

**STATEMENT OF
CHIEF INFORMATION OFFICER AND EXECUTIVE VICE PRESIDENT
JAMES P. COCHRANE
BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE,
U.S. POSTAL SERVICE AND THE CENSUS
UNITED STATES HOUSE OF REPRESENTATIVES**

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Good morning, Chairman Farenthold, Ranking Member Lynch, and members of the Subcommittee. Thank you, Chairman Farenthold for calling this hearing on Examining Innovative Postal Products for the 21st Century. My name is James P. Cochrane, and I serve as Chief Information Officer (CIO) and Executive Vice President of the United States Postal Service. I am pleased to discuss this matter, as it is very important to the Postal Service, and one that resonates with me personally. I oversee the integration of technology innovation in all aspects of our business. I direct the advancement of new mail intelligence and the analytics it enables, engineering systems, information technology systems, payment technology, and corporate information security to meet the rapidly changing needs of today's marketplace.

During my 39 years with the Postal Service, I have developed a broad perspective on the business, how we serve the marketplace, and our customers. This business acumen is essential as technology now plays a foundational role in virtually every postal product and service. Emerging technologies, while exciting, also often challenge us with their potentially disruptive effect. Effectively traversing this emerging continuum is my responsibility and a matter of survival for the Postal Service.

The Postal Service operates one of the largest technology infrastructures in the world. It is supported and co-developed by some of the most respected technology companies, as well as many small businesses that bring fresh insights.

Our goals are simple. Every day we focus on how we can innovate with technology and explore new partnerships to generate revenue, reduce expenses, deliver consistent reliable service, and provide a world-class customer experience.

Though our goals are simple, our business model is both complex and diverse. The role of the Postal Service in American life and business is changing. More than ever, citizens are using a wide range of technologies to communicate, transact business and shop. The changing landscape of technology presents the Postal Service with both opportunities and challenges—it must evolve to support the needs of the nation and remain relevant. To meet this challenge, our organization is undergoing transformation in both cost cutting and revenue growth. We are seizing opportunities for revenue growth by developing new products and services, embracing technology, and highlighting the strength and relevance of the Postal Service now and in the future.

To capture ideas internally, we have developed an innovation pipeline process that examines how we could expand or simplify services at induction points, capitalize on e-commerce and enhance route productivity, enhance our physical network, and leverage our brand to provide digitally enabled tools [Figure 1]. We are currently working on new offerings developed through this process with plans to bring some to market this summer.

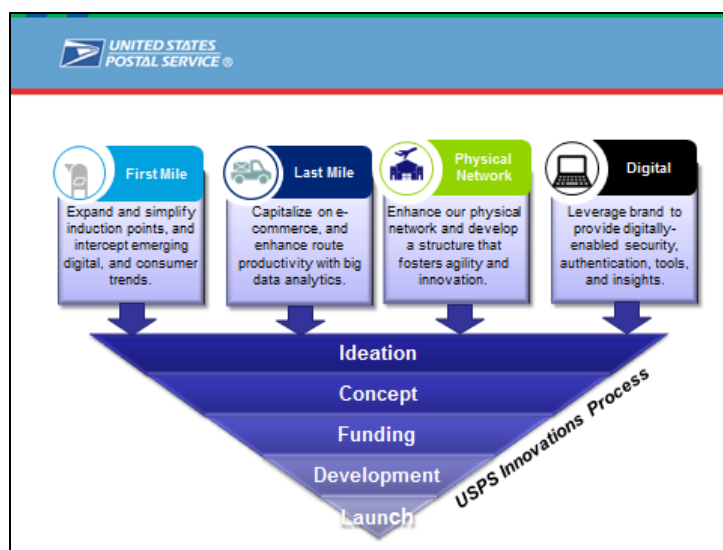


Figure 1

WORKING WITH TECHNOLOGY INNOVATORS

The Postal Service is committed to evolving our products and services to meet the needs of our customers, whether consumers, small businesses or large commercial mailers. Innovation is a collaborative effort. We work closely with our customers to meet their needs, address issues and problems, and develop solutions that work best for them and the Postal Service. Working together, we can remove roadblocks and develop mutually beneficial solutions that often spark growth in certain sectors of the mailing industry.

On the local level, Postal Customer Councils bring postal representatives together with customers, particularly small businesses, in towns and cities across the country. On the national level, the Mailers' Technical Advisory Committee meets quarterly to discuss product and service enhancements and innovations. The group includes Postal Service executives and managers as well as representatives from all major mailing groups, from package shippers to Periodicals mailers. In addition, the Postal Service regularly meets with representatives of mailing associations. All of these customers are knowledgeable about Postal Service capabilities and provide essential input as we work to develop new products.

Several innovations have resulted from this consultative process, including Intelligent Mail barcodes, cubic pricing, and a mailing promotions calendar that encourages mailers to integrate hardcopy mail with digital technology such as QR codes or augmented reality. Our goal is to provide customers with choices and solutions that can contribute to their business success through using the mail.

Through the Postal Service's workshare programs, we have shared the responsibility for efficiency and innovation with business partners. This collaborative model is guided by the premise that our profits and brand are enhanced when our partners are profitable and our joint customers receive an increased value proposition. Printers, software

vendors, mail service providers, transportation companies and parcel integrators all play a vital role, and together we have built an industry around market needs [Figure 2].

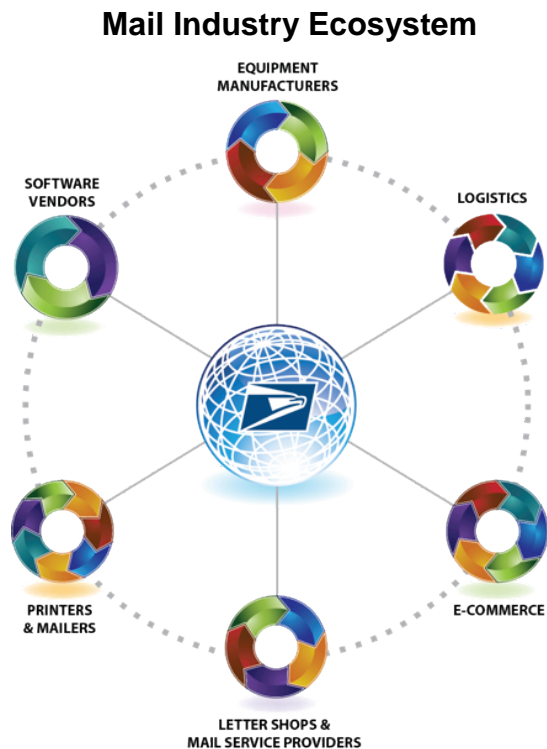


Figure 2

At times, the Postal Service also seeks to develop key strategic relationships to gain insight into emerging technologies that can enhance existing products or lead to development of new products and services. Whether the ideas are unsolicited or sought, the evaluation criteria remain the same. We focus on adopting ideas, concepts, products, services and technologies that align with our business model and help us meet the needs of a changing marketplace.

We welcome creative ideas from individuals, companies, and entrepreneurs regarding new business concepts and technologies. Our Unsolicited Proposal Program (UPP) provides the public a venue to submit new technologies or ideas to advance the mailing industry. Postal Service Publication 131, *The Postal Service Unsolicited Proposal Program*, defines the types of information we will review and specifies how to present the information. The publication can be found online at

<http://www.usps.com/innovations>. In order to be adopted, these ideas must align with the Postal Service's mission, have a clear path to profitability and generate postal revenue. And they must not damage our respected brand or conflict with existing products or services. The Postal Service receives many submissions of ideas, some of which are not new to us or that we are prevented by law from pursuing.

Innovation in the Package Business

The Postal Service sees the greatest potential for growth in packages and we have worked hard to increase our presence in the package business. Disruption in the highly competitive package market is an excellent example of how customer demands evolve and we adapt. Driven by e-commerce—and in particular, free shipping—there has been a dramatic shift to more ground-based solutions.

Parcel Select is the innovative product the Postal Service developed to answer this market demand. It is a workshare program that leverages the world-class processing and transportation networks of consolidators, such as Newgistics, with the unmatched reach of our delivery network, providing a great customer solution. Parcel Select also enables the concept of coopetition, where United Parcel Service (UPS) and FedEx provide network logistics, and the Postal Service provides the last mile service, creating a win-win for shippers and consumers.

Priority Mail provided another opportunity for the Postal Service to gain market share in the lucrative shipping industry. Through innovative solutions, such as the Priority Mail Flat Rate Box—supported by our national “If It Fits, It Ships” marketing campaign—we grew our package business substantially among consumers and small businesses. The introduction of the Priority Mail Flat Rate Box and our ability to offer customized solutions also helped solidify the Postal Service's relationship with hundreds of thousands of small business owners that make up the eBay marketplace.

To further capture package growth, we designed and launched a new Priority Mail product line last year, offering our customers a simpler and smarter way to ship and track their packages. Changes to the Priority Mail portfolio include features, such as improved USPS Tracking, day-specific delivery, and free insurance coverage against loss, damage or missing content, ranging from \$50 to \$100. The Postal Service is simplifying our expedited product line, adding value and remaining competitive in the shipping marketplace to capitalize on the e-commerce boom and grow our package business.

Last year, we launched a strategic partnership with Amazon to test Sunday package delivery in select markets. This value-added service, which utilizes dynamic routing technology, was implemented in time for the 2013 holiday mailing and shipping season. Since launched, millions of packages have been delivered on Sundays to Amazon customers. With an expansion announced earlier this month, the Postal Service now delivers packages on Sundays for Amazon in 15 cities—with plans to continue to roll out to a large portion of the U.S. population this year. Due to overwhelming interest, we are currently exploring similar partnerships with other companies.

We also currently have a market test underway in New York City for Metro Post, an innovative premium delivery service product designed to improve the e-commerce experience for customers shopping online by offering same-day delivery service for certain purchases.

The package market is dynamic and continues to offer the Postal Service opportunities to respond with innovative solutions. The new norm includes expectations that the Postal Service has embraced and strategically launched to enhance our package product offerings—same day delivery, Sunday delivery, parcel lockers, delivery customization, and constant real-time tracking. Consumers are demanding these new services without an increase in cost, requiring that we again adapt or face irrelevance.

Innovation in the Mail Business

Through Intelligent Mail barcodes and financial incentives for mobile optimized mail, we are creating both a digital reflection for hard copy and a digital action for response. We are building new digital products that will leverage our brand attributes of privacy, security and trust. Recently, we gave postage discounts to businesses that use digital technology in their marketing campaigns. For example, businesses received a two percent discount on postage for commercial Standard Mail and First-Class Mail letters and flats that included a mobile barcode that could be read or scanned by a mobile device. More than 620 million mail pieces were part of this promotion in just two weeks.

We also helped businesses integrate mobile coupons and click-to-call technology into their direct mail. When consumers scan these codes with a mobile device, they are taken to a coupon or deal on their phone, or are connected to the business through a phone call. The Postal Service also offered our Second Ounce Free service, which allows businesses to insert promotional pieces in their bills and correspondence at no extra charge.

The Postal Service is working with small businesses to enhance the value of advertising mail by making it easier and more convenient for them to use. We are providing them with simpler tools and products, such as Every Door Direct Mail (EDDM), a Standard Mail product with simplified addressing and acceptance requirements. EDDM eliminates barriers that previously stood in the way of local retailers and businesses incorporating mail as an integral part of their marketing strategy by allowing them to reach current and potential customers effectively and affordably.

We enhanced several features of the service last year, including an online mapping tool that helps businesses select the neighborhoods, cities and ZIP Codes they wish to target. Users can pay for their mailing online or at a Post Office. Since we launched EDDM in 2011, it has become one of our most popular products and generated more than \$1 billion in revenue. EDDM is especially popular among retailers and merchants

who use it to place coupons, menus and promotional calendars into the hands of potential customers.

Developing Digital Solutions

The Postal Service is bringing the strengths of our physical network, IT infrastructure and foundation for privacy and security to the digital world. The Postal Service's digital efforts will also leverage the expertise of the Postal Inspection Service, one of the nation's oldest federal law enforcement agencies. Our goal is to ensure that customers can conduct secure digital communications and online business transactions.

One of our first initiatives is a joint effort with the White House, National Institute of Standards and Technology (NIST), General Services Administration (GSA) and other Federal agencies. The Federal Cloud Credential Exchange (FCCX) is part of the Federal Government's vision of making its online transactions safer, faster and more private. It is a solution that will make it easy for individuals to use their credentials from an approved external service to access Federal websites. The Postal Service is responsible for implementing the technical solution, launching the program, and evaluating its success.

In addition, we continue to explore and research the market opportunity for innovative solutions that can link hardcopy mail to the digital world. Taking into account the experience of foreign posts and several start-up companies, whose efforts in providing digital mail have proved financially unsuccessful, the Postal Service believes consumer demand for this type of service is not sufficient at this time to launch an enterprise-wide digital mail product.

Usps Financial Condition and Need for Legislative Reform

No discussion about the Postal Service is complete without acknowledging our dire financial condition and the urgent need for legislative reform. The Postal Service last

testified before the Subcommittee in March at a hearing on the Postal Service's unfunded liabilities. We emphasized our Fiscal Year (FY) 2013 net loss of \$5 billion and liabilities of \$61 billion. On May 9, 2014, we released our FY 2014 Quarter 2 financial results, which reported our 2014 year-to-date net loss at \$2.2 billion.

Our financial woes continued despite implementing a number of cost-cutting efforts that are within our ability to adopt. These actions have included reducing our career employee complement by more than 200,000, without resorting to layoffs, and consolidating nearly 24,000 delivery routes, despite adding nearly seven million new delivery points. We have also consolidated 350 mail processing plants—reducing our processing footprint by one-third—consolidated more than 2,400 Post Offices and adjusted staffing and hours at more than 8,700 Post Offices to two, four, or six hours per day. Because of these combined actions, we have captured \$15 billion in annual expense reductions over the last seven years.

Despite the Postal Service implementing these strategies, the combination of onerous mandates in existing law and continued First-Class Mail volume declines threatens the organization's financial viability. There exists no scenario where the Postal Service returns to financial stability without enactment of postal reform legislation. Initiatives undertaken by postal management will not, by themselves, be sufficient to ensure both immediate and long-term financial stability. Congressional action is necessary.

The legislative requirements put forward by the Postal Service, as outlined in our 2013 *Five-Year Business Plan*, include:

- Require within the Federal Employees Health Benefit (FEHB) Program, a set of specific health care plans that would fully integrate with Medicare and virtually eliminate the retiree health benefits (RHB) unfunded liability.
- Refund FERS overpayment and adjust future FERS payment amount using postal-specific demographic and salary growth assumptions.
- Adjust delivery frequency (six-day packages/five-day mail).

- Streamline governance model and eliminate duplicative oversight.
- Provide authority to expand products and services.
- Require defined contribution retirement system for future postal employees.
- Require arbitrators to consider the financial condition of the Postal Service.
- Reform Workers' Compensation.
- Allow the Postal Service the right to appeal EEOC class action decisions to Federal Court.

As outlined above, one of our legislative requirements refers to the authority to expand products and services. The Postal Service must be allowed the authority to establish new revenue sources and respond to customers' changing needs for postal products and services. Such changes are vital to our ability to grow revenue, leverage our strengths, and innovate.

The Postal Service continues to make great strides in adapting to the nation's changing mailing and shipping needs. Innovative new products and services are the cornerstone of those changes. However, our efforts are severely limited by a statutorily-mandated, restrictive business model. We have the responsibility to provide and fund universal service for the nation, but we do not have sufficient authority or flexibility to efficiently carry out that mandate. The Postal Service has exhausted its borrowing authority, faces massive unnecessary unfunded liabilities, and is constrained in how far it can go to bridge the massive gap between revenues and expenses. Postal reform legislation is urgently needed.

As Congress continues its work on comprehensive postal reform legislation, our hope is that such legislation would not place further restrictions on our ability to innovate and compete. The business environment the Postal Service operates within requires us to compete vigorously, however we also compete fairly, consistent with legal mandates requiring fair competition. Among those mandates is a provision that governs how we compete with entities over which we also exercise regulatory authority. For instance, we regulate the provision of PC Postage to ensure that we are paid for the postage

indicia that is being produced. Current law requires that we conduct such regulatory activities in a manner that ensures fair competition, while still allowing us to compete with PC Postage vendors through products such as Click-N-Ship. Such competition is good for the consumer and should be encouraged.

Mr. Chairman, we look forward to continuing to work with you and the rest of the Subcommittee to accomplish meaningful postal reform legislation and to continue to deliver innovation to the American public.

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