initiatives reducing the use of the mail to defraud consumers, businesses, and government agencies; reducing illegal domestic and international telemarketing and direct mail operations; identifying and disrupting money laundry operations in high-intensity financial crime areas; and identifying schemes to transfer or launder money in support of terrorist activities.

Finally, in FY2003 the Inspection Service worked to reduce and deter the use of the mail system for prohibited, illegal, and dangerous mailings. It worked to reduce the use of the nation's mail system by organized groups to transport illegal narcotics, and it is diligently working to prevent the Postal Service from being the subject of, or used, to further acts of terrorism.

Privacy

The Privacy Office is responsible for maintaining and increasing the value privacy brings to the Postal Service and its customers. As privacy issues grow in importance nationwide, the Privacy Office continues to develop legal and policy frameworks, new technologies, and best-in-class business models and practices. It also ensures compliance with such federal laws as the Privacy Act and the Freedom of Information Act (FOIA).

A main goal of the Postal Service's privacy strategies is to develop and establish policies that meet best practices and requirements of both the private and public sectors that are appropriate for the Postal Service. During FY2003 the Postal Service achieved two major goals. First, it developed and began implementation of corporate privacy policies which provide appropriate privacy protections for consumers and businesses for all channels. Second, the office issued completely revised customer systems of records

under the Privacy Act. Together the customer policies and Privacy Act systems are clearer, simpler, and easier to use. In addition to the above, the office also helped develop privacy policies relating to employees, as well as business partners and suppliers.

In FY2003 the Postal Service furthered its goal to develop effective and streamlined processes and tools for employees and customers, including creation and publication of the first-ever privacy handbook that updates and streamlines privacy and FOIA processes and procedures; launch of internal and external privacy Web sites; and development and implementation of training for field personnel on new privacy policies and procedures.

The Postal Service continued its efforts in FY2003 to comply with FOIA, while streamlining operations by allowing FOIA requests to be tracked and processed electronically. Once fully operational the eFOIA tracking system will shorten response time for requests and improve the statutory documentation and reporting requirements. With approximately 1,500 FOIA requests annually, this electronic system will result in simpler, less burdensome compliance.

The Postal Service also worked throughout FY2003 to integrate and communicate privacy internally and externally to build the Postal Service brand. Internally, cross-functional teams worked closely together. Externally, the Postal Service continued its outreach to remain involved in the privacy community, including government, industry, advocacy, and other groups.

Section 3: The Future

The *Transformation Plan* submitted by the Postal Service to Congress in April 2002 is a living document. Since its publication, economic trends, political decisions, and new technologies have impacted the *Plan's* near-term strategies, the strategies dependent on moderate legislative reform, and forecasts about the long-term structure of the Postal Service. Of foremost importance have been the months of hearings and the July 31, 2003, recommendations of the President's Commission on the U.S. Postal Service. What has not changed is the commitment of Postal Service leadership to transform internally within the framework of current law.

This transformation, which depends on the implementation of the near-term initiatives identified in the *Plan*, is well on its way. As it progresses, the Postal Service will continue to provide regular reports to Congress and postal stakeholders. These reports will allow the postal community to monitor and participate in the transformation process, always keeping in mind that as a living document tracking a living organization, strategies and initiatives will evolve.

As the postmaster general and the Board of Governors have said,

> We are working to keep this critical, national asset strong and vibrant, today and far into the future.
>
> — *Transformation Plan, p. i*

Appendix: Transformation Strategies and Substrategies

2.1 FOSTER GROWTH THROUGH CUSTOMER VALUE	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
2.1.a Retail: Expand Access to Postal Services				
1. Move Simple Transactions Away From The Retail Counter; Increase Household Access to USPS Products and Services *(Note:* Formerly called "Move Simple Transactions Out of Post Offices"*)*			X	
▪ Communications on alternative services			X	
2. Create New, Low-Cost Retail Alternatives			X	
▪ Expand self-service			X	
▪ New functionality for *www.usps.com*			X	
▪ Retail partnerships			X	
▪ Product simplification ▪ *(See Design Rates and Mail Preparation)*			X	
▪ Leverage commercially-developed innovations			X	
3. Optimize the Retail Network			X	
4. Develop New Retail Services That Increase Customer Value and Postal Revenue			X	
▪ Government and other services			X	
▪ Leverage retail assets			X	
▪ Complementary retail products			X	

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2.1 FOSTER GROWTH THROUGH CUSTOMER VALUE	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
2.1.b Products and Services: Improve Value and Growth				
1. Use Technology to Enhance Value			X	
■ Identify and track mailpieces			X	
■ Use technology to improve the response mechanism			X	
■ Use technology to improve the access, speed, and reliability of accountable mail services			X	
■ Intelligent Mail		X		
2. Design Rates and Mail Preparation to Match Customer Capabilities and Needs			X	
■ Simplify the rate structure, preparation, and acceptance requirements in accordance with differing customer needs			X	
■ Simplify the rate structure for mailing books and parcels from nine rates to two rates	X			
3. Position Mail as a Key Communications and Customer Relationship Management Tool			X	
■ Adopt optimal channel strategies to improve access to postal products and services			X	
4. Enhance Package Services			X	
■ Merchandise return — Implement acceptance scanning of return parcels			X	
■ New parcel categories — Make it easier for customers to mail with the Postal Service by reducing the number of mail categories, rate structures, and confusing requirements			X	
■ Online postage label application — Design and implement online postage label for mailing packages			X	
5. Map Channel Strategies Around Customer Needs, Contribution, and Growth Potential			X	
6. Develop New Features and Services			X	

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2.1 FOSTER GROWTH THROUGH CUSTOMER VALUE	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
2.1.b Products and Services: Improve Value and Growth				
7. Leverage Existing Assets (Incorporated into Retail: Expand Access; Enhance Package Services; and Develop New Features and Services)				
8. Promote Greater Ease-of-Use (Incorporated into Develop a Corporate Pricing Plan)				
9. Make rules and regulations more market-responsive (Incorporated throughout other Growth Through Value strategies)				
▪ *Improve access to and ease-of-use of postal products and services as a way to build additional customer loyalty and penetrate new markets*				
10. Develop a Corporate Pricing Plan			X	
11. Generate New Revenue for the Postal Service by Retaining and Increasing International Market Share			X	

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2.2 INCREASE OPERATIONAL EFFICIENCY	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
1. Enhance Already Efficient Letter Processing			X	
▪ Deploy Postal Automated Redirection System			X	
2. Complete Automation of Flats Processing			X	
▪ Complete deployment of automated flat sorting machine 100 (AFSM 100)				X*
▪ Install automated flat feed and optical character reader (AFF/OCR) modifications on FSM 1000			X	
▪ Deploy automatic tray handling system		X		
▪ Deploy semiautomatic tray take-away mechanism on the FSM 1000		X		
▪ Deploy flats remote encoding system			X	
3. Expand Mechanization of Material Handling Operations			X	
▪ Deploy low cost tray sorters			X	
▪ Develop universal tray system		X		
4. Improve Delivery Efficiency			X	
▪ Delivery point sequence of flats mail		X		
▪ Delivery point packaging		X		
▪ Deploy delivery operations information systems				X*
▪ Deploy managed service points				X*
▪ Delivery performance achievement and recognition system				X
▪ Improve rural delivery				X*
▪ Carrier optimal routing			X	
▪ Segway Human Transporter		X		
5. Deploy Next Generation Package Sorting Equipment			X	
▪ Deploy singulate, scan, induction units				X*
▪ Deploy automated package processing systems			X	

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2.2 INCREASE OPERATIONAL EFFICIENCY	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
6. Optimize Transportation and Distribution Networks		X		
▪ Deploy surface air management system			X	
▪ Develop transportation optimization planning and scheduling				X*
▪ Deploy surface air support system			X	
▪ Develop transportation contract support system				X*
▪ Increase utilization of mail transport equipment				X*
▪ Network Integration and Alignment		X		
7. Increase Retail and Customer Service Productivity			X	
▪ Retail/customer service productivity improvement			X	
▪ Facility design changes		X		
8. Improve Performance Management			X	
▪ Area mail processing consolidation		X		
▪ Other direct labor reviews and standardization				X*
▪ Priority Mail standardization				X*
▪ Implement complement planning, tracking, and management (Incorporated into Performance-Based Culture strategies)	░	░	░	░
9. Manage Realty Assets				X
▪ Postal Service properties for sale/development				X
▪ Short-term leasing (Incorporated throughout other Manage Realty Assets strategies)	░	░	░	░
▪ Developmental leasing (Incorporated throughout other Manage Realty Assets strategies)	░	░	░	░
▪ Developmental added value properties (Incorporated throughout other Manage Realty Assets strategies)	░	░	░	░
▪ Other programs (Incorporated throughout other Manage Realty Assets strategies)	░	░	░	░

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2.2 INCREASE OPERATIONAL EFFICIENCY	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
9. Manage Realty Assets				
▪ Space to be outleased				X
10. International Air Transportation Deregulation		X		

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2.3 ENHANCE PERFORMANCE-BASED CULTURE	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
2.3.a Right People, Right Skills, Right Place, Right Time				
1. Retain and Recruit Quality Employees			X	
■ Retain employees with skills critical to the success of the Postal Service			X	
■ Concentrate recruitment efforts on bringing talent, skills, and experience from within the organization and from the outside labor market to address potential loss of Postal Service leadership			X	
2. Develop Current and Future Leaders (*Note:* formerly called "Develop Future Leaders")			X	
3. Ensure Training and Development			X	
■ Maximize available training and development programs in order to have a pool of potential successors at all levels of the organization			X	
■ Implement more technology-based training solutions			X	
■ Secure/develop a learning management system utilizing current legacy systems to coordinate administration, scheduling, tracking, assessment, and testing of learners in both classroom and e-learning settings			X	
4. Create a Performance-Based Pay System			X	
5. Build a Highly Effective and Motivated Workforce			X	
■ Use existing programs and measures to create managerial accountability			X	
■ Organize the most predictive workplace data into proactive information for use by the districts and areas to create proactive interventions			X	

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2.3 ENHANCE PERFORMANCE-BASED CULTURE	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
2.3.a Right People, Right Skills, Right Place, Right Time				
6. Improve Labor/Management Relations			X	
▪ Expand various joint employee involvement and quality of work life initiatives with labor unions. Develop and provide contract administration and labor/management training to both management and bargaining unit employees			X	
▪ Postal Service employee and management leadership participation in joint initiatives			X	
▪ Development and expansion of *Joint Contract Administration* handbooks and manuals			X	
▪ Development and expansion of alternatives to traditional discipline and dispute resolution methods			X	
7. Improve Workforce Planning			X	
2.3.b Reduced Costs				
8. Expand Shared Services and Explore Outsourcing			X	
▪ Expand Use of Shared Services/Accounting (*Note:* formerly called "Shared Services")				X
(*Shared Services/Accounting is ongoing*) (*Shared Services/Human Resources has not started*)	X			
▪ Implement those outsourcing initiatives which have the potential to: (a) increase service and quality levels; (b) better utilize resources; (c) reduce costs; (d) allow greater emphasis on the Postal Services core business			X	
9. Improve the Collective Bargaining Interest Arbitration Process			X	

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2.3 ENHANCE PERFORMANCE-BASED CULTURE	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
2.3.b Reduced Costs				
10. Reduce Workers' Compensation Costs			X	
▪ Expand the Preferred Provider Organization Program with First Health and Office of Workers' Compensation Programs			X	
▪ Encourage the Office of Workers' Compensation Programs to revise current regulations to allow for direct contact with the treating physician by the employing agency			X	
▪ Private sector outplacement of injured Postal Service employees and the creation of new internal positions to accommodate injured workers			X	
▪ Interagency work cooperation to attain organizational objectives			X	

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2.4 ENABLING STRATEGIES	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
2.4.a Enhance Financial Management				
1. Reduce Outstanding Debt			X	
▪ Preserve liquidity while managing interest expense			X	
▪ Incurring debt for high return capital investments only				X
2. Enhance Reporting Transparency			X	
▪ Monthly reporting — Converting from accounting period reporting to monthly and calendar quarter reporting				X
3. Finance Delivery Network Expansion on Current Basis and Explore Alternative Investments for Deferred Retirement Liabilities		X		
2.4.b Expand Use of Supply Chain Management				
Focus Postal Service resources on lowering overall cost and furthering competitive and business objectives			X	
▪ Consolidate purchases for better quality and lower cost			X	
2.4.c Strategically Apply Technology				
Intelligent Mail (Incorporated into Growth Through Value, Use Technology to Enhance Value)				
Enhance security across all technology				
Enhance security across postal technologies to avoid disruption in critical operations and protect sensitive information from unauthorized disclosure or modification			X	
▪ Education and training			X	
▪ Certification process			X	
▪ Contingency planning			X	
▪ Intrusion protection			X	
▪ Automated monitoring			X	
Upgrade the infrastructure				
Leverage technological advances and business partnerships to upgrade and leverage the infrastructure			X	
▪ Upgrade distributed computing infrastructure			X	
▪ Upgrade mainframe computing infrastructure			X	

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2.4 ENABLING STRATEGIES	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
▪ Upgrade midrange computing infrastructure			X	
▪ Technical shared services			X	
▪ Corporate shared services			X	
Provide universal computing connectivity				
Expand core/backbone, wide area network, and local area networks to provide universal computing connectivity			X	
▪ Consolidate voice, data, and video network			X	
▪ Wireless technology			X	

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2.4 ENABLING STRATEGIES	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
2.4.d. Enhance the Safety, Security, and Privacy of the Mail				
Postal Inspection Service — Safety				
Ensure a safe, secure, and drug-free work environment				X
▪ Reduce and deter employee-on-employee assaults and credible threats				X
▪ Deter robberies of Postal Service employees and facilities				X
▪ Reduce and deter illegal drugs in the postal environment				X
Postal Inspection Service — Security				
1. Reduce Theft of Mail				X
▪ Reduce and deter attacks on postal vehicles, apartment panels, collection boxes, neighborhood delivery collection box units, and collection box units				X
▪ Identify and resolve domestic and international in-transit mail theft				X
▪ Reduce and deter mail theft-related identity theft and identity takeover crimes				X
2. Reduce and deter criminal attack of postal products, services, and assets				X
▪ Reduce and deter embezzlements				X
▪ Reduce and deter criminal misuse of the Postal Service's workers' compensation program and reduce long-term compensation cost				X
▪ Reduce and deter postage fraud schemes				X
▪ Ensure sanctity and security of U.S. Mail				X
▪ Assist postal management in the deployment and implementation of new safety and security procedures and technology				X

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2.4 ENABLING STRATEGIES	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
Postal Inspection Service — Integrity				
1. Reduce the Use of the Mail to Defraud Consumers, Businesses, and Government Agencies				X
▪ Reduce and deter the use of the U.S. Mail for the procurement or delivery of materials that promote the sexual exploitation of children				X
2. Reduce and Deter the Use of the Postal System for Prohibited, Illegal, and Dangerous Mailings				X
▪ Reduce and deter multistate domestic and international telemarketing operations and direct mail operations				X
▪ Reduce and deter deceptive mailing operations				X
▪ Reduce and deter the use of the nation's mail system by organized groups to transport illegal narcotics				X
▪ Reduce and deter use of U.S. postal money orders to launder money by disrupting money laundering operations				X
Privacy				
▪ Standardize privacy policies and processes				X
▪ Streamline compliance procedures to reduce costs and increase productivity by saving time				X
▪ Work with internal and external groups to ensure that privacy is built into data-oriented initiatives				X

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2.5 SEEK MODERATE REGULATORY AND LEGISLATIVE REFORMS	NOT STARTED	UNDER DEVELOPMENT[1]	IN PROGRESS[2]	ONGOING ACTIVITY[3]
1. Seek the Maximum Flexibility Consistent With the Current Rate-making Process			X	
• Negotiated service agreements			X	
• Targeted pricing incentives			X	
• Experimental classification			X	
• Phased rates		X		
2. Rationalize Retail Network Facilities		X		
3. Modernize Purchasing Procedures		X		
4. Reform Labor and Employment Provisions	X			
• Impasse resolution	X			
• Salary cap	X			

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