

## **Executive Summary**

For 36 years, the Postal Service's business model, established by the Postal Reorganization Act of 1970 (PRA), worked very well for customers, employees, and the nation. The Postal Service was able to charge affordable prices and use the revenues from those prices to provide mail service to all areas of the country, charging the same prices regardless of cost of delivery. It was able to cut costs, improve service, provide innovative workshare options, and continually improve productivity.

While the intent of the Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006) was to give the Postal Service more flexibility to manage its products, it put the bulk of the Postal Service's revenue generating products under a stringent price cap and gave the Postal Service no additional ability to control its costs. An underlying presumption of the Postal Act of 2006 was that mail volume would continue to grow. That premise has proven false. The combination of the recession and electronic diversion has led to a significant decline in total volume, including a substantial decline in First-Class Mail, the highest-contribution product. The Postal Service has little ability to offset revenue declines; the law restricts it to only providing postal products and limits how it can price and manage these postal products.

In addition, the Postal Service has substantial fixed costs, and delivery network expansion continuously drives costs upward. The universal service obligation requires the Postal Service to maintain portions of its transportation and retail networks regardless of mail volume. The Postal Service is a labor-intensive organization; approximately 79 percent of its total costs are the wages and benefits of its employees. While the Postal Service has been aggressively moving toward reducing its workforce, the Postal Service's management of the actual cost of labor is limited due to collective bargaining and certain requirements under the law. The Postal Service is also burdened by the requirement to aggressively prefund its retiree health benefit obligation for future retirees. Without this requirement, the Postal Service would have earned an overall profit of approximately \$4 billion over the 2007-2009 timeframe. Even in those areas where the Postal Service theoretically has the ability to control its costs, it often faces political resistance when it attempts to close or consolidate facilities. This means that costs cannot decrease as rapidly as volume and revenue decline. Due to this combination of factors, the Postal Service is no longer able to generate enough revenue to cover costs.

The Postal Service cannot continue to provide affordable, universal service to all areas of the country while maintaining mandated inflation-based prices without an increased ability to generate revenue and control costs. Therefore, bold changes to the business model are needed. All options – even those that have been dismissed in the past – need to be considered as part of the national discussion.

In order to choose the best business model for the Postal Service, it is important first to establish the future role of the Postal Service and the mission the nation needs it to fill. Over the years, the Postal Service has played many roles. By statute, the mission of the Postal Service is to “bind the nation together.”<sup>1</sup> This is typically thought of as providing hard copy delivery. But, historically, the mission of the Postal Service has been broader, including educating and informing the public, enabling commerce, and representing the federal government in local communities. The key to determining the appropriate future business model of the Postal Service is clarifying its role. What future role does the nation, the market, and postal customers need the Postal Service to play?

While the mailing needs of the country are changing, there is still a need for affordable, universal postal services and trusted, secure mail delivery. The Postal Service should maintain its responsibility for supplying affordable, universal service. To fulfill this role, it will need additional flexibilities to manage its costs and increase its revenues, and fulfill its mission as the Postal Reorganization Act of 1970 intended. This paper outlines some of the potential business model options, including considerations and implications.

The need to address this matter is urgent. The Postal Service lost over \$12 billion in the last three years and expects to lose almost \$8 billion in 2010. The Postal Service is becoming financially unstable and urgent action is needed to ensure that mail continues to be delivered

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<sup>1</sup> 39 USC Sec 101 (a).

