

JULY 2010

Update from the U.S. Postal Service

The state of the Postal Service, its finances and its future, have been the topic of much conversation recently. In some instances, these discussions have not been based in fact. Here is accurate information to help customers and the mailing industry better understand what is really happening.

It's being said that the current financial crisis the Postal Service is facing is a result of poor planning, and postal management should have seen this day coming long ago.

The Postal Service has achieved cost savings of \$1 billion per year every year since 2001; in 2009 the cost savings reached \$6.1 billion by reducing its workforce by the equivalent of 65,000 full time employees. In fact, it was able to reduce its career workforce from an all-time high of 802,970 in 1999 to today's 588,561, while focusing on improving service and growing postal products. The current economic crisis is historic and unprecedented, resulting in a 20 percent loss in mail volume in three years. We have been adjusting our operations and workforce to reflect declining volume loss.

Some are asserting that the current price increases the Postal Service has proposed are somehow illegal.

On March 2, the Postal Service unveiled its ambitious action plan for the future, a plan designed to ensure a viable Postal Service for the country well into the future. One element of that plan was a modest price change to become effective in early 2011. On average, the proposal calls for a 5.6 percent increase, clearly permissible under the "extraordinary or exceptional circumstances" clause of the law. This "exigent" rate case would have some classes of mail see somewhat larger increases than the average and this is intended to move those classes closer to covering their costs as is required by law. Clearly, over the long run, no organization can continue to sell a product at a loss and the Postal Service is no exception.

It's also being suggested that we wouldn't be in this fix if management had dealt with a bloated, overpaid postal workforce.

In 1999, there were 802,970 career Postal employees, compared to today's workforce of 588,561 — a reduction of more than 215,000 employees. Salaries are set through collective bargaining agreements. In the absence of an agreement, the law requires that the two sides submit to binding arbitration. The Postal Service has been addressing and will continue to address the cost of employee benefits through the collective bargaining process. For example, the Postal Service has reduced the employer contributions to health benefits by 1 percent per year for the life of the last collective bargaining agreement. Unfortunately, to date, the Postal Service has been unable to effect a change in the law requiring that its financial state be taken into account in interest arbitration awards. In the meantime, the Postal Service will continue to work with its unions to reach the best possible agreements for both parties.

Some are saying the Postal Service is not doing enough to structure its mail services to meet today's changing needs.

Our action plan calls for continuing to modernize customer access by providing online services 24/7 and providing services at places more convenient to customers — grocery stores, pharmacies, retail centers, office supply stores, including Office Depot stores. Increasing and enhancing customer access through partnerships, self-service kiosks, and a world-class website, *usps.com*, while reducing costs also are underway. The necessary legislative and regulatory changes must be made to create the flexibility to introduce new non-postal products that reflect changing customer needs, generate needed revenue, and allow the Postal Service to compete more aggressively and fairly in the marketplace. Still, working within the confines of the existing law, we have been able to expand our partnership with eBay to include eBay China and we've offered volume incentives for Standard Mail and First-Class Mail to encourage new business and reward our long-standing customers. The Postal Service of the future will look different, but it will continue to drive commerce, serve communities and deliver value.

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While acknowledging the action plan released on March 2, some think nothing's happened.

We've been very busy. In the four months since announcing the action plan we are on track to eliminate \$3.5 billion in costs and have identified necessary steps to erase \$123 billion in expenses over the next 10 years. Efforts to expand access to Postal products and services include partnerships with Office Depot for package services and with the U.S. Department of Commerce to streamline processes for small businesses to ship internationally. Revenue-generating initiatives include two mail volume incentives to encourage growth in highly profitable Saturation and Standard Mail. And the Postal Service filed a formal proposal with the Postal Regulatory Commission to move to a five-day delivery schedule and successfully moved a percentage of Post Office boxes into the competitive side of our business, allowing us to compete head-on with UPS and private sector companies while providing new opportunities for customers. We've also created new opportunities for mailers to improve response rates on direct mail pieces by implementing standards for attachments. We added new options to increase the number of ways mailers can design booklets that are more appealing to recipients. Most recently, after working with the periodicals community, we expanded the content eligibility so that magazines could include supplements that reach an even broader customer base.

It's been suggested that Postal Service should be broadening its customer base rather than increasing its prices.

The following initiatives have been announced or expanded since the beginning of March, when the Postal Service announced its action plan: an export agreement for shipping services with eBay China, pharmaceutical recycling through the mail with the U.S. Department of Veterans Affairs, expansion of the number of Post Offices accepting passport applications, launch of partnership with U.S. Department of Commerce targeting small- and medium-sized businesses to help them expand to international markets, "Reply Rides Free" incentive for marketers and advertisers who use First-Class Mail, expansion of the Saturation Mail incentive program to include High Density advertisers, as well as the Summer Sale for Standard Mail. RFPs are being sought today to help small- and medium-sized businesses more easily use and benefit from direct mail.

Some are saying that if Congress would only fix the Retiree Health Benefit Fund prepayment, the Postal Service's troubles would be over.

When on March 2 the Postal Service announced its action plan for the future, there was one message that was crystal clear: there is no one answer that would deliver the Postal Service from its current crisis. The Postmaster General was emphatic: it would take a suite of solutions to right the ship and position the Postal Service for the future. A restructuring of retiree health benefit payments was one element but there were more: adjust delivery days to better reflect mail volumes and customer habits, permit the Postal Service to evaluate and introduce new products so that we can respond to changing customer needs, allow prices for mailing services to be based on demand for individual products, and yes, as discussed on March 2, a modest exigent price increase to be effective in 2011. A one- or two-year deferral of RHB is still insufficient to close the financial gap. Five-day delivery and the exigent case would still be necessary to stay within the borrowing limits.

The Postal Service shouldn't think it's prevented by Congress from closing money-losing Post Offices; it should just close them, and that goes for other redundant facilities as well.

In fact, the Postal Service is absolutely prohibited by Congress from closing Post Offices based solely on economic circumstances. Put simply: we cannot close Post Offices that don't generate enough revenue to cover their expenses. There are 26,000 Post Offices with expenses that exceed revenue. The Postal Service is asking for legislative and regulatory change that would give us the authority to close these Post Offices. Until then, we will continue to modernize and expand customer access by providing services more convenient to customers — grocery stores, pharmacies, retail centers, office supply stores — and increase and enhance customer access through partnerships, self-service kiosks and a world-class website, *usps.com*, while reducing costs. In those instances where the Postal Service is given control over closing facilities, we have done just that. In 2009 alone, we closed nine Airmail Centers, transferring those operations to other facilities and completed the streamlined National Distribution Center delivery system. Almost 40 consolidations of Area Mail Processing plants have been completed and 22 more are in process.