THE CHALLENGE TO DELIVER

Creating the 21st Century Postal Service

UNITED STATES POSTAL SERVICE®

2009 COMPREHENSIVE STATEMENT ON POSTAL OPERATIONS

TRADEMARKS

YEAR REFERENCES

All references to a specific year or "the year" refer to the Postal Service fiscal year ending September 30. However, specific month and year references pertain to the calendar date.

TABLE OF CONTENTS

Chapter 1: **Our Mission**

The Postal Service's mission is to provide the nation with reliable, affordable, universal mail service. The basic functions of the Postal Service were established in 39 U.S.C. § 101(a): ". . . to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It [the Postal Service] shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities." The Postal Service delivers to more than 150 million addresses six days a week, and picks up pre-paid letters and packages at the time of delivery. It provides mailing and shipping services through more than 36,000 retail outlets and *usps.com.*

Who We Are

Document Purpose

The annual *Comprehensive Statement on Postal Operations* and the *Annual Report* describe Postal Service activities and results. The *Comprehensive Statement* is a broad summary of customer, employee, and operations-focused developments from the past fiscal year. The *Annual Report* focuses on Postal Service finances and financial results. *Vision 2013,* the five-year strategic plan for 2009-2013, offers a broad perspective of what it will take for the Postal Service to succeed in the future. The *Vision 2013 Progress Report* details progress made toward strategic goals in 2009. All four documents are available at *usps.com.*

The Postal Service has filed the annual *Comprehensive Statement* since 1976 in accordance with 39 U.S.C. 2401(e), which prescribes its contents. Chapter 1 addresses our mission, the year in review, governance and oversight, as well as legislative and regulatory developments. Chapter 2 focuses on products and services. Chapter 3 discusses operations. Chapter 4 describes customer programs. Chapter 5 covers the workforce and employee-related programs. Chapter 6 contains the *Annual Performance Report for 2009* and *Annual Performance Plan for 2010,* as required by the Government Performance and Results Act. All references to years, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30.

The Year in Review

2009 was a tumultuous year for the Postal Service and the entire U.S. economy. The historic declines in mail volume and revenue that began in 2008 accelerated as the economy continued to weaken. The Postal Service made herculean efforts to deliver record service despite enormous reductions in workhours and more than $6 billion in spending cuts. Total mail volume was 177.1 billion pieces, a decline of 25.6 billion pieces, or 12.7 percent. Overall, the Postal Service incurred a net loss of $3.8 billion, resulting in a $6.8 billion or 9.1 percent decrease in revenue.

First-Class Mail and Standard Mail, which make up 94 percent of volume, decreased almost 24.3 billion pieces or 12.7 percent compared to last year, with an associated drop in revenue of $5.6 billion, or 9.5 percent. Total mailing services revenue decreased $6.6 billion, or 9.9 percent, with a corresponding volume decrease of 25.5 billion pieces, or 12.7 percent, compared to last year. Most of this decrease can be attributed to the downturn in the economy, particularly the financial and real estate sectors, which are heavy users of the mail.

The Postal Service began to implement a more robust customer experience measurement system to replace the current customer satisfaction surveys. The new system evaluates the total customer experience, from mailpiece design to preparation to customer service to delivery, and allows the Postal Service to pinpoint areas in need of improvement and better adjust to customer needs.

For the fifth consecutive year, the American public rated the Postal Service as the most trusted government agency to safeguard personal information, according to Ponemon Institute's national privacy trust study. The Postal Service was also ranked among the top six most trusted among all organizations — public or private.

The Postal Service increased customer value by pursuing aggressive marketing strategies and pricing innovations to grow the mail. The Postal Service launched one of its largest and most integrated advertising campaigns to raise awareness of Priority Mail Flat Rate boxes — "A simpler way to ship" — and one of the best bargains in the marketplace. The Summer Sale and Saturation Mail incentive programs made it easier for businesses to continue their direct marketing campaigns in the down economy.

The Postal Service introduced new service standards for all market dominant mail classes, and in January began reporting performance against the standards on

usps.com. Performance is measured primarily using hybrid systems that combine mail processing scan data with external data that is independently collected and verified by an outside contractor. (Additional information on development of the new measurement systems is contained in Chapter 6.)

All operations continued to benefit from increased data on mail flows which, combined with new systems and management tools, are highlighting opportunities to improve service consistency and efficiency. Process standardization is helping integrate data across functions and plants, reducing variability, and providing more consistent and predicable end-to-end service performance. Intelligent Mail (IM) barcodes are being used by a growing number of

customers, who are discovering a wealth of new information about the status of their mail in transit.

The Postal Service's award-winning Web site, *usps.com,* remains one of the most popular government sites, with more than 1.2 million visitors each day. Ongoing enhancements make it easier to use Click-N-Ship and PC postage, find and pay for a Post Office Box, schedule a package pickup, including parcels being returned, and apply for a permit for Business Reply Mail. The supplier portal at *usps.com* was redesigned to further improve collaboration between the Postal Service and its business partners.

Field testing continued on the Flats Sequencing System (FSS) — which when completed will automatically sort and sequence large envelopes, magazines, catalogs, and circulars into the order that they are delivered by carriers. FSS technology is intended to increase efficiency by reducing manual handling of flat mail, resulting in more consistent service and lower processing and other costs. Expanded deployment is expected in 2010 after testing is completed.

The Postal Service continued its environmental stewardship by expanding energy conservation and recycling efforts at facilities nationwide. Promoting programs such as recycling mail in Post Office lobbies makes it easier for customers to make environmentally friendly choices. The Postal Service remains the nation's only shipping company to achieve Cradle-to-Cradle certification for its Express Mail and Priority Mail packaging materials, as well as display materials in Post Offices. This certification means more than 15,000 metric tons of carbon emissions are prevented annually. Customers can also use *usps.com* and their postal carriers to deliver stamps and free packaging to their doors, and to collect all their outgoing mail and packages, helping them save gas, money, and time.

DID YOU KNOW?

82% of Americans prefer their bills by mail so they have copies to keep.

Source: Envelope Manufacturers Association.

The Postal Service worked closely with Congress and the Administration to identify legislative changes that would provide necessary flexibility to pursue its mission and ensure financial viability. In August, the Government Accountability Office (GAO) listed the Postal Service as one of its "high risk" government agencies. In its report, *Restructuring the U.S. Postal Service to Achieve Financial Viability,* GAO suggested that the Postal Service develop and implement a broad restructuring plan noting that many initiatives would require Congressional support.

Governance and Oversight

Board of Governors

As the governing body of the Postal Service, the 11-member Board of Governors has responsibilities comparable to the board of directors of a publicly held corporation. The Board includes nine Governors appointed by the President of the United States with the advice and consent of the Senate. The other two members are the Postmaster General and the Deputy Postmaster General. The Governors appoint the Postmaster General, who serves at the pleasure of the Board without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General. The Chairman and Vice Chairman are elected each calendar year, and in February 2009, Carolyn Lewis Gallagher was elected Chairman, and Louis J. Giuliano was elected Vice Chairman.

The Board directs and establishes policies, basic objectives, and long-range goals for the Postal Service in accordance with title 39 of the United States Code. Except for those powers specifically vested in the Governors, the Board may delegate the authority vested in it by statute to the Postmaster General under such terms, conditions, and limitations, including the power of re-delegation, as it deems desirable.

The full Board held 18 meetings during the year. Meetings consist of open and closed sessions in accordance with the Government in the Sunshine Act. Meetings were held in Washington, DC; in Memphis, TN; and by teleconference. In addition to full Board meetings, committee meetings were held, some not coincident to the full Board meeting dates. The Board has four committees: Audit and Finance, Compensation and Management Resources, Governance and Strategic Planning, and Government Relations and Regulatory, and has two subcommittees — Operations and Communications. The committees met to consider matters within their areas of responsibility and referred items to the full Board for consideration.

Pursuant to the Bylaws of the Board of Governors, the Board considered and approved items reserved for decision by the Board. Key decisions included those approving the 2009 Capital Plan (October); the audited 2008 financial statements and 2008 Annual Report (November); the 2009 Integrated Financial Plan (December); the 2008 Comprehensive Statement on Postal Operations including the Government Performance and Results Act reporting requirements (December); the final 2010 appropriation request to Congress (December). The Governors granted the Postmaster General, Chief Financial Officer, and the Treasurer the authority to restructure the debt for FY 2009 in February and for FY 2010 in September.

The Governors exercised their authority under the Postal Act of 2006 when making pricing decisions. In November 2008, the Governors approved price and classification changes for competitive products that were implemented in January 2009. In February, the Governors approved price and classification changes for market dominant

products and for certain competitive products that were implemented in May 2009. The Governors approved price incentives for market dominant products in terms of a Standard Mail Volume Pricing Incentive ("Summer Sale") and a First-Class Mail Incentive Program in May and August, respectively. The Governors also approved contracts with individual customers for competitive products. These contracts were filed under seal with the Postal Regulatory Commission for its review.

Postal Accountability and Enhancement Act (Postal Act of 2006)

December 20, 2009, marks the third anniversary of the enactment of the Postal Act of 2006. Over the past three years, the Postal Service has worked to successfully implement the Act's requirements to date. Highlights are detailed below.

SERVICE PERFORMANCE MEASUREMENT

The Postal Service was required by the Postal Act to establish service standards for all market dominant products, and then to measure and report on its service performance against those standards. At the start of 2009, the Postal Service began using a combination of internal and external systems to measure the service performance of all market dominant products, including First-Class Mail, Periodicals, Standard Mail, Package Services, and Special Services. Service performance results are posted at *usps. com/serviceperformance,* and results are updated on a quarterly basis. These systems are being refined to provide more robust measurement data in the future. Maintaining a high level of service performance is important to the Postal Service and its customers, and these measurement data support continuous improvement efforts.

UNIVERSAL POSTAL SERVICE AND THE POSTAL MONOPOLY

The Postal Regulatory Commission (PRC) was required by the Postal Act to submit a report to the President and Congress on universal postal service and the postal monopoly. While not explicitly defined, the Postal Service's universal service obligation is broadly outlined in statute and includes multiple dimensions such as geographic scope, range of products, access to services and facilities, delivery frequency, affordable and uniform pricing, service quality, and security of the mail. The Postal Service is obligated to provide all the various aspects of universal service at affordable rates.

To inform the discussion, the Postal Service issued its report on universal postal service and the postal monopoly on October 15, 2008. It is available at *usps.com/postallaw/.* In its report, the Postal Service recommended flexibility to allow it to be responsive as circumstances change over time, and recommended the postal monopoly be preserved since it is the current funding mechanism to help ensure the American public receives affordable, universal service. On December 19, 2008, the PRC issued its report to the

President and Congress, recommending no changes at this time to either the universal service obligation or the monopoly.

ANNUAL COMPLIANCE REPORT

In December 2008, the Postal Service filed its *Annual Compliance Report* (ACR) with the PRC. The Postal Act requires the report to include information on costs, revenues, rates, and quality of service associated with postal products. In addition, it requires the ACR to show that market dominant products do not subsidize competitive products and that each competitive product covers its costs. On March 30, 2009, the PRC issued its Annual Compliance Determination, a formal review of the ACR, which found the Postal Service to be in general compliance.

OTHER POSTAL ACT UPDATES

As follow-up to its June 2008 Network Plan to Congress, the Postal Service issued its first annual update to Congress in December 2008 regarding progress on the plan to rationalize its network of facilities and to achieve service standards.

The Postal Service was directed by the Postal Act to develop a process for imposing civil penalties for shipping hazardous materials. New regulations and Post Office notice signage have been issued regarding fines imposed for shipping hazardous substances.

Taking advantage of pricing flexibilities offered by the Postal Act, the Postal Service implemented the Standard Mail Volume Incentive Pricing program, or "Summer Sale," effective July 1 through September 30, 2009. Eligible mailers who increased Standard Mail volumes above their past mailing history earned rebates of 30 percent on the additional volume. Mailers expressed overwhelming enthusiasm during the PRC's review of the Summer Sale. The Postal Service also received approval to conduct a similar incentive pricing program for First-Class Mail.

SARBANES-OXLEY PROGRESS

The Postal Act requires the Postal Service to come into compliance with Section 404 of the Sarbanes-Oxley Act (SOX). Section 404 pertains to establishing internal controls for financial reporting, and evaluating and monitoring their effectiveness. The Postal Service has been operating under the following implementation timeline: plan and scope in 2007, document and remediate in 2008, test and remediate in 2009, and report and monitor in 2010 and beyond.

The Postal Service has begun testing the effectiveness of financial controls at facilities across the country and is on track to meet the requirement to have its *2010 Annual Report* be SOX compliant. The testing phase of SOX implementation determines how consistently the Postal Service executes its internal controls. The tests also can help prevent or detect a significant misstatement on financial reports on such day-to-day activities as payroll, procurement, and revenue. Testing is an integral part of monitoring the effectiveness of financial controls. They help the Postal Service achieve a level of assurance

Chapter 1: **Our Mission**

that controls are in place and are helping prevent or detect a material misstatement on financial statements.

Legislative Activity

LEGISLATIVE EFFORTS ON RETIREE HEALTH BENEFITS PAYMENT SCHEDULE

The Postal Act requires the Postal Service to prepay retiree health benefits by paying an average of $5.6 billion per year for 10 years into the newly created Retiree Health Benefits Fund. These payments are in addition to payments of over $2 billion per year paying for current retirees' health benefits premiums. That translates into nearly $8 billion in retiree health benefits payments per year. To put these payments in perspective, the Postal Service's revenues in 2009 were $68 billion.

The Postal Service worked with Congress to seek relief from this burdensome prepayment schedule, and strongly encouraged the prompt enactment of legislation to adjust the prefunding method. On October 1, 2009, the 2010 Legislative Branch Appropriations Bill was signed into law. It included a provision deferring $4 billion in Postal Service contributions to pre-fund retiree health premiums.

The legislation provided the Postal Service with much needed 2009 financial assistance. However, a long-term solution is needed to address the same problem in 2010 and beyond. The Postal Service is committed to work with Congress to address this important issue.

LEGISLATIVE EFFORTS ON 5-DAY DELIVERY

The Postal Service has been studying the possibility of changing to 5-day per week mail delivery. An internal workgroup is developing a framework for how it might work, and reaching out to stakeholders for input. Congressional approval would be required for such a change. The 5-day proposal faced almost universal opposition on Capitol Hill when it was introduced in January 2009. But at a hearing in May 2009 of the House Oversight and Government Reform Committee, some legislators appeared open to the idea.

As the Postal Service explained at the hearing in May, less mail is being delivered to more addresses. Carriers delivered an average of 5.9 pieces of mail per address in 2000, and today that has fallen to 4.7 pieces per address, while 11 million new addresses have been added. At the same time, the ratio of higher contribution First-Class Mail to lower contribution Standard Mail has declined, further eroding revenue per delivery. Reducing the frequency of delivery would be an important step in helping close the gap between revenue and expenses.

The 5-day proposal is popular with the American public. A Gallup poll released in June 2009 found 66 percent of Americans in favor of 5-day delivery "as a way to help the Postal Service solve its financial problems." It was by far the most popular cost-cutting measure compared to alternatives such as raising stamp prices, laying off postal employees, and closing local Post Offices.

Postal Regulatory Commission Proceedings

Operating under the Postal Act, the Postal Service notified the Postal Regulatory Commission (PRC) of modifications in pricing and classification of products and services, established mailing and shipping services contracts for domestic and international mail, and submitted reports, documents, rulemakings, and studies as required. This section summarizes the most significant changes, which can be viewed in detail at *www.prc.gov.* For some cases, the docket name is followed by a more descriptive designation.

MAILING SERVICES

R2009-2 Notice of Price Adjustment
Planned Rate Adjustments and Classification Changes for Market Dominant Postal Products

On February 10, the Postal Service filed its Notice of Market Dominant Price Adjustment. The adjustment took effect on May 11, and affected all the market dominant classes of mail. For this annual price change, the overall inflation-based price adjustment authority was 3.8 percent.

The price adjustment included several different key components. In First-Class Mail, a 2-cent increase (to 44 cents) on the first-ounce price for letters was tempered by holding the additional-ounce price and the nonmachinable surcharge at existing levels. The Postal Service proposal included Full-Service Intelligent Mail prices for certain price categories of letters and flats of First-Class Mail, Standard Mail, Periodicals, and Bound Printed Matter to be implemented in November 2009.

Additional Standard Mail price adjustments included a Saturation Mail Incentive. In Periodicals and Package Services, the focus was on improving the overall efficiency and cost coverage of the respective products in those two classes. Finally, in Special Services, fee increases were generally designed to be close to the cap percentage, while maintaining consistency with historical rounding constraints that often simplify transactions for customers.

R2009-3 Notice of Price Adjustment
Standard Mail Volume Incentive Pricing Program ("Summer Sale")

The Postal Service implemented a temporary price reduction on incremental volume for Standard Mail from July 1 through September 30 to promote volume growth during the typically low-volume summer months in which there is excess processing capacity and to counteract the dramatic volume reduction due to the economy. This initiative was the first of its kind. The pricing incentive provided a 30 percent rebate on Standard Mail letters and flats above a customer-specific threshold for qualifying customers.

Chapter 1: **Our Mission**

R2009-4 Notice of Price Adjustment for Standard Mail High Density Flats

On June 1, the Postal Service filed a Notice of Price Adjustment to decrease the minimum-per-piece prices for commercial and nonprofit High Density flats by 0.1 cent, and to decrease the per-pound price element. The Postal Service determined that it would be more appropriate to mitigate the High Density flats prices that were implemented May 11, based on concerns from Standard Mail High Density flats mailers that above-average price increases would have a detrimental impact on their businesses. This price change went into effect July 19.

R2009-5 Notice of Price Adjustment for Certain Presorted First-Class Mail
First-Class Mail Incentive Program

Similar in design to the Summer Sale, the Postal Service also initiated a First-Class Mail Incentive Program, aimed at growing presorted First-Class Mail volume between October 1, 2009 and December 31, 2009. The incentive will provide a 20 percent rebate on incremental volume of certain presorted letters, flats, and cards sent by qualifying customers above a predetermined threshold.

SHIPPING SERVICES
CP2009-8 Competitive Products Price Changes; Rates of General Applicability

On November 13, 2008, the Postal Service gave notice of the establishment by the Governors of changes in prices of general applicability for competitive products, including Express Mail, Priority Mail, Parcel Select, Parcel Return Service, Global Express Guaranteed, Express Mail International, Priority Mail International, and International Direct Sacks — M-Bags, effective January 18.

CP2009-23 Competitive Products Price Changes; Rates of General Applicability

On February 10, the Postal Service announced a price adjustment for several shipping services — Parcel Select, Premium Forwarding Service, International Priority Airmail (IPA), International Surface Air Lift (ISAL), and International Ancillary Services. The changes for Parcel Select, IPA, and ISAL also included the addition of new pricing tiers to provide incentives for mailer preparation that reduces postal costs. The adjustment took effect May 11, to coincide with related changes to mailing services.

CP2009-27 Competitive Products Price Changes; Rates of General Applicability
Inadvertent Omission of Price Change for Pickup on Demand Service

On April 9, the Postal Service filed a notice of errata in regard to the May 11 prices announced for Pickup on Demand for Express Mail, Priority Mail, and certain international competitive products. The price change for Pickup on Demand had been inadvertently omitted in the filing for the May 11 price adjustments.

Competitive Product Contracts – Domestic and International
CP2009-1 through CP2009-7, CP2009-9 through CP2009-22, CP2009-24 through CP2009-26, CP2009-28 through CP2009-66

The Postal Service submitted several contracts for domestic mail services: two for Express Mail, 18 for Priority Mail, five for Express Mail/Priority Mail, and one for Parcel Select/Parcel Return Service. The Postal Service also submitted several contracts for international services: 15 for Express Mail International/Priority Mail International, four for Global Direct for international delivery of letter items with the destination country's postal indicia, two for Global Plus 1 and Global Plus 2 offering volume-based discounts for a variety of outbound international services, two for International Business Reply Service, and one for Direct Entry Parcels for international delivery of packages with the destination country's postal indicia. Finally, the Postal Service submitted a number of rates and agreements with foreign postal administrations: inbound rates for Express Mail Service from 190 countries, two Inbound Direct Entry contracts, an agreement for inbound air parcels, and an agreement for surface parcels.

Chapter 1: **Our Mission**

MARKET TESTS

MT2009-1 Market Test of Experimental Product – Collaborative Logistics

The Postal Service endeavors to optimize its complex transportation network serving its processing facilities. Nevertheless, the natural imbalance of mail volume between cities and the need to meet operating plans that support service standards makes some underutilized space on highway transportation predictable. On May 7, the Postal Service began selling that available space to transport nonpostal articles on pallets on a space-available basis and deliver them to large customers and/or postal facilities.

RULEMAKINGS

RM2008-1 Regulations to Establish Procedure for According Appropriate Confidentiality

On August 13, the PRC initiated a rulemaking to establish regulations implementing its authority to determine the degree of confidentiality and/or third-party access to accord to information provided by the Postal Service to the PRC in furtherance of its regulatory responsibilities. In September and October 2008, the PRC received initial and reply comments from the Postal Service and other interested parties. The PRC solicited a second round of comments and reply comments in April and May 2009. On June 19, the PRC issued final rules that took effect July 29.

RM2008-3 Rules for Complaints

On March 24, the PRC issued rules for complaints and rate or service inquiries. These rules establish a bifurcated framework for investigating and considering formal complaints alleging violations of law, on one hand, and more localized rate and service inquiries on the other.

RM2008-4 Periodic Reporting Rules
Proposed Rulemaking Prescribing Form and Content of Periodic Reports

This rulemaking, initiated August 22, 2008, was to develop rules covering both the information submitted by the Postal Service as part of its Annual Compliance Report every December, and periodically throughout the year on other matters. As well as specifying the content of the required reports, the proposed rules established procedures by which the analytic methodologies used to develop those reports can be addressed and, if necessary, amended. After the submission of initial and reply comments by

interested parties, the PRC adopted final rules on April 16, which substantially (but not entirely) in accord with the proposed rules.

RM2008-5 Accounting Practices and Tax Rules for Competitive Products.

This rulemaking, initiated September 11, 2008, allowed the PRC to prescribe rules applicable to competitive products for the establishment and application of the accounting practices and principles to be followed by the Postal Service, and the substantive and procedural rules for determining the assumed Federal Income Tax on competitive products income. The PRC issued final rules December 18, 2008.

RM2009-1, RM2009-2 Modification of Costing Methods 2008
Periodic Reporting Proposals Twelve and Thirteen

These two rulemakings, initiated in November 2008, provided informal rulemaking proceedings similar to Docket Nos. RM2008-2 and RM2008-6, in which the Postal Service proposed additional changes to the costing methods for the *2008 Annual Compliance Report.* The PRC accepted most of these proposals.

RM2009-5, RM2009-7, and RM2009-10 Modification of Analytic Principles Used in Periodic Reporting
Periodic Reporting Proposals One Through Thirteen

These rulemakings, initiated in June, July, and September, provide informal rulemaking proceedings to consider proposed changes to the methodologies used to estimate costs, volumes, and revenues for preparing the *2009 Annual Compliance Report.* In these dockets, the Postal Service is seeking approval of 19 methodology changes, and has responded to a number of related Information Requests. The cases are still active.

RM2009-8 Amendment to the System of Ratemaking Regulations
Proposed Rulemaking to Amend the Cap Calculation

This was a minor rulemaking to extend the precision to which the annual price cap is calculated from one to three decimal places. The proposed rule was initiated on July 10 and adopted on September 22.

RM2009-9 Allocation of Assets and Liabilities to Competitive Products Enterprise

This rulemaking, initiated on August 24, follows up on several minor issues about financial accounting practices and tax rules remaining from closely related Docket No. RM2008-5. The case is still active.

RM2009-11 Periodic Reporting of Service Performance Measurements and Customer Satisfaction

On September 2, the PRC issued a notice of proposed rulemaking to establish rules for reporting service performance and customer satisfaction achievements for market dominant products. The case is still active.

Chapter 1: **Our Mission**

RM2009-12 Regulations Establishing Procedures for Obtaining Information from the Postal Service

On September 2, the PRC issued a notice of proposed rulemaking for the procedures by which the PRC will exercise its subpoena authority. Among other things, the proposed rules would allow the PRC to require the Postal Service, its contractors, or its agents to produce information, under penalty of a court sanction, on the PRC's own accord or at the request of another party. The case is still active.

COMPLAINTS

C2008-3 Complaint of Capital One Services, Inc.

Capital One Services, Inc., filed a Complaint on June 19, 2008, alleging that the Postal Service unduly discriminated against Capital One by not offering it an identical contract as the Bank of America contract. On May 21, Capital One filed a Motion to Withdraw its Complaint, as a result of settlement with the Postal Service. The Presiding Officer granted that motion and closed the docket on June 2.

C2009-1 Complaint of GameFly, Inc.

GameFly, Inc., filed a Complaint on April 23, asserting several claims of unreasonable discrimination and other undue preferences allowed by the Postal Service in violation of the law. GameFly alleged that the Postal Service extended preferential services and inequitable rates to certain high-volume rival mailers who similarly use First-Class Mail to send and receive DVDs. The case is still active.

OTHER DOCKETS

PI2009-1 Report to Congress and the President on Universal Postal Service and the Postal Monopoly

On December 19, 2008, the PRC sent to Congress and the President a *Report on Universal Postal Service and the Postal Monopoly* as required by the Postal Act of 2006. The report represents over eight months of review and analysis of information, comments, and testimony submitted in Docket No. PI2008-31 by many interested parties including the Postal Service, other federal agencies, representatives of Postal Service employee unions and postmaster associations, users of the mail, and mail service providers.

The report presented the history and development of universal service and the postal monopolies, the current legal scope of the universal service obligation, the postal letter and mailbox monopolies, and the scopes and standards of universal service and postal monopolies likely to be required in the future.

The report recommended no immediate changes in universal service, the universal service obligation, the letter monopoly, or the mailbox monopoly. The report recognized that the Postal Service faces many challenges from technological and social trends and volume declines caused by the economic downturn. The report offered recommendations identifying areas where additional information would assist decision makers if future action becomes necessary.

N2009-1 Station and Branch Optimization and Consolidation Initiative

On July 2, the Postal Service filed a request for an advisory opinion regarding a plan to optimize the retail network in urban and suburban areas by consolidating the operation of retail stations and branches in close proximity to one another. No facility-specific consolidations are anticipated to be implemented before the end of calendar year 2009. An advisory opinion from the PRC is expected in early calendar year 2010.

A2009-1 Hacker Valley Post Office, Hacker Valley, WV 26222 (Retha Casto, Petitioner)

The PRC chose to docket this matter as an appeal of a Post Office discontinuance, thereby failing to follow its usual practice of first verifying the procedural stance of the matter. Operations had been suspended, not formally discontinued, a situation the PRC would normally handle by advising the attempted petitioner that an appeal was premature. In Order No. 319, the PRC denied the Postal Service motion to dismiss proceedings, promised to examine more closely the relationship between suspension and discontinuance and, without formal notice to that effect, closed the docket. Subsequently, via Order No. 335, the PRC opened a public inquiry docket, PI2010-1, requesting public comment on Postal Service suspension and discontinuance of Post Offices.

MC2008-1 (Phase II), MC2009-19, and MC2009-20 Review of Nonpostal Services and Modification of Mail Classification Schedule Product Lists

These three proceedings all involve further steps to address services that, under the 1970 Postal Reorganization Act, were treated as nonpostal services. Under the new criteria of the Postal Act of 2006, some have been reclassified as postal services. Current efforts are focused on laying an appropriate foundation for future regulation of these products. All three cases are still active.

Chapter 2: **Products and Services**

Product Development

Postal Service products are offered through an extensive retail, processing, transportation, and delivery network throughout the U.S. and worldwide through the networks of foreign posts.

The Postal Act of 2006 divided postal products and services into two distinct categories — market dominant (also referred to as mailing services) and competitive (also referred to as shipping services). Different rules for each category allow the Postal Service to bring new products and services to market more quickly, with greater pricing flexibility. Price changes on average for any class of mail within mailing services may not exceed the rate of inflation based on the Consumer Price Index (CPI) for the previous 12 months. Price changes for shipping services must produce sufficient revenue above a price floor that covers attributable costs for each competitive product and for the competitive products collectively and, for shipping services as a whole, an appropriate share of institutional costs.

Mailing Services

Mailing services represent about 88 percent of all revenue. These services include First-Class Mail, Periodicals, Standard Mail, single-piece Parcel Post, Bound Printed Matter, Media Mail, Library Mail, single-piece International Mail, and Special Services such as Delivery Confirmation, Certified Mail, and Post Office Box service.

Implementation of the May 11 price change for mailing services proceeded smoothly. Information for customers and employees was disseminated through multiple outlets. The amount that the Postal Service may increase mailing services prices is based on the CPI–All Urban Consumers plus any unused authority from previous changes. The chart below shows the percent of price adjustment authority and price increases by class.

May 11, 2009 Price Changes

Mail Class	Authority	Increase
First-Class Mail	3.814%	3.771%
Standard Mail	3.862%	3.781%
Periodicals	3.976%	3.966%
Package Services	3.825%	3.800%
Special Services	3.852%	3.837%

FIRST-CLASS MAIL

First-Class Mail includes business and personal correspondence, bills, invoices, remittances, financial statements, and advertising weighing 13 ounces or less. Matter containing personal information, partially or wholly handwritten or typewritten matter, or bills or statements of account must be mailed as First-Class Mail, unless mailed as Express Mail or Priority Mail, or otherwise exempted by the Postal Service. First-Class Mail is sealed against postal inspection and cannot be opened except as authorized. First-Class Mail that is undeliverable-as-addressed (UAA) is entitled to be returned to the sender or forwarded without additional charge.

First-Class Mail consists of six separate products with distinct price structures and preparation requirements: single-piece letters/postcards; presorted letters/postcards; flats; parcels; outbound single-piece First-Class Mail International; and inbound single-piece First-Class Mail International.

First-Class Mail revenue was $35.9 billion, with a volume of 83.8 billion pieces. First-Class Mail revenue decreased 6.0 percent and volume decreased an unprecedented 8.6 percent. The volume decline continued a downward trend that started in 2002. In addition to impacts from the downturn in the economy, this volume decline can be attributed to electronic diversion of bills and statements, alternate payment methods, and the absence of sufficient new hardcopy applications. Despite volume declines, the Postal Service continued to make important service improvements with First-Class Mail.

Bills and statements still represent about half the volume of First-Class Mail that is presorted and, along with payments, represent nearly half of total First-Class Mail volume. The Postal Service has made significant service and process improvements to help stem the decline of this mail segment. The most recent Phoenix-Hecht Survey, conducted in April and October, showed that the Postal Service overall maintained its scores in handling remittance mail in spite of aggressive postal cost reductions. The survey measures the time in hours that it takes for remittance mail to travel from 170 originating cities into approximately 100 sites in 29 destination cities. Phoenix-Hecht, an independent research firm, has tracked remittance mail processing times for more than 10 years. Technology, transportation, and mail processing enhancements have decreased nationwide processing times by more than 8 hours since 1996.

The May 11 price changes for First-Class Mail continued to improve price relationships between various categories and fostered a long-term pricing strategy that promotes automation and maintains shape-based pricing. Standards for machinable and automation First-Class Mail letters were aligned so that both price categories must now have the same physical characteristics. All sort levels for automation letters were made optional, giving mailers more flexibility and encouraging lower-volume mailers to design mail for automation prices. A Full-Service Intelligent Mail barcode incentive of 0.3 cent per-piece became available on November 29, 2009 for automation letters and flats.

Customers and the Postal Service continued to find new applications for First-Class Mail. One opportunity exists with Election Mail, including voter registration materials and absentee ballots. Twenty-eight states currently allow "no excuse" absentee voting. The Postal Service works closely with election officials nationwide to provide assistance with their efforts. Election Mail is promoted extensively through expanded outreach and new support materials,

including an action plan, handbooks, Web pages, and a new tag to flag containers carrying ballots.

STANDARD MAIL

Standard Mail is bulk-entered mail that weighs less than 16 ounces. Any mailable matter may be sent as Standard Mail except matter required to be sent as First-Class Mail or copies of publications authorized to be entered at qualifying Periodicals prices. Standard Mail items typically include advertising letters, circulars, catalogs, fundraising appeals, and lightweight parcels. Standard Mail receives deferred handling.

Standard Mail consists of five separate products with distinct price structures and preparation requirements: letters; flats; parcels and not flat-machinables (NFMs); high density and saturation letters; high density and saturation flats; and carrier route letters, flats, and parcels. For each product there is a regular price and a lower nonprofit price that is available only to qualifying organizations as permitted by law.

Standard Mail revenue was $17.4 billion, with 82.7 billion pieces. Standard Mail revenue decreased 15.7 percent and volume decreased 16.5 percent. The revenue decline is a direct result of economic conditions, especially in the financial sector, which led to reduced spending for direct mail advertising.

Generally, direct mail has been a major contributor to overall revenue growth. Except this year, Standard Mail volume has exceeded First-Class Mail volume every year starting in 2005. The long-term shift has implications for Postal Service finances since it currently takes 2.5 pieces of Standard Mail on average to achieve the same contribution provided by one piece of First-Class Mail.

Overall, the importance of Standard Mail has been aided considerably by the increasing strength of direct marketing channels. Direct mail allows marketers to target specific customers, measure their return on investment, and complement multichannel efforts. Standard Mail pricing has been a further catalyst to the emergence of a competitive direct mail industry. Various market developments have contributed to continued growth, including the Do Not Call Registry established in 2003, the Anti-Spam Act of 2003, and increased consumer expectations for targeted and personalized messaging. Direct mail, as a percentage of advertising spending, has seen consistent growth in recent years. Its share of total advertising expenditures is projected to be 11.9 percent in calendar year 2009.

The May 11 price change for Standard Mail Flats was lower than average to moderate the impact on catalog mailers. As with First-Class Mail, standards for machinable and automation letters were aligned and sort levels for automation letters made optional. Prices for high density/saturation products were set below the price authority while parcel prices were set higher. Drop-ship incentives were enhanced to encourage more efficient transportation and entry. A Full-Service Intelligent Mail barcode incentive of

0.1-cent-per-piece became available November 29, 2009, for automation letters and flats, and for basic and high-density carrier route flats.

May 11 was the official start date for the first Standard Mail Saturation Mail Incentive Program. The program is for mailers who mail letters or flats at saturation prices. The program gives mailers per-piece credits for annual saturation volume increases over last year (May 11, 2008 to May 10, 2009). The one-year program may be extended on a year-by-year basis. There are 495 customers registered for the program, representing 27.5 percent of all Standard Mail Saturation Mail. Anticipated incremental revenue for the first year is $50 million with $20 million in contribution.

The Postal Service implemented the Standard Mail Incentive Program, or "Summer Sale," which ran from July 1 to September 30. Eligible customers received a 30 percent postage rebate on incremental volume that exceeded thresholds based on the mailer's history. Service providers were not eligible. Of the 941 customers participating, 441 of those customers mailed collectively more than 950 million pieces above their assigned threshold volume.

PERIODICALS

Periodicals include magazines, newspapers, and other publications whose primary purpose is the transmission of information to an established list of subscribers or requesters. Publications must meet qualifying criteria established by law and specified in the *Domestic Mail Manual.* Periodicals mailed by qualifying nonprofit organizations and those mailed within their county of publication (primarily local newspapers) pay reduced prices.

Periodicals revenue was $2.0 billion, with a volume of 8.0 billion pieces. Total Periodicals revenue decreased 11.2 percent and volume decreased 7.6 percent.

The Periodicals May 11 price changes targeted reducing costs by rewarding efficient preparation and refining the relationships between the various price elements and discounts that make up the final price for mailing a publication. (Periodicals is the only mail class that did not cover its attributable costs in 2008.) Starting November 29, 2009, Periodicals mailers who adopted the IM Full-Service option receive a 0.1-cent-per-piece incentive and qualify for no-fee Address Change Service (ACS). (Free ACS became available earlier in May.) This provides added relief because Periodicals are required to use ACS and pay a fee for any address changes.

Periodicals volume has continued to decline as other media channels have increased while the number of ad pages and publication frequencies have decreased. Businesses and consumers increasingly rely on the Internet as a substitute for hardcopy publication of news, information, and entertainment. To help maintain the affordability of the Periodicals mail class, pricing and product innovations focus on reducing the number of postal handlings, increasing the entry

Chapter 2: **Products and Services**

of Periodicals closer to destination, and reviewing individual price elements.

PACKAGE SERVICES

Package Services can be used to send mailable items weighing up to 70 pounds (except Bound Printed Matter, which has a maximum weight limit of 15 pounds) not required to be sent as First-Class Mail, prepared as Customized Market Mail, or entered as Periodicals.

Package Services consist of five separate products with distinct price structures and preparation requirements: Single-Piece Parcel Post; Bound Printed Matter Flats; Bound Printed Matter Parcels; Media/Library Mail; and Inbound Surface Parcel Post (international).

Single-Piece Parcel Post may be used by any customer. Parcel Post is generally the most economical shipping service for parcels weighing one pound or more. Bound Printed Matter, Media Mail, and Library Mail are content-restricted products by law. Bound Printed Matter may be used only for permanently bound printed materials such as heavy catalogs, books, and telephone directories. Media Mail and Library Mail may be used only for books, sound and video recordings, certain films and film catalogs, printed music, manuscripts, media, and other eligible items. Only qualified schools, colleges, libraries, and similar organizations may use Library Mail.

Package Services revenue was $1.7 billion, with 730 million pieces. Package Services revenue decreased 8.8 percent and volume decreased 13.7 percent.

The May 11 price changes for Package Services were designed to improve contribution, especially from Media Mail, Library Mail, and single-piece Parcel Post, while remaining within the price cap. The overall 3.8 percent increase was well below competitors' published ground increases of 5.9 percent. The single-piece Parcel Post price structure was simplified (by merging intra-Bulk Mail Center (BMC) and inter-BMC prices and eliminating the nonmachinable surcharge) to create a single price at each weight in each zone. This same structure is used for Priority Mail and for competitors' products, providing ease of use and positive comparability to competition.

SPECIAL SERVICES

The Postal Service offers a number of Special Services that can be purchased separately for a fee or obtained at no charge as an added feature to a mailing or shipping service. Special Services include Post Office Boxes and money orders, as well as services that provide customers additional security (such as Registered Mail and Insured Mail), information about delivery (such as Certified Mail, Return Receipt, Delivery Confirmation, Signature Confirmation, and Confirm service), forwarding and return of mail, and address information.

For most Special Services, fees were set close to the price cap percentage and rounded to simplify transactions. A significant portion of Address Correction Service was incorporated within the design of the Intelligent Mail Full-Service option. Although some

The Postal Service has made it easy for customers to manage their Post Office Box accounts online.

Special Services contribute only modest revenue, as a group these services represent an important revenue source, providing $2.8 billion.

Post Office Box service is offered for a fee to any customer requiring an alternative to free carrier delivery or general delivery. The service, which serves more than 14 million customers, generated revenue of $911.9 million, an increase of 1.7 percent. The fees vary by box size and facility location. Customers can search, select, apply, and pay for new Post Office Boxes online. Current customers can sign up online for one-time or automatic payments using their credit card. Customers can also renew their semi-annual or annual Post Office Box payments (excluding caller service boxes) at any Automated Postal Center kiosk. A campaign to boost overall Post Office Box occupancy was initiated.

All Insured Mail labels are barcoded and only items valued over $200 require the recipient's signature. Click-N-Ship customers who purchase shipping labels on *usps.com* have the option to add domestic insurance to purchases. Click-N-Ship customers can add insurance to Express Mail and Priority Mail; eBay customers can add insurance to Express Mail, Priority Mail, First-Class Mail, Parcel Post, and Media Mail. Previously, only online customers who purchased insurance could file claims online. As of April, all customers can now file domestic insurance claims online (except for COD and Registered Mail), even when insurance is purchased at a retail unit.

Chapter 2: **Products and Services**

Claims filed online have since grown to constitute nearly 50 percent of all filed claims. At the same time, the Postal Service launched more streamlined, centralized customer claims processes and policies designed to decrease the average turnaround time for claims resolution and improve overall customers' experiences. All claims are now adjudicated centrally by Accounting Services regardless of the claim amount.

Postal Money Orders are a safe, convenient, and economical alternative to sending money through the mail. They can be purchased from any Post Office or rural carrier. As a proactive measure aimed at further deterring fraud, domestic and international Money Orders were redesigned. The new Money Orders include a new color scheme and additional security features. When the money order is held up to a light, repeating images of the first Postmaster General, Benjamin Franklin, can be seen, making it easier to detect counterfeits. A new holographic, multicolored security thread weaves in and out of the paper to thwart counterfeiting.

Shipping Services

Shipping services products face considerable domestic and international market competition. These products represent the remaining 12 percent of revenue and include Express Mail, Priority Mail, Parcel Select, Parcel Return Service, Global Express Guaranteed (GXG), Premium Forwarding Service, Express Mail International, Priority Mail International, and M-bags.

On January 18, new shipping services prices took effect averaging a 5 percent increase in comparison with competitors' increases that ranged between 5.9 and 6.9 percent. Unlike mailing services, shipping services are not subject to a price cap. Instead, prices are driven by the market and must meet certain statutory requirements that effectively establish a price floor.

The move to annual January price changes for shipping services tracks with industry-wide practices while allowing comparisons that show the affordable options offered by the Postal Service. This price change was the first to separate shipping and mailing services. An integrated multimedia advertising campaign was launched to build awareness among business customers that the Postal Service is in the shipping business. Extensive print and online outreach information was available at *usps.com/prices.* In addition, sales support materials were developed for Post Offices; for the local outreach programs Business Connect, Customer Connect, and Rural Reach; and for the sales force.

Carrier Pickup service, available for Express Mail, Priority Mail, Return Services, and international products, added 244 previously excluded ZIP Codes. With this addition, the service became available to an additional 280,184 delivery addresses. This expansion demonstrated the Postal Service commitment to provide increased support for customer preferences to use online programs such as Click-N-Ship. Carrier Pickup service has also been expanded on a contract agreement basis in shopping malls to increase retail

shipping conducting door-to-door service. The Postal Service also increased support for companies interested in specialized and customized expedited packaging supplies.

EXPRESS MAIL

Express Mail, the fastest postal product for time-sensitive items, offers guaranteed overnight or second-day delivery to most domestic addresses. Express Mail service performance was at an all-time high. The product includes tracking, proof of delivery, Sunday and holiday delivery where available, a flat-rate envelope option, and insurance up to $100. Any mailable matter may be sent as Express Mail. All Express Mail packaging is Cradle-to-Cradle certified at no additional cost.

Overall, Express Mail prices averaged a 5.7 percent increase that maintained a value advantage in the market, especially for lightweight items. Other than the flat-rate envelope, Express Mail prices are based on weight and distance (the number of zones through which an item travels). Unlike most other shipping companies, the Postal Service does not impose surcharges for fuel price increases, residential delivery, or Saturday delivery.

Commercial base pricing, a pricing category lower than retail prices, has been successful and was expanded to include customers paying postage with an approved information-based indicia (IBI) metering system, in addition to customers using an Express Mail Corporate Account (EMCA), Federal Agency Accounts, online Click-N-Ship, and registered end-users of PC Postage systems.

The rebate process for high-volume commercial base customers was replaced with a separate pricing category called commercial plus, which was set at 14.5 percent below retail prices. This new arrangement makes it easier for merchants to pass their savings in shipping costs onto customers because the merchants do not have to wait until the end of a quarter to receive the incentive. Commercial plus prices are available for existing customers whose cumulative account volume exceeds 6,000 pieces (about 25 packages a day) in the previous four calendar quarters and customers who have a "customer commitment agreement" with the Postal Service. Customers must use an EMCA or a Federal Agency Account, or be a registered end-user of a PC Postage system using approved shipping labels.

Express Mail Open and Distribute service allows mailers to enclose and expedite mail in bulk, such as Standard Mail, in an Express Mail sack or container and address it to a Postal Service facility. The receiving facility opens the container and sorts the enclosed mail for delivery within the service area of the facility. A new Open and Distribute tray box was made available at no additional charge for Express Mail customers shipping letters and flats. The customized design of the new tray boxes improves visibility of the service, secures all mail inside during processing, and eliminates the potential for mail to be misdirected. These tray boxes are also useful for remittance mail customers using Priority Mail Reship services,

which now allow the use of Delivery Confirmation and the enclosure of most types of accountable mail.

A new Express Mail delivery endorsement was introduced for commercial mailers who have an agreement allowing for delivery by the end of the day, instead of a specific time. Express Mail shipments with the Guaranteed By End Of Day endorsement are delivered with a carrier's regular deliveries — a potential workhour savings.

High-volume mailers looking for cost savings on overnight shipments now have the option under a customer agreement to use the new Express Mail letter-size envelope. When used with the Guaranteed By End Of Day endorsement and Waiver of Signature option, items can be easily delivered to mail receptacles.

Also, newly designed triangular mailing tubes that are easy to assemble were introduced with Express Mail graphics printed on one side of the unfolded container and Priority Mail graphics on the reverse. This change increases customer satisfaction and operational efficiency without increasing costs for these mailing tubes.

The Express Mail Hold For Pickup option was made available through *usps.com.* The service allows customers to use a destinating Post Office to pick up their Express Mail.

Express Mail was added to the suite of products for Electronic Verification System (eVS) to allow commercial mailers to manifest Express Mail to pay postage with a permit imprint in order to benefit from paperless transactions and reports.

To simplify the deposit of prepaid packages at Post Offices, customers who use Click-N-Ship or PC postage have the option of printing a single Shipment Confirmation Acceptance Notice form for multiple packages to be mailed at the same time. The employee accepting the packages only has to scan the barcode on the form for all packages associated with the form rather than scan each package separately.

PRIORITY MAIL

Priority Mail offers customers delivery within 1 to 3 days for letters, documents, and merchandise weighing up to 70 pounds. It provides 6-day per week delivery, security, and preferential handling. Priority Mail service performance was at an all-time high. Priority Mail includes Delivery Confirmation at no additional cost for the electronic option, convenient prepaid envelopes, custom-designed boxes, a convenient flat-rate envelope, and three Postal Service flat-rate box prices. The flat-rate boxes are now imprinted with the words "Small," "Medium," or "Large" to help customers choose among available options. All Priority Mail packaging is Cradle-to-Cradle certified.

Overall, Priority Mail prices averaged a 3.9 percent increase that maintained a value advantage in the market, especially for lightweight items. Other than the flat-rate envelope and boxes, Priority Mail prices are based on weight and distance (the number

of zones through which an item travels). Unlike most other shipping companies, the Postal Service does not impose surcharges for fuel price increases, residential delivery, or Saturday delivery.

A new Priority Mail small flat-rate box, priced the same as the flat-rate envelope, was launched on January 18, giving customers four convenient flat-rate box options, including two different medium size boxes and the discount for the large flat-rate box sent to APO/FPO addresses.

Commercial base pricing, a pricing category lower than retail prices, was expanded to include customers paying postage with an approved information-based indicia (IBI) metering system, in addition to customers using a permit imprint with a manifest mailing system (MMS), online Click-N-Ship, and registered end-users of PC Postage systems.

New commercial plus pricing was launched for existing Priority Mail customers shipping more than 100,000 pieces (about 420 packages a day) in the previous calendar year using a Postal Service-approved PC Postage system or a permit imprint with a MMS; Priority Mail Open and Distribute customer shipping more than 600 containers in the previous calendar year under an MMS; and new Priority Mail customers establishing a customer commitment agreement with the Postal Service.

Customers can handle virtually all of their mailing needs at usps.com.

Chapter 2: **Products and Services**

Open and Distribute service allows mailers to enclose and expedite mail in bulk, such as Standard Mail, in a Priority Mail container and address it to a Postal Service facility. The receiving facility opens the container and sorts the enclosed mail for delivery within the service area of the facility. Priority Mail Open and Distribute processes provide greater visibility, including standardized labels and identification, tracking, and a flat-rate packaging option for direct shipments to destinating delivery units. The flat-rate packaging option makes sending smaller volumes easier and provides pricing that does not vary by distance or weight. Improvements were made to the Intelligent Mail handheld scanning device to allow manual entry for unscannable barcodes. A new Open and Distribute tray box similar to the Express Mail tray box was made available. The tray boxes are also useful for remittance mail customers using Priority Mail Reship services, which now allow the use of Delivery Confirmation and the enclosure of most types of accountable mail.

PARCEL SELECT

Parcel Select offers an economical ground solution for medium-sized to large shippers and consolidators who prepare, sort, and handle large volumes of packages that they tender to the Postal Service. Parcel Select combines the logistics expertise of parcel consolidators with the vast delivery network of the Postal Service to provide highly competitive prices and excellent delivery service. Postal Service strategies to increase volume include increasing partnerships, optimizing pricing, developing new customer contracts based on flexible pricing, better leveraging the first- and last-mile pickup and delivery network, and shortening the start-up time for new customers to begin using this product. As part of the commitment to service, the Postal Service holds quarterly meetings with the national consolidators' senior management to discuss issues such as scanning, service, and manifest accuracy. Parcel Select service performance achieved an all-time high in 2009.

Parcel Select has several pricing options, depending on level of sortation and point of entry into the postal system. The most favorable pricing is for packages entered closest to final delivery at a destination facility. The three levels of entry with corresponding prices are destination delivery unit (DDU), destination sectional center facility (DSCF), and destination bulk mail center (DBMC).

Loyalty Rebates for DDU postage range between 0.25 percent and 1.50 percent and are based on the total annual amount of all Parcel Select postage paid starting at $5 million. Growth Rebates for DDU postage are available for shippers who qualify for a Loyalty Rebate and who increase their Parcel Select volumes by more than 10 percent in the most recent 12-month period (compared with the previous 12-month period). The rebate, determined by Parcel Select postage spent and the percentage of growth, ranges from 2 percent to 14 percent.

On January 18, Parcel Select saw an average increase of 4.7 percent for DDU prices, 6.8 percent for DSCF prices, and 9.1 percent for DBMC prices. Parcel Select destination entry parcels retained both the no-fee (electronic) Delivery Confirmation service and the Loyalty and Growth Rebates implemented in May 2008 for DDU entry. As a result of this pricing strategy, ground packages entered at DDUs and DBMCs represented more than 97.5 percent of Parcel Select volume as shippers continued to move packages closer to destination. This transition to DDU and DBMC entry accelerated after the January and May price changes.

Parcel Select also includes three other price options: Origin BMC (packages sorted by BMC and entered at the BMC serving the shipper's plant), BMC Presort (packages sorted by BMC but not entered at a BMC), and Barcoded Nonpresort (barcoded packages not entered at a destination facility). Both the pricing and the timing for price changes for these three categories are currently tied to single-piece Parcel Post, which increased prices on May 11.

A major revenue development was FedEx SmartPost (part of a FedEx ground service that uses Parcel Select). All existing FedEx Ground customers, including FedEx Home Delivery customers, qualify for SmartPost. Customers can price shop and select FedEx SmartPost if they use a FedEx shipping system or have a FedEx corporate account. This arrangement opens the FedEx Ground business to Parcel Select. The General Services Administration (GSA) provided another new potential source of revenue and volume growth when Postal Service ground shipping solutions were offered for the first time in GSA schedule 48.

Post Offices and delivery units began using new Enhanced Visibility Tracking Events (EVTE) for expedited and ground packages with Delivery Confirmation or Signature Confirmation services. With EVTE, track and confirm services are on the same playing field as Postal Service's competitors, enabling customers to track packages at their convenience from time of acceptance to time of arrival at a delivery unit to the final delivery point. Product visibility contributes to growth and high service performance of Parcel Select.

PARCEL RETURN SERVICE

Parcel Return Service (PRS) offers an easy, convenient way for customers to mail items that need to be returned, repaired, or recycled or that were recalled. Customers use a pre-printed label provided by the merchant or agent that does not require them to pay postage. Customers can take the parcel to a Post Office, request pickup during the normal delivery of their mail, or at *usps.com/pickup.* The merchant or agent retrieves returned parcels from Post Offices ("return delivery units"

Parcel Return Service offers customers a convenient way to mail items that need to be returned, recalled, repaired, or recycled.

Chapter 2: **Products and Services**

or RDUs) or BMCs ("return BMCs" or RMBCs), after paying postage through an advance deposit account set up with the Postal Service. PRS provides full end-to-end product visibility through the logistics partner, who reverse-manifests each shipment.

There was no price increase for RDU parcels and an average 7.1 percent price increase for RBMC parcels. Because PRS items retrieved at RDUs continued to receive more favorable pricing, RDU entry grew by 40 percent.

UPS introduced its Flexible Access program in February so that return customers can tender their packages either to UPS or the Postal Service. It has all the same convenient methods for the customer to give us the package: at the retail counter; at the door step by giving it to the carrier; or arranging for carrier pickup through *usps.com/pickup.* In addition to UPS, FedEx became a returns consolidator with its FedEx SmartPost offering. FedEx announced the product launch using PRS in September after a successful test during the summer. These partnerships give customers other options to use the Postal Service's unparalleled first-mile capabilities, while providing the Postal Service other revenue growth opportunities.

PREMIUM FORWARDING SERVICE

Premium Forwarding Service (PFS) reships all mail from a household customer's primary address to a temporary address weekly via Priority Mail service, for a minimum of two weeks and up to one year. PFS was created to meet customer demand for an alternative to temporary forwarding service. The service remains popular with customers, and volume has been growing steadily.

International Products

The Postal Service continues to maintain a strong presence in the international shipping market. Bilateral agreements negotiated with other postal administrations, individual contracts, and streamlined product offerings appealed to customer needs and service expectations.

GLOBAL EXPRESS GUARANTEED

Global Express Guaranteed (GXG) is the premium international Postal Service shipping option, with international transportation and delivery provided by FedEx. GXG offers reliable, high-speed, date-certain delivery, within 1 to 3 business days to over 190 countries, with a money-back guarantee (some restrictions apply). For almost all network destinations, liability insurance is provided for lost or damaged shipments. Since the alliance with FedEx was formed in 2004, GXG volume has almost doubled. The Postal Service alliance with FedEx was extended for a 5-year term, building on accomplishments of the initial agreement, which combine the resources of both organizations to provide customers with world-class quality and value. GXG customers receive a 10 percent discount for commercial base prices when postage is paid online at *usps.com,* with information-based indicia (IBI) metering systems, or through authorized PC Postage vendors.

EXPRESS MAIL INTERNATIONAL

Express Mail International provides reliable delivery within 3 to 5 business days on average to over 190 countries. It features tracking and insurance up to $100 at no additional charge. Customers receive an 8 percent discount for commercial base prices when postage is paid online at *usps.com,* with information-based indicia (IBI) metering systems, or through authorized PC Postage vendors. Also, customers who pay postage by permit imprint and use authorized mail preparation software receive an 8 percent published discount off retail rates. Discounts of 8, 10, or 12 percent are also available for high-volume customers using Express Mail Corporate Accounts and permit imprint manifest mailing system software from the Postal Service. The same Postal Service-provided Express Mail packaging used domestically can also be used for international shipping, including the Express Mail flat-rate envelope. Express Mail International With Guarantee service — which offers a date-certain, postage-refund guarantee — is available to Australia, China, Great Britain and Northern Ireland, Hong Kong, Japan, the Republic of Korea (South Korea), and Spain.

PRIORITY MAIL INTERNATIONAL

Priority Mail International is available to over 190 countries and offers delivery within 6 to 10 business days on average. Customers receive a 5 percent discount when postage is paid online at *usps.com,* with information-based indicia (IBI) metering systems, or through authorized PC Postage vendors. Also, customers who pay postage by permit imprint and use authorized mail preparation software receive a 5 percent published discount off retail rates. The same Postal Service-provided Priority Mail packaging used domestically can also be used for international shipping, including the flat-rate envelope and boxes. Tracking is available to major destinations. Limited indemnity is provided at no additional charge for parcel shipments and insurance is available for a fee.

FIRST-CLASS MAIL INTERNATIONAL

First-Class Mail International is a reliable and economical means of sending correspondence, documents, and lightweight merchandise weighing up to 4 pounds. There are separate prices for letters, large envelopes, and packages.

INTERNATIONAL PRIORITY AIRMAIL AND INTERNATIONAL SURFACE AIR LIFT

These two services meet the needs of international business mailers requiring services that are both reliable and more economical than First-Class Mail International service. The number of country price groups changed from 9 to 15 — including 10 "country-specific" groups, and 5 multiple-country price groups. Mailer presort and dropship requirements were revised to encourage greater consolidation.

Chapter 2: **Products and Services**

INTERNATIONAL DIRECT SACKS (M-BAGS)

International Direct Sacks (M-bags) are sacks of printed matter and non-dutiable merchandise sent to one addressee with weight-based prices.

EXPEDITED PRICING CONTRACTS

Two additional types of Global Expedited Package Services (GEPS) contracts were added — GEPS Metro and International Service Center Drop Ship. These agreements offer discounts that reflect lower transportation costs than the traditional contract. GEPS Metro is for customers entering mail at an approved business mail entry unit within 200 miles of an ISC. ISC Drop Ship is for customers transporting expedited shipments directly to one of five ISCs. Additionally, all three GEPS agreements were revised to reflect the economic downturn by adjusting the discount qualification tiers.

GROWGLOBAL!

This program continues to capture new business by focusing on relationship building and coordinated outreach. It uses cross-functional teams to reach new customers, especially within Asian and Hispanic markets. The program has been implemented in ten districts and will be expanded to an additional 20 districts in 2010. GrowGlobal! districts have continued to outperform non-participating districts not only in international products, but also in domestic products.

Staying connected is easy with the U.S. Postal Service®.

UNITED STATES POSTAL SERVICE® GrowGlobal!™

Retail Products and Services

RETAIL PRODUCTS

The Postal Service offers a full line of ReadyPost shipping supplies in Post Offices to provide convenient, value-added packaging options to customers, generating over $110 million. New product development is focusing on other products that will meet customer mailing and shipping needs. The initial product mix will consist of items based on consumer research and some high revenue-producing items such as Photostamp kits and scales. A market test is also being conducted on selling greeting cards at 1,500 Post Offices.

PASSPORT APPLICATION ACCEPTANCE

The Postal Service has over 6,300 convenient locations where customers can apply for a passport book or passport card. Many of these locations also offer passport photo services. The Postal Service accepted over 6 million passport applications that contributed over

$232 million in passport-related revenue. To address demand for passports, the Postal Service continues to work with the State Department to expand the number of Post Offices accepting applications, with an emphasis on those in proximity to U.S. borders.

Stamps

The 2009 stamp program continued the long tradition of issuing postage stamps that are unique, functional, educational, and entertaining. Of the 30 billion stamps, stamped envelopes, and stamped cards produced this year, 2.5 percent were part of the commemorative stamps program. These stamps paid tribute to the people and events that have shaped the United States. Subjects in 2009 included tributes to Abraham Lincoln, four Supreme Court Justices, Edgar Allen Poe, Gary Cooper, Anna Julia Cooper, and Bob Hope. Other commemoratives saluted statehood anniversaries for Alaska, Hawaii, and Oregon, the America's Gulf Coast Lighthouses, the Lunar New Year celebrations, the animation of the Simpsons, and the Thanksgiving Day Parades. Two special panes of stamps, Civil Rights Pioneers and Early Television Memories, were also issued.

New this year was the addition of the Forever stamp format to the personalized stamped envelope program. Business and residential customers can purchase a variety of stamped envelopes that include a Forever stamp, along with their name and return address. Personalized envelopes can be easily ordered at *usps.com.*

Most ideas for the commemorative stamp program come from the American public. Each year 50,000 ideas are submitted for consideration by the Citizens' Stamp Advisory Committee, a cross section of designers, historians, and educators, who narrow the selection of stamp subjects to be issued. The Committee reviews the suggestions and makes recommendations to the Postmaster General for final approval. The time between submitting a stamp idea and issuing the stamp can take several years of deliberate discussion and design. Information about the program can be found at *usps.com/communications/ organization/csac.htm.*

Maggie received 272,000 votes edging out Homer in an online "Favorite Simpsons Stamp" contest.

In addition to using stamps to commemorate people, events, and places, the Postal Service also issues stamps to fund causes mandated by Congress. The Postal Service currently offers one 55-cent fundraising or semipostal stamp for purchase: the Breast Cancer Research stamp. Since its release in 1998, the Postal

Chapter 2: **Products and Services**

Service has sold more than 866 million stamps and raised more than $67.8 million for breast cancer research. The price of a semipostal stamp pays for the First-Class Mail single-piece postage price in effect at the time of purchase, plus an amount to fund the cause. By law, 70 percent of the net amount raised is given to the National Institutes of Health and 30 percent is given to the Medical Research Program at the Department of Defense.

Market Research

To evaluate and respond to changing customer needs, the Postal Service conducted several market research studies.

The Universal Service Obligation: This study assessed the experiences and perceptions of small businesses and consumers to the various attributes of the Universal Service Obligation. Overall, small businesses and consumers consider these attributes crucial in the service offered by the Postal Service because they ensure that the fundamental and basic elements of service are provided. This is especially so for nationwide delivery to every address and the uniform rate for First-Class Mail service. Attributes such as the expansive retail access and six-day delivery, though important and valuable, were considered less essential.

Retail Products: This study was executed to assess the reaction of consumers and small businesses to offering more consumer and office products at retail sites and online. The study showed that consumers would be interested in and would purchase many new consumer and retail products, given the convenience of buying at Post Offices or online at *usps.com.*

Priority Mail Advertising: To support the development of the highly successful Priority Mail advertising this year, research was executed with small businesses. The final research showed that a convenience story would be highly effective and that this claim could best be demonstrated by promoting the convenience and advantages of Flat Rate Boxes.

2008 Household Diary Study: Published in March, this multi-year research study measured the mail sent and received by a representative sample of more than 5,200 U.S. households in 2008, tracked household mail trends, and compared mail use among different household types. The report examined trends in the context of changes and developments in the wider markets for communications. One significant trend was the affect of the Internet on consumer use of mail for basic transactions and personal correspondence. The study is available online at *www.usps.com/householddiary.*

The Redesign of usps.com and the Introduction of Mobile Access: These studies assessed consumer and small business reactions to the basic elements of the major design of *usps.com.* Overall, the redesign effort and mobile access features would improve the Web site ease of use, quality of information provided to customers, and customer perception of the Postal Service.

Price Change Preparation and Implementation

For the first time, there were separate mailing and shipping services price changes. The shipping services price changes coincided with competitors' price changes in January. The timing strategically aligned the Postal Service with standard shipping industry practice. In May, new prices for mailing services were implemented.

To help customers make a smooth transition, the *usps.com/prices* Web site provided a comprehensive overview of the price and product changes. The *usps.com* main page featured the new prices and provided quick and easy access to key mailing and shipping guidelines. Downloadable price files, mailing standards, and links to *Federal Register* notices were also posted. Online services on *usps.com* and on partner sites such as eBay were updated with the prices and enhancements. Webcasts were a part of outreach activities for the software vendor community, and presentations and briefing materials were posted online for Postal Customer Council organizers to use at local meetings.

The *Domestic Mail Manual, International Mail Manual,* and all related documents were revised and posted on *pe.usps.com.* The *DMM Advisory* electronic newsletter also provided customers with price change information. In addition, presentations were provided to the Technical Speakers' Bureau, rate implementation coordinators, Business Service Network, and many other customer and mailing industry outreach groups. Postal Explorer, a popular online resource among commercial and small business mailers, provided quick and easy access to all updated price change information and materials, including price calculators, quick service guides, and postage statements.

To support effective internal communications to employees during both price change periods, comprehensive field information kits were published in the *Postal Bulletin* that included detailed information, employee talks, anticipated questions and answers, and other material to prepare employees for the changes. These kits also helped ensure that consistent and accurate information was readily available to enable employees to respond to customer questions.

Chapter 3: **Operations**

Standardization and Network Optimization

Process Improvement

Standardization has a major role in improving service and efficiency in all operations and support activities. Lean Six Sigma (LSS) tools, such as value stream mapping, are being used to standardize and simplify processes, document best practices, and replicate success throughout the organization. Data-driven analysis and decision making have resulted in lean management efforts targeting process variability, operating costs, and improvement opportunities. In many facilities, LSS analysis demonstrated the feasibility of compressing mail processing distribution into shorter operating windows. Highly focused, data-driven scheduling reduced overtime by one-half. Other projects led to keying simplification at remote encoding centers, and improved scanning at international service centers.

New field operations industrial engineers are playing a key role in expanding standardized processes. Over 500 continuous improvement projects have been identified in mail acceptance, operations, transportation, and service improvement. More than 1,100 employees have completed the continuous improvement/LSS training, and 120 earned LSS Green or Black Belts by leading and solving business problems. Replication of successful projects allows the organization to magnify the benefits of LSS continuous improvement projects while fostering standardization. The network of operations industrial engineers has proven to be an instrumental component in the organization's systematic implementation of improvement processes and practices.

Resource Optimization

STAFFING OPTIMIZATION

Managers continue to improve their use of data to better align staffing with the changing workload. In Customer Service operations, various programs and models enabled scheduling improvements that provide consistent quality and customer service. Use of these tools increased Customer Service operations efficiencies by 3.76 percent and reduced the use of overtime by 35.4 percent.

In Delivery operations, various tools contributed to a 6.7 percent increase in deliveries per hour and a 20.4 percent reduction in overtime. Declining workload was absorbed by pivoting open routes and managing workhour variances. As operations scaled down, fixed support costs like vehicles were also reduced.

Plant management uses multiple models to adjust staffing and schedules to workload fluctuations in plants. Use of these tools contributed to a 14.6 percent reduction in mail processing workhours and a 42.6 percent decline in overtime hours.

Network Optimization

PROCESSING AND TRANSPORTATION

The Postal Service continuously monitors and adapts its processing and transportation networks as customer mailing patterns change, mail volume fluctuates, and new technologies become available. For example, single-piece First-Class Mail volume, which requires a high degree of processing, is down 10.4 percent from 2008. In that same period, the volume of mail presorted by customers or entered at destination facilities increased as a share of total mail. Ongoing adjustments to such changes are essential to maintain optimal network performance.

In December 2008, the Postal Service provided Congress with its first annual update of the Network Plan, as required by the Postal Act. The plan highlighted three integrated elements of the optimization effort: closure of airport mail centers (AMCs); consolidation of redundant mail processing operations; and transformation of the bulk mail center (BMC) network.

DID YOU KNOW?
USPS delivers mail to more than 150 million residences, businesses and PO Boxes.

Nine AMCs were closed in 2009, with operations relocated to other facilities. These closures avoid the unnecessary expense of maintaining facilities on expensive airport property. They also reflect the shift of more mail from air to surface transportation, which can substantially reduce cost without compromising service performance.

Consolidation of outgoing and/or incoming mail processing operations among one or more plants is considered when service objectives can be met and operational efficiency improved. Following Area Mail Processing (AMP) Guidelines, 64 AMP projects were initiated. Of those, 21 were approved by year end, with a total annual savings of $51 million expected.

The transformation of BMCs into Network Distribution Centers (NDCs) is underway. The network handles Standard Mail, Periodicals, and Package Services. The NDC network enables changes in mail preparation that will consolidate transportation and allow mail to bypass operations. Surface Visibility data is guiding the resolution of service issues. Key preparation steps include creating new holdouts at local Post Offices, updating retail software, changing transportation, rearranging platform operations, changing schemes, and updating staffing and schedules to match workload.

Chapter 3: **Operations**

In addition to producing service gains, especially with Periodicals, the changes are reducing costs through improvements in mail preparation and containerization, improved trailer loading and dispatch, and the consolidation of transportation. NDC implementation was accelerated from 18 to 5 months and was scheduled for completion in late November 2009. An estimated $280 million in annual savings is expected when fully implemented.

Other optimization activities include consolidation of remote encoding centers (RECs), retail units, and district administrative offices. Improved addressing and recognition technology continue to reduce the need for RECs, specialized facilities where operators key in address information for mail that is illegible or otherwise poorly addressed. Three RECs were consolidated this year, leaving three in operation. One of the remaining RECs is scheduled to close in 2010.

STATIONS AND BRANCHES

Retail revenue declined again this year (-8.3 percent) and transactions were down 5.5 percent. Managers continued to make good use of Point of Sale transaction data to adjust schedules and reduce workhours. Yet despite changes in customer use, the postal retail network has remained largely unchanged from the time when virtually all retail business was generated in Post Offices. The Station and Branch Optimization and Consolidation Initiative is aligning retail resources with the preferences of today's postal customers as more postage is paid online, at kiosks, and at grocery stores. Area teams are leading an analysis of opportunities, focusing on stations and branches reporting to EAS-24 and above postmasters. The analysis considers customer traffic, availability of options, employee impact, excess space, and savings potential. On July 2, the Postal Service requested an advisory opinion from the PRC.

Visibility

Intelligent Mail

For more than 20 years, barcodes have been at the core of advances in Postal Service quality and efficiency. Automated mail processing, driven by barcodes, has allowed the Postal Service to reduce costs and deliver more rapid, reliable, and consistent service. The Intelligent Mail barcode introduces the next step in automation — the transition to Intelligent Mail (IM) — a comprehensive term that describes the integration of electronic mailing documentation, data-rich barcodes on mail and containers, and in-process scans to track mail from origin to destination. Mail with IM barcodes can be tracked throughout the system, creating new opportunities to improve service consistency, efficiency, and customer value.

Intelligent Mail barcodes can be tracked throughout the mailstream, creating new opportunities to improve service consistency, efficiency, and customer value.

As customers and the Postal Service continue on the journey toward IM, these benefits will mount: revenue growth and retention as mail products become more attractive in the marketplace; reduced operating costs through better network and operations usage of information about mail; reduced investment costs through standardization and integration of coding structure, data acquisition, communications, and storage; enhanced revenue accuracy through verification of postage payment and fulfillment of requirements for price categories; and enhanced mail security.

Three key priorities were identified in 2003 that set the direction for achieving the original IM vision:

1. Uniquely identify mailpieces and aggregates of mail such as mail in containers with a code that enables end-to-end process visibility. Unique identification provides the ability to gain full visibility of mail and aggregates. The introduction of IM barcodes has enabled the unique identification of pieces, handling units, and containers.

2. Develop and deploy an enabling infrastructure. In May, the Postal Service launched the Full-Service and Basic options for mailers. The systems deployed to support Full-Service provided enhanced visibility into the mail supply chain and established the infrastructure to facilitate the exchange of data between customers and the Postal Service.

3. Improve address quality. With the implementation and use of the IM barcode, several achievements have been accomplished including providing new address correction options, upgrading the change-of-address (COA) process, leveraging IM data for a new understanding of undeliverable-as-addressed mail, and making improvements to postal and customer address management systems.

Four new strategies were identified in 2009 that update and enhance the original IM vision:

1. Establish robust measurement capabilities to assess the performance of commercial mail and drive service improvements through acceptance visibility, delivery visibility, and measurement and aggregation.

2. Drive product innovation to enhance the value of mail through new products and services, data offerings, and dynamic pricing.

3. Sharpen operational insight and have a clear understanding of cost drivers.

4. Enrich the customer experience with in-process verification that limits need for manual intervention, offers targeted verification based on past performance, and furnishes a better understanding of customer behavior.

Chapter 3: **Operations**

Mailers have been able to use IM barcodes since 2006 and can choose between POSTNET and IM barcodes until May 2011, when the POSTNET barcode will no longer be used. Since May 2009, mailers could choose between two IM options — Basic and Full-Service. Under the Basic option, mailers only need to use non-unique IM barcodes on their mailpieces. For Full-Service, mailers must use unique IM barcodes on each mailpiece, submit postage statements and mailing documentation electronically, if required, and use IM tray and container labels. The IM barcode price structure was announced with the May 2009 price changes and includes separate pricing for Basic and Full-Service, which took effect November 2009. Mail must bear IM barcodes to qualify for the lowest automation-based prices.

The volume of mail with IM barcodes has grown rapidly — from 300 million pieces per week in October 2008 to approximately 1 billion per week at the end of September 2009. Over 26,000 mailers have been assigned one or more mailer IDs for automation mailings.

By the end of the year, over 400 customers had entered the Test Environment for Mailers, and nearly 200 were approved for entry into the live production environment. Since the implementation of Full-Service in May, over 600 million uniquely identified Full-Service pieces have been processed in the live production environment. These mailings had unique barcodes on each mailpiece, as well as unique aggregate container codes. The data associated with the mailings was provided to the Postal Service electronically. In turn, the appropriate data was provided back to the mailing customer electronically. The basic functionality of Full-Service Intelligent Mail has demonstrated the ability to perform as designed.

Focus is now turning to building awareness of IM among mid-size and small mailers. Training and support material on the benefits and implementation of IM was developed for employees directly involved with customers, including sales and business mail entry personnel. MTAC joined in the awareness campaign, which included sessions at the National Postal Forum (NPF), Web site guidelines, and Q&As about the use of IM barcodes and electronic documentation. The Postal Service and NPF co-sponsored nine national symposia where attendees heard from mailers about how IM is driving improvements in service and efficiency, and adding value to their business. Additionally, Postal Customer Councils across the country have also conducted IM workshops to reach more mailers.

Intelligent Mail Infrastructure

The ability to perform passive in-process scans on letter and flat automation equipment is already in place. Intelligent Mail Visibility Service brokered over 403 billion scans (for barcodes scanned through Intelligent Mail, Product Tracking System, Confirm, and other postal systems) to nearly a dozen corporate data systems during 2009. Handheld scanners have been deployed and are being modified

to capture barcodes on pallets, trays, and trucks. Intelligent Mail Full-Service utilizes the multiple data stores enabling visibility into customer Full-Service mailings. Over 76 billion Intelligent Mail barcode scans were processed in 2009.

Revenue Protection

In 2009, the Postal Service implemented Total Revenue Protection (TRP) to assist the Inspection Service in protecting multiple revenue sources. One TRP initiative identifies duplicate and short-paid parcels bearing information based indicia (IBI) generated through PC Postage. Other initiatives under development for 2010 implementation include a revenue reclaim process that can detect and intercept short-paid mail to deter future losses while reducing the cost associated with collecting postage due; a revenue protection process for mail paid with permit imprints that can analyze data of mail sorted on automation equipment and any related payment activity; and revenue protection vehicles that determine the accuracy of discounts claimed versus postage paid.

Surface Visibility

Surface Visibility describes the integration of multiple systems used to track mail transported within the postal network. Surface Visibility was originally designed to improve postal transportation, but was expanded to benefit the larger mailing community by making the entire mail value chain more transparent. Mail containers are scanned within a facility to provide the visibility necessary for platform operations to better meet dispatch of value for service commitments to the destination facility. Scanning on the dock allows for advance notification of mail entering and departing a

Handheld scanners capture barcode information to help track service performance.

facility, and provides accurate departure information for planning at downstream facilities. Quality controls embedded in the system reduce misdirected and misdelivered mail. Additionally, containers have dimensions embedded into the container barcodes so that trailer utilization is automatically captured by the application when a container is loaded.

Supporting Systems

Data are also integrated with the Facility Access and Shipment Tracking (FAST) system, which mailers use to provide advance notification of drop shipment mailings, and the Seamless Acceptance Service Performance system, which supports mailers participating in Full-Service Intelligent Mail. Surface Visibility scans verify acceptance and link containers to the mailer's electronic manifest. This information gives mailers new visibility and improves accountability for contractors who print, prepare, and transport their mail to the Postal Service.

In addition to providing visibility, the FAST system enables customers to schedule destination entry of Periodicals, Standard Mail, and Package Services. Customers and postal managers both benefit from the increased visibility. With the Postal Service's complementary Mailer Rating program, customers who provide advance notification and arrive at the scheduled time with the amount of mail shown on their appointment will have improved access. The FAST system continues to expand and add features. FAST for First-Class Mail is being considered to capture arrival information for origin and postal-verified mail transported by the customer.

Addressing

High-Quality Addressing

High-quality addressing requires current, correct, and complete addresses. Undeliverable-as-addressed (UAA) mail must be forwarded, returned to the sender, or treated as waste because addresses are incomplete, incorrect, or out-of-date. UAA mail

squanders customer investment in the mail channel, and the Postal Service's UAA-related costs are over $1 billion annually. To reduce UAA mail, the Postal Service has implemented multiple procedures to refine the address database, enhance the change-of-address (COA) process, manage address list quality, and provide more effective address-quality feedback to mailers.

Address Database Refinements

The Postal Service relies on a number of tools to improve the quality of the Address Management System (AMS) database. The Address Quality Reporting Tool (AQRT) identifies and prioritizes routes with the best opportunity for operational improvement. Districts performed 26,493 Address Quality Improvement Process reviews based on AQRT prioritized routes. These reviews identified and corrected addressing data on 2.3 million AMS records.

The Electronic Uncoded Address Resolution Service (eUARS) enables personnel to correct COA records that do not match a delivery point in the AMS database and update addresses that mailers submit for address correction. The eUARS Address Element Correction (AEC) computerized process corrected 9.1 million addresses. As part of AEC II, carriers helped correct an additional 6.3 million addresses.

As a revenue protection measure, a new report was implemented in eUARS to enable retail units to identify quickly PO Boxes indicated as reserved Caller Service boxes that are receiving large volumes of mail. This increased volume would imply that the box is now being used as Caller Service and the charges and box status should reflect the change.

The Delivery Sortation Management Automation Research Tool (DSMART) identifies addresses that receive mail but are not in the AMS database and cannot be sorted into delivery point sequence (DPS). DSMART was used to identify missing delivery points that accounted for 1.9 million mailpieces. DSMART Business Names module provides the ability for delivery unit personnel to link a business name with the appropriate suite address so the mail can be properly sequenced on automation equipment. The number of business names captured through DSMART increased by 4.7 percent, helping reduce default mail volumes by 34 million pieces. The Postal Service offers a commercial version of this Business Names database called Suite[Link], which adds secondary (suite) numbers to business delivery points to facilitate DPS, and includes tables identifying vacant addresses and addresses

that do not yet receive delivery. Use of these tables to suppress addresses with no residents helps reduce UAA mail.

To improve reporting of vacant addresses and further assist with reducing UAA volumes, processes were put in place to log carrier-identified Address Change Service (ACS) mail marked as vacant. Addresses on city routes are automatically set as vacant, and a notice is sent for addresses on rural routes for manual verification. When a COA is received for an address marked as vacant, the vacant flag is automatically removed.

The Growth Management Tool (GMT) and new construction data were used to identify new deliveries prior to reporting by carriers. The primary purpose of GMT is to identify deliveries early enough to establish the most effective form of delivery to the address. The secondary purpose is to identify new and fill-in growth; thereby reducing manual mail volumes. The utilization of GMT data increased 73.1 percent.

In September, WebBATS and AMS integrated PO Box data to improve data integrity, reduce redundancy, ensure proper collection of box fees, and improve audit trails. This effort also helps facilitate the ability of customers to find and rent available PO Boxes and contributes to increased revenue.

Change-Of-Address Data

Customers submitted 43.8 million COA requests, a slight decline from the previous year. More than 9.1 million COA transactions were from Internet change-of-address requests at *usps.com,* an increase of 14.7 percent. The increase in Internet COA entries improves the timeliness and accuracy of the address information supplied by the customer and reduces Postal Service costs to handle the orders.

With a strategic alliance partner, Imagitas, the Postal Service launched a new customer interface that allows limited changes and cancelation of a COA online. COA Correct is available for customers to modify effective dates, change status from family to individual and temporary to permanent, or completely cancel an active change order. COA Correct is a customer service milestone.

The Postal Service is working closely with the Census Bureau on the 2010 census on addressing issues for the four mailings to be made in March and April 2010 that together will exceed 415 million pieces. Work is also being done to identify and, as requested, provide destruction of UAA volumes.

Address List Quality

The Postal Service and mailing industry have continued to improve procedures and tools for validating and updating address lists. Best practices for updating addresses include using pre-mailing tools like Coding Accuracy Support System (CASS) certification, NCOA^{Link} processing, and Move Update standards, and post-mailing tools such as ACS and OneCode ACS. Pilot testing has begun for the Electronic Product Fulfillment (EPF) program to ensure that addressing products

are made available sooner to subscribers, ideally cycling changes more quickly to mail in the mailstream. Significant cost reduction is also available with full-deployment of EPF by eliminating the cost of producing and mailing CD and DVD updates to subscribers.

Working together, mailing industry and postal experts upgraded the CASS processing software to enable mailers to improve the accuracy of addressing and sorting data in mailing lists. The provision of the Delivery Point Validation as a quality tool continues to demonstrate improvement in mailer address quality. Data compiled about the accuracy of mailer address information shows a 2.5 percent improvement in mailer address quality over the past year. This improvement of mailer address quality increases automation compatibility, especially barcoding at the delivery point level. Customers can correct non-validated addresses using AEC or AEC ll, an enhancement to AEC that sends unresolved addresses to delivery offices for resolution.

The NCOA^{Link} product makes COA information available to mailers to help reduce undeliverable mailpieces before mail enters the mailstream. The NCOA^{Link} processing allows mailers to match their mailing list data against COA data maintained by the Postal Service. If a match is made with the name and old address information in the NCOA^{Link} file during the processing, the software provides the current move information (new address or undeliverable status) to update the mailing list. The number of addresses processed by NCOA^{Link} increased 1.51 percent (9.7 billion) over the prior year.

Move Update standards, applied before a mailing is created or enters the mailstream, also reduce UAA mail. Address records used for all Standard Mail and automation-rate and presort-rate First-Class Mail mailings must incorporate address changes within 95 days prior to the mailing date. Customers have several options to meet these standards including NCOA^{Link}, FASTforward (a commercial MLOCR software application), ACS and OneCode ACS, and ancillary service endorsements without ACS.

The number of pieces processed on FASTforward increased by 8.5 percent (387 million) over the prior year. A strategy was announced to the industry of the intent to retire FASTforward by June 30, 2012. The strategy includes a phased approach: (1) on June 30, 2009, the Postal Service ceased providing new FASTforward hardware systems; (2) on June 30, 2010, the Postal Service will cease providing FASTforward hardware support for Postal Service-supplied hardware; and (3) on June 30, 2011, the Postal Service will cease accepting new FASTforward licensees. Existing customers will continue to receive data until the specified retirement date or they migrate to another system, whichever comes first. Third-party providers will continue to provide FASTforward-type technology to support the mailing industry.

The Postal Service continues to increase value of address correction services provided using the Intelligent Mail barcode. The ACS program, consisting of traditional ACS, OneCode ACS. and Full Service ACS saw a 13 percent increase overall in the number of

records delivered to customers using these electronic methods to acquire feedback about their UAA mail. This includes new volume of 18.5 million records in Full Service, and an increase of 20 million records in OneCode ACS. This information allows customers to better manage the quality of their mailing lists and improves the timely delivery of their mail.

Acceptance
Commercial Mail Preparation and Acceptance

As customer mail preparation becomes more complex, the Postal Service has dedicated itself to developing and implementing realistic, comprehensive, and effective mail verification and acceptance procedures. Commercial mail acceptance has evolved over the past several years from a strictly manual process to one that is significantly automated. New verification processes include Performance Based Verification (PBV), Move Update validation at MERLIN sites, and the Intelligent Mail Device (IMD) handheld scanner. Implementation has been possible primarily because of mailers' increased use of electronic mailing documentation (eDoc) and conversion to Intelligent Mail barcodes.

This was a pivotal year for acceptance with the systems implementation of the Intelligent Mail Basic and Full-Service options and the opening of the online Business Customer Gateway. The resulting information sharing is paramount as the Postal Service moves toward its goal of seamless acceptance.

SEAMLESS ACCEPTANCE

Essentially, the seamless acceptance vision is to fully automate verification of commercial mailings performed during postal processing of the mail. The goal is to streamline all aspects of acceptance, verification, payment, and induction. Keys to achieving this goal are the expansion of customer-submitted electronic documentation and the use of Intelligent Mail barcodes on mail, handling units such as trays and sacks, and containers such as pallets. Information obtained from mailings in process helps to determine address accuracy, verify mail preparation quality, validate correct postage, and, with the use of Confirm service, track individual pieces as they move through the system.

Seamless acceptance will help the Postal Service partner with customers by capturing and sharing information about mail errors earlier in the process. Several basic components of seamless acceptance were implemented in Intelligent Mail Release 1 *(PostalOne!* Release 20.0), but detail and defined requirements are necessary in future releases to enable true seamless acceptance.

FLAT-SIZE MAIL

New requirements developed with the mailing industry now standardize address placement on flat-size mail. Starting March 2009, mailers positioned delivery addresses toward the top of presorted and automation-priced flats, a change that facilitates

automated sortation in delivery point sequence in the Flats Sequencing System (FSS) environment. The Postal Service goal is to achieve the lowest costs for mailers and postal processing.

LETTER-SIZE MAIL

A collaborative effort between the Postal Service and the mailing industry resulted in new mailing standards that ensure that letter-size booklets process properly on automation equipment, allowing mailers to take advantage of lower letter-based prices. These pieces have frequently jammed high-speed sortation equipment or become significantly damaged in the process. The new standards more accurately prescribe the size, thickness, paper stock, and tabbing required for successful mailing.

POSTALONE! SYSTEM

The Business Customer Gateway is the new landing page for customers who want to conduct business with the Postal Service electronically. Customers can schedule appointments to deposit their mail at destination facilities through the Facilities Access and Shipment Tracking (FAST) system and order barcoded tray and sack labels through the Customer Label Distribution System. They can also access their mailing records through *PostalOne!* and retrieve feedback from their Intelligent Mail Full-Service option mailings, including Full-Service ACS, COA, and nixie data as well as start-the-clock and container visibility induction scan data.

The Postal Wizard is an Internet-based tool that gives small-volume mailers a secure electronic means for submitting postage statements and simplifies calculating postage, checking balances and fees, and viewing mailing reports and mailing histories. There were 6,774 mailers (an 18 percent increase) who submitted 807,628 postage statements (a 76 percent increase) in 2009. These represented 4.9 billion mailpieces (a 67 percent increase) and $1.4 billion in revenue (a 59 percent increase).

There were 258 larger volume mailers (an 87 percent increase) who transmitted 241,765 postage statements using the Mail.dat eDoc option (a 114 percent increase) and 22,478 postage statements (a 357 percent increase) using Wizard Web Services. These statements accounted for 19.1 billion mailpieces (a 27 percent increase) and $4.7 billion in revenue (a 27 percent increase) via Mail.dat; 504 million pieces (a 3 percent decrease) and $101.8 million (a 29 percent increase) via Web Services.

The Postal Service continues to encourage customers to use the Centralized Account Processing System (CAPS) electronic payment capability of *PostalOne!* system. CAPS enables mailers to fund multiple mailing accounts conveniently through a single payment process. Links between the Post Office Point of Service system and *PostalOne!* add more convenient options for commercial mailers. In 2009, 2,039 accounts were added along with 12,269 additional permit accounts. A total of $21.75 billion in revenue was processed through CAPS.

Chapter 3: **Operations**

ELECTRONIC VERIFICATION SYSTEM (eVS)

The Electronic Verification System (eVS) enables parcel mailers to submit documentation and pay postage by transmitting electronic manifest files to the eVS database, which is part of the *PostalOne!* system. Because eVS integrates with other systems and business processes for data collection and performance measurement, eVS makes it easy for customers to prepare and induct parcel mailings, streamlining their internal business processes as well as those with the Postal Service.

eVS is similar to existing manifest mailing processes, with two distinct differences: sampling and monthly data reconciliation. eVS samples mailings after parcels are deposited at a destination or origin facility (depending on the class of mail) to capture data used to monitor postage and preparation accuracy. Each month eVS sampling data for each mailing is reconciled against all manifests received during the month. Under eVS, paperwork is replaced by electronic documentation and mail entry is more convenient. Parcel mailers control their shipments from preparation to deposit at the entry facility and can monitor sampling results and the quality of their mailings online via the eVS Web site.

The Postal Service now has 39 eVS customers, including 30 new ones. In total, these customers submitted 150,927 postage statements (a 55 percent increase) accounting for nearly 320 million packages (a 160 percent increase). eVS revenue increased to $550 million (a 141 percent increase).

POSTAGE TECHNOLOGY AND SECURE ELECTRONIC SERVICES

Postage meters and PC Postage services provide convenient postage payment options, particularly for customers who mail frequently. These services make it even easier to print postage labels and account for postage. Despite decreases in revenue from postage meters and other channels, revenue produced by customers using commercial PC Postage products continued to grow, with a 20 percent increase in revenue and a 7 percent increase in registered users.

The postage meter market continued its transition to information-based indicia (IBI) postage. IBI postage meters produce a digital two-dimensional barcode that includes postage payment and other related service information. IBI devices accounted for 72 percent of all meters and produced almost 94 percent of meter revenue.

The Postal Service extended its Customized Postage market test for another year. Customized Postage uses PC Postage technology to allow customers to personalize postage by uploading a digital image that can be printed with an IBI. Customers bought nearly 30 million Customized Postage labels this year.

Retail Access

USPS.COM

The Postal Service Web site *usps.com* received 426 million visits, a 1.4 percent decrease in visits compared with last year in part because of economic conditions. The Brookings Institution again ranked the site fourth among 61 government agency Web sites and called *usps.com* one of the top federal e-government performers.

The Click-N-Ship online shipping solution grew in the number of users and revenue. International mailing was made easier for customers by combining all international products into the Click-N-Ship application. Other significant Click-N-Ship enhancements included an additional payment option (Bill Me Later) and a new

The Postal Service's Web site is easier to use than ever. Customers can print labels, buy postage, order supplies, and request a package pickup online.

Small Priority Mail Flat Rate box service. The Online Fraud Detection Application process was decoupled from the Click-N-Ship application to ensure better fraud protection. Another major Click-N-Ship project launch was Proof of Filing Citation (PFC) and Exemption Exclusion Legend (EEL). Both were initiated to meet the Census Bureau mandate that all international packages bear either a PFC or an EEL. Click-N-Ship collects and passes this data to the Census Bureau.

The Postal Store is the primary *usps.com* destination for customers to purchase stamps, philatelic and retail products, as well as order free shipping supplies. Revenue from the Postal Store decreased 4 percent because of the overall downturn in the economy. The site handles almost 70 percent of shipments from the Stamp Fulfillment Services Center in Kansas City, and over 80 percent of expedited shipping supplies fulfillment.

The PO Boxes Online solution allows customers to locate and pay for PO Boxes via *usps.com.* New customers can search for an available PO Box near their home or business, and pay online with a credit card (customers are still required to go to the Post Office to pick up the box keys). Existing PO Box customers can manage their PO Box online: check status, receive email reminders of payments due, make a one-time renewal payment, or set up automatic payments. These options improve customer service and help reduce late payments and unintended box closures.

Project Phoenix, an integrated multi-channel effort is aimed at individual and small business customers. Project Phoenix continued with the development of plans and strategies for improving customer access on *usps.com,* the contact centers, and a new mobile channel. The project will be implemented in multiple phases over two years, and will include major upgrades to *usps.com* and the supporting information technology. The first phase, completed in late September, added online service accessible via mobile (ZIP Codes, Post Office locations, addresses and telephone numbers, and Track and Confirm), a new limited online chat feature allows customers to communicate with contact center agents, as well as a new small business program with a dedicated team of agents at contact centers to guide customers on mailing processes. Phase 1.2, scheduled for a May 2010 launch, includes major enhancements focusing on e-commerce products such as the Postal Store and Click-N Ship. These enhancements will improve the customer experience and ease of use, as well as provide key back-end system efficiencies.

POST OFFICES

Local Post Offices offer convenient retail access to mailing and shipping services and provide PO Box services. The principal users of retail services are small businesses and consumers. This year Post Offices and other retail options generated $17.8 billion, 26 percent of total Postal Service revenue. Over $5 billion of this total was generated through alternate access locations such as Automated Postal Centers (APCs), contract postal units, *usps.com,* Approved Shippers, and from the sale of stamps at commercial

outlets. These options supplement the Post Office network by expanding the times and places where customers can obtain service where they live, work and shop.

RETAIL PARTNERS

Contract postal units offer most postal products and services in supermarkets, card stores and other retail outlets. These units are staffed by the host retailer, and most feature evening, weekend, and holiday hours of operation. The APC is a self-service kiosk that gives quick, convenient access to the most common transactions. Most of the 2,500 APCs are available in Post Offices 24 hours a day, seven days a week. More than $1 billion in stamps are sold on consignment at tens of thousands of commercial venues, including many ATMs, drug stores, supermarkets, and convenience stores. Stamps by Mail is a service that allows customers to order stamps and have them delivered by mail, with 3 million orders processed this year.

Alternative retail channels, which include *usps.com* and APCs, now account for 29 percent of retail revenue. The greatest gains this year came from stamp consignment, which increased with growing purchases in warehouse and supercenter stores. Advance information about the May price change and the availability of the Forever Stamp were also likely factors. APC revenue grew and benefited from growing customer loyalty and Postal Service use of best practices in locating and promoting the equipment. The growing shift toward alternative retail channels reflects customer preferences and a growing awareness of options like *usps.com,* Priority Mail Flat Rate boxes, and free package pickup.

Processing
Automation

Service performance and efficiency have gained more from the automation of mail processing activities than from any other single factor. The most significant current development is the introduction of the Flats Sequencing System (FSS), which will do for flat-shaped mail what delivery barcode sorters have been doing for letters since 1993 — automating the placement of mail into the order in which it is delivered. In addition, continuing enhancements of existing equipment extend the benefits of automated processing and present new opportunities to reduce costs and improve service.

LETTER MAIL AUTOMATION

Address recognition rates for letter mail continued to improve as additional equipment and software upgrades were deployed. Phase 2 of the Distribution Quality Improvement (DQI) program improved recognition of handwritten and machine-printed addresses by incorporating additional information from commercially available name and address databases. The DQI improvements allowed more letters to remain in the automated mail stream and further reduced keying requirements at Remote Encoding Centers.

Chapter 3: **Operations**

Upgrades to letter mail processing equipment have enabled IM barcode capabilities. The new data-rich environment is a significant step forward in letter mail tracking. Preparation for the deployment of new letter cancellation equipment continued. Deployment of 550 Advanced Facer Canceller System (AFCS) 200 machines is scheduled to begin in the spring of 2010. The AFCS 200 will replace older letter cancellation equipment and improve performance by reducing handling in downstream processing operations.

A project is underway to convert excess carrier sequence barcode sorters into low-cost reject encoding equipment. Mail with unreadable barcodes is currently labeled by outdated letter mail labeling machine technology. The new equipment will cover an unreadable barcode with a white label, interpret the mailing address, and apply the correct barcode. The Central Repair Facility in Topeka is manufacturing the low-cost reject equipment that will be deployed starting in 2010.

The Flats Sequencing System (FSS) automates the placement of larger mailpieces in the order in which they are delivered, which reduces the time carriers need to prepare the mail for delivery.

Testing was completed to determine machinability requirements for letter-size booklets, called "Slim Jims." The *Domestic Mail Manual* (DMM) was updated to incorporate the new letter-size booklet machinability requirements, which went into effect on September 8.

FLAT MAIL AUTOMATION

New ink jet canceller modification kits were installed on 230 Automated Flat Sorting Machine (AFSM) 100s located at over 200 sites to enable the equipment to cancel postage on flat-size envelopes and eliminate other manual and mechanical cancellation.

Under the Flat Recognition Improvement Program, testing of the next AFSM 100 software release was conducted to increase read rates and reduce error rates, resulting in fewer misdirected mailpieces. Deployment was scheduled for October 2009.

FLATS SEQUENCING SYSTEM

Designed to fully automate the sorting of flat mail into carrier walk sequence, the production FSS was initially put into live operational service in the Northern Virginia Dulles facility. Eight additional systems began operation in Dulles, Columbus, Kansas City, and Phoenix. By year end, FSS processing has expanded to over 2,255 routes in more than 76 delivery units. Even though the first year of FSS operation has helped identify opportunities to fine-tune operational planning and methods, the potential of FSS that fully performs to contract requirements is evident: route adjustments will eliminate full-time routes; equipment used by carriers to sort flat mail will be reduced; and vehicles will be reduced or redeployed.

When fully implemented, Phase 1 of FSS will deploy 100 systems to 42 sites; the goal is to complete this phase in 2011. Due to the significant mail volume decline, an analysis was completed that identified opportunities to redirect up to 19 FSS machines to new locations that better ensure expected levels of savings. FSS deployment requires precise integration of facility expansions, operational moves, equipment migrations, equipment disposals, and site preparation activities including training and staffing. Site readiness in all 31 original Phase 1 locations is complete. Readiness activities for the redirection sites are underway in those 13 locations.

All major FSS preparation milestones are closely monitored to ensure successful implementation. Area and District FSS program managers have been established for all Phase 1 sites. Comprehensive hands-on training was provided to several hundred key personnel, and online training is used to provide continuing field training and support. To support ongoing maintenance and training, two FSS units have been installed at the National Center for Employee Development in Norman, Oklahoma.

An ergonomic stowage and retrieval system has been designed for delivery vehicles receiving FSS flats with a limited deployment set for 2010. An FSS optimization effort is underway in Northern Virginia to streamline current operations and reduce manual processing of flats. Lean Six Sigma tools are being applied to standardize operational methods prior to national implementation.

Chapter 3: **Operations**

PARCEL AND BUNDLE AUTOMATION

The Automated Package Processing System (APPS) automates package and bundle distribution while providing greater processing capacity using automatic induction, singulation, and address recognition. The Postal Service deployed APPS recognition software improvements to increase sorting accuracy and the Sort Accuracy Improvement (SAI) program. The SAI enhancement began in September 2009 and was completed in November 2009 to minimize doubles and flyovers, thus reducing misdirected mail and improving service. Also, three existing APPS machines were redeployed to optimize utilization. Additional savings opportunities of $58 million have been identified from a variety of planned optimization efforts that include redesigned package separations, additional equipment redeployments, and replication of a Lean Six Sigma project to reduce rejects and broken bundles.

POSTAL AUTOMATED REDIRECTION SYSTEM

The Postal Automated Redirection System (PARS) identifies and redirects forwardable mail during processing, a significant advance over legacy systems that required the transport of forwardable mail to Centralized Forwarding System (CFS) units for redirection. Initial PARS deployment was completed in 2007 to 283 sites, and since then, CFS sites have been consolidated as PARS technology has improved and distribution reach has expanded. During 2009, eight additional CFS sites were consolidated, reducing the total number from a high of 215 to 88. The volume of mail processed on PARS now stands at more than 3.4 billion pieces each year compared to less than 40 million pieces processed through CFS.

A new PARS software release deployed in May enhanced system performance. It improved recognition rates and increased interception rates, thereby producing savings at plants and RECs. It also allowed for expanded mailer identification codes, from 6- to 9-digits. Thus, customers mailing automation letters get complete IM barcode data within each OneCode ACS record. The upgrade incorporated changes needed to support the launch of IM Full-Service address correction services.

REMOTE ENCODING SYSTEM

The Remote Encoding System (RES) is a developmental program that began in 2005 as a replacement for the aging Image Processing Subsystem (IPSS). Mail is processed on letter sorting equipment that reads barcodes and addresses electronically. Mail that cannot be read is processed through IPSS, which presents images to REC employees who read the addresses and type in the results, thereby reducing manual handling. The RES design phase was completed in 2008 and testing and evaluation began in 2009. Recent business environment changes, including significant declines in letter volumes and current investment constraints, have caused IPSS replacement plans to be put on hold. Instead, maintenance of the existing IPSS infrastructure with some minor changes will be pursued. Planned changes will minimize reliance on IPSS by enhancing machine

transports and software. Also, IPSS end-of-life will be extended by deploying more Remote Input/Output Subsystem sites.

INTEGRATED DATA SYSTEM AND NATIONAL DIRECTORY SUPPORT SYSTEM

New Integrated Data System – National Directory Support System (IDS-NDSS) hardware was deployed nationwide as a replacement for the existing end-of-life hardware at processing plants and Network Distribution Centers (NDCs). The IDS-NDSS replacement systems use common, modular, high-reliability computer hardware that provides several benefits over the prior technology. The new hardware can be expanded to meet future requirements and provides the redundancy necessary to support service requirements of the hosted applications/services. It is designed to handle the increased data volumes and data transactions projected over its expected five-year life cycle.

The IDS provides the infrastructure for the management of in-process distribution operations, machine performance, and critical maintenance events within a facility. It collects and distributes mailpiece, tray, and container tracking data as well as operating data from all automated processing and material handling equipment to multiple applications.

The NDSS maintains all mail processing sort programs and address directory files that underlie the automated processing of mail. It holds all street address and ZIP Code information for the entire country. NDSS also provides the conduit to mail processing equipment for the COA files used to process undeliverable-as-addressed (UAA) mail. Additionally, NDSS interfaces with the Address Management System (AMS) for the daily generation of DPS sort programs.

MAIL HISTORY TRACKING SYSTEM

The Mail History Tracking System (MHTS) is a Web-based application that uses barcode data to track individual mailpieces from the origin (cancellation) to DPS processing. The MHTS application can assess if individual mailpieces are likely to meet on-time performance targets and helps target and correct the root causes that lead to service failures before mail goes out to the carrier. MHTS is an important tool contributing to improvements in service performance.

MATERIAL HANDLING

The Integrated Dispatch and Receipt (IDR) program combined the acquisition of machines for dispatching and receiving operations with integrated tray transport systems to reduce work hours associated with these activities. By the end of 2007, site-specific IDR systems consisting of over 1,300 pieces of equipment had been deployed to 211 plants. Since that time, 67 requests for additional IDR equipment have been received and are in development or being deployed. Contracts have been issued to build additional Automatic Tray Sleevers, Automatic Tray Unsleevers, trayline integration to support these deployments, and Enhanced Airline Assignment systems.

Chapter 3: **Operations**

Plants and transportation hubs are benefitting from the deployment of high-speed tray sorters that automate letter tray sortation. Deployment is also underway for Tray Depalletizer and Singulator systems, which automate the handling of palletized trays, loading them into existing tray sorters to increase efficiency.

The Powered Industrial Vehicle Management System (PIVMS) is an analytical tool for managing the use of powered industrial vehicles, such as forklifts and tugs. Workhour, equipment, and maintenance costs have been reduced significantly since deployment. System enhancements enable improved oversight through roll-up reporting and performance comparisons. Over 100 plants are using PIVMS with annual savings of $80 million expected.

BIOHAZARD DETECTION EQUIPMENT

The Postal Service uses a fully contained, automated Biohazard Detection System (BDS) to protect against potential contamination. Initial deployment of BDS equipment was completed in November 2005. BDS Dual-collection (BDS-DC) system conversions completed in August 2008 allow one BDS cabinet to connect to two Advanced Facer Canceller Systems and have reduced consumable expenses (i.e., filters) by 40 percent without sacrificing efficiency or effectiveness.

Transportation

Contract Transportation

The Postal Service spent $6 billion for mail transportation, including terminal dues, transit charges, and other international expenses. The $935 million decrease is primarily the result of lower fuel costs, decreased volumes, and contractual decreases.

Air Transportation

Air transportation expenses, including international, totaled $2.6 billion, a 13.8 percent decrease. Domestic air transportation costs declined 13.8 percent due to reduced mail volumes and lower fuel prices.

The Air Carriage of International Mail Act was signed into law October 13, allowing the Postal Service to negotiate directly with airlines for international transportation.

Highway and Other Transportation

The Postal Service spent $3.0 billion on highway transportation, a decrease of 13 percent. The decrease was the result of lower fuel costs and a reduction in miles driven. About 1.3 million fewer miles of highway transportation were contracted.

Rail transportation costs were $87 million, a 25.8 percent decrease. The cost of transporting mail by water, to domestic offshore and inland destinations, was $28 million, a 5.2 percent decrease.

Terminal Dues, Transit Charges, and Other International Expenses

Under the Acts of the Universal Postal Union (UPU), each postal administration that receives mail from another administration has the right to collect payment from the originating post to compensate for costs incurred to deliver that mail. These charges are called "terminal dues" for letter mail and "inward land rates" for parcels. Express Mail International items also incur processing and delivery charges from foreign posts or commercial delivery companies. Additionally, the UPU provides for transit charges for mail exchanged between administrations through a third country. Transit charges are paid by the originating country to the intermediary country for its forwarding of mail to the destination.

For the most part, settlements of terminal dues, inward land rates, and transit charges are contingent upon both the Postal Service and foreign posts accepting statistics on the mail exchanged. Final settlement and payment can occur a year or more after service is performed. The Postal Service accrues an estimate of these expenses based on available weight and piece data by country. This year the Postal Service incurred $571 million in terminal dues, Express Mail, transit charges, and other international expenses unrelated to the transportation of mail.

Postal-Owned Transportation

The postal-owned fleet is predominantly used for the transportation and delivery of mail. However, postal vehicles are also used for law enforcement, maintenance support, mobile Post Offices, and other functions. During 2009, the active postal vehicle fleet was reduced by more than 10,448 vehicles through network improvements and efficiency efforts in addition to the replacement of higher rural Equipment Maintenance Allowance cost vehicles.

Chapter 3: **Operations**

Postal Vehicle Inventory

Vehicle Type	End of Year
Delivery and Collection (1/2–2 ton)	196,445
Mail Transport (Tractors and Trailers)	6,380
Mail Transport (3–11 ton)	2,190
Administrative and Other	5,870
Service (Maintenance)	4,959
Inspection Service and Law Enforcement	2,843

The Postal Service continues to explore alternative fuel technology. The T3, a three-wheel delivery vehicle that runs solely on electricity for pennies a mile, is being tested in Florida, California, and Arizona as a possible replacement for some traditional vehicles. The Postal Service received 6,500 vehicles, including 1,000 E-85 ethanol-capable and 900 hybrid gasoline/electric vehicles, through a General Services Administration program to increase the use of fuel-efficient vehicles.

Mail Transport Equipment

Mail transport equipment (MTE) is the term given to sacks, trays, pallets, and wheeled containers that contain mail as it moves within or between facilities. The Mail Transport Equipment Service Center (MTESC) is an integrated network of 23 facilities that manage the MTE inventory, oversee repairs, store MTE, and distribute to internal and external customers. MTESC processes over 230,000 orders annually, serving 1,800 postal facilities and large-volume mailers.

Multiple efforts are underway to improve MTE performance and durability while reducing costs and any negative environmental impact. There is also an ongoing effort to standardize the MTE inventory to improve integration and reduce costs. An aggressive campaign to recover MTE improperly used outside the postal network was initiated to reduce equipment replacement costs. A hotline number and e-mail address were created and customers are encouraged to return equipment to local Post Offices and plants. The effort resulted in the recovery of $385,000 worth of equipment this year.

Facilities

The Postal Service oversees 33,264 properties nationwide, totaling more than 292.5 million square feet. Approval for facility projects over $25 million rests with the Board of Governors. Design and construction of major processing plants are managed at Headquarters. Approval for projects under $25 million is established by the Postmaster General following review by the Capital Investment Committee. Most of the planning, leasing, purchasing, designing, and construction work associated with facilities is performed by field offices.

Realty Asset Management

Realty Asset Management manages the disposition of real property that has been declared excess to operational requirements. Facilities managers led the Optimization initiative to review the existing postal-owned and leased facilities to identify excess space — properties that could be sold or leases that could be cancelled. Approximately 164 optimization studies were conducted. The sale of the Old Chicago MPO was concluded October 21, 2009. After payment of commissions it will net $23.8 million. This closes the book on an effort that began in 1996 to sell this facility. In 2009, Facilities generated $134.5 million in Asset Management Revenue.

Facility Projects

Projects	Completed in 2009	Ongoing
New construction, major renovations, and expansions less than $25 million	30	140
New construction, major renovations, and expansions greater that $25 million	2	9
Building purchases	11	4
New lease construction	8	44
Other lease actions (alternate quarters, new leases, and lease renewals)	3,645	2,416
Expense repair and alteration projects	2,112	1,772
Capital repair and alteration projects	4,881	18,490

Chapter 3: **Operations**

Real Estate Inventory

Inventory	End of Year
Total owned properties	8,419
Total owned interior square feet	199,962,506
Total owned land in square feet	904,237,146
Total leased properties	24,516
Total leased interior square feet	90,319,236
Total GSA/other government properties	329
Total GSA/other government interior square feet	2,254,245

Delivery and Pickup

Delivery is the largest operation, accounting for approximately 45 percent of salary and benefit expenses. Despite an increase of nearly 1 million delivery points, there were 36.5 million fewer workhours due to route adjustments and effective growth management. The use of modeling software and a corporate-wide focus on continuous improvement led to a 6.7 percent gain in city delivery efficiency.

Growth Management

Growth Management helps standardize planning for the addition of new delivery points. New growth was predominantly served through lower-cost means of delivery. The percentage of walking and park-and-loop delivery points declined, while more efficient curbline, cluster box, and centralized deliveries increased. Growth in lower-cost rural delivery accounted for more than one-half of all new delivery points. The table below shows the number and growth of delivery points by type at the close of 2009.

Delivery Points by Type of Delivery

Type of Delivery	End of Year	Change from 2008
City	87,670,966	+385,586
Rural	39,704,212	+612,112
Post Office Box	20,091,571	-134,914
Highway Contract Route	2,649,132	+60,811
Total	150,115,881	+923,595

Delivery Productivity Improvement

Improved office and street delivery efficiency resulted from following standardized operating procedures, using automated mail sorting equipment to prepare mail for delivery, through effective management, more efficient lines of travel, and less costly modes of delivery.

AM Standard Operating Procedures help offices comply with standards in office management practices. Data show significant

performance gains in offices that pass certification audits. To date, 62 percent of target delivery offices are certified.

DPS letters and flats are sequenced by automated equipment and presented to carriers ready for delivery. By eliminating manual sorting, DPS reduces costs, improves accuracy and speed of delivery, and contributes to improved customer satisfaction. More than 99 percent of city routes and 88 percent of rural routes receive DPS letters. On average, these routes received 90.52 percent of letters in DPS. Currently 60 – 70 percent of flats are in DPS at these sites. The 2010 goals are to continue to increase the number of routes receiving DPS letters and to raise the DPS percentage. Automated flats sequencing was initiated in Northern Virginia during 2008 and began expanding during 2009. At year end, four processing sites are sequencing flats for nearly 2,100 routes in about 80 units. DPS flats processing will continue to expand rapidly during 2010.

Carrier Optimal Routing (COR) is a computerized tool designed to produce safer and more efficient delivery routes. COR reduces workhours and vehicle costs by improving lines of travel, eliminating left turns, and removing park points. COR use is rapidly expanding. About 18 percent of the route adjustments implemented during 2009 were designed using COR. More than 71 percent of city zones currently have COR databases. All city carrier zones are expected to be evaluated during 2010 and to use COR for route adjustments.

Route Adjustments

In city carrier operations, declines in mail volume, improved productivities, and increases in possible deliveries made it necessary to adjust carrier routes. The dramatic decline in mail volume led to an October agreement with the National Association of Letter Carriers that enabled joint evaluation of nearly every city carrier route in the country. This historic agreement allowed for speedier, data-driven route adjustments that reduced costs and improved service stability. Adjustments eliminated approximately 11,000 city delivery routes. By consolidating routes, delivery point growth was absorbed while reducing the number of routes. As a result, the number of deliveries per route increased from 535 to more than 581.

Although there is continuing growth in rural routes, the average workhours per week has declined by more than 116,000 due to the dramatic volume declines. The table below shows the number and change in city, rural, and highway contract routes.

Delivery Routes by Type

	End of Year	Change from 08
City	150,779	-10,869
Rural	75,332	-1,243
Highway Contract Route	7,883	-2,791
Total	234,001	-14,896

Chapter 3: **Operations**

Carrier Pickup

Customers can submit a free Package Pickup request at *usps.com* to have prepaid Express Mail, Priority Mail, International Mail, and Return Service packages picked up the next delivery day as part of the carrier's normal route. In response to customer inquiries concerning the availability of Carrier Pickup service, 244 previously excluded ZIP Codes were activated with service available to an additional 280,184 delivery addresses. This convenient service grew nearly 13 percent as more customers used online tools such as Click-N-Ship and PC Postage.

Global Business

The Postal Service continues to maintain a strong presence in the international shipping and mailing markets with dedicated operations, active participation in the Universal Postal Union, and ongoing support of overseas military mail operations and customs.

Operations

International Service Centers (ISCs) distribute and dispatch international mail received from a designated service area to specific foreign countries or to gateway exchange offices. The five ISCs are located in New York, Miami, Chicago, Los Angeles, and San Francisco. Each center has been recognized for global leadership in international mail processing with an International Post Corporation (IPC) Certificate of Excellence award. This award, based on a common global standard for excellence in mail processing, is a months-long process involving an operational survey, pre-certification, and the actual certification process.

The IPC is an association of 24 postal operators in Europe, North America, and the Asia-Pacific region. IPC provides its members with systems and programs that ensure efficient and competitive delivery of international mail.

Universal Postal Union

The Postal Service continued to play a leadership role in the activities of the Universal Postal Union (UPU) during the Postal Operations Council (POC) and the Council of Administration (CA) meetings held in the fall of 2008 and the spring of 2009.

During the fall session, the four major POC committees, focusing on letters, parcels, financial services, and standards and technology,

reviewed some 300 proposals to amend the UPU Regulations they approved many and referred others for further study. The POC approved several U.S. sponsored proposals to the Letter Post Regulations related to enhanced electronic transmission of data, the mandatory use of standardized barcoding, and pre-advice of dispatch messaging. Major changes in the Parcel Post Regulations included improvements to the system of setting inward land rates and expanded use of electronic information exchange. The POC approved the new Financial Services Agreement, successfully maintaining aspects of anti-money laundering provisions related to electronic money transfer and important to our national legislation.

In the spring session, the POC adopted a number of other key decisions, including approval of the Global Monitoring System Pilot Project , a new world-wide low-cost performance measurement system utilizing RFID technology which will eventually be used to expand the existing pay-for-performance system for letters. The Postal Service was actively engaged in several other key proposals including promotion of standard messaging for advance electronic transmissions between postal and customs administrations and successful adoption of an appeals process to dispute parcel rates. The Postal Security Group focused on reducing personal injuries from dangerous goods in the mail, reducing mail theft, improving revenue protection efforts, and boosting consumer confidence in the worldwide postal network.

Military Mail

The Department of Defense is a key partner in extending Postal Service products and services to the American Armed Forces overseas. The Postal Service uses its international distribution and transportation services to support the Department of Defense around the world. Overseas military mail is mail matter delivered to APOs (Army Post Offices for Army and Air Force personnel) and FPOs (Fleet Post Offices for Navy and Marine Corps personnel). This service is an extension of the domestic service and includes all mail addressed to or mailed from a military unit or between two military units overseas. The Postal Service is committed to providing top operational service to American service men and women stationed overseas.

Customs

Mail entering the United States from abroad arrives first at the Postal Service. The Postal Service then sends packages to U.S. Customs for examination and assessment of any duties and taxes owed. Customs processing is required for all parcels, including those sent from overseas military postal facilities (APOs and FPOs). The Postal Service is working closely with the UPU, IPC, and U.S. Customs and Border Protection to streamline and improve these processes. The Postal Service is also supporting the introduction of advance manifesting requirements for mail shipments to improve security, deter criminal activity, and enhance the efficiency and speed of clearance operations.

# Chapter 3: **Operations**

Resources and Support

Supply Management

The Postal Service achieved over $892 million in cost benefits through supply chain management activities, including renegotiations that targeted over 500 existing contracts. Benefits include cost reductions, cost avoidance, and revenue generation activities. Results were achieved by collaborating with suppliers and business partners to identify opportunities to reduce contractual spend through price and scope reductions and implementing process improvements. Additionally, the Postal Service focused on initiatives to implement asset management integration, initiate organizational changes, standardize and streamline processes, support sustainability, improve workforce strategies, and enhance supplier relationships and diversity.

SIGNIFICANT CONTRACTS

Major negotiation efforts included awarding 19 Mail Transport Equipment Service Center (MTESC) contracts to five suppliers. These contracts support the Network Operations MTESC optimization efforts and total over $312 million. These contracts will achieve a savings in excess of $36 million over the next three years.

The Postal Service leveraged the competitive market to optimize the network for air transportation within the Hawaiian Islands. A lower overall network cost of $216.9 million was the result, which translates to an average savings of 8.6 percent over eight years. This optimization was achieved by having suppliers submit alternate proposals allowing them the flexibility to offer various combinations of air, ground, and terminal handling services.
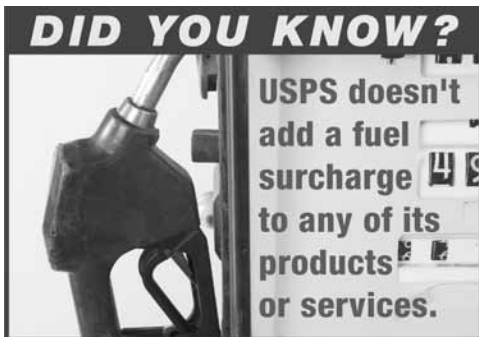
Contract awards were made to four suppliers for Enterprise Technology Services. These awards enable the Postal Service to consolidate, streamline, and reduce the cost of future information technology services in three major areas: professional services, enterprise-wide business solution development, and a new service area, virtual development centers. Savings each year are estimated to total more than $8 million in professional services and approximately $16 million in enterprise-wide business solution development.

The Postal Service completed its negotiations to extend the Transit Time Measurement System External First Class contract for five years. The contract satisfies the requirements for the Postal Service to provide a system of objective external performance measurement for market dominant products. The anticipated overall cost savings provided by this extension, which provides both long-term quality support and program stability, exceeds $14 million.

Earlier this year, the Postal Service completed negotiations to extend the Customer Contact Network Solutions (CCNS) contract for 21 months. CCNS provides call center services to postal customers. This extension gains pricing and program flexibility as it completes enhancements to *usps.com* and customer contact centers. The anticipated annual cost reduction exceeds $10 million.

The Postal Service introduced a line of greeting card/stationery products. In support of this effort, a contract was awarded to run a pilot test at select retail units. After the minimum one-year test period, the Postal Service will assess the results against the agreed upon performance metrics and, if successful, will move toward full implementation. By combining the ReadyPost and the greeting card/ stationery products programs, the Postal Service could achieve an annual benefit of $10 million.

ASSET MANAGEMENT INTEGRATION

The Postal Service awarded a contract for a commercial-off-the- shelf enterprise service planning solution, Solution for Enterprise Asset Management (SEAM), a centralized Web-based application that will improve the visibility and management of inventory and assets. SEAM will be implemented in three phases. Phase 1A (April 2010) will deploy auto-replenishment and planning for some consumer retail merchandise products to sites that use the Point of Sales terminals. Phase 1B (June 2010 to December 2010) will deploy fulfillment and service management for vehicles and vehicle spare parts to 317 Vehicle Maintenance Facilities and auxiliary sites. Phase 1C (November 2010 to September 2011) will deploy planning, replenishment, and fulfillment functionality for the remaining consumer retail merchandise products and accountable paper to retail locations.

As part of the renegotiation efforts, the Postal Service was tasked with reducing inventory spend of service parts by $10 million. Using different demand management techniques, such as more reactive forecast algorithms, planning parameter adjustments, lead-time management and analytical reporting, service part spend was reduced by $27 million.

ORGANIZATIONAL CHANGE

Three significant organizational change efforts were initiated in support of ongoing efforts to reduce costs, improve efficiencies, and to more fully integrate supply chain management. Area Distribution Networks transportation contracting offices are consolidating from 11 field transportation offices into five with one satellite branch. The overall impact of the consolidation is a reduction of 27 positions and an estimated cost savings of $11.7 million.

Chapter 3: **Operations**

Field District Purchasing Specialist positions will be eliminated and replaced with a Purchasing Shared Service Center structure. Benefits include standardizing, simplifying requirements, assisting in controlling expenditures, leveraging leading buying practices across district purchases for lower costs, and reducing buying process cycle times. The overall impact will be a reduction of 18 positions with an annual cost savings estimated at $1.1 million.

The third change supports Asset Management Integration (AMI) objectives, including consolidating the stamp fulfillment distribution network and deploying technology to improve inventory tracking and visibility, implementing forecasting and automatic replenishment capabilities, as well as standardizing asset tracking. This change includes consolidating 80 field Stamp Distribution Offices (with the exception of Hawaii, Puerto Rico, and Alaska) and Accountable Paper Depositories into six Stamp Distribution Centers, and the realignment of the two Stamp Service Centers. This change includes the elimination of Field District Material Management Specialist positions with two new functions: an asset accountability function, focusing on core material management responsibilities with an expanded scope for retail and marketing assets, and an asset planning function, focusing on managing the automatic replenishment of retail inventory based on sales. The overall impact of the AMI reorganization will be a reduction of 170 positions with an annual cost savings estimated at $8.8 million.

PROCESS STANDARDIZATION AND AUTOMATION

The Postal Service won the 4th annual Gene Richter Award for Leadership and Innovation in Technology from the Institute for Supply Management for implementing the necessary training and change management to make optimization enabled sourcing technology a success for both the Postal Service and its suppliers. This technology allows suppliers to submit multiple bids on proposed contracts based on a variety of different bundling options and provides the capability to evaluate a wider range of bids and potential solutions to determine the best possible deal.

Building on the success of optimization and reverse auctions, the Postal Service completed a competitive purchase of technology that combines these two sourcing capabilities along with the electronic solicitation process into a single solution. Training and deployment of eSourcing was completed this year. eSourcing provides centralized supplier registration to facilitate improved sourcing processes.

Online purchasing is going to improve for 60,000 postal eBuy users when they begin using eBuy2 early next fiscal year. Features of the new system include side-by-side comparisons (with photos) to help users find what they need at the best value, improved search and reporting capabilities, expanded use of Energy Star and other "green" indicators, and stronger financial controls.

The Postal Service has designed a new Semi-Annual Capital Property Review process to close gaps identified by the postal SOX Team. The review process provides those with postal intranet access the ability

to view summary and detailed information on selected capital assets, and to identify the accountable organizations by finance number. The online data offers a level of convenience, visibility, and compliance not previously available. The Semi-Annual Capital Property Review requires personnel to conduct an inventory of randomly pre-selected capital assets every six months. This new review process is also notable in that it will, for the first time, ensure that every capital asset meeting specific criteria will be verified by location and description over a four-year period. A total of 54,185 assets were verified across 9,743 finance numbers with an original acquisition value of $4.3 billion. The reviews reinforce the need to keep accurate records and tighter controls of assets.

FOCUS ON SUSTAINABILITY

The White House recognized the Postal Service for its environmental stewardship with a Closing the Circle Award for its Green Purchasing Program. This program started with the formation of a cross-functional Green Purchasing Team, including supplier representation. This team was recognized for developing and implementing the first Postal Green Purchasing Plan (2008 – 2010), which provides the business practices and tools necessary to help conserve natural resources, reduce and eliminate waste, protect the environment, and ensure a safe workplace.

The Postal Service also received honorable mention for its Lead-Free Wheel Weight program. This program has the potential to prevent 17 tons of lead from entering the environment by outfitting Postal Service vehicles across the country with lead-free wheel weights.

Several other key initiatives were implemented to further sustainable business practices, including a new Excellence in Sustainability Award Category to the Postal Service's Supplier Performance Award program, a Green Purchasing intranet Web page, and a Green Assessment Survey tool to benchmark current contract management practices that support green purchasing, sustainability, compliance, and leadership objectives.

IMPROVE SUPPLIER RELATIONSHIPS

The Postal Service continues to collaborate with suppliers and other business partners to reduce costs and to identify opportunities to create new business, improve service and efficiency, and promote sustainability. Two suppliers from the Postal Supplier Council assisted in initiating a Supplier Sales Lead Program Pilot that is identifying company decision-makers for future meetings with postal account representatives. In addition, the Postal Service continually participates in supplier outreach events, many targeting small, minority, and woman-owned businesses. These events often draw thousands of participants and typically include one-on-one discussions with high potential suppliers. Reciprocal discussions include building business through the use of mailing products and services, and have resulted in the identification of hundreds of sales leads.

Chapter 3: **Operations**

The supplier portal at *usps.com* was re-designed to further improve collaboration between the Postal Service and its business partners. This includes access to the eSourcing supplier registration portal along with a new single convenient portal location *uspsbuildingpartnerships.com* for existing supplier subcontract reporting. This year a new electronic newsletter, *re:supply,* was launched specifically for the postal supplier community. It provides current and relevant information about Postal Service business trends and policies.

PROFESSIONAL DEVELOPMENT

Supply Management's "Improving Workforce Strategies" program tied for third place in the "Develop Leaders! Talents in Supply Chain Management" competition involving more than 50 international companies. The award from the Supply Chain Management Institute was for excellence in Postal Service programs that promote the professional development of supply management employees. A new competency model was approved and an online self-assessment of proficiency in Suppy Management competencies was implemented. The Supply Chain Academy, which provides online access to over 550 courses and to a best-in-class supply chain library, was updated and expanded.

SUPPLIER DIVERSITY

The Postal Service continues to act on longstanding commitments to supplier diversity. Annualized contract values with small businesses exceeded $3 billion, contracts with minority-owned businesses were nearly $371 million, and contracts with women-owned businesses reached $696 million. The Postal Service continued to improve subcontract management by institutionalizing the Supply Chain Relationship Management System's reporting module for suppliers, and by providing training and improving communications through enhanced subcontract management reporting instructions and forms.

For the fifth consecutive year, the Postal Service was named the No. 1 federal agency for multicultural business opportunities. This award represents the voices of more than 650,000 U.S. women- and minority-owned businesses. According to *DiversityBusiness.com* — the nation's leading multicultural business-to-business Web site and sponsor of the survey — the list has become the "most recognized and respected compilation of government agencies that truly differentiate themselves in the marketplace at a time when diversity has never been more important." The Postal Service has ranked among the top 10 agencies for the last eight years in promoting multicultural business opportunities.

In its June/July 2009 edition, *Diversity/Careers* magazine spotlighted the Supplier Diversity program and its business relationship with Code Plus, a woman-owned postal supplier. *Diversity/Careers* is an industry-leading magazine that provides business-related news and insights to women- and minority-owned businesses. The Postal Service's Supplier Diversity program was also recognized by several

industry and trade associations for its continued participation in business fairs, workshops and seminars that provide access to small, minority- and women-owned companies.

Information Technology

INFORMATION SECURITY

The Postal Service owns the third largest IT infrastructure in the world, and all Postal Service operations — including mail processing, accounting, and payment systems — rely on this infrastructure. Further, customers rely on numerous Web-based products, such as Click-N-Ship, change-of-address and hold mail services, and Post Office Box payments. Given the size of its IT infrastructure, the Postal Service faces thousands of network attacks daily. The Postal Service has implemented significant controls over its computer equipment and data, including the completion of full disk encryption on end-user devices, to minimize vulnerabilities.

The Postal Service deployed the Enterprise Physical Access Control System (ePACS), a security system that links the Postal Service's computerized access control systems nationwide through its local area network. When actions are taken in one system, such as an employee termination or a suspension of access, they are reflected system-wide. Since its deployment, ePACS has significantly enhanced the security of employees, facilities, and assets.

INFRASTRUCTURE UPGRADES

Upgrades to the IT network are more than 99 percent complete and almost every postal location now has dedicated high-speed Internet access. Dial-up is still used for mobile connectivity and as a contingency solution; however, its usage is being greatly reduced. Over 5,000 locations had network upgrades. The Advanced Computing Environment (ACE) is a comprehensive lifecycle management system of standardized end-user hardware and software that allows for more efficient, centralized user support. Second generation ACE upgrades are gradually replacing older ACE units with hardware that offers more memory, improved logon times, and can be restored by the user if data or programs become impaired. Deployment began in 2007, and at the end of 2009 over 130,000 ACE II workstations had been installed.

The personal digital assistant system continues to provide remote communications capability to employees, including Continuity of Operations team members, even when postal facilities are without power or are shut down. Starting in 2009, over 9,000 employees received an updated device which dramatically cuts communication costs by leveraging pooled cell phone minutes.

The Enterprise Data Warehouse (EDW) is the integrated source of information for both standard and business intelligence reporting. It contains data from more than 136 separate source systems and provides cross-functional access to a wide range of data, including retail, financial, logistics, facilities, and human resources. In any given month the EDW serves over 40,000 distinct users

who generate more than 12 million reports annually. As the EDW continues to evolve, the major focus will be on ensuring broad availability, data integrity, greater cross-functional capability, and improved service performance for users.

The Postal Service enhanced its MeetingPlace desktop telecommunication system to make it easier to collaborate online and reduce travel. Two-way communications are also encouraged among customers and employees with the launch of a new PCC blog *http:/2blogpcc.com.* The Postal Service's online translation tool expanded its language support to include Chinese, German, Hindi, Polish, and Vietnamese. This tool helps retail associates bridge the language gap and communicate more effectively with non-English-speaking customers. Postal Products and Services Translators now support 12 languages through *usps.com.*

The Postal Service is expanding the use of blogging and other social media applications, including Blueshare and MeetingPlace. A new monthly video series began for employees, IT^3, named for three key ways that IT is helping to drive new solutions — through innovation, impact, and transformation. Hosted by the CIO and Executive VP, IT^3 focuses on solutions and how employees can use them to become more productive.

Postal Inspection Service

SECURITY

To mitigate risks to employees, customers and assets, Postal Inspectors and Homeland Security Coordinators conducted reviews at more than 6,000 installations under the Infrastructure Security Assessment Program. The program uses standardized methodology to assess security and measure compliance with security policies at postal installations throughout the country.

The Postal Service also initiates background investigations and adjudicates security clearances for employees and contractors. Staff are tasked with digitizing and archiving security files for Postal Inspection Service personnel and for closed criminal cases. The Security Investigations Service Center received approximately 49,000 requests. The majority of the applications came from contractors, who are required to have some level of security clearance before gaining access to mail or postal facilities.

NATIONAL PREPAREDNESS

The Postal Service continued to implement, manage, and refine resources pertinent to emergency responses and incident management. An updated Integrated Emergency Management Plan clearly delineates the roles and responsibilities of emergency responders during all phases for all stages of a response and incident types. Staff are also preparing a Pandemic Plan to address

preparation, response, and recovery actions related to pandemic events.

Staff from the National Preparedness Group represented the Postal Service to sponsor this year's National Preparedness Month in September. The annual event is intended to educate employees about how to prepare their homes for a hurricane or flood, what they should include in a basic emergency supply kit, and what factors they should consider in advance planning. Staff members held lunch-time seminars, provided free emergency supply giveaways, and conducted question-and-answer sessions to help raise awareness about how to deal with emergencies through advanced planning.

The Postal Service began implementing a consolidated notification system: the Postal Notification Emergency Management System (PNEMS), which combines the existing Watch Desk and Postal Alert Network System. PNEMS delivers automated notifications to Postal Inspection Service staff and personnel from the Postal Service's Emergency Management Teams. PNEMS supplements existing notification processes by providing Postal Inspection Service personnel with Essential Crisis Management, which is Incident Management Software, to coordinate activities related to emergency responses. This system improves communications between responders and postal management teams during critical incidents. The Postal Service also responded to emergencies and other incidents affecting postal operations. Staff coordinated the deployment of emergency equipment and supplies and assisted with damage assessments, recovery, and hazardous material removal. Postal Inspectors and Homeland Security Coordinators participated in responses to events occurring across the country: an Oklahoma blizzard in March; flooding in the Midwest in March and April; flooding in north Florida in April; flooding in Ohio and Pennsylvania in July; and Hurricanes Enrique and Felix in August.

Sustainability

The Postal Service continues to focus on using less energy, fuel, water, and other resources by encouraging sustainable best practices. Given the size of postal operations — with more than 600,000 employees and 34,000 facilities — its green activities have significant positive impacts in every American community. The Postal Service has been recognized as an environmental innovator and leader — receiving more than 70 major environmental awards, including 42 White House Closing the Circle Awards, and a Climate Action Champion Award from the California Climate Action Registry for efforts to reduce greenhouse gas emissions.

This year, for the 10th consecutive year, the Postal Service was recognized by the Environmental Protection Agency as its WasteWise Partner of the Year. All districts continued participation in the EPA

Chapter 3: **Operations**

WasteWise program, which means they agree to reduce or recycle municipal solid waste and selected industrial wastes. In the most recent reporting year (CY 2008), more than 274,443 tons of waste was recycled, resulting in 271,468 metric tons of carbon equivalent reductions in greenhouse gasses.

The Postal Service won the 2009 Climate Action Champion award from the California Climate Action Registry for engaging and shaping public response to climate change and for voluntarily reporting greenhouse gas emissions. The Postal Service was honored for achieving independent validation of its greenhouse gas inventory and for being the largest organization in the U.S. and the first federal agency to publicly report its carbon footprint according to international standards.

The Postal Service is working to get closer to zero waste in the workplace — meaning that all paper, cardboard, plastics, and metals generated are either eliminated or re-used. The Postal Service also renewed its Cradle-to-Cradle certification for all Priority Mail and Express Mail boxes and envelopes, and initiated a process to expand certification to stamps, stamped postal cards, and stamped envelopes.

The Postal Service published its National Energy Management Strategy in November 2008 to broaden awareness and engagement in this effort and published its new Sustainability Performance Report for 2008.

Energy Management

The Postal Service is on track to comply with the Energy Independence Security Act of 2007, which mandates a 30 percent cut in facility energy use and a 20 percent cut in vehicle fuel consumption by 2015.

A National Energy Management Plan was published in November 2008 to document the efforts of the business units to reduce energy consumption and costs. The plan includes high-level objectives for facility energy management, fleet management, fuel strategy, utilities management, and energy conservation and awareness in the Postal Service.

Postal Service energy expenses amounted to $2 billion in 2009. Transportation consumes 75 percent with the balance spent on utilities. Energy initiatives focused on developing a common energy strategy for the organization and improving data quality. Transparency in overall consumption and cost will lead to significant improvements in energy management. Wise investments in energy efficient equipment today will repay their debt continuously over time.

The 500 largest buildings account for over half of energy consumption. The next 1,500 facilities represent 70-80 percent of total energy consumption. The Utility Management System program, which captures energy consumption and cost data and is a central bill verification and payment system, was expanded to those sites.

FACILITIES

Energy costs for utilities were $627 million a 3 percent decrease compared to the same period last year. Ongoing efforts to control energy costs include energy audits, capital improvements to reduce energy usage, as well as many low-cost actions, such as resetting thermostats and repairing existing systems.

VEHICLES

The Postal Service consistently looks for ways to reduce the environmental impact of its fleet of 220,000 vehicles, the largest and greenest civilian fleet in the world. Its lead-free wheel weight initiative, which removed 17 tons of lead from the environment, received a National Partnership for Environmental Priorities Award from the EPA and was selected by the Department of Energy as a 2009 Best Practice in Sustainable Environmental Stewardship. The Postal Service was also recognized with a number of regional environmental awards throughout the nation for pollution prevention activities at vehicle maintenance and mail processing facilities.

RECYCLING

The Postal Service generated $5 million in revenue through aggressive recycling and waste prevention. A key step was the establishment of a recycling volume baseline for backhaul programs. In these programs, recyclable materials are returned to central collection locations where larger volumes of recyclables can be accumulated and greater revenues realized. For example, this year the Postal Service expanded its recycling program in New York City to include mixed paper and cardboard, resulting in nearly 400 tons of materials recycled each month. Since last October Post Offices in New York City recycled 2,770 tons of mixed paper and cardboard, an increase of 1,861 tons, or nearly triple what was recycled the previous year.

The Postal Service aggressively expanded its successful pilot lobby mail recycling program to reduce waste disposal costs, increase recycling revenue, and help meet customers' environmental expectations. Currently, 6,000 Post Offices feature secure lobby recycling containers that carry the message "Read, Respond, Recycle Your Mail."

The Postal Service, in partnership with businesses and government entities, has made it easier for customers to dispose of unused or unwanted products that could be harmful to the environment by creating mail-back solutions to ship the items to recyclers. Included in the program are computer equipment, printer supplies, cell

phones, rechargeable and alkaline batteries, compact fluorescent light bulbs, prescription drugs, and medical sharps.

Green Buildings

The Postal Service is committed to creating sustainable spaces and facilities wherever possible. In July, the agency created the largest green roof in New York City — and one of the largest in the country — atop the 2.2 million square foot Morgan mail processing facility. The roof was scheduled for replacement in 2007, when it was deemed strong enough to support the weight of the soil, vegetation and other requirements of a green roof. The new roof is expected to save $30,000 annually on heating and cooling costs. It will last up to 50 years, twice as long as the old one, and reduce contaminants in storm water runoff as much as 75 percent in the summer, and up to 35 percent during the winter. The Morgan green roof is the latest success in the Postal Service's greener facilities strategy, which includes the use of environmentally friendly building components, renewable materials, energy-efficient lighting and

HVAC, low volatile organic compound parts, low-water use fixtures, and solar photovoltaic systems. The Morgan facility and other sites are seeking LEED certification, which stands for Leadership in Energy and Environmental Design. LEED is the U.S. Green Building Council's nationally accepted rating system that measures the environmental attributes and sustainable features of buildings. All LEED-certified buildings reduce water use by at least 37 percent, energy use by 30 percent, and use 15 percent of recycled materials for construction.

Equipment Design

Mail processing equipment is being designed to incorporate energy efficient requirements with the objective of meeting operational needs while consuming minimal energy. The Flats Sequencing System was the first major purchase in which these new requirements were used. Existing equipment is being evaluated and upgraded in order to minimize energy consumption when in standby mode. The APPS and DBCS equipment are both being tested with modifications to reduce their standby energy consumption.

Information Technology

The Postal Service has implemented a program to reduce power consumption at data centers using a technology that allows multiple applications to run on a single server. This ongoing process, called "virtualization," increases the available resources of each server and has eliminated more than 1,600 servers and reduced hardware maintenance costs by $2 million. Conversion of 40 percent of workstations to power-saving monitors and replacement of outmoded equipment with energy-efficient units resulted in rebates of more than $250,000 from power companies.

The Green Roof at the Morgan processing facility is the first developed by the Postal Service, and at 109,000 square feet – nearly 2.5 acres – is the largest in New York and one of the largest in the country.

Chapter 3: **Operations**

In addition to energy reduction, fewer printers and less paper are used as part of the PRint and IMaging Environment (PRIME) initiative. This has reduced the number of stand-alone printers through networking and decreased the number of pages printed by switching the default printer setting to back-and-front printing. Printer paper used is at least 30 percent post-consumer recycled content, and a recycling program is in place for ink and toner cartridges.

Green IT also is helping employees and customers improve their carbon footprint. The Postal Service's Wide Area Network supports live video multicasts and webinars for more than 250,000 users. These technologies reduce fuel use and carbon dioxide emissions by enabling greater use of online meetings and telecommuting.

Alternative Fuel Vehicle Program

The Postal Service continues to explore alternative fuel technology. The T3, a three-wheel electric delivery vehicle, which runs for pennies a mile, is being tested. The latest generation of a 2-ton hybrid electric van is being tested in Long Island and will join 30 other pure electric vans delivering mail in Manhattan and the Bronx. The use of hybrid electric vehicles and other alternative fuel technologies, along with reducing the size of its fleet, will help to meet the goal of reducing fuel usage by 20 percent over the next five years.

As part of a vehicle purchase by the General Services Administration (GSA), the Postal Service began one-for-one replacements of 6,500 vehicles with 1,000 E-85 ethanol-capable and 900 hybrid gasoline/electric vehicles. The balance of the GSA purchase will be fuel-efficient, four-cylinder vehicles.

Water Management

The Water Management program was formed to meet environmental standards for pollutant discharges, storm water runoff, and safe drinking water. It also supports efforts to minimize water usage. An overall water management strategy has been developed to ensure compliance with the requirements of the Clean Water and Safe Drinking Water Acts. In addition, Vehicle Maintenance Facilities will continue their policy of "zero pollutants" in the discharge from washing vehicles. Contracts include provisions to capture runoff and use environmentally-preferable products.

To reduce water consumption, all new construction and major renovations will utilize low-flow, high efficiency plumbing fixtures. In addition, practical water saving opportunities identified during audits will be evaluated for implementation. To better understand water use patterns, the organization is now capturing water consumption for 50 of its largest buildings. This information will help identify water-saving opportunities at other buildings.

Purchasing Initiatives

The Postal Service won a 2009 White House "Closing the Circle" award for its innovative Green Purchasing Program. Initiated in 2008, the Green Purchasing Program incorporates evaluation of environmentally preferable products into purchasing decisions, along with price, quality and delivery standards. Examples include products made from recycled content or renewable resources, eco-label certified (i.e., Green Seal and EcoLogo) products, Energy Star and Electronic Product Environmental Assessment Tool (EPEAT) registered electronics, water-conserving products, and products free of targeted hazardous chemicals.

Area Green Teams

The Postal Service formed Green Teams at each Area Office to develop low-cost or no-cost ways to help the Postal Service reduce energy use, lower vehicle petroleum fuel use, improve water efficiency, reduce the purchase of supplies, and achieve zero waste.

Using Lean Six Sigma methods, the teams have identified a number of opportunities to lower the Postal Service's carbon footprint. In the Eastern Area Office, efforts already underway have reduced petroleum fuel use 21 percent compared to last year. The Southeast Area Green Team has reduced energy use at its office by 7 percent compared to last year.

Need to send a package to a loved one in the military overseas?

Use a Priority Mail® APO/FPO Flat Rate Box

There is a $2 discount for large Priority Mail Flat Rate Boxes mailed to APO/FPO addresses.

Chapter 4: **Customer Programs**

Customer Satisfaction Measurement

Customer Satisfaction Measurement (CSM) of residential and business customers is conducted independently through surveys performed by the Gallup Organization on behalf of the Postal Service. Survey question ratings and feedback provide an ongoing assessment of customer satisfaction with the Postal Service across a range of interactions. CSM reports customers' perceptions, of the quality of their mail delivery, the service they received at Post Offices and other postal outlets, and their experiences with other postal contacts, including phone or online assistance.

Slightly over one million residential and about 391,000 small businesses responded to the CSM surveys. Responses are voluntary and confidential, with survey response rates for residential customers of 22 percent, and for small businesses about 14 percent. Survey results are verified by and compared to other measurements. The data help Area, District, and local managers determine how well they are doing and where improvements will most benefit customers.

Residential customer satisfaction ratings of 93 percent were maintained for the first three quarters rising to 94 percent for the last quarter of the year despite the public discussion on potential 5-day delivery, and station and branch consolidations. The Postal Service continues to focus on key drivers of customer satisfaction to identify opportunities for improvement.

Customer Support

Business Service Network

The Business Service Network (BSN), now part of the sales organization, is a dedicated, nationwide network that provides customer support to the largest business customers, and is strategically positioned to impact both customer satisfaction and revenue growth. The BSN helps maintain a revenue base of approximately $50 billion by resolving service issues, maintaining account relationships, communicating new postal rules and regulations, and identifying sales opportunities. With a strong commitment to service, the BSN critically links mailers and internal postal operations.

Business Customer Intelligence

Formerly called Customer Relationship Management and now part of the sales organization, Business Customer Intelligence provides data analysis and reporting on customers and their interactions with the Postal Service to support national programs, advertising campaigns, and cross promotions, as well as internal sales performance reporting and monitoring. The group also supports the Customer Identification process of uniquely identifying customers across

all business processes to improve customer data quality in the 20 major systems containing customer records. The Postal Service added 3.4 million unique customer IDs to its database, for a total of 34 million business and personal customers with unique IDs.

Corporate Customer Contact

Corporate Customer Contact (CCC) plays a key role in the customer experience by answering questions, providing customer services, and resolving issues by telephone and via the customer service link on *usps.com.* CCC received and handled 50 million customer calls and online queries on mail delivery, hold mail and change of address requests, package tracking, pricing and policy questions, ZIP Code lookup, and ordering stamps and shipping supplies. Internal systems ensure that each inquiry is logged, forwarded to the appropriate Post Office, and the resolution documented.

CCC reviewed and re-wrote the most frequently asked questions available online for customers, improving customer satisfaction for the effectiveness of the questions by 7.4 percentage points. CCC also built and deployed a new system that enables customers to send an email to the Postal Service, which is then automatically routed to the customer's Post Office for resolution and follow-up.

Claims

A streamlined and centralized customer claims process was launched on April 6 to improve consistency and convenience. Customers have three options to file domestic insurance claims: online, by mail, or in person at any Post Office. Claims for all domestic services, except COD and Registered Mail, can now be filed online. All claims — domestic insurance, Express Mail, Registered Mail, or Collect on Delivery (COD) — submitted at local Post Offices are sent to Accounting Services in St. Louis.

Customers are no longer required to take damaged items to a Post Office. However, they must retain damaged items and packaging until claims are resolved. In some cases, they may be asked to submit the items to their local Post Office for inspection and disposition according to the claims decision.

These changes should reduce claims resolution time and improve customers' experiences. In addition to improvements to the claims process, the domestic and international claim forms were simplified and combined into a single form.

Privacy

The Postal Service is mandated by law, and has adopted policies, to protect the privacy of its customers, employees, individuals, and suppliers. The Postal Service is also required to make its records available to the public consistent with the Freedom of Information Act and good business practices.

Chapter 4: **Customer Programs**

For the fifth year in a row, consumers ranked the Postal Service as the most trusted of all 74 federal agencies listed in the annual survey by the Ponemon Institute. Survey respondents gave the Postal Service an 87 percent Privacy Trust rating when it comes to protecting their personal information, the highest among federal agencies. The Postal Service score also increased for the sixth consecutive year. In addition, the Postal Service was ranked among the top six most trusted among all companies and organizations — public and private.

New Improvements to Customer Experience

The Postal Service implemented its New Improvements to the Customer Experience (NICE) initiative to tackle "points of pain" that can be roadblocks to maintaining customer loyalty and growing new business. NICE seeks input from across the organization to make changes not because they meet Postal Service needs, but because they meet customer needs.

Employees are encouraged to listen to customers as they explain what makes using the Postal Service difficult, such as bureaucratic forms and language, inefficient processes, and outdated or burdensome requirements. Employees then submit these concerns along with their ideas for change, and the NICE team works with the appropriate functional area to see how the change can be made. Implemented solutions are widely publicized across the organization.

Outreach

Advertising and Promotion

The Postal Service used multiple advertising tools to boost consumer and business awareness of its products and services. Direct mailings, broadcast commercials, print advertising in trade journals, and mailing industry publications showed why companies should include direct mail in any integrated marketing program. The message emphasized the unique value of mail and how it complements other media.

Promotions focused on how to develop targeted mailings that lead to higher returns on investment. Being "Green" was the theme in various communications promoting direct mail as an effective marketing tool for large businesses. The EnvironMAILlist campaign was very effective and was recognized by the Direct Marketing

Association. It showed ways to make advertising mailings successful to specific customer needs and interests.

Advertising focused on how using Priority Mail Flat Rate Boxes is a "Simpler way to Ship." The theme for all creative for this campaign officially launched in May, communicated that "If It Fits It Ships" in a variety of entertaining, while relevant, scenarios. This campaign integrated TV (including direct response TV), print, direct mail, and Web advertising into a robust campaign. Priority Mail revenue and volume during the first four months of the campaign showed an increase. Most exciting is that the Postal Service used media test markets where media weight was "heavied up" to see if increased advertising would increase revenue potential and return on investment. Thus far in the test, "heavy-up" markets continue to outperform control markets for the campaign.

For small businesses, the Postal Service developed promotional kits to help postmasters identify how to build new business by matching their customers' needs with available products. Support was also provided for city carriers under the Customer Connect program and for rural carriers under the Rural Reach program.

Customer Development

The Postal Service has achieved great success with employee lead-generation programs. Employees participating in the Business Connect, Carrier Connect, Rural Reach, and Submit-a-Lead programs have brought many new customers to the Postal Service.

Business Connect encourages postmasters, station managers, and branch managers to sell postal products and services to small and medium-size businesses. Postmasters have always been a vital part of the communities they serve. Business Connect builds on this role by providing them with the tools and training to identify new customers and revenue prospects, to make professional presentations about products and services, and to establish themselves with these customers as the primary local resource for business growth and success.

Customer Connect asks city carriers to help identify small businesses that could benefit by increasing their use of postal services. Carrier referrals are provided to members of the sales force who then meet with the customer to understand business and mailing needs and recommend the right mix of products and services. Customer Connect continues to increase revenue and participation.

Rural Reach is a lead-generation program for rural carriers and follows the same concept as Customer Connect — rural carriers identify potential businesses on their routes that can benefit from learning more about postal products and services. As part of Rural Reach, rural carriers submit leads and share product information with key customers.

Chapter 4: **Customer Programs**

Submit-a-Lead Program is for employees such as mail handlers and administrative staff not participating in Customer Connect, Rural Reach, or Business Connect. Postal employees can submit a lead for a business where there is a potential opportunity in gaining revenue for the Postal Service.

Sales Programs

REORGANIZATION

The Postal Service reorganized its sales force to provide greater customer support and aligned the function with Area and District boundaries to simplify coordination with operational functions when providing customer solutions.

Changes included streamlined work processes, fewer layers of management, and the merger of Business Development Teams with the commercial sales force. Customer relations were solidified with an expanded Business Service Network responsible for managing strategic business relationships, account management, and customer retention.

The reorganization also created dedicated support for service providers and other business partners. Tactical and technical support was expanded in the field and at headquarters to integrate more effectively with the operations of business mailers. The reorganization enhanced the use of customer information, increased lead generation through employee engagement programs, improved training and communications, and rolled out more "go-to-market" business strategies.

CUSTOMER SALES INITIATIVES

During the year, the Postal Service sales force worked with business customers to develop mailing and shipping solutions around their core business needs. Specific initiatives included the negotiation of pricing for shipping services, customer coordination for the first-ever Summer Sale, Saturation Mail Incentive, Direct Mail in a Down Economy campaign, and the new Priority Mail Flat Rate Box campaign.

Mailing Industry Dialog

To generate interest in postal products and services, the Postal Service uses a variety of customer outreach programs, including industry events such as the annual National Postal Forum, and ongoing industry discussion and collaboration with groups such as the Mailers' Technical Advisory Committee, local Postal Customer Councils, and other mailing industry groups.

National Postal Forum

The National Postal Forum (NPF) is the largest annual mailing industry tradeshow focusing on education and new technology. NPF offers an opportunity to build relationships and effectively showcase postal products in an ever-changing marketplace. Despite the

economic malaise, nearly 4,700 customers and exhibitors attended the May event in Washington, DC. The high attendance continues to reflect the importance of mail and the industry's engagement on critical strategic issues. Intelligent Mail, a new process that uniquely identifies each mailpiece and is the core of many beneficial changes to mail preparation and processing, was showcased to large audiences. Postal executives and industry leaders led discussions on the new design of the Network Distribution Centers that are transforming the 35-year-old bulk mail centers (BMCs) across the country, major sustainability trends and how to address them, package and shipping solutions, and the new Summer Sale on Standard Mail. The event included over 150 workshops, 16 business/professional certificate programs, and the largest industry exhibit hall ever, where 127 companies exhibited the latest in mailing supplies, services, software, automation equipment, and mailing systems.

In his keynote address, the Postmaster General emphasized that the Postal Service would not sacrifice the excellent levels of service it provides as a way to meet current economic challenges. While the Postal Service continues to control costs and match resources to workloads, he cautioned that no business can cost-cut its way to success. Rather, the Postal Service must focus on what will help generate new revenue and improve efficiencies for mailers and the Postal Service. By embracing technology and constantly modifying, adjusting and consolidating its operations, the Postal Service will become more efficient and flexible — adapting to meet the needs of America. Key to building for the future, he said, is improving communications and partnering with the mailing industry to offer business incentives and product enhancements that will generate new revenue and strengthen the power of the mail.

Mailers' Technical Advisory Committee

The Mailers' Technical Advisory Committee (MTAC), composed of the major mailing associations and organizations working with the Postal Service to enhance the value of mail, achieved major progress with the completion of the following 10 work groups: Seamless Acceptance and Performance-Based Verification Implementation, Benefits, Obstacles and Feedback; Software Certification for *PostalOne!;* FSS Implementation Communication; Communicating Entry Requirements/In-Home Dates Solutions/Seasonality Impacts; Improving the ACS/OneCode System; Service Information Needs, Reporting & Communication Channels; Growing First-Class Mail; Growing Marketing Mail; Move Update PS 6014 Form Redesign; and Intelligent Mail Barcodes for Reply Mail — Business and Courtesy Reply.

Six other MTAC Work Groups either started this year or continued to make progress: Intelligent Mail Implementation; Intelligent Mail Education; Eliminating Obstacles to Mail Growth; Communicating Features and Benefits of Confirm; Communicating NDC Origin Separation Requirements; and Six-Sigma Approach to Intelligent Mail Barcode Quality.

Chapter 4: **Customer Programs**

Although tactical technological matters have historically been the focus of MTAC, a new strategic emphasis has been stressed — to challenge members to work with the Postal Service in innovative ways to enhance customer value and expand the use of products and services — in essence — to help identify and develop new growth opportunities for mutual benefit. The growth MTAC work groups already completed or still underway this year represent the initial response to this challenge — and further successes are expected.

MTAC continues to be an invaluable source of industry input on important plans and actions. MTAC industry members were surveyed on such critical issues as mail volume estimates for the next few years and the acceptability of going from 6- to 5-day delivery. MTAC also provided a venue in numerous instances to ensure the industry and Postal Service work together to address industry concerns regarding important issues such as Address Change Service and Intelligent Mail barcode readability tolerances — all to ensure that maximum benefit will be derived from these technological advancements by all participants.

Postal Customer Councils

Postal Customer Councils (PCCs) enhance working relationships with local businesses and keep customers updated on the latest postal products and developments. More than 100,000 members belong to 200 local PCCs across the country. *PCC Insider,* a monthly eNewsletter, provides the latest information on products and services, technology advances, and pricing and classification. Readers learn about developments affecting mailing operations and programs that meet their business needs. Members are also provided information from MTAC general session presentations and workgroups through links to the MTAC and National PCC Web sites.

PCCs find new ways to help new and existing customers use mail. The PCC Mail Service Provider (MSP) program database contains more than 200 national and local companies that provide assistance with mailpiece design, obtaining mailing lists, printing, mailing support, supplies, and equipment. Businesses can search for local MSPs by clicking on the Find Mail Service Providers link on *usps.com/pcc.* Other tools include workshops-in-a-box that provide materials and guidance about various programs and PCC Management Insights, a monthly article highlighting commonly asked questions regarding PCC guidelines and rules.

This year National PCC Day took place in New York on September 16. More than 10,000 members viewed the broadcast from more than 150 locations around the country. This premier mailing event with the Postmaster General included spotlights on successful PCCs, presentation of various awards to PCCs and PCC members, and two specially created workshops for the event highlighting the value of shipping services and the importance of marketing through direct mail even in a down economy. The workshops were distributed to the entire PCC network in July, followed with webinars in August to familiarize field presenters with the content and delivery of each program. Marketing collateral (4,600 DVDs containing direct mail success stories, 11,000 *Deliver* and 5,600 *Parcel* Magazines) was provided to PCCs for workshop attendees.

In February, March, July and October, the Postal Service and the National Postal Forum offered the Intelligent Mail University symposia to help prepare mailers for the 2009 implementation of Intelligent Mail requirements. More than 1,200 attendees participated in events in Addison, IL; Atlanta; Columbus; Fort Worth; Los Angeles; and New York.

Chapter 5: **Workforce**

As a labor-intensive business, the Postal Service continually seeks to balance human resources to provide consistent high-quality service as efficiently as possible. It achieves this through continuous workforce planning, optimizing the mix of employees, recruiting a highly qualified workforce, providing competitive compensation and benefits, and offering effective job-based training and career development.

Complement Management

Optimal complement levels and an optimal staffing mix of career and non-career employees are essential to achieve service reliability and financial stability. 2009 saw a steep decline in mail volume and net income due to the deep economic recession, legal requirements to pre-fund retiree health benefits, and changes in customer behavior due to technology. In response, the Postal Service took aggressive actions to reduce complement in line with reduced workload. These actions included adjusting the total complement, the employee category mix, and the locations to which employees are assigned. It also realigned and reduced administrative employees at headquarters, area, and district levels.

Number of District and Area Offices Reduced

Announced in March, and completed during the year, six District offices and one Area office were closed. These administrative offices were chosen for their proximity to other offices that could absorb the workload. Administrative staffing at the remaining 74 districts was reduced 15 percent.

Realignment in Sales Organization

In July, the Postal Service announced that its Sales organization would be realigned to focus resources on business opportunities with the highest sales revenue potential and to better align with area operations. The new organization also moves service responsibilities to the Business Service Network. To avoid a reduction in force (RIF), a voluntary early retirement authority (VERA) for Sales employees was announced simultaneously with the realignment.

Voluntary Early Retirement Offers

To reduce career complement in tandem with reduced mail volume, the Office of Personnel Management authorized a request early in the year for a voluntary early retirement (VER) with no incentives for eligible field employees. The VER was offered in four phases and 13,271 employees retired under this offer.

In August an agreement was negotiated with the American Postal Workers Union and the National Postal Mail Handlers Union to offer a $15,000 financial incentive to the first 30,000 employees who agreed to retire or resign. The incentive, limited to employees represented by those unions, is to be paid out over two years. By October 31, 2009, over 20,000 employees had agreed to retire or separate under this offer.

Complement Statistics

Total complement decreased by 53,043 employees, with career complement decreasing by 40,147. At the end of the year there were 712,082 employees on the rolls, of which 623,128 were career.

Postal Service Complement 1999-2009
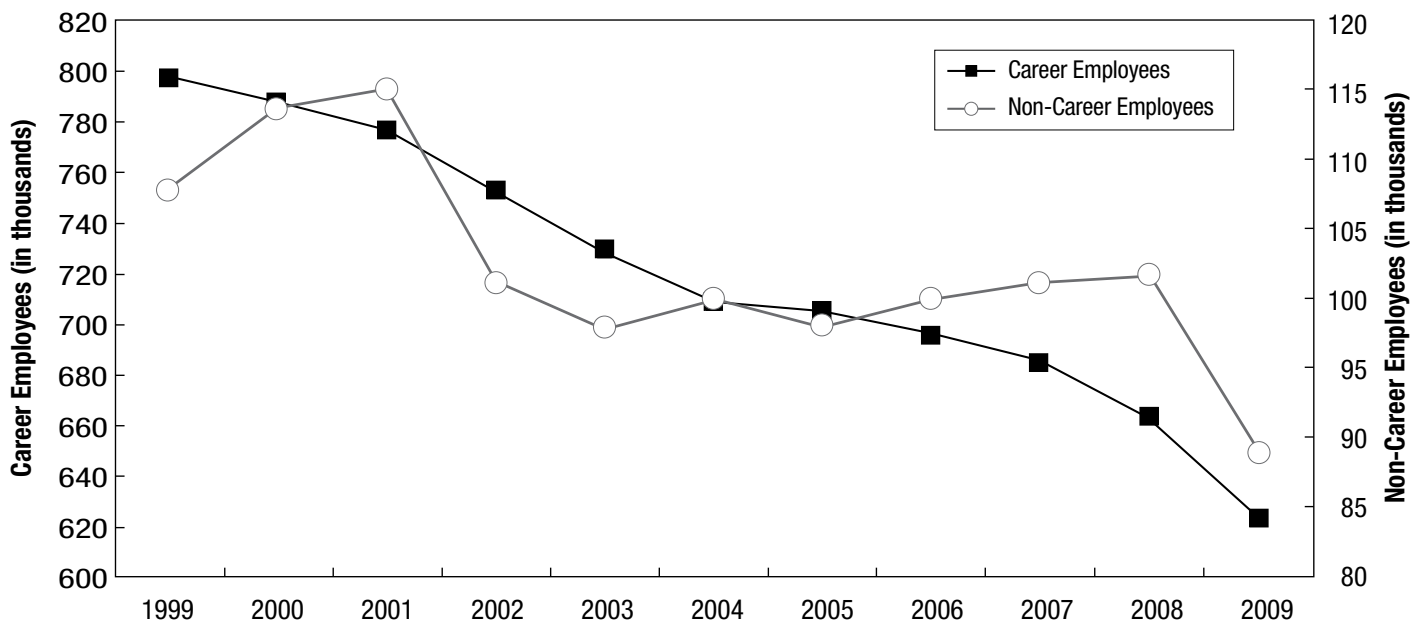
Chapter 5: **Workforce**

Overtime was reduced by nearly 36 percent and sick leave by nearly 6 percent. It is notable that these complement and work hour reductions were achieved as service scores increased and Voice of the Employee scores remained at high levels.

Complement Management Tools

The Complement Information System (webCOINS) is the primary field tool for complement information, while the Corporate Complement Management System provides a contractually correct means to reassign bargaining unit employees. Business rules for the addition of maintenance, motor vehicle, and rural carrier crafts components were added this year.

Employee Recruitment

Most hiring was curtailed due to the economic situation. The Postal Service is among the nation's largest employers of veterans and disabled veterans and actively recruits men and women in uniform. This year's military outreach effort resulted in a designation of honorable mention as a Military-Friendly Employer. The Postal Service is a member of the Advisory Committee on Veterans' Employment and Training and Employer Outreach, which consists of federal and private sector members who advise on Veteran's employment and best practices. In 2009 over 23 percent of the career workforce (145,269 employees) were preference eligible veterans. 54,329 of these veterans are categorized as disabled, 14,576 of which are rated 30 percent or more disabled.

Competitive procedures are used to select individuals with disabilities for employment. People with severe disabilities receive noncompetitive employment consideration through referrals from state departments of vocational rehabilitation or the Department of Veterans Affairs. This year the career workforce included 36,245 employees with reported disabilities.

The Management Intern program provides recruitment and placement of talented university graduates with specialized training and skills. This year, 18 Management Interns were hired.

Telecommuting and alternate work schedule programs were implemented for most headquarters and headquarters field unit employees. These flexible work arrangements aid work-life balance and enhance efforts to recruit and retain top talent. By eliminating commuting days, energy use and CO_2 emissions are reduced — to date saving employees 125,000 gallons of gas and reducing CO_2 emissions by 2.7 million pounds. Telecommuting may also enable employees to work at home during emergency events, enhancing the ability of the Postal Service to continue business as usual.

Learning and Development

The Postal Service is strongly committed to providing training opportunities to all employees who demonstrate an interest. The Postal Service has developed and deployed several web-based self-service learning opportunities that reduce cost and increase the availability of training. The Postal Service works collaboratively across organizations to provide training that delivers maximum impact on operational performance, establishes policies that ensure fair treatment, provides developmental opportunities, recruits needed skills, retains the existing talent base, and prepares for the loss of existing postal leadership. In essence — puts into place processes that connect the right people with the right job.

Leadership Development and Talent Management

The Postal Service continues to develop a highly motivated, competent group of managers to fill executive positions. There were 735 executives in 2009, including 42 officers and 83 newly-appointed executives. 65 executives participated in one or more of the course offerings for executives.

Redeveloped this year, the Executive Leadership Program is designed to equip executives with the knowledge and skills to handle the human aspects of organizational change and to lead others through large scale transformation. The program includes classroom training, one-on-one coaching, 360 degree assessments, and an Organizational Culture Inventory to assess the current and ideal states of the Postal Service. In addition to the formal training sessions, a follow-up six-month executive coaching program was added to help drive business results.

Future executives are identified through the Corporate Succession Planning (CSP) process. CSP generally operates on a 2-year cycle, during which employees request to be considered as potential successors. If selected, they develop and pursue personalized individual development plans to prepare them for the additional responsibilities of executive assignments. The most recent process for field CSP began in 2008 and was fully updated early in 2009. CSP for headquarters executives will occur in 2010.

The Advanced Leadership Program (ALP) is for non-executives who have been identified as potential successors to executives. ALP includes a blend of classroom, eLearning, and business simulation in a 3-week curriculum. Further developmental needs of participants who have completed ALP are customized by their executive sponsors using an individual development plan. A significant number of ALP graduates — 40 percent — have been promoted to executive positions since the program was redeveloped in 2007.

Chapter 5: **Workforce**

The two-week Managerial Leadership Program is designed to enhance the leadership skills and professional growth of high potential mid-level managers. It is based on the Managerial Competency Model that identifies essential management skills relevant to the postal workplace.

Learning Environment

The Postal Service believes its future success involves investing in the education and development of its employees. It deploys a comprehensive learning continuum that addresses development at all levels of the organization, and delivers relevant, targeted, learning solutions designed to improve knowledge sets and produce skilled employees able to fill future vacancies. In 2009, use of technology to deliver learning content was accelerated.

The Postal Service was recognized in 2009 with an "Excellence in Practice" citation from the American Society for Training and Development, the world's largest association dedicated to workplace learning.

To help employees gain a better understanding of the postal business and strategic direction, the Postal Service launched Growing the Business, a new learning tool that gives new employees a broad survey of postal products and services and helps demonstrate how they can serve as solutions to customers' needs. It features a tutorial on *usps.com* and an interactive Discovery Map that illustrates the bottom-line impact of revenue and cost.

The Postal Service launched the Learning Management System (LMS), which incorporates eLearning, distance learning, and social networking. LMS allows employees to electronically request and participate in training, giving them more control over their development. It allows managers to electronically approve training requests and assists in designing employee training plans. Integration with the Human Capital Enterprise System permits automated documentation of completed employee training. More than half a million training enrollment transactions were executed through LMS in its first three months, 70 percent using employee self-service.

The online Executive Leadership Transitions Toolkit deployed in June provides training for new and acting executives. It includes an online virtual meeting place to work on *Harvard Business Review* case studies, with online chats and threaded discussion groups to share ideas and best practices that foster collaboration.

The electronic Individual Development Plan (eIDP) was launched for employees who are not currently potential successors in CSP or EAS Leadership Development processes. The online system provides employee assessments and suggests on-the-job and course-work training to increase skills in competencies as indicated by the assessment.

Learning Assets

The Postal Service's two resident training centers are corporate assets that continue to provide a venue for learning and meeting for both internal and external clients.

The William F. Bolger Center for Leadership Development is the national executive management and leadership training center for the Postal Service. Its mission is to continue to provide a premier learning environment for managers to develop, plan, and grow. Over 70,000 people used the center, including 10,649 employees who attended courses and meetings. Training and conference support for non-postal clients generated more than $14 million.

The National Center for Employee Development (NCED), Norman, OK, is the primary facility for learning to maintain and operate postal systems, networks, equipment, and vehicles. NCED delivered courses to 286,100 people, 24 percent fewer students than in 2008. 36,757 employees attended the NCED campus or instructor led-training in their home office, taking courses that ran from three days to six-weeks. Another 249,343 employees completed courses in their home offices through eLearning and DVDs.

Workforce Diversity and Inclusiveness

The Postal Service is one of the leading employers of minorities and women, with minorities comprising 39 percent and women comprising 40 percent of the workforce. 21 percent of employees are African-American; 8 percent are Hispanic; 8 percent are Asian-American/Pacific Islander; and 0.67 percent are American Indian or Alaska Native.

The Postal Service participates in a number of events and conferences to reinforce the value of diversity. These events make customers, suppliers, and employees aware of the deep roots of the Postal Service in every American community. Participation in national events included the Diversity Military World Expo (Washington, DC), NAACP National Convention (New York), National Urban League (Chicago), National Council of La Raza Conference (Chicago), U.S. Hispanic Chamber of Commerce National Convention (Denver), Federal Hispanic Career Advancement Summit (Washington, DC), Gay Lesbian Bisexual Transgender Expo (New York), and

Chapter 5: **Workforce**

the Organization of Chinese Americans National Convention (San Francisco).

For the third year in a row the Postal Service was in *Hispanic Business* magazine's annual "Diversity Elite 60" list of best companies for Hispanics, the only federal agency on the list.

Compensation and Benefits

Compensation and benefits for current employees and retiree health benefits make up nearly 80 percent of operating expenses. Compensation plans are designed to attract, retain, and motivate employees, while also meeting statutory requirements. The sections below describe the Postal Service's statutory standard of pay comparability to the private sector, primary benefit plan features, and developments in compensation and benefits.

Pay Comparability

Federal law provides that compensation and benefits for Postal Service officers and employees shall be comparable to the rates and types of compensation paid in the private sector. To achieve this, negotiations between the Postal Service and unions continue to apply the principle of moderate restraint set forth in past interest arbitration awards. The compensation of most bargaining units meets or exceeds private sector levels. The average annual pay and benefits for career bargaining unit employees was $70,140 this year, excluding corporate-wide expenses that cannot be attributed to individual employees.

Pay for supervisors, postmasters, and other nonbargaining employees provides an adequate and reasonable differential between first-line supervisors and bargaining-unit employees, and meets or exceeds comparability standards.

The law governing the Postal Service also provides that executives should be compensated at a level comparable to the private sector. However, the Postal Reorganization Act (1970) precludes the ability to achieve a comparable standard due to legislated compensation caps. Within these statutory salary limitations, the Postal Service continues to provide performance-driven pay actions in support of enhancing its performance-based culture.

A new compensation support system was implemented in September for employees of the Postal Regulatory Commission (PRC). The PRC received a separate rate schedule code for better identification and programming of its personnel system. A customized compensation system was established to improve administration of the unique requirements of the PRC's pay and benefit policies. The PRC's unique requirements include a pay structure with different grades and salary ranges than the Postal Service and differences in benefit eligibility criteria.

Pay for Performance

The Postal Service's Pay-for-Performance (PFP) program continued to drive organizational achievement. (Performance results are highlighted in Chapter 6.) Unlike most government agencies that provide regular, across-the-board pay increases, PFP is the sole source of annual pay adjustments for non-bargaining unit employees.

The award-winning program has been cited by several independent entities as a model for other agencies to emulate. The foundation of the evaluation system is a balanced scorecard of objective, independently verifiable measures of service, workplace environment, productivity, and financial performance. Performance indicators are measured at national, area, district, business unit, and individual levels so that meaningful performance distinctions are made within the line-of-sight of all managers. Individual contributions are linked to organization success through these performance indicators. Core performance requirements and individual results are recorded in the Performance Evaluation System.

New service performance indicators were baselined in 2009 for Standard Mail and Presort First-Class Mail along with other mailing services products.

Pursuant to §39 U.S.C. 3686(d), the Postal Service hereby reports that during calendar year 2008 the following individuals received compensation in the amounts listed in excess of the rate for level 1 of the Executive Schedule under section 5312 of title 5:

Kathleen Ainsworth	$13,057
Robert F. Bernstock	$20,979
Anita J. Bizzotto	$37,975
Sylvester Black	$49,656
Megan J. Brennan	$28,702
Susan M. Brownell	$9,981
Ellis A. Burgoyne	$72,756
Michael J. Daley	$28,656
Thomas G. Day	$7,501
Patrick R. Donahoe	$72,936
Jo Ann Feindt	$18,856
Steven J. Forte	$19,999
William P. Galligan, Jr.	$56,936
Deborah M. Giannoni-Jackson	$28,630
Mary Anne Gibbons	$60,790
Dean J. Granholm	$2,424
Timothy C. Haney	$17,463
Todd S. Hawkins	$6,146
Lawrence K. James	$827
Stephen M. Kearney	$23,328

Linda A. Kingsley	$28,604
Susan M. LaChance	$275
Jerry D. Lane	$23,564
B. L. Malcolm	$26,986
Pritha Mehra	$59
Julie S. Moore	$7,664
Walter F. O'Tormey	$28,665
Anthony M. Pajunas	$28,721
Susan M. Plonkey	$4,337
John E. Potter	$73,771
Samuel M. Pulcrano	$2,827
Gary C. Reblin	$5,608
Tom A. Samra	$12,143
Jordan M. Small	$28,719
Douglas A. Tulino	$7,421
Gloria E. Tyson	$6,253
Anthony J. Vegliante	$71,136
Paul E. Vogel	$65,856
Harold G. Walker	$40,681
Terry J. Wilson	$49,956
George W. Wright	$28,730

Benefits

Postal career employees enjoy excellent benefits, including annual and sick leave that can be accumulated, the opportunity to donate leave, basic life insurance paid for by the Postal Service with additional options at the employee's cost, pretax health benefits with most of the cost paid by the Postal Service, pretax Flexible Spending Accounts for out-of-pocket dependent and health care expenses, the option to enroll in pretax dental and vision insurance, the opportunity to apply for long term-care insurance, and coverage under the Federal Employees Retirement System (FERS) or Civil Service Retirement System (CSRS) plans, which provide pension benefits and include Postal Service contributions to the Thrift Savings Plan for FERS employees. Participation rates and employer costs may be found in the 2009 *Annual Report.*

During 2007, agreements were achieved through the collective bargaining process and through consultation with the management associations to reduce the Postal Service's share of the contributions to the cost of health benefits premiums for its employees. Annual 1 percent reductions began in January 2008 for employees represented by the American Postal Workers Union and National Postal Mail Handlers Union and for EAS employees. Reductions began in January 2009 for employees represented by the National Association of Letter Carriers, the National Rural Letter Carriers' Association, and the Fraternal Order of Police.

Injury Compensation

The Postal Service continues to work closely with the Office of Workers' Compensation Programs (OWCP) to place injured employees who cannot be accommodated within the Postal Service into private sector employment. These efforts have resulted in private sector placements, employee retirements, or reductions in compensation payments for 277 former employees this year. Since inception in 2003, compensation costs have been reduced by more than $32.8 million annually.

This year the Postal Service saw an increase of 6 percent in workers' compensation chargeback expenses from the Department of Labor OWCP, primarily because of medical cost inflation, despite continued decreases in illness, injuries, and accidents. The cash payout totaled over $1 billion.

To help reduce workers' compensation medical costs, the Postal Service expanded the Pharmacy Card Program which discounts prescription prices for the Postal Service and avoids employees paying out-of-pocket expenses and waiting for reimbursement. A savings in excess of $8 million was achieved. Monetary gain from pursuit of third-party claims and overpayments are credited to the Postal Service by OWCP. Ongoing efforts with the program have attained $42.7 million.

The National Reassessment Process (NRP) is a key initiative that reviews the status of employees in rehabilitation and limited-duty assignments at the end of each year. It ensures that every evaluated employee is placed in an appropriate and necessary work position. NRP Phase 2, which assesses rehabilitation assignments, was successfully implemented in 68 sites. Currently 22 sites are assessing limited duty assignments to eliminate all make-work assignments. The number of employees in rehabilitation and limited duty assignments was reduced from 31,044 to 28,147, resulting in $110 million cost-savings through June 2009.

Labor Relations
Collective Bargaining

There are nine collective bargaining agreements with seven unions covering approximately 550,000 career employees. Negotiations with unions cover wages, many benefits, and conditions of employment. Negotiated agreements currently are in place with all nine bargaining units. The most recent agreement was established by the issuance of an interest arbitration award in April 2009 covering postal nurses represented by the National Postal Professional Nurses, who are affiliated with the American Postal Workers Union, AFL-CIO (APWU). Collective bargaining negotiations with two of the four largest postal unions, the APWU and National Rural Letter Carriers' Association (NRLCA), will begin in 2010.

Chapter 5: **Workforce**

The Postal Service and the National Association of Letter Carriers (NALC) continued joint contract application training and dispute resolution process support by delivering training to 80 Postal Service and NALC representatives responsible for addressing and resolving disputes locally. The training has been instrumental in reducing disputes and improving relationships. The Postal Service and NALC also have jointly developed an intervention process that has been widely implemented to identify and resolve root causes of disputes at the lowest level possible, helping build more cooperative and productive labor-management relationships.

As discussed in Chapter 3, two Interim Alternate Route Adjustment Processes were negotiated with the NALC due to the dramatic decline in mail volume. Under the modified agreement all decisions regarding the evaluation and adjustment of routes were made jointly by teams of NALC and postal representatives after review of selected data and input from the regular carrier. These processes eliminated 10,119 city carrier routes, and when route adjustments made outside this process are added, approximately 11,000 city routes were eliminated this year.

Quality of Work Life provides opportunities for Mail Handlers and supervisors to become fully involved in the identification and solution for problems in the workplace. The Postal Service and the National Postal Mail Handlers Union (NPMHU) co-hosted the 11th annual Quality of Work Life Conference. Approximately 48 quality circles shared their ideas and more than 47 quality circles displayed models of their solutions. Five quality circles were recognized for their outstanding projects and performances.

Consultation With Management Associations

As prescribed by law, program consultation was conducted throughout the year with the national officers and representatives of the National League of Postmasters, the National Association of Postmasters of the United States, and the National Association of Postal Supervisors. This process presented an opportunity for the associations to participate directly in the planning, development, and implementation of programs and policies affecting approximately 65,000 managerial employees.

Workplace Environment
Safety

INJURY AND ILLNESS

The new Employee Health and Safety module for reporting and managing occupational accidents, injuries, and illnesses is being integrated into the Human Capital Enterprise System. The new system will provide injury case management tools to health and resource management specialists for more efficient management of caseloads. A Phase II go-live pilot of the system was enacted in mid-September 2009 at two districts. See Chapter 6 for injury and illness statistics.

VOLUNTARY PROTECTION PROGRAMS

The Postal Service was the first federal agency and second corporate entity to be approved into OSHA's Voluntary Protection Program (VPP) which recognizes facilities that have implemented the best safety programs. To date, OSHA has approved a total of 168 postal worksites for VPP participation, more than any private industry corporation, and more than all federal agencies combined. Nineteen additional facilities were recommended in 2009. On average, VPP sites post OSHA injury and illness reductions that are 50 percent better than the industry average.

ERGONOMIC RISK REDUCTION PROCESS

The Ergonomic Risk Reduction Process (ERRP) reduces both the number and severity of musculoskeletal disorders, builds labor/management teams with ergonomic skills, and cultivates partnerships to identify and control ergonomic risk. These partnerships include OSHA, NPMHU, and APWU. Since its inception in 2003, 176 plants and 9 districts have implemented ERRP, with over 155,000 employees receiving training. ERRP sites that have been involved in the process for at least 12 months experienced a 21.9 percent reduction in musculoskeletal disorders this year.

Equal Employment Opportunity

In May, the Postal Service reissued its Equal Employment Opportunity (EEO) Policy Statement, reaffirming its commitment to equality of opportunity in every aspect of employment. The policy statement is posted in all postal facilities, EEO offices, and on usps.com. Training was held for supervisors and managers on the importance of equal employment opportunity, open communication, and the benefits of resolving complaints at the lowest possible level.

The Postal Service reduced the number of formal EEO complaints this year by 7.9 percent. Of the 17,010 informal complaints filed, 99.4 percent were processed within regulatory timeframes. During the informal process, 83.5 percent of the informal complaints were discussed in mediation and 76.5 percent of those were resolved through mediation.

Investigations of accepted formal complaints met regulatory timeframes 99.3 percent of the time, Final Agency Decisions 98 percent of the time, and Notice of Final Actions 98.83 percent of the time. Contract investigators and final agency decision writers are used to help maintain the neutrality of the investigative and decision process.

The Postal Service provides high quality and timely complaint processing in accordance with Equal Employment Opportunity Commission regulations and has fourteen interagency agreements to process EEO investigations or final agency decisions on a fee-for-service basis.

National Workplace Harassment Prevention

The Postal Service is committed to providing a safe, productive, and inclusive workplace; it will not tolerate harassment of any type and holds managers responsible for preventing it. Awareness is the key to ensure a workplace free of unlawful and inappropriate conduct. This year, Publication 553, *Employee's Guide to Understanding, Preventing, and Reporting Harassment,* was revised to comply with case law and updated EEOC guidance, and Workplace Harassment Fact-Finding refresher training was provided to 254 fact finders.

Employee Assistance Program

The Employee Assistance Program (EAP) provides employees and family members with free, voluntary, and confidential counseling from licensed professionals. Counselors are available 24 hours a day, seven days a week, in convenient locations to help with difficulties that affect employees' lives and work. Issues typically include emotional, financial, legal, chemical dependency, marital, and family matters. In 2009, more than 26,000 employees and family members received counseling.

EAP provides key support after critical incidents such as natural disasters, workplace and community violence, and unexpected death. The EAP responded to 294 incidents that impacted employee work engagement. From these incidents, 17,989 employees received EAP services in the form of individual sessions or grief groups. EAP also provides consultation to managers and supervisors on issues not only involving individual workers, but also their work environment. The EAP engaged 22,480 managers, supervisors, or union officials in individual consultations.

This year, EAP partnered with the Office of Workplace Environment Improvement (WEI), and the Office of EEO and Inclusiveness to create the "Changes @ Home & Work" initiative. This initiative provides information about the assistance available to help employees achieve a comfort level with life's changes. In particular, it helps employees make decisions regarding retirement options

and incentives they were offered in response to the need to balance declining workload with employee resources.

EAP was honored with the Ross Von Weigand Award, from the Employee Assistance Professionals Association, which recognizes programs that exemplify exceptional labor-management relationships. The EAP Web site has experienced growing demand for information on financial planning and coping with stress, relationships, and anxiety.

Violence Prevention and Crisis Management

Created in September 1998, the office of Workplace Environment Improvement (WEI) is committed to improving the work environment and bringing focus to "people issues." It performs violence prevention activities, identifies and measures trends of concern, and implements initiatives to improve the workplace environment. WEI assists field offices by ensuring that local Threat Assessment Teams are trained and in place. These teams respond to potential and actual threat situations to bring swift resolution and ensure employee safety.

The Workplace Environment Advisory Committee, composed of representatives of Human Resources, unions, and management associations, works closely with WEI and the Postal Inspection Service. Using a standard protocol, the committee identifies and addresses undesirable behavior that results from individual or systemic problems.

This year, Workplace Violence Awareness training was updated and made available online. Publication 45, *Achieving a Violence-Free Workplace Together,* also was updated.

PostalPEOPLE

In 2008, the Postal Service implemented an automated, centralized, shared services system for Human Resources and personnel activities. This system provides self-service for employees and managers allowing them to conduct personnel and HR activities online with access 24 hours a day, seven days a week. Employees also can access this system from home using the liteblue web site.

The system includes the Electronic Official Personnel Folder (eOPF) and eCareer. eOPF provides employees instant, convenient, and secure access to their personal and work information. eCareer is an online job application and selection system. It automates and streamlines the entire selection process from posting vacancies through selection, eliminating manual paper handling, reducing time between posting and selection, and providing significant savings in time and resources. eCareer improves employee flexibility and ease of use. Employees affected by organizational changes and restructures were able to use eCareer to search and apply for vacant positions. Since its implementation in April 2008, eCareer has posted approximately 30,878 nonbargaining unit positions and 10,773 bargaining unit positions, and over 440,000 job applications

have been electronically received, saving approximately $55 million per year in hiring costs.

All of these services are supported by the Human Resources Shared Service Center (HRSSC). The HRSSC processed nearly 1 million personnel actions, including promotions, hires, and over 35,000 retirements. It handles an average of 3,000 calls each day. The operating model was revised to separate phone calls from transactions resulting in a complement decrease of over 10 percent.

Another major improvement is the Employee Health and Safety (EHS) application, an online tool that automates and standardizes accident and incident reporting, and injury case claim management. Piloted this year, it will be deployed nationwide in 2010. The system's fast, efficient handling of case claims allows employees to receive appropriate care and return to work in a timely manner. By saving work hours, paper, and travel costs, EHS is projected to save $10 million annually.

Employee Communications and Outreach

Voice of the Employee

Every quarter, one-fourth of career employees receive the Voice of the Employee (VOE) survey at their work location. Participation is voluntary and employees are given time on-the-clock to complete the surveys. The surveys are returned to a contractor in sealed, postage-paid envelopes for analysis and reporting. The focus of the VOE survey changed this year from measuring employee perception to measuring engagement, a factor that directly affects service quality, customer satisfaction, employee retention, and financial results. The six index questions, which are used as key indicators of workplace factors impacting performance, remained the same for 2009, while new baseline data was gathered for 2010. In 2010, a new VOE index score will be based on the responses to the new questions. The survey results are used to identify organizational issues and establish improvement strategies. For 2009, the national employee response rate was 60 percent, with a national index score of 64 percent favorable, up slightly from 63.7 percent.

Employee Communications

Keeping employees informed about the state of the postal business is essential, particularly during a time of economic challenges and transition. The goal is a well-informed workforce, fully engaged in meeting customer needs and growing the business.

This year employee communications focused on the economy's effects on mail volume and revenue, important strategic programs such as Intelligent Mail and Flats Sequencing System, legislative issues relating to prefunding of retiree payments, organizational changes, new products and services, and ongoing impacts of the Postal Act of 2006.

Community Involvement

The Postal Service strives to be a responsible corporate citizen in communities across the nation. Postal employees also are committed to being good neighbors as shown by their countless heroic and humanitarian deeds performed every year, as well as participation in the following programs.

Columbus, OH, Carrier Mike Herron, left, rescued an abandoned infant he found while delivering his route. Herron is one of the many postal heroes who provide assistance to others in the course of performing their duties.

Have You Seen Me Program

Since 1985, the Postal Service has worked with the National Center for Missing and Exploited Children and Valassis to reunite families with missing children through America's Looking for Its Missing Children program. Valassis publishes the weekly RedPlum circular that showcases color "Have You Seen Me?" photos of missing children and their alleged abductors. As a result of leads generated by the program, 149 children have been safely recovered. Additional information is available at *www.missingkids.com.*

Combined Federal Campaign

Every year the Postal Service participates in the Combined Federal Campaign. In the 2008 campaign employees pledged $37.2 million to charities of their choice. (The 2009 campaign runs through December 15, 2009. Pledge total will be known in early 2010.)

Chapter 5: **Workforce**

Postal Employees Relief Fund

The Postal Employees Relief Fund (PERF) is a humanitarian effort administered jointly by the Postal Service and the unions and management associations. PERF is supported financially by employees mainly through payroll deductions from the Combined Federal Campaign. PERF provided more than $1.1 million to 207 employees throughout the country who experienced damage from house fires as well as property loss resulting from floods, hurricanes, or tornadoes. Since it began in 1990, PERF has provided more than 3,000 grants totaling nearly $15 million to active and retired employees impacted by natural disasters and house fires.

Postal Employees' Relief Fund

PLEASE DELIVER

Assisting postal employees and retirees who are victims of natural disasters and fires

CFC #10268

postcards were mailed to publicize the event — the world's largest annual one-day food drive. The drive collected 73.4 million pounds, which will help some 35.5 million people, including 12 million children, who face hunger every day. Now in its 17th year, the drive has provided nearly 1 billion pounds of food. Other supporters include Campbell Soup Company, Valpak Direct Marketing Systems, Valassis, Feeding America (formerly known as America's Second Harvest), the United Way of America and local affiliates, the AFL-CIO, and cartoonist Bill Keane, who provides special Family Circus artwork for the promotion.

Carrier Alert

The Carrier Alert Program recognizes that carriers can help monitor the well-being of elderly and disabled customers. A local sponsoring agency notifies the Post Office of persons who want to participate in the service and a decal is placed in their mailbox. Carriers will then be alert to an accumulation of mail that might indicate an accident or illness, and notify appropriate officials.

Marrow Donor Program

Since 1997, the Postal Service has collaborated with the Be The Match Foundation, formerly the Marrow Foundation, to build awareness of the National Marrow Donor Program, the world's largest and most diverse registry of potential marrow donors. The Postal Service — through its "Delivering the Gift of Life Campaign" — over the last 12 years has recruited more than 48,000 employees and family members to become registered donors. Of these, 80 have been matched with patients and donated marrow.

This year, the Be the Match Foundation honored the Postal Service by naming it the recipient of the first "Rod Carew Award for Leadership." The award recognizes the Postal Service and its employees for their efforts to stem leukemia and other life-threatening blood diseases. The award is named for Baseball Hall-of-Fame member Rod Carew, whose daughter was a victim of leukemia.

National Association of Letter Carriers Annual Food Drive

On May 9, thousands of carriers and other employees in more than 10,000 cities and towns collected, processed, and delivered non-perishable food donated by customers. More than 130 million

The Postal Service has a disciplined and well-documented performance management system that has enabled it simultaneously to provide consistent, reliable service, record levels of customer and employee satisfaction, and extraordinary success reducing costs.

Performance Principles

The Postal Service's performance management system is based on focusing on a limited number of key goals, developing valid measurement systems that provide timely, reliable information, and establishing effective accountability systems for programs and individuals.

Customer Focus. These goals focus on results that matter to the Postal Service's three major stakeholder groups: customers, policy-makers, and employees. The relevance of the goals are continuously assessed in outreach to different stakeholders.

Continuous Improvement. The Postal Service has established a strong record of continuous improvement on all organizational goals. It is based on widespread application of process management, the expansion of process improvement tools such as Lean Six Sigma, extensive data analysis at all management levels, and a variety of other techniques and practices.

Engagement. The Postal Service recognizes that not even the highest levels of customer and employee satisfaction are enough to ensure future success. Continuous and highly detailed feedback and diagnostic information are critical to building trust and strengthening productive business relationships. For customers, this means more accessible and actionable information about postal services and performance, including proactive solutions to evolving customer needs and quick, effective responses to service issues. For employees, it means accurate, relevant, and timely information about organizational, unit, and individual performance; open, interactive communication; and responsive feedback.

Goal Structure and Process

The Postal Service has identified three overarching goals using a "balanced scorecard" approach to ensure that strategic emphasis is clear and to promote equilibrium in organizational progress and investment. It has used the same three corporate goals since implementation of the Government Performance and Results Act (GPRA) in 1993. This provides focus and a clear sense of priorities and consistency, which in turn results in improved communications and understanding. With very few exceptions, the many programs and activities described in this *Comprehensive Statement* are designed to address multiple goals.

Improve Service	Improve Financial Viability	Increase Employee Engagement
First-Class Mail	Revenue Generation	Employee Safety
Priority Mail		
Express Mail	Productivity Growth	Employee Engagement

Since 1993, the Postal Service's success using this management process has been recognized by several independent evaluation organizations such as the Balanced Scorecard Collaborative and the IBM Center for the Business of Government. The American Customer Satisfaction Index continues to show the Postal Service as the most improved organization since comparative industry measurement began in 1994.

The management process closely links the Postal Service's mission, organization goals, program performance indicators, and unit and individual accountability systems. Organizational goals are supplemented by a carefully developed series of cascading objectives down to unit and individual levels. A pay-for-performance program is in place for non-bargaining employees, and managers are compensated in part based on the degree to which their personal accomplishments — and the accomplishment of their unit (e.g., Post Office, plant, and district) contribute to overall success. These employees do not receive automatic salary increases, nor do they receive cost of living increases or locality pay.

Summary 2009 and 2010 Core Organizational Goals, Targets, and Results[1]

Corporate Goal	2007 Actual	2008 Actual	2009 Plan	2009 Actual	2010 Plan
First-Class Mail (Overnight)	96%	96.5%	96.5%	96.2%	96.6%
First-Class Mail (2 Day)	92%	94.1%	94.0%	93.7%	94.1%
First-Class Mail (3-5 Day)	90%	92.7%	92.7%	92.2%	92.8%
Priority Mail and Express Mail	Competitive products performance is not publicly reported				
Total National Revenue	$76.2 Billion	$74.9 Billion	$76.2 Billion	$68.1 Billion	$65.9 Billion
Total Factor Productivity	1.0%	(0.5%)	1.4%	(0.9%)	1.2%
OSHA Illness and Injury Rate	5.50	5.47	5.37	5.33	5.23
Voice of the Employee Survey Rate	63.5	63.7	63.8	64.0	63.8

[1] The calculation of Plan and Actual differ slightly for First-Class Mail 2-day and 3 to 5-day. Because Plan is used by the Postal Service for its pay-for-performance system, it factors in a small exclusionary period — approximately 2 weeks in December — when service is often affected by commercial transportation issues outside managers' control. No period is excluded from the Actual scores, however.

Improve Service

First-Class Mail

Customers use First-Class Mail for bills, statements, payments, and correspondence. Single-piece First-Class Mail, generally used by consumers and small businesses, is entered into the mailstream in small quantities at Post Offices or collection boxes. Presort First-Class Mail is generally used by larger organizations and is entered in bulk at postal processing centers.

On-time performance for single-piece First-Class Mail is measured by combining data for letters and flat pieces from the External First-Class Mail Measurement System (EXFC). Single-piece First-Class Mail parcel performance is measured using origin and destination Delivery Confirmation scans. On-time performance scores are developed by comparing actual transit times against the service standard for each category — overnight, 2-days, and 3 to 5-days. EXFC is a rigorous external sampling system that since 1990 has measured transit time between deposit at a collection box or Post Office and delivery to a home or office. The performance of single-piece First-Class Mail has long been the most visible signal of service to consumers and commercial customers, and service and measurement have been refined over time. In 2009, EXFC expanded to 892 three-digit ZIP Codes, which represents virtually all single-piece First-Class Mail letter and flat volume.

In 2009 on-time performance fell slightly short of the target. Expansion of EXFC to additional ZIP Codes contributed to the shortfall, as performance in the new measured codes lagged slightly behind the overall average for the first part of the year until operational adjustments could be made. The additional EXFC measured ZIP Codes were also a factor in mail with a 2-day or 3-to 5-day standard failing to meet the 2009 target. Severe weather in the first quarter (October-December) affected service, especially mail with a 3 to 5-day standard that is most subject to transportation-related delays. The Postal Service established 2010 on-time performance targets for all single-piece First-Class Mail above the 2009 targets. Single-piece First-Class Mail parcels are also included in the targets in 2010.

First-Class Mail International uses external sampling to measure performance for domestic legs of inbound and outbound single-piece letters. It was moved to a unit goal in 2010, so is not included as the corporate goal.

Priority Mail and Express Mail

Priority Mail and Express Mail service on-time performance are both included as corporate goals; however, as competitive products, performance information is not reported publicly. In response to requests from customers, the Postal Service is supplementing the existing on-time performance measures with a new metric of scanning performance.

Future Services Measurement

The Postal Service continues to refine its performance measurement processes and develop new systems to expand the services that are measured and reported. (Results for all Market Dominant products are reported on *usps.com/serviceperformance*.) These new measurement systems are in different stages of maturity. They are not part of the Postal Service's corporate goals for 2010. However, managers are using the information provided to improve service in all categories. As baselines are established and measurement processes improved, additional services may be added as corporate goals in the future.

A summary of the measurement systems now being baselined and enhanced appears below.

For **Presort First-Class Mail,** the measurement system uses the documented arrival time at a postal facility to start the clock, and an IMb scan by an external third-party reporter to stop the clock. Tracking from IMb in-process scans is used in conjunction with the external data to determine performance.

For **Standard Mail** letters and non-saturation flats, the Postal Service is using arrival time at a designated postal facility to start the measurement, and an IMb scan by a third-party reporter to stop the clock. Tracking from IMb in-process scans is used in conjunction with the external data to extrapolate results.

Performance of **Periodicals** mail is currently tracked by combining data from two externally and independently operated systems used by the publishing industry. Service is measured using mailer-reported entry times to start the clock and external reporter delivery dates. Since this process is not representative of all publications, a system that uses broad participation in the Intelligent Mail program will replace it with a more robust, statistically valid system.

The measurement systems for Presort First-Class Mail, Standard Mail, and Periodicals will be enhanced when the service performance measurement application for Full-Service Intelligent Mail is implemented in March 2010.

Package Services performance measures transit time from deposit at a Post Office until delivery for parcels with Delivery Confirmation. The system measures service to and from virtually all 3-Digit ZIP Code areas for which volume exists. Systems are not yet fully in place to measure the on-time performance for Presort Package Services, and at this point available data represents too little of the overall population to be a representative measure.

Given the array of **Special Services**, performance is being measured by a variety of systems. For all of these services, the measured result is compared with the respective service standard to determine performance. For *Delivery Services* (Delivery Confirmation, Signature Confirmation, Certified Mail, Electronic Return Receipt, Registered Mail, and Collect on Delivery), the Postal Service measures the time elapsed from delivery scan to when the information is available to customers. For *CONFIRM,* the Postal Service measures the time from a mailpiece scanned in processing to the availability of scan data to the customer. The *Post Office Box* measure compares the percentage of time that mail is delivered to a box section within the posted "up time" — when customers are told the mail should be available. *Address List Services* performance measures the time it takes for a customer to receive the requested information. *Address Correction* performance measures the time it takes for address data to be transmitted to program participants. Performance for *Insurance Claims* measures the time it takes for a claim to be

resolved. *Money Order Inquiries* measures the time to provide the customer with a response.

Improve Financial Viability

Complete financial reports and extensive management discussion and analysis of the Postal Service's financial situation and results are contained in the *Annual Report* and *Form 10-K* and are therefore addressed only briefly here. To see the reports, go to *usps.com/ financials.*

Revenue

The Postal Service is a self-sufficient agency and is not funded by appropriations. Achieving net income — the difference between total revenues and costs — is essential to its continued ability to provide affordable universal service. Roughly 80 percent of revenue is generated by commercial customers, and in 2009 these customers, especially those in the financial services and retail industries, were particularly hard hit by the recession. Mail volume and postage revenue declined precipitously as a result.

The Postal Service generated operating revenues of $68.1 billion, a decrease of $6.8 billion (9.1 percent). Mail volume of 177.1 billion pieces declined by 25.6 billion, or 12.7 percent. First-Class Mail and Standard Mail, which make up 94 percent of volume, decreased almost 24.3 billion pieces, or 12.7 percent, with an associated 9.4 percent drop in revenue, amounting to $5.5 billion. The Postal Service incurred a net loss of $3.8 billion in 2009. Revenue is expected to continue to decrease into 2010, and even with continuing substantial cost reductions, it projects a 2010 net loss of over $7 billion[2].

The Postal Service is able to fund some obligations through increased debt; however, it is limited by statute to annual debt increases of $3 billion and total outstanding debt of $15 billion. The Postal Service expects to add $3 billion in debt in 2010 to $13.2 billion total, but will continue working to mitigate a possible cash shortfall. Ultimately, its ability to generate sufficient cash flows is dependent on the strength and speed of the economic recovery and its flexibility to increase revenue, improve efficiency, and reduce costs.

Productivity

Operating expenses were $71.8 billion this year, a decrease of 7.6 percent. Postal costs are heavily concentrated in wages, employee and retiree benefits, and transportation. The Postal Service removed more than $6.1 billion in costs in 2009, driven by a reduction of 115 million workhours from the previous year. That reduction was on top of a reduction of 50 million workhours in 2008.

[2] Based on the assumption that there will be no change in the number of delivery days per week and no change in the current retiree health benefits pre-funding payment schedule.

Chapter 6: **2009 Performance and 2010 Goals**

Total Factor Productivity (TFP) declined 0.9 percent, the second consecutive year this measure has declined. TFP compares postal outputs, such as mail volume and delivery network growth, with the resources used. Mail volume is weighted by a number of factors, including shape, weight, and level of customer preparation. Resources include capital, labor, and materials. The methodology is similar to the Multi-Factor Productivity index used by the U.S. Bureau of Labor Statistics to measure the productivity of the overall economy and key industrial sectors.

Prior to 2008 the Postal Service had eight straight years of TFP growth. In spite of a record reduction of workhours and aggressive efforts to reduce all other resources and limit capital investments to essentials, the Postal Service was unable to fully offset the 12.7 percent drop in mail volume. Workload declined 8.3 percent, driven by a 10.5 percent decline in single-piece First-Class Mail, slightly offset by a continued increase in the number of delivery points. In response, the Postal Service reduced the resources it used by 7.4 percent, including a 7.9 percent reduction in labor (workhours).

To help address the continuing financial challenge, the Postal Service in 2010 will continue reducing workhours and employee complement, increasing efficiency, renegotiating contracts with major suppliers, continuing to freeze construction of most new facilities, and pursuing revenue generation efforts using its increased pricing flexibility. These efforts will be pursued through the programs and activities described throughout this *Comprehensive Statement.*

The financial viability of the Postal Service is at risk and, as the net income projection for 2010 shows, the outlook for the coming year is no less challenging. Long-term relief from the pre-funding requirement for retiree health benefits is essential, but other reforms are necessary as well. The Postal Service requires additional flexibility in labor and operations to improve productivity and reduce costs that better match declining volumes, and also must diversify revenue sources.

Increase Employee Engagement

Safety

Many employees transport, distribute, and handle mail involving physical labor and constant, often repetitive motion and lifting. Many are exposed to adverse weather conditions in the normal course of their duties. Safety is a critical issue.

Safety performance is tracked using methodology required by the Occupational Safety and Health Administration (OSHA). It measures the number of illnesses and injuries that occur per 100 full-time employees. The Postal Service supplements this with other more specific internal reporting systems, such as for motor vehicle accidents.

The Postal Service continued to make safety improvements; the OSHA illness and injuries frequency rate was 5.33 per 100 employees this year. This is a 5.77 percent improvement and equates to 5,316 fewer employee injuries and illnesses. The motor vehicle accident frequency rate was 8.88 per million miles. This is a 6.92 percent improvement from last year and equates to 2,263 fewer motor vehicle accidents. Efforts to raise employee awareness on avoiding injury and additional information on the programs and activities being pursued to create an even safer workplace environment are contained in Chapter 5.

Employee Engagement

Every organization depends on the performance of its employees. The labor-intensive Postal Service is more dependent than most on the efforts of its workforce. It has long been a primary goal to fully engage every member of the workforce, at every level and function, in meeting the challenges that face the business. This includes attracting and developing qualified employees; ensuring a safe, supportive workplace; providing competitive compensation and benefits; and ultimately building a strong customer-focused, performance-based culture throughout the organization.

The Postal Service tracks employee engagement using an index developed from questions in its Voice of the Employee (VOE) survey.
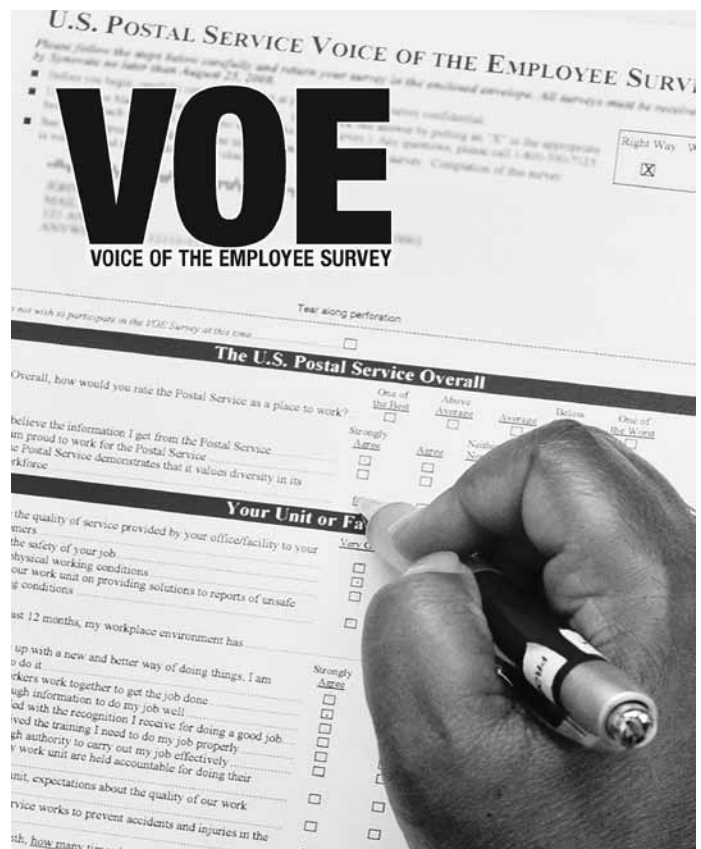
The VOE survey helps the Postal Service to engage employees at all levels.

Chapter 6: **2009 Performance and 2010 Goals**

Every employee has the opportunity to respond to the survey, and response rates are high, over 60 percent. Each quarter, one-fourth of career employees receive a survey at their work location. Participation is voluntary and employees are given time on the clock to complete them. The surveys are then sealed in postage-paid envelopes and mailed to an independent contractor for data analysis and report preparation. No one from the Postal Service sees raw data or individual responses.

The VOE survey was redesigned this year to incorporate the latest best practices in employee survey research and to make the information it provides more actionable. The revised survey includes questions on eight dimensions of employee engagement — *Strategic Direction, Trust, Contribution to Growth, Communication, Diversity & Respect, Commitment, Personal Safety, and Work Effort and Quality.* Favorable ratings for each dimension are grouped together to create an index score. Results give supervisors and managers information about how they compare with other units on these important employee engagement drivers. 2009 was the final year that the original VOE index was used. Future goals will use the new VOE index.

The VOE survey is an important diagnostic of how well the Postal Service is engaging employees in the organization's mission and especially in the present efforts to respond to the challenges of an extended recession and a large and growing gap between revenues and expenses. Without question, 2009 was a difficult year for all employees. The dramatic decline in volume required extraordinary workplace changes, including large reductions in employee complement. Despite this, the VOE Index continues to show that attitudes remain positive and consistent with the recent past. Opportunities exist to improve in all measured areas, especially in the quality and frequency of communication provided to employees about individual and unit performance, and about the Postal Service's strategic direction.

Index

Index

Index

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