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Postmaster General National Press Club Newsmakers Speech *Farewell Address offers perspective and advice for postal stakeholders/Congress*

WASHINGTON — Postmaster General Patrick R. Donahoe was the featured speaker at the January 6, 2015 National Press Club Newsmakers news conference in Washington, DC. Speaking to reporters collectively for the last time prior to his retirement, Donahoe praised postal employees for their hard-work and accomplishments and also offered postal stakeholders some unsolicited advice for a profitable future.

Below is the text of the speech. Please note that the remarks as delivered may vary from the prepared text.

Good morning.

It's nice to be back at the National Press Club. I would like to thank Herb Perrone and the Newsmakers Committee for making some room on the schedule for a lame duck.

About 40 years ago I was roused out of my bed by my uncle Bob....because he wanted make sure I got down to the Pittsburgh General Post Office on time to take a postal job exam. If he hadn't done that, I wouldn't be here now.

I ended up working afternoons while I was going to the University of Pittsburgh during the day – it wasn't so easy managing those two demands on my time. Today, I consider getting that job a very lucky start to my career.

Now....if you could talk to that younger version of myself at that time of my life, there's no way I would ever have guessed that I would stay with the Postal Service for 40 years – much less that I would be able to lead a 630,000 person organization and serve as Postmaster General.

I was fortunate at every stage of my career: I found interesting challenges and opportunities and great mentors. That's a testament to a special organization, and really great people who are dedicated to serve the American public every day.

However, when you have 40 years of perspective and you're still working out of a tough financial crisis, you wonder about the young person who might be joining the Postal Service today.

What is the organization going to look like in ten or 20 years? How will we serve our customers in the future? Will that person have the same opportunities?

Those questions need to be addressed. And, the best approach is to take a broad, long-term view of the organization and develop strategies that best serve our customers and employees into the future.

Can the Postal Service operate profitably far into the future? Absolutely.

Can it continue to adapt quickly to changes in the marketplace? We've proved that.

Can it continue to meet its full potential as an engine of growth for the mailing industry and America's

businesses? Yes.

Can it do these things within its current business model? Not likely.

If you've followed my tenure as Postmaster General over the past four years, you'll know that I spent a decent amount of time trying to push for legislation that would give the Postal Service greater operational flexibility.

- This means having greater control over the way we manage our workforce, including healthcare benefits;
- This means fully managing our infrastructure;
- This means having greater pricing and product development flexibility; and
- It means being able to solve problems and pursue opportunities without irrational mandates and legislative requirements.

Retiree health benefits are my favorite example of an absurd mandate. Unlike practically any other organization, the Postal Service is required to prefund the retiree health benefits that we have promised to our employees.

Unfortunately, Congress decided to make the Postal Service prepay a 40-year obligation in a ten-year period – which we could have been able to pay, if the Internet had never been invented.

To compound the issue, we massively overpay for retiree health insurance. That's because our employees are in plans that don't leverage the Medicare benefits that the Postal Service and our employees have already paid for.

Under our current mandates, we're supposed to pay a total of \$96 billion dollars into a Treasury department account. We paid roughly \$48 billion prior to 2011, and defaulted on roughly \$22 billion over the past three years.

The sad part of all of this is that it could be fixed immediately with legislation. If we integrate Medicare into our retiree healthcare plans we would be fully funded after just one final \$3 billion payment. Done.

Rather than overspend on healthcare, we could be spending those funds on a new vehicle fleet, package sortation equipment, pay down debt, and significantly slow postage price increases.

What's holding us up? Myopia....shortsightedness.

That may sound a little harsh, but it would be too easy to say that it's just Congressional gridlock. To no avail, we've been trying to get postal reform legislation passed for the past four years.

As much as we try to have an elevated conversation about the future of the organization, we never get beyond the narrow set of interests that are determined to preserve the status quo.

The Postal Service put together a smart, comprehensive business plan and made recommendations about legislative changes to get us back on a sound financial footing.

We didn't get much support from our unions or the mailing industry – because it threatened the status quo.

The mailing industry views the future of the Postal Service mostly through the lens of pricing – so they don't want the Postal Service to have greater product and pricing flexibility. I've always found this very odd, because the ongoing lack of reform creates more pressure to raise prices – which is what happened this past year.

Our labor unions view the future of the organization mostly through the lens of preserving jobs and

benefits as they currently exist. Technology is driving dramatic changes in delivery services – just look at how Amazon is offering one-hour delivery in New York City. The Postal Service needs the flexibility to be a part of those changes – and more importantly, to shape those changes.

The Postal Service is delivering packages seven days a week in most parts of the country. We don't need to be delivering mail on Saturdays. It just doesn't make financial sense given the drop in mail volumes, and the public supports making the change to five-days of mail delivery.

My hope is that the new Congress will find ways to build consensus. It has to start with a real willingness on the part all stakeholders to take a longer-term view of the organization. The narrow interests can't continue to get in the way of the broader national interest.

Just last year the American Postal Workers Union mounted a protest campaign and disrupted our partnership with Staples, which was a great business partner for the Postal Service. The Postal Service partnered with Staples to provide our customers with more convenient access to a wide range of our products and services in roughly 82 Staples stores. It was successful in terms of driving greater revenue for both partners.

Unfortunately, the APWU approach is to try to keep all of our transactions in Post Offices. That's not convenient for our customers and it's not a smart retail strategy for our business. We'd much prefer to be able to sell our products and services with a multitude of retail partners and be in popular locations to make it easier and more convenient for people to do business with us.

It's an example of the narrow, near-sighted view winning over the broader, long-term strategy. Unfortunately, it's now tougher for us to find retail partners.

Attitudes have to change.....and I hope they will.

I've been accused of being optimistic to a fault. Perhaps I am....but I believe this new Congress will take a fresh look at the long-term future of the Postal Service and pass the legislation we need.

As someone who's leaving his job in a few weeks, I'll offer some unsolicited advice on the way out.

First of all, acknowledge the reality that the mailing and shipping marketplace is changing.... rapidly.

- First-Class Mail volumes have declined by 35 percent in the past ten years. That would be worth \$17 billion in annual revenue today – and it's not coming back;
- E-commerce is driving big demand for delivery services. That's what's driving our package business growth;
- Location-based technology is enabling tremendous new ways of adding value to delivery; and
- Integrating mail with digital technologies is creating powerful strong business opportunities for the senders of mail.

These facts about our business need to be part of the business model discussion.

Will the Postal Service always continue to fulfill its core service mission? Yes – but Congress needs to look at the Postal Service as a business that is going to be a lot different in the coming years – and it should view this as a positive, desirable outcome.

Second, Congress needs to take a broader, long-term view of the organization.

America needs a strong Postal Service. It needs a Postal Service with a business model that is profitable over the long-term so that it can continually invest in the future.

We owe our customers and the nation a Postal Service that will continue to drive the economy, help businesses grow, and provide continually improving products and services.

The discussion about the future of the organization would benefit greatly by working toward a 10 or 15-year time horizon. If you truly embrace the longer-term view, many of the narrow, special interest issues have a completely different context and become much less important.

Third, the Postal Service needs the authority and the flexibility to manage the organization more like a business. That means streamlined governance, fewer constraints on pricing and products, workforce flexibility, and freedom from irrational mandates.

We will always have strong oversight, and checks and balances. We also need to have the attitude across the industry that encourages flexibility in the way we manage the organization and adapt to the marketplace.

Fourth, I would encourage Congress to view the Postal Service as a test bed or laboratory of change that might be applied to the rest of the federal government.

When we look at the workforce we'll need in 20 or 30 years, what we are doing today will have to evolve.

Most young people aren't looking for a single employer over the course of their careers. In today's world, does it really make sense to offer the promise of a government pension to a 22 year-old who is just entering the workforce? And how reliable is that promise?

Postal Service's financial issues are similar to those facing the federal government. At some point the costs have to come down and those promises of benefits have to be paid. Just look at the unfunded liabilities with military vets and federal, state and local retirement systems.

We've proposed transitioning from a defined benefit program to a defined contribution program for postal employees. A thrift savings plan or IRA would give our employees much more mobility and flexibility. It may also be a much more responsible and honest arrangement when all is said and done.

I'd like to see the Congress encourage much more experimentation at the federal level. The Postal Service has the kind of management that would appreciate being at the front edge of change and would make good use of opportunities.

Healthcare reform is another important area for experimentation. I don't think anyone would argue that the federal government isn't massively overpaying for employee and retiree healthcare benefits. Let the Postal Service develop a more cost-effective approach. We've developed some promising proposals – we should have the flexibility to pursue them.

Over the past four years, I have had the privilege to lead a great management team and a tremendous organization through some challenging times.

I'm very pleased to say that our last fiscal year was our best of the past six years.

We earned a controllable income profit of \$1.4 billion. Considering that we recorded a \$2.4 billion controllable income loss in 2012, that profit represents a very big success for the organization. We've also accumulated \$6 billion in cash, which gives us some flexibility to make long overdue investments.

It was pretty gloomy coming out of the 2008/2009 recession. We were facing declines in every part of our business.

We had to revamp and improve our core offerings. We significantly upgraded our product development and marketing strategies – which helped spur strong growth in our package business in particular.

If you look at the fact that we offer date-specified delivery, free insurance and free tracking for our Priority Mail offerings. That's a great value to the sender and it continues to attract more customers to the Postal Service.

However, we couldn't have offered those features if hadn't taken a long-term approach to upgrading our technology and tracking systems. We've worked hard to put a strong data and technology platform in

place to drive future innovation.

One of the reasons we've solidified our mail revenue over the past two years – especially standard mail – is because of the rich reporting data we now provide to our commercial customers.

We've also worked hard to develop a culture of risk-taking and experimentation. We're delivering groceries in San Francisco; we're doing same-day deliveries in New York; we're delivering on Sundays in many markets; we're doing some small scale warehousing services. It's been yielding results.

Every Door Direct Mail is a digital tool designed to bring small businesses into the mail – it was an experiment that's now driving almost a billion dollars in annual revenue for us.

We've also invested in our product development and marketing strategies. We've revitalized our sales operations. Nagisa Manabe and her team have done a wonderful job of getting closer to our customer and competing for their business. We've now got a lot of momentum as an organization as a result.

We've been just as aggressive on the cost side of the equation. Since 2006, we reduced our cost base by almost \$16 billion.

- We did that by consolidating 305 mail processing facilities.
- Our Post Plan optimized the window hours at 13,000 Post Offices.
- We eliminated 23,000 delivery routes, even as the number of delivery points rises every year.
- We've reduced the size of our workforce by 212,000 positions, relying on an orderly process of attrition and without resorting to layoffs.

I think from any perspective, you have to say that it was the result of developing a strong, long-term strategy, ignoring the naysayers and following through.

If we hadn't pressed so hard and moved as quickly as we did, especially on the cost side of the equation, I have no doubt we would have run off the financial cliff by now. Had we done nothing, Congress would likely be bailing us out to the tune of billions of dollars annually.

If there's one message I have today, it's this:

We made a lot of tough decisions that were based on a long-term view of what was right for the organization. We used every bit of flexibility we had – as we should have.

That should be seen as a strong argument for allowing the organization to have the additional flexibility it needs to deal with some of our bigger structural issues.

If given that flexibility, I have no doubt the Postal Service will continue to aggressively adapt to a changing world and a changing marketplace, and do so profitably. That would be the best way to meet the expectations of the American public.

Let me conclude by recognizing the performance of our employees over the holiday season.

We saw package deliveries increase by over 18 percent and our on-time performance was the best ever. Our employees were delivering in some tough weather conditions – as they always do – and....on Sundays for the past eight weeks in all the major markets.

That's a testament to an incredible organizational effort and employees who are highly dedicated to their public service mission.

With all of the technology changes and disruptions...the Postal Service still remains a critical part of the American economy and American society.

It has been a pleasure to serve the organization and the American people for almost 40 years.

As I leave, I do so with a lot of optimism and confidence. My successor, Megan Brennan, is going to be a tremendous leader of the Postal Service. She's been vital to our recent successes and will do a great job of leading the organization in the coming years.

It makes it a lot easier to pass the baton knowing that the organization will be in such good hands.

Thanks for the invitation and the opportunity to speak with you today. I've enjoyed getting to know many of you over the past few years.

And with that, I'd be happy to take any questions you may have.

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