



Issue 9

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MESSAGE FROM SUSAN M. BROWNELL, VICE PRESIDENT, SUPPLY MANAGEMENT, USPS

Dear USPS Supplier Community:

First, I want to thank you, our valued suppliers, for your outstanding efforts and cooperation as the U.S. Postal Service (USPS) actively addresses very significant challenges. Your efforts, combined with those of your USPS colleagues, are making a difference and are greatly appreciated. Going forward, I want you to have a clear understanding of USPS' challenges and how we are working to remedy them to ensure a viable Postal Service. Now, more than ever, in addition to your products and services that help us deliver the mail, we need our suppliers to be flexible, cost efficient, and innovative as we transform the USPS.



On September 6, Postmaster General, CEO Pat Donahoe testified before the U.S. Senate Committee on Homeland Security and Governmental Affairs about the U.S. Postal Service's serious financial condition, actions we believe would help ensure the future of our nation's postal system, and actions which must be supplemented by Congressional decisions to address areas outside USPS' control.

“The Postal Service is in a crisis today because it operates within a restrictive business model and has limited flexibility to respond to a changing marketplace,” Donahoe said. “We need the ability to operate more as a business does. This applies to the way we provide products and services, allocate resources, configure our retail, delivery and mail processing networks, and manage our workforce.”

The combination of weak economic conditions and diversion to electronic forms of communications continues to result in significant declines in the use of First-Class Mail and weakness in the use of Standard Mail. Future mail volume projections show this trend continuing, requiring even greater efforts to reduce costs.

“We do not currently have the flexibility in our business model to achieve all of these cost reductions. To do so, the Postal Service requires the enactment of comprehensive, long-term legislation to provide it with needed flexibility,” Donahoe added.

Specifically, legislation is needed that would do the following:

- Resolve a unique law requiring the Postal Service to make \$5.5 billion annual payments to prefund future retirement health benefits (RHB)
- Return \$6.9 billion in Federal Employees Retirement System (FERS) overpayments
- Grant the Postal Service the authority to determine delivery frequency
- Allow the Postal Service to restructure its healthcare system to make it independent of federal programs
- Grant the Postal Service the authority to provide a defined contribution retirement plan for new hires, rather than today’s defined benefit plan
- Streamline the process for product development and pricing.

Although we have achieved cost reductions totaling \$12 billion over the last four fiscal years – results that any company would be proud to claim – we are not slowing down. The Postal Service has a well-supported strategy going forward to build on the successes of the past decade. As always, the focus remains on all areas under our direct control. We have gathered together a number of efforts under the umbrella of Network Optimization. These actions, occurring simultaneously across the organization, will combine to bring the Postal Service to its goal of reducing costs by \$20 billion [Figure 1] to earn a profit in 2015, rather than losing \$16 billion as forecasted under the current cost and revenue base. The 2015 profit, of as much as \$4 billion, will be used to pay down debt and invest for the future, particularly in delivery vehicles.

\$20B Of Cost to be Eliminated by 2015 (\$ Billions)

Operations:	
Network: Sortation & Transport	\$3.0
Retail	\$1.5
Delivery	\$2.0
	<u>\$6.5</u>
Legislative Changes:	
RHB Pre-Funding Resolved	\$5.5
Five-Day Delivery	\$3.0
	<u>\$8.5</u>
Compensation & Benefits:	
Flexibility, Benefits, Wages	\$5.0
Total Potential Savings	\$20.0

Figure 1 - DISCUSSION DRAFT Aug 21, 2011

Improvements in Operations consist of a variety of initiatives, such as:

Streamlining our Network of mail processing facilities (see next article)

- Going from 508 processing locations today to approximately 200
- Reduction of career employee complement by 35,000 positions
- Potential annual savings of \$3 billion

Modifying Delivery routes (apart from five-day delivery)

- Involves eliminating approximately 20,000 city routes out of 144,000
- Reduction of employee complement by 22,000 positions
- Potential annual savings of \$2 billion

Retail network changes

- Reviews of Post Offices; total of 15,000 offices will be reviewed
- Potential annual savings of \$1.5 billion
- Enhancing and expanding alternate access sites, including Village Post Offices and *usps.com*
- Exploring franchising

Modifying service standards

- Revision of First-Class Mail (FCM) service standards and entry times
- FCM Standards move from 1-3 days to 2-3 days
- Allows for longer operating windows, which means less equipment needed, fewer facilities needed, and fewer work hours used.

We realize that these initiatives have impacts on many of our suppliers and that you are a critical component in making the implementations a success. Each initiative is being carefully planned and includes outreach to the supply base as early as possible to coordinate the necessary contracting requirements.

Our stated goal is to reduce annual costs by \$20 billion over the next three years, ultimately driving costs down to under \$60 billion per year with a streamlined workforce of approximately 425,000 employees. On September 30, the Postal Service will reach its statutory \$15 billion borrowing limit. Mr. Donahoe told members of Congress **we are committed to paying our employees and our suppliers first**, but without changes to the law, we will be unable to maintain the aggressive Retiree Health Benefits (RHB) pre-funding schedule set forth in the Postal Accountability and Enhancement Act (PAEA).

We want you to know this will not affect mail delivery or postal operations. The Postal Service will continue to deliver the mail as it has for more than 200 years.

Again, I thank you for providing your products and services, as well as your fresh ideas, that will help us deliver the mail now and in the years ahead.

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USPS PROPOSES COMPREHENSIVE CHANGES TO NATIONWIDE INFRASTRUCTURE

Faced with a massive nationwide infrastructure that is no longer financially sustainable, on September 15 USPS proposed sweeping changes designed to save the organization up to \$3 billion a year by cutting its network of processing facilities by over half and adjusting service standards.

Proposals under consideration include studying nearly 250 processing facilities for possible consolidation or closure, reducing mail processing equipment by as much as 50 percent, dramatically decreasing the nationwide transportation network, adjusting the workforce size by as many as 35,000 positions, and revising service standards for First-Class Mail.

“We are forced to face a new reality today,” said PMG Pat Donahoe. “First-Class Mail supports the organization and drives network requirements. With the dramatic decline in mail volume and the resulting excess capacity, maintaining a vast national infrastructure is no longer realistic.”

Mail volume has declined by more than 43 billion pieces in the past 5 years and is continuing to decline. First-Class Mail has dropped 25 percent and single piece First-Class Mail — letters bearing postage stamps — has declined 36 percent in the same timeframe, and nearly 50 percent in the past ten years. The decline has created substantial excess capacity within the postal processing network.

The mail processing network itself was constructed to process and deliver First-Class Mail within a 1-3 day window depending on where the mail is sent and delivered. With the proposed change, the new service standard would become 2-3 days, meaning that on average, customers would no longer receive mail the day after it was mailed. If implemented, the change in service standards would allow for significant infrastructure changes to be made across the nation.

“Our employees continue to do a terrific job for our customers and are among the most dedicated workforce anywhere,” said Donahoe. “These are difficult times and our announcement today does not reflect on their commitment to service.”

An “Advance Notice of Rulemaking” pertaining to the proposed overnight service standard changes was submitted to the “Federal Register” on September 15. The Postal Service intends to file with the Postal Regulatory Commission this fall.

For an electronic news kit containing the list of processing facilities being studied, the advance notice submitted to the “Federal Register” and additional information, please query “Our Future Network” at <http://about.usps.com/news/electronic-press-kits/our-future-network/welcome.htm>.

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SUPPLY MANAGEMENT REDESIGN UPDATE

The U.S. Postal Service recently announced its organizational redesign aimed at becoming a more profitable, nimble, and market-responsive organization. Supply Management further expanded on this effort by optimizing the supply chain through consolidating and centralizing supply chain management activities and realigning related commodities and portfolio teams into five new categories or portfolios: Technology Infrastructure, Transportation, Commercial Products & Services, Facilities, and Mail & Operational Equipment.

The information below highlights the realignment of our commodities and portfolio teams. More information may be obtained by querying “What We Buy & Who Buys What” at <http://about.usps.com/suppliers/buying.htm>.

Technology Infrastructure Portfolio

- ◆ Information Technology (IT) Software, Services, & Retail Systems
- ◆ Information Technology (IT) Computer Hardware
- ◆ Telecommunications (Data, Voice, & Wireless)

Transportation Portfolio

- ◆ Air Transportation
- ◆ Fuel Management
- ◆ Surface Transportation

Commercial Products & Services Portfolio

- ◆ Advertising & Creative Services
- ◆ Consumer Retail & Licenses
- ◆ Contract Postal Access Channels (CPAC) & Alternate Access Channels
- ◆ Employee & Medical Services
- ◆ Financial & Accounting Services
- ◆ Miscellaneous Services
- ◆ Packaging & Fulfillment
- ◆ Printing & Fulfillment
- ◆ Professional Consulting Services
- ◆ Sustainability & Environmental Services
- ◆ Technical Services
- ◆ Temporary Services
- ◆ Training

Facilities Portfolio

- ◆ Building Operational Services (BOS)
- ◆ Cleaning Services
- ◆ Construction
- ◆ Facility Equipment & Signage
- ◆ Facility Repairs & Alterations
- ◆ Facility Security & Safety
- ◆ Food Service Operations
- ◆ Pest Control Services
- ◆ Snow Removal & Landscaping Services
- ◆ Total Solid Waste Management (Recycling & Trash Removal)
- ◆ Window Washing Services
- ◆ Utilities
- ◆ Window Cleaning Services

Mail & Operational Equipment Portfolio

- ◆ Automation Spare Parts & Repair Centers
- ◆ Biohazard Detection Equipment
- ◆ Delivery Equipment
- ◆ Field Material Handling Solutions
- ◆ Flats Automation Equipment
- ◆ Industrial Equipment
- ◆ Letter & Automation Equipment
- ◆ Mail Recognition & Visibility Systems Technology
- ◆ Mail Transport Equipment (MTE)
- ◆ Mail Transport Equipment Service Centers (MTESCs)
- ◆ Maintenance, Repair, & Operations (MRO) Supplies
- ◆ Material Handling Deployment
- ◆ Office Supplies &

- ◆ Travel, Relocation, & Event Services

- ◆ Equipment
- ◆ Vehicle Acquisition (Purchasing & Leasing)
- ◆ Vehicle Parts, Automobile Batteries, & Maintenance

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NATIONAL OFFEROR'S LIST TO BE RETIRED SEPTEMBER 30

The U.S. Postal Service (USPS) routinely issues solicitations for contract delivery and mail transportation service. Effective October 1, 2011, the majority of these solicitations will be posted **exclusively** on the USPS eSourcing Portal as the National Offeror's List will be officially retired. The eSourcing Portal allows suppliers to download solicitations and place offers electronically.

If you are interested in contract opportunities with the Postal Service and would like to continue to receive notice of solicitation postings, you must register your organization on the USPS eSourcing solution. You will no longer receive routine notifications of posted solicitations. The eSourcing Registration Guide can be found at:
<http://about.usps.com/suppliers/becoming/registration.htm>.

This new systematic approach is by invitation only. Suppliers not registered in the USPS eSourcing application cannot receive an invitation to participate in a solicitation. Registering in the application eliminates the need to call or inquire about any given solicitation.

Please take a few minutes to register your company at the following address:
<http://uspseourcing.emptoris.com>. Click on the "Register Supplier Organization" link at the top right, and follow the instructions and prompts to complete your registration. You will need a DUNS (Dun & Bradstreet) number and NAICS (North American Industry Classification System) code to register in USPS eSourcing. The special toll-free number to obtain a DUNS number is 1-866-705-5711 and following the prompts for federal government contractors. More information can be found by querying "How to Become a USPS Supplier" at
<http://about.usps.com/suppliers/becoming.htm>.

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U.S. Postal Service Institutes Cash Conservation Plan *Payment to FERS Suspended*

The U.S. Postal Service has informed the Office of Personnel Management (OPM) of its intention to suspend its employer's contributions for the defined benefit portion of the Federal Employees Retirement System (FERS) to conserve cash and preserve liquidity. The Postal Service has a FERS account surplus valued at \$6.9 billion.

"We will continue to transmit to OPM employees' contributions to FERS and also will continue to transmit employer automatic and matching contributions and employee contributions to the

Thrift Savings Plan,” said Anthony Vegliante, chief human resources officer and executive vice president.

The Postal Service pays about \$115 million every other week to OPM for the FERS annuity. Suspension of payments, effective June 24, will free about \$800 million in the current fiscal year.

The Postal Service continues to cut costs significantly with initiatives to reduce the size of its labor force, the number of mail processing facilities and administrative overhead. Over the last four fiscal years, the Postal Service has reduced its size by 110,000 career positions and saved \$12 billion in costs.

The Postal Service also is generating new revenue by opening cost-effective new retail locations in places where people already shop, including grocery stores, drug stores and office supply stores, and introducing other new product and pricing initiatives.

Despite significant cost reductions in areas within its control, and even with this emergency action, the Postal Service needs Congress to enact legislation that would do the following to return the Postal Service to financial stability:

- Eliminate the current mandates requiring retiree health benefit pre-payments.
- Allow the Postal Service to access Civil Service Retirement System and FERS overpayments.
- Give the Postal Service the authority to determine the frequency of mail delivery.

The Postal Service receives no tax dollars for operating expenses, and relies on the sale of postage, products and services to fund its operations.

We're everywhere so you can be anywhere <http://www.uspseverywhere.com/>

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A self-supporting government enterprise, the U.S. Postal Service is the only delivery service that reaches every address in the nation, 150 million residences, businesses and Post Office Boxes. The Postal Service receives no tax dollars for operating expenses, and relies on the sale of postage, products and services to fund its operations. We're everywhere so you can be anywhere: <http://www.uspseverywhere.com/>. With 32,000 retail locations and the most frequently visited website in the federal government, usps.com, the Postal Service has annual revenue of more than \$67 billion and delivers nearly 40 percent of the world's mail. If it were a private sector company, the U.S. Postal Service would rank 29th in the 2010 Fortune 500. Black Enterprise and Hispanic Business magazines ranked the Postal Service as a leader in workforce diversity. The Postal Service has been named the Most Trusted Government Agency six consecutive years and the sixth Most Trusted Business in the nation by the Ponemon Institute.

DID YOU KNOW?



**USPS receives
no federal
tax dollars
for its
operations.**

ARE YOU REGISTERED TO DO BUSINESS WITH THE U.S. POSTAL SERVICE?

More than 6,000 suppliers have registered since our launch of the Supplier Registration site in July 2009.

All suppliers interested in doing business with the U.S. Postal Service should register their company in the Postal Service Supplier Registration system.

For more information, please go to
<http://about.usps.com/suppliers/becoming/registration.htm>.

CONTACT US!

We value your questions and feedback to this newsletter. Please feel free to reply to this message with your feedback or mail to:

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