

# USPS

UNITED STATES POSTAL SERVICE

Five-Year Strategic Plan  
FY 2001-2005



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UNITED STATES POSTAL SERVICE

# Five-Year Strategic Plan

Fiscal Years 2001-2005

## EXECUTIVE SUMMARY

In an environment as challenging as any it has faced in its more than 200-year history, the United States Postal Service has developed a new strategic plan for the fiscal years 2001 through 2005. The vision, goals, and strategies described in this document support the Postal Service's historic mission to provide universal service that is prompt, reliable, efficient, affordable, and self-sustaining. The strategic direction and objectives also reflect a growing uncertainty about the future impact of emerging technologies, changing customer requirements, and competitors' actions on mail volume and postal revenues.

The planning process, which has led to the formulation of the goals and strategies the Postal Service will pursue in coming years, has used a strategic framework outlined by the Postmaster General in a speech delivered in Nashville, Tennessee last spring. In his remarks at the National Postal Forum, William J. Henderson noted that the Postal Service would have to sustain the affordability of its services, grow both its business and the business of its mailing industry customers and partners, and restructure itself to become more flexible, more responsive, and more innovative.

A high-performing, continuously improving, customer-focused Postal Service was the principal objective of the organization's previously published Five-Year Strategic Plan, which addressed fiscal years 1998-2002. That plan's strategic direction anticipated the factors that are fundamentally transforming the global postal industry: The growth of Internet communications and electronic commerce; the deregulation and privatization of foreign postal administrations; and the potential diversion of significant volume of several categories of letter mail to electronic channels. The strategic direction outlined in this plan goes further and responds to those drivers of change.

As has been the case for the past three years, this strategic plan will be updated annually in compliance with the Government Performance and Results Act of 1993 (GPRA) with the publication of an annual performance plan and an annual performance report. Every three years, a new strategic plan will be formally updated, while Postal Service business environment reviews and strategies will be adapted as often as necessary.

... BIND THE  
NATION  
TOGETHER

... PROVIDE  
ACCESS IN ALL  
COMMUNITIES

... OFFER PROMPT,  
RELIABLE POSTAL  
SERVICES AT  
UNIFORM PRICES

## Mission and Vision

The Postal Reorganization Act of 1970 defines the mission of the Postal Service. The law charges the Postal Service to bind the nation together through the correspondence of the people, to provide access in all communities, and to offer prompt, reliable postal services at uniform prices. The act was designed to transform the Postal Service from a bureaucracy subsidized with tax revenues into a businesslike entity supported by the fees (stamp revenues) paid by its users. Implicit in this mission is the expectation of the American public and customers in every sector of the economy that the Postal Service will provide affordable, readily accessible postal services and infrastructure, standing as a best-value service available in every community. Most customers view the Postal Service as a ubiquitous, trusted third party in American economic transactions, and they expect the organization to guard that role.

The 1970 law also states that postal services are an essential government function, one that has been integral to the building of the nation. The delivery of postal services has supported development of national transportation and communication infrastructures, has linked urban and rural economies, and led to the creation of the country's physical address system.

That historical mission, however, is challenged by forces shaping the future postal environment. The Internet marketplace reshapes the interaction between customers and service providers. Agile competitors are able to quickly respond to changing market demand. Substitute technologies compete with core postal products and services.

The vision of the Postal Service for the next five years, therefore, is to become an organization that can improve performance and affordability, implement innovative ways to grow both its revenues and those of the mailing industry, and find flexible, responsive solutions to the challenges raised by technology and the seismic shifts in the global postal business environment.

The framework for implementing the objectives and strategies to achieve the vision will be an improved understanding of the Postal Service's role as the "Gateway" to the nation's households and businesses. Within this framework, the Postal Service will develop mail originator and mail recipient services that take advantage of the organization's "last-mile" infrastructure – the retail and delivery services that represent the postal presence in every community. New and expanded products and services will build on the Postal Service's "brand" – the trust and security inherent in the postal system, as well as the notion of the "mail moment" that describes both the institutional role of the organization and the emotional attachment to it widely held by the American people.

## The Postal Environment

Five aspects of the postal environment – regulatory, technology, customer requirements, competitor activities, and the postal workplace – are experiencing transformational shifts.

The thirty year-old regulatory framework has been studied for five years by the United States Congress, and extensive testimony has been offered on its shortcomings. Home computer ownership, electronic communication networks, and the changing nature of personal correspondence threaten traditional letter mail, as well as bill payment and presentment. Customers – both major mailers and individual consumers – have more communication options and are demanding greater value and flexibility through the choices they make. Traditional competitors, such as UPS or FedEx, and emerging competitors – both deregulated foreign posts and alternative delivery services – offer most postal customers alternatives or substitutes for virtually all postal products and services. Finally, employee satisfaction will be the key, in coming years, to achieving and sustaining the kind of high-performance, flexible, innovative, and responsive organization necessary to succeed in a complex business environment.

Three years ago, the Five-Year Strategic Plan for 1998-2002 stated that the Postal Service would become a 21st-century growth company, finding opportunities in products and services derived from its core business, despite an expectation that overall mail volume growth would

slow. Priority Mail, Advertising Mail, and International Services were all expected to grow. Today, those assumptions are in question.

Even modest growth in delivery points, as delivery service is extended to new households and businesses with the growth of the economy, will require significant additional investments. But there may be less traditional volume, on average, for each delivery. Growth will continue to be part of postal planning, even as overall volume or volume in key mail categories declines.

In 1999, during congressional hearings on postal reform, scenarios describing future mail volume declines were presented, based on assumptions widely accepted by numerous industry experts. Historic economic relationships linking growth in mail volume are challenged by such forecasts. The importance of this issue has led the Postal Service to conduct surveys, commission research, and to discuss the issue in detail with postal customers and industry experts. The results of these efforts suggest that the Postal Service's strategic planning will have to be flexible enough to take different possibilities into account.

## Performance Goals for 2001-2005

Through a process of goal-setting and review, the Postal Service sets its performance standards and measures their achievement. The Postal Service has developed a "balanced scorecard" approach that reflects customers, employees, and the fundamental financial health of the organization.

In each of the three categories – or "Voices" – the Postal Service has developed a broad goal statement, which is supported by performance goals, indicators, and annual targets for each of the coming five years.

For the "Voice of the Customer," the five-year goal is to earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices. For the "Voice of the Employee," the goal is to foster an inclusive and welcoming workplace consistent with the values of fairness, opportunity, safety, and security; where everyone is given the knowledge, tools, education, and encouragement to be successful; and where everyone is recognized for and takes pride in his/her participation in customer and Postal Service success. The "Voice of the Business" goal is to generate financial performance that assures the commercial viability of the Postal Service as a provider in a changing, competitive marketplace and to generate positive cash flow to finance high-yield investments for the future while providing competitively-priced products and services.

The Voice of the Customer five-year performance goals include timely, consistent and accurate delivery of all categories of mail, and achievement of high levels of customer satisfaction. The Voice of the Employee goals include the delivery of training to each employee, safety improvements, better workplace relations, improvements in diversity, and a high level of employee satisfaction. The Voice of the Business goals are to achieve net income, to invest in future improvements in service and productivity by making substantial capital investments, and to control costs by making productivity gains.

It will be increasingly difficult to achieve results for the business goals involving financial self-sufficiency, net income, affordability, and continuing high levels of capital investment.

Performance measures are developed through a process based on the Malcolm Baldrige National Quality Awards. This process, *CustomerPerfect!*, is an annual management cycle that begins with a service-wide review and evaluation of the performance during the prior year. The evaluation identifies priorities for improvement, based primarily on customer and market issues using comparative and competitive data. Goals and targets for improvement based on this analysis are set and incorporated into budget and program planning.



THE  
FUNDAMENTAL  
STRATEGY OF THE  
POSTAL SERVICE IS  
TO PROVIDE  
QUALITY SERVICE  
AT LOW PRICES.

## Organizational Strategies

The fundamental strategy of the Postal Service is to provide quality service at low prices. While continuing to build on the gains in service improvement, the Postal Service will focus new energy on issues of productivity and cost control. Value is determined by price as well as by quality, and providing value – the best combination of quality and price – is the foundation for the growth necessary to accomplish the fundamental mission of the Postal Service.

The Postal Service has developed an integrated operating plan for the postal businesses and major goal categories across five broad areas of concern: Organizational infrastructure, workforce, pricing, revenue generation, and effectiveness of capital investment.

Infrastructure strategies center on how best to manage the organization. They include initiatives designed to achieve breakthrough productivity, which would lead to between \$3 and \$4 billion in cost savings by 2005. The savings are projected to come from reduced administrative costs, better information systems, automation of flats and parcels handling, better use of transportation resources and operating networks, and standardization of operating systems.

Workforce strategies include the implementation of improved safety programs based on Occupational Safety and Health Administration (OSHA) requirements, and the development of recruitment, training, communication, incentive, and other support systems. An existing incentive program, based on the "Economic Value Added" (EVA) concept widely used in the private sector, will be adapted and improved. Other programs will improve the suggestions process, leadership succession planning, and workplace relations.

Revenue growth will come from strategies focused on "Gateway" opportunities: Core product improvements, including service, new features, and adaptations for specific customer segments; technology to access products and services; expanded retail initiatives; improved commercial sales management; improvements in international package services; expanded alliances and partnerships; introduction of eCommerce services; and better asset management.

Finally, capital investment strategies concentrate on the development of an "Information Platform" which will enable the Postal Service and its customers to manage resources and interaction more effectively and efficiently; on facility and network optimization; and on automation, mechanization, and other equipment improvements.

## Consultation with Stakeholders

As required by the Government Performance and Results Act (GPRA), the Postal Service has sought and obtained comments on the 2001-2005 Five-Year Strategic Plan. Five major stakeholder groups were identified and addressed: Employees, consumers, suppliers and business partners in the mailing industry, business customers, and postal policy experts. Over the last year, much of the content of postal publications and the publications of the different employee groups has addressed the issue of the changing business environment, and how those factors could affect the Postal Service. Public surveys from a number of sources indicate a high degree of satisfaction with the Postal Service.

Meetings and discussions with stakeholder groups representing business customers, suppliers, and policy experts were also held. The Postal Service also sought comments through a notice in the *Federal Register*. Stakeholder responses ranged from concern about affordability to general satisfaction with the plan and the Postal Service. Specific comments were incorporated into the Strategic Plan to improve clarity or to respond to specific issues raised by stakeholders.

## Planning for the Future

The vision, goals, and targets of the Five-Year Strategic Plan are projected into a future environment whose uncertainty leads to three possible scenarios: A baseline case, where there

are significant reductions in First-Class Mail volume and moderate Standard A Mail volume growth; a rapid diversion case, characterized by faster reductions in First-Class Mail volume and reductions in Standard A Mail volume; and a historical case, where there will be moderate mail volume growth based on traditional trends.

These three "futures" are based on information developed for, and presented at, congressional subcommittee hearings and publicly reviewed by the Postal Service and the General Accounting Office in the fall of 1999. The case studies suggest that the migration of traditional mail to the Internet could take place at a rate resulting in complement dislocation which could test the fabric of the Postal Service and the mailing industry and challenge the organization's ability to deliver universal service. Consequently, the Strategic Plan also addresses possible strategic initiatives and objectives which might be warranted, were such diversion to occur.

The baseline case assumes electronic bill presentment and payment alternatives will cause First-Class Mail volume to decline beginning about 2003. The goals and objectives of this plan reflect this baseline assumption and provide strategies to maintain a viable Postal Service in 2005, able to achieve its mission.

The rapid diversion case assumes more aggressive mail volume declines, as electronic substitutes supplant not only bill payment and presentment, but also business communications and direct mail. Current productivity and service performance would be threatened under this scenario, since it would be increasingly difficult under the present regulatory structure to maintain the investment required to substitute capital for labor. Without unexpectedly large revenue increases from new products or services, significant price increases could result by 2005, creating additional competitor actions, workforce reductions, and a spiraling effect leaving the Postal Service unable to meet customer expectations or requirements. Cost reductions in excess of the planned \$3 to \$4 billion may be necessary to sustain the value equation – high quality service at low prices – for customers. Other strategic shifts under these circumstances could include revised service standards, adjusted prices, and postal network restructuring. The strategic change toward increased flexibility, innovation, and responsiveness is designed to prepare the Postal Service for this environment.

The historical case assumes modest volume growth that parallels national economic growth, regardless of the expansion of new communication technologies. The models used to build this case are based on historical data sets and do not for the most part take into account future events. The continued postal emphasis on improvement in service quality and productivity in this environment would bring substantial benefits to customers.

The strategies in this plan are designed to prepare the Postal Service to fulfill its mission and to serve its customers beyond the five-year period under any of the possible environments. If the impact of technology and competition is more rapid than currently expected, the Postal Service could face financial pressures that would require significant redefinition of the scope of service and role in the economy. A potential crisis involving the second largest civilian employer in the nation – a \$65 billion enterprise and a mailing industry significantly larger in terms of revenues and employees – would be a concern for future policy makers.

Today's Postal Service already plays a key role in supporting the "New Economy" as well as the traditional one. Internet corporations like Amazon.com, eBay, and Dell all rely on the postal network to reach their customers. It is this network – the Postal Service's physical infrastructure and its planned technology platform – that will serve as the foundation for its 21st century role: The "last-mile" gateway into every American household and business for messages, transactions, and merchandise. It is a vision that finds opportunity in transformation, and one that remains true to its historic mission to bind the nation together by ensuring that everyone, everywhere, has the same ability to communicate, regardless of technological change.

TODAY'S POSTAL  
SERVICE ALREADY  
PLAYS A KEY ROLE  
IN SUPPORTING  
THE "NEW  
ECONOMY" AS  
WELL AS THE  
TRADITIONAL ONE.



## Chapter 1

# MISSION AND VISION

### The Mission: Historic and Still Vital

America's postal system, established 225 years ago by a Continental Congress that was committed to create a communications network to bind the colonies together, was revalidated in 1970 by the Postal Reorganization Act.

The legislation codified the historic mission of the organization:

*The United States Postal Service shall be operated as a basic and fundamental service provided by the government of the United States, authorized by the Constitution, created by an Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services 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.*

[Title 39, U.S. Code, Sec. 101 (a).]

The Postal Reorganization Act mandates that the Postal Service, unlike most other government agencies, must be self-supporting. The Postal Service achieved this status by 1982 and has been free from taxpayer support since then. This achievement was one of the first and most important results sought by the Postal Reorganization Act, and it is now taken for granted. Most knowledgeable postal observers believe it highly unlikely that Congress would return to subsidizing the Postal Service from tax revenues. Therefore, the need for financial self-sufficiency is an objective that underlies much of Postal Service strategic planning.

In the early nineties, the Postal Service's management reviewed the mission and developed a Statement of Purpose:

*To provide every household and business across the United States with the ability to communicate and conduct business with each other and the world through prompt, reliable, secure and economical services for the collection, transmission, and delivery of messages and merchandise.*

The historic mission and statement of purpose both serve as the foundation for Postal Service strategic planning and for the vision, goals, and strategies outlined in this plan.

## Defining Universal Service and Public Service

The task of reaching 130 million delivery points and providing access to the postal network in all communities has resulted in the creation of an enormous national institution. This network ranges from air transport to the furthest frontiers of Alaska in the dead of winter to mule routes descending to the floor of the Grand Canyon. It includes more than 38,000 post offices, stations, and branches located in almost every community in America. In many instances, the Postal Service is the visible, human face of the federal government and is part of the daily life of every American business and household.

Universal service is currently defined to include concepts such as delivery service standards, products and services, access, and uniform pricing. Postal services include daily delivery, six days a week, except for designated federal holidays. Key rate categories, such as First-Class letter mail, are priced without respect to distance, so a local letter bears the same price as a letter carried cross-country – or even from Puerto Rico to Guam. Until and unless new legislation narrows the scope of the services that are expected by postal customers, the current understanding of universal service will continue to guide the Postal Service in defining its mission.

The Postal Service will continue to study the issue of universal service to develop more specific costs and trade-offs and will engage in ongoing discussions with stakeholders about potential changes.

## Cooperation with Other Agencies

The Postal Service also provides public services other than mail delivery and cooperates with a wide range of other government agencies to deliver these services. These activities are important elements of the mission of the Postal Service, and their description fulfills one of the specific requirements of GPRA. The Postal Inspection Service works with the Justice Department and other agencies to protect consumers from fraud and the misuse of the mails. The Postal Service provides such activities as passport services for the U.S. State Department, distribution of Census and IRS forms, the placement of recruiting information for the Armed Services, “wanted” posters for the FBI, and other activities of public interest. More recently, the Postal Service and the Consumer Products Safety Commission entered into an agreement to publicize product recalls in postal lobbies, and the Postal Service has worked with the Bureau of the Mint in the distribution of special coins. The Postal Service has been working with the Treasury Department to investigate the feasibility of ATMs at postal locations for the electronic distribution of certain benefits to citizens who do not have bank accounts.

Certain services provided by the Postal Service, such as managing the physical address database for the nation, have been essential to the development of many local government services. Postal Service address management services have even been vital to the development of a wide range of private sector applications, including competitive delivery services.

As a government agency, the Postal Service is expected to be at the forefront of public policy initiatives, such as workforce diversity, safety, customer access, and the design of environmentally sound vehicles and buildings. Congress has, from time to time, added new obligations to the Postal Service, such as the recent "semi-postal" stamp to generate additional funding for breast cancer research. The Postal Service also funds the operations of its regulatory body, the Postal Rate Commission.

In developing a strategic outlook for the next five years, it is important to understand the extent to which the key compact that lies at the heart of the Postal Reorganization Act will be affected by current market trends. There is little evidence in 2000 that there will be any reduction in the intensity of stakeholder support for the public service function of the Postal Service. Yet the pressure of competition is challenging the traditional sources of postal revenue and, therefore, the ability of the Postal Service to maintain affordable prices.

## Postal Service Business Services: Generating Revenues to Support the Mission

The universal service structure and the various public services are supported by the prices charged for the core business services of the Postal Service. Beyond service to the public, postal services play vital roles in the daily business and economic life of the country. To place the strategy of the Postal Service in context, it is helpful to review the business services the Postal Service provides its customers.

- **Billing and Payments System**

First-Class Mail is a critical part of a highly efficient national system for distributing bills and payments. Anyone, anywhere, can bill or pay anyone, anywhere. The Postal Service, banks, financial services providers, and equipment and technology providers have evolved a process that is familiar, easy to use, and has a high degree of consumer confidence and trust.

- **Business Communications and Personal Correspondence**

First-Class Mail also provides an important role in sustaining communications by creating and maintaining business or personal relationships. Although the volume of phone messages, facsimiles, and e-mails now dwarfs traditional mailed messages, hard-copy communications are still critical. Advertising mail is also a critical part of customer relationship management and marketing for a growing number of businesses.

- **Publication Distribution**

The historic availability of a relatively inexpensive and reliable national distribution service for subscription publications has created a national market for a diverse industry with thousands of different specialized publications. Since the earliest days of the republic, the availability of newspapers, magazines, and other publications has been seen as a crucial support of the American democratic system. Congress deems this role of the postal system so vital that it mandates special reduced rates for several publication categories.

While most periodicals have options that would allow them to bypass the Postal Service to reach their customers, many small publications do not. This important segment will be dependent upon a strong postal system for some time to come.

- **Retail Sales**

The Postal Service has helped create whole new industries – the mail order market and, more recently, the direct mail market. These industries changed dramatically over the last century, as new players replaced familiar firms. Today, mail complements and competes with broadcast and other print advertising to generate awareness and brand identity, to generate site traffic, and to make sales.

- **Global Services**

Even with the growing competition in the expedited packages and secure electronic document services, the postal enterprise is inherently a global communications medium. The Postal Service has historically made arrangements to exchange mail with other nations, even in times of conflict. The Postal Service has played a vital role in supporting armed forces deployed overseas through the Department of Defense, and has responded to the challenges of major actions such as Desert Storm and, more recently, in Kosovo.

THE BUSINESS ENVIRONMENT IS INCREASINGLY DYNAMIC AND COMPETITIVE.

Business Summary

Each of these business services was originally developed in an era where the markets were stable and customers had few, if any, alternative choices. The business environment is increasingly dynamic and competitive. As a result, the Postal Service will need to be much more effective and efficient in delivering services.

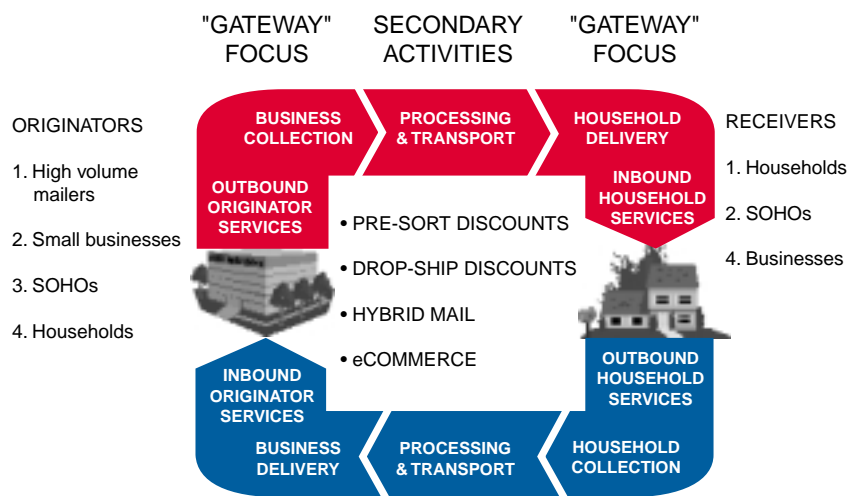
Establishing a Future Vision: A Flexible, Innovative, and Responsive Postal Service

The need to provide services in a highly competitive environment requires a strategic vision that embraces change. The traditional protections of the "monopoly" no longer offer much shelter to postal products and services. The vision at the core of this plan is that the Postal Service can continue to carry out its mission by becoming much more flexible, innovative, and responsive to customer needs, while improving its efficiency. This transformation requires internal and external change – to Postal Service operating processes and administrative procedures as well as long-term legislative reform.

Strategic Framework: Gateway to the Household

Increased flexibility, innovation, and responsiveness – building on a foundation of improved service and efficiency – are the principles underlying the strategic plan. A framework for strategic alignment views the postal network as the “Gateway to the Household.” This framework is a significant strategic shift in Postal Service perspective. Traditional postal policies tended to focus internally on "mailing dock to mailbox" issues. The Gateway strategic framework expands Postal Service attention to include its mailing industry partners and focuses on the mutual customers – the senders and recipients of messages, transactions, and merchandise. Figure 1 is a simplified "value chain" that describes this expanded strategic perspective.

Figure 1. Gateway to Households



*This strategic framework recognizes that the Postal Service is a trusted link between senders and recipients and that the effectiveness of postal services in meeting customer needs goes beyond internal operating efficiencies. It describes those specific processes that are most relevant to creating value for these senders and recipients, and where the Postal Service can best focus its efforts and resources. It indicates that "one size does not fit all" and creates a base for developing more customized services that meet the needs of different customers. Finally, the Gateway approach begins to position the Postal Service to take advantage of its unique retail and delivery infrastructure, or the "last mile," as its principal contribution to this value chain.*

## Building the Brand: Creating Value in the "Mail Moment"

The Gateway focus emphasizes what happens after the mail is delivered and on opportunities related to the "mail moment." Traditional mailers expect to send bills that will be paid, communications and periodicals that will be read, and advertisements that will generate responses.

The value of the mail, and the Postal Service, as a channel or link between senders and recipients, is influenced by the emotional attachments, or "mail moments," experienced by customers as they receive mail that helps them or interests them. The experiences of customers, as mailers and recipients in both business and consumer roles, with the Postal Service as an organization and with services provided by the Postal Service, is the "brand," or the relationship that adds value to the link the Postal Service provides between senders and recipients.

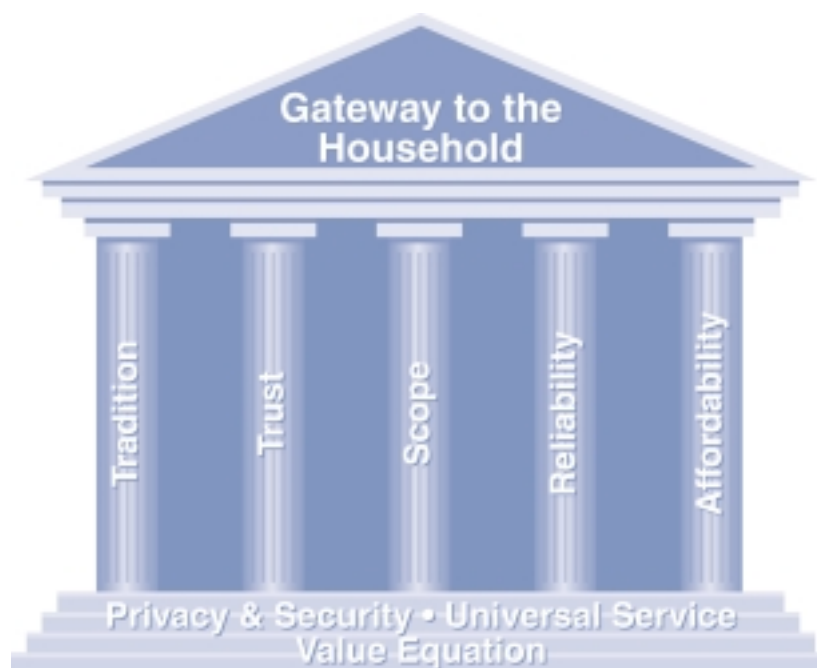
Figure 2, below, summarizes the attributes of the postal brand. The brand is a strategic asset to be managed carefully, and postal policies and programs must be managed with a view about their impact on the brand and its attributes:

- Tradition: Familiarity, Awareness, Knowledge
- Trust: Image, Confidence, Security
- Scope: Relevance of products and services to customer needs
- Reliability: Service performance and Quality
- Affordability: Direct (postage) and indirect costs of doing business

A brand's value will grow as it succeeds in meeting customer needs. Brands become a convenient and comfortable "shortcut" for customers faced with making decisions among many alternatives in competitive markets. The strength of the brand depends on the business environment and the kinds of forces shaping customer decisions in these markets.



Figure 2. Postal Service Brand Attributes



*The purpose for introducing the concept of branding to postal strategic planning is to increase the visibility of higher-level or corporate attributes important to the customer that may be overlooked or taken for granted in a more product-oriented planning approach. A brand is more than the sum of its individual products or services, and, in the case of the Postal Service, represents some key elements of the mission that might not otherwise be addressed.*

*In the complex business environment described in the next chapter, the Postal Service brand stands as an important potential competitive advantage. The Postal Service's vision – as a high-performing, flexible, and responsive organization delivering valued services through its "last mile" infrastructure – is aligned with its historic mission and builds upon the attributes and strengths that make it the leading postal administration in the world today.*

## Chapter 2

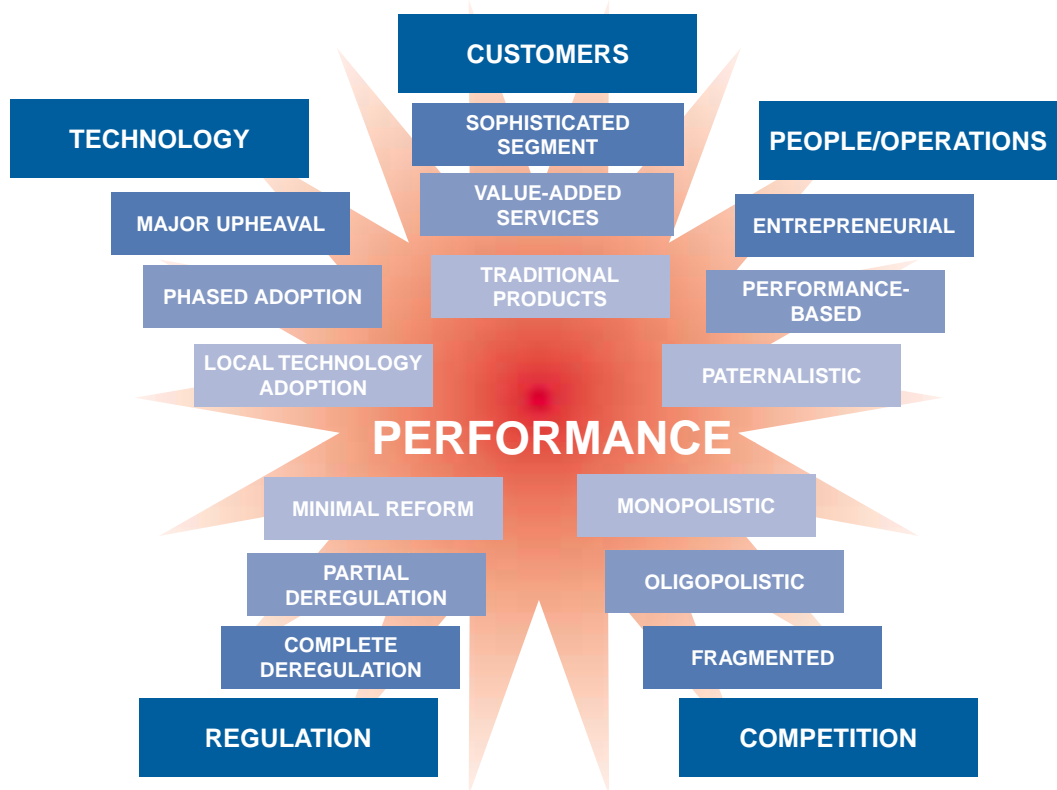
# THE CHANGING ENVIRONMENT

### Introduction: A Changing Market

The environment of the Postal Service is changing rapidly, making organizational planning both challenging and dynamic. These changes challenge the foundations of traditional planning. There are five issues that are particularly important to the Postal Service's future, as outlined in Figure 3. Each issue represents trends that affect the ability of the Postal Service to achieve its goals and accomplish its mission. Each issue introduces uncertainty into the postal planning environment, and possible futures are described in the chart in order to facilitate discussion about the trends. It is not particularly critical to be able to precisely define each element of the future, but it is important to recognize how these trends will affect the Postal Service, as represented by the following questions:

1. What rules will define the future competitive marketplace? (Regulation)
2. What technologies will define the future economics of the competition? (Technology)
3. How will future customer demands be defined? (Customers)
4. What will the requirements of the future marketplace be? (People and Operations)
5. How will competitors respond to opportunities of the future market? (Competition)

Figure 3. Business Environment Challenges



*The five questions describe forces of change. These forces can be represented in terms of several possible "stages" along a continuum of possible future outcomes. For example, competition in the mailing industry could range from markets or segments with no alternatives or substitutes for customers (monopoly), to limited choice (oligopoly), to highly competitive, with many choices (fragmented).*

## Regulation and Public Policy: A Thirty-Year-Old Framework

A detailed review of postal policy and performance in the mid-eighties by the National Academy of Public Administration concluded that the Postal Service had achieved an outstanding record in implementing the goals of the 1970 Postal Reorganization Act. However, the Postal Service created by that Act was constructed in an environment characterized by:

- Stable, protected markets
- Established products and services
- Mature technology and business practices
- Personnel and administrative policies and programs based on governmental procedures
- Incremental increases in workload, service, productivity, and rates

Many of these assumptions are no longer so valid as they were thirty years ago. Other industries in the United States, such as transportation, financial services, telecommunications, and utility services, face similar changes. Foreign postal administrations, also facing similar changes in their markets, have been deregulated, privatized, or otherwise changed significantly.

The U.S. Congress has sponsored detailed and exhaustive hearings on the issue of postal reform. What has emerged are a variety of opinions on the future of the Postal Service held by different stakeholders. Most stakeholders share a consensus, however, on the need for a rate-setting process that is more flexible and more predictable, more rapid and less costly for all parties. Other reforms would create a pathway for new product development that would prevent possible cross-subsidies and ensure a level playing field. Some stakeholders suggest changes in the wage-setting process. As this plan is written, the discussions of policy reform continue and are likely to continue for some time, even if a new law is passed.

## Technology: The Driving Force of Change

The Postal Service, like virtually every other large enterprise today, is adapting to the changes created by the development of the Internet. Figure 4 summarizes numerous studies by industry analysts who predict that, by 2001, virtually every business and most affluent households will have access to the services provided by this new communications channel. By 2005, 60% of all households will have a personal computer with access to the Internet. Most businesses and households will change their expectations, attitudes, and behaviors as they adapt to a network age.

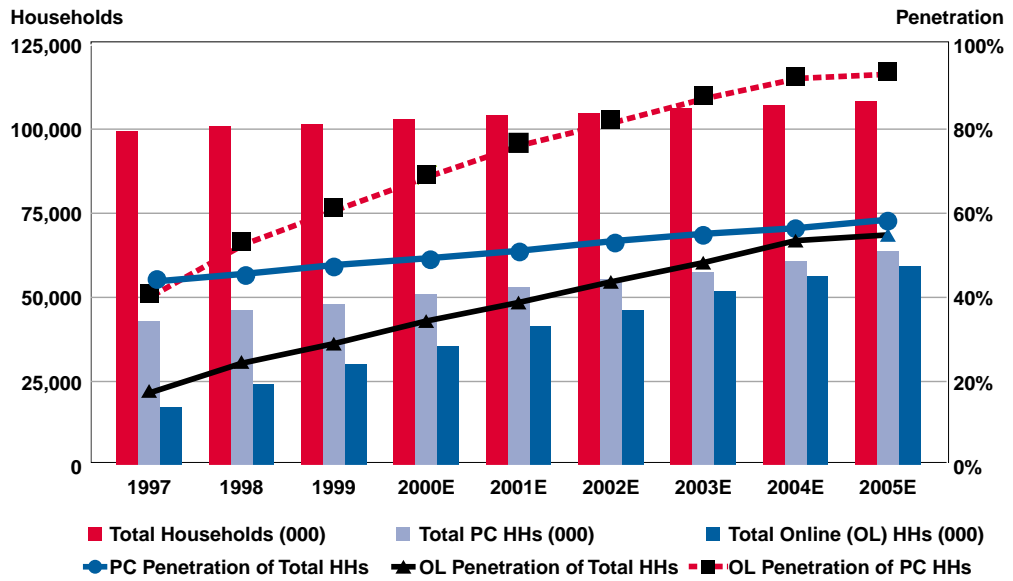
Most important, the introduction of the new technology is changing the economics of the mailing industry. Businesses will reduce document handling and transactions costs and will target customers with much more customized approaches. New business models and new firms will replace many of the traditional players in many markets. Since few companies have all the technological competencies required to compete, many will seek to improve their position by mergers, acquisitions, and by strategic alliances that shift with changes in technology and the market. Some traditional intermediaries may be eliminated while new value chains are created.

Detailed studies of consumer decision making in the future suggest that consumers will change how they search for information, entertain themselves, shop, and conduct transactions. They will be attracted by the convenience and choice offered by the Internet but will be concerned about privacy and security. Cheaper Internet access devices and increased network carrying capacity will bring Internet services to even less affluent households, but for the next several years, at least a quarter of U.S. households will remain relatively untouched by the Internet.

Information technology will also change the expectations that customers have of traditional products and services. Customers will expect more access and information and much better customer service. Interest in checking on delivery status from both the sender and the recipient is growing, and this interest reinforces the need for tracking systems. Firms will be expected to be more responsive and flexible. New technologically enhanced "help desks" and sophisticated customer call centers will be required to fulfill these new demands, supported by powerful database management and services such as order or item tracking. The cumulative impact of investments in information technologies has been credited by observers as a primary reason for the growth of productivity in the American economy, as firms have more timely and accurate information to manage operations, control costs, and improve service.

Related technologies such as materials handling, logistics, and distribution have also benefited from improved information technologies. The flow of physical items from originator to recipient can be much more efficient. Firms that do not take advantage of these benefits will not be able to compete in the future. However, in an organization with the operating scope and scale of the Postal Service, system-wide investments are expensive. In the current regulatory structure, the ability of the Postal Service to finance massive improvements is limited. This limitation will be a major challenge for the Postal Service and the policy community to address in the future.

Figure 4. HH Penetration and Use of Personal Computers and Online Services



## Customers: Changing Attitudes and Behaviors

Several major studies indicate that both business and consumer customers are likely to be driven by their search for "value" in selecting services and service providers. They will seek the best combination of service, features, and other benefits for the best price. They will want choice, with the flexibility that will allow them to customize products and services. They will demand more timely, relevant, and detailed information as they consider their choices – and they are more likely to comparison shop while expecting superior convenience and customer service.

Business customers of the future are likely to be leaner, flatter, and more focused organizations that are managed with more flexibility. Business processes not seen as core to their missions are likely to be outsourced. Decision-making is likely to be more decentralized and collaborative in most organizations of the future, enabled at least in part through technology. Segmentation based on industry or size alone will be less useful as a means of categorizing customers as companies cross traditional industry and geographic boundaries. Small businesses will be important in the marketplace since these smaller companies will increasingly drive the growth of the economy. All businesses, whatever their size, are likely to consider participating in the global market as a result of Internet communication and advanced delivery services that enable them to take advantage of a wider customer base.

Most companies will react to changes in the market by developing strategies targeted at specific groups or even individuals. Finally, each market has unique issues and trends that will affect the business environment of the Postal Service. To understand the forces that are changing markets in which the Postal Service must compete in the future, it is helpful to consider the key segments of the Postal Service individually.

### Financial Services, Telecommunications, and Utilities

The outlook for continued traditional mail volume and revenues from this segment is uncertain. This segment has relied upon the mail for two critical business processes: Bill presentment and payment using First-Class Mail; and direct marketing services, using Standard A mail. It is highly likely that First-Class volumes and revenues for billing and payment services

from this segment will decline, while the outlook is more uncertain for direct mail services.

Customers in this sector are still evolving in their responses to deregulation and technological changes that are reshaping their industry. In recent years there has been significant growth in marketing activities as these firms sought to differentiate themselves from new competitors, establish new brands, and create awareness for new products or services that they had not been allowed to offer in a regulated environment.

Within these industries, firms are consolidating. As their offerings converge, price competition is becoming more intense and margins are threatened. Traditional financial services and business practices are being challenged by firms outside traditional industry boundaries which do not have the same cost structure or traditions. This challenge leads to renewed pressure to cut operating costs, particularly in the "back office" of the transactions and document processing functions at a time when new electronic services offer the opportunity to re-engineer operations in ways that will decrease reliance on the mail.

Improvements in service speed, quality, the introduction of new features, and new pricing schedules could reduce the rate of diversion of First-Class Mail. At the same time, these firms are building responsive, cost effective relationships with customers. Given early difficulties with the effectiveness of Internet direct marketing, these considerations could lead to increased use of the mail as a complement to Internet marketing.

### Retail and Mail Order

Postal customers in this segment are significant users of direct mail and Priority Mail. They also face the threat of being displaced by new players using new business models. "Brick and mortar" retailers and their established counterparts in the catalog business are rushing to adapt to challenges from new "direct to customer" entrepreneurs using the Internet as both storefront and catalog. Their customers are becoming more demanding and selective, and are interested in expanding their access to choice, convenience, service, and value. Among other things, they expect virtually instantaneous access all day long, every day of the year, prompt response, and options that may not fit current services offered by traditional delivery firms. They are increasingly resistant to shipping and handling surcharges and want reassurance on both ease of returns and the confidentiality of their transactions.

Customers in this segment who have traditionally focused on skills such as merchandising, cost control, and marketing have learned that fulfillment, information management, logistics, and customer service are equally important to their success. Over the next few years, many of these customers will find that the successful formula combines some traditional physical facilities, online information and customer service, and integrated multi-channel marketing – including mail – to attract and keep customers.

Manufacturers are becoming increasingly active in this segment. Manufacturers have traditionally relied on bulk shipments to wholesalers and retailers, rather than shipping direct to final purchasers, and they have not previously been considered major mailers. Some manufacturers, such as Dell, have created very successful business models using direct mail and direct shipment that others hope to emulate. The appearance of successful Internet companies making successful use of direct mail may offer precedents for future development. For example, one of the strategies used by America Online (AOL) in becoming the dominant player in their market was a relentless use of the mail to send disks with their offer to households.

### Advertising and Direct Mail

The growth and increasing sophistication of the direct mail industry has been one of the dominant trends affecting mail volume for two decades. The effectiveness of other traditional advertising channels has been significantly affected by the fragmentation of audiences resulting from the availability of an increased number of channels and the growing variety of programming options available to consumers, especially those that enable audiences to avoid commercial mes-

sages. Since few television programs can consistently command large general audiences, advertisers are resorting to more targeted advertising approaches. This trend, supplemented by increased sophistication in building databases with individualized customer profiles, is expected to continue. There is increasing consumer resistance to "clutter," or the stream of advertising messages from all sources, and increasing concern about personal privacy. Marketers' concern with potential saturation is real.

A second critical trend has been increasing pressure by advertisers to show measurable and cost-effective results. Cost per response has been replacing older indicators, such as cost per message. One of the responses by the advertising community is to build more integrated campaigns using multiple media channels. This multi-media approach has increased the importance of predictability and control for all media, especially direct mail.

A third important trend has been the growth of the Internet as a new channel. Much of the excitement and experimentation in the advertising industry today involves the development of personalized, highly targeted and interactive communications intended for this exploding medium. Within limited advertising budgets, funds are being shifted from more established media. The countervailing trend of "dot com" firms recognizing the value of traditional media to drive traffic to their sites has mitigated the diversion of mail volume. However, long-standing relationships between advertisers and their service firms are being disrupted as the new channel diverts revenues and disintermediates traditional advertising industry value chains.

In 1997, direct mail was a central growth product, a core business strategy for the Postal Service. Three years later, a combination of new competition and increased price sensitivity in a time of rising postal costs makes the future of this segment more uncertain and threatens what has been the driver of mail volume growth in the previous decade.

The increasing importance of small businesses may provide an opportunity to increase direct mail volume. Advertising among this segment has often been limited to yellow pages, local newspapers, radio, and various kinds of cooperative mailing approaches, such as "shared mailings." The Internet and new design and printing technologies may create the "ease of use" and reduced cost for direct mail that has been lacking for this segment.

### Publishers and Printers

Customers in this segment are facing a challenging dilemma. On one hand, many analysts are predicting that books, magazines, newsletters, newspapers, and even traditional formats for music and video will face significant declines in volume as readers are attracted to electronic media formats. New access devices will create an increasingly attractive way to carry content downloaded from the Internet. On the other hand, publishers are experiencing record profits from print advertising, even while overall circulation has not been increasing.

Publishers and printers are responding by diversifying, especially into non-traditional markets. Virtually all are seeking a presence on the Internet, and many are promoting the variety of services they offer. They are also responding to a market that is demanding more specialized or even customized content. Publishers and printers are struggling to control their operating costs in this environment and are particularly sensitive to fluctuations in the prices of paper, transportation, and postage.

The periodicals market is closely tied to success in serving a relatively limited number of households. In recent years, these consumers have had a growing number of alternatives in their search for information or for entertainment. In this competitive market, circulation growth is largely dependent upon the success of marketing and editorial initiatives in attracting and retaining subscribers. The recent controversy over sweepstakes as a primary marketing mechanism for publications and resulting legislation has had an adverse impact on subscription growth.

## Government and Non-Profit

Government at all levels faces a number of challenges. The public is demanding more and better service from the government without additional tax support. Government must be more accessible and responsive to the diverse groups of citizens it serves, providing more specialized information and support.

At the federal level, government agencies are mandated to move as quickly as possible to reduce paperwork and to adopt electronic billing and payment. A countervailing move is to require more frequent and detailed notification and involvement of different stakeholders and citizen groups.

Non-profit institutions face many of the same challenges. Many are seeking alternative sources of revenue to supplement traditional fund-raising activities. They are responding to much more demanding constituencies who expect more of their contributions to be spent on the stated goals of the group instead of overhead activities such as fund-raising.

## Mailing Industry

No discussion of the postal environment can be complete without consideration of the mailing industry. These firms are tightly linked to the Postal Service in extended "value chains" that provide the total mailing experience to mutual customers – both the owners of the mail and the final recipients.

These partners face the same challenges as the Postal Service in meeting the many and varied needs of the different customer segments. Although their interests are not always exactly the same as the Postal Service's and there are often considerable disagreements within the mailing community on some issues, these firms are highly dependent upon the continued financial health and continued market viability of the Postal Service.

Yet many are not entirely satisfied with the level of consultation with the Postal Service, the fair and consistent application of rules and regulations, the timeliness, detail, accuracy of relevant information, the predictability of changes of postal policy – especially rates – and the responsiveness of the Postal Service to suggestions or feedback. All these concerns reduce the ability of the partners to plan effectively or to support their major partner on critical initiatives. The ease of use, quality, and value of the mailing process may suffer as a result.

## Consumers

The next five years will see significant changes among consumer recipients and senders of mail. The post-war "boomers" will be reaching retirement age, but although many will move, most will be starting second careers in their new locations. This group will be the most affluent "retired" generation in history, and companies will respond with specialized programs targeted at this population and at their communities.

Population growth will be greatest in the South and Southwest, and that population will be much more diverse. Companies will respond with "multi-cultural" and even multilingual programs. Furthermore, as the immigrant population increases, ties with friends and families will increase the demand for international services.

According to some studies, much of the demand in the economy will be generated by a group described as "the new consumer." This segment is more educated (at least one year of college), with a higher level of income (above \$50,000). Typically, these consumers have access to a personal computer and other devices at home and at work and are comfortable using the Internet for a wide variety of activities. They represent about half the population and are growing three times faster than other segments. Age and gender are no longer barriers to inclusion in this segment.

This segment is increasingly time-constrained and usually consists of households with two incomes. They will demand convenience and ease of use. Among other things, there is growing



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demand for delivery services to meet their specialized needs.

Delivery services have focused primarily on operational efficiency and are relatively inflexible to recipients. A wide variety of new delivery services are emerging to fill these gaps, and traditional providers are struggling to adapt. Groceries and a number of other items, including some categories of mail, may be delivered by these providers. Additional services will be offered, such as scheduled delivery and pickup, fulfillment and automatic replenishment, and return services. Specialized services will be developed for home offices.

This consumer segment is also redefining demands for retail services, expecting greater convenience, access, choice, quality of service, and reduced price – the attributes of value.

### Competitors: Targeting Critical Customer Segments and Markets

Many observers are describing the next several years as a period of "hypercompetition." Businesses in all industries are facing direct and indirect competition that increasingly goes beyond traditional industry and geographic boundaries. The Postal Service has long existed and thrived as a protected monopoly. In recent years, with the introduction of readily accessible electronic services and the deregulation of foreign postal administrations, most postal customers will have alternatives or substitutes for virtually all products and services. The Postal Service must provide a better value, relative to the alternatives, on those attributes most important to customers in each of the major markets served.

The Postal Service has significant competition in every major category of service. Not only is competition increasing, but competitive services are offered by world-class competitors. This recognition is not to discount the improvements that the Postal Service has made over the last several years, but to make it clear that the standards of performance required for success are very high and constantly increasing.

#### Traditional Direct Competitors (Package Delivery Services)

Traditional competitors such as FedEx and UPS are now offering new residential delivery options. New foreign postal administrations who have entered the U.S. market, are contesting the package delivery market and have been open about their interest in serving U.S. customers in more fundamental ways. These foreign posts include the Germans, the Dutch, the British, and the Canadians. All are free to enter the U.S. market and even to offer services that would be regulated if offered by the Postal Service.

#### New Market Entrants (Delivery Services)

In addition to these traditional competitors, a new generation of alternative delivery options is being created to serve the "direct to consumer" market enabled by Internet shopping. New firms such as Webvan, Streamline.com, Kosmo, and Home Run are developing new ways to take products to the household. Alternative delivery firms are also delivering samples and coupons, and networks such as newspaper and bulk magazine delivery services can be reoriented to enter the mail market if market conditions change and alter the economics of home delivery.

#### Redefining the Scope of Traditional Markets

One of the reasons for this new competitiveness in the core postal markets is particularly important since it threatens to undermine the basic economics on which the Postal Service has built its business. The concept that the Postal Service is the local provider of service is eroded when competitors offer bundled services. For example, on UPS's web site today, it is possible for a catalog shipper to obtain a wide range of services beyond traditional delivery choices. UPS offers to manage inventory, to do order fulfillment, to manage logistics services, and to provide customer service. Such integration with customers threatens to undermine whatever advantages

may have existed under the previously protected markets of the Postal Service.

In the late 1980's and early 1990's, FedEx demonstrated the capacity for selective focus supported by technological innovation to transform a traditional market. The introduction of tracking and tracing demonstrated that, in a marketplace that values information for purposes of scheduling, inventory management, and customer service, information becomes a feature as important as the delivery of the package itself.

### New Technologies and Indirect Competitors

The rapidly evolving technologies associated with the Internet are likely to affect the traditional postal applications of sending statements or bills and receiving payments, and for providing information about products and services. The eCommerce companies are offering products and services that substitute for traditional postal services, redefine traditional service in new media terms, and even in some instances such as logistics services, alter the economic advantages once held by the traditional providers. A significant new channel has been introduced, and the impact will cause changes similar to the introduction of the telephone and television for businesses and their customers.

### Workplace Environment: Renewed Focus on Employees

Public and private organizations responding to an increasingly competitive environment understand the need for increased flexibility, responsiveness, and innovation by investing in the people they employ. Studies have linked customer satisfaction with employee satisfaction. The competitive market demands that organizations demonstrate consistency in their ability to "surprise and delight" customers, an attribute that is only possible by tapping the discretionary efforts of employees throughout the workplace.

One of the greatest challenges for organizations in the next few years will be to attract and retain valued employees. The economy is enjoying the longest peacetime expansion in history, and most forecasts expect this trend to continue for at least the next five years. This growth has led to record employment levels, and companies have had to react by adjusting their recruitment, education, incentives, and compensation programs. The tight labor market will be especially challenging for employers of skilled or technical workers. More jobs are expected to have an increased technical component as organizations invest in technology.

In 2000, the majority of the new entrants into the labor market are women or minorities. The growth in the diversity of the labor pool will also require businesses to make changes in job design and employee support systems. At the same time that new entrants are changing the mix of the workforce, leadership development will become a significant problem in many companies as the current members of the "baby-boom" generation near retirement age.

The traditional model of workplace loyalty, where workers remain with their organization for the entire career, has been changing for most companies for some time. Employees are shifting jobs more often and typically expect more flexibility and developmental opportunities. Postal Service officers and executives, for example, used to be developed almost entirely within the organization. The Postal Service must often compete with the private sector to fill these positions, especially in the professional and technical specialties. Furthermore, Postal Service officers, executives, and managers are being recruited by start-up firms, consulting firms, and even foreign postal administrations.

The Postal Service must be able to do a better job of developing compensation policies that attract high quality employees, motivate their performance, and retain them to provide stability and leadership. Salary and benefits, of course, are a problem for the Postal Service as they are for many technologically-oriented government agencies. The incentives for innovation and risk must be balanced with the more traditional value of stability and the challenge of providing vital public services in a large, complex organization.

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For some organizations, the very definition of the workplace has changed. The ability to link employees through technology has created a category of workers described as "mobile" or not tied to any particular location. Others may operate primarily out of their home. More employees will be temporary or contract employees. The development of a new economy with a "virtual" workforce is only one way that the traditional lifetime employment model of the Postal Service is being challenged.

The business community is addressing these challenges in a variety of ways. Some firms have achieved success through investing in capital equipment and information technology, outsourcing, workforce reductions, or other initiatives aimed at gaining greater flexibility and commitment from their workforce. However, many industries are still struggling with labor-management relations.

This struggle has been especially true for those organizations in the private and public sectors that have had to face significant structural change and the difficulties of "downsizing" or "right-sizing." The expected decline in traditional postal workload will inevitably result in both restructuring and in a reduction in the workforce. For example, as mail processing is increasingly automated, employees may need to be reassigned from areas with declining workloads to growth areas in other parts of the country. Employees may face changes in location, career, or even postal employment.

During this time, the workplace environment will be protected by applying values of respect, equity, communication, and involvement, and in continuing to build the partnership between labor and management that has proven increasingly fruitful in recent years. Discussion of the "people" strategy in Chapter 4 elaborates on this theme. Above all, the Postal Service must reinforce the message that change means opportunity for employees with appropriate skills and commitment.

### Summary: The Postal Service Must Respond to a Different Business Environment

The Postal Service must operate as if there were no monopoly protections, because the competitive environment has reduced or limited the value of such protections. If the Postal Service is to be able to fulfill its mission of providing universal service and other required public services, its business services must be competitive and provide unique customer value in each of the markets it serves.

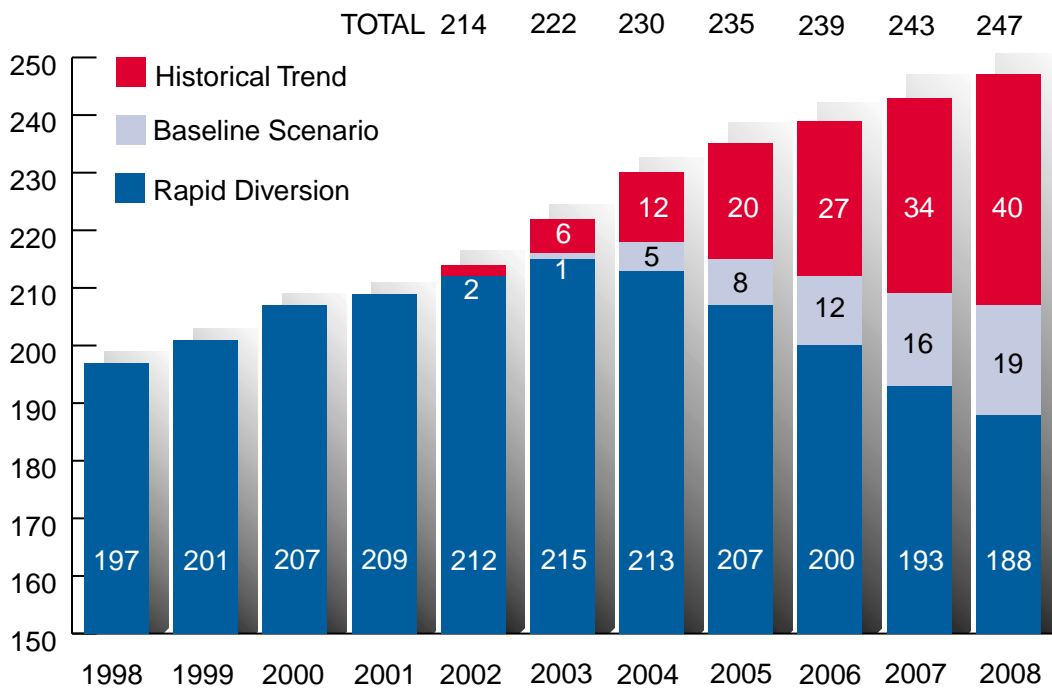
### Impact of Changed Assumptions: The Potential for Mail Volume Decline

These changes in the environment lead to a significantly revised view of the future from that which might be drawn from the historical trend provided by traditional econometric models. As shown in Figure 5, by 2004, the substitution effect of the new technology is predicted to erode mail volume by about 2%. This apparently small change would have a significant impact on contribution (or margin) in an organization required by law to "break even." The expected declines are likely to be in the category of mail that the Postal Service handles most efficiently – First-Class bills and payments. The decline will vary significantly by market, application, and customer segment. For the first time, the Postal Service has adopted a planning assumption that the long-term close relationship between the growth of the economy and mail volume will change in the future, leading to declining mail volumes for First-Class and eventually even Standard A Mail. This planning assumption is the result of surveys, research studies, and detailed discussions with customers and industry experts.

This analysis suggests forces that could threaten the foundations of the business model on which the Postal Service has been built since 1970. The competitive forces and customer requirements described in this chapter strongly suggest that the Postal Service must "re-invent" itself. The potential loss of substantial First-Class Mail volume creates a daunting challenge for the Postal Service.

Figure 5 also demonstrates the uncertainty facing Postal Service planning. The econometric forecast, based on traditional assumptions about the relationship of mail volume to economic growth, suggests the possibility for continued growth. Postal management, however, has made the assumption that the future may not reflect the past and that those historic relationships may be changed. Moreover, most industry analysts – Forrester, Jupiter, Gartner, Killen Associates, PricewaterhouseCoopers, and others - clearly describe a future where diversion may be much sooner and faster than currently expected.

Figure 5. Mail Volume Assumptions



These management projections build upon work completed in the fall of 1999 in conjunction with the General Accounting Office and congressional oversight committees. The framework for this analysis is described further in an appendix containing a report published by PricewaterhouseCoopers. The traditional econometric model, assuming the historic relationship between mail volume and economic growth, shows total mail volume growing from 197 billion in 1998 to 247 billion in 2008. However, if an assumption of moderate diversion of First-Class Mail to substitutes such as Electronic Bill Presentment and Payment (EBPP) and e-Mail is made, mail volume is affected beginning in 2002, with a loss of about 2 billion pieces and the loss grows significantly in 2008.

Most external experts suggest a rapid diversion scenario, where diversion will occur more rapidly and will also affect Standard A volumes, as interactive Internet advertising reduces traditional direct mail and catalogs. In this scenario, mail volume is affected sooner and declines to about 188 billion pieces in 2008.

## Implications: The Case for Structural Transformation

This assessment of the business environment raises a number of important considerations for the Postal Service, the mailing community, and the postal policy arena. In 1997, the Postal Service's Five-Year Strategic Plan presented a case for "continuous improvement." The basic theme was to become a much improved version of the Postal Service that was familiar to all stakeholders. The results of this strategy has made the Postal Service one of the great success stories of the 1990s – objectively measured by improved results in service, customer satisfaction, and postal finances.

The 1997 Plan did anticipate that there would be extraordinary changes in the business environment. Like many organizations, however, the Postal Service was unable to predict the speed with which the Internet has changed the American economy.

The FY 2000 update to the plan recognizes that the Postal Service must respond much faster and more effectively to these changes. It is expected that over the next five years the Postal Service can sustain its viability by dramatically cutting costs and seeking new revenue sources within the current regulatory structure, if electronic diversion does not shift into high gear, leading to more rapid volume decline.

However, if the next five years yield change in the postal markets that is indeed faster than currently anticipated, a number of issues will need to be addressed by postal management and stakeholders. Critical concerns involving the definition of universal service, the potential realignment of service standards, and the configuration of current operations and infrastructure will have to be reviewed to reduce costs and increase revenues. Increases in productivity at record levels and aggressive management of complement are already anticipated. If the volume decline becomes as drastic as some experts have forecast, especially in critical mail categories currently carrying the burden of contribution to institutional overhead, postage rates are likely to increase dramatically for the remaining mail volume, and other categories of mail would be affected. The pace of the eCommerce revolution is highly uncertain at this time. Predicting the impact on mail volume five years in advance is almost certain to be flawed. The evolution of market and customer requirements will increase the need for a more flexible, innovative, and responsive Postal Service.

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## Chapter 3

# POSTAL SERVICE PERFORMANCE GOALS FOR 2005

### Introduction: Evaluating Postal Performance

There are a number of ways postal performance can be evaluated. The Government Performance and Results Act provides one framework. The goals and performance metrics that have been adopted by the Postal Service in recent years have played a central role in assessing and improving performance since 1995, and they have been subjected to extensive external and internal review. In concept, this quantitative performance assessment approach of the Results Act fits closely with the framework for goal setting that has been constructed by the Postal Service.

The Postal Service has participated in extensive benchmarking of "best practices" and sought suggestions from customers, employees, and other stakeholders. The performance measures were established through a process based on the Malcolm Baldrige National Quality Award principles (The Assessment for Performance Excellence).

This process, which has been named *CustomerPerfect!*, is an annual management cycle that begins with a service-wide review and evaluation of the performance during the prior year. The evaluation identifies priorities for improvement, based primarily on customer and market issues using competitive and comparative data, and process owners set goals and targets for improvement based on this analysis. The focus is on objectively measured output or results measures, rather than process or activity measures, exactly in conformance with the Government Performance and Results Act.

Members of the Management Committee of the Postal Service serve as the Establish Committee that sets goals and targets and manages the entire resource allocation process. The Committee recommends performance targets to sustain and improve service and other critical indicators. The recommended goals and targets are documented in a preliminary Annual Performance Plan each February. The preliminary targets are adjusted in a phase of the process known as "Deploy." In this phase, operating functions and areas deploy resources (expense and capital budgets) in accordance with a balanced scorecard of performance objectives that will be used to evaluate performance during the "Review" phase. The results of this phase are documented in a final Annual Performance Plan, which is published in September.

This process of goal setting and review is dynamic and reflects changes in the market, Postal Service performance, and resource availability. Measures are re-evaluated, improved, con-

solidated, and changed over time to reflect the environment, and new measures are introduced. For example, during the most recent planning cycle, the productivity indicators were reviewed and changed to provide a more complete tracking system for both Total Factor Productivity (TFP) and Labor Productivity. Five successive years of record financial performance and service levels have confirmed the validity of this approach.

The performance goals frame the strategies that will be discussed in more detail in Chapter 4. The goals seek to translate the vision of a competitive Postal Service into concrete terms that can be measured and managed.

### Three Goal Categories: The "Voice" Structure

The Postal Service has developed a balanced scorecard approach that reflects customers, employees, and the fundamental financial health of the organization. These three broad corporate goal categories are referred to as "Voices" – of the customer, of the employee, and of the business.

The three goals are supported by performance goals, performance indicators, and targets. In postal terms, goals are broad statements of direction. Subgoals narrow the focus to specific performance areas within each category. Indicators are measures of performance for the subgoals, and targets are the specific levels of performance to be achieved on the indicator. This process is dedicated to continuous improvement – providing the best value in postal services in the world. The specific provisional targets for FY 2001-2005 are summarized in the following tables. Additional information on the details of the *CustomerPerfect!* process is provided in Appendix 1, and the FY 2001 Annual Performance Plan provides more details, including a history of performance over the last three years, where data are available.

#### Voice of the Customer (VOC)

The first "Voice," the Voice of the Customer, focuses on customer and market requirements. The challenge for the Postal Service is to allocate resources where the need for improvement is greatest and where the return on that investment is greatest.

#### Voice of the Employee (VOE)

The second "Voice," the Voice of the Employee, addresses the workplace environment and relations with the Postal Service workforce.

The goal statement was changed to focus more on the voice of the employee, rather than the voice of management to employees. The new goal raises the overall workplace environment from a subgoal to the goal. It is also more results-oriented.

- **Provide Knowledge and Skills Training**

This revised subgoal focuses on the support employees need to be successful. Additional diagnostic indicators, such as Employee Proficiency Ratings and "Mystery Shopper" evaluations, will be used to supplement the training programs and assess their effectiveness.

- **Improve Employee Safety, Security, and Well-Being**

The subgoal was reworded to include security and well-being as part of the overall safety and workplace environment initiative.

- **Improve Understanding of Employee Issues and Concerns**

The VOE survey, along with other "listening" methods, will be adapted, improved, and integrated into the management process.

- **Ensure an Inclusive and Fair Environment with Opportunities for All Employees**

This subgoal recognizes the need to deal with changing needs and expectations of a diverse workforce.

There needs to be a balance between the number of goals and the ability of the organization to effectively focus attention. Management will continue to seek to refine the goals and establish a structured hierarchy of goals that reduces unnecessary complexity and still achieves the objectives.

The Postal Service recognizes that current Voice of the Employee indicators and measures need to be improved. An independent national commission – The Postal Service Commission on a Safe and Secure Workplace – reported in August 2000 that the Postal Service has made significant progress in improving workplace relations and needs to continue to invest in this area.

The Postal Service will work closely with the Commission to review the findings and insights, to improve efforts already underway, and to initiate new activities as appropriate. As a result, the current “Voice of the Employee” subgoals, indicators, and targets for security, fairness, and workplace relations are likely to change in the next few months.

### **Voice of the Business (VOB)**

The Voice of the Business focuses on the ability of the Postal Service to invest in its employees and to serve its customers. Results in this performance area have traditionally been the most closely scrutinized and publicly reported.



Figure 6. Postal Service Corporate Goals and *CustomerPerfect!* Indicators and Targets

Goal	Subgoal
<p><b>Customer</b>                      Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.</p>	Timely Delivery Express Mail
	Timely Delivery First-Class Mail
	Timely Delivery Priority Mail
	Timely Delivery Parcel Select
	Timely Delivery Advertising Mail
	Consistent Delivery
	Delivery Accuracy
	Customer Satisfaction
<p><b>Employee</b>                      Foster an inclusive and welcoming workplace consistent with the values of fairness, opportunity, safety, and security; where everyone is given the knowledge, tools, education, and encouragement to be successful; and where everyone is recognized for and takes pride in his/her participation in customer and Postal Service success.</p>	Ensure that every employee is given the knowledge, tools, training, and encouragement to successfully meet the expectations of the position
	Improve employees' safety, security, and well-being
	Improve workplace relations by building leadership skills and behaviors

Indicator	2000 Baseline	2001 Target	2002 Target	2003 Target	2004 Target	2005 Target
Express Mail on time (AM & PM)	Competitive (Proprietary)					
First-Class Mail overnight on time (EXFC)	FY 2000 Actual	93%	93%	93%	93%	93%
First-Class 2- & 3- day mail on time (EXFC)		1% improvement over 2000	91%	91%	91%	91%
Priority Mail on time, Measured by Delivery Confirmation (Origin & Destination) PQ 3,4 Only	Competitive (Proprietary)					
Parcel Select, as measured by Delivery Confirmation	Competitive (Proprietary)					
Advertising Mail on time percentage within required delivery window, as measured by Advance System	FY 2000 Actual	98%	Establish improved indicator	TBD	TBD	TBD
Provide Consistent Delivery D+1 (ON, 2/3 Day)	NA	Baseline	FY 2001 + 0.50	FY 2001 + 1.0	FY 2001 + 1.5	FY 2001 + 2.0
Accuracy of Delivery, as measured by Accuracy Delivery Index (ADI)	NA	Baseline indicators in FY 2001	5% reduction in error rate over SPLY	5% reduction in error rate over SPLY	5% reduction in error rate over SPLY	5% reduction in error rate over SPLY
CSM Residential Overall	NA	94% Overall, with Excellent Score of 31	94% Overall, with Excellent Score of 32	94% Overall, with Excellent Score of 33	94% Overall, with Excellent Score of 34	94% Overall, with Excellent Score of 34
CSM Business Overall	NA	91% Overall, with Excellent Score of 23	92% Overall, with Excellent Score of 24	92% Overall, with Excellent Score of 25	93% Overall, with Excellent Score of 26	93% Overall, with Excellent Score of 27
Training including 4 hrs. mandatory on workplace environment EAS 15+, 20 hrs. Other EAS, 8 hrs. Craft, 8 hrs.	97% of employees 100% of work units	97% of employees 100% of work units	97% of employees 100% of work units			
Safety Program Evaluation	3.0	10% improvement over 2000	% improvement over prior year			
OSHA Injury/Illness Rate (Replaces LWI indicator)	Baseline	3% improvement over 2000	% improvement over prior year			
Motor Vehicle Accidents per million miles	11.08	5% improvement over 2000	% improvement over prior year			
REDRESS Availability	100% available and 70% participation rate	100% available and 70% participation rate	100% available and 70% participation rate			

Figure 6. (continued) Postal Service Corporate Goals and *CustomerPerfect!* Indicators and Targets

Goal	Subgoal
<p>Employee (continued)                      Foster an inclusive and welcoming workplace consistent with the values of fairness, opportunity, safety, and security; where everyone is given the knowledge, tools, education, and encouragement to be successful; and where everyone is recognized for and takes pride in his/her participation in customer and Postal Service success.</p>	<p>Improve understanding of employee issues and concerns</p>
	<p>Ensure an inclusive and fair environment with opportunities for all employees</p>
<p>Business                      Generate financial performance that assures the commercial viability of the Postal Service as a provider in a changing, competitive marketplace and will generate cash flow to finance high-yield investments for the future while providing competitively priced products and services.</p>	<p>Achieve Net Income</p>
	<p>Improve Overall VOB Performance</p>
	<p>Control Costs by Achieving Productivity Gains</p>

Indicator	2000 Baseline	2001 Target	2002 Target	2003 Target	2004 Target	2005 Target
VOE Survey Index	Percentage point improvement between 0.5 and 1.0% (by area)	Percentage point improvement between 0.5 and 1.0% (by area); Bottom end and threshold equal to FY 2000	The targets for FY 2002-2005 will be fixed based on trends of performance improvement			
Postal Executive Merit Reviews	Included in Postal Executive Merits	Included in Postal Executive Merits	Included in Postal Executive Merits			
Representation of all groups in details and special assignments Representation of all groups in succession plans Activities supporting affirmative action	Quarterly reviews Areas with Chief Operating Officer Performance Clusters with Area Vice Presidents HQ Officers with Relevant Management Committee Member					

Net Income	\$100 Million	\$150 Million	Achieve Average Annual Net Income Over Rate Cycle
Achieve Capital Commitment Measured by Capital Budget	\$3.4 Billion	\$3.6 Billion	Average Annual Commitment of \$3.5 Billion
Total Factor Productivity	2.1%	1.5%	Improvement Over Prior Year
Labor Productivity	2.6%	2.7%	
Area Productivity Improvement	Improvement Over Hurdle	Improvement Over Hurdle	Improvement Over Hurdle
Performance Cluster Productivity Improvement	Improvement Over Threshold	Improvement Over Threshold	Improvement Over Threshold

*Explanation of Postal terms in Figure 6:*

*PQ = Postal Quarter*

*TBD = To Be Developed*

*SPLY = Same Period Last Year*

*EXFC = External First Class Measurement System*

*D+1 = mail delivered no more than one day late*

*CSM = Customer Satisfaction Measurement System*

*OSHA = Occupational Safety and Health Administration (as a result of changes in the law, the Postal Service is now subject to the same safety and health regulations as the private sector)*

*REDRESS = "Resolve Employment Disputes Reach Equitable Solutions Swiftly" revised dispute resolution process*

*Note: Yearly net income target may be adjusted during FY 2001 based on changes in economic conditions and the results of the rate request currently before the Postal Rate Commission*

## Voice of the Customer Performance Measures: Changes from Previous Plan

The process for developing goals, subgoals, indicators and targets is evolutionary. Postal management has learned a great deal over the last three years as it has sought to develop a rigorous analytical approach to process and results measurement. During this time, the environment has changed, and Postal Service goals have been adapted. For example, the Voice of the Customer goal was revised to reflect a greater emphasis on the choices postal customers have in the market. Other developments include:

- The Consumer Advocate has added an external analysis and validation to the current processes to ensure that what is reported is what is experienced by our customers. The causes for the gaps will be identified and addressed.
- The Postal Service currently uses two measures of Priority Mail service performance. One measure, based on data from the recently implemented Delivery Confirmation Service, provides information on individual customer shipments. An external measure, based on sampling and seeded test pieces, measures end-to-end service. The Postal Service will test the use of the Delivery Confirmation data as a measure, comparing performance with the baseline data collected in Postal Quarters 3 and 4 of 1999 (the quarters for which data are available). Final determination of the appropriate measure for goal setting will be made in FY 2001, although both systems will continue to be used.
- In this year's Establish phase of the management cycle, the need for a new indicator to measure service performance for Standard A and Periodicals Mail was discussed. Currently, an internal system is used to measure delivery within requested windows for only a small portion of Standard A and Periodicals Mail. The need to build better indicators is clearly necessary if we are to satisfy the need of our advertising and periodicals customers in the future.
- After several years of improvement in overnight First-Class Mail service performance, the operating system has stabilized at about 93%. This service level will be a national threshold or baseline requirement. Further incremental improvements will be achieved by focusing on individual geographic operating areas where such levels have not been attained.

All of the indicators and targets are under continuous review. Over the next several years, technology will enable the Postal Service to develop service performance measurement systems for all major categories of mail and for any new services introduced to the market. Other adaptations to Voice of the Customer goals include:

- The performance goals for "consistency" and "accurate service" were combined into a more general performance goal, "reliability to customers." It was felt that the revised goal statement better reflected the set of measures that were most important to consumers (including consistent and accurate service).
- The performance goal for "ease of use" was not included because it is being re-evaluated during 2001 using customer feedback. The plan is to extend its scope so that all customer contact points are included. In the meantime, this measure will remain as an option for the field to use to evaluate specific field programs.
- The performance goal for "develop best value criteria" was not included as a distinct goal because the Postal Service has determined that customer perception of value is actually part of the overall perception of performance. A variety of performance goals are already reflected in the list of VOC measures and targets. The Postal Service has introduced the concept of the "Brand" in this Strategic Plan to further address this issue.
- The "explore customer needs" performance goal was dropped because the exploration of customer segmentation schemes was completed during 2000, and this segmentation is now being used by the Postal Service to evaluate programs.

- The "explore concept of customer loyalty" performance goal was changed to "improve customer satisfaction." It was felt that the revised goal statement provided a sharper focus on the measures that most affect customer loyalty.

## Voice of the Business Performance Measures: Changes from Previous Plan

The financial health of the Postal Service, as an organization dependent upon generating revenues from services provided in competitive markets, is an issue of critical concern.

- **Net Income**

This subgoal reflects a comprehensive approach to revenue generation, whatever the source. It combines two subgoals from the previous plan. This subgoal may be revised based on changes in market and economic conditions and upon the final decision of the Board of Governors in adopting an integrated financial plan. At this point, this goal should be considered to be a preliminary statement subject to change. However, it is a priority goal; and as an indicator of the "bottom line," net income has been used as a shorthand measure of the overall success of the Postal Service, in spite of the legislative mandate that postal rates should "break even" over time.

- **Controlling Costs by Achieving Productivity Gains**

This subgoal also incorporates the general cost control subgoal from the previous plan. In this way, productivity goals, or the hurdle rates, are set realistically on the threshold of the prior year's performance. Adjustments are made to remove the impact of non-controllable influences.

The productivity achievements of the past several quarters have been notable in comparison with historic performance. But this record will have to be sustained in the next several years to reach the performance levels required by tightening budgets.

- **Keep Rate Increases Below the Rate of Inflation**

This subgoal is currently defined in terms of average postage during a rate cycle. However, an average may conceal rates for certain categories of mail that indeed increase faster than inflation, as in the most recent rate increase proposal. The use of an average figure instead of product-specific rates and the definition of an appropriate index of inflation may need to be adjusted to better reflect market conditions. In fact, comparisons with relevant competitor rates may be a more appropriate indicator in specific markets.

Given these issues, this subgoal has been removed pending the development of appropriate revisions to the indicator. The simplification of "Voice of Business" goals and an increased focus on bottom-line net income performance should lead to a more businesslike and accountable corporate framework.

- **Restoring Original Equity**

The "restore original equity" subgoal was felt to be somewhat redundant, since achieving positive net income in any year would contribute to restoration of equity. Therefore, this subgoal has been incorporated into the overall net income goal.

## Summary: Continuous Improvement But Increasing Difficulty

Achieving these goals for each of the voice categories will be extremely challenging in the expected environment. However, by 2005 stakeholders can expect that the Postal Service will:

- Be more reliable and accurate
- Be easier to use
- Have a higher level of customer satisfaction
- Be a better, safer place in which to work

It will be increasingly challenging to achieve results for the business goals involving financial self-sufficiency, positive net income, keeping prices reasonable and competitive, and continuing to invest capital to build the future.

## Verification and Validation: Ensuring Accuracy

The specific Postal Service systems and processes used as indicators and measures of performance are listed below. Many of the surveys or systems cited are conducted for the Postal Service by independent firms. Over time, however, the Postal Service is developing automatic "in process" measures that will be more accurate, timely, and cost-effective to replace some of these indicators.

- Transit Time Measurement System (TTMS), conducted by PricewaterhouseCoopers, currently is used to track First-Class Mail service and Priority Mail.
- Customer Satisfaction Measurement System (CSM), conducted by Gallup, is a comprehensive survey of both business and consumer customers.
- Employee Opinion Survey, conducted by an independent firm, supports measurement of the VOE goal.
- Training data are obtained by the Local Employee Training System (LETS) and the National Training Database.
- To assess employee proficiencies, the Opinion Research Corporation has been retained, and a "Mystery Shopper" program has been developed. The Gallup Organization (CSM) summarizes customer responses to specific questions related to technical knowledge, consistency, courtesy, and helpfulness. These studies focus on the primary customer contact personnel at Retail and at the Bulk Mail Entry Units.
- The National Accident Reporting System collects accident and injury data, using the criteria used by other large organizations. Data will be reported in a format to comply with OSHA requirements as a result of recent legislation subjecting the Postal Service to OSHA oversight.

Numerous audits have been conducted by the General Accounting Office, the Office of the Inspector General, the Postal Inspection Service, and others as part of ongoing efforts to verify and validate data related to Postal Service performance goals. An abbreviated list is provided in Figure 7 as illustration.

## Financial Auditing: Ensuring Accountability

Postal Service financial statements are audited on an annual basis in accordance with generally accepted auditing standards and the standards for financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that an independent audit be planned and performed to obtain reasonable

Figure 7. Sample Audits of Postal Performance and Measurement Systems

AUDITS		
PERFORMANCE GOAL	AUDITOR	REPORT
Provide Timely Delivery	Office of the Inspector General	<ul style="list-style-type: none"> <li>Survey Results of the South Florida District EXFC Test Mail, 12/23/98</li> <li>Survey Results of the Atlanta District EXFC Test, 2/26/99</li> </ul>
	Inspection Service	<ul style="list-style-type: none"> <li>National Audit of EXFC, 4/30/98</li> <li>Priority Mail, 3/17/99</li> </ul>
Accurate Service	Office of the Inspector General	<ul style="list-style-type: none"> <li>National Change of Address Audit, 3/31/99</li> </ul>
Workplace Relations	Office of the Inspector General	<ul style="list-style-type: none"> <li>Effectiveness of Grievance Arbitration Procedures, 3/26/99</li> </ul>
Improve Safety, Security, and Well-Being	Office of the Inspector General	<ul style="list-style-type: none"> <li>Accident Reporting Process, 3/31/99</li> <li>Sensitivity Clearance Procedures, 3/31/99</li> </ul>
	Inspection Service	<ul style="list-style-type: none"> <li>Management of OWCP Issues, 8/10/98</li> <li>Injury Compensation and Safety, 8/11/98</li> <li>MVS Driver Drug Screening, 10/23/98</li> </ul>
Improve Understanding of Employee Issues	Office of the Inspector General	<ul style="list-style-type: none"> <li>Status of Management Actions Taken for Inspection Service Report of Labor Management, 09/30/98</li> <li>Supervisory Knowledge of Union Contracts, 9/30/98</li> </ul>
Ensure an Inclusive and Fair Environment with Opportunities for All Employees	General Accounting Office	<ul style="list-style-type: none"> <li>Diversity in High-Level EAS Positions, 2/26/99</li> </ul>
Improve Overall VOB Performance	General Accounting Office	<ul style="list-style-type: none"> <li>New Product Development, 11/24/98</li> </ul>
	Office of the Inspector General	<ul style="list-style-type: none"> <li>Marketing New Products, 9/30/98</li> <li>Cash Management, 3/18/99</li> </ul>
	Office of the Inspector General	<ul style="list-style-type: none"> <li>Postal Retail Stores, 9/15/98</li> </ul>
Control Costs by Achieving Productivity Gains	Office of the Inspector General	<ul style="list-style-type: none"> <li>Total Factor Productivity, 9/30/98</li> </ul>

*The list is indicative of the scrutiny that postal performance and measurement systems receive. In most cases, the basic program was found to be accurate, reliable, and competently managed. Recommendations for improvements, where necessary, have been adopted in each case.*



assurance about whether the financial statements are free of material misstatements. Postal Service audits have been conducted by the firm Ernst and Young, LLP, and are reported in the Postal Service's Annual Report of the Postmaster General.

The Postal Service Board of Governors formed an Audit Committee to review the financial reporting process, ensuring the soundness of the accounting and control practices and the integrity of the financial statements of the Postal Service. As part of that responsibility, the committee also reviews other related issues as appropriate. The Committee also recommends to the Board of Governors, subject to Board approval, the selection of the independent public accounting firm responsible for the external audit and oversees compliance with the terms of the contract.

Since 1997, the Audit Committee recommended, and the Board approved, changes in the charter necessary to recognize the shift in audit responsibilities from the Postal Inspection Service to the Office of the Inspector General, as established by Congress. The Committee meets regularly with postal management, the Inspector General, the Inspection Service, the independent auditor, and the General Counsel to assess the progress of the work and to ensure the independence and objectivity of internal and external audit programs.

### Performance and Accountability: Linking Measures to Results

The Postal Service has implemented a group incentive plan based on financial performance measured by the concept of "Economic Value Added" (EVA), and based on the achievement of performance targets established by the three voices of the *CustomerPerfect!* planning process.

Over 84,000 EAS and PCES employees participate in this program. This represents most non-bargaining employees of the Postal Service. The EVA program rewards results for long-term, sustained financial performance and continuous improvement in customer service and the workplace environment. "Value" is created or added by generating revenue, holding down operating expenses, and managing the cost of capital. The higher the value, the larger the potential incentive payment, and the incentive payments may be increased by exceeding targets.

The EVA and target performance is reported throughout the year. Final results are calculated at the end of the fiscal year. Once EVA is determined, it funds the incentive pool. Actual performance, by unit, is compared to the targets, and payment amounts are determined. Management reviews the targets selected for inclusion and determines the weighting of each indicator on an annual basis. Currently the program is as shown in Figure 8.

The EVA concept will continue to evolve over the next five years. Certain goals and the associated targets will be considered "thresholds," that is, performance that must be achieved as a minimum before consideration is given for any other targets in a category. Specialized EVA measures will be developed for HQ and other support employees. Provisions have also been made to exclude "non-performing" employees from benefiting from group performance rewards.

Figure 8. FY 2000 EVA Program

VOICE	INDICATOR	NATIONAL TARGET	WEIGHTS TOTAL = 100%	PERFORMANCE CLUSTER EMPLOYEES
Customer (1/3)	EXFC ON	93.0%	Threshold for VOC	100% PC Service
	EXFC 2/3 Day	88.7%	16.7%	100% PC Service
	Priority Mail (using PETE)	87.0%	16.7%	100% PC Service
Employee (1/3)	VOE Survey Index	58.8	16.7%	100% PC Index
	Safety Program Score	3	Threshold for LWI	100% PC Score
	Lost Workday Injury (LWI) Rate	1.9	16.7%	100% LWI
Business (1/3)	Net Income (National)	\$100 Million	11.11%	1/3 National Net Income
	Productivity Improvement over Threshold		11.11%	1/3 Area Productivity improvement over hurdle
			11.11%	1/3 PC Productivity improvement over threshold

Source: Postal Service Publication 330, March 2000.



## Chapter 4

# ORGANIZATIONAL STRATEGIES: BLUEPRINT FOR PROGRESS

### Introduction: Providing Value in a Competitive Market

The success or failure of the Postal Service will depend on the value it provides to customers who have choices in sending and receiving bills or payments, business correspondence or personal messages, magazines, advertising, and packages. Value is defined as the *effectiveness* of postal performance on issues that matter to customers – timely, accurate delivery and other attributes of service. A second element of value is *efficiency*, or the total cost of doing business with the Postal Service and its mailing industry partners. Customers weigh the performance and cost of postal services against alternatives to make their decisions.

The fundamental strategy of the Postal Service is to provide quality services at low prices. Over the past several years, the Postal Service has significantly improved its service, as measured by both overall customer satisfaction levels and by specific service performance measures such as the External First-Class (EXFC) measurement system. However, the affordability of many postal services is at risk due to rising costs.

While continuing to build on the gains in service improvement, the Postal Service will focus new energy on issues of productivity and cost control. Value is determined by price as well as quality, and this value is the foundation for growth – the only way to achieve the revenues necessary to accomplish the fundamental mission of the Postal Service.

The previous chapter described the measures used to judge results associated with service performance under "Voice of the Customer." In this chapter, the "Blueprint for Progress" focuses on the strategies that will be used under the existing regulatory structure in order to achieve results in spite of the challenges created by more competitive and price-sensitive markets. Chapter 6 will address the issues and strategies associated with changing the regulatory environment to better enable the Postal Service to continue to create superior value in competitive markets in the future.

## Blueprint for Progress: Postal Service Strategies for Providing Value

The Postal Service will build upon the success of the last several years, employing strategies to address the central problem that the Postal Service will face in the next five years – the expectations that increases in postal revenue from volume growth will not be sufficient to maintain the financial health of the organization. The Postal Service has developed an integrated operating plan for the postal businesses and major goals across five broad areas of concern:

1. Managing the Organization (Infrastructure)
2. Supporting the People
3. Improving Pricing
4. Increasing Revenue Generation
5. Ensuring Effectiveness of Capital Investment

These strategies will provide a "Blueprint for Progress" that can carry the Postal Service over the next five years while new initiatives that will better position the organization for the future are developed. These strategies balance the customer, employee, and business objectives reflected by the "Voices" in the *CustomerPerfect!* management process.

### 1. Managing the Organization (Infrastructure)

The size and scope of the Postal Service organization responsible for universal service across a country as large as the United States, with over 130 million household and business customers, has led to the development of an infrastructure that includes thousands of buildings, sophisticated mail processing equipment, a complex logistics network, thousands of vehicles, hundreds of thousands of employees, and an extensive administrative support system.

Some aspects of the Postal Service, such as retail and delivery, are central to both the provision of universal service and to the vision of delivering competitively superior services to households. Rising costs of labor and other services, fuel and other supplies, together with volume decline in key mail categories, threaten the ability of the Postal Service to keep prices affordable.

The Postal Service will continue to refine definitions of fixed and variable costs. Traditional planning assumes some costs, such as labor, are variable as volumes increase. However, these costs may not be so easy to reduce as volumes decline. Since cost containment is a key strategy, the Postal Service must improve the documentation and explanation of its cost structure.

The Postal Service will also increase the effectiveness of its programs to contract with the private sector to provide services. For example, the Surface Air Management System (SAMS) will be used to replace air transportation services with less expensive ground transportation without disrupting service.

#### Breakthrough Productivity

The Postal Service will achieve "breakthrough" productivity amounting to between \$3 and \$4 billion in cost savings by 2005. This achievement includes efficiencies in administrative activities, purchasing, transportation, and operations. Each of these advances will be measured by the contribution made to the overall cost reduction target.

- Administrative Activities

The Postal Service is conducting a detailed and systematic examination of the administrative and support structures and processes. Overhead costs will be reduced through careful

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reorganization, realignment of field and support activities, outsourcing of activities where justified, and by eliminating programs that are duplicative or that do not add value to customers or employees. The target reduction is about \$100 million a year.

The Postal Service will use web-based document management, databases, and information systems to reduce paperwork and cycle time in its purchasing operations and will leverage its purchasing processes to obtain better prices for services, equipment, and supplies. The target reduction is about \$100 million a year.

- **Operations**

The Postal Service will implement information systems ("Information Platform") that will provide more timely and accurate data on operations to improve both service performance and efficiency. The Postal Service will apply what has been learned over the last few years from investments in process management training to extend proven operational methods nationally. Particular attention will be paid to those facilities and operations that consistently and significantly do not meet expected productivity standards. The bulk of the planned reductions – some \$700 million a year, will come from productivity increases in the Postal Service processing system. This includes the savings anticipated from investment in technology.

- **Technology and Equipment**

The Postal Service has invested heavily in automated equipment to reduce the costs of handling letters. While further improvements are possible, the forecasts of volume declines in this category will reduce the relative return on significant further investments.

Other categories of mail have not been subject to the same substitution of labor with equipment, even though they represent products expected to continue to grow. Flats (non-letter-sized mail) and parcels, in particular, are targeted for automation to reduce costs and improve service.

The movement of mail from machine to machine has also been a labor intensive process. The Postal Service is implementing tray management and other advanced materials handling systems to reduce these costs. These investments in technology are expected to contribute to the cost reductions in operations.

- **Networks**

The Postal Service is a complex operating system of closely interconnected information, transportation, and processing networks. The Postal Service will focus on significantly reducing multiple handlings of mail and on implementing more efficient distribution schemes. The Postal Service, as one of the largest purchasers of transportation services in the nation, has significant opportunities to lower its transportation costs, even as it redesigns delivery programs to provide more consistent, reliable, and flexible services adapted to the various customers and communities served. The Postal Service expects to save another \$100 million a year in transportation costs.

## 2. **Supporting the People: Balancing Workforce Management and Workplace Relations**

In markets characterized by competition and customer choice, service improvement and cost reduction are keys to providing value and survival. Postal Service employees are well aware of the competitive environment and the challenges of the future. The Postal Service will succeed only in partnership with them and their union or association leadership.

While many employees feel very strongly about their role in the historic mission of "the mail must go through," others do not see how their efforts contribute to results desired by customers and required in the market. The Postal Service must develop recruitment, training, com-

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munication, incentive systems, and other support systems that more clearly help employees to see the connection and participate effectively.

The "Blueprint for Progress" recognizes that the Postal Service has a long way to go to more effectively balance efficient management of the enterprise with the creation of a workplace that is safe and meets employee needs for dignity, respect, and opportunity. The strategic programs described below will be evaluated on their contribution to improving the working environment and achieving business results.

- **Compensation**

A compensation system based solely on government schedules and "time in service" seniority may not be appropriate in a more competitive environment. The Postal Service is already facing problems recruiting, motivating, and retaining employees, especially in the technical, professional, and managerial categories.

The Postal Service has implemented an incentive program, based on the "Economic Value Added" (EVA) system widely used in the private sector, to motivate performance among its supervisory, managerial, and professional employees. This program is closely tied to achieving specific results set by management. This program will continue to be developed and improved as a key part of the compensation process.

Performance-oriented programs will also be adapted and introduced to the unions and the craft employees through the bargaining process. Negotiated compensation and benefits packages will also reflect the increased diversity of the workforce and their needs, as well as the patterns set in other highly unionized industries.

The Postal Service will also use more sophisticated data systems to efficiently balance workload and staffing; and that will provide managers, employees, and support staff with accurate and timely data to more effectively respond to employee concerns.

- **Suggestions**

The Postal Service is bound by extensive work rules and other regulations that hamper flexibility and innovation. Individual and team suggestions for improvements are not easily evaluated, processed, rewarded, or widely communicated and effectively implemented through the organization.

Over the next several years, the Postal Service will redesign and re-energize the suggestion program to make it more effective in motivating innovation, creativity, and employee commitment and in generating service improvements or cost reductions.

- **Succession**

The Postal Service faces potentially serious problems in replacing large numbers of experienced managers as the post World War II "baby-boom" generation reaches retirement eligibility. Supervisors, managers, executives, and officers will require new and different skills from those of the past, with a premium on technical skills and the ability to communicate effectively with a more diverse workforce.

The Postal Service will refresh its talent pool, in greater competition with the private sector, for these leaders of the future, through the use of improved recruitment and development programs. Such programs include the Associate Supervisors Program (ASP), the Career Management Program (CMP), the Advanced Leadership Program (ALP), and the Management Intern Program.

- **Workplace Relations**

A solution to the need for improved workforce relations must be found if the Postal Service and the associated postal jobs are to survive in the more competitive world of the future. The Postal Service must gain increased flexibility in its workforce, reduce grievances, EEO complaints, and the costs associated with processing them, and it must gener-

ate more commitment and discretionary effort from all of its employees. The Postal Service must be more sensitive and responsive to the diversity of its employees and provide superior employee assistance and communications programs.

The Postal Service has created a specific program, Workplace Environment Improvement (WEI), to focus on workplace relations issues. A fundamental element will be the use of the Voice of the Employee Survey and other initiatives to listen and respond to employee concerns. Its importance is suggested by the approval by the Board of Governors to use an indicator based on survey results as a compensable indicator of management performance in FY 2000.

A second set of indicators supplements the VOE Survey, and includes grievances, arbitrations, and EEO complaints. The Postal Service is implementing improved programs and information systems to track and manage these processes, reduce the cost of handling these cases, and provide data to assess the effectiveness of resolution. Examples include Resolve Employment Disputes Reach Equitable Solutions Swiftly (REDRESS), Alternate Dispute Resolution (ADR), and the Diversity Reporting System (DVRS).

Safety represents a third set of indicators and measures that reflect management commitment to improving the workplace environment. The organization will be evaluated on compliance with Occupational Safety and Health Administration (OSHA) requirements and will focus on creating a safe place in which to work.

- **Complement Management**

The Postal Service will use the flexibility under current and future labor contracts to manage labor costs. Among the tools available to management are attrition, effective use of contracting services, and the careful use of overtime and casual part-time workers instead of hiring new employees.

### 3. Improving Pricing: Keeping the Postal Service Affordable and Competitive

For the last several years, the Postal Service has been successful in keeping price increases below the rate of inflation. The Postal Service must continue to transform itself into the supplier of choice for high-quality, low-cost products and services. The Postal Service must remain affordable – bringing down internal costs and restraining price increases. This is the only way to survive, as key segments of letter mail volume migrate to electronic alternatives or other competitors. While the measures and indicators may become more specific, the goal will continue to be to keep postal prices reasonable and affordable.

- **Grow Competitive Products**

Product prices must be set so that products maintain their viability in more competitive markets.

The Postal Service will continue to introduce new features and seek other classification changes or improvements to increase the value of competitive products. New products will also be introduced.

- **Improve Pricing Flexibility within the Current Structure**

Pricing flexibility will become increasingly important. The Postal Service and the Postal Rate Commission have been making use of existing procedures for experimental products and services in order to respond more quickly to customers' needs, as in the recently approved "Ride-Along" rate for periodicals and the Mailing Online service.

Innovations such as Negotiated Service Agreements (NSA) can be developed within the current framework of the law. The Chairman of the Postal Rate Commission recently acknowledged that the current law would accommodate an NSA for which only a small number of mailers can qualify, such as the non-letter-size bulk business reply mail

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classification, if such a rate were consistent with other legal requirements.

The Postal Service will introduce procedures that recognize the mutual benefits of close cooperation between the Postal Service and mailers in reducing costs. Such agreements will not necessarily be limited to the largest mailers, but may provide opportunities for increased innovation and flexibility in working with all mailer groups.

- **Re-evaluate Worksharing Discounts**

Pricing is not just about the price of postage. It is about the combined cost of producing, preparing, collecting, accepting, processing, transporting, and delivering a mailpiece.

The Postal Service will carefully examine current and proposed new worksharing requirements to ensure that appropriate incentives and resulting changes in operating processes encourage the Postal Service, mailing industry partners, and mailers to reduce the total cost of mailing.

The Postal Service will also implement new technology and information systems, such as PostalOne! and MERLIN, to streamline the mail preparation and acceptance process, reduce the costs to mailers, and ensure the accurate collection of revenue.

- **Seek Increased Pricing Flexibility**

Postal Service pricing policy must evolve, moving toward greater flexibility while continuing to perform its traditional function of ensuring the financial integrity of the Postal Service. The current regulatory process, designed thirty years ago in a completely different market environment, is no longer effective in ensuring the financial viability of the Postal Service.

This issue, however, is not under the control of the Postal Service and must be addressed in terms of regulatory and legislative reform. It will be discussed in more detail in Chapter 6.

#### 4. Revenue Generation "Gateway" Opportunities

Over the next five years, the Postal Service will be challenged to generate substantial new revenues to replace the expected loss due to electronic diversion and other changes in the market. Product development has not been a major focus for the Postal Service in the past, and the organization depends primarily on mature or declining core products. However, new services and products developed during the next five years will be absolutely critical to the ability of the Postal Service to position itself for the future and to continue to finance the universal service mission.

- **Core Products (Letters and "Flats")**

The core services of the Postal Service include First-Class Mail, Ad Mail, and Periodicals Mail. As outlined in the previous chapter, the basic strategies to improve service performance, pricing, accuracy, and ease of use of these services will sustain and enhance the competitiveness of the core business services, even as markets change.

The Postal Service will add features to or otherwise increase the relative value of its services. One of the initiatives will be to introduce CONFIRM, a method of identifying each mail piece that will provide information to customers about the delivery status of the mailing or mail piece.

Another approach will be to adapt core products to the needs of critical customer segments. Usually, this will involve introducing customized "front-end" or "back-end" value-added services while rigidly controlling the performance of the basic operating system. For example, the billing and payment market is becoming increasingly centralized among a relatively few major processors in a limited number of hub cities. The Postal Service is responding to this market change by working closely with these customers to more effi-

ciently route their mail, improve destination processing, and to speed the arrival of large volumes of mail to the customers' processing centers early in the day.

Although technology is often perceived as a threat, past experience suggests that as some mail applications may be diverted, new applications or uses for the mail will be developed. The Postal Service will work more proactively and closely with entrepreneurs, lead users, and development centers to encourage such developments.

Technology may also enable new users to access postal products and services they once did not see as particularly relevant to them. For example, small businesses may be able to make more use of advertising mail as Internet-based systems, such as Mailing Online, simplify the previously complex process of generating mailings. These areas may offer opportunities for new partnerships between the Postal Service and the mailing industry or alliances with new service providers.

Postal Service core products will be repositioned through sophisticated marketing and promotion techniques, using the segmentation approaches developed over the last year. For example, although technology will enable businesses to replace basic mail-based billing and payment transactions, they may find that they still need to build relationships and establish customer loyalty through a variety of media, including mail, and Postal Service marketing will focus on incorporating mail into integrated customer relationship campaigns.

The Postal Service will move beyond the mailroom and position itself further into the customer's organization as a provider of business solutions by using a variety of products and services. Over the next five years, the Postal Service will be working with key business mailers and other partners, including emerging and specialty markets, to create alliances, joint ventures, customized agreements, and new distribution channels for Postal Service products and services. This activity will generate new products, new markets, service enhancements, and operating efficiencies that strengthen the Postal Service relationships with its most important customers and generate new revenue.

## Sales

- **Retail Sales and Service**

The Postal Service has invested in building retail support systems. New retail products and services have been developed, and there are opportunities for increases in revenue through retail initiatives appropriate to the communities and populations served by Postal Service retail facilities.

There are opportunities to increase "net" revenue by targeting and intensifying Postal Service marketing efforts, while reducing transaction expense and capital costs. This effort will become a major focus for postmasters, station and branch managers, and their employees in retail operations. Productivity measurement and incentive systems will have to be adapted over time to support these activities and establish accountability for results.

- **Commercial Sales Management**

The Postal Service has traditionally "managed" about 15,000 major customer accounts with postal representatives serving primarily as liaison between the Postal Service and these major mailers. To strengthen these relationships, the Postal Service has established a national sales force to concentrate resources, to focus more specifically on revenue generation opportunities within the current managed customer base and to develop opportunities with other large businesses who are not now major mailers.

This structure is based on industry segments, rather than on traditional postal territories, to permit the sales force to gain greater familiarity and understanding of the issues driving customer concerns and decisions within their industries. New incentives have been introduced, including team incentives to increase the accountability of field managers for rev-

THE POSTAL SERVICE HAS ALSO BEEN WORKING WITH A NUMBER OF CONSOLIDATORS AND OTHER COMPANIES TO INCREASE CUSTOMER CHOICES.

ALLIANCES AND PARTNERSHIPS WILL BE AN IMPORTANT PART OF THE DOMESTIC PACKAGE STRATEGY.

enue generation. An improved "Business Services Network" (BSN) will manage much of the service and support functions previously handled by Account Representatives.

- **Every Route Sells**

Although rural carriers have long had the tradition of bringing all the capabilities of a post office direct to the doors of their customers, the Postal Service has not extended this service to other delivery routes. Instead, these routes were designed to maximize delivery efficiency, with little time left for revenue generation or customer relation activities.

The Postal Service is testing opportunities to involve more postal employees, especially letter carriers, directly with the consumer and small business segments that are not now effectively targeted by the Postal Service. Changes will have to be carefully managed to balance productivity, efficiency and other goals.

- **International**

Postal Service International Services have faced increasingly intense competition, not only from the traditional carriers such as FedEx and UPS and technological diversion, but also from deregulated and privatized foreign postal administrations such as the Dutch, German, and British postal administrations.

The Postal Service strategy is to grow its export and import international package business. Alliances and partnerships will be an important part of this strategy. For example, the Postal Service and DHL Worldwide have partnered to offer Priority Mail Global Guaranteed, which will be renamed Global Express Guaranteed, for items sent from the United States. The Postal Service has also been working with a number of consolidators and other companies to increase customer choices.

Postal international package services will be restructured to make it easier for customers to use the right service for their needs. The number of services will be simplified from over 12 to four broad product lines that reflect distinct differences in delivery requirements. Rates will reflect the value of the service.

A major effort will be made to improve service consistency, to provide information electronically about package status, and to assist with customs clearance.

- **Package Services**

Alliances and partnerships will be an important part of the domestic package strategy. For example, the Postal Service and Airborne have developed a program called Airborne@Home that enables Airborne's customers to access households using the Postal Service. The Postal Service recently announced another such agreement with Emery. The Postal Service is also partnering with Mailboxes, Etc. to provide postal package services.

The Postal Service has a real opportunity in the growing market trend for quicker, smaller shipments direct to customers. The Postal Service will work with freight forwarders, consolidators, less-than-truckload (LTL) carriers, and others to revise and improve the current strategy that permits shippers to enter their packages at Postal Service facilities closest to the destination for final delivery by the Postal Service.

Postal package services will be re-aligned around the strong Priority Mail brand. The Postal Service will work toward a significant improvement in Priority Mail service among the major markets that represent the bulk of the potential business. Express Mail Service will also be enhanced to revive interest in a postal next-day service.

In the modern package delivery market, shippers demand more information and expect to be able to use Internet-based services to deal with their service providers. The Postal Service is implementing Signature Confirmation to augment Delivery Confirmation and

has developed ePackage services to provide information and other services to shippers online.

Focusing on the competitive value proposition of providing a "Gateway to the Household" builds on the retail and delivery infrastructures and their visible presence in every community and on every carrier route. The vision of "Gateway" builds upon the long established tradition of the Postal Service as a universal service provider, the trust with which the Postal Service has guarded customer communications, and the value offered by a low-cost service provider. New competitors are now trying to emulate this network; yet the postal infrastructure can be a unique asset as the Postal Service becomes increasingly innovative in converting universal reach into customer value.

Many households and communities need delivery services that differ from those traditionally offered by the Postal Service. One of the evidences of this new demand for delivery can be seen in the way in which the Internet is encouraging the regeneration of services, such as grocery delivery, that had disappeared in many communities for a generation. Multiple deliveries, deliveries on holidays or after normal hours, scheduled deliveries and pickup, flexible deliveries to designated alternative sites, delivery of items not previously considered "mail," fulfillment, and automatic replenishment are all opportunities for increased postal activity and revenue generation activities. The Postal Service is testing a number of concepts that may provide a platform for such programs in the future. Current initiatives include enhanced merchandise return services, new mail boxes, and a redesign of the procedures for delivering packages when the recipient is not at home.

- [eCommerce Services](#)

The introduction of Postal Service eBillPay services offers customers the opportunity to use Electronic Billing and Payment (EBP) services without sacrificing privacy or relying on a provider with unknown motives or an uncertain background or future. The Postal Service is a national institution, known and trusted by Americans; it is a neutral party with a universally understood public service mandate; it protects the privacy of customers' information; it is a long-lived, stable institution that can be relied on for the long term as an EBP provider; and it is known for providing value.

The Postal Service strategy is to extend this value to customers using the new technology of the Internet. The Postal Service will develop alliances and partnerships to offer universal services, such as a universal mailbox, and associated message security services, such as an Electronic Postmark. The Postal Service will also work to ensure that customers have a wide variety of choices by working with industry to support viable hybrid mail options, where messages are generated electronically but converted into physical mail pieces close to the destination for final delivery.

- [Public Services](#)

The Postal Service represents the federal government in every community and provides a number of services for other agencies. Most recently, for example, the Postal Service has played a key role in supporting the Census Bureau in the distribution and collection of the Census forms, and partnered with the Consumer Products Safety Commission to increase public awareness of current product recalls. The Postal Service will seek other opportunities to generate additional revenues by providing other public services for federal, state, and local agencies needing to reach targeted communities or groups of citizens.

- [Asset Management](#)

The vast infrastructure of the Postal Service – buildings, real estate, and vehicles – offers other potential opportunities for revenue generation. In an era of tightening mail revenue, the Postal Service will reassess the value of these assets as potential revenue sources, subject to the requirements of the law and under the direction of the Board of Governors.

For example, some lobbies have space that might be sub-leased, or excess retail window space might be provided to other organizations for a fee. Some facilities may be appropriate for selling "air rights" to developers. Some properties may be sold. One recent article in the industry press even suggested that the Postal Service could sell advertising space on the sides of its vehicles.

## 5. Capital Investment

The Postal Service is committed to investing in the future, despite the challenging financial forecast. A number of programs are critical to that future and are summarized in Figure 9 with additional detail provided below:

- **Information Technology**

The Postal Service plans to spend about \$2 billion on various information systems over the next five years. The Postal Service Information Platform is a strategy to develop a number of advanced information systems that will help the Postal Service manage its resources more effectively and efficiently. These information systems will:

- Provide acceptance, processing, and delivery status information to mailers (mail piece tracking)
- Enable true, real-time activity-based costing, supporting more accurate and timely accounting information
- Perform diagnostic analysis of the processing network
- Replace numerous manual sampling systems with automatic, passive data collection
- Support the development of new services, including electronic commerce and online services to support package products

- **Equipment**

The five-year Engineering Plan currently calls for investments of about \$8.7 billion over the next several years. The investments will be concentrated in those areas where increasing costs are of the greatest concern.

Increasing flats handling costs are a major concern with key customer groups, such as publishers and printers. Automation will be applied to "flat" mail to address these concerns. Secondary processing will be centralized and new equipment will support greater depth of sortation.

Investments in package handling will focus on automated coding and sorting of parcels, upgrading Bulk Mail Center technology, and replacing worn components. These investments must be coordinated with Expedited and Package Service strategies to emphasize partnerships with package consolidators and incentives for drop-shipping.

The materials handling plan calls for linking work units within a plant and automating allied labor functions. The materials handling plan is intended to integrate processing across all product lines. It will provide the foundation for unit load tracking.

Investments in retail and acceptance automation are designed to make both processes more cost-effective, accurate, and responsive. These changes should reduce waiting time in lines in postal lobbies and provide more relevant, helpful information to both clerks and customers. Streamlining the acceptance process saves both the Postal Service and mailers time and money.

- **Facilities**

The Postal Service will place less emphasis on expanding facilities or building new ones and will seek to optimize the use of space currently available. Current criteria for determining

INVESTMENTS IN  
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SORTING OF  
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UPGRADING BULK  
MAIL CENTER  
TECHNOLOGY ....

whether to lease or build postal-owned facilities will be reviewed. The Postal Service is unique among agencies and the private sector in requiring public hearings with local public officials and the general public in reviewing plans for expanding, relocating, or building new facilities.

There will continue to be a need for new facilities in high-growth areas and communities underserved by delivery and retail facilities – especially in support of the Gateway to the Household strategy for package delivery. However, the need for new stand-alone facilities must be evaluated against strategies to provide retail or pickup-and-return services through alternative means. In some areas with multiple facilities, sites may be considered for consolidation or for different kinds of use as mail volume workload changes or as volume declines.

Figure 9. FY 2001-2005 Capital Investment Summary (\$ millions)

Program	2001 Target	2002 Target	2003 Target	2004 Target	2005 Target
FACILITIES	\$1.1	\$1.1	\$1.1	\$1.2	\$1.2
AUTOMATION/ MECHANIZATION	\$1.5	\$1.5	\$1.5	\$1.6	\$1.7
VEHICLES	\$0.3	\$0.4	\$0.2	\$0.1	\$0.1
RETAIL EQUIPMENT	\$0.2	\$0.2	\$0.2	–	–
POSTAL SUPPORT	\$0.5	\$0.5	\$0.5	\$0.4	\$0.3
TOTAL	\$3.6 billion	\$3.7 billion	\$3.5 billion	\$3.3 billion	\$3.3 billion



## Chapter 5

# CONSULTATION WITH STAKEHOLDERS

This chapter describes efforts by the Postal Service to reach out to the different groups it serves. It includes both regular, ongoing programs and initiatives specifically designed to obtain feedback on strategic issues and the 2001-2005 Strategic Plan.

### Introduction: Reviewing the Plan

The Postal Service has been a leader among both government and private sector organizations in reaching out to its stakeholders to assess its performance, using a wide variety of methods for encouraging stakeholder involvement. These methods include external performance assessment and customer satisfaction measurement programs. As required by the Government Performance and Results Act (GPRA), the Postal Service has sought and obtained comments on the 2001-2005 Five-Year Strategic Plan. This chapter describes the outreach process and summarizes the comments received.

A formal request for comments was published as a notice in the *Federal Register* and as a posting of a similar request on the Postal Service website. A copy of this notice is included in Appendix 3. The notice was also sent to key stakeholder groups. Five major stakeholder groups were identified and addressed in a more intensive manner, including:

- Postal Service Employees
- Public
- Suppliers and Business Partners
- Business Customers
- Postal Policy Experts

### Postal Service Employees: Concern for Jobs

Involving Postal Service employees in discussions about the future of the organization has been a major priority of the Postal Service. Over the last year, much of the content of postal employee publications has addressed the issue of our changing business environment, threats to mail volume, the impact of eCommerce, and other related issues. The publications of the unions,



management and postmaster associations have all dealt with the issue. This topic was also a central theme of the National Executive Conference, an annual meeting of all Postal Service executives. The Postmaster General and other officers have discussed their vision of the future with unions, management associations, and the Postal Service Leadership Team on a number of occasions since 1998.

Other specific efforts included:

- Meetings were held with the leadership of postal unions and management associations to discuss the business environment and associated strategic issues. The meetings were organized to encourage a two-way dialogue and to take advantage of the Summit process that has been established by the Federal Mediation and Conciliation Service.
- Union officials and management associations also participated in the International Postal Symposium – a series of strategic planning meetings with officials from postal administrations representing Australia, Canada, France, Germany, The Netherlands, New Zealand, Sweden, and the United Kingdom.
- The President of the National Association of Letter Carriers joined the Vice President, Strategic Planning, on a panel at the 2000 National Postal Forum in Nashville, Tennessee to discuss the future of delivery services.
- The request for comments in the *Federal Register* was publicized in *Postal Service News*, a postal newsletter posted on bulletin boards in every postal facility. The request was also published on the Postal Service Intranet.
- In July 2000, a draft of the plan was distributed to union and management associations for comment.

The Postal Service intends to continue to improve the dialogue with employees and their representatives about this plan throughout the next five years.

### Public: Highly Satisfied

The Postal Service has a continuous and intensive system for assessing the public's evaluation of postal performance and to obtain feedback from customers. The Office of Consumer Affairs maintains one of the nation's most sophisticated customer satisfaction measurement programs, supplemented by detailed analysis of inquiries and complaints. Customer satisfaction with the Postal Service has been increasing and is currently at record levels.

In addition, numerous independent surveys are commissioned by other organizations that address postal issues and include Postal Service performance as an issue. Some, like the Roper Organization (see Figure 10), ask respondents to rate the performance of various government agencies. The Postal Service is consistently ranked at the top in these surveys, and has increased favorable ratings from 70% in 1983 to 78% in the last survey. The Roper Poll has also included the Postal Service in evaluations with other private sector services in a comparison asking consumers to rate the "best value for the dollar." Mail service is rated at the top, increasing "excellent" and "good" ratings from 59% in 1974 to 76% in the last survey (Figure 11).

CUSTOMER  
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Figure 10. Comparison of Government Services

Agency	Favorable	Unfavorable	Don't Know
Postal Service	78%	16%	6%
Agriculture	65%	15%	20%
Defense	64%	26%	11%
State	60%	23%	16%
Education	59%	33%	8%
HHS	58%	31%	11%
Transportation	57%	29%	14%
Energy	57%	26%	17%
Treasury	56%	27%	16%
VA	56%	22%	22%
Commerce	56%	20%	24%
Labor	55%	28%	17%
HUD	51%	33%	17%
Interior	49%	23%	28%
Justice	47%	43%	10%

Roper Reports 98-4

Figure 11. Comparison with Private Sector Services

SERVICE	EXCELLENT	GOOD	FAIR	POOR
Mail	24%	52%	18%	5%
Banks	14%	51%	25%	2%
Electric	15%	48%	27%	8%
Local Phone	14%	48%	27%	10%
Long Distance Phone	11%	49%	29%	9%
Home Owners Insurance	11%	45%	27%	7%
Doctors	11%	44%	31%	12%
Hospitals	12%	38%	32%	16%
Health Insurance	12%	38%	32%	17%
Private Overnight Mail	12%	35%	24%	5%

Roper Reports 99-2

In a more detailed poll, the American Center for Service Quality rates the performance of the Postal Service as both a competitive business against UPS and FedEx, focusing on its package delivery services, and as a "monopoly" service, focused on its retail and mail delivery services. The Postal Service scored well in both categories. Figure 12 tracks the performance of the monopoly services of the Postal Service against other industries. In fact, the Postal Service is rated as the single most improved organization over the last ten years by this survey.

Figure 12. American Customer Satisfaction Index

SECTOR	1994	1995	1996	1997	1998	1999	2000
Parcel Delivery and Express Services	81	81	85	80	78	79	81
Electric Services	75	74	75	73	73	72	75
Telecommunications	81	80	79	75	74	73	72
Postal Service (monopoly services)	61	69	74	69	71	71	72
Publishing/Newspapers	72	68	69	69	66	69	68
Scheduled Airlines	72	69	69	67	65	63	64
Broadcasting TV (Network News)	77	76	70	62	65	62	63
TRANSPORTATION COMMUNICATION UTILITY AVERAGE	75.5	75.1	75.5	71.6	71.2	70.3	70.6

American Customer Satisfaction Index, June 2000

The Consumer Federation of America also asked respondents about various aspects of service received from the Postal Service over the past several months:

Figure 13. Consumer Federation of America: Satisfaction with Postal Service

Postal Service	Very Favorable	Somewhat Favorable	Unfavorable
From Letter Carriers	65%	23%	6%
From Personnel at Post Office	63%	26%	5%
Delivery of Mail Sent	63%	28%	7%
Delivery of Mail Received	62%	27%	9%

The Postal Service has also solicited specific feedback on the future of the Postal Service from the public:

- The *Federal Register* notice and the associated notice on the Postal Service web page were open to the public.
- The Postal Service conducted focus groups in five cities to discuss the issues facing the Postal Service and to get feedback.

- The Postal Service works with a group of citizen volunteers in Postal Customer Advisory Councils around the country. The Postal Service solicited specific feedback from these groups.

The Postal Service is conducting detailed consumer research on the future role of the Postal Service. This research will be used to adapt programs and policies to better meet the needs of different customer groups.

Some responses indicate that while the public feels that it is aware of the Postal Service's products and services, there may be a gap between what they think they know and what the Postal Service can actually provide. Consumers may not always make the best choices for their needs, and the Postal Service needs to do a better job of making customers aware of the appropriate services. Service standard information, for example, is not always clear or consistent.

Although business mailers generate most of the revenue for the Postal Service, consumers still represent an important responsibility and opportunity and are represented in the expanded strategic framework of "Gateway to the Household." The Postal Service needs to do more to develop convenient, easy-to-use, and reasonably priced services for households.

While the Postal Service sometimes appears to take households for granted, consumers also do not necessarily pay much attention to postal issues beyond their individual service concerns. The Postal Service should consider undertaking some customer education and awareness efforts on strategic issues that will affect that service.

The significance of these data is that many different independent organizations, using different methods, all corroborate Postal Service internal data on the positive evaluations of postal performance.

## Customers: Concerned for Their Own Success

The Postal Service has regular meetings with a variety of customer groups. Building on the results of the "Blue Ribbon Panel Report," a 1997 report by customers to the Postmaster General, the Postal Service had a number of specific discussions to solicit comment on strategic issues:

- Briefings were presented to the Executive Committee and the Steering Committee of the Mailer's Technical Advisory Committee (MTAC). The MTAC membership includes 57 major mailers and their associations. Follow-up letters were sent to the MTAC members.
- At the 2000 National Postal Forum, the Vice President, Strategic Planning sponsored a panel discussion on the future of delivery services.
- In order to ensure feedback from customers on the *Federal Register* notice, the Postal Service National Sales force made contact with more than 400 National and Premier Accounts to solicit participation. As a result of the personal contact, the feedback was considerable.
- The Postal Service also works with about 300 local Postal Customer Councils. Letters were sent to the membership of these groups to solicit comments.
- Articles about the strategic plan that included a request for comment, were included in the May issue of postal publications *Memo to Mailers*, and *Mailers Companion*.
- A special effort to reach minority businesses was made through the Hispanic Chamber of Commerce and other associations such as the Pan Asian Chamber and several African-American small business groups.

Throughout the next few years, the Postal Service will be working with its customers to refine the strategic vision and to discuss the implications for the mailing community.

## Suppliers: Hedging Their Bets

The Postal Service has been participating in a research syndicate with major foreign postal administrations and several key suppliers to the Posts. *The Future of Global Mail*, a multi-year study conducted by the Institute for the Future, has provided a forum for discussing strategic issues. It has resulted in serious and detailed discussion of the future of postal services and the issues they must address.

In addition, the Postal Service:

- Held a series of meetings with twenty of the largest Postal Service "strategic" suppliers and involved the Postal Service "client" officer who works with these suppliers most directly to facilitate a thorough and frank discussion of mutual strategies, with presentations by the Postal Service and key suppliers.
- Sent letters calling attention to the *Federal Register* notice to these and other suppliers, including exhibitors at the National Postal Forum, to encourage individual responses.

The Postal Service completed a major strategic study, *The Mailing Industry in the U.S.*, to better understand the link between Postal Service suppliers and business partners, the Postal Service, and our mutual customers.

## Policy Groups: No Clear Consensus

Meetings have been held with congressional and GAO staff members to discuss the progress in the development of the plan with them, and to request their comments and suggestions to ensure that the Postal Service's response meets all requirements of the Government Performance and Results Act. Furthermore, the Postal Service has continuously monitored GAO reports, congressional hearings, speeches, news reports, public meetings, the Internet, and other sources for information on current views on postal policy issues.

- Congressional and GAO staff attended an International Postal Symposium. Eight postal administrations sent strategic planners to this meeting. In addition, commissioners from the Postal Rate Commission attended.
- The Vice President, United States Postal Service Strategic Planning has met with several of his counterparts in foreign postal administrations to discuss strategic planning and the issues facing postal administrations in the future. At a Universal Postal Union (UPU) sponsored meeting, for example, strategies for postal eCommerce have been discussed.
- The Vice President, United States Postal Service Strategic Planning has met with congressional staff, with members of the Postal Rate Commission, and has discussed strategic measurement issues with both the Government Accounting Office and the Office of the Inspector General.
- Senior staff from the Postal Rate Commission participated in panel discussions on alternative delivery and the future of the Postal Service at the National Postal Forum.

## Stakeholder Responses

The Postal Service has been engaged in this outreach effort to involve stakeholders in understanding and discussing the implications of its strategic future for several years. The responses from the stakeholders come from a number of different sources and reflect the intense discussions held in the context of the hearings on HR22 during the last year.

- There is broad consensus that the Postal Service had done a very good job over the last five years, at least as demonstrated by various opinion surveys conducted by the Postal Service and other organizations.
- There is concern that the Postal Service has not been as successful as it should have been in

holding down costs and improving productivity. There is growing opposition by some to any price increases – even those "below the rate of inflation" until the Postal Service shows more progress on cost control.

- There is growing concern that the current process of labor negotiations, leading to binding arbitration, has not worked well and that postal labor costs are not being controlled.
- There is broad agreement that the Postal Service will face significant threats from electronic substitution, and that mail volumes, especially in First-Class Mail, are likely to decline in the near future. There is considerable uncertainty about the timing and the rate of diversion, and whether the Postal Service can or should do anything about it.
- There is also broad agreement that the Postal Service should continue trying to become much better at its core business – delivering letters, publications, and related materials.
- There is some hesitation about the Postal Service role in markets where the private sector is providing adequate service. Most of this opposition comes from competitors, although there are some who are concerned about the government role in business on policy grounds.
- There is some concern that attempts to introduce new products and services in competition with the private sector will distract the Postal Service from making improvements in its basic services.
- There is very broad support for continuing universal service and most other public service functions.
- On the other hand, there are some observers who appear to be willing to rethink the current definitions of the public service function in order to reduce costs.
- There is some support for a postal role on the Internet, but also some stakeholders question Postal Service technical capability and the ability to form strategic alliances and partnerships with the private sector.

## Postal Service Response to Stakeholder Comments

The findings of both ongoing customer relations programs and the Strategic Plan outreach are shared with postal management and in fact have been used to shape the requirements for establishing annual goals and strategic programs through the Voices of the Customer, Employee, and Business approach in the *CustomerPerfect!* Establish process, as documented in Chapter 3. This input has led first to the focus on improving service and now to addressing the issue of affordability while creating an organization that is more responsive and flexible to both customer and employee needs.



## PLANNING FOR THE FUTURE

### Introduction

The next five years are a critical period for the Postal Service. They will test whether the Postal Service can meet the tough challenges of continued service improvement, significant cost reductions and productivity increases, while growing core businesses. Achieving these goals will be a significant accomplishment.

The tasks are made more complex by uncertainty in the environment. In effect, the Postal Service must be prepared for at least three different futures that would be created depending upon the preferences and actions of customers:

- Baseline: Significant Reductions in First-Class Mail Volume and Moderate Standard A Growth
- Rapid Diversion: Faster Reductions in First-Class Mail Volume and Reductions in Standard A
- Historical: Traditional Moderate Growth Trends Continue

These three "futures" are based on work developed during congressional subcommittee hearings and publicly reviewed by the Postal Service and the General Accounting Office in the fall of 1999.

The Postal Service will work toward achieving objectives and goals for customers (e.g., prompt and reliable service) and employees (e.g., safety) outlined in Chapter 3 of this Five-Year Strategic Plan regardless of the scenario. But the difficulty in their achievement could increase or decrease, depending upon the extent of volume and revenue changes. The Postal Service will be expected to provide timely, reliable service to all communities at reasonable rates while continually improving the workplace environment in all scenarios. The strategies described in Chapter 4 require programs and initiatives that are essential to success in all of the possible futures. The major uncertainty is the rate of change that will take place and the speed with which transformation must be accomplished.

Given the difficulties of making significant changes in an institution with the size and scope of the Postal Service, there is a natural temptation for management and stakeholders to delay action until the direction and pace of change is absolutely clear and unmistakable.

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However, if the predicted migration of traditional mail to the Internet takes place as fast as most experts currently predict (the rapid diversion future), complement dislocation could test the fabric of the Postal Service and the mailing industry, and universal service would be threatened. The magnitude of the expected risk makes the need for a shared vision of the future role of the Postal Service increasingly important. Waiting for the change to be proven two or three years from now before taking the steps needed to transform the Postal Service will only increase the disruptive impact of change on customers, the mailing industry, employees, and the communities served by the Postal Service.

## Planning Scenarios and Assumptions

The purpose of this review of different futures is to explicitly examine the extent to which the goals, objectives, targets, and strategies outlined in the Five-Year Strategic Plan of the Postal Service will ensure the continued viability of the Postal Service in achieving its mission. Given current uncertainty about the potential impact of the Internet economy on the Postal Service, this Strategic Plan outlines additional strategies to be developed during the next five years that will be relevant for the extended future beyond 2005. To present a five-year plan that carried the Service through this legally mandated planning period but failed to leave a viable, effective institution might fulfill the letter of the Results Act's requirements but fail to meet the broader public responsibility. This Strategic Plan reaches beyond short-term performance measures to consider the long-term vision for the future of the Postal Service.

### Baseline

The current planning assumption is that electronic bill presentment and payment alternatives cause volumes of First-Class Mail to decline beginning in about 2004. The longer-term projections suggest that about half of the bills and payments currently in the mail would eventually be replaced under this scenario. Standard A volume growth is more moderate in this baseline than has been forecast in the recent past. The loss of this revenue, especially the contribution levels associated with First-Class Mail, is forecast to cause extreme financial pressure on the Postal Service.

Cost reductions from the "breakthrough productivity" and capital investment strategies described in Chapter 4 must be achieved if the rate increase planned for the middle of the planning period is to be kept below the rate of inflation. However, these reductions may not be sufficient to keep future rate increases below inflation, especially for the mail categories expected to grow as they take on a larger burden of supporting the infrastructure costs as a result of volume loss in other mail categories. To sustain the value equation for customers (high service, low price) more reductions may be required.

Limited relief from the financial pressure that can be expected could come from new products or services during this period, but the current regulatory environment has made development and introduction of such innovations difficult. This does not rule out the possibility of unexpected good news leading to new volume growth. Nor can the Postal Service give up the search for innovative new services that meet customer needs.

### Rapid Diversion

Predictions about the revolutionary nature of the Internet and its impact on traditional businesses are common in recent years. Everyone from Bill Gates to Alan Greenspan and both presidential candidates – among many others – have discussed how the rapid growth of the Internet will have a significant impact on the economy and traditional businesses. This growth supports predictions of more aggressive mail volume declines and transformation than is assumed in the baseline scenario.

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There are many forecasts, however, that suggest that the impact on the Postal Service will be even more dramatic. For example, a major study of the future of the bill payment system in the United States conducted for the Bank Administration Institute (BAI), suggested that virtually all of the bills and payments currently in the mail could be replaced – a much more aggressive prediction than assumed in the baseline Postal Service plan.

Furthermore, some recent studies have also predicted a similar impact on Standard A or Ad Mail. The growth of "broadband" or enhanced Internet services that take advantage of increased capacity will support more innovative marketing that would provide added evidence for such predictions. More important, Postal Service discussions with mailers in both categories make it very clear that there is a definite commitment to these alternative technologies that has, in some cases, already cut into the traditional budgets for refinement and growth of traditional direct mail tools and strategies.

Such trends and predictions lead to a scenario in which First-Class Mail is diverted at a more rapid rate, and where the rate of growth of Standard A is reduced significantly. This forecast presented an even more challenging financial future for the Postal Service.

The ability of the Postal Service to achieve current productivity performance is threatened under this scenario, since it would be increasingly difficult under the current regulatory structure to continue to maintain the levels of capital investment required to substitute capital for labor. The rapid diversion scenario would threaten postage price increases in the double-digit range, especially toward the end of the five-year planning period. Under this scenario, there would likely be a response by competitors to the market opportunity that this might present. The Postal Service would have to reduce complement at a significantly higher rate than could be absorbed through attrition or other means.

To prepare for the economic consequences of a scenario such as this one, other serious alternatives will have to be considered. Service standards may have to be reviewed for possible revision. Some facilities may need to be consolidated or closed, and other services reduced.

Again, no significant new revenue is forecast from new products and services during the next five years. This increase does not mean that unexpected new billion-dollar growth cannot take place to mitigate the impact of rapid diversion. But in such a future, new growth will be even more difficult to achieve than in the previous case, given the increased pressure that rapid diversion would place against financial performance.

## Historical Growth

Some in the stakeholder community are skeptical of any scenario that proposes mail volume decline as the economy grows. There have been several previous occasions where technology forecasts have anticipated a slowdown in mail volume growth, only to be confounded by experience. Such predictions have been made beginning with the invention of the telegraph and continued as recently as the 1977 Commission on Postal Services and a 1982 report of the Congressional Office of Technology Assessment. In the latter study, facsimile, e-mail, Electronic Funds Transfer Systems, and Electronic Data Interchange were predicted to reduce mail volume significantly. None of these predictions has been accurate.

Today, however, the case for continued growth is not supported by Postal Service product planners or by key postal customers. Nor is the expectation of mail volume diversion contradicted by the planning that is currently being done by the large suppliers. But the econometric models that have projected mail volume based upon economic drivers that connect mail use with macroeconomic growth would not anticipate the impact of the Internet economy. They are based upon historic data sets. In a time of rapid change, the model builders have not had time to adjust to new market conditions. The historic association of the growth of the economy, new household and business formation, and other underlying "drivers" of mail volume growth may no longer be valid.

This hypothesis, however, is unproven, and future mail volume could grow in parallel with the next phase of the "New Economy." History supports this view in that, in the past, technology has both created new mail applications and volumes as well as reduced them through substitution. Indeed, there is reason to suggest that technology could open up sophisticated mailing opportunities to small businesses and others who have not been intensive users of the mail in the past.

None of the goals, objectives, targets, or the associated strategies outlined in the plan would be less valid if mail volume continued to grow. In fact, mailers and their customers could expect to see significant benefits if postal operating costs were reduced and services made more efficient as a result of conservative planning that expects additional diversion to take place. Rate increases would be lower and less frequent. There would be less pressure for revenue from new products and services.

The Postal Service would not be prevented from doing business as usual by any of the actions outlined in this plan if volume grows. Some managers will be concerned that if mail volume continues to grow, contrary to current assumptions, a leaner, more cost-conscious Postal Service might not be fully prepared to handle it. In addition, significant regional differences in economic growth means that some Postal Service local districts must expand even when national workload is declining. These potential exceptions do require better, more flexible management and better information, rather than a perfect forecast. In a time of uncertainty, the emphasis that this plan gives to productivity and lowering the cost base is appropriate and prudent.

### Assessing the Risks: The Need for Change

The risk that the electronic diversion of mail volume might pose to the ability of the Postal Service to carry out its mission and the potential disruptions to the mailing industry and the communities it serves is serious. If predictions about the impact on mail volume are correct – even if the decline in mail volume begins a little later and takes place at a slower rate – then the Postal Service must begin to prepare for that change now, before the service choices available to the customers and community are significantly reduced.

The case for change is compelling, but complex. This plan emphasizes sustaining the affordability of the Postal Service. Cost cutting and investment in efficiency are major strategies. But even under the forecast scenario there will be a need to accommodate growth in selected geographic areas and for certain services. The strategies in this Five-Year Plan will prepare the Postal Service for both its short- and long-term futures. However, if the impact of technology and competition is more rapid than currently expected, it is almost certain that in five years the Postal Service will face financial pressures that will require significant redefinition of the scope of service and role in the economy. A potential crisis involving the second largest civilian employer in the nation, a \$65 billion enterprise with an associated mailing industry significantly larger in terms of both revenues and employees, is not a small concern for future public policy makers.

### The Mission of the Postal Service in the Future

The Five-Year Plan assumes that the mission of the Postal Service remains unchanged, however threatening the potential for volume diversion might be. The universal service mission is anchored in the law that created the Postal Service. Thirty years of subsequent legal review has reinforced the broad definition of universal service. In parallel with the struggle that the institution may face to match changes in the market, there will most likely also be a future debate over the policies that define the postal model. The debate over postal reform from 1995-2000 has so far not yielded new legislation. But the debate over the liberalization of the postal industry (and other network industries) has been conducted in nations throughout Europe and on the other continents as well.

As the debate over the future of the Postal Service and the mailing industry goes forward, it is important to describe a vision of the possibilities for the role of the Postal Service's physical

infrastructure in a future that is increasingly connected by alternative digital technologies. In a world of ubiquitous computing, the physical infrastructure of the Postal Service may be seen as a unique national asset. The Postal Service offers a unique technology platform where electronic messaging and universal physical distribution come together.

Many new companies of the Internet age – Amazon.com, eBay, AOL, Dell, and others – have attributed at least part of their success to the existence of a responsive, effective, and efficient universal mail service. Some of the early Internet retailers have foundered over the lack of a flexible, innovative, and responsive delivery and return infrastructure. Studies have described a "hybrid" future in which sophisticated printing technologies interact with the Internet to create new applications for the mail and predict the re-creation of the mailing industry. A technological "reinvention" of the envelope and paper to create "intelligent documents" that connect the traditional postal infrastructure to the new online world could lead to a range of opportunities the Postal Service ought to be prepared – and able – to seize.

In such a future, the Postal Service could become the "last-mile" provider of both physical and electronic services. The Postal Service delivery system and retail presence could be an important platform for the next stage of Internet service development for the public and private sector entrepreneurs alike. Providing access to all communities, the Postal Service could be an intermediary in bridging a "digital divide" to ensure that all U.S. citizens receive the benefits of the new era of communications technology.

The Postal Service would sustain the attributes of its fundamental value proposition for customers and the American public. The Postal Service would continue to provide value to the customers as the "last-mile" delivery company of America, a low-cost and high-value service provider. The Postal Service would continue to be the trusted, traditional institution that has earned considerable customer loyalty as one of the most recognized brands in the United States. It would continue to be a universal service provider, offering convenient access and delivery everywhere, every day.

This Five-Year Strategic Plan has anticipated a future mailing industry market in transition. If diversion of traditional mail volume takes place extremely rapidly, the viability of the economic model on which the Postal Service has been built would be thrown into question. In such a case, change would be needed urgently. The time to make changes is when the Postal Service is still strong and viable, when transformation is possible and before market changes take away policy options that otherwise would better meet the public interest.

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## Appendix 1

### Postal Service Planning Process

The Postal Service is a very large organization, driven by the scope of its requirement to provide universal service linking the nation's 110 million households and 8 million businesses. Over 800,000 postal employees and many thousands more in the mailing community are engaged in this effort. These employees provide a number of services in a wide variety of markets to postal customers. Planning is necessarily a complex process of closely inter-related activities.

There are number of elements in the planning process:

- **Five Year Strategic Planning**

Based on the requirements of the Government Performance and Results Act (GPRA), this plan reviews the mission of the Postal Service as stated in the Postal Reorganization Act. The Five-Year Plan provides the basis for strategic alignment of other postal planning efforts. It establishes the corporate planning assumptions and outlines the key issues the Postal Service must address, focusing on long term changes. The plan also outlines the major goals, measures, and targets that will be used to determine successful performance.

- **Business Operational Planning (BOP)**

This process integrates a wide range of functional plans in support of the goals and targets that have been established. Since the Postal Service is a large and complex organization, many changes take more than a year to achieve. Therefore the focus of the BOP process is on multi-year programs and initiatives.

- **Annual Performance Planning**

This process responds to the GPRA requirement for a detailed annual report on progress made on the goals and targets described in the Five-Year Strategic Plan. It is linked to the "Establish" and "Deploy" phases of the *CustomerPerfect!* management process. A preliminary plan for each fiscal year is included in the *Comprehensive Statement on Postal Operations*, which is submitted annually to Congress. A final plan is submitted in September of each year after Board approval. The Performance Plan is supplemented by the Annual Report of the Postal Service, which focuses on the financial performance of the Postal Service and includes an audited review of a formal financial statement.

- **Functional Plans**

Detailed plans are created by the different functions such as Marketing, Sales, Operations, Human Resources, Facilities, Purchasing, Engineering, and others to convert strategies into tactics and specific initiatives with accountabilities, and are linked to the annual budget cycle.

- **Budget Plans**

The annual budget process includes the allocation of resources to specific functions and programs. During the course of the budget process, which is linked to the "Deploy" phase of the *CustomerPerfect!* management process, priorities are established and feedback is provided to the functional executives and program managers on available resources and limits on capability, sometimes requiring adjustments to targets established earlier in the process.

- **Program plans**

Program plans represent tools for the implementation of the daily activities in each of the field operations and various supporting functions that will determine the achievement of the goals and objectives of the Postal Service.

## The *CustomerPerfect!* Performance Management System

The Postal Service's performance management system, known as *CustomerPerfect!*, was developed based on the principles of the Malcolm Baldrige National Quality Award. It balances the multiple requirements of senior management, line management, governance of the business, and fair, objective evaluation of performance.

The annual management cycle has four distinct phases:

- Establish goals, subgoals, indicators, and targets at the national level
- Deploy resources to achieve goals, subgoals, indicators and targets
- Implement programs against goals
- Review performance and adjust actions as necessary

### Establish

The first phase of the management cycle involves collecting and analyzing data from three key parts of the business – the customers, employees, and the financial or business requirements. The data used in this cycle include formal and informal market research, customer satisfaction studies, employee surveys, current year performance on key internal indicators, trend analyses, and financial forecasts.

This information guides recommendations to senior management for the setting of short and long term goals, developing or improving indicators, and establishing targets. The goals involve:

- Customer Requirements (what is most important to key customer groups, and, where relevant, what is the performance of postal products or services on those needs relative to the substitutes and alternatives)
- Employee Needs (what is most important to employees in enabling them to do their jobs better and to advance their careers)
- Business Needs (what are the revenue-generation and cost requirements to sustain the business and invest in future improvements)

## Deploy

In this phase of the management cycle, the goals, indicators and targets are communicated throughout the organization. A structured process, called "catchball," is used to reach agreement on a set of funded programs and activities aimed at achieving the targets. There are two objectives at this stage:

- Alignment – ensure that priorities are clearly understood and programs are consistent with the short- and long-term goals and strategies.
- Agreement on Specific Performance Targets – by function and at each level of the organization.

It is hard to find the proper balance between the development of an appropriately limited number of key objectives and the need to establish a much more detailed hierarchy of subgoals. Broad objectives provide focus and direction, while detailed subgoals enable management and employees at the different levels of the organization to understand how their efforts support the broader general goals. This "balanced scorecard" approach is still evolving.

## Implement

At the beginning of each fiscal year – with funded programs, activities and unit level targets already set – the organization implements those programs. The Postal Service has developed process management, "best practices" benchmark comparisons, and standardization to improve its ability to capture the benefits of experience and to apply that learning to improve performance.

## Review

Senior management's responsibility throughout the year is to review the progress and performance of programs being implemented. There are a number of formal and informal reviews established for key initiatives, for capital investments, service improvement and other activities. Management is assisted by audits conducted by the Office of Inspector General, the Postal Inspection Service, and by the General Accounting Office. Formal results are published in:

- *Annual Performance Plan*
- *Annual Report of the United States Postal Service*
- *Comprehensive Statement on Postal Operations*

These documents provide the basis for annual Congressional oversight hearings.

## Accountability and Incentives

A key part of the planning process is the development of improved methods of holding managers and employees accountable for performance and providing appropriate incentives for performance. The concept of "Economic Value Added" (EVA), developed for use in the private sector, has been adapted for use by the Postal Service. The EVA system is intended to provide employees with a clear and powerful measure of their ability to improve the bottom-line economic performance of the Postal Service and to reward successful performance.

The ability of any individual organizational unit or manager to receive rewards from the EVA system depends on performance against a specific set of performance related compensation measures. These measures are a subset of the VOC, VOE, and VOB goals. The selection of the specific measures for compensation and their weighting in the bonus formula is carefully determined by senior management and approved by the Board of Governors. The formula is reviewed annually and adjusted based on changing business conditions and priorities.



EVA supplements the individual merit review process for non-bargaining employees. The merit process is directed at the specific performance of individual employees and managers and their contribution to the achievement of unit goals that support the overall business objectives of the Postal Service. The Postal Service is seeking innovative ways to improve this process and to develop additional methods of recognizing and rewarding superior performance.

### Business Operations Plans

In 1999-2000, senior management recognized the need for greater coordination among the various functions within the Postal Service if their activities were to be integrated and aligned. A business operations planning (BOP) process was developed to achieve this purpose. For the first time, specialists from the various functions came together to regularly discuss departmental initiatives:

- Product Development, Design, Segmentation, and Marketing
- Mail Processing, Transportation, and Delivery
- Retail Operations
- Engineering and Technology
- Financial Projections
- Capital Investments
- Human Resources
- Facilities and Purchasing
- Strategic Planning

The process started with the basic requirements from the *CustomerPerfect!* establish cycle and worked to first list and then adapt the initiatives from the functional departments against those requirements.

### Strategic Planning

Strategic planning is a continuous process, based on changing market requirements. The Government Performance and Results Act (GPRA) requires publication of an updated strategic plan every three years with a five year planning horizon. The strategic planning process, however, will continue to evolve to support management's efforts to focus on the long-term needs of the Postal Service and its stakeholders.

### Performance Trends and FY 2005 Targets

The table below presents historical baseline performance data for the Government Performance and Results Act subgoal indicators published in the strategic plan of the Postal

Subgoal	Indicator	1997	1998	1999	2000 (through Quarter 3)	2005 Goals
Provide Timely Delivery <sup>1</sup>	First-Class Mail on time:					
	EXFC Overnight	92%	93%	93%	94%	93%
	EXFC 2/3 Day	77%	82%	86%	85%	93%
	Ad Mail on-time (within sales window)	NA	NA	94%	98%	98%
	Express and Priority Mail	Proprietary	Proprietary	Proprietary	Proprietary	Proprietary
Delivery Quality <sup>2</sup>	Delivery Consistency (D+1 day)	NA	NA	NA	Establish Baselines	TBD – improvement over baseline
	Accuracy of Delivery (Accuracy Delivery Index)	NA	NA	NA		
Ease of Use <sup>3</sup>	Composite Index	604	643	650	653	Business Customer Satisfaction Rating of 93%, Residential Rating of 95%
Ensure Fair Treatment	REDRESS Participation Rate	NA	NA	NA	73.0%	redesign
Ensure that employees are given training <sup>4</sup>	Training as prescribed curriculum					
	EAS	97%	97%	97%	NA	97%
	Craft	100%	100%	100%		100%
Improve employee safety <sup>5</sup>	Lost Workday Injuries Rate	2.1	1.84	1.92	1.84	5.86 (OSHA Indicators replace Lost Workday and Total Accidents)
	Motor Vehicle Accidents Rate	NA	NA	NA	11.4	8.74
	Total Accidents Rate	NA	NA	NA	12.1	
	Safety Program Evaluation Score	NA	NA	NA	3.2 (Q3 only)	
Improve understanding of employee issues	Employee Survey Index	NA	NA	57.3	57.2	Incremental annual improvement
Improve Overall VOB performance	Indexed EVA	827	512	552	1,970	Achieve EVA target
	Capital Commitment	\$3.2 bill.	\$3.9 bill.	\$3.8 bill.	\$1.2 bill.	\$3.5 bill.
Generate Net Income	Net Income	\$1,254 mill.	\$550 mill.	\$363 mill.	\$907 mill.	Achieve Net Income
Control Costs by Achieving Productivity Gains	Total Factor Productivity	1.0%	-1.1%	-0.3%	2.1%	Achieve Annual Productivity Targets
	Labor Productivity	1.6%	1.2%	0.7%	2.1%	

<sup>1</sup>Delivery service performance for all major mail categories will be measured by 2005. For some categories, a “baseline” or “threshold” level will be reached and further improvements will be incremental or focused on local units where service needs to be improved.

<sup>2</sup>Delivery Quality represents a new subgoal for Voice of the Customer.

<sup>3</sup>Ease of Use is being replaced by Customer Satisfaction, separated by business and residential customers. Ease of Use will be adapted and used for specific targeted functions and geographic units.

<sup>4</sup>Training indicators are supplemented by proficiency tests, such as “Mystery Shopper” programs, for key customer contact personnel in retail, bulk acceptance, technical support and consumer affairs.

<sup>5</sup>Substantial changes in safety and other employee indicators are likely as the Postal Service implements federal Occupational Safety and Health Administration requirements and responds to findings from the recently completed Commission on a Safe and Secure Workplace.

Compared to the FY 1998-2002 Strategic Plan, the following new subgoals were introduced: Ad Mail on-time (with sales window, as measured by ADVANCE system), REDRESS participation rate, motor vehicle accidents, total accidents, Safety Program Evaluation score, and the Employee Survey Index. For 2005, additional subgoals have been added for delivery consistency and accuracy, and for new categories of package delivery service performance (Parcel Select). Diversity goals were developed and implemented as part of the executive and officer merit review programs.

The current subgoals, while important individually, are not necessarily the best measures of overall postal performance. The subgoals are likely to be revised between 2001 and 2005 to better reflect changes in the business environment of the Postal Service. These changes will result in the development and use of a limited set of overall corporate measures commonly used by most stakeholders to assess postal performance, such as Net Income (Financial Performance), Customer Satisfaction, and Employee Satisfaction.

Other specific indicators, including many of the ones currently in use, will be assigned to relevant functional departments or field operating units for better performance accountability. A clear link will be established between the overall corporate goals, such as customer satisfaction, and specific critical issues or attributes requiring improvement. The relative importance of different attributes or “drivers” will shift over time, and will vary by customer segment or field operating unit and therefore will not be regarded as strategic targets.

## Appendix 2

# Projecting Electronic Diversion for First-Class Mail in the H.R. 22 Simulation Model\*

February 8, 2000

## Introduction and contents

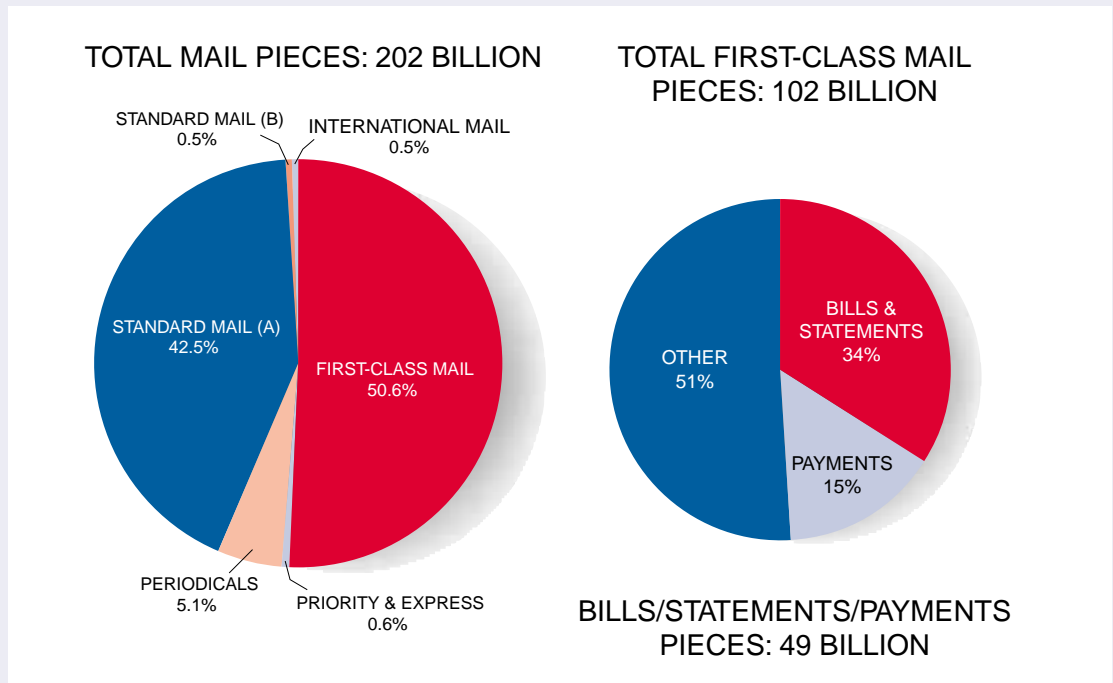
The primary purpose of this briefing is to provide background information regarding the analytical process used in developing estimates of electronic diversion for use in the H. R. 22 Simulation Model.

In addition, the report raises other potential sources of insight into the rate of electronic diversion, including foreign case studies and recent industry forecasts.

- 1 **Understanding the First-Class Mail Stream**
  - Composition of current Postal Service mail stream
  - Potential First-Class Mail revenue at risk
  - Adoption of new technology accelerates
- 2 **Some Experiences Outside the U.S.**
  - EBPP trends in other countries
  - Nordic postal authorities: adapting to e-communication
  - Postal authorities launch EBPP services
- 3 **H. R. 22 Simulation Model**
  - H. R. 22 Simulation Model methodology
  - Recent EBPP industry forecasts
  - Choosing a base e-transaction forecast
  - E-Transactions assessed threats and volumes
  - Electronic diversion scenario
  - Electronic diversion data tables
  - Industry analysts assess Postal Service prospects

\* Source: Briefing prepared by PricewaterhouseCoopers for United States Postal Service, February 8, 2000.

## Part 1 Understanding the First-Class Mail Stream



Source: United States Postal Service Revenue, Pieces and Weight by Classes of Mail FY 1999; United States Postal Service Household Diary Study FY 1997.

### Potential First-Class Mail revenue at risk: Threat to bills, statements & payments volumes

Bills, statements and payments constitute nearly one-half of the 102 billion pieces of mail sent First-Class and generate annual revenues of \$17 billion. Of this amount, approximately 15% comes from consumer payments, a figure that corresponds to the often-cited number of 15 billion household bills paid per year.

In the opinion of most IT industry analysts, the principal threat to physical mail volumes is shifting away from established communication services (facsimile, e-mail, EDI) toward electronic bill payment and presentment (EBPP). Although electronic bill payment (direct debit, on-line banking) has been around for some time, its combination with electronic (Internet) bill presentment is relatively new. Given the cost (no postage, paper or envelopes) and time savings of EBPP to both billers and payers, the potential market is significant.

Source: 1 United States Postal Service Revenue, Pieces and Weight of Mail FY 1999; 2 United States Postal Service Household Diary Study FY 1997; 3 Faulkner (FACCTS), "Electronic Bill Presentment & Payment" (Nov. 1999); 4 McKinsey Quarterly, "Electronic bill payment and presentment" (1998 No. 4).

### First-Class Mail Revenue<sup>1,2</sup> (billions)

<b>Total</b>	<b>\$34.90</b>
Bills & Statements	11.73
Payments	5.13
Other First-Class	18.04

### Household Time Spent Bill-Paying<sup>3</sup>

Per bill/statement	10 min.
Time per week	45 min.
Time per month	3.25 hrs.
Time per year	39 hrs.

### Bill Benefit from EBPP<sup>4</sup>

\$ per bill (assumes avg. bill size of \$100)

<b>Total potential savings</b>	<b>\$ 1.90</b>
Reduced float	0.15
Reduced non-payments	0.25
Reduced processing error	0.10
Eliminated paper processing	0.90
Saved postage	0.40
Customer service	0.10

## Adoption of new technology accelerates

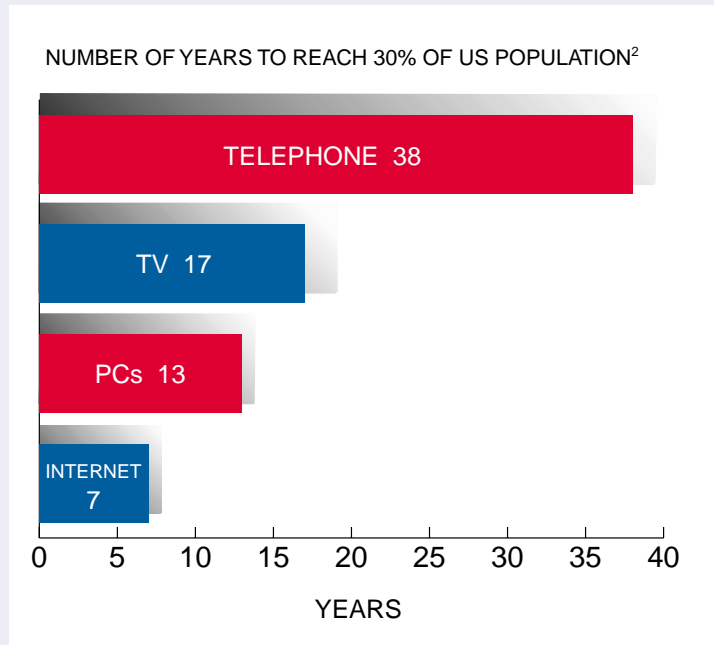
*"The probable simplification of the facsimile system... must sooner or later interfere with the transportation of letters by the slower means of the post."*

Postmaster General Jonathan Creswell (1872)<sup>1</sup>

Over 100 years elapsed between the invention of facsimile technology and its widespread use as a means of communication. However, present day Postmaster Generals may not have the same luxury of time as did their predecessors as consumer adoption of new technology accelerates.

By every measure, Internet use continues to outstrip even optimistic predictions. In 1992, about 5 million Americans had access to the Internet. That number had grown to over 100 million by 1999, an increase of 1,900 percent.

Another way to think about this growth in Internet access is to compare it to other technologies from the past. It took 38 years for the telephone to penetrate 30 percent of US households. The Internet, by contrast, took only 7 years.



Source: <sup>1</sup> John Tierny, *The U.S. Postal Service* (1988); <sup>2</sup> US Internet Council, *State of the Internet* (1999).

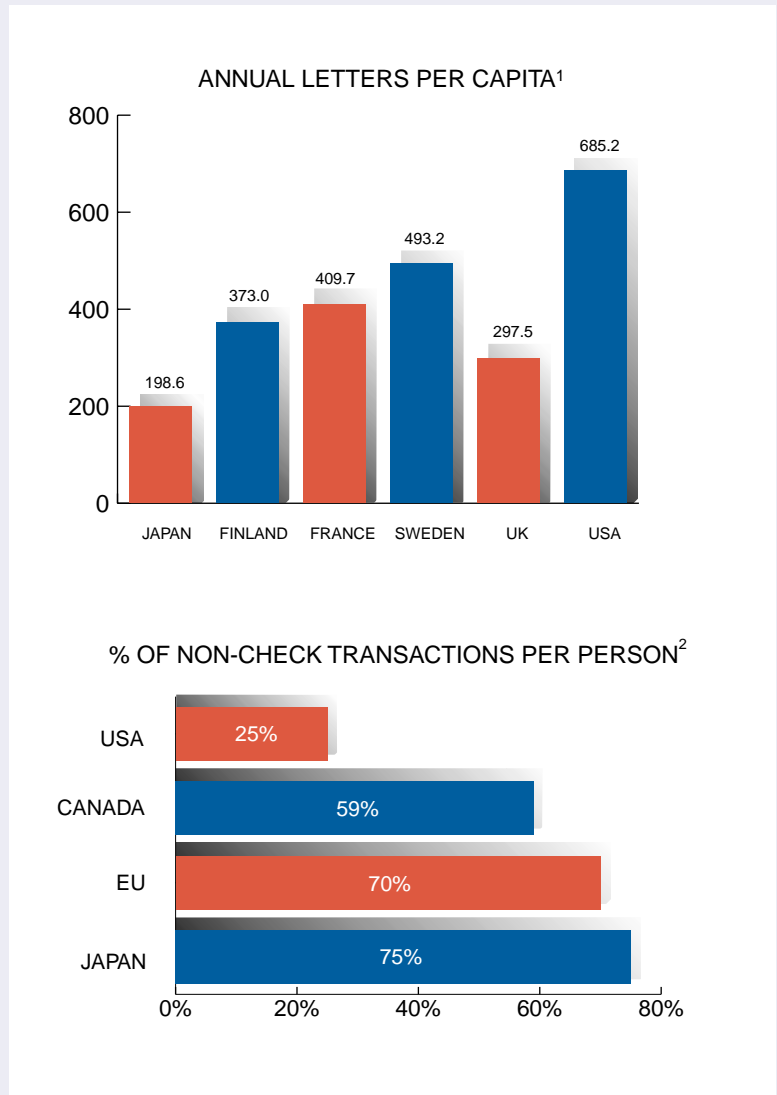
## Part 2 Some Experiences Outside the U.S.

### EBPP trends in other countries

The United States leads most countries in terms of consumer adoption of technology in general and the Internet in particular. Some countries, however, are further along various adoption curves and may provide an indication of what the United States will experience.

In the US, one of the key drivers of EBPP has been the desire to eliminate checks. In Europe and Japan, on the other hand, a variety of cashless and cardless mechanisms for paying bills have been available for a long time. Especially bills of the recurring variety (utilities) are commonly paid through some kind of direct debit or transfer.

The long-term result has been a much lower volume of mail per capita in Europe and Japan than in the US, and may suggest an outcome for the US as consumers adapt to new technology.



Source: <sup>1</sup> Universal Postal Union, 1996 Postal Statistics; <sup>2</sup> Wall St. Journal "Americans Won't Stop Writing Checks," Nov. 24, 1998, p. A2.

## Sweden Post Group



- Internet access (48% of population) among highest in Europe
- bill payments have been falling since 1979 (rate of decline now over 10% per annum)
- physical letter volumes are predicted to fall by up to 4% during the next few years
- Internet bill presentment (eFaktura) and payment (ePostgirot) launched in 1998

*"Addressed letter volumes will decline... The challenge lies in adapting the letter to the IT society in which we operate."*

CEO Lennart Grabe <sup>1</sup>

## Finland Post



- highest Internet penetration in Europe (similar to US level)
- 1998 survey revealed 15% of consumers and 32% of companies preferred electronic format for bills and statements
- GDP grew an average of 5% for period 1994-98 while letter mail volumes grew only 1.7%

*"Although conventional mail has held its market position well, it is being replaced by electronic messaging. The speed of this change is the only open question."*

President & CEO Asko Saviaho <sup>2</sup>

*Source: 1 Sweden Post Group 1998 Annual Report; 2 Finland Post 1998 Annual Report.*



## Postal authorities launch EBPP services

To date, two postal authorities (Canada Post and New Zealand Post) have made significant inroads to become EBPP providers by partnering with banks to gain competencies in payment processing.

Both have discovered that being trusted by all parties gives postal operators a key advantage in the e-billing market.

- partnership of Canada Post and Cebra (a Bank of Montreal subsidiary)
- one-stop site for receiving bills and statements, plus advertising, catalogues, notices and other miscellaneous mail
- launched November 26, 1999



- Bank of New Zealand and New Zealand Post partnership
- developed with US on-line billing services provider CheckFree
- launched November 22, 1999

## Part 3 H. R. 22 Simulation Model

### Approach

The initial forecast of First-Class Mail volume (based on the R97-1 rate case) incorporates some degree of electronic diversion in recognition of longstanding trends toward businesses moving toward electronic data interchange (EDI) and other forces.

The electronic diversion percentage used in the H. R. 22 Simulation Model, however, represents losses above and beyond that incorporated in the R97-1 forecast.

When revisiting the H. R. 22 Simulation Model in January 2000 (well over one year after the original model was developed), we revised some of our original base forecasts to incorporate more timely and accurate industry analysis.

### Steps

- 1 Review forecasts for electronic transactions with potential to supplant physical mail: – e-mail – electronic data interchange (EDI) – electronic bills – electronic payments
- 2 Consider relative threat from each e-transaction. Assess "cannibalization rates" – degree to which each e-transaction will replace First-Class Mail.
- 3 Multiply cannibalization rates by e-transaction volume forecasts. Sum resulting volumes for each e-transaction.
- 4 Divide quantity of e-transactions supplanting physical mail by R97-1 First-Class Mail volume estimates to obtain diversion percentages.

### Recent EBPP industry forecasts

Estimates of the global market for electronic bill payment and presentment (EBPP) vary.

Forrester Research estimates that by 2004 some 20 million US households will be using some form of EBPP and that 13% of all consumer bills will be paid by EBPP. McKinsey & Co. predicts 15 million EBPP households will pay 7% of total consumer bills by 2002.

Industry analysts also disagree on exact definitions of what constitutes EBPP. For example, whether bills paid through on-line banking should be considered as EBPP.

While the figures and definitions may differ among various research companies using different methodologies, the trend is clear: EBPP use is poised to grow exponentially.

Source: Faulkner (FACCTS), "Electronic Bill Presentment & Payment" (Nov. 1999); Forrester Research, "Bill Presentment's Late Delivery" (Sept. 1999);

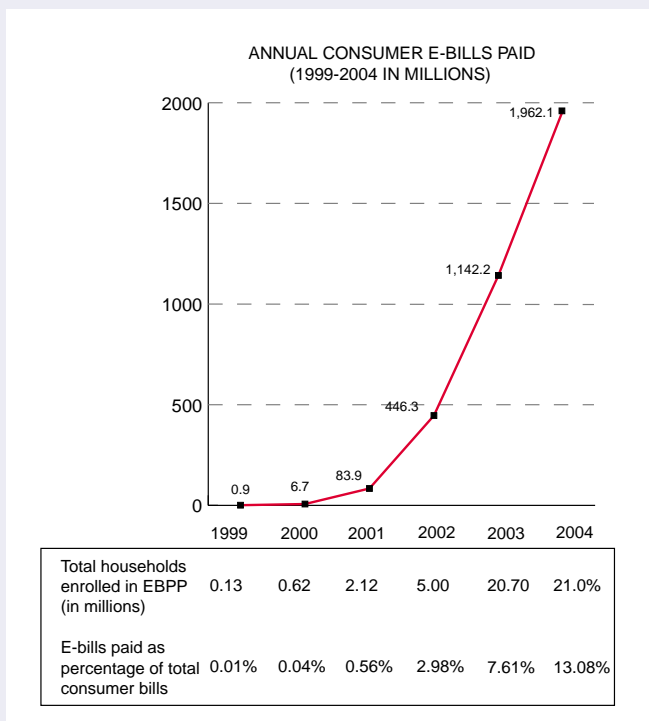
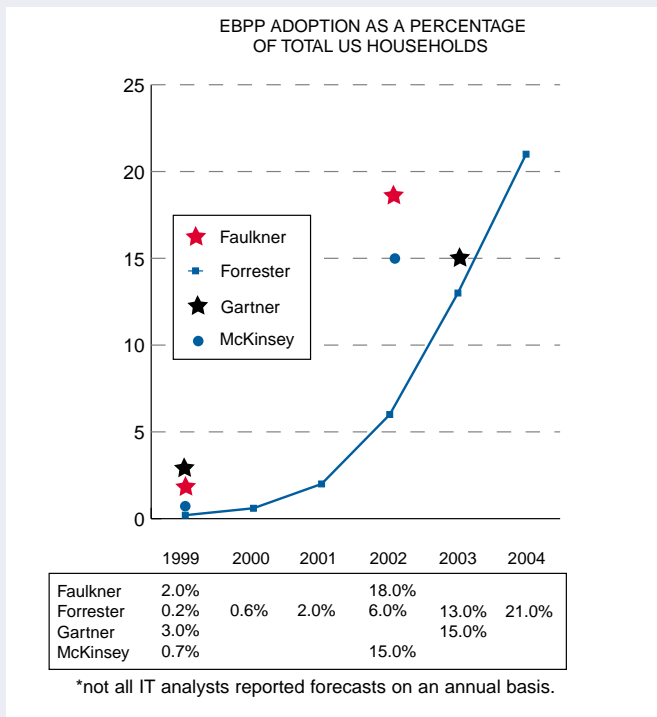
### Choosing a base e-transaction forecast

In selecting an appropriate forecast upon which to base a simulation model, we sought forecasts that were both timely and provided evidence of sound methodology. The base forecast also needed to correspond to a prevailing or "consensus" estimate among various industry analysts.

A recent report by Forrester Research most closely met these criteria. After surveying some 10,000 on-line households, Forrester assigned EBPP adoption rates to each market segment. Based on these adoption rates, Forrester predicted that some 21 million households would enroll in EBPP by 2004.

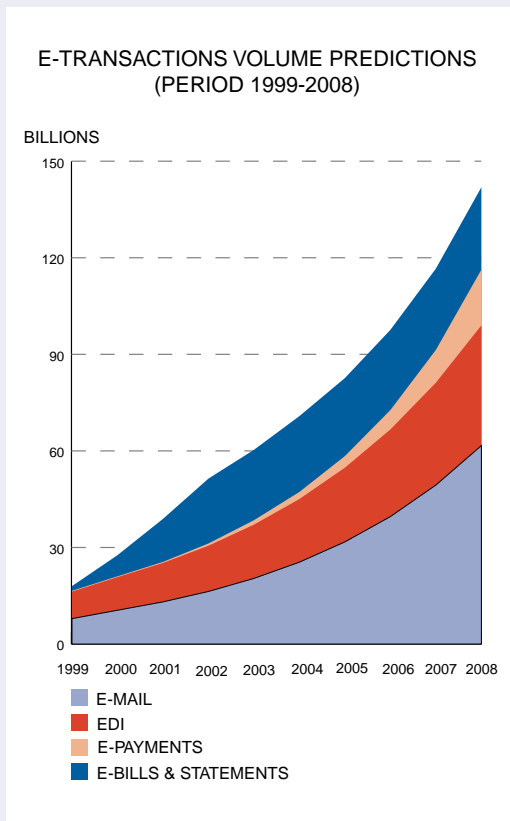
Forrester then surveyed EBPP providers, deriving a forecasted growth in EBPP-enabled bills from 5% of all consumer bills today to 70% in 2004. Based on consumer surveys, Forrester predicted what percentage of EBPP-enabled bills consumers would choose to pay via e-payments.

In the end, Forrester predicted that nearly 2 billion (13%) of all consumer bills would be paid through EBPP by 2004.



Source: Forrester Research Bill Presentment's Late Delivery (Sept. 1999)

## E-transactions assessed threats and volumes



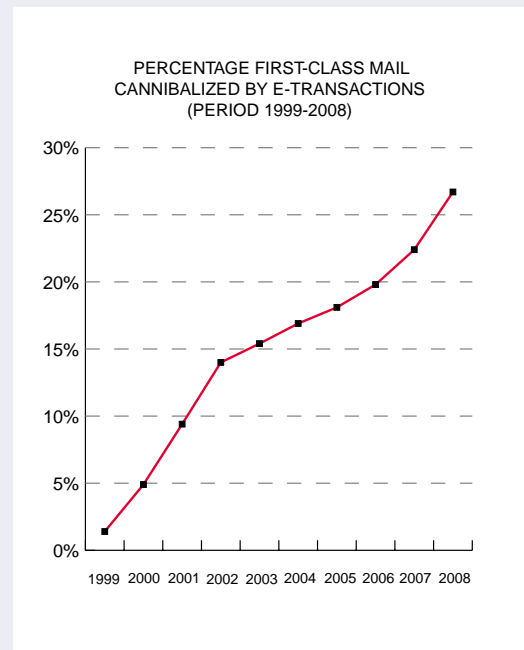
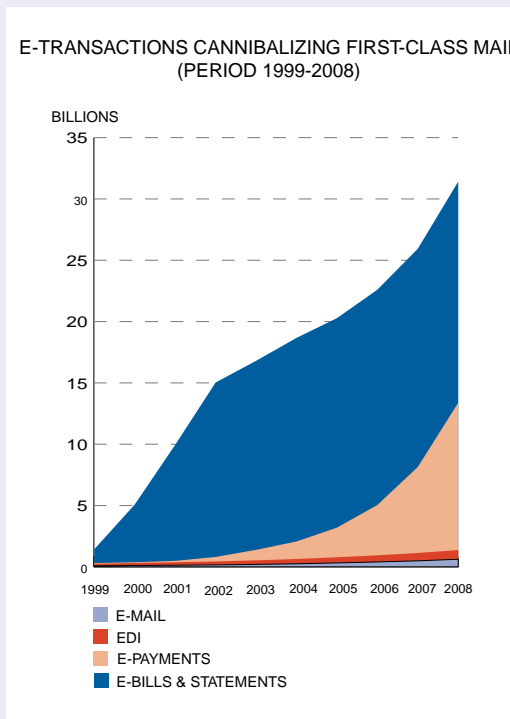
We maintained our growth estimates for e-mail and EDI that were incorporated into the H. R. 22 Simulation Model. Forecasts for EBPP were re-evaluated in light of new industry forecasts, in particular the Sept. 1999 report from Forrester Research. The forecast results are displayed below.

Next, we assessed relative threats posed by each type of electronic transaction as follows:

Applying these cannibalization rates to the forecasted volumes yielded projections for First-Class Mail lost to e-transactions

Type	Cannibalization Rate
E-mail	1%
EDI	2%
E-Bills & Statements	70%
E-Payments	70%

## Electronic diversion scenario



## e-transactions volume predictions (in billions)

TYPE	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<sup>1</sup> E-mail	7.90	10.50	13.10	16.34	20.39	25.44	31.74	39.60	49.40	61.64
<sup>2</sup> EDI	8.40	10.30	12.10	14.21	16.70	19.62	23.05	27.07	31.80	37.36
<sup>3</sup> E-bills & Statements	1.70	6.80	13.60	20.40	22.10	23.80	24.48	25.16	25.50	25.84
<sup>4</sup> E-payments	0.00	0.01	0.08	0.45	1.14	1.96	3.37	5.79	9.95	17.09

<sup>1</sup>Internal United States Postal Service estimates.

<sup>2</sup>Internal United States Postal Service estimates.

<sup>3</sup>PwC analysis/interpretation of Forrester Research, "Bill Presentment's Late Delivery" (Sept. 1999).

<sup>4</sup>PwC analysis/interpretation of Forrester Research, "Bill Presentment's Late Delivery" (Sept. 1999).

## Cannibalized Electronic Media Volume Predictors (in billions)

TYPE	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
E-mail	0.08	0.11	0.13	0.16	0.20	0.25	0.32	0.40	0.49	0.62
EDI	0.17	0.21	0.24	0.28	0.33	0.39	0.46	0.54	0.64	0.75
E-bills & Statements	1.19	4.76	9.52	14.28	15.47	16.66	17.14	17.61	17.85	18.09
E-payments	0.00	0.00	0.06	0.31	0.80	1.37	2.36	4.05	6.96	11.96
<b>TOTAL</b>	<b>1.44</b>	<b>5.08</b>	<b>9.95</b>	<b>15.04</b>	<b>16.81</b>	<b>18.68</b>	<b>20.27</b>	<b>22.60</b>	<b>25.94</b>	<b>31.41</b>

## Percentage of cannibalized First-Class Mail

TYPE	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Projected First-Class Mail Volume <sup>1</sup>	102.7	104.3	105.8	107.4	109.0	110.7	112.3	114.0	115.7	117.4
Total Cannibalized Electronic Media Volume	1.44	5.08	9.95	15.04	16.81	18.68	20.27	22.60	25.94	31.41
Percentage Cannibalized First-Class Mail Volume	1.4%	4.9%	9.4%	14.0%	15.4%	16.9%	18.1%	19.8%	22.4%	26.7%

<sup>1</sup>Assumes 1.5% increase in First-Class Mail volume a year

## Industry analysts assess Postal Service prospects

*Billers and consumers pay the U.S. Postal Service over \$15 billion a year for bill delivery and payment collections. More than two-thirds of this sum can be saved through electronic bill presentment and payment applications.*

GartnerGroup (Feb. 1999)<sup>1</sup>

*It is interesting to note the lack of consumer interest in having the U. S. Postal Service become the electronic aggregator. This should be seen as a serious threat to Postal Service revenues, as traditional billing traffic accounts for up to 60% of all mail traffic... EBPP's goal is to do exactly this, and consequently the Postal Service should contemplate becoming more involved in this process.*

The Yankee Group (Feb. 1999)<sup>2</sup>

*Postal Service will miss its second call to eCommerce arms as 13% of consumer bill delivery becomes electronic. The slow increase of EBPP will lull the giant into a false sense of security rather than forcing it to reexamine its business model.*

Forrester Research (Sept. 1999)<sup>3</sup>

*To head off an Amtrak- style death spiral, the government will spin off the profitable [Postal Service] package and overnight delivery services in an IPO and sell off the neighborhood post offices to Mail Boxes Etc. Since Grandma gets her grand-kids' photos via AOL's You've Got Pictures, the long- standing argument for protecting universal mail service will ring hollow.*

Forrester Research (Jan. 2000)<sup>4</sup>

*Source: <sup>1</sup>GartnerGroup, "Electronic Bill Presentment" (Feb. 1999); <sup>2</sup>The Yankee Group, "Electronic Presentment and Payment" (Feb. 1999); <sup>3</sup>Forrester Research, "Bill Presentment's Late Delivery" (Sept. 1999); <sup>4</sup>Forrester Research, "The Email Marketing Dialogue" (Jan. 2000).*

### Appendix 3

## Request for Comments on Revising and Updating Five-Year Strategic Plan, Pursuant to the Government Performance and Results Act of 1993

**AGENCY:** Postal Service.

**ACTION:** Request for comments.

**SUMMARY:** The Government Performance and Results Act of 1993 (GPRA) mandated, in 1997, that the Postal Service publish a five-year plan outlining its goals, targets and strategies, and that the Postal Service update and revise its five-year plan at intervals of no less than three years. In so doing, GPRA states that the Postal Service must, as an aspect of its strategic planning process, solicit and consider the ideas, knowledge and opinions of those potentially affected by or interested in its Five-Year Strategic Plan. This notice, therefore, asks for public comment concerning the development and drafting of the Postal Service's Five-Year Strategic Plan for fiscal years 2001-2005.

**DATES:** Comments must be received by May 15, 2000.

**ADDRESSES:** Written comments should be directed to Robert A.F. Reisner, Vice President, Strategic Planning, United States Postal Service, 475 L'Enfant Plaza, SW, Washington, DC 20260-1520. Comments may also be sent to: stratpln@email.usps.gov

### FOR FURTHER INFORMATION

**CONTACT:** Paul Van Coverden,  
202-268-8130.

### Supplementary Information: Statutory Background.

The Government Performance and Results Act of 1993, P.L. 103-62 (GPRA) was enacted to make federal programs more effective and publicly accountable by requiring agencies to institute results-driven improvement efforts, service-quality metrics and customer satisfaction programs. Other statutory goals were to improve Congressional decision-making and the internal

management of the United States Government, as cited in P.L. 103-62, sec. 2(b), 107 Stat 285. Because of the Postal Service's role as an independent establishment of the Executive Branch of the Government of the United States, section 7 of the law establishes separate provisions which apply to the Postal Service (sections 2801-2805 of title 39, United States Code).

Section 2802 of title 39, United States Code, required that the Postal Service submit to the President and the Congress a strategic plan for its program activities, no later than September 30, 1997. Additionally, Section 2802 requires the Postal Service to update and revise its strategic plan at least every three years. The plan is to contain:

- (1) a comprehensive mission statement covering the major functions and operations of the Postal Service;
- (2) general goals and objectives, including outcome-related goals and objectives, for the major functions and operations of the Postal Service;
- (3) a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and technology, and the human, capital, information, and other resources required to meet the goals and objectives;
- (4) a description of how the performance goals included in the annual performance plan required under section 2803 shall be related to the general goals and objectives in the strategic plan;
- (5) an identification of the key factors external to the Postal Service and beyond its control which could significantly affect the achievement of the general goals and objectives; and
- (6) a description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program evaluations. 39 U.S.C. 2802(a).

GPRAs also require the preparation of annual performance plans covering each program activity set forth in the Postal Service budget. 39 U.S.C. 2803. These plans link the organizational goals in the Strategic Plan with ongoing operations. Finally, the law requires the preparation of annual performance reports, which review and compare actual performance with the performance targets stated in the annual plans. 39 U.S.C. 2804.

In order to continue to involve the public in this planning process, GPRAs also require the Postal Service, as it develops each new iteration of the strategic plan, to "solicit and consider the views and suggestions of those entities potentially affected by or interested in such a plan, and shall advise the Congress of the contents of the plan." 39 U.S.C. 2802(d).

#### Discussion of the Postal Service Mission, Vision and Objectives.

In 1970, the Congress enacted the Postal Reorganization Act, transforming the former Post Office Department into the United States Postal Service. Its intent was to ensure that the former department become a self-sustaining federal entity which operates more like a business. While fulfilling its basic mission of providing universal service at an affordable price, the Postal Service as a unique government enterprise would also focus more clearly on the needs of all its customers than had its predecessor Executive Branch department.

The Postal Reorganization Act states that the Postal Service shall have the "basic and fundamental" responsibility to provide postal services to bind the Nation together through the personal, educational, literary and business correspondence of the people. Prompt, reliable and efficient postal services, the legislation mandates, shall be extended to patrons in all areas and to all communities.

In recent years, the historic mission of the Postal Service, as described in section 101 of title 39, United States Code, has been amplified by an organizational statement of purpose, published most recently in the Preliminary Annual Performance Plan for 2001. That statement

describes the Postal Service's role as one "to provide every household and business across the United States with the ability to communicate and conduct business with each other and the world through prompt, reliable, secure and economic services" for the collection, transportation and delivery of messages, merchandise and money.

A vision statement, published most recently in the Preliminary Annual Performance Plan for 2001, describes the strategic direction the Postal Service intends to take in order to continue to achieve its mission and statement of purpose. The vision statement says, "Within the decade ahead, the Postal Service must be transformed into a high-performing enterprise, able to compete with agile competitors, to be responsive to more sophisticated customer demands, and to establish goals aligned with the vision of becoming the service customers choose to use, rather than have to use. All employees must have appropriate incentives and tools, not only to service their customers, but to meet or exceed competitors' offerings. We must, in short, develop an operationally excellent, financially sound, performance-based culture and mindset. Given our expectations and beliefs about the future marketplace, it is imperative that the Postal Service achieve a state of operational excellence and competitive performance so high that a partial loss of the letter monopoly would not make a difference to our ability to serve customers and to our success."

#### Solicitation of Comments.

The United States Postal Service solicits comment on core statements that seek to interpret the Postal Service's statutory mission in a 21st century market context. Specifically, it asks for stakeholder comment on:

- the Postal Service role and responsibility to provide "universal service" and what that should entail;
- the scope of postal services necessary and appropriate "to bind the Nation together";
- the impact of the development of new technologies on the public service objectives of universal service, and whether those objectives might be achieved through alternative means;
- the Postal Service vision of the necessity to transform itself into a high-performing, agile, customer-responsive enterprise able to compete in a re-regulated future business environment;
- steps for improving the businesslike operation on the Postal Service; and,
- other topics relating to the competitive, customer, regulatory, technology and organizational dimensions of the postal business environment as they may affect the Postal Service's mission, statement of purpose and vision.

The Postal Service also invites comment on its long-range organizational goals, or objectives, published most recently in the Preliminary Annual Performance Plan for 2001. The Postal Service has employed long-range goals, or objectives, as part of a strategic planning process for nearly two decades, along with systematic assessments of performance. Since 1994, when the Postal Service applied the Malcolm Baldrige National Quality Award criteria to create its CustomerPerfect! performance management system, the Postal Service has used process management tools and an annual cycle of goal definition, deployment, review and assessment to improve organizational performance by revising and updating goals and strategies. The input of the public will support and enhance both the performance management process and the new Five-Year Strategic Plan.

Specifically, the Postal Service solicits stakeholder comment on the following long-range organizational goals:

- **Voice of the Customer goal:** To earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.
- **Voice of the Employee goal:** To foster an inclusive and welcoming workplace consistent



with Postal Service values of fairness, opportunity, safety and security: where everyone is given the knowledge, tools, training and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers' and the Postal Service's success.

- **Voice of the Business goal:** To generate financial performance that assures the commercial viability of the Postal Service as a service provider in a changing, competitive marketplace, and generate cash flow to finance high-yield investments for the future while providing competitively-priced products and services.

Any comments pertaining to the means by which the Postal Service can best achieve these goals are welcome. Comments on other aspects of strategic planning, goal-definition and performance measurement are also welcome.

This request for comments initiates a formal process for the development of the 2001-2005 Five-Year Strategic Plan, and offers an opportunity for stakeholder comments to be given careful consideration in the development of the plan's goals, targets and strategies. While its May 15 deadline corresponds with a need and requirement for formality in the development of this plan, the strategic planning process itself is continuous and welcomes ongoing input from all stakeholders in the development of annual business environmental assessments, annual performance plans and annual performance reports.

Stanley F. Mires  
Chief Counsel, Legislative