

# U.S. Postal Service Postmaster General Pat Donahoe — National Press Club address, Washington, DC

Nov. 21, 2011

*Note: Remarks as delivered may vary from prepared text.*

Thank you for that introduction.

It's a pleasure to be here today and to speak with all of you.

I would also like to thank the National Press Club for the invitation and for organizing today's event.

I have the privilege of leading one of America's greatest institutions.

It is an organization that literally serves 150 million American households and businesses on a typical day.

It facilitates trillions of dollars in commerce. It supports a \$900 billion mailing industry that employs almost 8 million people.

The Postal Service is part of the bedrock infrastructure of the American economy and society.

Throughout our rich history we have bound the nation together, and we do so today, even in a digital age.

We connect every sender to every receiver. We provide regular delivery to even the most remote location.

Americans today view the Postal Service very favorably – as a familiar institution and a trusted, reliable part of American life.

But for the institution to thrive, it requires a rational business model.

The Postal Service is fundamentally a business. Yes, it is a part of the government – but it operates as a business.

- We charge for the delivery of products and services.
- Our revenues go up and down depending on the economy and mailing trends.
- We record profits and losses.
- We issue quarterly financial statements.
- As a matter of fact, we're even Sarbanes-Oxley compliant.

And contrary to the understanding of most Americans, the Postal Service is not supported...at all...through taxpayer dollars. We generate all of our revenue from the sale of postage, products and services.

That means the Postal Service must compete for customers. We must sell – not just offer, but actively sell and persuade people to buy our products and services in a competitive marketplace.

Unfortunately, while we have a mandate to operate like a business, the reality is that we do not have the flexibility under current law to function as a business.

America needs a Postal Service that can operate more like a business.

Consider the example of the Post Office.

Most retail companies would close stores that fail to turn a profit. Roughly 25,000 out of our 32,000 Post Offices operate at a loss.

We have thousands of Post Offices that bring in less than \$20,000 in revenue in a year, but cost more than \$60,000 to operate. Many of these are within just a few miles of another Post Office.

And yet, the reaction from attempting to close a low-activity Post Office and provide another option is something to behold. People rally around the local Post Office. They do so because we are a cherished institution.

On the one hand, that demonstrates the power of our brand and the extent to which our customers feel connected to the Postal Service. But on the other hand, it makes no business sense.

There are better and more efficient ways to serve our customers.

Here's an interesting statistic. Purchasing stamps accounts for 48 percent of the transactions in a typical Post Office.

Now, think about that for moment.

People are driving out of their way to go to a Post Office to purchase stamps. They don't have to do that.

Today there are 71,000 locations operated by retail partners that provide a variety of postal products and services, such as buying stamps or dropping-off packages, depending on the location.

These retail partners are grocery stores, gas stations, pharmacies – they're places that are convenient, they're part of your regular shopping pattern, and they're open longer hours. It provides a simpler and more convenient experience for customers.

In the coming years we want to dramatically increase the number of retail partner locations we offer. We think there is a huge opportunity for small businesses to operate Village Post Offices or Contract Postal Units.

And by the way, virtually everything you can do at a Post Office today, you can also do on-line at USPS.com.

Will there always be a role for the traditional full service Post Office?

Absolutely.

There are a lot of other creative, more convenient options for providing access to our products and services. We just need the flexibility, like any other business, to provide them.

We are in a deep financial crisis today because we have a business model that is tied to the past. We are expected to operate like a business, but we do not have the flexibility to do so.

Our business model is fundamentally inflexible. It prevents the Postal Service from solving problems and being effective in the way a business would.

- Delivery companies facing a significant downturn in revenue would consider adjusting delivery frequency. Just as our competitors did when they saw the economy slowing in 2008 and 2009.

Looking ahead and facing a 20 percent decline in volume, the Postal Service should have been able to do the same.

- Most private businesses make product and pricing decisions quickly, based on market demand.

We still must go through a cumbersome process to price our products. Our competition can make changes on a moment's notice.

- Most companies do not pre-fund retiree health benefits. Not only is the Postal Service so required, it is has been required by law to fully fund the entire 40-year obligation on a 10-year schedule.

The practical result is that the Postal Service has had to borrow from the Treasury to make \$5.5 billion annual payments into this fund – effectively bankrupting us.

The Postal Service has also been obligated to overpay into the Federal Employee Retirement System by \$11.4 billion over the past 21 years. Not only are we obligated to overpay, we've just had our premiums raised, for the second consecutive year.

Such mandated obligations have been an enormous drag on our financial stability. And they are obligations over which we have had no control.

Consider this. During the worst of the downturn in mail volume – in 2008 and 2009 – the operations of the Postal Service were profitable. Our \$ 6.6 billion in losses were due to \$7.0 billion of mandated retiree health benefits payments that no business would have made.

Given the volume declines we experienced, that statistic says to me that we control costs very well, but we are working with insurmountable constraints.

Over the past 4 years, we have reduced the size of our workforce by 128,000 career employees and reduced annual operating costs by \$12.5 billion.

And we did so while maintaining record-high service levels – that’s a testament to the tremendous job our employees do every day.

Looking ahead, we are greatly accelerating the pace of cost reduction.

- We announced plans to reduce the total number of mail processing facilities from 460 today to less than 200 by the year 2013.
- We announced plans to study 3,500 low-activity post offices for potential closure or consolidation.
- We are streamlining our delivery operations with a goal of reducing another 20,000 delivery routes.

These activities alone will reduce our total annual operating costs by over \$6 billion by 2015.

We are also addressing the revenue side of the equation.

We have had great success with our flat-rate shipping campaign. “If it fits, it ships.” We have driven up revenues for that product by 78 percent over the past three years.

We made all stamps forever stamps – that’s a great example of simplifying a product. It’s been incredibly popular.

We have launched new products like Every Door Direct Mail, which helps small businesses get started in the mail.

We have also recently launched an advertising campaign to support First-Class Mail – that’s something the Postal Service hasn’t done for more than a decade.

But as significant as these cost reductions and revenue generating activities are, they don’t come close to returning the Postal Service to profitability.

To turn a profit and to get on a sustainable financial track, we have advanced a plan to achieve a \$20 billion cost reduction by 2015. Unfortunately, as things stand, we do not currently have the flexibility in our business model to achieve this goal.

For this reason, we have proposed important changes to the laws that govern the Postal Service.

- We proposed gaining delivery flexibility, which we would use to transition to a five-day delivery schedule. Most other Posts around the world have done this many years ago with little customer impact and great organizational benefit.

- We proposed rebalancing our retirement funds, including the restoration of \$11.4 billion in overpayments into the Federal Employee Retirement Service and a more rational retiree health benefit payment schedule.
- We proposed taking over our employee health insurance. That would mean leaving the federal government system and shifting to private providers. We would be able to reduce total costs for current and retired employees, while providing better benefits.
- We proposed streamlining our product and pricing processes so that we can get to market in a timely way.
- We also sought the ability to manage our workforce more effectively and with greater flexibility.

These and other proposals would enable the Postal Service to operate more as a business does, to provide better service, and be better able to compete for customers.

I am grateful that Congress is now working on postal reform legislation. The entire universe of postal stakeholders should be grateful as well. We've seen a strong commitment to our issues from Congress and the Administration.

However, there's a big question to be answered about whether the final package will treat the Postal Service as a business and give it the business model flexibility it needs.

There is a simple standard to apply, and it has to do with the concept of speed.

The Postal Service is contending with a steady decline – around 7 percent per year – in the use of First-Class Mail. This is due to the rise of electronic communications – people are choosing to pay bills online.



This 7 percent annual decline in First-Class Mail puts us in a race to get ahead of the cost curve. To become profitable, we simply must be able to cut costs faster than the rate of decline in First-Class Mail.

Speed is the answer. Speed is also the best way to judge whether Congress is truly interested in enabling the Postal Service to operate like a business.

Provisions that delay our ability to cut costs will result in sizable financial losses.

For example, if we are unable to implement a five-day delivery schedule now, we will needlessly carry a \$3 billion annual cost. Multiply that by several years and you start getting a large number.

If, instead of consolidating 260 mail processing facilities in the next two years, legislation were to slow or delay that process, we might needlessly carry another \$3 billion in annual costs.

The same goes for provisions that would impact our ability to modernize our retail networks, and to manage our workforce and our healthcare costs more effectively.

If Congress does not pass legislation that allows for more effective cost control, and does not make fundamental changes to our business model, the Postal Service could soon be running deficits in the range of \$10 to \$15 billion annually.

You know that phrase “speed kills?”

Well, the lack of speed will kill the Postal Service.

That’s the stark choice: A more flexible business model that allows us to control costs quickly, or very large losses that will ultimately burden the taxpayer.

Will First-Class Mail volumes eventually level off? We'll see.

But volume will decline quickly through the end of the decade – and we simply don't have ability to cut our costs as quickly. These are the facts.

However, with the right legislation that enables swift action, the Postal Service can quickly return to profitability and stay profitable – and continue to self-fund the universal service we provide.

We need provisions in the final legislation that provide us with the speed to reduce our costs by \$20 billion by 2015.

Businesses don't decide to study operational issues for years on end, and create impediments to resolving issues. They make decisions quickly, and they act quickly.

Unfortunately, the legislation as currently drafted – in both houses of Congress – would not provide the Postal Service with the speed and flexibility it needs.

Both bills have elements that delay tough decisions and impose greater constraints on our business model. Taken as they are, they do not come close to enabling cost reductions of \$20 billion by 2015 – which they must do for the Postal Service to return to profitability.

If passed today, either bill would provide at best a couple of years of profitability, and at least a decade of steep losses.

However, by taking the best of the House, Senate and Administration approaches, Congress can provide the Postal Service with the legal framework and the business model it needs.

It all comes back to the notion of speed. Will the Postal Service be able to get ahead of the cost curve, or will it be doomed to perpetual losses?

Congress needs to step back, look at the Postal Service as a business, and give us a business model that allows us to act quickly to lower our costs.

Today we operate in a dynamic environment. People and businesses have many ways to communicate.

And we have responded within the constraints of our current business model.

- We compete for customers and are more market-responsive and efficient than we have ever been.
- We deliver nearly half the world's mail and we meet record high service levels.
- We use the most advanced mail-sorting technology in the world. In fact, 95 percent of the letter mail we process never touches a human hand from the time it is picked up to the time it is delivered.
- Our productivity has increased dramatically since 2000. In fact, today we deliver roughly the same volume of mail that we delivered in 1992, and we do so with 168,000 fewer employees.

This is the result of cultivating the mindset of a Postal Service that records profits and losses, operates efficiently – like a business – and competes for customers.

We have to go much further down this path.

If we do so, I am convinced the Postal Service can have a very bright future:

- We can continue to provide the nation with a secure, reliable and affordable delivery platform. We can be profitable and financially self-sustaining.
- We can continue to innovate and change to meet the mailing and shipping needs of the American public for generations to come.
- We can also be thought of differently, as a successful business enterprise that performs a vital national function.

It will only happen if Congress develops a simple, straightforward piece of legislation that provides key areas of flexibility:

- The ability to determine our own delivery frequency.
- The ability to develop and price products quickly.
- The ability to control our healthcare and retirement costs.
- The ability to quickly realign our mail processing, delivery and retail networks.
- A streamlined governance model.
- And, we need more flexibility in the way we leverage our workforce.

All of this needs to be done right now.

The Postal Service is far too integral to the economic health of the nation to be handcuffed to the past and to an inflexible business model. America needs a Postal Service that can evolve and operate with fewer restraints.

I have no doubt the Postal Service will remain as a great American institution. But to do so, we need to operate with a great business model.

Thank you.