



**UNITED STATES
POSTAL SERVICE**

2007 Comprehensive Statement on Postal Operations

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YEAR REFERENCES

All references to a specific year or "the year" refer to the Postal Service fiscal year ending September 30. However, specific month and year references pertain to the calendar date.

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Chapter 1 Our Mission

The Postal Service's mission is to provide the nation with reliable, affordable, universal mail service. The basic functions of the Postal Service were established in 39 U.S.C. 101(a): ". . . to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities." To fulfill this mandate, the Postal Service delivers to nearly 148 million delivery points six days a week and provides mailing and shipping services through almost 37,000 postal retail outlets and the *usps.com* Web site.

Who We Are

DOCUMENT PURPOSE

For stakeholders and members of the general public interested in the Postal Service, the annual *Comprehensive Statement on Postal Operations* and the *Annual Report* describe Postal Service activities and results. The *Comprehensive Statement* is a broad summary of programs and activities from the past fiscal year. The *Annual Report* focuses on Postal Service finances and financial results. A third document, the *Strategic Transformation Plan*, is forward looking and describes strategic goals and plans. All three documents are available at *usps.com*.

The *Comprehensive Statement* has been redesigned this year to improve readability and minimize redundancy, particularly with the *Annual Report*. Financial information is now contained in the Annual Report. Chapter 1 of the *Comprehensive Statement* addresses the postal mission and legislative developments. Chapter 2 focuses on our customers and services. Chapter 3 discusses the postal workforce and employee-related programs. Chapter 4 describes postal operations. Chapter 5 contains our *Annual Performance Report* for 2007 and our *Annual Performance Plan for 2008*, as required by the Government Performance and Results Act.

Since 1976, the Postal Service has filed the annual *Comprehensive Statement* in accordance with law, 39 U.S.C. 2401(e), which outlines its required contents.

THE YEAR IN REVIEW

For the Postal Service and the entire mailing industry, 2007 was a year marked by accomplishment and transition. Foremost among many developments was the enactment on December 20, 2006 of the Postal Accountability and Enhancement Act, PL 109-145 (referred to as The Postal Act of 2006). The law is the most extensive legislation affecting postal services since 1970.

The Postal Service continued to fulfill its mandate to provide reliable, affordable universal service. Once again, in 2007 it recorded best-ever service performance for First-Class Mail and continued service improvement in other categories as well. Overnight First-Class Mail was delivered on time 96 percent of the time, as measured

independently by IBM Global Business Services. With this record service came strong gains in efficiency, driven by workhour reductions worth \$1.25 billion and a 1.7 percent increase in Total Factor Productivity.

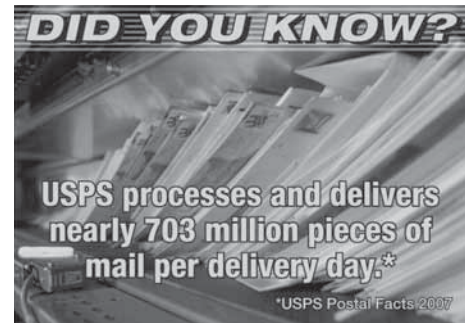
Improved data on mail flows and expanded best-practice standardization also increased productivity for an unprecedented eighth consecutive year.

The Government Accountability Office (GAO) noted these and other achievements when it removed the Postal Service from its high-risk list. The organization was placed on the list in April 2001 to focus attention on what the GAO described as an "unsustainable business model." In its decision, the GAO cited the successful implementation of our Strategic Transformation strategies as well as passage of the Postal Act of 2006.

All of the Postal Service's major labor contracts expired this year. New agreements with three major unions were successfully negotiated, while one contract was resolved through interest arbitration. The Postal Service also engaged in pay consultations with the management associations and established a new pay package for management employees. Through the collective bargaining process with the unions and the consultation process with the management associations, the Postal Service achieved workforce structure changes, increases in employee contributions to health benefit premiums and other results that help restrain costs and provide additional operational flexibility as it faces the business challenges of the future.

In May, extensive price and product changes were introduced, including the new Forever Stamp, shape-based pricing for First-Class Mail, and dimensional-weight pricing for Priority Mail. The Postal Service simplified its International products to reduce redundancy and customer confusion. Customers can now use the same Priority Mail and Express Mail packaging for domestic and overseas shipping. Premium Forwarding Service, a favorite among customers who frequently travel and need mail forwarded weekly to temporary addresses, achieved permanent classification. Customized Postage continues to trigger new interest in the mail. Mailers who purchase insurance online through Click-N-Ship and eBay can now conveniently access claims forms online. And the Priority Mail Flat Rate Box, available in two sizes, makes it easier than ever for customers to ship with the Postal Service.

All postal operations continue to benefit from increased data on mail flows which, combined with new systems and management tools, are highlighting opportunities to improve service and efficiency.



Chapter 1 **Our Mission**

Process standardization is helping integrate data across functions and plants, reducing variability, and providing more consistent and predictable end-to-end service performance. Real-time information from Intelligent Mail (IM) barcodes is offering mailers a wealth of new information about the status of their mail in transit.

After unprecedented outreach with customers, the Postal Service revised its service standards for all mailing services this year. The standards are based on business rules that align with today's operational and logistical network realities. Final standards will be published in mid-December. At year-end, the Postal Service in consultation with the Postal Regulatory Commission (PRC), proposed a hybrid system that uses a combination of internal IM barcode data and external data to measure performance.

The Board of Governors approved the initial purchase of 100 Flats Sequencing System (FSS) units, equipment that will automatically process large envelopes, magazines, catalogs, and circulars into delivery point sequence. FSS technology will dramatically reduce manual handling of flat mail, especially in delivery operation. At the May Flats Symposium, co-sponsored with the Mailers' Technical Advisory Committee, the Postal Service worked with customers to identify necessary changes in flat mail addressing, preparation, and entry, and pointed to many areas of engagement and cooperation. Full FSS deployment is set to start in 2008 after testing is completed.

This year more than a half-billion Priority Mail and Express Mail envelopes and boxes earned Cradle to Cradle Certification — a higher environmental standard that measures the quality of raw materials used during manufacturing. The packages are fully recyclable and more than 15,000 metric tons of carbon emissions will be prevented annually. The Postal Service is the nation's first shipping company to achieve this certification standard, which is being expanded to additional packaging and similar green initiatives throughout its supply chain. Energy conservation measures, recycling of paper waste and electronics, alternative fuel vehicles, product take-back programs, and sophisticated technology in its facilities and transportation networks not only eliminate waste and protect the environment, they help the bottom line. Customers are also going green by saving gas, time, and money through the use of postal products at *usps.com*, as well as convenient access where they live, work and shop through self-service kiosks, retail partners, and thousands of ATMs nationwide.

For the third year in a row, the Postal Service was rated as the number one agency Americans trust to protect their privacy, according to a national study by the Ponemon Institute. The Postal Service was one of the few federal agencies to increase its customer satisfaction trust scores. It is not surprising that Americans trust the Postal Service. Every year dedicated employees deliver extraordinary service in difficult circumstances. Last winter employees rallied to deliver an estimated 3 million holiday cards and letters and 300,000 parcels in Colorado and Wyoming after a major winter storm crippled

transportation. During the October wildfires in South California, mail delivery continued despite widespread evacuations, road closures, and difficult air quality conditions. Mail delivery in 65 Post Offices in San Diego, San Bernardino, and Riverside counties was temporarily affected, but service quickly returned to normal as soon as the fires were contained.

The Postal Service continued to raise the bar this year as it addressed an evolving market and continuing changes in technology — the same challenges that most businesses face. The accomplishments of 2007 continued to build a strong foundation for success, and Postal Service employees are more engaged than ever in achieving new breakthroughs under the new law.

Governance

POSTAL ACCOUNTABILITY AND ENHANCEMENT ACT COMPLIANCE

Overview

On December 20, 2006, the President signed the Postal Act of 2006. In many respects, the law represents the most sweeping legislative change to the postal system since the Postal Reorganization Act of 1970. This new law modernizes price regulation and service standards, increases the authority of the Postal Regulatory Commission (PRC), requires a variety of reports and evaluations, and an accelerated schedule for the funding of Postal Service retiree health benefits. It also ends the previously mandated break-even business model and allows for profit-or-loss, encouraging retained earnings to be reinvested into the business.

The law separates postal products and services into market dominant and competitive categories, with increased pricing flexibility for both. The market dominant category — referred to as mailing services in this document — includes First-Class Mail, Periodicals, Standard Mail, and Package Services other than Bulk Parcel Post. For mailing services, the law caps price increases at the class level to the annual Consumer Price Index. The competitive category — referred to as shipping services — includes Priority Mail, Express Mail, and Bulk Parcel Post. For shipping services, the Postal Service is free to price these products as long as they cover their costs, are not subsidized by mailing services, and make an appropriate contribution to institutional costs.

As for service standards, the law contains three main requirements. First, the Postal Service must reevaluate existing service standards within the context of current network capabilities. Second, objective measurement systems must be established and implemented. Third, the Postal Service must submit a plan to Congress that includes the Postal Service vision for rationalizing the network to improve efficiency and meet the new service standard goals.

Separate accounting will be required for mailing services and shipping services. A new Competitive Products Fund, apart from

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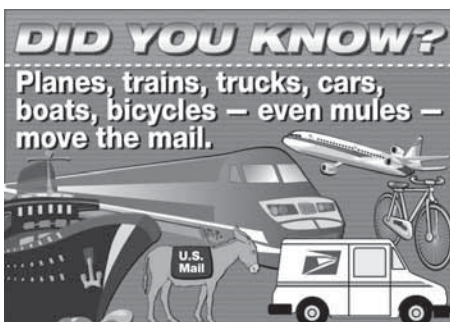
the existing Postal Service Fund, will be established at the U.S. Department of Treasury. An assumed income tax will apply to profits from the Competitive Products Fund, with tax proceeds transferred to the Postal Service Fund to help defray costs for meeting the universal service obligation. By December 2007, the Department of Treasury will issue recommendations to the PRC on the accounting process. Additionally, the Federal Trade Commission will report on the application of federal and state laws to shipping services and how they may differ between the Postal Service and private companies.

Under the law, the PRC role changed significantly from its previous one as the Postal Rate Commission. The regulatory authority of the PRC has been enhanced. The law directs the PRC to establish a modern ratemaking process and each year the PRC will conduct a review of Postal Service prices and service. The law also requires the PRC to report to Congress and the President on the universal service obligation and monopoly status of the Postal Service.

Another key aspect of the law entails funding for Postal Service retirement and health benefits. The escrow requirement under Public Law No. 108-18 was abolished. However, the law replaced the escrow requirement with a new requirement that the Postal Service begin to fund the Postal Service portion of future retiree health benefits. The funds from the escrow account and over-funding of the Civil Service Retirement System liability are transferred to the new Postal Service Retiree Health Benefits Fund. Over the next decade, the Postal Service must pay each year between \$5.4 billion and \$5.8 billion into this fund. Finally, funding for the years that retirees spent in the military becomes once again the responsibility of the Department of Treasury, not postal customers. This change returns the Postal Service to the same status as other federal agencies.

Implications

The implications for the Postal Service are diverse. Although the Postal Service mission remains the same, the way the Postal Service manages its business will change considerably.



Among the most significant changes is a departure from the break-even business model. Since the Postal Reorganization Act of 1970, the Postal Service had been required to break-even financially over time. Under the Postal Act of 2006,

however, the Postal Service has a profit-or-loss model. The new law encourages the Postal Service to make profits, retain earnings, and reinvest those earnings into the Postal Service. For example, retained earnings can be used to invest in system improvements that will enhance customer service or operating efficiency.

The law also grants the Postal Service increased pricing flexibility, in both the procedures to be used and the substantive standards to be applied. The process for changing prices is now more streamlined and efficient. In the past, the litigation period of an omnibus rate case could take 10 months. Now the Postal Service can give minimum of 45 days notice before changing prices for mailing services products.

For shipping services, the process for changing prices is further streamlined. The Postal Service will give at least 15 days notice before changing individual customer prices or 30 days notice before changing market-wide prices. Moreover, pricing for shipping services is not constrained by a CPI cap. Rather, the PRC has established a cost floor to ensure that these products cover their costs and make a reasonable contribution to institutional costs. The law also supports pricing flexibility for experimental products.

Requirements for separate accounting for the mailing services and shipping services categories will impose new and enhanced cost accounting and cost measurement systems. At the same time, the Postal Service will be required to comply with Securities and Exchange Commission rules that implement the financial internal controls under Section 404 of the Sarbanes-Oxley Act of 2002. Full compliance must occur with the *2010 Annual Report*.

Finally, the law brings significant financial implications. The required transfer of \$3.0 billion from the escrow fund to the new Health Benefits Fund in Quarter 1 was booked as an expense under generally accepted accounting principles. The law also required the Postal Service to pay an additional \$5.4 billion into the Fund in 2007. These two amounts were only partially offset by the reduction in Civil Service Retirement System payments for 2007.

2007 Progress

The Postal Service completed 2007 well under way in complying with many provisions of the Postal Act of 2006. At the same time, the Postal Service emphasized public outreach and communications as a critical part of its transition under the law.

Concerning the modern pricing regulation provisions, the Postal Service held a joint ratemaking summit with the PRC on March 13, 2007. This summit, Meeting Customer Needs in a Changing Regulatory Environment, initiated the Postal Service's outreach to the public to discuss the challenges and opportunities of the Postal Act of 2006.

Additional outreach to customers included the National Postal Forum, held from March 25 to 28; periodic meetings with the Mailers' Technical Advisory Committee; a May 17 Flats Summit; the Postal Supplier Council Conference, held on September 11; and the National Postal Customer Council Day, held on September 19. During 2007, the Postal Service also filed comments and documents with the PRC as part of the RM2007-1 Rulemaking proceeding that established the modern ratemaking system; these included an initial mail classification schedule proposal.

Chapter 1 Our Mission

In 2007, the Postal Service met with and provided requested information to the Department of Treasury about separate accounting for mailing services and shipping services. The Postal Service provided information to the Federal Trade Commission about differences in laws for shipping services for the public and private sectors.

Development of service standards and measurement represented another important issue. Before creating new standards and measurements, the Postal Service initiated outreach with mailers and worked closely with the PRC in reevaluating existing service standards and discussing service measurement systems. On December 19, the Postal Service published proposed standards in the *Federal Register*.

The *Strategic Transformation Plan 2006 – 2010* included a commitment to measure service performance for all classes of mail. For mailing services, that process began this year with determining revisions to service standards. The Postal Service engaged in unprecedented customer outreach to identify customer needs and preferences. The Postal Service also solicited input from postal unions and management associations and surveyed consumers and small businesses. From this outreach, two main themes emerged: customers want reliable, consistent, realistic, and attainable standards; and customers support a low-cost approach to service measurement that provides actionable information for both mailers and the Postal Service.

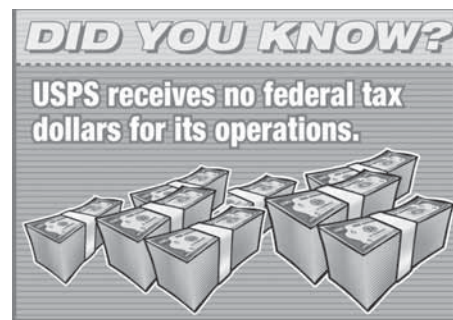
Service standards for mail transit and delivery were created by aligning standards with today's operational and logistical realities and by using business rules that define how mail should move through the network. For example, business rules for products using surface transportation, such as Periodicals, Standard Mail, and Package Services, allow for shared transportation to improve service and lower costs. New service standards were also developed for Special Services.

BOARD OF GOVERNORS

As the governing body of the Postal Service, the 11-member Board of Governors has responsibilities comparable to the board of directors of a publicly-held corporation. The Board includes nine Governors appointed by the President of the United States with the advice and consent of the Senate. The other two members are the Postmaster General and the Deputy Postmaster General. The Governors appoint the Postmaster General, who serves at the pleasure of the Board, without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General. The Chairman and Vice Chairman are elected each January. The Board directs and establishes policies, basic objectives, and long-range goals for the Postal Service in accordance with title 39 of the United States Code. Except for those powers specifically vested in the Governors, the Board may delegate the authority vested in it by statute to the Postmaster General under

such terms, conditions, and limitations, including the power of re-delegation, as it deems desirable.

The Postal Service fiscal year (FY) 2007 began on October 1, 2006, and ended September 30, 2007. The full Board held meetings each month except in October and April. Meetings consisted of open and closed sessions in accordance with the provisions of the Government in the Sunshine Act. Altogether, the full Board met on 21 days. Meetings were held in Washington, D.C., and by teleconference. In addition to full Board meetings, committee meetings were held throughout the year, some not coincident to the full Board meeting dates. The Board had four standing committees: Audit and Finance, Capital Projects, Compensation and Management Resources, and Governance and Strategic Planning. The committees met to consider matters within their areas of responsibility and referred items to the full Board for consideration.



In November 2006, the Board approved the audited 2006 financial statements.

At the December 2006 meeting, the Board approved the *2006 Annual Report* and the 2008 appropriation request to Congress. The Board

also approved a filing with the Postal Regulatory Commission (Postal Rate Commission at the time) for a negotiated service agreement with Bank of America, and a capital funding request for Phase 1 of the Flats Sequencing System.

In January, James C. Miller III was reelected Chairman of the Board and Alan C. Kessler was reelected Vice Chairman. The Board approved a resolution on capital funding, the annual report on Government in the Sunshine Act Compliance, and the *2006 Comprehensive Statement on Postal Operations*. The Board also approved capital funding for 5,856 carrier route vehicles. The Governors approved the price of 55 cents for the Breast Cancer Research semipostal stamp. The Chairman appointed members to the Board committees.

On February 27, the Board held a special teleconference meeting to discuss the Postal Regulatory Commission Opinion and Recommended Decision in Docket No. R2006-1, Postal Rate and Fee Changes. Again on March 6, 14, and 16, the Board held special teleconference meetings to discuss further the Postal Regulatory Commission Opinion and Recommended Decision in Docket No. R2006-1.

On March 19, another special teleconference meeting was held by the Board and the Governors approved the Opinion and Recommended Decision of the Postal Regulatory Commission in

Chapter 1 **Our Mission**

Docket No. R2006-1, Postal Rate and Fee Changes, except in three matters – Standard Mail flats, the Nonmachinable Surcharge for First-Class Mail letters, and the Priority Mail Flat Rate Box.

These three issues were sent back to the Postal Regulatory Commission for reconsideration. The Board set May 14, 2007, for the changes, except for the rates and classification changes for Periodicals which became effective on July 15, 2007.

The Board held a regular meeting on March 28 and approved a filing with the Postal Regulatory Commission for an Extension of the Market Test for Repositionable Notes.

In May, the Governors approved the Postal Regulatory Commission Opinion and Recommended Decision on Reconsideration in Docket No. R2006-1, on extending the nonmachinable surcharge to all single-piece First-Class Mail letters, regardless of weight, and the Priority Mail Flat Rate Box of \$8.95. The Board set May 14, 2007, as the implementation date. The Board also approved a compensation plan for Officers, a capital funding request for additional delivery barcode sorters and stacker modules, and an addendum to the 2007 Integrated Financial Plan.

In June, the Board held a special teleconference meeting and approved a filing with the Postal Regulatory Commission to make Premium Forwarding Service a permanent customer option. The Governors approved the Opinion and Recommended Decision of the Postal Regulatory Commission in Docket No. MC2006-7, Premium Stamped Stationery and Premium Stamped Cards Classifications, and the Board set June 25, 2007, as the effective date for the changes. The Governors also approved the Opinion and Recommended Decision of the Postal Regulatory Commission in Docket No. MC2007-2, Repositionable Notes Minor Classification Change, with the Board setting June 29, 2007, as the effective date. The Governors did not approve the Second Opinion and Recommended Decision on Reconsideration of the Postal Regulatory Commission regarding Rates for Standard Mail Flats in Docket No. R2006-1, Postal Rate and Fee Changes.

On July 10, the Board held a special teleconference meeting and discussed issues concerning strategic planning, rates, labor negotiations, finances and service performance.

In August, the Board approved a filing with the Postal Regulatory Commission for a negotiated service agreement with Life Line Screening.

In September, the Board approved the 2008 budgets for the Office of Inspector General, the Office of the Governors, and the Postal Regulatory Commission. The Board also approved the Postal Service 2008 operating and capital plans (Integrated Financial Plan), the preliminary 2009 Appropriation Request, and capital funding for the Miami, Florida, Mail Processing Facility.

Chapter 2 Our Customers

Who They Are

Customers can be grouped into four major categories: large-volume business mailers; business partners and service providers; small and medium-size business mailers; and households. Although businesses generated 86 percent of postal revenue, households play a much more significant role than suggested by this percentage. Two-thirds of all mail is destined for households. They are the customers to whom businesses send their bills, advertisements, and merchandise, and household behavior influences business mailing decisions.

Large-volume business mailers, numbering about 15,000 national and regional mailers, use mail to communicate to customers and vendors for billing, remittance, and order fulfillment. The Postal Service has extensive sales, operational, and service-oriented relationships with these business mailers on a national level.

Business partners add value to mail creation in a variety of ways. There are about 4,500 such businesses helping clients use the mail to reach their objectives. Some specialize in integrated marketing strategies, direct mail copy and graphics, mailing list selection and management, or printing and preparation for entry. Some companies consolidate mailings for other customers and provide other mail-related services, filling a niche in the mailing industry by offering end-users postage discounts through workshare opportunities.

Small and medium-size businesses, generally regional and focused on specific market segments, use mail to communicate to their customers and vendors for billing, remittance, and order fulfillment. The Postal Service has dedicated sales, operational, and service-oriented relationships with many of these mailers through local postmasters, business development teams, and business mail entry units.

Households are mainly the recipients of correspondence, advertisements, bills, statements, and merchandise sent by businesses. This business-to-household mail flow is the heart of the \$900 billion mailing industry. As senders of mail, households contribute roughly 15 percent of postal revenue.

Customer Outreach

To generate interest in its products, the Postal Service uses a variety of means such as industry events like the annual National Postal Forum and industry collaboration with groups like the Mailers' Technical Advisory Committee, Postal Customer Councils, and other industry organizations. Advertising is used to raise awareness of products and services among all customer groups.

MAILING INDUSTRY DIALOG

Mailers' Technical Advisory Committee

The Mailers' Technical Advisory Committee (MTAC) encompasses major mailing associations and organizations working with the Postal

Service to enhance the value of mail. MTAC workgroups focus on resolving specific technical issues. For example, a workgroup, Establish Service Standards and Measurements for Market Dominant Products, was formed in February to help develop new service standards. Other key workgroups completed or underway during 2007 are expected to yield additional benefits to the mailing industry. Some of these include workgroups on streamlining verification and seamless acceptance, improving address quality, and preparing for the Flats Sequencing System (FSS).

During May the Postal Service and MTAC sponsored a Flats Symposium attended by 300 participants representing mailing industry stakeholders. Participants learned about the new strategy for flats, FSS, and its impact on the mailing industry. Ongoing customer input, education, and collaboration are critical to a successful deployment of FSS, set to begin in late 2008.

National Postal Forum

The annual National Postal Forum (NPF) represents the largest mailing industry tradeshow focused on education, networking, new technology, and operational progress. It offers an opportunity to build relationships and show mailers how to use postal products effectively in the ever-changing marketplace.

This year the Forum took place in March in Washington, DC, with more than 7,300 business customers and exhibitors in attendance. Postal executives and industry leaders led discussion groups on address management, costs and pricing, and future developments. There were 13 business tracks, 13 certificate programs, and more than 150 workshops offered as part of the Postal Service commitment to continuing education. The Forum featured three symposiums on address quality, package services, and direct marketing. In addition, hundreds of companies, including 60 new vendors, exhibited the latest in mailing supplies, services, software, automation equipment, and mailing systems.

Postal Customer Councils

Postal Customer Councils (PCCs) enhance working relationships with local businesses and keep customers updated on the latest postal products and developments. More than 100,000 members belong to 200 local PCCs. The usps.com/pcc Web site, redesigned this year for easier access, contains PCC information, tools, and guidelines.

In March, the annual PCC Leadership Conference was held in Washington, DC, at the National Postal Forum. On September 19, National PCC Day took place via a live nationwide satellite broadcast from Cincinnati, OH. Postmaster General Jack Potter's keynote speech highlighted the important role that PCCs play in keeping the mailing industry strong and mail viable for communication, marketing, and merchandising.

PCC Workshop-in-a-Box seminars and quarterly DVDs featuring updates by postal executives on current initiatives help local businesses and nonprofit organizations stay current on ways to use

Chapter 2 Our Customers



mail successfully. The *PCC Small Business Resource Guide* was published during the year to promote PCC membership. *PCC Insider*, a monthly eNewsletter launched in October 2006, provides the

and branches to manage daily processes. It communicates to local Post Offices corporate alerts and customer requests for pickups, holds, and redeliveries.

Pilot In-House Customer Call Center

A pilot customer call center was launched in Detroit, MI, staffed by qualified Postal Service employees in rehabilitation and limited duty programs. The center provides these employees meaningful work and avoids the costs associated with contractors for this service. In 2007, the center handled more than 900,000 telephone inquiries on ZIP Codes, domestic rates, hold mail, redelivery, and other matters.

Customer Satisfaction Measurement

Customer Satisfaction Measurement (CSM) is conducted independently by the Gallup Organization. Ongoing ratings and feedback assess the customer experience with the Postal Service across a range of interactions. CSM reports customers' perception of the quality of their mail delivery, the service at Post Offices and other postal retail outlets, and their experiences with other postal services, including phone or online assistance.

Because customer expectations vary depending on the type of business they conduct with the Postal Service, CSM reports satisfaction by customer category. CSM-Business surveys three business customer segments: National Accounts (largest business mailers), Premier Accounts (medium-size business mailers), and Preferred Accounts (small business mailers). CSM-Residential surveys household customers.

A total of 1.1 million residential and 400,000 business responses to the CSM survey were received. The survey response rates were consistent or higher than industry standards; residential response was 21 percent, business response was 32 percent. CSM responses are verified by other measurements, for example, retail experience is also measured by a national Mystery Shopper program and conducted by a different vendor. The data from these programs help area, district, and local managers determine where improvements will most benefit customers.

Residential customer satisfaction maintained a 92 percent rating throughout the year despite the postage price increase. Detailed customer feedback from the survey indicates that customers are responding positively to forwarding and delivery service improvements and more convenient access.

OUTREACH

Advertising And Promotion

The Postal Service used various advertising channels to boost customer and business awareness of postal products, services, and access. Direct mailings, broadcast commercials, print advertising in trade journals, and publications such as *Deliver* magazine showed why and how companies should include direct mail in any integrated marketing communications program. The primary message, across

latest information on products and services, technology advances, and pricing and classification. Readers learn about developments affecting mailing operations and programs that can help them advance their business. PCCs continue to find new ways to help new customers use mail for their business needs. The PCC Mail Service Provider (MSP) program database contains more than 150 company entries, including two national providers, and offers access to the 200 PCCs across the country. Members can enroll either as local or national providers. They gain assistance with preparation, lists, printing, mailing support, supplies, and equipment. Businesses can search for MSPs by clicking on the Find Mail Service Providers link on usps.com/pcc, and then narrow searches by city, state, ZIP Code, and category.

CUSTOMER SUPPORT AND FEEDBACK

Business Service Network

The Business Service Network (BSN) provides customer service for large-volume business mailers. As the critical link between these mailers and internal postal operations, the BSN raised its customer satisfaction score by 2.8 percent over last year after adding 13 national account managers and restructuring the Headquarters and field teams to focus more on customer issues.

Customer Relationship Management

The Customer ID process continued to improve both the quality and analysis of customer data. A more robust online application, Customer Registration, now gives customers access to online postal products and services with a single logon ID. This process offers a better customer experience through increased ease of use, while reducing postal costs.

Corporate Customer Contact

Corporate Customer Contact (CCC) provides convenient customer access to a wide array of services through a network of toll-free telephone numbers. CCC handles queries on postage rates and Post Office hours and locations, assists in the submission of address changes, and shows customers how to track packages. CCC accepts customer orders for stamps through 800-STAMP-24 and coordinates responses to the Contact Us page on usps.com. CCC also adds value to My Post Office, an Internet application that enables Post Offices

Chapter 2 Our Customers

all these channels, emphasized the value of mail and how it complements other media.

During the year, advertising also emphasized convenience such as online services at *usps.com* and simplified package services such as free package pickup and Click-N-Ship. The holiday campaign communicated a similar message and included the Holiday Mailing and Shipping Guide sent to every household. To assist non-English-speaking customers, the Postal Service supplied product translation fact sheets in nine languages at many Post Offices to meet local customer needs.

The Postal Service teamed with two popular American icons to raise brand visibility and product awareness. As part of a marketing partnership with Lucasfilm to promote new *Star Wars* stamps, 400 Postal Service collection boxes nationwide were “wrapped” to resemble the robot character R2-D2. Americans were invited to vote online for their favorite *Star Wars* character, Yoda, in a contest that brought hundreds of thousands to *usps.com*. Another promotion using the With Love and Kisses stamp, which marked the centennial of the Hershey Kiss, drew almost 200,000 customer entries. During the month-long event, Post Offices helped spread the word about flat rate Priority Mail as “the sweetest deal in shipping.”

For small businesses, Grow Your Business Days promoted the ease and speed of Direct Mail Online Services to design and implement direct mail campaigns right from customers’ computers. An educational program called the Direct Mail Institute used industry experts to train representatives to help medium- to large-size customers understand the value and power of the mail.

The Postal Service served as the title sponsor at the national eBay Live! 2007 convention held June 14 to 16 in Boston, MA. Workshops covered changes to domestic rates and international mail. Attendees also learned about the new PayPal MultiOrder Shipping Solution that allows customers to print multiple domestic shipping labels, pay with one click, and link shipments to the newly launched Shipment Confirmation Acceptance Notice (SCAN). SCAN lets both mailers and recipients know when a package enters the mailstream.

Sales

The Postal Service sales force worked with more than 30,000 commercial accounts to develop appropriate mailing and shipping solutions around the core business needs of those accounts. Several key initiatives around direct mail contributed to a successful year.

Sales specialists were certified on selling and supporting direct mail, including branding, customer acquisition, and customer retention. The Branding Through the Mailbox program set in motion customer contact, analysis, and 15,000 customized presentations to marketing decision-makers, leading to \$800 million in sales. This program focused on the power of direct mail for more than a dozen key business needs, and its ability to establish and strengthen brand identity for any business. The Package Sales Strategy program provided

the sales force with tools to identify product fulfillment opportunities along with targeted presentations for package decision makers. Due to their proven success, these initiatives will continue into 2008.

Local Efforts

The Postal Service has achieved great success with its Customer Connect and Business Connect programs, which equip select employee groups to identify and develop new business opportunities. Customer Connect asks city carriers to help identify small businesses that could benefit by increasing their use of postal services. Carrier referrals are provided to sales employees who then meet the customer to understand business and mailing needs and recommend the right mix of products and services. Customer Connect has continually exceeded expectations for revenue and participation.

Business Connect encourages postmasters, station managers, and branch managers to sell postal products and services to small and medium-size businesses. Postmasters have always been a vital part of the communities they serve. Business Connect builds on this role by providing them with the tools and training to identify new customers and revenue prospects, to make professional presentations about products and services, and to establish themselves with these customers as the primary local resource for business growth and success.

PRIVACY

The Postal Service continued to protect the value of the brand that consumers have trusted over the years. In February, and for the third year in a row, American consumers ranked the Postal Service as the number one government agency they trust to protect their privacy. In the 2007 Ponemon Institute’s Privacy Trust Study of the United States Government, the Postal Service not only retained the top spot but its customer satisfaction and trust scores increased from the previous year even as privacy scores for all other agencies declined.

In the 2007 Ponemon Institute’s Privacy Trust Study of U.S. Businesses, the Postal Service was ranked for the third straight year as one of the top 10 most trusted private sector firms. According to the study, the most important factors for building trust were overall reputation of an organization; respect for customers; quality products or services; online security; and data sharing limits. The Postal Service ranked first among the Package and Delivery industry group in this study.

The Postal Service also continued to support essential privacy aspects of the enhanced Postal Service data security environment. It expanded ongoing corporate communications that increase employee awareness of privacy policies and updated information security requirements and procedures.

Consumer Policies

The Postal Service extended support for consumer policies and procedures by revising change-of-address regulations to permit

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residential Group E (free box service) Post Office box customers to file the same individual change-of-address requests available to all other customers receiving free carrier service at a physical address.

The Postal Service also extended its responsibility to resolve customer appeals related to Post Office box or caller service terminations and denial of service appeals previously handled through a judicial review. By implementing a centralized appeal resolution process, the Postal Service substantially reduced labor and travel costs while providing customers with an expedited and efficient resolution.

Products and Services

Postal Service products are offered through a domestic network of nearly 37,000 Post Offices, stations, branches, and contract postal units, and delivered to every address in the United States and worldwide through the networks of foreign postal administrations.

The Postal Act of 2006 separated postal products and services into two distinct categories — market dominant (referred to as mailing services) and competitive (referred to as shipping services). Different rules for each category allow the Postal Service to bring new products and services to market more quickly, with greater pricing flexibility.

Price changes for mailing services require at least 45 days notice and on average may not exceed the Consumer Price Index for the previous 12 months for a class of mail. Price changes for shipping services require at least 15 days notice for individual customer prices or 30 days notice for market-wide prices, and must produce sufficient revenue above a price floor that covers attributable costs and, for shipping services as a whole, an appropriate share of institutional costs.

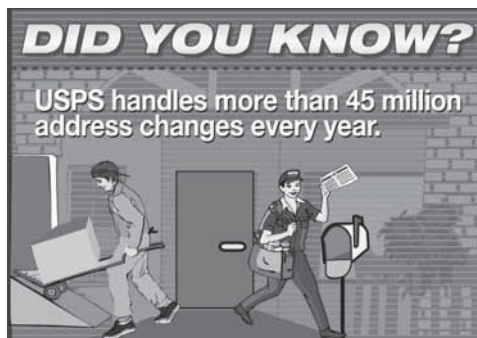
MAILING SERVICES

Mailing services represent about 90 percent of all postal revenue. These services include First-Class Mail, Periodicals, Standard Mail, single-piece Parcel Post, Bound Printed Matter, Media Mail, Library Mail, single-piece International Mail, and Special Services such as Delivery Confirmation, Certified Mail, and Post Office box service.

First-Class Mail

First-Class Mail includes business and personal correspondence, bills, invoices, remittances, financial statements, and advertising. Any matter eligible for mailing weighing up to 13 ounces may be mailed as First-Class Mail. Matter containing personal information, partially or wholly handwritten or typewritten matter, or bills or statements of account must be mailed as First-Class Mail, unless mailed as Express Mail or Priority Mail, or otherwise exempted by the Postal Service. First-Class Mail is sealed against postal inspection and cannot be opened except as authorized. First-Class Mail that is undeliverable-as-addressed is entitled to be returned to the sender or forwarded without additional charge.

First-Class Mail revenue in 2007 was \$37.564 billion, with a volume of 95.898 billion pieces. First-Class Mail revenue increased 1.4 percent and volume decreased 1.8 percent compared with 2006. The volume decline continued a downward trend starting in 2002. Between 2002 and 2007, total First-Class Mail volume declined 6 percent, with a decrease of 19 percent in single-piece. Although total First-Class Mail revenue in this same period grew 3 percent, single-piece revenue declined 9 percent. The volume decline can be



attributed to electronic diversion of bills and state-ments, alternate payment methods, and the absence of new hardcopy applications.

In contrast to single-piece, presorted First-Class Mail volume

increased 11 percent and revenue grew 27 percent between 2002 and 2007. The shift from single-piece rate mail to presorted rate mail has had a positive impact on postal operations since presorted rate mail has substantially lower per-piece costs and higher cost coverage.

On-time performance for First-Class Mail climbed to record levels in 2007, with 96 percent of overnight, 92 percent of 2-day, and 90 percent of 3-day meeting the service commitments. Performance in Quarter 3 and Quarter 4 was particularly strong with record achievements of 93 and 94 percent for 2-day and 91 and 93 percent for 3-day respectively.

On May 14, the Postal Service introduced new pricing for First-Class Mail using shape along with weight and preparation to determine prices that reflect different processing costs for different shapes. Letters, large envelopes (flats), and packages (parcels) that weigh the same are no longer priced the same.

Bills and statements still represent about half of the presorted First-Class Mail volume and along with payments (remittances), represent over half of total First-Class Mail volume. The Postal Service has made significant improvements to help stem the decline of this mail segment. According to the July 2007 biannual Phoenix-Hecht Postal Survey, which measures the time it takes for remittance mail to travel from originating cities into 33 major remittance cities, the Postal Service deserves high marks for its “excellent attention to the remittance mail industry.” The survey notes that Postal Service performance in remittance mail is “healthy and consistent.”

Customers and the Postal Service continue to find new applications for First-Class Mail. One opportunity exists with Election Mail, including voter registration materials, absentee, and “no excuse needed”

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absentee voting. Twenty-nine states currently allow “no excuse needed” absentee voting. The Postal Service has worked closely with election officials nationwide to provide assistance with their efforts. In addition to ongoing discussions and support at the local level, a special workshop and consultation session was conducted for election officials at this year’s National Postal Forum. The Postal Service also participated in the 2007 annual conference for the National Association of Secretaries of State to raise awareness of the Election Mail program.

Periodicals

Periodicals include magazines, newspapers, and other publications whose primary purpose is the transmission of information to an established list of subscribers or requesters. Publications must meet qualifying criteria established by law and specified in the Domestic Mail Manual. Periodicals mailed by qualifying nonprofit organizations and those mailed within their county of publication (primarily local newspapers) pay reduced rates.

Periodicals revenue in 2007 was \$2.188 billion, with a volume of 8.796 billion pieces. Total Periodicals revenue decreased 1.2 percent and volume declined 2.5 percent compared with 2006 and 5.6 percent since 2003.

Included in the PRC’s omnibus rate case recommendation implemented in July 2007 were pricing incentives to promote increased and more efficient containerization of Periodicals.

Periodicals volume has continued to decline as other media channels have increased. Businesses and consumers increasingly rely on the Internet as a substitute for hardcopy publication of news, information, and entertainment. To help maintain the affordability of this product, the Postal Service has focused pricing and product innovations on reducing the number of postal handlings and increasing the entry of Periodicals closer to destination.

Standard Mail

Standard Mail is bulk-entered mail that weighs less than 16 ounces. Any mailable matter may be sent as Standard Mail except matter required to be sent as First-Class Mail or copies of publications authorized to be entered at qualifying Periodicals rates. Standard Mail items typically include advertising letters, circulars, catalogs, fundraising appeals, and light-weight parcels. Standard Mail receives deferred handling. Regular Standard Mail generally includes targeted advertising or other messages based on recipient demographics such as income, previous purchases, or other characteristics. Enhanced Carrier Route (ECR) Standard Mail, with pricing based on the geographic density of the mailing, is often used to target customers within specific neighborhoods or defined geographic locations.

Nonprofit Standard Mail prices, including Nonprofit Enhanced Carrier Route prices, are available to certain categories of qualified nonprofit organizations and to political committees and state or local voting

registration officials, if those organizations, committees, or officials are authorized by the Postal Service.

Standard Mail revenue in 2007 was \$20.779 billion, with 103.516 billion pieces. Standard Mail revenue increased 4.5 percent and volume increased 1.0 percent compared with 2006. Total automation presort continues to be the primary contributor to this growth.

Direct mail in particular has become a major contributor to overall revenue growth for the Postal Service. In fact, total Standard Mail revenue increased 20.6 percent between 2003 and 2007, with a 14.4 percent growth in volume for the same 5-year period. Since 2005, Standard Mail volume has exceeded First-Class Mail volume. This change has implications for Postal Service finances since it takes 2.5 pieces of Standard Mail on average to achieve the same contribution provided by one piece of First-Class Mail.

Continued strong growth in retail sales and a favorable investment environment led to increases in advertising spending and spurred Standard Mail growth. In addition, Standard Mail volume growth was aided considerably by the increasing strength of direct marketing channels and surges in credit card marketing. Direct mail allows marketers to precisely target specific customers and accurately measure their return on investment.

Standard Mail pricing has been a catalyst to the emergence of a competitive direct mail industry. Various market developments have contributed to continued growth, including the Do Not Call Registry established in 2003, the Anti-Spam Act of 2003, and increased consumer expectations for targeted and personalized messaging. Direct mail has seen consistent growth in recent years, and its share of total advertising expenditures is projected to be 21 percent in calendar year 2007.

On May 14, the Postal Service introduced new pricing for Standard Mail to expand the differentials using shape along with weight to determine prices since different shapes have different processing costs. The PRC recommended prices different from postal proposals that further differentiated shape.

Package Services

Package Services is composed of Single-Piece Parcel Post, Bound Printed Matter, and Media Mail/Library Mail. These products can be used to send mailable items weighing up to 70 pounds (except Bound Printed Matter, which has a maximum weight limit of 15 pounds) not required to be sent as First-Class Mail, prepared as Customized Market Mail, or entered as Periodicals.

Single-Piece rate Parcel Post may be used by any customer to mail parcels, thick envelopes, and tubes. Parcel Post is generally the most economical postal shipping service for parcels weighing 1 pound or more.

Bound Printed Matter and Media Mail/Library Mail are content-restricted products. Bound Printed Matter may be used only for

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permanently bound printed materials such as catalogs, books, and telephone directories. Media Mail and Library Mail may be used only for books, sound and video recordings, certain films and film catalogs, printed music, manuscripts, media, and other eligible items. Only qualified schools, colleges, libraries, and similar organizations may use Library Mail.

Package Service revenue in 2007 was \$2.306 billion, with 1.163 billion pieces. Parcel Post revenue decreased 1.4 percent and volume decreased 4.2 percent compared with 2006. Package Service prices increased effective May 14. The increases were significant so that each sub-class would cover its attributable costs and make a contribution to institutional costs.

Special Services

The Postal Service offers a number of Special Services that can be purchased for a fee, either separately or as an added feature to a mail product. These include money orders and Post Office boxes, as well as services that provide customers additional security (such as Registered Mail and Insured Mail), information about delivery (such as Certified Mail, Return Receipt, Delivery Confirmation, Signature Confirmation, and CONFIRM), forwarding and return of mail, and address information. Although some Special Services contribute only modest revenue, as a group these services represent an important revenue source for the Postal Service, providing over \$3.6 billion in revenue in 2007.

Effective with the May 14 price changes, all Insured Mail labels are now barcoded and only items valued over \$200 require the recipient's signature. Customers may purchase up to \$5,000 of domestic insurance for packages at all Post Offices and up to \$500 at Automated Postal Centers. Customers can purchase shipping labels on *usps.com* with the option to add domestic insurance to Click-N-Ship purchases. Click-N-Ship customers can add insurance to Priority Mail and Express Mail; eBay customers can add insurance to Priority Mail, Express Mail, First-Class Mail, Parcel Post, and Media Mail. Fees are the same as those at the retail counter. Online insurance coverage increased from \$200 to \$500. In addition, customers who purchase domestic insurance shipping labels through Click-N-Ship and eBay can now file their claims online at *usps.com*.

Postal Money Orders are a safe, convenient and economical alternative to sending money through the mail. They can be purchased from any Post Office or rural carrier. Specimen postal money orders were distributed to help financial institutions and law enforcement communities prevent negotiation of fraudulent postal money orders. These specimens highlight the embedded security features of the existing document and assist financial institutions in determining whether money orders presented for cashing are authentic.

Post Office box service is offered for a fee to any customer requiring an alternative to free carrier delivery or general delivery. The fee varies by box size and postal facility location. Publication 431, *Post*

Office Box Fee Groups, was updated with the new rates effective May 14. Customers can now search online for box availability.

Premium Forwarding Service (PFS) forwards all mail from a household customer's primary address to a temporary address via a weekly Priority Mail parcel for a minimum of two weeks and up to one year. PFS was created to meet customer demand for an alternative to temporary forwarding service. Originally launched as a 2-year experiment in August 2005, the Postal Service filed a case with the PRC in August 2007 to make PFS a permanent classification. More than 141,000 customers enrolled in PFS in 2007. Since its inception in 2005, PFS has attracted more than 245,000 customers as an affordable and efficient service.

Passports Application Acceptance

The Postal Service responded quickly to the increased demand for passports created by the passage of the Western Hemisphere Travel Initiative. Effective January 23, 2007, the law requires Americans to present a U.S. passport when traveling by air between the United States and Canada, Mexico, Central America, South America, the Caribbean, and Bermuda. The law drove a 64 percent increase in passport application revenue compared with 2006. Total 2007 passport-related revenue reached \$359 million. The Postal Service now handles 65 percent of all passport applications, and plans to increase service availability in the future.

SHIPPING SERVICES

Shipping services face considerable market competition from alternative carriers. These products represent the remaining 10 percent of postal revenue and include Express Mail, Priority Mail, Parcel Select, Parcel Return Service, Global Express Guaranteed, Express Mail International, Priority Mail International, International Surface Airlift, and International Priority Airmail.

Unlike mailing services, shipping services are not subject to a price cap. Instead, prices are driven by the market with a price floor as the only restriction.

Express Mail

Express Mail, the fastest postal product for time-sensitive items, offers guaranteed overnight or second-day delivery to most domestic addresses. The product includes tracking, proof of delivery, Sunday and holiday delivery where available, and insurance up to \$100. Any mailable matter may be sent as Express Mail.

Express Mail Corporate Account payment methods were enhanced in 2007. Customers were allowed to make deposits to their accounts using a credit card and Automated Clearing House debits from their bank accounts.

Priority Mail

Priority Mail offers customers delivery within 1 to 3 days for letters, documents, and merchandise weighing up to 70 pounds. It provides

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6-day per week delivery, security, and preferential handling. Priority Mail includes Delivery Confirmation at no additional cost for the electronic option, convenient pre-paid envelopes, custom-designed boxes such as the shoebox, a convenient flat rate envelope, and a flat rate box, which became permanent in 2007. Packaging material is also provided at no additional cost.

This year the Postal Service earned Cradle to Cradle certification for its Priority Mail and Express Mail packaging that exceeds Environmental Protection Agency standards for recycled materials. The Postal Service is the nation's first shipping company to achieve this certification standard. The new packaging was introduced by the Postmaster General in May. Customers can now use the same Priority Mail and Express Mail packaging for both domestic and international addresses.

Bulk Parcel Post

Bulk Parcel Post consists of Parcel Select, Parcel Return Service, and discounted Parcel Post. Any mailable matter may be mailed as Bulk Parcel Post except matter required to be mailed as First-Class Mail; Customized Market Mail; and copies of a publication entered as Periodicals.

Bulk Parcel Post must be entered as part of a mailing of 50 pieces or more. Bulk Parcel Post is not sealed against postal inspection. Undeliverable-as-addressed Bulk Parcel Post is forwarded on request of the addressee, returned on request of the mailer, or forwarded and returned on request of the mailer, and subject to the applicable Single-Piece Parcel Post price when forwarded or returned from one Post Office to another.

Parcel Select is the ground package-delivery product designed for medium- to large-volume shippers and consolidators entering packages at destination facilities. In addition, pricing is available for mailings prepared and entered at origin facilities as specified by the Postal Service. The Postal Service holds quarterly meetings with the national consolidators' senior management to discuss issues such as scanning, service, and manifest accuracy. Parcel Select service performance was at an all-time high in 2007.

Parcel Return Service (PRS) offers an easy and convenient way for customers to send back items that need to be returned, recalled, repaired, or recycled. The merchant or agent retrieves returned parcels from designated postal locations or bulk mail centers. PRS offers full end-to-end product visibility through the logistics partner.

INTERNATIONAL

Postal Service international package products — Global Express Guaranteed, Express Mail International, and Priority Mail International — provide delivery within 1 to 5 days to international addresses for shipments weighing less than 70 pounds sent from the United States. International bulk mail products for business mailers — International Priority Airmail, International Surface Airlift, and

other mail — provide delivery within 1 to 14 days to international addresses for letters, flats, and small packages sent from the United States.

In 2007 the Postal Service redesigned its international product line, reducing eight services to four to minimize redundancy and customer confusion. International product names now are linked with their domestic counterparts. New packaging was developed that reduces waste and more clearly positions the Postal Service brand.

Global Express Guaranteed (GXG) is the premium international Postal Service shipping option, with international transportation and delivery by FedEx Express. GXG offers date-certain delivery within 1 to 3 business days on average to nearly 200 countries worldwide. GXG is available at *usps.com* and all Post Offices equipped with Point of Service retail terminals.

Express Mail International is the new name for Global Express Mail. This service provides reliable, high-speed service to nearly 200 countries, with postage-refund delivery guarantee to select destinations.

Express Mail International offers on average business delivery within 3 to 5-days to nearly 200 countries, tracking, proof of delivery, and insurance up to \$100. Money-back guaranteed service is available for shipments to Australia, China, Hong Kong, Japan, and the Republic of Korea. Effective May 14, international products were redesigned and rebranded to make them consistent with well-know domestic products. Global Express Mail was renamed Express Mail International.

Priority Mail International is the new brand for the single product the Postal Service created by combining Global Priority Mail, Air Parcel Post, and Economy Parcel Post into a single service available to nearly 200 countries. Priority Mail International service provides the same flat rate packaging as domestic Priority Mail service, including a flat rate envelope and two flat rate box options. The product offers average business delivery within 6 to 10 days to nearly 200 countries. Tracking is available to major destinations in Asia, Canada and Europe, and limited indemnity is provided at no extra charge for flat-rate boxes and variable weight articles.

First-Class Mail International is the new brand for the single product the Postal Service created by combining airmail letters, and economy letters into a new single service. This new service can be used for letters, postcards, and items weighing up to 4 pounds.

Improving International Service

In 2007, the Postal Service was recognized for global leadership in international mail processing with the International Post Corporation's (IPC) Certificate of Excellence awards for all five Postal Service international service centers in Chicago, Los Angeles, Miami, New York, and San Francisco. The Postal Service is the first postal authority in the world to complete the year-long certification process, which includes on-site checks to verify compliance with more

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than 140 items. Certification is awarded for a 3-year period, with continual IPC validation that performance levels are maintained. The IPC is a cooperative association of 24 postal operators in Europe, North America, and Asia-Pacific dedicated to improving the quality of international mail, managing payment systems, and providing platforms for chief executives and their top teams to exchange views.

Military Mail

The Department of Defense is a key customer of the Postal Service's international distribution and transportation services. International mail is mail matter delivered to APOs (Army and Air Force Post Offices) and FPOs (Navy and Marine Corp Post Offices) not within the United States. APO/FPO military mail service is an extension of the domestic mail service and includes all mail addressed to or mailed from a military unit located outside the continental U.S. or between two military units overseas. The Postal Service is proud to support American troops abroad and providing our service men and women with good service will continue to be a high priority for international operations.

Customs

Mail entering the United States from abroad arrives first at the U.S. Postal Service. The Postal Service then sends packages to U.S. Customs for examination and to assess duty if any is owed. Customs processing is required for civilian parcels as well as for those sent from overseas military postal facilities (APO/FPO). The Postal Service is working closely with the Universal Postal Union, U.S. Customs Border Patrol, and the International Post Corporation to streamline and improve these processes. The Postal Service is supporting the introduction of advance manifesting requirements for mail shipments to improve security, deter against criminal wrongdoing conducted through the mail, facilitate trade, and enhance the efficiency and speed of clearance operations.

STAMPS

Production costs for all stamps in 2007, including those needed for the May 14 price increase, totaled \$90 million. Of the over 42 billion stamps produced, 8.2 percent were commemoratives.

Stamp Fulfillment Services processes stamp and philatelic orders received primarily by telephone and through the Internet. Since 2002 orders have grown from 1.2 million to 4.3 million per year, with annual sales surpassing \$437 million.

On April 12 the Forever Stamp went on sale for 41 cents — the new price for a First-Class Mail single-piece 1-ounce letter. This stamp offers convenience to consumers by reducing their need to buy new postage or “make-up” stamps (1-cent and 2-cent stamps) when postage prices change. The value of the stamp — featuring the Liberty Bell image and the word “forever” — will always be the current price in effect for a First-Class Mail 1-ounce letter. When prices change, the Forever Stamp will sell at the new 1-ounce, single-piece First-Class Mail price. The initial printing produced 5.2 billion stamps,

which were available at all Post Offices, Automated Postal Centers, contract postal units, and by phone, and online at usps.com.



Stamps honoring 15 characters from Star Wars — the biggest grossing film series in history — went on sale May 25. The first-day-of-issue ceremony took place in Los Angeles during Star Wars Celebration IV, followed by many local events throughout the country. Publicity for the stamps began in March, when 400 R2-D2 wrapped collection boxes appeared on

street corners across America and at military bases here and abroad. Overall, more than 30 million panes of Star Wars stamps were printed for fans and collectors. The full Star Wars stamp collection will remain on sale until May 25, 2008, while the Yoda stamp is available through October 25, 2008, continuing one of the most notable collaborations in Postal Service history.

Other popular stamps in 2007 included Marvel Comics, the art of Disney, Ella Fitzgerald, Settlement of Jamestown, Jimmy Stewart, Mendez v. Westminster, President Gerald Ford, Vintage Mahogany Speedboats, Lighthouses, Louis Comfort Tiffany, and Jury Duty.

Ideas for many of these stamps came from the American public. Each year 50,000 stamp ideas are submitted. To narrow the selection of stamp subjects issued, the Citizens' Stamp Advisory Committee — a cross section of designers, historians, and educators — reviews the suggestions and makes recommendations to the Postmaster General for final approval. The time between submitting a stamp idea and issuing the stamp can take several years. Additional information can be found at: usps.com/communications/organization/csac.htm.

In addition to using stamps to commemorate people, events, and places, the Postal Service also issues stamps to fund causes as mandated by Congress. The Postal Service currently has one 55-cent fundraising or semipostal stamp available for purchase: the Breast Cancer Research stamp. Since its release in 1998, this stamp has raised more than \$57 million for breast cancer research. The price of a semipostal pays for the First-Class Mail single-piece postage price in effect at the time of purchase, plus an amount to fund the cause. By law, 70 percent of the net amount raised is given to the National Institutes of Health and 30 percent is given to the Medical Research Program at the Department of Defense.

PRODUCT RESEARCH

Mail provides an efficient and effective channel for commercial organizations to reach households. Commercial organizations send 91 percent of all mail, with 70 percent of this amount sent to

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households. To evaluate and respond to changing customer needs, the Postal Service conducted the following studies:

- **Multi-Channel Advertising:** this study quantified and analyzed the increased traffic and sales generated on Web sites when hard copy communications formed part of a marketing campaign. A key insight from this study showed that catalogs and direct mail, combined with e-mail communications, contribute significantly to gaining sales from new customers and adding sales from existing customers.
- **Delivery Preference:** this study indicated that consumers reward retailers who provide options for receiving packages from online purchases. Online buyers tend to seek convenient and affordable delivery and will buy more from retailers who provide choices.
- **First-Class Mail Branding:** this study confirmed that consumers respond much more positively to direct mail that is personally relevant. In addition, mailpiece design is used by consumers to determine whether to keep, open, and read direct mail. The study reported that consumers expect the envelope to provide useful and correct information.
- **2006 Household Diary Study:** published in March 2007, this study measured the mail sent and received by U.S. households in 2006, tracked household mail trends, and compared mail use among different household types. The report examined trends in the context of changes and developments in the wider markets for communications and package delivery. Households received 155.5 billion pieces of mail in 2006 and sent 19.4 billion.

PRICING

New Postal Pricing

On May 14, the Postal Service introduced new pricing that reflects changes in operations and the marketplace, offers customers more choices, and promotes a more cost-effective, efficient mail system. These changes included shape-based pricing for First-Class Mail, new pricing for all products including Priority Mail and Express Mail, simplified international services, and the introduction of the Forever Stamp. Concurrent with the changes to domestic mail, international product and pricing adjustments, were also implemented.

On July 15, the Postal Service introduced new Periodicals prices to improve efficiency, offer more choices, and provide accurate cost coverage for all types of Periodicals mail. Periodicals mailers have more incentives to use efficient containers and bundles, while incentives for publishers to combine mailings or use co-palletization became permanent.

Negotiated Service Agreements

A negotiated service agreement (NSA) is a mutually beneficial customized agreement between the Postal Service and a business customer that is designed to increase mail volume, enhance mail



The Postal Service produced 250 million Marvel Super Heroes stamps.

preparation and reduce Postal Service costs when possible. Two active agreements in 2007 with Discover Financial Services and Bookspan increased volume and made new contributions totaling \$1.7 million, with \$1.0 million in discounts. Two new agreements with The Bradford Group and Life Line Screening are under litigation before the PRC. The Bank of America agreement was returned by the PRC and was approved by the Postal Service Board of Governors.

PRC Proceedings

- **Regulations Establishing Systems of Ratemaking:** Docket No. RM2007-1

The Postal Act of 2006 directed the PRC to establish a modern system for regulating rates and mail classes. On January 30, the PRC opened a Rulemaking to establish these regulations. After two rounds of comments and reply comments, the PRC issued on August 15, Order No. 26, setting forth its proposed rules and requesting additional comments and reply comments. On September 24, as requested by the PRC, the Postal Service filed its proposed Mail Classification Schedule to delineate the products. Reply comments were filed on October 9. Final rules were filed by the PRC as Order No. 43 on October 29, and were effective December 10.

- **Postal Rate and Fee Changes:** Docket No. R2006-1

On May 3, 2006, the Postal Service filed an omnibus rate case with the PRC requesting an Opinion and Recommended Decision for changes in postal rates and fees. Changes were intended to cover a projected revenue shortfall of about \$5.9 billion in 2008. The Postal Service also proposed a new classification for a Forever Stamp, which would remain valid for the first ounce of First-Class Mail letters regardless of subsequent rate changes; new pricing for certain Priority Mail pieces based on the size of the mailpiece as well as its weight; and a more detailed rate design for First-Class Mail including shape-based rates to reflect different costs for letters, flats, and parcels. The Postal Service supported its request with a wide range

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of financial, operational, and other studies, including testimony and exhibits of 41 expert witnesses.

On February 26, the PRC issued its Opinion and Recommended Decision. The PRC recommended a 41-cent rate for the first ounce of First-Class Mail letters, 1 cent lower than proposed, and corresponding increases in other mail categories, such as a \$4.60 rate for Priority Mail weighing up to 1 pound, restructuring Periodicals rates and increasing rates for flat-shaped mail and some parcel categories. On March 19, the Governors allowed the Recommended Decision to take effect and ordered the implementation of the recommended rates, but returned three matters to the PRC for reconsideration. Most rates took effect on May 14, except Periodicals rates, which took effect two months later on July 15.

On April 27, the PRC issued its Opinion and Recommended Decision Upon Reconsideration, and recommended a minor classification change suggested by the Postal Service for the nonmachinable surcharge for First-Class Mail letters, and a slight reduction in the previously recommended rate for the Priority Mail Flat Rate Box. On May 25, the PRC issued its Second Opinion and Recommended Decision Upon Reconsideration. In that document, the PRC declined to recommend any permanent rebalancing of the rates recommended for flat-shaped Standard Mail, but instead recommended a temporary reduction in rates. The Governors, on June 19, declined to adopt that recommendation. Consequently, the rates for flat-shaped Standard Mail remained as recommended by the PRC on February 26.

- **Baseline Negotiated Service Agreement with Life Line Screening:** Docket No. MC2007-5

On August 8, the Postal Service filed a Request with the PRC for a Recommended Decision on Classification and Rates associated with a proposed baseline NSA with Life Line Screening. The Agreement provides Life Line Screening with declining block rates for Standard Mail letters soliciting new and existing customers for direct-to-consumer preventive health screenings. This matter continues to be litigated.

- **Functionally Equivalent Negotiated Service Agreement with The Bradford Group:** Docket No. MC2007-4

On August 3, the Postal Service filed a Request with the PRC for a Recommended Decision on Classification and Rates to implement a functionally equivalent NSA with The Bradford Group. The Agreement provides The Bradford Group with declining block rates for Standard Mail letters and flats soliciting new and existing customers for collectibles and other gift items. This matter continues to be litigated.

- **Premium Forwarding Service:** Docket No. MC2007-3

On July 31, the Postal Service filed a Request with the PRC proposing to convert Premium Forwarding Service (PFS) from an experimental to a permanent offering. PFS is designed for residential customers who want to receive substantially all their mail at a tempo-

rary domestic address via Priority Mail. A settlement agreement has been filed with the PRC. This matter continues to be litigated.

- **Repositionable Notes Minor Classification Change:** Docket No. MC2007-2

On April 2, the Postal Service filed a request to extend the expiration date of the provisional Repositionable Note (RPN) service. The Postal Service began offering provisional RPN service as a test on April 3, 2005. This service allows bulk mailers of letters and flats to mechanically attach removable, self-adhesive notes to the outside of their mailpieces for a small additional charge.

On June 14, the PRC issued its Opinion and Recommended Decision on Repositionable Notes Minor Classification Change. The PRC recommended that the expiration date of the RPN provisional service be changed from April 3, 2007, to April 3, 2008. The Governors approved the Recommended Decision on June 27, with implementation on June 29.

- **Baseline Negotiated Service Agreement with Bank of America Corporation:** Docket No. MC2007-1

On February 7, the Postal Service filed a Request with the PRC for a Recommended Decision on Classifications, Rates and Fees to implement a baseline NSA with Bank of America Corporation. The NSA provides performance-based incentives to encourage Bank of America to undertake certain mailing activities to reduce Postal Service costs associated with processing Bank of America's letter-rated First-Class Mail and Standard Mail. The Agreement requires multiple operational commitments from Bank of America: Implementing Intelligent Mail barcode, OneCode ACS, CONFIRM, Seamless Acceptance, FAST and eDropship; and waiving the physical return of certain First-Class Mail and Standard Mail for the acceptance of electronic information.

The Postal Service agreed to provide rate discounts from otherwise established rates for improvements in address quality and mail processing performance. The PRC provided its recommendation on October 3. The Governors approved it on December 10.

- **Stamped Stationery Classification:** Docket No. MC2006-7

On August 24, 2006, the PRC instituted Docket No. MC2006-7 to receive and consider a request from the Postal Service to establish a classification and fee schedule for stamped stationery. In an accompanying order, Docket No. C2004-3, the PRC held that all stamped stationery is a postal service and, therefore, must be defined in the Domestic Mail Classification Schedule (DMCS) with classifications and fees recommended by the PRC and approved by the Governors. Previously, the Postal Service treated certain types of stamped stationery with fees established independent of PRC purview. The PRC set February 26 as the date the Postal Service had to file its request.

Chapter 2 **Our Customers**

On February 22, the Postal Service filed a Request with the PRC to establish classification and fees for Premium Stamped Stationery.

On June 8 the PRC issued its Opinion and Recommended Decision recommending the Postal Service classification and fees. The Governors approved the recommendation on June 25.

- Washington Mutual Bank Negotiated Service Agreement: Docket No. MC2006-3

On March 29, 2006, the Postal Service filed a Request with the PRC asking that it recommend classifications, rates, and fees associated with a proposed baseline NSA with Washington Mutual Bank, Inc. The NSA established declining block discounted rates for First-Class Mail volume. Unlike prior NSAs, the Washington Mutual Bank NSA did not establish a cost-savings cap. Instead, the NSA incorporated risk mitigation features, including a penalty-backed solicitation mail volume guarantee, as well as a penalty-backed First-Class Mail volume guarantee for the first year of the agreement. The NSA also provided incentives for the substitution of electronic notices for physical return of undeliverable-as-addressed pieces.

On December 8, 2006, the Postal Service withdrew its Request and the PRC closed Docket No. MC2006-3 on December 12, 2006.

- Complaint on Electronic Postmark: Docket No. C2004-2

On February 25, 2004, a complaint proceeding was filed concerning the Postal Service Electronic Postmark. The Complaint alleged that the Postal Service is acting unlawfully by offering this purely electronic service without first submitting to the PRC a Request for an Opinion and Recommended Decision on classification provisions and associated rates with this service. In its responsive pleadings filed on April 26, 2004, the Postal Service argued that complaint proceedings before the PRC were not intended and not appropriate to resolve issues as to whether the Postal Service is acting beyond its lawful authority.

On March 3, 2006, the PRC denied the motion to dismiss, taking the view that a hearing would be necessary to establish the material facts regarding the postal aspects of the service. Testimony was filed by the complainant and subsequently by the Postal Service.

On December 14, 2006, the complainant filed a motion seeking leave to withdraw the complaint. The motion was granted by the PRC on December 19, 2006 and the docket was terminated.

- Appeal on Closing of Ecorse Classified Branch: Docket No. A2007-1

On July 27, a complaint was filed to appeal the closing of the Ecorse, Michigan Finance Station. The PRC determined it lacked jurisdiction to make a ruling; therefore, on October 9, the PRC dismissed the appeal.

Chapter 3 **Our Workforce**

As a labor-intensive business, the Postal Service continually seeks to balance human resources so that it provides high-quality customer service as efficiently as possible. This is accomplished through careful workforce planning, optimizing the mix of career and noncareer employees, recruiting a highly-qualified workforce, providing competitive compensation and benefits, and offering effective job-based training and career development.

Compensation and Benefits

Compensation and benefits for current employees and retiree health benefits make up 80 percent of postal operating expenses. Compensation plans are designed to attract, retain, and motivate employees, while meeting all relevant statutory requirements. The sections below discuss the Postal Service's statutory standard of pay comparability to the U.S. private sector, primary benefit plan features, and developments in compensation and benefits in 2007.

PAY COMPARABILITY

The average annual pay and benefits for career bargaining unit employees was \$63,771 this year, excluding corporate-wide expenses that cannot be attributed to individual employees. To achieve compensation rates comparable with the private sector, negotiations between the Postal Service and unions continue to apply the principle of moderate restraint set forth in past interest arbitration awards for those units that have compensation exceeding private sector levels.

Pay for supervisors, postmasters, and other nonbargaining employees provides an adequate and reasonable differential between first-line supervisors and bargaining-unit employees, and meets or exceeds comparability standards.

Due to limits imposed by the Postal Reorganization Act and the Postal Act of 2006, the salaries, pay and benefits for many officers and executives do not meet comparability standards. However, within these statutory salary limitations, the Postal Service continues to provide performance-driven pay actions in support of its goal to enhance its performance-based culture.

PAY-FOR-PERFORMANCE

The Postal Service's award winning Pay-for-Performance (PFP) program continued to drive organizational success in 2007. The performance results are highlighted in Chapter 5. First implemented in 2003 for postal executives and extended to Executive and Administrative Schedule (EAS) employees in 2004, the program is the sole source of annual pay adjustments for white-collar postal employees. The foundation of the evaluation system is a balanced scorecard of objective, independently-verifiable measures of service, workplace environment, productivity, and financial performance. Performance indicators are measured at national, area, district,

business unit, and individual levels so that meaningful performance distinctions are made within the line-of-sight of all managers.

A significant event in 2007 was the 4-year extension of PFP resulting from pay consultations with management associations representing 72,000 supervisors and postmasters. The consultation package ensures that performance-driven pay adjustments will occur within a market-based pay structure through 2010.

At the start of the annual evaluation period, EAS and Postal Career Executive Service (PCES) employees learn the priorities of the organization and the expectations for their individual performance. Every employee is evaluated against corporate, unit, and individual objectives. Corporate and unit indicators are set and measured in the National Performance Assessment (NPA) system. NPA combines service, revenue, cost, and workforce-related indicators. Results against these general targets are balanced with the employee's individual core requirements. The individual requirements are specific to the employee's personal contributions to unit and corporate success. The Performance Evaluation System (PES), a Web-based system on the Postal Service Intranet, automates the recording of core requirements and accomplishment data. PES has improved efforts to provide timely and specific feedback on individual performance.

BENEFITS

Postal employees enjoy excellent benefits, including annual and sick leave, the opportunity to donate leave, paid basic life insurance with additional options at the employee's cost, pretax Flexible Spending Accounts for dependent and health care, and the Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS) plans, including company contributions to the Thrift Savings Plan (TSP) for FERS employees. Participation rates and employer costs may be found in the *2007 Annual Report*.

Health Insurance

During 2007, agreements were achieved through the collective bargaining process and through consultation with the management associations to reduce the Postal Service's share of the contributions to the cost of health benefits premiums for its employees. Reductions begin in January 2008 for employees represented by the American Postal Workers Union and National Postal Mail Handlers Union and for EAS employees. Reductions begin in January 2009 for employees represented by the National Association of Letter Carriers and the National Rural Letter Carriers' Association.

Dental and Vision Insurance

The first Federal Employee Dental/Vision Insurance Program open season in the fall of 2006 generated high interest. Approximately 64,000 employees enrolled in the dental program and 50,000 in the vision program. Employees pay 100 percent of premiums with pretax dollars.

Chapter 3 Our Workforce

Retirement

Full-time career employees within three years of retirement eligibility may now request National Retirement Counseling Systems annuity estimates online through *PostalEASE*. A full explanation of estimates is available as part of an online retirement seminar along with other retirement benefits information. A new retirement video on *LiteBlue*, the postal extranet, explains retirement-related issues including creditable service, annuity calculations, FEHB, FEGLI, deposits, and survivor benefits.

Financial Literacy And Education

During 2007 the Postal Service undertook efforts in financial literacy and education consistent with the Thrift Savings Plan (TSP) Open Elections Act of 2004. Employees are provided with general information on financial issues on *LiteBlue*, during new employee orientation, retirement seminars, through the OPM and Social Security Administration, and the Thrift Savings Plan. Web-based resources provide information on debt-free strategies, credit, investing, paying for education, long-term care, along with calculators for retirement, auto and home loans, etc. The Postal Service also gave mandatory financial literacy training at each employee's worksite.

Injury Compensation

The Postal Service continues to work closely with the Office of Workers' Compensation Programs (OWCP) to place injured employees who cannot be accommodated within the Postal Service into private sector employment. These efforts have resulted in private sector placements, employee retirements, or reductions in compensation payments for 220 former employees. Since the inception of the Vocational Rehabilitation Process in 2003, compensation costs have been reduced by more than \$20.7 million annually.

For 2007, the Postal Service saw an increase of 4 percent in workers' compensation chargeback expenses from the Department of Labor, OWCP despite continued decreases in illness, injuries, and accidents. The cash payout totaled \$972.7 million.

In continuing efforts to reduce workers' compensation medical costs, the Postal Service implemented two new initiatives: the Pharmacy Card Program and Duplicate Medical Bill Review. The Pharmacy Card Program results in discounted prescription prices for the Postal Service and avoids employees paying out-of-pocket expenses and waiting for reimbursements. A savings of \$3 million was achieved. A projected savings of \$5–\$8 million is expected in 2008. Working in collaboration with OWCP, the Duplicate Medical Bill Review project was initially launched in 2005 to identify and recover medical overpayments made to providers. Since the start of the program, medical overpayments in the amount of \$5.2 million have been identified and eliminated. Monetary gain from pursuit of third-party claims and overpayments are credited to the Postal Service by OWCP. Ongoing efforts with the Credit Recovery program attained \$37.1 million.

The National Reassessment Process is a key initiative that reviews the status of those 33,777 employees in rehabilitation and limited-

duty assignments at the end of each year. The process ensures that every evaluated employee is placed in an appropriate and necessary work position. NRP was successful in three pilot sites — New York Metro, San Diego, and Western New York, with an additional 29 sites now implementing this initiative. The number of employees in rehabilitation and limited duty assignments was reduced to 31,416 at the end of 2007.

Labor Relations

COLLECTIVE BARGAINING

The Postal Service has nine collective bargaining agreements with seven unions covering career employees. Negotiations with unions cover wages, many benefits, and conditions of employment. In 2007, the Postal Service successfully negotiated agreements with three of its four largest unions: the American Postal Workers Union, AFL-CIO (APWU), the National Postal Mail Handlers Union (NPMHU), and the National Association of Letter Carriers, AFL-CIO (NALC). The Postal Service also negotiated agreements with two smaller bargaining units covered by the APWU: the Information Technology and Accounting Service Center, representing information technology and accounting employees at the Accounting Service Centers; and the Operating Services Division, covering maintenance employees primarily at Headquarters. The Postal Service also entered into an agreement with the International Association of Machinists, covering a small number of tool and die workers. Negotiations are ongoing with the National Postal Professional Nurses, who have recently agreed to affiliate with the APWU. Pursuant to an interest arbitration award, a contract was established with the National Rural Letter Carriers' Association (NRLCA) in December 2007. The Postal Service was unable to reach agreement with the Fraternal Order of Police (FOP) and therefore, interest arbitration is being pursued according to statutory guidelines.

The Postal Service and the NALC continued joint contract application training and dispute resolution process support by delivering training to 88 Postal Service and NALC representatives responsible for addressing and resolving disputes locally. The training has been instrumental in reducing disputes and improving relationships. The Postal Service and NALC also have jointly developed an intervention process that has been widely implemented to identify and resolve root causes of disputes at the lowest level possible, helping build more cooperative and productive labor-management relationships.

The Postal Service and NPMHU co-hosted the 10th annual *Quality of Work Life Conference*. More than 39 quality circles displayed innovative solutions to improve operations, with three selected as the Best of the Best for potential national implementation.

Consultation With Management Associations

As prescribed by law, program consultations were conducted throughout the year with the national officers and representatives of the National League of Postmasters (League), the National

Chapter 3 Our Workforce

Association of Postmasters of the United States (NAPUS), and the National Association of Postal Supervisors (NAPS). Pay consultations were held with each party to determine EAS pay and benefits for the years 2007–2010. This process presented an opportunity for the associations to participate directly in the planning, development, and implementation of programs and policies affecting approximately 80,000 managerial employees. Continuation of the PFP program mentioned earlier was one result of these collaborative efforts.

Complement Management

While the postal workforce is undoubtedly the Postal Service's most important asset, it also represents the largest source of cost. Achieving an optimal staffing mix is essential to continuing to achieve its mission. Complement management is an important tool for adjusting to fluctuations in mail volume and mail mix and helps ensure that the organization is able to continue meeting service commitments as customer demand evolves and new mailing technologies are introduced.

The Postal Service monitors complement and workforce-related indicators through the Web-based Complement Information System (webCOINS) program. The number of active webCOINS users has grown to over 17,500, and updates to the database are made daily.

Incremental Complement Management helps manage complement in plants, by day of the week, and by function. It was used in 2007 to identify scheduling inefficiencies, reduce unnecessary overtime, and curtail hiring by reassigning employees in overstuffed plants.

In 2007 the *Business Management Guide* was improved to plan and right-size the workforce within budgeted workhours and projected workload. The Guide combines tracking with complement-correlation trends to analyze the success of current staffing efforts with core business processes.

The Southwest Area's best-practice program, webTRAC, was made available nationally for tracking the hiring of casuals and for maintaining compliance with contractual obligations.

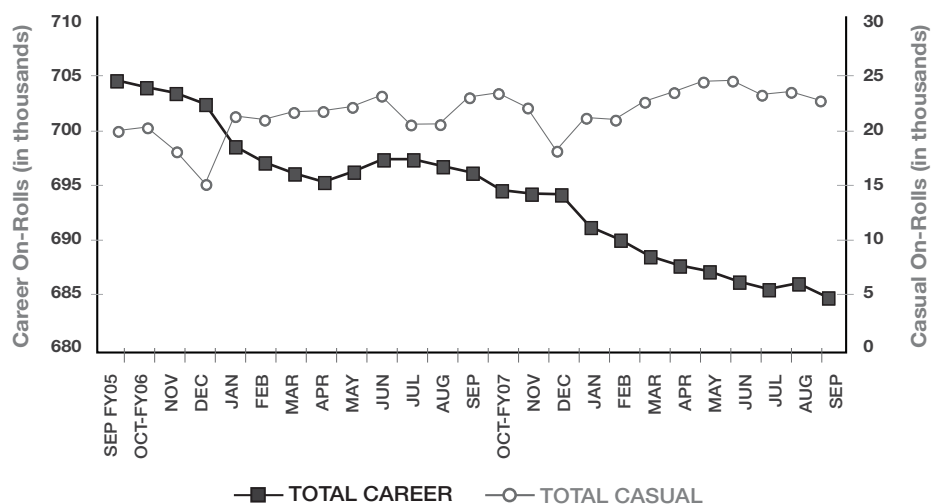
The Web-based Corporate Complement Management (webCCM) system was launched in 2007 to help local management address events that impact their workforce. CCM moves the expertise concerning bargaining unit employee reassignment from the top of the organization to the field level. The process guides the user to compliance with collective bargaining agreements and directs the reallocation of employees to where their skill sets are required in the future.

Fundamentals of Leave Control is a back-to-the-basics 8-hour training course for managers and supervisors. It addresses communication, best practices, and the use of consistent follow-up with employees concerning their leave use. The course, validated in the Southwest Area, is now scheduled for national rollout.

In 2007 total complement decreased by 10,270. At the end of the year, 785,929 career and noncareer employees were on the rolls. Total career complement decreased by 11,376. There were 684,762 career employees on the rolls. Complement mix changed with decreases of 440 casual employees, 829 carrier transitional employees, and 1,042 part-time regular mail handlers. The overall complement reductions correlated favorably with increased service scores and productivity improvements. Overtime, higher-level, and standby hours were reduced.

Career vs Casual Trend End of FY05 to End of FY07

Source: NORPES (Not included: Christmas casuals, Rural Route reliefs and Duals)



Recruitment and Development

RECRUITMENT

Placing the right people in the right jobs is an ongoing strategic effort for the Postal Service. Along with launching a pilot for an automated job application system (see *PostalPEOPLE* section), a new group, Talent Acquisition and Retention, was established to concentrate recruitment efforts on two fronts: 1) forecasting talent requirements that support current and future business strategies, and 2) offering a holistic approach to balancing employee career and lifestyle goals.

A key component of any recruitment program is building awareness of employment offerings. A new brochure was created this year to promote the wide variety of postal careers and help position the Postal Service as an employer of choice. This year the Postal Service also developed and sponsored a first-ever CareerSMART event, a

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career fair to discuss postal employment opportunities and accept resumes from potential applicants. The Postal Service routinely participates in conferences and community events that showcase its diverse workforce, including the annual *Public Service Recognition Week* career fair. Postal participation in national conferences and conventions included the *Blacks In Government National Training Conference*; the *National Black MBA Association Conference*; the *Urban League*; the *Society of American Indian Government Employees*; the *National Congress of American Indians*; the *League of United Latin American Citizens*; the *National Council of La Raza*; the *National Hispana Leadership Institute*; and the *Asian Pacific American Federal Career Advancement Summit*.

The Postal Service is among the nation's largest employers of veterans and disabled veterans and actively recruits men and women in uniform. In 2007, the Postal Service employed 170,851 veterans. Of this group, 59,114 received injuries while in uniform and, of that number, 16,491 were rated at 30 percent or more disabled.

The Postal Service uses regular competitive procedures to select individuals with disabilities for employment. Individuals with severe disabilities receive noncompetitive employment consideration through referrals from state departments of vocational rehabilitation or the Department of Veterans Affairs. In 2007, the Postal Service's career workforce included 39,969 employees with reported disabilities.

The Postal Service's Management Intern program creates additional opportunities for recruitment and placement of people with specialized training and skills. There are currently 120 career management interns, a number that increases each year. Participants are given work experiences managing a wide range of functions and then out-placed into key operational positions.

A total of 304 new operations industrial engineer (OIE) positions were created for plant and area office operations. OIEs will play a key role in the implementation of standardized processes in plant operations starting this year. Approximately 200 of the new positions will be filled through external recruitment.

DEVELOPMENT

The Postal Service offers a comprehensive learning continuum for all employees to reinforce success and drive performance. It accomplishes this objective through training programs that allow employees to strengthen their operational knowledge, build skills, and enhance competencies. The learning continuum also addresses leadership development and talent management at all levels, and is designed to meet the varied and changing needs of an inclusive organization.

National Center For Employee Development

The National Center for Employee Development (NCED) in Norman, OK, is the Postal Service's primary learning facility to manage, maintain, and operate postal systems; upgrade mail processing equipment; improve systems performance; manage networking

infrastructures; and deploy new vehicles. In 2007 NCED provided 665 courses through 3,900 course offerings, to 317,000 people — 44 percent more students than were served the prior year. It also expanded training through in-depth campus programs, field-site delivery, and distance courses. These included 50 new eLearning courses, including training on suspicious mail, enterprise resource management system changes, and retail revenue protection. NCED satellite and audio distance learning networks delivered other Postal Service training and information broadcasts to employees.

Construction was completed on a third facility on the NCED campus. The new Northeast Learning Center will support automated flat mail processing equipment, which is too large for NCED's existing buildings. Multipurpose space will be used for an executive learning program on continuous improvement. NCED revenues exceeded expenses for the seventh straight year. Training and conference support for non-postal clients generated more than \$2 million.

William F. Bolger Center For Leadership Development

The William F. Bolger Center for Leadership Development is the national executive management and leadership training center for the Postal Service. Its mission is to continue to provide a premier learning environment for managers to develop, plan, and grow personally and professionally. Nearly 106,500 people used the center this year, including 46,263 postal employees who attended courses and meetings. The Media Unit within the Bolger Center is used to create video productions and Postal Satellite Training Network broadcasts that assist in employee learning and operational needs. Media Unit-produced videos helped earn *2007 Telly and Communicator Awards for Women in Federal Law Enforcement (WIFLE)* (produced for the Inspection Service and WIFLE), *EEO Rights and Remedies* and *Working Together With Dignity and Respect*.

Training Technology

The Postal Service provided 424 eLearning courses, with 79,192 participants registered. Courses combined materials developed in-house and commercial off-the-shelf products. A small team of postal instructional designers are responsible for all internal, technology-based training products, which reduces development time. The Postal Service increased its capability to deliver Web-based courses by expanding technology to include an Automated Enrollment System (AES) and by consolidating all eLearning to one location. The AES expands current systems to coordinate scheduling, tracking, assessment, testing, and general administration.

Management Development

The Postal Service began a full-scale effort to develop curriculum for individuals recently promoted or newly reassigned to key mid-level manager field positions. A new postmaster level 18 and 20 course was provided to 997 employees. Courses piloted for core operational management training include Manager, Post Office Operations; Manager, In-Plant Support; Manager, Distribution Operations, and operations industrial engineer. Employees promoted to these positions are automatically enrolled.

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Leadership competency models have been updated for all levels to align with strategic organizational needs. More than 600 executives, 1,500 managers, and 2,500 supervisors participated in the surveys and focus groups to develop competency models. To date, the models consisting of up to eight competencies have been completed and incorporated into the Advanced Leadership Program (ALP), EAS Leadership Development (ELD), Corporate Succession Planning, and the Executive Development Continuum.

ALP is the Postal Service's premier development program, and 1,683 participants have completed it since inception. ALP is for mid-level managers who demonstrate potential for greater responsibility. It was streamlined to three weeks and redesigned to be consistent with the Executive Competency Model, which identifies behaviors for successful executive performance. This year 40 ALP graduates were promoted to executive positions.

The nationwide ELD process was launched to augment the succession planning process by reaching deeper into the organization to identify and develop employees to compete for management positions. ELD added 1,100 EAS employees as participants. Participants build comprehensive individual development plans to guide their development.

Executive Development and Succession Planning

The Postal Service continues to develop and maintain a highly motivated, competent group of managers to fill key executive positions. There were 748 Postal Career Executive Service (PCES) managers in 2007, including 40 officers and 89 newly-appointed executives.

To maintain a highly-productive executive workforce, the Postal Service offers four PCES developmental tiers, known as the Executive Development Continuum (EDC). The four tiers are: *Executive Foundations*, *Executive Leadership*, *Individualized Executive Development*, and *Performing at the Peak*. *Executive Foundations*, for newly-appointed PCES managers, was expanded. New executives now participate in a 2.5-day Executive On-Boarding program that covers ethics and accountability, personal acumen and productivity, strategic planning, budgeting and finance, and executive compensation and related policies. In the second part of the program, participants engage with senior leaders to examine key strategic challenges from a systemic, cross-functional perspective. The new Executive Leadership tier, launched in 2007, gives executives deeper insight into the dynamics of leading through organizational change. Executives are given feedback on assessment instruments that measure their leadership styles, preferences, and effectiveness. This year 60 executives participated in this tier of the EDC.

Identification of future executives continues through the automated Corporate Succession Planning (CSP) process. CSP operates on a 2-year cycle, during which employees identified as potential successors develop and pursue targeted development plan to prepare for executive assignments. The next CSP cycle will begin in 2008.

External Career Development Efforts

In addition to promoting the participation of diverse talent in structured developmental programs, the Postal Service supports employee participation at external conferences to enhance professional development and leadership skills. The Postal Service sponsored the National Hispana Leadership Institute's training attended by more than 80 employees. It also provided an excellent opportunity to network with leading professionals who serve as role models and mentors. The Postal Service also sponsored the *Federally Employed Women's 38th Annual National Training Program*, and hosted an agency forum entitled *Leadership — Managing the Journey*. Network, an affinity group of postal employees, is dedicated to training and mentoring future postal leaders. During the Postal Service's 2007 National Training Conference, attendees participated in skills-building activities and attended seminars to help prepare them for leadership roles.

Investing in High-Potential Employees as Future Leaders

The Postal Service has a network of employees assigned to area, district, and Headquarters level diversity-related positions. This network of professionals leveraged their knowledge, skills and abilities to promote career development to a diverse workforce. Diversity professionals continued to be responsible for providing career development seminars, conferences, and individual and group sessions throughout the organization. They provided field administration, coordination, and communications for developmental programs including the Associate Supervisor Program (ASP), CSP, and ELD. ASP is aimed primarily at developing bargaining unit employees to become successful operational supervisors. Active participation in operational advertising these opportunities draws diverse talent, broadening the qualified applicant pool. Diversity staff also help leadership identify high-potential employees for leadership, eliminate barriers from development processes, and forecast future developmental needs.

Diversity

Diversity is key to Postal Service success and impacts every aspect of the organization — its employees, its customers, and its performance. Postal Service diversity reflects the diversity of the nation. It comprises not only race, color, national origin, and gender, but other attributes as well, including social background, education, life experience and perspective.

The Postal Service is one of the leading employers of minorities and women. Minorities comprised 38 percent of the postal workforce, and women comprised nearly 40 percent. Twenty-one percent of employees are African-Americans; 8 percent are Hispanic; 8 percent are Asian-Americans; and 0.06 percent are American Indian/Alaska Natives. Women represented 49 percent and minorities nearly 30 percent of EAS-level employees, which includes mid-level managers and supervisors. Minorities comprised 26 percent of the Postal Service's 748 executives; women comprised nearly 29 percent.

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INCLUSIVENESS IN THE WORKPLACE

To meet strategic business objectives, the Postal Service must leverage the creativity of all employees and continue to foster an inclusive work environment. This approach will enable the Postal Service to achieve full stature as a model employer, as defined by the Equal Employment Opportunity Commission (EEOC) Management Directive 715. The Postal Service is focusing on three strategies to build inclusiveness: 1) enhancing recruitment and retention of diverse talent; 2) leveraging the talents and skills of a diverse workforce to address the needs of a growing diverse customer base; and 3) reinforcing leadership's commitment to diversity and inclusion. Continued emphasis on these three strategies will reinforce the commitment to meeting the demands of a diverse marketplace and enhance the Postal Service's distinction as an employer of choice.

INCLUSIVENESS IN THE MARKETPLACE

Employee understanding and appreciation of customer needs strengthens their ability to market postal services to the nation's diverse communities. Leveraging diversity is a critical component in making the Postal Service the best value in the market and a service-provider of choice. To help communicate with non-English-speaking customers, the Postal Service developed aids in nine languages (Spanish, French, Chinese, Korean, Vietnamese, Russian, Portuguese, Hindi, and Arabic). These aids help postal employees better match postal services to the needs of a multicultural customer base. In-language Holiday fact sheets focused on shipping and the range of postal retail services. The Postal Service also has an online

multicultural outreach toolkit available in the same nine languages.

Postal outreach efforts support strategies to stay connected with all customers and to better assess their needs. Hispanic Program specialists throughout the country attended a planning and training meeting to engage them in efforts to foster an inclusive workplace and marketplace. The specialists received information on recruitment strategies and on



The Postal Service was named Public-Sector Employer of the Year in the Spring 2007 issue of *Careers & the disABLED* magazine. The Postal Service received the award for its "progressive efforts to recruit, hire and promote people with disabilities."

specific postal products and services. The meeting included the first Spanish-language media training session designed to enhance Postal Service communications to Hispanic communities, and in particular, through Spanish-language media.

In February, a cross-functional postal team involving National Diversity Initiatives, Marketing, Public Affairs and Communications, Supplier Diversity, and field Advertising

successfully piloted *It Takes 5!* The initiative promoted five postal products and services, in five geographically-diverse cities, in five or more languages. *It Takes 5!* provided new opportunities to better align marketing efforts with customer needs and helped the Postal Service increase its presence within multicultural, and deaf communities.

The Postal Service also participated in national and local community special events commemorating month-long celebrations for Black History, Women's History, Deaf Awareness, Asian-Pacific Heritage, Hispanic Heritage, and American Indian Heritage. These events promoted diversity awareness and the wide variety of postal services.

RECOGNIZING LEADERSHIP COMMITMENT

The Postal Service's commitment to an inclusive business culture was recognized by several publications in 2007. *Hispanic Business* magazine named the Postal Service one of the best companies for Hispanics. It was the only federal agency in the magazine's *Diversity Elite 60* list, as measured in 30 categories, including commitment to Hispanic hiring, promotion, marketing, philanthropy, and supplier diversity. *Hispanic Business* noted that the Postal Service is not only delivering the nation's mail, "but also a commitment to diversity within the huge organization, with suppliers and throughout the communities it serves."

The *Careers & the disABLED* magazine named the Postal Service Public Sector Employer of the Year, cited postal efforts to provide all employees with equal opportunity to compete in every aspect of employment. Taking advantage of the best available assistive technology, the Postal Service offers Video Remote Interpreting



Hispanic Business Magazine named the Postal Service one of the best companies for Hispanics. The Postal Service is the only federal agency included in the magazine's Diversity Elite 60 list. The rating was determined by more than 30 variables that measure commitment to Hispanic hiring, promotion, marketing, philanthropy, and supplier diversity.

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and Video Relay Service — two forms of sign language interpreting systems — to more than 800 deaf and hard-of-hearing postal employees.

The Postal Service has also been listed as one of *Computerworld* magazine's 100 Best Places to Work in IT for the past four years. All of these honors are a positive reflection on the Postal Service's continuing efforts to become a model employer.

NATIONAL AWARDS PROGRAM FOR DIVERSITY ACHIEVEMENT

The Postal Service held the 11th National Awards Program for Diversity Achievement to recognize employees for commitment to inclusiveness and to celebrate diversity accomplishments. Peers and managers submitted 928 nominations for employees who promoted inclusion in their work and personal lives. The program recognized 22 employees this year, bringing to 372 the number of employees recognized since 1996.

PostalPEOPLE

The *PostalPEOPLE* initiative continues to transform the way that the Postal Service provides human resource services to employees. *PostalPEOPLE* is an integrated technology platform that ensures efficient, high-quality service. The project's most recent initiative was completed in September 2007 with implementation of the human capital enterprise system in all districts, areas, and Headquarters. Other activities included manager self-service, employee self-service, and online job bidding on the employee Intranet site. This year the Postal Service also launched the electronic Official Personnel Folder project to eliminate paper files.

HR SHARED SERVICES

In 2005, the Postal Service opened the Human Resources Shared Service Center (HRSSC) in Greensboro, NC, taking the efficiency model to the next level. Today, the HRSSC is fully staffed and operates on a regular business schedule. The new shared services environment, coupled with enhanced self-service options, allows employees to perform personal and work-related activities 24 hours a day, 365 days a year. In 2007, the HRSSC's portfolio of services, which includes EAS internal selection, benefits, compensation, retirement, and separations processes, was augmented with the migration of organization management and job bid management processes into the center. HRSSC processed over 165,098 personnel actions, 12,562 EAS job vacancies, and 62,527 bargaining unit job postings and awards. All districts and Headquarters are now serviced by the HRSSC, which handles an average of 2,900 calls each day. The numbers are only part of the story — the true value of HRSSC is in bringing manual processes, once performed in many offices throughout the country, into one efficient center, allowing the organization and its talent to focus on the core business.

ECAREER

This year the Postal Service launched its online job applications pilot on the human capital enterprise platform. eCareer will streamline the application and review process. Users will find an easier, more efficient process allowing for faster applicant processing, and helping to ensure selections based on critical job-related criteria. Benefits include elimination of paper application (PS Form 991, *Application for Promotion or Assignment*), 24 hours a day, 7 days a week access via the postal employee intranet site, applicant ability to create, save and edit their online profile, keyword search for postings, and security for personal data. The Capital Metro Area went live in July while additional areas are scheduled for 2008.

Workplace Environment

SAFETY

The Postal Service made continued safety improvements in 2007. National safety indicators and accident reduction plans targeted the most serious and prevalent accidents (including motor vehicle accidents) and illnesses. Employee-awareness efforts on avoiding injury and illness included safety talks, internal publications, and videos, including the award-winning *Safety Depends on Me* video campaign. The Occupational Safety and Health Administration's (OSHA) 2007 injury and illness frequency rate for the Postal Service was 5.51 per 100 employees. This is a 4.7 percent improvement from 2006, and equates to 39,159 OSHA injuries and illnesses.

Since 2001, the Postal Service has reduced the total number of OSHA injuries and illnesses by 31,680, a 44.7 percent reduction. The motor vehicle accident frequency rate was 9.79 per million miles, down 1.21 percent from last year. Since 2001, the Postal Service has reduced its total number of motor vehicle accidents by 3,537, a 13.7 percent reduction.

Voluntary Protection Programs

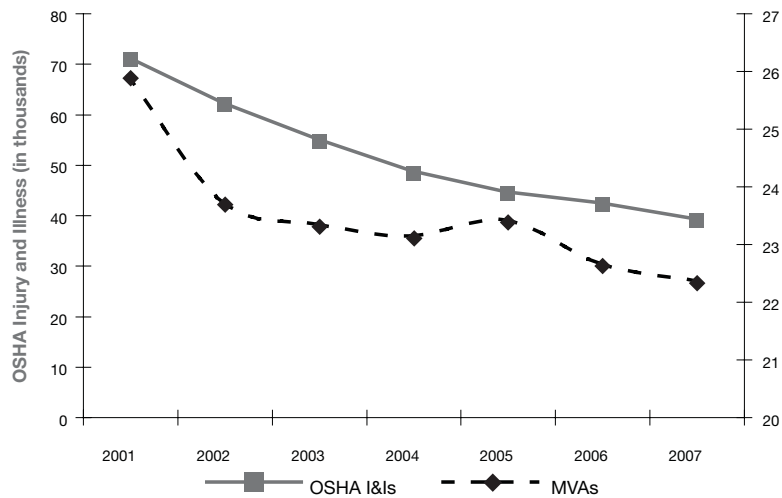
The Postal Service continues to collaborate with the OSHA to implement the Voluntary Protection Program (VPP). VPP recognizes excellence in safety and health protection and is implemented through joint labor-management safety committees. To qualify for VPP certification, a facility must have comprehensive safety management systems, and employees must be actively involved in anticipating, evaluating, and controlling potential hazards. OSHA recognizes only those facilities that have implemented the best programs. OSHA has recommended or approved a total of 133 postal worksites for VPP participation. In 2007, 37 sites achieved VPP status, including 34 that reached Star status, the premier OSHA designation. On average, VPP sites post OSHA injury and illness reductions that are 11 percent better than non-VPP sites.

Ergonomic Risk Reduction Process

The Ergonomic Risk Reduction Process (ERRP) reduces both the number and severity of musculoskeletal disorders, builds labor/

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OSHA Injuries and Illnesses and Motor Vehicle Accidents



management teams with ergonomic skill, and cultivates partnerships to identify and control ergonomic risk. These partnerships are cultivated among the Postal Service, OSHA, the National Postal Mail Handlers Union, and the American Postal Workers Union. To date, 157 sites have implemented ERRP (151 plants and 6 districts) and over 122,000 employees have received ERRP training. ERRP teams have analyzed and resolved 9,805 tasks, and implemented 6,783 employee-submitted solutions. Some of the most successful solutions reduce handling and lifting injuries.

Customer Service employees have also requested an ergonomic process to help identify and reduce musculoskeletal disorders. The organization of ERRP for Customer Service (CS ERRP) differs from the plants since CS ERRP is not confined to a single building. The Sacramento and Portland Districts implemented CS ERRP in 2007 after additional refinements were made.

EQUAL EMPLOYMENT OPPORTUNITY

The Equal Employment Opportunity (EEO) function is organized into two components: the National Office of EEO Compliance and Appeals Programs, which handles EEO policy and informal complaint processing, and the National EEO Investigative Services Office (NEEOISO), which oversees the formal EEO complaint process. The separation of the informal and formal processes allows each group to concentrate efforts and apply the most appropriate tools.

The National EEO Compliance and Appeals field offices reorganized into a regional structure in 2007. The four EEO Regions are designed to make efficient use of EEO personnel. This structure also allows for a more proactive approach to complaint reduction. The four EEO regional managers oversee the field offices. Field offices handle the informal complaint process including EEO counseling and alternative dispute resolution programs such as the Resolve Employment Disputes Reach Equitable Solutions Swiftly (REDRESS) mediation program. Throughout the year, training was held for supervisors

and managers on the importance of equal employment opportunity, open communication, and the benefits of resolving complaints at the lowest possible level. In 2007, employees elected for mediation in 82 percent of eligible cases; 75 percent of those complaints were resolved. This year, 17,460 informal complaints were processed, with 98 percent of them closed within regulatory timeframes.

The Postal Service's goal is to produce high quality and timely complaint processing in accordance with EEOC regulations. NEEOISO completed 96.1 percent of all investigations within the 180-day timeframe, reduced the average time to issue a merit decision to 23 days, and processed 37,742 requests for EEO counseling. NEEOISO completed 98 percent of Final Agency Decisions within 35 days from receipt. The Notice of Final Action process was completed within 25 days of receipt 95.2 percent of the time. Letters of Acceptance or Dismissal were mailed 98 percent of the time within the 35-day time allowance.

Contract investigators and final agency decision writers were used to help maintain the neutrality of the investigative and decision process.

NEEOISO has consistently attained high scores in the completion of EEO cases, and is now providing services to nine other federal agencies on a fee-for-service basis. NEEOISO has been recognized by the EEOC for achieving the highest timeliness rate for the completion of Final Agency Decisions among the Federal Sector Agencies.

EMPLOYEE ASSISTANCE PROGRAM

The Postal Service Employee Assistance Program (EAP) provides employees and family members with free voluntary, confidential counseling from licensed, professional counselors. Counselors are available 24 hours a day, 7 days a week, in convenient locations to help with difficulties that affect employees' lives and work. Issues typically include emotional, financial, legal, chemical dependency, marital, and family matters. EAP provides consultation to managers and supervisors with issues not only involving individual workers, but also their work environment. Ongoing preventive efforts, such as manager coaching and educational seminars on communication and stress management, help employees at all levels to manage difficult situations. EAP provides key support after critical incidents (e.g., natural disasters, workplace and community violence, unexpected death).

In 2007, 49,556 employees and family members received EAP counseling, information, and consultation. Of the more than 21,520 employees who received counseling, 26.7 percent reported a problem that affected their work performance. EAP staff responded to 308 critical incidents and provided assistance to more than 15,969 employees following these incidents. Health and wellness seminars plus training on stress management, elder care, and substance abuse were provided to more than 25,151 employees. EAP also provided services to the many Postal Service employees

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and family members after the Virginia Tech shootings and the tornado in Alabama.

VIOLENCE PREVENTION AND CRISIS MANAGEMENT

The Workplace Environment Advisory Committee is composed of representatives of Postal Service Human Resources, unions, and management associations. Working closely with the Postal Inspection Service and EAP/Workplace Environment Improvement (WEI), this committee uses a standard protocol to identify and address undesirable behavior resulting from individual or systemic problems. EAP/WEI helps the field by ensuring that local threat assessment and crisis management teams are in place and that training is provided. These teams respond to potential threats and crises to ensure swift resolution and the utmost employee safety.

In March, the *Threat Assessment Team Guide* was revised to incorporate updated workplace violence prevention information and research, to provide Threat Assessment Teams (TAT) with improved resources and a compliance checklist, and to add the Workplace Environment Analyst and Human Resource Manager to core team membership.

The National Committee on Workplace Violence Prevention (NCWVP) was established in the fall of 2006 and had its inaugural meeting in March 2007. The committee's purpose is to create an inclusive, national dialog that provides oversight and recommendations to the development and enhancement of policies guiding the Workplace Violence Prevention program. The committee created a National TAT Training Calendar so that districts and areas can coordinate training efforts and attendance at the 2-day training sessions.

NATIONAL WORKPLACE HARASSMENT PREVENTION

The Postal Service is committed to providing its employees a safe, productive, and inclusive workplace. Its national policy states that the Postal Service will not tolerate harassment of any type and will hold all managers responsible for preventing it. Awareness is the key to efforts to ensure a workplace free of unlawful and inappropriate conduct. *The Harassment: Initial Management Inquiry Process* training program was delivered to managers and supervisors to make certain they have the understanding and skills necessary to respond to harassment complaints. Workplace Harassment Fact-Finding training was developed and conducted for 72 workplace environment analysts and nine alternative dispute resolution coordinators.

The procedure on reporting and investigating Headquarters Unit Employee Harassment Complaints was changed to Headquarters level of control to ensure appropriate resources are available to comply promptly with workplace harassment prevention regulations.

Employee Communications and Outreach

VOICE OF THE EMPLOYEE

Every quarter, one-fourth of career employees receive the Postal Service's Voice of the Employee (VOE) survey at their work location. Participation is voluntary. Employees are given time on-the-clock to complete the surveys and seal them in postage-paid envelopes that are mailed to the contractor for data analysis and quarterly reporting. Six of the questions are used as key indicators of workplace factors that can impact employee performance and business outcomes. Survey results help identify organizational issues and establish improvement strategies. For 2007, the national employee response rate was 62 percent. The national index score was 63.6 percent favorable, up slightly from 63.4 percent in 2006.

EMPLOYEE COMMUNICATION

The Postal Service uses a variety of media — print, online, radio, television, and graphic design — to deliver key messages to employees and other postal stakeholders. Shortly after passage of the Postal Act of 2006, the Postal Service launched an effort to inform employees about its provisions through communication vehicles that included electronic newsletters, on-demand video and publications mailed to every employee. Employees were able to submit questions about the new law and the responses were published online.

The communications focus was on informing employees and other stakeholders about efforts to improve service and add new value to the mail, including new shape-based pricing, introduction of the Forever Stamp, and other initiatives, through national and local media. An online newsroom at *usps.com* was also created to provide one-stop access to news releases, speeches, postal facts and other information resources, including broadcast-quality video, photo stills, and multimedia files.

Community Involvement

Postal Service employees are committed to being good neighbors in the communities they serve, as shown by their efforts to help those in need.

Have You Seen Me Program

The National Center for Missing & Exploited Children (NCMEC), ADVO, and the Postal Service made changes to the *Have You Seen Me?* program in 2007. Photos of America's missing children are now in full color prominently featured in ADVO's *ShopWise* mail circular. Previously, the smaller, black-and-white photos were on a detached address label, familiar to most Americans as the Missing Child card they received in the mail. By featuring recent or age-progressed photos of children and their alleged abductors, *Have You Seen Me?* enables the American public to help recover missing children. As a direct result of leads generated by the program, 146 missing children have been safely recovered since 1985.

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Combined Federal Campaign

The Postal Service joins other federal agencies in the Combined Federal Campaign drive each fall. In the 2006 campaign, postal employees pledged \$40.2 million to charities of their choice.

Postal Employees Relief Fund

The Postal Employees Relief Fund (PERF) is a humanitarian effort administered jointly by the Postal Service and the unions and management associations. PERF is supported financially by postal employees primarily through the payroll deduction program of the Combined Federal Campaign. Since its inception in 1990, PERF has assisted more than 2,300 employees and provided approximately \$12.7 million in humanitarian grants. PERF continues to serve a vital role in the recovery effort for employees living and working in all parts of the country. PERF provided valuable support and financial assistance to postal employees and their families throughout the country who experienced damage from house fires as well as property loss resulting from natural disasters such as floods, hurricanes, and tornadoes.

Marrow Donor Program

Since 1997, the Postal Service has collaborated with the Marrow Foundation to build awareness of the National Marrow Donor Program (NMDP) — especially among African Americans and other ethnically diverse minorities — and help increase the number and diversity of volunteers on the NMDP Registry. More than 30,000 postal employees have joined the registry and 30 have made life-saving marrow donations, surpassing all organizations — public or private sector. To mark the achievement, a special ceremony was held in Washington, DC, featuring a first-time meeting between a marrow recipient and the man who saved his life.

Annual Food Drive

On May 12, thousands of carriers and other postal employees in more than 10,000 cities and towns across America collected, processed, and delivered non-perishable food donated by customers. More than 120 million postcards were mailed to customers letting them know about the event — the world's largest annual one-day food drive. Now in its 16th year, the drive has provided more than 750 million pounds of food to the hungry. Long-time supporters of the drive included the Postal Service, Campbell Soup Company, America's Second Harvest, local United Ways throughout America, Valpak Direct Marketing Systems, the AFL-CIO Community Services Network, and cartoonist Bill Keane, who provides a special *Family Circus* drawing for the drive promotion each year.

Carrier Alert

The Carrier Alert Program recognizes that carriers can help monitor the well-being of elderly and disabled customers. A local sponsoring agency notifies the Post Office of persons who want to participate in the service and a decal is placed in their mailbox. Carriers will then be alert to an accumulation of mail that might signify an accident or illness, and notify appropriate officials. Participation in Carrier Alert

had declined in recent years, but 2007 brought renewed popularity as New York City and other cities across the country announced plans to revitalize the voluntary program.



Thousands of Postal Service employees give back to the communities they serve. Above, San Fernando, CA, Carrier Cruz Hernandez and members of the high school soccer team he coaches. Cruz is a former Olympic candidate, LA Marathon Legacy Runner, youth choir organizer, and a father of four who has helped raise 25 foster children.

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Total Mail Visibility

INTELLIGENT MAIL

For more than 20 years, barcodes have been at the core of advances in postal quality and productivity. Automated mail processing, driven by barcodes, allowed the Postal Service to reduce costs as it delivered more rapid, reliable, and consistent service. With the September 2006 introduction of the new, high-capacity Intelligent Mail (IM) barcode, the Postal Service and its customers began to take the next step in automation — the transition to Intelligent Mail.

Intelligent Mail is a comprehensive term that describes the integration of electronic mailing documentation, intelligent barcodes on mail and containers, and in-process scans to track mail from origin to destination. Mail containing the IM barcode will be tracked continuously throughout the system, creating new opportunities to improve service consistency, efficiency, and value.

Mailers of letters and flats can now qualify for automation discounts solely by using an IM barcode or with Intelligent Mail services. By the end of the year nearly 200 mailers have begun using the IM barcode and OneCode Services, including OneCode Confirm and OneCode Address Change Service (ACS), and are seeing improved data control that enhances their address hygiene and barcode quality efforts.

Customer outreach continues to expand the number of users. Intelligent Mail workshops have been conducted at 200 PCCs, reaching more than 13,000 mailers. Simplified mail acceptance processes using IM barcodes are being tested in First-Class Mail and Standard Mail pilots.

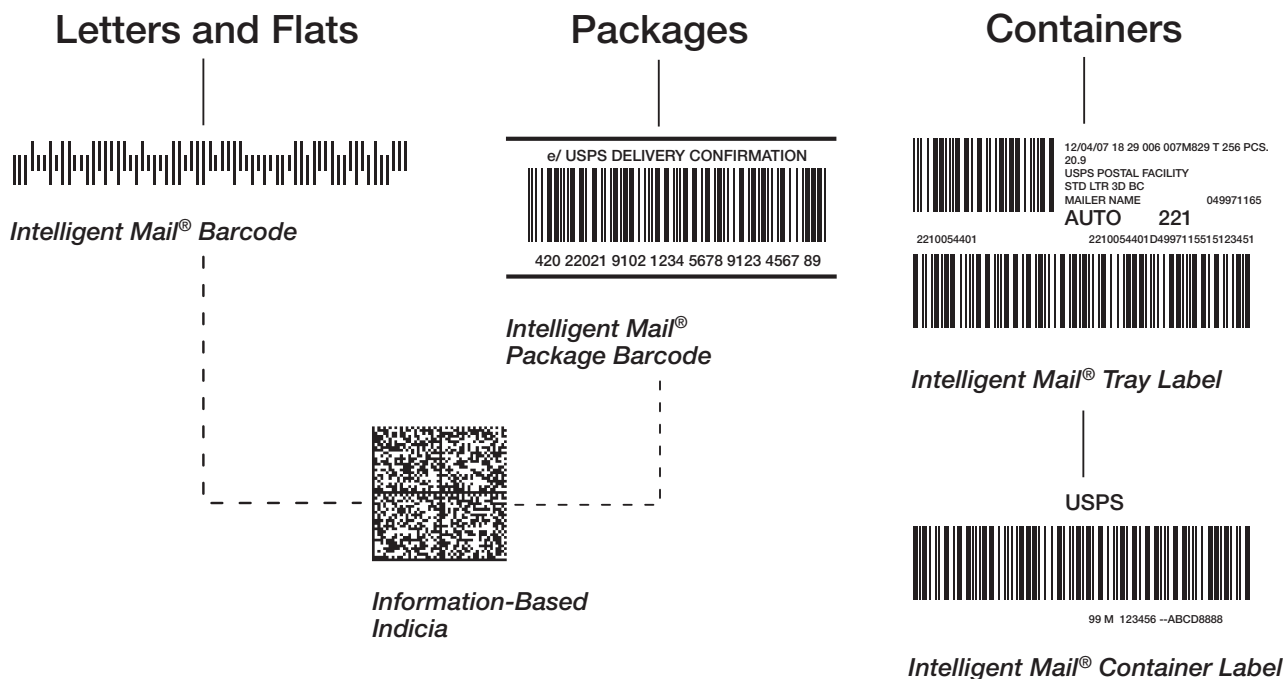
Tests conducted in 2007 by the Postal Service and flat-sized mail vendors addressed many questions related to IM barcode printing specifications. As a result, the Postal Service revised its print specifications in September. The Postal Service has also made IM barcode encoder software available to support customer mailing systems and ease mailer conversion to the new code. For decoding, a barcode reader or software is required. An online solution is available on the Rapid Information Bulletin Board System (RIBBS) Web site for manual low-volume barcode encoding and decoding.

Intelligent Mail Infrastructure

The ability to perform passive in-process scans on letter automation equipment is already in place. The capability for passive scans on flat mail is near completion. With a final upgrade scheduled for February 2008, in-process scanning of letters, cards, and flats will be enabled throughout the network.

The backbone of automated processing is a local area network (LAN) at each plant. The LAN is the conduit for downloading ZIP Code directories and sort plans to processing equipment, transmitting individual mailpiece images for resolution, and consolidating tracking data to computer servers. In 2007 the Postal Service completed its LAN replacement deployment program known as Mail Processing Infrastructure, having upgraded 158 plants and eight remote encoding centers.

The infrastructure to provide package and bundle visibility is coming into place. Shipment Confirmation Acceptance Notice procedures were initiated in November 2006 to provide an acceptance scan event and allow service measurement for Package Pickup. The Automated Postal Center, Click-N-Ship, and mailer applications were enhanced to enable them to print the IM package barcode.



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Scanning at Post Office retail terminals and by more than 300,000 hand-held Intelligent Mail scanners provide “start-the-clock” data at acceptance and “stop-the-clock” data upon delivery. Upgrades to 74 automated package processing systems and 215 small parcel and bundle sorter systems enabled enroute package and bundle scans.

SURFACE VISIBILITY

Enhancing Transportation Visibility

Surface Visibility describes the integration of multiple systems used to track mail across the postal network. Surface Visibility was originally designed exclusively to improve postal transportation, but was expanded to benefit the larger mailing community by making the entire mail value chain more transparent. Mail container barcodes are scanned as containers arrive at postal facilities. Container data is integrated with data from Facility Access and Shipment Tracking (FAST), verifying acceptance and linking to the mailer’s electronic manifest. Information about a mailing is recorded as it first arrives at a facility and as container unloading begins and ends. The data serves two purposes: 1) it improves accountability for contractors who print, prepare and deliver mail to the facility; and 2) it logs when mail actually enters the postal network. Trucks and containers traveling between facilities are scanned and tracked from one step to the next, and quality controls embedded in the systems reduce misdirected and misdelivered mail.

Tracking Mail In Transit

Total visibility depends on an integrated set of systems and intelligent barcodes applied to individual mailpieces, to all handling units and containers, and to trailers as well. The Intelligent Mail Tray Label (IMTL), formerly known as the Enhanced Distribution Label, identifies the mail and provides a unique identifier for each tray, sack, or tub. IMTL routing data helps track unit loads; individual handling units are loaded or “nested” into barcoded containers, which are then nested into trailers via scanning of the trailer barcode. Two Web-based systems produce IMTLs, one for mailers and one for internal postal operations. Postal employees use the Automated Tray Label Assignment System to produce IMTLs. Mailers will use the new Customer Label Distribution System.

At delivery units, manifests identify drop-shipped mail (mail that by-passes processing at plants). For mail that arrives at delivery units from plants, intelligent barcodes on individual pieces have already been linked with barcoded containers. Finally, carriers use handheld scanners at the point of delivery for Express Mail, mail with Delivery Confirmation or Signature Confirmation service, and for other barcoded accountable mail.

Preparation

Undeliverable-as-addressed (UAA) mail must be forwarded, returned to the sender, or treated as waste because addresses are incomplete, incorrect, or out-of-date. UAA mail wastes customer investment in the mail, and the Postal Service’s UAA-related costs

are well over \$1 billion annually. The Postal Service’s goal is to cut its UAA costs in half by 2010 (from its base in 2004).

The Postal Service has implemented new procedures to improve address databases, and new tools are now available to validate and update addresses. New levels of in-process scanning data are providing more detailed feedback on address quality. Industry workgroups are establishing best practices for list administrators and have proposed address-list certification procedures to reduce the most common issues. Customers are encouraged to use electronic change-of-address procedures that validate address data at the time it is entered.

ADDRESSING

High-Quality Addressing — Current, Correct, And Complete

In May the Postal Service introduced an innovative lower pricing structure for OneCode ACS. For First-Class Mail, the Postal Service provides the first two electronic correction notices for a specific address for free. Then, after the first two notifications, the per-correction fee for the same address is \$0.05. For Standard Mail letters, the price for the first two electronic correction notices for a specific address is \$0.02 cents. After the first two notifications, the per-correction fee for the same address is \$0.15.



Bad addresses cost the Postal Service more than \$1 billion a year in wasted productivity.

Starting November 2008 new Move Update policies will require that mailers update customer information within 95 days of mailing for First-Class Mail and Standard Mail. This will reduce mail sent

to old addresses of customers who have moved. Best practices for updating addresses include using both pre-mailing tools like NCOALink, which contains national change of address data in a secure format, and post-mailing tools such as ACS and the new OneCode ACS.

Refining The Address Database

This year, the Postal Service introduced the Address Quality Reporting Tool, a Web-based application that uses existing Intelligent Mail and Address Quality tools to assist in identifying delivery routes with the greatest opportunity to improve address quality. This approach expands the identification of addresses that receive mail but are not in the Address Management System (AMS) database or cannot be sorted to delivery point. Delivery managers updated the AMS database with 477,818 addresses identified through address quality programs in 2007, moving 47.8 million pieces of mail into delivery point sequence. All districts are required to prioritize

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AMS street reviews based upon Address Quality Reporting Tool information.

Frequently, mail that arrives at delivery units with an incorrect address or barcode can still be delivered because carriers can identify the correct destination. Unfortunately, mailers often resend mail to the same address multiple times, unaware of the error, repeating delays and excess handling costs over and over. The Electronic Uncoded Address Resolution Service (eUARS) enables carriers to correct addresses for customers who provide their records. Carriers can also correct change-of-address records that do not match a delivery point in the AMS database. This year carriers helped correct more than 5.1 million incorrect or "bad" addresses.

Use of other software that identifies businesses in multiunit buildings whose mail is not sorted in DPS also expanded in 2007. Delivery managers entered 1.4 million business names into the Delivery Sortation Management Automation Research Tool (DSMART), enabling DPS-level barcoding. The Postal Service has proposed that beginning in August 2009 all CASS/MASS (Multiline Accuracy Support System) software developers would be required to certify SuiteLink, a commercial version of the business names database, and make it available to their end users as an option.

Improving List Quality

Effective August 2007, Coding Accuracy Support System (CASS) certification provides a ZIP+4 code only for addresses that exist in the AMS database. The software will not provide a ZIP+4 code for addresses that are not confirmed. Mailpieces that do not match will not qualify for an automation discount. Customers can correct non-matching addresses using Address Element Correction (AEC) software. This change dramatically improved automation compatibility, especially barcoding at the delivery point level. AEC usage increased by 61 percent driven by the need for mailers to update their address lists to meet CASS Delivery Point Validation (DPV) requirements. The number of addresses processed by NCOALink increased 5.7 percent.

Customers working through MTAC formed a workgroup to explore processes that the Postal Service could use to certify address lists which meet the highest standards of address hygiene based on current technology and procedures. By June the workgroup developed seven policies for a Certified List Administrator, who will be responsible for the address source. The workgroup identified key criteria for quality addresses, validation processes, and post-mailing updates that represent best practices for list administrators. A final report, issued in August, included numerous proposals for using address-list certification procedures to reduce common UAA mail issues.

In June the Postal Service began an address quality campaign with the largest-volume mailers to enhance the value of their investment in mail. The campaign encouraged customers to give their National Account Manager a sample list of up to 5,000 addresses for evaluation. More than 48 customers responded and were provided with an

analysis of opportunities to increase the return on their investment by improving address quality.

Managing Change-Of-Address Data

Each year approximately 46 million change-of-address (COA) requests are submitted. The Postal Service introduced several improvements to make the process more convenient and efficient. With a strategic alliance partner, Imagitas, the Postal Service reduced the cost to produce and distribute COA forms and notification letters.

Electronic Internet and telephone change-of-address options were introduced in 2001 and 2004. Address changes submitted online or by phone offer advantages over requests on paper forms. In general, they are more convenient for movers, and they allow instantaneous validation of the address. Approximately 7 million COAs (14 percent) were filed electronically. The Postal Service's goal is to increase that to 12 million by 2010. There were 17 percent more electronic changes compared with 2006. The August monthly volume of 856,297 was the highest ever.

An *Internet Change of Address Information Kit* will be distributed to postmasters in early 2008, including an overview of the COA process and the benefits of making changes online. The kit was developed after interviews with postmasters showed that the online option was well received when the process and benefits were better understood. In another program, realtors were provided with message cards to give to their moving clients. The cards provide a postal checklist for movers and highlight the benefits of filing online address changes.

MAIL PREPARATION

The Postal Service works closely with mailers to optimize preparation requirements with the goal of continually improving efficiency and service. To maximize container capacity and reduce partially-filled trays, the Postal Service now offers a reduced-overflow tray option on First-Class Mail and Standard Mail letters. The definition of a full letter tray has been revised to a letter tray filled to 85 percent capacity (formerly, a tray was considered full at 75 percent capacity). To increase mailer options for combining mail to achieve finer presort and drop-ship penetration, the Postal Service finalized requirements for combining Periodicals and Standard Mail flats within bundles (co-mailing) and on pallets (co-palletizing). Software modifications were deployed to test participants for trial and installation.

Mailer-prepared presort bundles of flats allow mail to bypass one or more distribution operations. However, the benefits are lost when poorly-prepared bundles come apart in processing. Ongoing efforts to communicate the importance of bundle integrity have shown very positive results. The separate specifications for polywrap designed for processing on the automated flat sorting machine were eliminated this year. The change streamlines the process for mail preparers, who are now required to meet only one set of standards. The result should be more consistent quality.

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The Postal Service is exploring changes to the preparation of flats in a Flats Sequencing System (FSS) environment, including working with the mailing industry to align entry and induction with FSS capabilities and locations. The Postal Service understands that additional entry points may add costs for drop shippers. Therefore, where space allows, the Postal Service will pursue co-locating bundle sorting equipment and other flat sorting equipment (such as AFSM 100s) with the FSS machines so that flat mail for a geographic area may be drop-shipped at one facility. While this will not always be feasible, it is also anticipated that some facilities will no longer serve as drop points for destination entry flats, as processing functions for these facilities are absorbed by larger FSS sites.

Acceptance

PRICE CHANGE PREPARATION AND IMPLEMENTATION

The 2007 Postal Service price and product changes were among the most complex ever. Implementation was complicated by late changes for reconsidered items and a second implementation for Periodicals prices. Service disruption was minimized through detailed contingency planning, consistent customer and employee communication, and teamwork with customers and mail service providers. All online services on *usps.com* and partner service such as eBay were successfully updated with new price functionality and enhancements. Dedicated areas within *usps.com* gave easy access to information on items expected to draw heavy customer traffic, including shape-based pricing, the Forever Stamp, and dimensional weight adjustments for packages. All postal retail software was updated with the new prices and ready for business in advance of the change. New streamlined packaging for both domestic and international shipping further reduced complexity.

Readiness of Applications, Systems, and Web Sites

More than 50 applications and systems, including *Postal Explorer*, *PostalOne!*, rate calculators, Click-N-Ship, the Automated Postal Center kiosk, and POS One retail terminals were updated to reflect new prices and related changes. The *usps.com* main Web page featured the new prices and provided quick and easy access to mailing and shipping guidelines. A number of new items were given special attention, including First-Class Mail shape-based pricing, the Forever Stamp, Priority Mail dimensional-weight pricing, and the redesign of international products. The *usps.com/ratecase* Web site provided a more comprehensive overview of the price and product changes. New price information, mailing standards, and frequently asked questions, as well as links to numerous *Federal Register* notices and PRC documents, were posted for customers to view.

Communications and Publications

To support the communications effort, the Postal Service produced a special *Postal Bulletin*, including a comprehensive field implementation kit with fact sheets, stand-up talks, talking points, and other information to prepare postal employees for the changes. Web casts were part of outreach activities for the software vendor community,

and a Workshop-in-a-Box was posted on *usps.com/pcc* for Postal Customer Councils. The *Domestic Mail Manual*, *International Mail Manual*, and all related materials were each updated and posted on *usps.com* as well. Presentations on price and product changes were provided to the Technical Speakers' Bureau, rate implementation coordinators, Business Service Network, and other groups.

In preparation for the busy holiday mailing season, the Postal Service also published a *Price and Product Change Holiday Field Information Kit* in the October 25, 2007 *Postal Bulletin*. For many retail customers, the holiday mailing season was the first time they were made aware of the changes to domestic and international mail. The kit reinforced the major changes to Priority Mail, First-Class Mail, Special Services, and International Mail to assist both postal employees and customers. Stand-up talks, fact sheets, FAQs, holiday mailing tips, and other reminders for employees were included.

Tools and Resources

In cooperation with Hasler and Neopost, the Postal Service produced the First-Class Mail Shape-Based Pricing Template, a tool to help postal employees and customers apply the shape-based pricing standards for First-Class Mail. *Postal Explorer* CD-ROM (v.21) was also distributed in September to Post Offices. It contains the *Domestic Mail Manual*, the *International Mail Manual*, and all related materials including rate calculators, quick service guides, and postage statements. This internal CD-ROM helps employees calculate Priority Mail dimensional-weight and balloon-rate pricing.

COMMERCIAL MAIL ACCEPTANCE

Seamless Acceptance

Commercial mail acceptance is becoming simpler and more efficient, thanks to improved information flow between customers and the Postal Service. The goal is to make business mail acceptance "seamless," streamlining all aspects of acceptance, verification, payment, and induction into the postal system. Keys to achieving this goal are the expansion of electronic documentation and use of IM barcodes on mail and containers (trays, sacks, and pallets). Information obtained about mailings in process helps verify mail and address quality, validate that the correct postage has been paid, and track individual pieces as they move through the system. Mailers have greater visibility into the postal processing and transportation network. In turn, the Postal Service receives advance knowledge of mailings, which helps plan for the necessary resources.

Customers participated in a pilot of seamless acceptance this year, using new verification procedures to enter 350 mailings (18 million mailpieces) at more than 350 sites. Using mailer identification data contained in the IM barcode, seamless acceptance provides mailers with enhanced information on address and barcode quality, evaluates their mail preparation to standards, and tracks performance. Expansion of these mail acceptance procedures will continue with national implementation expected in late 2008.

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Postal One!

The foundation of seamless acceptance is the PostalOne! system which continues to be upgraded with new features. In 2007 electronic capabilities for large-volume Periodicals mailers were enabled to bring on additional participants using electronic mailing information. Upgrades were also made to the electronic information sharing between PostalOne! and the Facility Access and Shipment Tracking (FAST) systems that support a recurring appointment feature, enabling major publishers to automate their entry point notification for publications being dropped at specified facilities.

The Postage Statement Wizard, an Internet-based tool within PostalOne!, was deployed for small-volume mailers. The Wizard offers these customers a secure electronic alternative for processing and submitting postage statements to the business mail entry unit or local Post Office. Customers can submit electronic postage statements, as well as calculate postage, check balances and fees, view mailing reports, and mailing histories. Postage Statement Wizard had 3,201 customers enroll this year. They presented 105,605 electronic postage statements for 601 million mailpieces, with total revenue topping \$168 million. There were 78 customer sites using electronic documentation and postage statements through Mail.dat and Web Services. There were more than 240,000 statements processed through this electronic feature — accounting for more than 13.4 billion mailpieces and \$3.3 billion.

The Postal Service continued to encourage customers to use the PostalOne! system's centralized payment capability. This year 2,251 Centralized Account Payment System (CAPS) accounts were added to this centralized payment feature, along with more than 14,000 permit accounts. A total of \$21 billion in revenue was processed through payment features that allow customers to fund many business mailing accounts from a single payment process. This year also saw the implementation of a data exchange interface between the retail Point of Service (POS) financial transaction processing system and the PostalOne! system to streamline the recording of financial transactions for commercial mailings. This feature reduced the handling of hard copy and minimized redundant data entry.

The Facility Access and Shipment Tracking System

The Facility Access and Shipment Tracking (FAST) system provides customers with a means to schedule entry of destination rate Periodicals, Standard Mail, and Package Services. Customers and postal managers both benefit from the increased visibility. With the Postal Service's complementary Mailer Rating program, customers who provide advance notification and arrive at the scheduled time with the amount of mail shown on their appointment will have improved access.

RETAIL

Each day over nine million people visit Post Offices to buy stamps, mail packages, or collect mail from Post Office boxes. About three-quarters of revenue transactions occur at Post Offices, with the

balance taking place online, at self-service kiosks, or partner retail outlets. The Postal Service is committed to providing consistent, high-quality service at every point of access.

Post Office Services

Local Post Offices offer retail access to mailing and shipping services, and provide mail delivery to more than 20 million Post Office boxes. The principal users of Post Office retail services are low-volume business mailers and consumers. This year Post Offices produced \$18.4 billion in retail revenue.

The Postal Service continued its Postal Team Makeover efforts to provide a more consistent retail experience from one Post Office to the next. Approximately 15,000 offices have completed this process, which establishes best practices for merchandising, product information, and customer communication. Teams consisting of one retail associate and one manager from each district have been trained to help other managers improve facility conditions, signage, and merchandise displays. A *Retail Standardization Resource Guide/Toolkit* guides offices through the process.

Other Retail Options

Revenues of \$4.4 billion were produced by other postal retail channels (contract postal units, stamp vending, the Automated Postal Center kiosk, the *usps.com* Web site, and from postage stamps sold at supermarkets and other commercial outlets). Through a series of partner programs, customers can buy stamps, mail a letter, or ship a package from the convenience of home or local grocery store. By supplementing the Post Office network, these options expand the times and places that customers can obtain service.

The *Stamps on Consignment* program makes stamps available at postal prices through thousands of commercial venues, including many ATMs, supermarkets, drug stores, and convenience stores. Retailers benefit through additional customer traffic. This program exceeded \$1 billion in revenue this year.

The *Automated Postal Center* (APC) is a self-service kiosk that gives quick, convenient access to the most common transactions. Most of the 2,500 APCs are available 24 hours a day, 7 days a week. APC revenue for 2007 was \$483 million.

Contract postal units (CPUs) provide staffed counter services in supermarkets, card stores and other busy retail outlets. The units are staffed by the host retailer. Most feature evening, weekend, and holiday hours of operation. CPUs generated \$688 million this year.

The *Approved Shipper* program also utilizes partner location and staffing. However, unlike CPUs, the host retailer is not under contract and receives no compensation. These retailers routinely accept letters and packages on behalf of customers and tender them to the local Post Office. The Approved Shipper Program gives them standard product signage and information, improves compliance with aviation security (package acceptance) procedures, and improves the consistency of information about postal services.

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Stamps by Mail allows customers to order stamps, postal cards, and stamped envelopes and have them delivered by mail. Customers normally receive orders within two days. Stamps by Mail processed 4.6 million orders and generated approximately \$186 million.

usps.com

The Postal Service Web site, *usps.com*, broadens access to products, services, and information. The site received 386 million visits, a 24 percent increase from 2006. Content enhancements and the addition of new applications continue to drive growth.

Customers can create professional direct mail online from anywhere using Click2Mail. It saves the effort of addressing, collating, sorting, and posting. Customers have four services from which to choose: Premium Postcards, Mailing Online, CardStore, and Mover's Postcards. The mailer chooses a format – postcard, letter, self-mailer, or greeting card – and, through *usps.com*, the Postal Service does the rest. Each mailpiece is personalized, printed, and in the mail the next business day.

The Postal Store on *usps.com* is the primary source for online customers to obtain mailing services and shipping supplies. Revenue from the Postal Store surpassed \$210 million, a 20 percent increase from the previous year. About 2.8 million customers made a purchase this year. The site is responsible for 71 percent of shipments from the Stamp Fulfillment Services Center in Kansas City and 78 percent of expedited shipping supplies.

Since 2002 when the Postal Service introduced Click-N-Ship online shipping, there has been continuous growth in the number of users and revenue. From the convenience of their homes or offices, customers can use stored addresses to create labels with and without postage, and then click on a link to schedule a Carrier Pickup, saving time and a trip to the Post Office. Several new features were added in 2007, including the *Shipment Confirmation Acceptance Notice*, which lets online shippers and their customers know that packages are on the way. Every package in a shipment is linked with one barcode.

Online tools made international mailing easy for customers by combining a mailer's customs form and address label into one, easy-to-complete document for Express Mail International and Priority Mail International. The Postal Service also rolled out Click-N-Ship service for packages destined to Army Post Office, Fleet Post Office, and Pacific Island addresses.

Postage Technology and Secure Electronic Services

Postage meters and *PC Postage* services provide another postage payment option. Today, these services integrate options such as insurance and Delivery Confirmation with postage payment, and make it even easier to print labels and account for postage. PC Postage continues to grow in popularity, with more than a 40 percent increase in revenue and nearly a 30 percent increase in registered users.

In 2007 the first new postage meter provider was approved in over 50 years. Existing meter companies continued to submit new information-based indicia (IBI) postage meters for approval. IBI postage meters produce a digital two-dimensional barcode that includes postage payment and other related service information. IBI meters now account for 56 percent of all meters and produce over 74 percent of all meter revenue.

The Postal Service launched the fourth phase of its Customized Postage market test this year. Customized Postage utilizes PC Postage technology to personalize postage by uploading a digital image that can be printed with an IBI. This service is provided directly to customers by authorized companies. The fourth phase includes the authority to offer First-Class Mail presort postage. Customers purchased 35 million Customized Postage stamps this year.

Processing

AUTOMATION

The Postal Service continues to expand automated mail processing to improve efficiency and service. Investments in new barcode technology and advanced material handling systems are the foundation for further advances, along with continuing efforts to expand standardized processes and increase customer use of the Intelligent Mail barcode.

Letter Mail Automation

Letter address recognition rates continued to improve as additional equipment and software upgrades were deployed. The Address Management System (AMS) database was augmented by adding business names to addresses in multiunit office buildings, increasing the amount of mail processed in delivery point sequence. New delivery bar code sorters (DBCS) and stacker modules for existing DBCS equipment were deployed in 2007. This new equipment allows more letter mail to be processed in automated operations and provides additional capacity to support increased DPS volumes. An additional 164 DBCS Phase 6 machines and 394 stacker modules will be deployed in 2008.

The delivery barcode sorter input/output sub-system (DIOSS) machine is a further advancement of DBCS technology. DIOSS equipment includes an optical character reader and automates processing of some mail that previously required manual distribution. The Postal Service completed nationwide deployment of 395 new DIOSS machines and upgraded 222 existing DBCS machines to DIOSS. As a result, 646 multi-line optical character readers that have reached end-of-life were removed from service.

Letter mail automation capabilities were expanded significantly with the addition of new barcode recognition and data collection functions that support Intelligent Mail efforts. Letter mail processing equipment has been upgraded to provide Intelligent Mail barcode capabilities and support tracking of inter-facility mail.

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The new data-rich environment is a significant step forward in the tracking of letter mail and will help improve both service and efficiency.

Flat Mail Automation

Deployment of 148 additional automated feeding systems for the Automated Flats Sorting Machine (AFSM-100) was completed in May. The Automatic Induction system uses ergonomic workstations to prepare flats in specially designed trays. This program reduces workhours by improving the rate of total pieces handled per work-hour for this operation.

Under the Flat Recognition Improvement Program, the latest release of Upgraded Flat Sorting Machine 1000 software increased read rates and lowered error rates, resulting in fewer misdirected flat mailpieces and better customer service.

Flats Sequencing System

Funding for the Flats Sequencing System (FSS) Phase 1 program was approved by the Board of Governors in December 2006. The FSS fully automates the sorting of flat mail into carrier-walk sequence, similar to delivery point sequencing used for letter mail for over a decade. The FSS is equipped with a self-contained staging and material handling system. At the end of pass-one sorting an automatic sweep occurs and all trays are returned to the feed area in correct order for immediate pass-two sequencing. At the end of the run, mail is automatically swept, placed into street trays, and discharged onto mail transport equipment that will be dispatched to the dock, and ultimately loaded onto trucks destined for delivery units. The initial deployment of 100 FSS machines at 32 processing facilities will begin in 2008 and end in 2010.

Implementation planning for production deployment continued throughout 2007, as did development and testing of the FSS pre-production machine. Following initial testing, the pre-production FSS was put into operational service at the Dulles Processing and Distribution Center. In parallel, various postal organizations will work on methods documentation, logistical support planning, and other activities supporting the start of production deployment in 2008.

New delivery vehicle stowage and retrieval systems are under consideration for those vehicles servicing FSS sites. These new units are designed to provide ergonomic solutions and tools for loading, organizing, conveyance, and presentation of mail to the carrier. Testing is in progress and final design for deployment is expected in summer 2008.

Parcel and Bundle Automation

The Automated Package Processing System (APPS) replaces the labor-intensive Small Parcel and Bundle Sorter. APPS machines automate package distribution and provide greater processing capacity through automatic package induction, singulation, and address recognition using optical character readers, barcode readers, and a video coding system. Deployment of 74 APPS machines to 62

package processing facilities was completed in early 2007. Since then, address recognition improvements have increased read rates. To optimize equipment utilization and meet processing demand, four APPS were relocated. Additional relocations are expected in 2008. A new parcel and bundle sorter, the Postal Package Processing System, is being developed to automate the processing of more packages and bundles. Configurations will likely be customized to accommodate plants of various sizes and their respective needs.

Postal Automated Redirection System

The Postal Automated Redirection System (PARS) identifies and redirects forwardable mail during processing, reducing the time required for mail to arrive at a new address and improving customer satisfaction. PARS Phase 2 deployment was completed, adding 233 sites to the 50 completed during Phase 1. An additional 41 Computerized Forwarding System (CFS) sites were consolidated, bringing total consolidations to 112 since 2003. The volume of mail processed on PARS increased 90 percent over 2006. Annual savings are expected to reach \$270 million in 2008.

Another major piece of the PARS infrastructure, the Change of Address Forms Processing System (CFPS), also completed nationwide deployment. All change-of-address forms are now scanned through the CFPS and the images sent to three remote encoding centers (RECs) for automated processing. PARS has completely automated the labor-intensive Address Change Service (ACS) process. Now images are electronically sent to the National Customer Service Center where more than 360,000 address change notification cards are printed daily. Continuing software enhancements with significantly higher recognition rates and system performance will further increase operational efficiency and overall PARS benefits. Extending PARS to flat-shaped mail is under consideration and may be pursued during 2008.

Remote Encoding

The Postal Service is pursuing the integration of image coding operations as part of a larger effort to replace the image processing subsystems for letters. The Remote Encoding System will enable unresolved address images to be sent from a facility to multiple REC sites instead of one designated site. The preliminary design review was completed in 2007. Field testing and evaluation of results are scheduled for 2008.

Mail History Tracking System

The Mail History Tracking System (MHTS) is a Web-based application that identifies and locates missorted, mis-sequenced, or missent (3M) letters in each tray during DPS processing. MHTS can also predict if mailpieces are likely to meet on-time performance targets. The identification tag on the mailpiece is tracked from the origin (cancellation) to DPS processing at the destinating plant. These data help operations target and correct root causes that lead to service failures. At the plant, MHTS enhancements automatically recognize and consolidate all 3M letters for correction, minimizing the expense and delay of manual correction "downstream" at delivery units.

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PLANET Code

The PLANET Code seeding program continues to measure performance between each plant. Specific attention was placed on the greatest areas of opportunity (e.g., more seeds were used between plant pairs with the highest volume/lowest performance). Seeding proved especially useful this year helping pinpoint the causes of certain service issues in Chicago. PLANET is short for Postal Alpha Numeric Encoding Technique. The PLANET code is used primarily to identify and track mail for services such as CONFIRM.

Integrated Data System

The Integrated Data System (IDS) continuously collects data from all processing equipment within a facility. It improves productivity and reduces costs by allowing multiple applications to leverage collected data to better manage equipment performance. The IDS also serves as the central data exchange and repository source for Surface Visibility and the Inventory Web Service, which will provide near real-time mail inventory data to FSS.

Material Handling

The Integrated Dispatch and Receipt (IDR) program combined the acquisition of machines for dispatching and receiving operations with integrated tray transport systems to reduce labor hours associated with these activities. More than 200 postal processing facilities received up to 10 different types of IDR equipment that automated functions associated with letter tray and flat tub preparation. While deployment of the IDR program was completed in 2007, additional equipment will continue to be available to the field in 2008.

A new generation of high-speed tray sorters is being deployed to automate letter tray sortation at large plants and transportation hubs. The Postal Service has also developed specialized de-palletizing equipment for trays to be deployed in conjunction with high-speed tray sorters. New equipment is being developed to automate the sorting of bulky items.

The Powered Industrial Vehicle Management System (PIVMS) enables safe and efficient management of powered industrial vehicles, such as forklifts and tugs. PIVMS was deployed at 71 sites and additional installations are underway at six more sites. Significant workhours, equipment, and maintenance costs have been successfully reduced. The primary focus of 2008 is to replicate success in these locations and continue deployment to new sites.

Biohazard Detection Equipment

The Postal Service uses a fully contained, automated Biohazard Detection System (BDS) to protect employees and the public from potential contamination. Initial deployment of BDS equipment was completed in November 2005. BDS Dual-collection (BDS-DC) systems conversion began in August, and 13 sites were completed. This conversion allows one BDS cabinet to connect to two Advanced Facer Cancellor System (AFCS) machines, reducing consumable expenses without sacrificing efficiency. These conversions will

continue in 2008. The excess cabinets from the BDS-DC program will be utilized in the BDS-Flats program. The contract for the BDS-Flats program was awarded in August with deployment expected to begin in February 2009.

STANDARDIZATION

Standardization has played a major role in improving efficiency in all operations and support functions. Launched in 2001, the *Breakthrough Productivity Initiative* (BPI) helped focus and structure process improvement efforts to drive productivity growth. BPI helps identify higher-performing units which are used as models; standard procedures are then established based on the best practices identified. Training is developed to share performance expectations, and targets are set to replicate success and drive performance to new levels.

Lean Six Sigma and Continuous Improvement

Lean Six Sigma tools are being applied to reduce variation and improve quality and efficiency. Continuous improvement practices began with plant equipment and process standardization. Value stream mapping is used to eliminate steps that reduce efficiency. A key area of focus is processing equipment performance, in particular, equipment maintenance, throughput capacity, and sort accuracy. New field Operational Industrial Engineers will play a key role in the implementation of standardized processes in plants.

24-Hour Clock

Efforts to establish a solid understanding of 24-Hour Clock Indicators have helped improve control of and recovery time from service failures. Separate indicators are now established and tracked for every step in the process of moving the mail, from cancellation to dispatch, to delivery and the carrier's return to the office. Nationwide use of the indicators has markedly improved consistency and conformance to standards and has reduced variability.

Staffing Optimization

The Postal Service uses a variety of tools to establish standards for retail operations and provides a consistent level of quality and customer service at Post Offices. Increasingly, managers are aided by robust new scheduling tools to optimize resources. The Automated Workload Planning System identifies workload and the resources necessary. The Customer Service Variance and Customer Service Staffing models, deployed in 2007, help align staffing to changes in customer transactions.

The Mail Processing Staffing Opportunity Model (MPSOM) is an application that helps managers respond proactively to workload changes in plants, ensuring a better alignment of resources with volume, and, ultimately, helping conserve workhours and completion. National implementation of MPSOM is planned in 2008. Mail Processing Variance (MPV) is a complementary model that provides staffing, workhour, productivity, and workload analysis. MPV data

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track actual vs. targeted productivity from national to unit levels, and presents savings opportunities in a relevant and actionable platform.

Equipment Optimization

The Run Plan Generator is an innovative program for scheduling equipment in plants to increase efficiency and reduce variation. This multifaceted application integrates a standardized, data-driven approach to forecasting, and uses a powerful scheduling model to display plan and actual production data and a means to evaluate day-to-day effectiveness.

Processes for standardizing maintenance are currently under review with further development continuing in 2008. At select facilities, remote video maintenance support will be expanded to shorten repair cycle times, reduce maintenance costs, and improve readiness. Reliability-Centered Maintenance (RCM) plays a critical role in preventive maintenance of processing equipment and deployments. RCM analysis will be performed on FSS equipment in 2008 to ensure equipment is optimized.

The Tray Consolidation Initiative improves the density of trays and gains cost savings on air transportation by standardizing and consolidating sort plans and mail flows. National deployment will be completed in 2008.

NETWORK OPTIMIZATION

Due to new requirements associated with changes in service standards and mailer behavior, the Postal Service is continuing to explore alternatives. A new concept, in the initial evaluation stage, would create a time-definite surface network to support the distribution and transportation of Standard Mail, Periodicals, and Packages. The Postal Service is conducting research to better understand industry best practices and capabilities for such a network. The concept includes the evaluation of options to revitalize the Bulk Mail Center network to keep it efficient, affordable, and responsive to evolving needs.

The consolidation of operations improves productivity, increases mail density in containers, and better utilizes equipment and transportation capacity. Local offices will continue to review operations for Area Mail Processing opportunities. In 2007 four remote encoding centers (RECs) were closed, resulting in a recurrent annual savings of more than \$7 million. Eight RECs remain to support processing operations. Some non-core operations, such as mail assignment, were transferred from expensive airport property to processing plants. Over 40 air-stops with commercial air and cargo suppliers were standardized, with additional sites to be standardized in 2008. There are 20 surface transfer centers in operation, enabling the shift of mail from air to surface transportation while still meeting existing service standards.

Transportation

In 2007, the Postal Service spent \$6.5 billion for mail transportation, including terminal dues, transit charges, and other international expenses discussed below. The \$457 million increase compared to last year is driven by the expansion of peak season operations, increases in contract rates for the offshore networks, and fuel expenditures.

CONTRACT TRANSPORTATION

Air Transportation

Air transportation costs totaled \$3 billion, an increase of 7.9 percent from 2006. This increase is a direct result of rising fuel costs and the shift of volume to cargo carrier airlift where necessary to meet service commitments. New air transportation contracts awarded in 2006 contributed to better service performance. Where service is maintained or enhanced, mail has been shifted from air to ground transportation, a strategy that has been successful in reducing cost.

The Postal Service continues to pursue the deregulation of air transportation rates for international and military mail, including the authority to contract competitively in the open market. In its proposal this year for the Federal Aviation Administration reauthorization bill, the Administration supported such a transfer of authority and explained that its "rate-setting responsibilities in this area are no longer in sync with the realities of air and mail transportation." In particular, the Administration proposal would repeal the requirement that the Postal Service file international mail contracts in advance, as well as the Department of Transportation's authority to set the rates for international air transportation of mail. Deregulation would significantly reduce postal costs for international transportation.

Highway Transportation

Approximately \$3.1 billion was spent on highway transportation costs an increase of 5.8 percent compared with 2006. The increase is attributable to contractual wages, expansion of the surface network, and the shift of some mail volumes from air to service-responsive ground transportation.

Other Transportation

Expenses for rail transportation were \$126.6 million, a 0.5 percent increase from 2006. The cost of transporting mail to domestic offshore and inland destinations by water was \$29.2 million, a 0.6 percent increase from 2006.

The cost of international surface transportation by ocean increased to \$6.2 million. Ocean transportation suppliers are selected on the basis of a best value comparative analysis of proposals.

Terminal Dues, Transit Charges, and Other International Expenses

Under the Acts of the Universal Postal Union (UPU), each postal administration that receives mail from another administration has the right to collect payment from the originating administration for

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costs incurred to deliver that mail. These charges are called *terminal dues* for letter mail and *inward land rates* for parcels. Express Mail International items also incur processing and delivery charges from foreign postal administrations (FPAs) or private delivery companies. Additionally, the UPU provides for transit charges for mail exchanged between administrations through a third country. Transit charges are paid by the originating country to the intermediary country for its forwarding of mail to the destination.

For the most part, settlements of terminal dues, inward land rates, and transit charges are contingent upon both the Postal Service and FPA accepting statistics on the mail exchanged. Final settlement and payment can occur a year or more after service is performed. The Postal Service accrues an estimate of these expenses based on available weight and piece data by country. This year \$541 million in terminal dues, Express Mail, transit charges, and other international expenses unrelated to the transportation of mail were incurred.

POSTAL-OWNED TRANSPORTATION

The Postal Service-owned fleet is predominantly used for its delivery network. In addition to providing delivery and processing support, the fleet includes vehicles used for law enforcement, plant and vehicle maintenance support, mobile Post Offices, and other functions.

Postal Vehicle Inventory

Vehicle Type	
Delivery and Collection (1/2–2 ton)	195,211
Mail Transport (Tractors and Trailers)	6,824
Administrative and Other	6,169
Service (Maintenance)	5,539
Inspection Service and Law Enforcement	3,482
Mail Transport (3–11 ton)	2,297
Total	219,522

Source: Area and National Summary of Vehicles Report.

Vehicle Operating Data

Operating Data	
Miles traveled	1,235,106,009
Average miles per gallon	10.2
Cost per vehicle	\$5,280.00
Cost per mile	\$0.94

Source: Make/Model Component Cost Report and Fuel And Oil Usage by Make Model Report.

MAIL TRANSPORT EQUIPMENT

Mail Transport Equipment (MTE) consists of sacks, trays, lids, pallets, and wheeled containers. The Mail Transport Equipment Service Center is an integrated network of 23 facilities that collect, sort, repair, store, and distribute MTE to internal and external customers. The Mail Transport Equipment Support System, a redesigned software application, integrates and manages the network. The number and variety of MTE and sack types continue to be reduced to lower maintenance costs, improve availability, and enhance inventory control. The Postal Service is engaged in various recycling programs for MTE.

SUPPORT SYSTEMS

The Transportation Optimization Planning and Scheduling (TOPS) system allows managers to perform long-range and week-to-week optimization for domestic, military, and international mail on contracted or postal transportation. The latest enhancement supports total air and surface transportation planning, such as the generation of non-stop direct international flights to streamline service and reduce total transportation time. TOPS has been designed to determine mail volume based on historical data and trends, and to allocate anticipated volumes to authorized suppliers based on cost and performance.

The Surface Air Support System (SASS) integrates scan data from air transportation suppliers with existing systems to improve accountability and payment verification. SASS receives assignment data from postal facilities, from the Surface Air Management System, and from transportation suppliers. These data are used to measure supplier performance and reconcile payment for air carriers.

Facilities

The Postal Service oversees 34,318 properties nationwide, totaling more than 323.8 million square feet. Projects are initiated at the request of the areas and districts. Approval for facility projects over \$25 million rests with the Board of Governors. Design and construction of major processing plants are managed at Headquarters. Approval for projects under \$25 million is established by the Postal Service's Capital Investment Committee. Most of the Postal Service Facilities program work — planning, leasing, purchasing, designing, and construction — is performed by its field offices.

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Real Estate Inventory

Inventory	
Total owned facilities	8,487
Total owned interior square feet	217,770,022
Total owned land in square feet	938,707,551
Total leased facilities	25,450
Total leased interior square feet	103,081,147
Total GSA/other government facilities	381
Total GSA/other government interior square feet	2,969,704

Realty Asset Management

Realty Asset Management manages the disposition of real property that has been declared excess to operational requirements. It handles disposals, leases, subleases, development and redevelopment of postal property. Realty Asset managers generate cash by selling surplus property and leasing, or subleasing, excess space. The Postal Service sold the landmark James A. Farley Building in midtown Manhattan to the State of New York for \$190 million and additional proceeds of up to \$55 million, contingent upon the achievement of certain development and leasing criteria by the developer of the property. This is the single largest property ever sold by the Postal Service. Most current postal operations will be relocated to the Morgan processing facility, with space leased back to continue to provide retail, delivery, and administrative operations at Farley. Real estate initiatives generated more than \$263 million through developmental projects, excess property sales and out-leasing.

Realty Asset Management

Assets	Gross Proceeds (millions)
Revenue leasing	\$61.4
Sales of excess property	\$16.0
Developmental projects	\$185.7
Total	\$263.1

Facilities Projects

Facilities completed a new standardized space planning and approval process for customer service projects costing less than \$5 million. The process is more efficient and, as a result, new facilities are completed more quickly. Revised building standards also are being implemented that reduce the cost of customer service facilities by 10 percent and major facilities (mail processing facilities) by 25 percent. The Oklahoma City processing facility will be the first major plant to incorporate these changes. Its completion date is May 2008.

Facilities Projects

Projects	Completed During 2007	Ongoing as of End of 2007
New construction, major renovations, and expansion projects	32	344
Building purchases	34	121
New lease construction	3	194
Other lease actions (e.g., alternate quarters, new leases, and lease renewals)	3,798	5,088
Expense repair and alteration projects	6,256	4,487
Capital repair and alteration projects	5,142	21,439

Ongoing projects increased from previous year's total due to change in counting methodology. Effective at the end of 2007, totals are all ongoing projects regardless of start date.

Delivery and Pickup

DELIVERY OPERATIONS

Delivery is the Postal Service's largest operations function, accounting for approximately 45 percent of salary expenses. Despite an increase of 1.8 million delivery points, Delivery used 3.33 million fewer workhours because of effective growth management, increased use of automation, standardization of best practices, improved productivities, and complement controls.

Growth Management

National deployment of the Delivery Growth Management Tool led to better decisions on how to serve new delivery points. New growth was predominantly served through lower-cost means of delivery. Walking and "park-and-loop" delivery points declined, while curblines, cluster boxes, and centralized deliveries increased. Growth in lower-cost Rural delivery accounted for more than one-half of all new delivery points. The table below shows the number of delivery points and growth in delivery points by type at the close of 2007.

Delivery Points by Type of Delivery

Type of Delivery	2007	Change from 2006
City	86,882,476	590,303
Rural	38,382,966	1,017,106
Post Office box service	20,184,453	78,607
Highway Contract Route	2,542,627	132,310
Total	147,992,522	1,818,326

Delivery Productivity Improvement

Delivery Point Sequence (DPS) letter mail eliminates manual sorting of letters by carriers. DPS mail is sequenced by automated

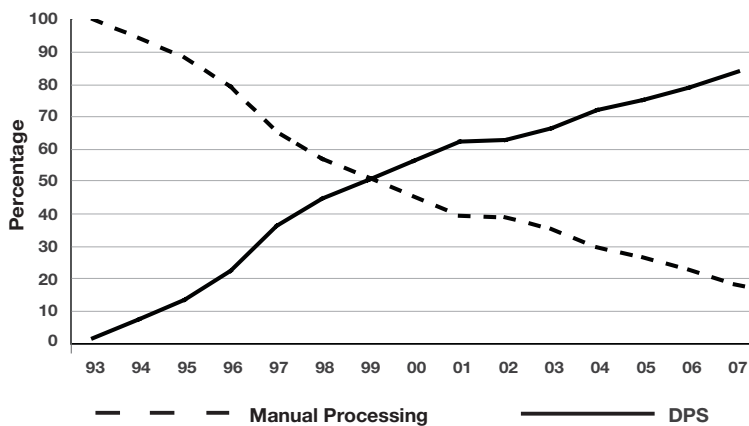
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equipment earlier in the distribution process and is presented to carriers ready to be taken to the street for delivery. DPS reduces costs, improves accuracy and speed of delivery, and contributes to improved customer satisfaction. More than 99 percent of all City delivery routes and 83 percent of all Rural routes receive DPS letters. On average, these routes receive 86 percent of their letters in DPS. The goal is to raise the DPS percentage to 95 percent by 2010. The graph below shows the growth in DPS mail since 1993 when the program began. Plans are underway to automate flats sequencing starting in 2008.

Improved office and street delivery productivities are keys to increasing delivery efficiency. Delivery office and street productivities both improved in 2007. The AM Standard Operating Procedures (AMSOP) program helps offices comply with standard management practices. Data show significant performance gains in offices that pass AMSOP certification audits. To date, 69 percent of target delivery offices are AMSOP certified.

The Delivery Operations Information System (DOIS) provides front-line supervision with day-to-day workload and performance information at the route level. The DOIS performance platform was expanded to create the City Delivery Pivoting Opportunity Model (CDPOM), a Web-based model that helps align staffing with workload. Organization-wide focus on the use of CDPOM produced unprecedented gains in deliveries per hour (DPH) during the latter half of 2007.

DPS and Manual Letter Processing Volume Percentages (City Delivery)



Routes

In City carrier operations, declines in manual workload, improved productivities, and increases in possible deliveries drive the need for route adjustments. By adjusting or consolidating routes, the Postal Service was able to absorb delivery growth without significant increases in routes. As a result, the number of deliveries per route increased to more than 530. The table below shows the increases in average deliveries per City route from 2005 to 2007.

City Delivery – Deliveries Per Route

	2005	2006	2007
Deliveries Per Route (City)	521.6	525.4	530.3

Rural and highway contract route delivery is less costly than City delivery. The table below shows the number of City, Rural, and highway contract routes and the change in routes since last year. Growth in delivery points drove increases in Rural and highway contract routes.

Delivery Routes by Type

	FY07	Change from FY06
City	163,479	67
Rural	76,390	1,453
Highway Contract Route	10,713	256
Total	250,582	1,776

PICKUP

Carrier Pickup

Traditionally, carriers have accepted prepaid outgoing mail. Today, customers can submit a free package pickup request online at *usps.com* to have prepaid Priority or Express Mail packages picked up the next delivery day as part of the carrier's normal route. The volume of Package Pickup mail grew almost 50 percent as more customers used Click-N-Ship and online postage.

Resources and Support

SUPPLY MANAGEMENT

The Postal Service attributed nearly \$1.06 billion in cost benefits to supply chain management activities over the last 10 years. This was accomplished by standardizing product requirements, improving purchase planning and inventory management, leveraging volume purchases, participating in strategic partnerships with suppliers, and streamlining business processes. The following initiatives highlight 2007 supply management activities:

Priority and Express Mail Packaging: The Postal Service implemented a Cradle to Cradle certification program for suppliers of Priority Mail and Express Mail packaging — the first time this certification has been earned by a delivery/logistics provider. Cradle to Cradle certification is awarded to products that eliminate waste through ecologically intelligent design.

Total Solid Waste Management: The Total Solid Waste Management program is an environmentally responsible program that generates disposal revenue by selling recyclables and minimizes cost by reducing trash volume. The Postal Service generated over \$6.5 million from more than 8.6 million pounds of recyclables. The program

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won the 2007 White House Closing the Circle award for leadership in federal environmental stewardship and has increased awareness of this untapped resource.

Enhanced Spare Parts Initiative (eSPIN): Deployment of eSPIN was completed in 2007. The system optimizes spare parts planning, ordering and inventory across the entire distribution network, and links 467 maintenance offices with the Postal Service's Material Distribution Center. Balancing spare parts among sites and pooling critical spare parts at strategic stocking locations allows 2-hour deliveries and reduces inventory and mail processing equipment downtime.

Supply Chain Relationship Management System (SCRMS): SCRMS provides postal contracting officers the ability to monitor supplier performance, develop actionable improvement targets, make better business decisions, and improve supplier relationships. Over 90 key postal suppliers currently participate.

Postal Information Technology Network (PITN): The PITN project combined the networks for Postal Inspection Service sites with the 400 largest mail processing sites. The contract, awarded to Verizon Business, allows the Postal Service to leverage volume to reduce costs.

Terminal Handling Services (THS): Air transportation handling services costs were reduced an average of 7.5 percent through the re-baselining of volumes and elimination of pricing adjustments related to scanning requirements. The liquidated damages scheme also was revised to motivate suppliers to provide timely service, and a 3 percent increase in supplier personnel costs was avoided by extending THS contracts.

Tilt Tray Sorters: The Carrousel and Over/Under Sorter Transport Systems at six bulk mail centers were restored and modernized with Tilt Tray Sorter technology that improved efficiency and reduced energy consumption. Cost avoidance totaled \$22 million.

Major Purchases

Flats Sequencing System (FSS): Northrop Grumman was awarded a 3-year contract for \$874.6 million to build 100 FSS machines — the next generation of automated flat mail sorting equipment. The Postal Service employed specialized strategies such as early supplier involvement and value analysis to meet its cost reduction and business transformation objectives for this purchase.

Biohazard Detection Systems (BDS) Cartridges, Operations, and Maintenance: Northrop Grumman was awarded a contract that will save \$20 million annually or as much as \$100 million over the life of the 5-year contract. The contract is for the operation, maintenance and consumable requirements of the BDS program.

ReadyPost: ReadyPost products include envelopes, shipping containers and packing materials sold at Post Offices. The final 2-year option period of the current ReadyPost contract with Hallmark

Custom Marketing was exercised on July 1, 2007. The contract has improved management controls, reduced transportation costs, and increased revenue from ReadyPost. The Postal Service has plans to restructure the pricing and grow the retail product business into the future.

Carrier Route Vehicles: The Postal Service purchased 5,856 vehicles to complete its 3-part acquisition plan to deploy 15,000 postal-owned vehicles to rural routes. These vehicles are alternative fuel E-85 capable and comply with the Energy Policy Act (EPA) of 2005 mandate.

Corrugated Fiberboard Pallet Box (CFPB): CFPBs are used in mail processing and mail transport equipment transfers between postal sites. They also are used to maximize utilization of trailer space. International Paper and Rand Whitney were awarded contracts to produce and deliver CFPBs to over 300 postal locations on a direct vendor delivery basis.

Satellite Network Services: A new contract was awarded to Verizon Business to upgrade 5,000 remote locations from dial-up service to satellite connectivity. This program improves the speed and reliability of communications. The contract performance period is two years with two 3-year options.

Commercial Air: The Postal Service continued to rationalize the supplier base and performed value chain mapping to align requirements to expected value. These actions resulted in \$52 million in cost avoidance.

Supplier Diversity

The Postal Service continued to act on longstanding commitments to Supplier Diversity. Annualized contract values with small businesses exceeded \$3.46 billion; contracts with minority-owned businesses were nearly \$350 million; and, contracts with women-owned businesses were \$565 million. The new *Supplier Diversity Corporate Plan* was issued in 2007. The plan continues its focus on improving supplier relationships and outlines activities that align with the *Postal Service's Supplying Principles and Practices*.

In recognition of the Postal Service's efforts to establish and maintain a strong competitive supplier base that reflects the diversity of the supplier community, *DiversityBusiness.com* named the Postal Service as the *Top Organization for Multicultural Business Opportunities* and one of *America's Top Diversity Advocates*. This recognition was bestowed on the Postal Service for its volume, consistency, and quality of business opportunities granted to minority and women-owned businesses.

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INFORMATION TECHNOLOGY

Advanced Computing Environment / Upgrading The Infrastructure

The Advanced Computing Environment (ACE) is a comprehensive lifecycle management system that standardized hardware and software and allows for more efficient, centralized user support. ACE II upgrades are gradually replacing ACE units with hardware that offer more memory and improved logon times, and can be restored by the user if data or programs become impaired. Deployment began in 2007 and will continue for two years.

Information Security

The Postal Service has implemented significant controls over its computer equipment and data. Policy places limitations on the use of non-postal devices to access the Postal Service Intranet or to store Postal Service information. Stricter guidelines that limit the assignment of laptop computers to employees have been issued.

Network Upgrades

The Postal Service upgraded its computing infrastructure by implementing 10,236 upgrades to the wide area network in 2007. In addition to these upgrades, 15,022 smaller facilities have had dial-up service upgraded to broadband.

The personal digital assistant (PDA) system continues to provide remote communications capability to postal employees, including Continuity of Operations team members, even when Postal Service facilities are without power or shut down. Starting in 2008, all 6,863 users nationwide will receive an updated PDA device that will dramatically cut costs by leveraging pooled cell minutes.

Enterprise Data Warehouse

The Enterprise Data Warehouse (EDW) began as a repository for key retail information and transactions and is today the integrated source of information on retail, financial and operational performance, serving thousands of users each day. Enhancements made in 2006 are now enabling greater cross-functional analysis. In 2008, the Postal Service will focus on methods to push critical information to decision-makers and generate exception reports and alerts, rather than standard status reports.

SECURITY AND EMERGENCY PREPAREDNESS

Security

To prevent incidents and mitigate risks, area security personnel and postal inspectors conducted more than 9,000 security assessments and reviews at postal facilities nationwide. The reviews are designed to protect postal employees, customers, assets and reputation. The assessments range from reviewing compliance with procedures for building and vehicle security, handling accountable mail, and local enforcement of employee identification card requirements, to comprehensive security reviews which include detailed risk assessments. Additionally, inspectors conducted investigations into mail

service and security. These Observations of Mail Condition (OMC) reviews were conducted at more than 594 mail processing and 1,158 customer service facilities (delivery units), primarily during the fall and Political Mail campaign seasons.

As part of a global counterfeit initiative, Postal Service investigators arrested 77 people, and intercepted counterfeit checks with a face value of \$2.1 billion.

The 8-month investigation stopped more than half a million counterfeit checks from being mailed to American victims from Nigeria, the Netherlands, England, and Canada. In addition, the amount of counterfeit Postal Service Money Orders was \$45 million less in 2007 than the previous year, as reported by the Federal Reserve Bank. These efforts have played a significant role in keeping hard copy financial instruments in the mail, maintaining the Postal Service's value as the trusted service for these transactions. The Postal Service,

in collaboration with the Alliance for Consumer Fraud Awareness, launched a consumer-education campaign with the aim of helping consumers recognize and protect themselves from the various frauds now targeting them.

Emergency Preparedness

Comprehensive emergency management plans have been developed and deployed to meet the requirements addressed within the National Incident Management System, the National Response Plan and Homeland Security Presidential Directives. National Preparedness provides an all hazards approach for prevention, preparedness, response, and recovery protective measures towards domestic terrorist attacks, major disasters and other emergencies.

The Postal Service participated in over 215 local and national emergency response tests to assess integration with other emergency response providers and to test local preparedness and Continuity of Operations Plans. Preparedness activities are designed to improve coordination among Postal Service functional areas, to minimize duplication of planning efforts, and to establish a standardized emergency management process within the Postal Service.



Scam busters. The Postal Inspection Service has created the Alliance for Consumer Fraud Awareness. Members include financial institutions, associations, consumer advocacy groups and businesses. They are supporting a new public education campaign aimed at online scammers.

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During 2007, 40 emergency responses were required due to hurricanes, floods, and other incidents. National Preparedness coordinated the deployment of support equipment and supplies, and assisted with damage assessments and recovery, including hazardous and toxic material removal.

FINANCIAL MANAGEMENT

Sarbanes-Oxley Preparation

As required by the Postal Act of 2006, the Postal Service must comply with Section 404 of the Sarbanes-Oxley Act (SOX) by the end of 2010. This requires management to report on Internal Controls over Financial Reporting (ICFR) annually and obtain an opinion regarding the effectiveness of ICFR from the Board of Governors' external audit firm.

There are other sections of SOX in addition to Section 404 with which the Postal Service must comply because they are closely associated with Section 404. Section 302 requires CEO and CFO certification that the financial statements and other financial information included in the quarterly reports fairly present in all material respects the financial condition, results of operations, and cash flows of the Postal Service, and that they are responsible for establishing and maintaining disclosure controls and procedures, as well as Internal Controls for Financial Reporting.

To achieve its goal of compliance by 2010, the Postal Service is following best practices and guidance published by the Public Company Accounting Oversight Board (PCAOB), and the Securities and Exchange Commission (SEC). Accordingly, the Postal Service has established a top-down, risk-based approach to identifying, assessing and reporting internal controls impacting financial reporting. Further, the Postal Service will use the framework established by the Committee of Sponsoring Organizations (COSO), which is approved by the SEC and PCAOB, to assess the components of Postal Service internal control including Control Environment, Risk, Control Activities, Information and Communication, and Monitoring activities within the Postal Service.

The Postal Service achieved several key milestones in its SOX compliance program. These milestones include establishing the SOX Steering Committee and Program Management Office, and completing the Scoping and Planning phase of its compliance program in which it identified the systems and financial business processes that are anticipated to fall within the scope of its SOX efforts. It also targeted financial business processes for business process improvement opportunities. In 2008, the Postal Service will document in-scope processes and identify, evaluate and assess the key internal controls over financial reporting. Internal control design gaps will be noted and addressed, followed by testing and remediation, which will occur principally in 2009.

Sustainability

Sustainability is about meeting the needs of the present without compromising the future. It has become a business imperative as customers increasingly choose to do business with companies that operate in an environmentally responsible manner. With almost 800,000 employees, 37,000 facilities, and 219,000 vehicles, the Postal Service has an impact in every American community. Its goal is to make sure that impact is a positive one in all cases.

The Postal Service has a strong environmental track record. Since 1995 it has been honored with 37 *White House Closing the Circle Awards*. The Postal Service also won the Environmental Protection Agency's 2007 *WasteWise Partner of the Year Award*, the program's highest honor, for the eighth year in a row. The Postal Service's sustainability effort is focused on two main areas: 1) accelerating conservation, especially in energy and fuel use, and 2) expanding environmentally-friendly business practices, both internally and through partnerships.

ENERGY MANAGEMENT

Because of its size, the Postal Service has the opportunity and responsibility to lead the way in energy management. Energy use amounted to \$2.35 billion in 2007. Transportation consumes 75 percent with the balance spent on utilities. Energy initiatives focused on developing a common energy strategy for the organization and improving data quality. Transparency in overall cost and consumption will lead to significant improvements in facility energy management. Wise investments in energy efficient equipment today will repay their debt continuously over time.

Facility Energy

Energy costs at postal facilities for utilities was \$610 million, a 0.01 percent increase over 2006. The Postal Service is investing \$150 million annually in conservation measures. It is implementing a number of strategies to reduce energy consumption by 20 percent by the end of 2012. These strategies include detailed energy audits and capital improvements, as well as changes to policies and procedures.

The new Utility Management System (UMS) captures cost and usage data for electricity, natural gas, and fuel oil bill management. It will provide detailed utility consumption and cost profiles, bill payment, auditing, rate optimization, and reporting. Besides helping target conservation actions, UMS will guide the prioritization of energy infrastructure investments and reduce the cost of utility contracts. The system is currently being piloted in 600 facilities.

Green Buildings

A variety of sustainable building design concepts have been integrated within the Postal Service's national standard design criteria. These criteria are used for all new construction as well as repair and alteration projects. The result is facilities that use less energy and have less impact on the environment. Some examples of sustainable building concepts include use of high-efficiency lighting

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and HVAC, low-volatile organic compound (VOC) paints, recycled-content materials, and low water use fixtures. The EPA has honored the Postal Service with its Environmental Achievement Award for its use of “green solutions” in the Pacific Area, including its use of solar photovoltaic systems, fuel cells, and combined heat and power generation.

Equipment Design

The Postal Service has incorporated energy efficient requirements into mail processing equipment designs. New standards such as power consumption, voltage, and temperature impact are now being reviewed as part of postal procurement procedures. The Flats Sequencing Sorter is the first major purchase in which these new requirements were used. In addition, when procuring energy consuming products, ENERGYSTAR® and FEMP-designated products will be used where practicable.

Fuel Reduction

The Postal Service delivers to approximately 148 million delivery points each day, and its outreach grows by almost 2 million delivery points per year, making continued reduction of fuel consumption vital. By optimizing its postal-owned fleet and seeking out the best-value available in contract transportation, the Postal Service is reducing miles driven to better manage fuel usage.

The organization continues to monitor key performance indicators for fuel consumption in air and ground transportation. The Surface Visibility program ensures all available mail containers are on the correct trucks. Advanced software applications and other technology are able to map more fuel efficient routes and monitor truck utilization to ensure optimal assignment of ground volume, which reduces emissions from air transportation.

Alternative Fuel Vehicle Program

The Postal Service operates the nation's largest alternative fuel-capable fleet, including more than 36,000 E-85 flex-fuel vehicles that can operate on gasoline, E-85, or any mixture of the two fuels. The Postal Service acquired 5,856 additional vehicles that can operate on cleaner-burning ethanol (E85) fuel. The Postal Service worked with the U.S. Department of Energy National Renewable Energy Laboratory and Clean Cities Program to determine the best places to place the new E85 vehicles. A database also was developed to reposition vehicles to the Midwest and other areas where fuel is available. In addition, the Postal Service provided technical support

to districts that already have E85 vehicles and fuel infrastructure. The organization is now positioned to increase E85 fuel use while effectively and efficiently delivering mail. In June, the Postal Service received the *White House Closing the Circle Award* for its support of alternative fuel vehicles and alternative fuels in Minnesota.

Water Management

The Water Management program was formed to meet environmental standards for pollutant discharges, storm water runoff, and safe drinking water. It also supports efforts to minimize water usage. An overall water management strategy has been developed to ensure compliance with the requirements of the Clean Water and Safe Drinking Water Acts. In addition, Vehicle Maintenance Facilities will continue the policy of “zero pollutants” in the discharge from washing vehicles. Contracts include provisions to capture runoff and use environmentally-preferable products.

Asbestos Management

The national Asbestos Management Program policy documents were updated and strengthened. District asbestos program coordinators were identified. Employees were trained in the latest asbestos identification and management techniques and in collecting asbestos-related facility documents and placing them in the Postal Service Environmental Management Information System.

ENVIRONMENTAL ACHIEVEMENTS

The Postal Service's approach to improving its “environmental footprint” is built on the principle of integrating environmental activities within day-to-day operations and engaging every employee to take ownership and responsibility. By working with mailers to reduce undeliverable mail, saving customers unnecessary trips, expanding the use of recycled and recyclable products, and minimizing potentially hazardous and toxic materials, the Postal Service accomplishes its mission while leading the way in environmental stewardship. Environmental activities within the Postal Service resulted in White House and EPA awards, but also provided coordination and support for Sustainability initiatives that included new environmentally preferable packaging, greenhouse gas emissions inventory and the environmental footprint of mail.

Cradle to Cradle Certification

The Postal Service is dedicated to helping mailers go green. In 2007, its free Priority Mail and Express Mail shipping supplies were redesigned, achieving Cradle to Cradle certification. The Postal Service is the nation's first shipping company to achieve this certification standard which establishes 39 criteria on toxicity, renewable energy, water use, recyclability, and other factors affecting human and environmental health. Cradle to Cradle certification assures that the packaging is manufactured to avoid harming the environment even after its useful life. Based on the annual recycled content of new packaging, more than 15,000 metric tons of carbon equivalent emissions will now be prevented each year. The Postal Service has



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begun to expand Cradle to Cradle to additional packaging and similar green initiatives throughout its supply chain.

Product Takeback Initiatives

Through partnerships with business and government, mail is being used to properly dispose of products that might otherwise be harmful to the environment including computer equipment, printer supplies, cell phones, rechargeable batteries, compact fluorescent light bulbs, and prescription drugs. For example, one state has partnered with the Postal Service to provide the nation's first program to help consumers dispose of excess medicines by mail. Consumers will be able to put unused prescriptions or unwanted over-the-counter drugs in pre-addressed, postage-paid pouches available at many pharmacies. The pouches are mailed to the state's Drug Enforcement Agency for proper disposal.

Pollution Prevention And Recycling

Each year the Postal Service recycles one million tons of paper, plastic, and other material, resulting in millions of dollars in revenues and cost avoidance. In 2007, \$7.5 million was generated through recycling and waste prevention. The Postal Service also purchases more than \$200



million in products with recycled content, including envelopes, packaging, and mail containers. New water-based inks used to print stamps are made from soybeans and contain no heavy metals. Stamps are produced with gum-free pressure sensitive adhesive to ease recycling. By switching to linerless labels on stamp coils, 700 tons of scrap paper was eliminated and disposal costs cut.

The Solid and Hazardous Waste Program ensures that potentially hazardous and toxic wastes are handled in a way that safeguards public health and the environment and meets legal mandates. The Postal Service is reducing municipal solid waste and industrial waste through its partnership with EPA's WasteWise program, which challenges organizations to cut waste in innovative ways. The Alabama District won the EPA 2007 WasteWise Partner of the Year Award, the program's highest honor. This marked the eighth year in a row that the Postal Service has received this honor. The Total Solid Waste Management effort was also recognized with a *White House Closing the Circle Award*.

Environmental Footprint of Mail

The Postal Service has sponsored several initiatives to quantify the impacts of mail, including the *2007 Environmental Impact of Mail* study. This study showed that advertising mail, through the elimina-

tion of shopping trips, harmful emissions, and traffic accidents, results in an annual \$553 million net benefit to the American economy. The Postal Service also reinstated the *Greening of the Mail Task Force*, originally formed in 1995. Participants include mailers, industry groups, suppliers, regulators (Environmental Protection Agency and the White House Office of the Federal Environmental Executive) and the National Recycling Coalition. This task force will drive a multi-year effort to improve mailpiece design, improve address and list quality, expand recycling and waste-disposal practices related to mail, and improve communication on the impacts of mail on the economy and society.

Supporting the Greening of the Mail Task Force is a life-cycle inventory model, prototyped by the Postal Service to identify the environmental impacts of different classes of mail. The model covers mailpiece production through disposal, and identifies the most significant environmental impacts in the process. The Task Force will help refine the data and will use the model results to prioritize initiatives.

Greenhouse Gas Emissions Strategy And Management

A greenhouse gas emissions inventory was developed and a request for data was issued. The greenhouse gas emissions inventory will account for all postal facilities, operations and fleet. This inventory adheres to the California Climate Action Registry protocol, which has been adopted by approximately 34 states and may become the national standard.

This initiative will baseline the organization's carbon footprint in advance of expected state and federal regulations on reporting and restricting carbon emissions. Participating in the greenhouse gas inventory now has many benefits to the organization, including:

- The Postal Service can be more responsive to business customers who have made their own greenhouse gas reduction commitments.
- The inventory will support internal decision-making on carbon strategy and climate change, and address implications from energy acquisition and use, purchasing, construction, and contracted mail transport services.
- The inventory enables the Postal Service to establish and protect baseline emission levels, allowing the organization to take credit for early emission reductions.

Environmental Management System

The Postal Service continued to upgrade and streamline the Environmental Management System. The Postal Service has initiated the E-PEG (Environmental Program Evaluation Guide) to measure performance with environmental and operational best management practices. In 2007, 18 facilities earned National Performance Track recognition — EPA's standard for excellence for Environmental Management Systems. The Postal Service is the federal leader in National Performance Track and ranks in the top three.

Chapter 5 Our 2007 Performance and 2008 Plan

The Postal Service is required by the Government Performance and Results Act of 1993 (GPRA) to establish strategic goals, develop reliable and verifiable performance measurement systems, set performance targets, and report results. The Postal Service must also describe its strategies to achieve the targets, and these are provided in the *Updated Strategic Transformation Plan 2006-2010*, published in December 2007. This chapter is intended to meet GPRA requirements.

For 2008, two new indicators have been added — Net Income and the Rate of Formal EEO Investigations filed. For 2009, the Postal Service is reevaluating all goals and indicators and considering alternatives consistent with new accountability and measurement requirements contained in the new law. The most visible change will be the addition of more comprehensive service performance goals.

Improve Service

Service performance — expressed in terms of on-time delivery — is the critical first step in meeting and satisfying customer needs. A key metric that the Postal Service uses to measure service performance is the percentage of single-piece First-Class Mail that is delivered on time.¹ First-Class Mail has delivery service standards for overnight, 2- and 3-day service within the contiguous 48 states, depending primarily on distance.

Domestic First-Class Mail service performance currently is measured by the External First-Class Measurement system (EXFC). EXFC measures delivery performance from collection box to mailbox delivery. The system is managed independently by a contractor using test mailpieces sent to a nationwide panel of receivers. It currently is not a system-wide measurement of all First-Class Mail performance.² The system mirrors actual customer experience, and over time has become more rigorous. It will be expanded to cover virtually all 3-digit ZIP Codes by 2009.

First-Class Mail On-Time Performance

	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Plan	2007 Actual	2008 Plan
Overnight	95%	95%	95%	95%	95%	95.6%	96.00%
2-Day	91%	92%	92%	91%	92%	92.6%	92.75%
3-Day	90%	91%	89%	90%	90%	90.3%	90.50%

Source: IBM Global Business Services

¹The Postal Service does not report on performance for products that the Postal Act of 2006 classifies as Competitive Products. However, it will continue to track performance internally and manage performance improvement.

²EXFC continuously tests a panel of 463 3-digit ZIP Code areas selected for geographic and volume density. These areas represent 90 percent of originating First-Class Mail volume and 80 percent of destination First-Class Mail volume.

Since 2006, the First-Class Mail On-Time results reported for GPRA have been those used internally for the National Performance Assessment (NPA), the Postal Service's Pay-for-Performance system. Because NPA is designed to measure an individual's performance on factors within his or her control, results for 2-day and 3-day service exclude a period during December when air transportation capacity is significantly reduced. In recent years, the calculation has changed slightly due to the reduced length of the exclusionary period, the impact of Hurricane Katrina, and the addition of international mailpieces.³

First-Class Mail service performance improvement is based primarily on continuous improvement programs designed to make incremental but lasting changes in postal operating processes using increasing amounts of data to identify key areas of opportunity.

Prior to 2006, the First-Class Mail On-Time results reported for GPRA were different than those used for NPA and did not have an exclusionary period. The service performance history above has been re-stated to be consistent with the new reporting conventions. First-Class Mail On-Time results for 2007, without the exclusionary period, are 95.6% for overnight, 92.4% for 2-day, and 89.5% for 3-day.

The Postal Act Of 2006 Requires Significant Changes

The Postal Act of 2006 created two broad categories of postal products, market dominant and competitive. For market dominant

³Criteria for the First-Class Mail On-Time Performance calculation.

	Exclusionary Period	ZIP Codes	International Mail
2003	Nov. 30, 2002 – Feb. 21, 2003	Includes full panel of 463 ZIP Codes	Not Included
2004	Nov. 22, 2003 – Jan. 30, 2004	Includes full panel of 463 ZIP Codes	Not Included
2005	Nov. 20, 2004 – Feb 4, 2005	Includes full panel of 463 ZIP Codes	Not Included
2006	Nov. 19, 2005 – Feb 3, 2006	Excludes ZIP Codes 700, 701 & 395 due to impact of Hurricane Katrina	Not Included
2007	Dec. 2-29, 2006	Excludes ZIP Codes 700 & 701 due to impact of Hurricane Katrina	Data from the domestic leg of import and export mail as measured by the International Mail Measurement System is combined with EXFC data
2008	2-Day: Dec. 10, and 17-19, 2007 3-Day: Dec. 1-28, 2007	Excludes ZIP Code 701 in Q1 due to impact of Hurricane Katrina	Data from the domestic leg of import and export mail as measured by the International Mail Measurement System is combined with EXFC data

Chapter 5 Our 2007 Performance and 2008 Plan

products, which include First-Class Mail, single-piece First-Class Mail International, Periodicals, Standard Mail, Package Services,⁴ and Special Services, it required service standards to be modernized, and more detailed performance measurement and reporting. Service performance for market dominant mail services are subject to review by the Postal Regulatory Commission and will be reported in the *Annual Compliance Report*.

Completion of this new set of service standards, performance measurement, and reporting systems requires consultation and cooperation between the Postal Service and its stakeholders. One of the biggest challenges will be resolving issues concerning the chain of custody (“start-the-clock”) between commercial mailers and the Postal Service. The Postal Service will develop a hierarchy of service performance categories to simplify goals and accountability for field operations. Intelligent Mail will become a primary service performance measurement tool, complementing EXFC. Mail with electronic documentation and IM barcodes will be tracked continuously throughout the operating system. In-process scanning of letters, cards, and flats will be enabled throughout the network. The infrastructure to provide package and bundle visibility is coming into place.

Timely and reliable delivery is the foundation for customer satisfaction and revenue generation. The Postal Service will evaluate other measures of service performance as stakeholder and business needs evolve. Customer outreach programs, including one of the nation’s most extensive customer satisfaction measurement surveys, are outlined in chapter 2 and are critical to improving service to meet customer needs. The Postal Service will also reevaluate customer satisfaction surveys to meet expanding requirements.

Generate Revenue

The costs of providing service to an expanding nation must be covered by revenues generated by the Postal Service. The Postal Service tracks revenue performance by comparing actual revenue against planned revenue. Formerly, postal prices generally changed on a three-year cycle, consistent with the requirement that the Postal Service “break even” financially over time. The Postal Act of 2006 allows for annual price changes and permits the Postal Service to retain earnings, thereby breaking the cycle of successive years with high net income, break-even, then a loss. In 2008 the Postal Service will use Net Income as a major measure of financial performance, and by 2009 new financial measures appropriate to the changed postal business environment may be developed.

⁴Bulk Parcel Post is classified as a competitive product.

Financial Performance

	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Plan	2007 Actual	2008 Plan
Revenue (billion)	\$68.8	\$69.0	\$70.0	\$72.8	\$75.3	\$75.0	\$78.2
Revenue to Plan	97.8%	100.1%	102.4%	100.7%	100%	99.6%	100%
Net Income (billion)	\$3.9	\$3.1	\$1.4	\$0.9	(\$5.2)	(\$5.1)	(\$0.6)

Source: 2007 Annual Report available on *usps.com*

Note: More detailed information is provided in the management discussion and independent auditor comments in the *Annual Report*.

The reliability of financial reports depends on the integrity of the systems that support them. The Postal Act of 2006 requires the Postal Service to comply with Section 404 of the Sarbanes-Oxley Act and report on its financial controls beginning in 2010. The Financial Management section of chapter 4 reports on progress toward this requirement in 2007 and steps planned for 2008 and 2009.

Increase Efficiency

Increasing efficiency has long been a priority for the Postal Service because it enables affordable services even as the delivery network grows and some components of First-Class Mail volume decline. Price increases for market dominant product classes cannot exceed the rate of inflation, even when the attributable costs of resources consumed by those specific products rise more quickly.

The Postal Service currently measures efficiency using Total Factor Productivity (TFP)⁵. TFP compares postal outputs, such as weighted mail volume and the extent of the delivery network, against inputs such as capital, labor, and materials used to produce the outputs. Unlike partial productivity measures (e.g., labor productivity), TFP measures the productivity of all inputs. Consequently, when a project replaces one input with another (e.g., automation for labor), TFP captures the entire effect – both the reduction in one input and the increase in the other. This approach allows the Postal Service to measure overall productivity, and to separate out factors that it can control from those, such as the price of fuel or the volume of mail, that are largely externally driven.

⁵TFP is similar to the multifactor productivity methodology used by the Bureau of Labor Statistics to calculate national and industry-level productivity. Each component of TFP outputs and inputs is very intricate. TFP assigns weights to different types of mail volume to account for variations in the amount of work it takes to handle a piece of mail. Mail varies by size, shape, weight, preparation levels, and transportation mode. Inputs include all labor, capital, and materials used. Capital includes buildings, land, and equipment. Materials include utilities, supplies, services, and other non-personnel items. Data are derived from a number of audited postal information systems, the Cost and Revenue Analysis (CRA) Report, and General Ledger. Analysis is validated by a leading independent firm of productivity experts.

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TFP Performance

	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Plan	2007 Actual	2008 Plan
Improvement	1.8%	2.4%	1.1%	0.4%	1.0%	1.7%	1.0%

Source: Postal Service Financial Reporting and Analysis

TFP has increased consecutively over each of the last 8 years. Because there can be a lag between the spending on certain strategies, such as capital investment, and their impact on productivity, TFP results are most appropriately judged within a long-term view. In 2007, TFP increased by 1.7 percent, 0.7 percentage points more than the Postal Service goal of 1.0 percent. The greater than planned performance was primarily due to a reduction of 36 million workhours.

The updated *Strategic Transformation Plan 2006-2010* continues to include a goal of saving \$1 billion each year. To ensure this goal is met, the Postal Service will continue to evaluate alternatives for measuring efficiency.

Customer-Focused Culture

Postal employees are the organization's most important asset and the Postal Service depends upon the quality and commitment of employees to achieve its objectives. In recent years, the Postal Service has improved both its level of safety and workplace environment, while better focusing employee development and compensation programs to meet corporate goals.

The Postal Service tracks employee attitudes using an index of six questions from its Voice of the Employee survey. The index measures employee perception of recognition, accountability, harassment and discrimination, supervisory communications, and being treated with dignity and respect. The Postal Service will review the VOE survey in 2008 which may result in changes to individual questions and/or the survey index. By 2009, the measure is likely to be adapted to include additional measures of entrepreneurship, innovation, customer focus, and employee engagement.

Voice of the Employee Performance

	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Plan	2007 Actual	2008 Plan
Voice of the Employee Index	61.1	62.1	63.7	63.4	63.6	63.5	63.6

Source: Postal Service Human Resources

Progress on the programs used to drive safety results is discussed in the Workplace Environment section of chapter 3. Safety performance is tracked using the Occupational Safety and Health Administration's (OSHA) Illness and Injury rate. This indicator will continue to be measured and managed with a goal of continuous improvement

through 2009. In the future, additional workplace management measures and goals may be developed.

Safety Performance

	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Plan	2007 Actual	2008 Plan
OSHA Illness and Injuries per 100 Full-time Employees ⁶	7.3	6.6	5.7	5.6	5.5	5.5	5.4

Source: Postal Service Safety and Environmental Performance Management

In 2008, the Postal Service also will begin to track the rate of formal Equal Employment Opportunity (EEO) complaints. This change reflects a requirement in the Postal Act of 2006. More information about the Postal Service's EEO program can be found in the Workplace Environment section of chapter 3. This measure will continue to be measured and managed with a goal of continuous improvement.

Equal Employment Opportunity Performance

	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Plan	2007 Actual	2008 Plan
Formal EEO complaints per 100 full-time employees	1.0	1.0	0.9	0.8	N/A	0.8	0.5

Source: Postal Service Human Resources

Performance Measurement and Management Summary

The Postal Service intends to become more entrepreneurial, innovative, and competitive as it seeks to re-invent itself to meet customer needs in a rapidly evolving market. Additional corporate performance measures are likely to be developed to support the achievement of this vision.

⁶Rates are calculated by dividing the number of illnesses and injuries by the number of hours worked by all employees and then again by 200,000 (the annual hours of 100 full time workers). Data has been adjusted to comply with OSHA requirements to show accidents in the year they occurred rather than the year reported. In addition data are changed to reflect updated medical information and improvements in record-keeping. There were no changes to the goals, indicators, or measurement systems in 2007 and none are contemplated for 2008.

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