

## **Network optimization: FAQs for mailers and the mailing industry**

### **Operations**

1. What is the Postal Service's rationale for introducing the network optimization proposal?

The proposed service standard changes and network consolidation efforts are based on the volume, cost and revenue realities facing the Postal Service. Projections show First-Class Mail volume continuing the current pattern of significant decline over the long term, with Standard Mail volume holding relatively stable. Declining volumes and a corresponding decline in revenue not only make it increasingly difficult for the Postal Service to cover the costs of the existing mail processing and delivery networks, which were designed to handle significantly more volumes, but also contribute to the excess capacity within mail processing facilities. The network optimization proposal seeks to adjust the mail processing network so that it is more flexible and better aligned with the reality of today's mail volumes and anticipated future volumes.

2. What are the benefits of the proposal?

The proposal seeks to significantly improve the Postal Service's efficiency and lower its operating costs by reducing both the number of mail processing facilities and the amount of equipment needed at remaining facilities. The actions outlined in the proposal could also result in additional cost savings, particularly with respect to labor costs, which represent approximately 80 percent of the Postal Service's total costs. Reducing these costs can help the Postal Service regain financial stability. In addition, fewer processing facilities and longer processing windows could also enhance the Postal Service's performance by making it more predictable.

3. Will there be changes to service standards? If so, will there be changes in all classes of mail?

The proposal would eliminate the expectation of overnight service for First-Class Mail, narrow the two-day delivery range, and enlarge the three-day delivery range. These changes would apply to all First-Class Mail products. Because the service standards for a portion of Periodicals are tied to First-Class Mail service standards, the proposal would also revise the Periodicals service standards to a range of 2 to 9 days. These revisions would allow for substantial consolidation of the mail processing network, and would result in the closure of some facilities where Standard Mail users currently enter mail. It is possible that the proposal would require a revision — yet to be determined — of the current service standard for end-to-end Standard Mail entered at Area Distribution Centers (ADCs).

4. The USPS Office of Inspector General (OIG) recommended a 2-4 day service standard for First-Class Mail within the contiguous 48 states. Why does the Postal Service's proposal differ?

The Postal Service considers a First-Class Mail service standard range of 2-3 days within the contiguous 48 states more appropriate, and is collecting stakeholder feedback and conducting market research to explore that concept instead.

5. When will the Area Mail Processing (AMP) studies announced in mid-September be completed?

Each of the several hundred facility-specific studies is expected to take between three and four months to complete. The earliest possible month in which the operations consolidation process could *begin* is March 2012.

6. Could the AMP process affect mail service to customers?

This AMP process does not change the Postal Service's commitment to provide efficient and reliable service. The process will be navigated at an accelerated but deliberate pace that recognizes the importance of such service.

7. The implementation schedule for the proposed changes is very aggressive. How does the Postal Service plan to minimize disruption to mail processing and logistics during a potential transition period?

The stark realities of continuing volume and revenue loss require the Postal Service to plan for an accelerated implementation of infrastructure changes. Communication and implementation strategies are being developed now so they will be in place if and when changes are made. Feedback from mailers and other stakeholders will continue to help inform these strategies. The Postal Service is committed to doing all it can to mitigate disruption to operations during any transition period.

8. How would the Postal Service manage the network changes through the year and accommodate changes in volume during mailing cycles?

Proposed facility and equipment set needs have been modeled based on peak season capacity and peak volume periods. During off peak and lower volume periods, operating windows would be shortened by moving up the clearance time as needed.

9. Can the Postal Service effectively manage network changes, especially if five-day delivery is implemented?

Network Optimization would enable operations personnel to spread volumes over longer processing windows. Optimal planning is possible when operations personnel know what their volumes will be at the start of their incoming operating window. The proposed network changes would provide greater ability to control incoming volumes and the processing window, and thus help — rather than hinder — 5-day delivery implementation.

10. If facilities are consolidated, will there be adequate dock space? How will the Postal Service minimize bottlenecks at facilities?

Processing facilities would manage their operating plans, volume arrival profiles and critical entry times to ensure adequate dock space is available to meet mailers' needs. Processing facilities recognize the need to stretch their operating windows on docks to ensure adequate staffing and appointments.

11. Would drop shipments be accepted on weekends at Sectional Center Facilities (SCFs) that currently do not accept mail?

The Postal Service would open drop shipment windows as necessary to ensure that both the acceptance and verification needs of customers are met.

12. Would trucks taking mail from processing facilities to delivery units have farther to drive, costing more money?

Even in cases where the drive could be longer, it won't necessarily increase the cost. Adjusting the size of the transportation network is a part of the strategy to help mitigate this. Trucks will make fewer stops and better use of existing cube space. Consolidating mail on fewer trips will drive economies of scale, capture further efficiency and contain costs as excess transportation is pulled out of the system and excess miles are eliminated.

13. Would the proposal lead to more complexity? For example, would Critical Entry Times (CET) be adjusted based on distances from processing facilities to delivery offices?

The proposal is not designed to lead to more complexity; rather, it is designed to simplify entry points, provide more consistent handling each step of the way, and better predict delivery times.

14. Would running fewer machines for longer periods (20 hrs) increase the risk of equipment failures?

Equipment sets were established based on peak volume periods. Using fewer machines would enable the Postal Service to optimize its equipment inventory. Older equipment would be retired, so most of the machinery being used would be newer, less expensive to maintain, and more efficient. Retired machines would be used as parts inventory, further reducing maintenance costs. Maintenance windows will still provide for scheduled preventive maintenance on remaining machines.

15. How "final" is the list of facilities? Will all the facilities on the list be closed?

The facilities on the Area Mail Processing (AMP) list released on Sept. 15 are being studied for potential closure and consolidation; this list is "final" only in terms of identifying the facilities that will be studied over the next few months. These facilities were initially identified using a "least cost optimization" modeling approach that considered mail volume, capacity, and time and distance between facilities, as well as impact on the local community, mailers, and other stakeholders. The AMP process requires a facility-by-facility study and evaluation to validate the most significant opportunities identified by the "least cost optimization" model and impact considerations. The AMP process has been used by the Postal Service for many years, and withstood the scrutiny of the USPS Office of Inspector General and the Government Accountability Office. The process requires that stakeholders and the general public be notified before decisions to close a facility are made so that their input and feedback is considered during the decision-making process.

## **Communication and Outreach**

16. How will the Postal Service accurately and dependably communicate updates to stakeholders during the rulemaking and AMP processes?

The Federal Register process provides for several comment periods. The first formal comment period seeks stakeholder input while the proposal is at the conceptual stage; this period began with the publication of the Postal Service's Advance Notice of Proposed Rulemaking in the Federal Register on Sept. 21, 2011. Comments during the Advance Notice period can be mailed to Manager, Industry Engagement and Outreach, United States Postal Service, 475 L'Enfant Plaza, SW, Room 4617, Washington DC 20260, or sent via email to [IndustryFeedback@usps.com](mailto:IndustryFeedback@usps.com). The second comment period, assuming the Postal Service decides to continue with the plan, will begin when the Proposed Rule is published in the Federal Register (along with how stakeholders may provide comments). Currently, informational materials are available at <http://about.usps.com/news/facility-studies/welcome.htm>. Materials on this web page include Frequently Asked Questions (FAQs) of general interest to mailers and links to related information. New FAQs may be posted from time to time based on issues raised from both formal and informal stakeholder feedback. In addition, outreach efforts include over 30 meetings with industry associations and major mailers that have already been conducted, and at least a dozen that are currently scheduled, to continue the Postal Service/Mailing Industry dialogue on proposed network optimization and service standards changes. Finally, cross-functional work groups at the Postal Service will continue assessing stakeholder concerns and developing mitigation strategies, where possible, for consideration as the process and proposal evolve.

17. How is the Postal Service communicating its proposed plans on plant and BMEU consolidations and closings?

The proposed network optimization and service standards changes are being communicated through many channels, including: USPS.com; aboutusps.com (<http://about.usps.com/news/facility-studies/welcome.htm>); RIBBS; the Area Mail Processing (AMP) public input meeting and solicitation process, and the Federal Register notice, and meetings with stakeholders.

18. What is the plan for communicating service standard and label list changes?

A formal notice of service standard changes and request for an advisory opinion will be filed with the Postal Regulatory Commission (PRC). Label list changes would coincide with the established structured release cycle, and would be published on [pe.usps.com](http://pe.usps.com) just as they are today.

19. Does the Postal Service have an "implementation readiness team"?

Yes. A cross-functional steering committee has been established for this purpose, as well as an implementation work team that includes representatives from customer outreach functions whose role is to ensure that customer needs and concerns are considered during the development of the proposed implementation plan.

20. Has the Postal Service considered how the elimination of overnight service might affect mail volume?

Market research on this issue is being conducted with household, small business and bulk commercial First-Class Mail users to obtain their views and reactions to the potential impact of eliminating overnight service, and whether they see any potential benefits.

21. Would large FCM mailers still be able to arrange overnight service?

Under the proposal, no First-Class Mail would have an overnight service standard. As is the case today, it is possible under the proposed standards that Caller Service customers will be able to retrieve mail the day before its delivery would otherwise be expected to be made to a Post Office Box or street address.

22. Would daily newspapers — accustomed to same-day delivery — lose overnight delivery if these changes are made?

Under the proposal, no Periodicals mailers would have a same-day or overnight service standard. To have their mailings reach recipients on specific delivery days, mailers — including daily newspapers -- may have to restructure their production cycles to align with new critical entry times and a reduced number of entry points.

23. Has the Postal Service considered the amount of potential revenue loss that may result from this proposal?

The potential impact of the proposal, including the potential impact to revenue, is currently being evaluated. Analysis of the information gained through the market research that has been conducted with consumers and commercial mailers, as well as feedback from the Advance Notice of Proposed Rulemaking, will help to inform the Postal Service's assessment of the potential effects of the proposed actions.

24. Doesn't this proposal (and the actions contemplated by it) negatively affect the Postal Service brand?

By working with stakeholders and engaging all segments of the mailing community in refining the proposal, the Postal Service is confident that actions taken as a result will actually *benefit* the brand in the long run. The proposal's overarching goal is to adjust the mail processing network so that it is more flexible and better aligned with the reality of changing needs and habits of American mailers and consumers, as reflected in today's mail volumes and those anticipated for the future. The proposed network and service standards changes are intended to lead to more reliable service and more stable prices for postage payers. The sweeping changes laid out in this proposal are being carefully considered; ultimately, bold and sometimes difficult moves will be required to ensure the Postal Service's long-term ability to give customers consistent, top-quality service that over time will increase the value of the Postal Service brand.

### **Pricing / Preparation / Drop ship**

25. Will the industry receive specific and timely information about network and pricing changes so that mailers have the data needed to make some hard decisions?

The Postal Service's January 2012 pricing changes will be implemented before any proposed service standard and operational changes would be made as a result of the network optimization plan. Network optimization will be an ongoing process, and the Postal Service will provide mailers as much advance notice as possible about network changes. Pricing changes corresponding to network optimization wouldn't be expected until after related service standard and operational changes are implemented.

26. Would the Destination Network Distribution Center/Destination Sectional Center Facility/Destination Delivery Unit structure still exist once plant closings commence? What would be the difference in price structure between drop ship and zone ship?

The Network Distribution Center (NDC), Sectional Center Facility (SCF) and Destination Delivery Unit (DDU) structure is being evaluated. Potentially, there may be a modified pricing structure in 2013. That will be determined after the network changes are defined.

27. What is the plan to mitigate the impact on origin/destination workshare discount, turnaround mail, and entry times?

The proposed operating plan is modeled for SCF/3-digit containers in by 8 a.m. (this is mail that must be worked to a 5-digit ZIP code or carrier route). The operating plan is also modeled for Delivery Point Sequencing (DPS) to start at noon for 5-digit or 5-digit scheme mail.

28. Would mail preparation requirements change?

Yes. Fewer entry points and mail processing facilities would reduce complexity and ultimately simplify mail preparation and separations needed to process the mail.

29. Would the proposal result in zone-based pricing changes?

Possibly. Commercial mailers who use products that have zone-based pricing could see price changes if the locations at which they currently enter mail are eliminated and the nearest available locations are within different 3-digit ZIP Codes.

30. Some mailers have come to expect overnight service within their city; if the proposed changes are made, will discounts be offered (before 8 a.m.)?

This is being evaluated.

31. Would the same separations be required?

No. New separations would be based on operational territorial configurations.

32. Would a HUB structure still exist to maintain induction/consolidation for drop shipments?

This is being evaluated. A modified structure is possible.

33. How would this affect drop ship times?

Although it is too early to identify *exactly* what the impact would be on drop ship times, in general they could be earlier.

34. Would First-Class Mail be included as a drop ship option?

This concept — which would have both pricing and service implications — is being evaluated.

35. Would there be enough FAST appointments to accommodate drop ships?

Every effort would be made to ensure that a sufficient number of FAST appointments are available to accommodate drop ships.

### **Mail entry / Acceptance**

36. How many Business Mail Entry Units (BMEUs) are located inside the processing facilities being studied?

BMEUs are located in many processing facilities nationwide, and in virtually all of the plants that will be studied. During the study phase, the Postal Service will determine how to best manage the potential impact on business mailers. Possible solutions may include increasing acceptance at mailer facilities, or moving mail acceptance to other local postal facilities.

37. Would entry procedures be different at the "optimized" plants?

Facilities are expected to be able to handle the volume they would receive, particularly as greater standardization – and thus consistency – is made possible with fewer entry points and acceptance personnel.

38. How would these changes affect BMEU locations and hours? And assuming there would be more mail entered at fewer locations, could the BMEUs handle the load?

Decisions about BMEU hours and locations would be based on an analysis of workload and suitable acceptance locations and hours. Assuming mail processing is moved from various sites, BMEUs will still be available at some consolidated sites and/or at other nearby postal facilities. The Postal Service will work with mailers to assess the impact and develop viable solutions. Acceptance and verification procedures are already being reviewed with the mailing industry in a joint effort to simplify and improve these processes. Workloads and operating windows will also be reviewed and adjusted as necessary.

39. Did the Postal Service consider the impact of the proposed changes on *how* customers would have to make their mailings?

Yes, and it will continue to do so, which is why it is so important for customers to provide feedback throughout this process. The network study will include a full review of current acceptance operations at impacted facilities, including the number of potentially impacted mailers, the number of accepted mailings, and related logistics.

40. Would customers have to move their mailing permits if a facility is closed?

Every effort would be made to avoid situations where customers would have to move their mailing permits. However, it is likely that in some cases customers might be required to move their permits or open new permits.

41. Would customers have to pay for new permits if their permits are moved?

In general, the plan would be for customers to be able to move existing permits at no cost.

42. How would the Postal Service mitigate congestion issues that would be likely to occur once the BMEUs and DDUs that remain open start dealing with larger entry volumes?

Facilities are expected to be able to handle the volume they would receive, particularly as greater standardization – and thus consistency – is made possible with fewer entry points and acceptance personnel. Workloads and operating windows will be reviewed and adjusted as needed, and facility capacity will be considered as a part of the network optimization study.

43. Would BMEU operational hours change if a facility is impacted?

Some BMEU operational hours may change as a result of the network optimization.

44. Who can answer technical questions for mailers, such as whether more binding lines need to be used, and more destinations for printing?

Because information is still being gathered during the study phase of this process, it would be premature to try to provide definitive answers to specific technical questions. During the study phase, guidance will generally be limited to the information provided through public channels. After the study phase concludes, District Managers and BMEUs should be able to respond to specific questions relating to impacted facilities within their control.

45. Would BMEU customers impacted by the network optimization continue to have resources available to assist them?

Yes. Local and District BME postal staff will provide assistance throughout the process to ensure all customer questions are answered and issues addressed.

### **Miscellaneous**

46. How would the proposed network changes impact remittance mail?

Based on the changes proposed to the processing window, in some instances mail volumes would be finalized earlier, which would benefit customers who use Caller Service to retrieve mail at the plants. Post-consolidation, facilities that process significant remittance volume would have equipment specifically dedicated to running remittance sort plans during the hours the plant is operational; Advanced Facer Canceled System (AFCS) 200 technology would also be integrated.

47. Does the proposal take into account legal requirements imposed on financial institutions by, for example, the Credit Card Accountability Responsibility and Disclosure Act of 2009?

The Postal Service will ensure that representatives of the financial industry are aware of potential postal operational changes so they can assess the potential impact of these changes on financial institutions' ability to comply with legal and regulatory requirements, and consider any necessary mitigation.

48. Does the proposal require approval by Congress?

No. However, the Postal Service has provided information about the proposal to Members and staff, and held numerous briefings with them. The Postal Service is required to request a non-binding advisory opinion from the Postal Regulatory Commission (PRC) a reasonable time before implementing a nationwide service change, and it will do so in this case.

49. How would the proposal affect the Postal Service's fuel costs?

The effect would be positive. The proposed operating environment would require less transportation, not just for the Postal Service, but also for mailers who drop ship. Total miles traveled would be reduced because fuller trucks with denser containers would be going to fewer facilities.