

Strategic Transformation Plan 2006–2010

2007 Update



A LETTER FROM THE POSTMASTER GENERAL/CEO AND THE CHAIRMAN OF THE BOARD OF GOVERNORS

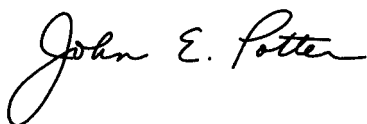
When we published our first *Transformation Plan* over five years ago, we knew it would require long-term commitment. Our goal was to position the Postal Service to succeed in a dynamic market, one marked by increasing competition and evolving customer needs.

The Postal Act of 2006 introduced several changes to the way the postal business is managed. Although a number of issues are still being determined, the broad outlines are clear. The law provides improved flexibility for responding to a changing market, and we will use it to tailor products to customers' needs. There are new expectations of accountability and new requirements. We are moving quickly to meet these requirements. Our actions and plans for these areas are reflected in this document.

Our *Transformation Plan* was designed to be a living document. It had to be comprehensive to reflect all aspects of our business and the entire mailing industry. It had to be focused to target key opportunities. And it had to be flexible to accommodate new challenges as they arose. We knew that one thing would not change — the fact that everything must begin with a commitment to our customers. By staying focused on that principle, we knew we would deliver — and we have. Service performance is the best it has ever been. Efficiency continues to climb. New features and services continue to make mail a better value. Today's mail is among the most effective channels of communication in a crowded marketplace. We're proud of our accomplishments, and we're ready to raise the bar to ensure a viable postal system for future generations.

We continue to move forward on key Transformation strategies. We are applying new technology and management tools to drive continuous improvement in service and efficiency. Intelligent Mail is rapidly emerging as a source of new value. A major priority is helping mailers quickly take advantage of it. The Flats Sequencing System, which begins deployment this year, is also a key focus. At the heart of everything we do are our employees, with a single, unchanging goal — providing customers with the best service and the best value.

There is no question that there are challenges. Resource costs continue to rise and competition for all of our products has only intensified. But for every challenge there is also an opportunity, and our experience with Transformation demonstrates what we can accomplish. In the Postal Service we're used to taking on challenges. It brings out our best.



John E. Potter
Postmaster General and
Chief Executive Officer



James C. Miller III
Chairman,
Board of Governors

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YEAR REFERENCES

All references to a specific year or “the year” refer to the government fiscal year ending September 30. However, specific month and year references pertain to the calendar date.

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INTRODUCTION

This document is an update to the *Strategic Transformation Plan 2006-2010* published in September 2005. The Plan remains the Postal Service's roadmap for the future. The Postal Act of 2006 made a number of major changes to the oversight and management of postal business.¹ However, the mission has not changed — provide trusted, affordable, universal service. The Postal Service must design and deliver products that meet customer needs in a rapidly changing market. It must control costs to remain competitive. Service must be reliable and convenient, and must improve continuously. And to assure success, employees and business partners must be fully engaged in the changes needed to sustain the mail for future generations.

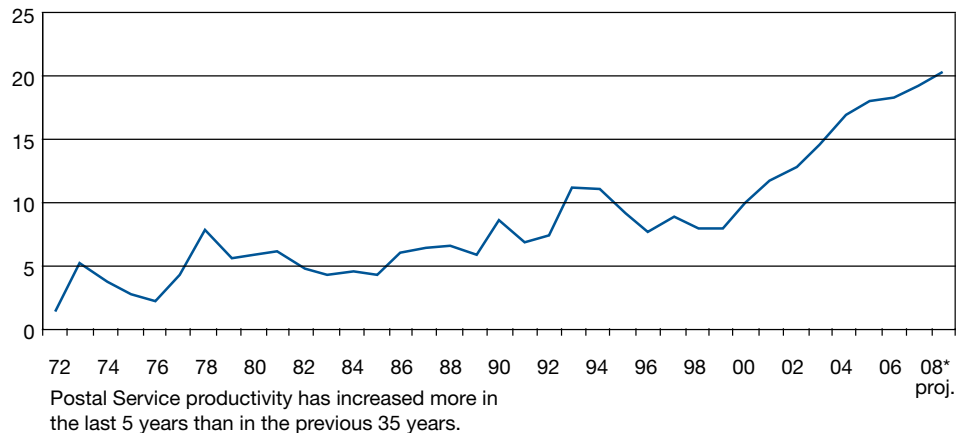
For decades, mail volume grew dependably, financing a steady expansion of the postal network, from 85 million delivery points in 1971 to 148 million today. Volume growth also helped to moderate postage rate increases. Since passage of the Postal Reorganization Act in 1970, the price of a First-Class Mail stamp rose at roughly the same rate as the Consumer Price Index. Expanding volumes also eased the elimination of federal subsidies, which represented 23.8 percent of postal funding in 1971. The subsidies were fully phased out in 1982. Then in 2001 mail volume growth began to stall and, in the case of single-piece First-Class Mail, volume began a slow decline as the Internet offered readily accessible alternatives to traditional mail applications.

Transformation was launched in 2002 with aggressive goals proportionate to the challenge. By any calculation it has had a major impact. The Postal Service has achieved great improvements in service, multiple advances in customer convenience, and eight straight years of productivity gains. But the pace of change has not slackened. It is time to raise the bar even higher.

The new law brings new challenges. The legislated constraint of a CPI-based price cap for most mail classes means that cost control efforts must be expanded beyond the aggressive efforts taken to date. Additional pressure has been created by a requirement for the Postal Service to accelerate funding of future retiree health benefits. This annual cost will range from \$5.4 billion to \$5.8 billion over the next decade. A growing segment of other costs are rising faster than CPI, including health benefits, which now represent one-sixth of the postal budget, and fuel. Even so, opportunities remain to increase efficiency in all areas, and a *minimum* of \$1 billion in costs will continue to be eliminated every year. Meanwhile, new technological tools are uncovering many new ways to make operations more efficient and eliminate processes that add no value. More detailed information about mail flows is guiding efforts to reduce the waste and unnecessary costs resulting from incorrect or incomplete mailing addresses.

¹ *Public Law 109-435, Postal Accountability and Enhancement Act.*

Total Factor Productivity Cumulative % Growth, 1972-2008



Cost cutting alone cannot sustain the business. Continuing advances in service and growth in revenue are crucial. The Postal Service is now able to generate profit and retain earnings. Profits are vital for reinvestment in continuing innovation and service enhancement. The Internet is diverting some business formerly carried in First-Class Mail, and fierce competition exists for other products as well. But every business has competition, and experience with services such as Click-N-Ship and Package Pickup demonstrate that the Internet can be a complementary partner to mail.

For mail to grow, the Postal Service must continue to add value to its core mailing and shipping services. Postal products will become more intelligent and customized with less complexity. The law grants new flexibility to tailor products and prices to specific customer needs and market conditions. The Postal Service intends to take full advantage of the opportunity to promote growth. Pricing flexibility will require innovative approaches and new levels of insight into the costs and profitability of specific market segments.

Postal employees at all levels are committed to continuous improvement. Next year they will be asked to take the next step with the expansion of service measurement for all mailing services. This is an opportune time to expand measurement. For the first time, barcode and scanning technologies allow in-process tracking of individual mailpieces. These technologies, supported by increasingly powerful management tools to pinpoint and correct service failures, promise even more consistent service in the years ahead for all mail classes.

This updated Plan includes new chapters on Postal Service strategies to enhance its Sustainability efforts and outlines the regulatory studies and reporting obligations required by the new law.

Publication of this updated plan occurs at a crossroads in postal history. Much work is now underway to adapt to the provisions of the Postal Act of 2006. However, a number of important issues must still be addressed. A new 5-year strategic vision will be published next year. By then, implications of the law should be clearer for all stakeholders, and the Postal Service will be in a better position to retool its strategies as necessary to continue its transformation.

I. GENERATE REVENUE

The market for mailing and shipping continues to change, shaped by competition, new technologies, and rising customer expectations. In response, the Postal Service is developing strategies to generate new revenue from its core business of mailing and shipping. Across all products and services, the Postal Service is adding new value, encouraging new applications for today's customers, and expanding access and convenience.

The Postal Act of 2006 introduced several changes affecting how postal services are designed, priced, and marketed. For the first time in its history, the Postal Service can make a profit and invest earnings back into the business. The most visible change is segmenting postal services into "market dominant" and "competitive" categories with separate pricing regimes. There is greater flexibility to tailor services to customer needs and adjust products and prices more rapidly to changing market conditions. In this document, the more descriptive terms *mailing services* for the market dominant category and *shipping services* for the competitive category are used.

In order to grow revenue, the Postal Service will enhance existing products, develop new products and features, and focus on better meeting the needs of small businesses. New applications will attract new users and increase the value of mail for existing customers. Intelligent Mail will fulfill the needs of businesses who require more information about the status and effectiveness of their mail. Capturing data that tracks the movement of goods and services in any network has become an important factor for managing cash flows, supply chains, and customer relationships.

The Postal Service will expand its outreach to new and untapped markets. More streamlined Standard Mail features will be developed for businesses interested in advertising by mail but held back by its complexity. For households, a key challenge will be improving the relevance of mail among new generations who have minimal experience using hard copy mail. The successful strategy to make mail quick, easy, and convenient will be expanded to include multiple new services for receivers of mail, and more extensive and easy-to-use online capabilities.

For packages, the Postal Service will continue to build on its "first mile – last mile" strengths to introduce new products with enhanced track and trace capability. Competitive and customized products and pricing will be used to promote growth. Online retail continues to be a catalyst for packages, and the Postal Service will capitalize on its natural link between the Internet and Main Street to grow its shipping business, especially in packages returned by households. Strategies for outbound international mail will include

creating new and cost-competitive products for domestic businesses wanting to reach international markets, while strategies for international inbound mail will leverage the unique last-mile capability in the United States for overseas mailers and shippers.

1. Improve the Value of Mailing Services

Develop New Markets for First-Class Mail and Standard Mail

First-Class Mail and Standard Mail combined represent 94 percent of all mail volume and 83 percent of revenue. No realistic revenue strategy can

succeed without growth from both products. Among longstanding customers, the features and benefits of these two products are generally well known. To potential new customers, however, the advantages of mail over other media are not known, particularly in the areas of privacy, security, and response rates. In the next year, the Postal Service will take several steps to strengthen its brands and improve customer understanding of the respective benefits of specific products. A foundation was set with the launch of a new brand positioning statement — *Today's Mail* — that relates the benefits of mail to contemporary lifestyles and business needs.

The features of First-Class Mail, particularly security and reliability, make it an ideal medium for financial transactions versus other media. While alternatives to mail, such as direct debit and online bill payment may be appealing to a growing segment of postal customers, the benefits of mail for conveying secure financial information and building on customer relationships remain compelling. A

hardcopy statement can serve as a tangible reminder that a bill is due, it can announce the appreciation of an investment, and it can provide a convenient record of payments and deposits. Hardcopy mail also serves as a customer touch-point for information beyond bills and statements.



A print ad, part of Today's Mail campaign.

Intelligent Mail will add the important new dimension of visibility that will further increase the value of mail. Visibility will allow customers to pinpoint when a statement or bill is delivered and a payment is deposited into the mail stream. With increased visibility, customers can pinpoint when a statement or bill is delivered, and businesses will know for certain that “the check is in the mail.”

The Postal Service will continue to promote how mail complements other media. Research shows that recipients of advertising mail and catalogs are more likely to purchase items online than shoppers who do not receive this mail. Market research has shown that those receiving mailpieces typically buy more items and spend more money. In fact, a revenue lift of 163 percent was reported for Web sites supported by catalogs as opposed to those that were not. The Postal Service will also step up efforts with the direct mail industry to improve the quality of mail and mailing lists. Better targeted mail protects the viability of the mail as an advertising and communications channel and increases the return on investment of mail relative to other media.

Perceptions on the effectiveness of mail for advertising vary significantly between those who use it and those who do not. The current preparation complexity of Standard Mail, however, deters many businesses from even considering mail for advertising. With a simplified Standard Mail option, more mailers could benefit from the targeted value that direct mail offers for acquiring and retaining customers. The Postal Service will conduct market tests in 2008 to determine which Standard Mail features and prices most attract business advertising dollars.

Encourage and Develop New Mail Applications

The Postal Service will encourage and develop new applications for mail by working with companies seeking to integrate mail with their market opportunities. Vote by Mail and the games and movie rental market are examples of how customers have been able to use postal products to meet emerging needs. The new law supports a greater simplification to add new and experimental services. It allows for more rapid product testing and introduction. The Postal Service intends to take full advantage of this flexibility and will reach out to customers and business partners, exploring strategic alliances to encourage innovation and identify new applications.

The Postal Service will explore additional ways to capitalize on the complementary nature of mail and the Internet, and will work further with online merchants to increase the value of postal shipping solutions for order fulfillment. eBay and DVD rentals by mail have demonstrated that the convenience of mail can be successfully combined with the convenience of

online services. The Postal Service will continue to leverage the benefits of delivery and pickup at every address to create new applications for the mail.

Help Customers Better Manage their Business with Intelligent Mail

With Intelligent Mail, the Postal Service is laying a solid foundation that will transform the value of mail by helping customers manage business processes, track cash flows, and build and maintain customer relationships. Intelligent Mail allows customers to track their mail as it moves in the mail value chain. Data about this movement will be available at every step so that mailers and the Postal Service will know when advertising pieces arrive at their destination, when customer remittances are mailed, and when problems such as inaccurate addressing or unreadable barcodes need correction.

Since introduction of the Intelligent Mail (IM) barcode in 2006, nearly 200 mailers have successfully begun integrating the barcode within their

Intelligent Mail is a comprehensive term that describes the integration of electronic mailing documentation, intelligent barcodes on all mail and containers, and scans to track mail at all points in the process.

operations. Mailers seeking automation discounts must use intelligent barcodes starting January 2009. The Postal Service is working with the mailing industry to finalize requirements for discounts while actively encouraging customers to adopt the IM barcode as soon as possible. Established industry forums like the Mailers' Technical Advisory Committee, National Postal Forum, and Postal Customer Councils make it easy for all businesses to receive information, express concerns, and start using the IM barcode. The Postal Service will continue working with all mailers, small businesses in particular, to promote the benefits of Intelligent Mail, electronic payment, and information-based indicia technology.

New products are being developed around the Intelligent Mail infrastructure and the value it adds to the mail. Multiple information services may be provided consistent with the range of customer needs. Some customers, for example, will want only induction and delivery data. Other customers will want full tracking and tracing.

Offer More Products and Pricing Based on Mailer Needs

The Postal Service will use its new pricing flexibility to offer customized products and pricing to business customers. This new flexibility will be used to develop products, services, and pricing that can quickly respond to evolving market needs since changes will be on an annual basis. New round-trip products are under evaluation to provide increased customer value and utility. Vote by Mail represents an area that can benefit from round-trip pricing. It appeals to voters because of convenience, privacy, and security. At the same time, government officials appreciate the value of mail for elections because ballots can be tracked, satisfying federal requirements

to maintain a paper trail for every vote. Vote by Mail also presents the potential of lowering costs associated with polling while increasing voter turnout, especially during local elections. By offering customized round-trip pricing and the security of Intelligent Mail tracking, the Postal Service will encourage more state and local jurisdictions to consider using Vote by Mail.

The Postal Service is also exploring a round-trip product designed for other mail applications. The principal market for this product consists of mailers sending disc-based media rentals, such as movies, audio books, and computer games. Customers will benefit from easy payment options, and the Postal Service will benefit from lower handling and accounting costs for the incoming return pieces.

A potential new offering of First-Class Mail will be designed for business needs requiring the speed and dependability of First-Class Mail but not the feature of automatic forwarding or return services. Advertising mail, for example, may require delivery within specific service windows so that customers will respond to time-sensitive promotions. Such mail, however, may not need the forwarding and return services included in current First-Class Mail prices. A lower priced First-Class Mail offering without forwarding and return service may offer advertisers a better value for specific campaigns or targeted customers.

The Postal Service is building capabilities to support this new pricing flexibility that allows channel-based and customized pricing approaches. For retail customers, channel-based pricing might be considered with different prices for services purchased at the counter, on the Internet, or at a self-service kiosk. For high-volume customers, customized pricing might be based on requirements such as volume commitments, special preparation options, or network penetration. These new pricing approaches along with future pricing initiatives will require significant infrastructure changes to support an evolving, customer-driven environment.

2. Tailor Shipping Services to Market Requirements

The Postal Service goal to increase revenue from shipping services requires that it enhance operations and pricing to meet evolving customer demand. High-volume mailers expect pricing to reflect the number of packages they ship and the postage they pay, as well as the services provided. The Postal Service now has the ability to customize its shipping service pricing to reflect different customer requirements.

Provide Responsive Product Offerings

The Postal Service will design new shipping services, building on its brand and unique competencies, such as its first and last mile ubiquity. It will

combine the strength of existing services with the increased flexibility to modify them to better satisfy needs. The Postal Service is committed to providing full track and trace on all domestic and international shipping services, by having a barcode on every package.

Targeted Pricing to Promote Growth

To promote the growth of mail volume, revenue, and profit, the Postal Service will transform future postal pricing by considering characteristics important to customers. With the implementation of new prices on May 14, 2007, the Postal Service introduced more shape-based prices reflecting shape-related costs. This pricing methodology will continue as one of many pricing strategies. Over time, the Postal Service will explore different pricing structures for different customer needs. The revised product structure will align costs, pricing, and incentives with customer use, positioning the Postal Service to increase revenue by expanding market share.

Customers also expect options for payment and payment terms, and they see these options as an important element of value. The Postal Service will explore invoicing and credit alternatives for customers where revenue growth outweighs the cost of providing and managing credit payment options. By giving large mailers more convenient and innovative ways to pay postage, the Postal Service expects to attract additional mail volumes.

Develop New Resources and Competencies

New sales skills and resources will be developed to equip the sales force to offer customer-responsive pricing. New tools will be created to help the sales force craft pricing proposals that respond to customer expectations and still cover product costs while making a contribution to overhead. By developing new pricing skills, sales tools, and resources, the Postal Service will take advantage of the new opportunities in pricing flexibility mentioned previously.

3. Create Recipient-Based Products and Services

About 73 percent of all mail is destined for households. How they respond influences how marketers use the mail. The Postal Service can satisfy both senders and recipients by creating more products and services designed around the preference of recipients — especially their desire for greater value and convenience. For example, opportunity exists to simplify receiving and returning merchandise bought online. The Postal Service will develop convenient new features for these customers and continue its outreach with retailers to offer the Postal Service as a shipping option. By providing their customers with a choice, online retailers can create a more convenient experience and further expand their market.

Expand Premium Forwarding Options

Premium Forwarding Service (PFS), launched in 2005, provides temporary forwarding to people such as retirees or frequent travelers who want all their mail reshipped to another location within the United States. The Postal Service will expand PFS options by adding customer-requested services. A premium version might include an upgrade to the basic weekly PFS service by providing multiple shipments each week, with an Express Mail reshipment option. PFS international would be another version to provide temporary forwarding service to customers traveling abroad. In addition, online enrollment in PFS will provide greater customer convenience and make the service more widely available.

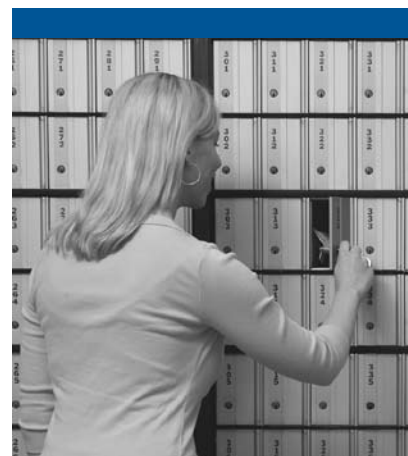
Expand Return Services Including Environmentally-Friendly Options

Catalog and e-commerce merchandising present an ideal market opportunity for return services. Return services for packages will be expanded to take advantage of an average 20 percent return rate for merchandise ordered online. Customers tend to purchase online from a company offering convenient and inexpensive merchandise return services. The Postal Service mail processing infrastructure combined with its delivery network creates a favorable opportunity for expanding package returns. Customers can easily return packages through the Postal Service by handing them to a carrier or taking them to the neighborhood Post Office.

Product malfunctions and recalls present a second opportunity for expanding return services options. The Postal Service will create package service options that facilitate the return of fragile items, like electronic equipment requiring repair, that need to be protected during the two-way transit from the customer to the repair center and back. The Postal Service will leverage its first and last mile capabilities to promote mail as the best option for this type of return service. Environmental concerns present a third opportunity for expanding return services. Special prices and shipping services are being explored to handle the recycling and disposal of used products with substances that are harmful to the environment. These recyclables include compact fluorescent light bulbs, ink and toner cartridges, cell phones, consumer electronics, and pharmaceuticals.

Enhance PO Box Services

By 2008 customers will be able to manage their PO Box accounts on *usps.com*. They will be able to rent a box, make payments, and obtain information about options, pricing, and available boxes in their area. Self-service Automated Postal Centers (APCs) will allow customers to renew PO Boxes with a credit or debit card.



Commercial customers with multiple PO Boxes or Caller Service at one or more locations will also be able to manage multiple boxes online and pay using a credit card, electronic funds transfer, or a *Postal One!* account. New features are also being explored including online delivery notification, mail redirection, and suite addressing. The Postal Service will establish demand-based pricing for its 20 million PO Boxes based on vacancy rates, box location, and service options. Discounts may be offered where vacancies are high, and premiums may be charged where vacancies are low.

4. Build on Domestic Strengths to Grow International Business

The expanding global marketplace presents opportunities for the Postal Service to grow inbound and outbound international business. In 2007 the Postal Service completed a top-to-bottom redesign of its international product line. Eight products were reduced to four, eliminating redundancy and reducing customer confusion. International product names now are linked with their domestic counterparts. New packaging was developed that reduces waste and more clearly positions the Postal Service brand. Also in 2007, the Postal Service created a Global Business group to identify and develop initiatives to increase international revenue. With an integrated strategy, centralized accountability, and dedicated market-focused resources, the Postal Service intends to build on domestic strengths to achieve international revenue growth.

The Department of Defense is an important postal customer. APO/FPO military mail service includes all mail addressed to or mailed from military units located outside the continental U.S., or between military units overseas. The Postal Service is proud to support troops abroad. Providing service men and women with dependable mail service will continue to be a high priority.

Help Businesses Establish Relationships in Global Markets

The Postal Service will help U.S. businesses establish global relationships through service-responsive and cost-competitive advertising and fulfillment service that leverage its extensive transportation and distribution infrastructure. The Postal Service manages one of the largest delivery infrastructures in the world's largest market for imported goods. It possesses extensive domestic processing and transportation capacity, expanded international processing capabilities, and significant economies of scale in last-mile delivery to U.S. addresses. By partnering with global integrators to strengthen networks serving business and residential customers, the Postal Service will better respond to customer needs for a more unified global service offering in mailing and shipping services.

New Solutions for Direct Mailers

In some emerging markets, other media are not as broad-reaching and effective as direct mail. The continued growth of multi-channel marketing with mail will also contribute to its popularity in these burgeoning markets. The Postal Service is well positioned to take advantage of these global trends with cost-effective advertising products and services that provide the greatest reach, personalization, and impact to consumers while assisting businesses both in and out of the United States overcome complex foreign regulatory and addressing requirements.

The Postal Service will provide direct and bulk mailers with customized flexible solutions for both outbound and inbound direct mail, catalogs, and bulk letter volumes. In addition, partnerships will be developed with industry advocates, publishers, printers, and foreign postal administrations to offer new solutions, pricing, and value-added services. The current Direct Entry program also will be expanded to provide mailers options for lower-cost, faster, more targeted communications into key markets.

Extend Electronic Money Orders to Additional Markets

The Postal Service manages a highly competitive money order brand. With its Dinero Seguro service it has also developed a viable money order transfer infrastructure for ten Latin American destination countries. The Postal Service will expand the service to additional, high-potential markets. In doing so, it will work closely to integrate the postal product with a complementary transfer infrastructure offered by the Universal Postal Union.

5. Streamline Acceptance for Commercial Mailers

The Postal Service will continue its efforts to streamline postage payment, documentation, and verification for commercial mail entered through the business mail entry channel. Business mail entry handles 70 percent of all mail, represents a critical interaction point between the Postal Service and the business sector. With data-rich reports and automated processes, seamless acceptance will allow customers to use mail more strategically and to expand more readily into a full range of postal products and services. It also represents an automated way to achieve continual quality control in mail preparation, addressing, and deposit.

The Postal Service will deploy a performance-based verification model that speeds acceptance for proven mailers and provides resources for untested mailers. Mailers with consistent high-quality mailings require less time and attention than untested mailers. Performance-based verification will include dynamic modeling, using data from several sources to determine the verification frequency and sample size. When verifications are required, they will focus only on specific mail quality elements identified by the data.

The Electronic Verification System (eVS) for parcel mailings is an example of in-process verification already under development with several large shippers. In-process verification analyzes mail as it arrives and flows through the mailstream, using data from induction, processing equipment, and sampling scans, and then comparing this data with the mailer's manifest data to automate reconciliation processes.

Seamless acceptance, enabled by Intelligent Mail, will use performance-based and in-process verification for business mail acceptance. This new acceptance process will support a staffing model for the alignment of acceptance resources, an electronic payment model for universal customer access, and performance measurement data for mailers and the service performance reporting system. The Postal Service expects to complete development of seamless acceptance production by the end of 2008 and launch in 2009.

Service performance will be facilitated by creating the infrastructure that allows mailers to send electronic manifests of their mailings and the Postal Service to capture scans of containers, trays, and mail with Intelligent Mail barcodes throughout the movement of the mail. By analyzing the scan data and detailed mailing manifests from mailers, the system can determine service performance for each mailer and for each mailing. The data and comparative analysis from the integrated seamless acceptance system will be provided to the service performance reporting system for further data processing and reporting.

6. Make Online Services a Key Competency

Today's customers enjoy quick, easy, and convenient online shopping. Through *usps.com* customers can buy stamps, ask to have their mail held, print and pay for postage, schedule a package pickup, and even design an advertising mail piece. Packages can be shipped domestically or internationally online with options such as insurance, Delivery Confirmation, and Signature Confirmation using Click-N-Ship. In response to ever-increasing customer expectations for online service, *usps.com* will be enhanced with more services and more convenient features.

Checkout processes will be updated to create an experience that customers have come to expect from online shopping. Online payment options for postal services will expand to meet the changing requirements of today's customers. Popular payment methods like ACH debit and cell phone options give customers convenience without additional fees. As the online market evolves, the Postal Service will make continuous improvements to its online payment services to stay competitive in an electronic world.

Given the diversity and proliferation of today's Internet, it is unrealistic to expect all consumers to come to a single Web site for their mailing and shipping needs. Integration with third-party Web sites is key. The Postal Service partnership with eBay demonstrates the success of extending postal shipping services to a third-party site. The Postal Service will seek other partners to provide similar services. It will also ensure that postal shipping is clearly and accurately presented as a customer option on e-commerce sites.

7. Strengthen Customer Outreach

The Postal Service is looking to new opportunities to reach potential customers and markets. New revenue partnerships will be formed by developing new contacts and strengthening existing customer relationships. The entire workforce will be enabled to grow business through new tools, training, and teamwork.

Expand Small Business Markets

Employee outreach to households and small businesses will continue through the Customer Connect and Business Connect programs. Both programs encourage carriers, postmasters, and station and branch managers to reach out to small business customers to promote the convenience and value of postal services. Efforts to increase employee participation in these programs will boost revenue generation among small business customers.

The Postal Service will continue to develop and deploy resources to support higher revenue-potential small businesses so that an appropriate handoff is available when significant opportunities are identified through the Customer Connect and Business Connect programs. Additional Business Development teams staffed with Small Business Specialists will be formed to lead local sales initiatives, conduct face-to-face meetings and seminars, and help neighboring businesses understand the value and convenience of the mail.

Focus Commercial Sales Effort

Nearly three-quarters of total postal revenue comes from high-volume commercial customers. Some of these customers prepare their own mail, but many use service providers to handle various aspects of their mailing needs. The Postal Service sales force works closely with both customers and service providers, helping to best match postal solutions with individual corporate business objectives. Service providers add value to mail creation, handling six of every ten pieces entered into the postal system. They specialize in integrated marketing strategies, develop direct mail copy and



graphics, provide mailing list selection and management, or print, sort, and prepare mail for entry. Some furnish all services.

As partners in expanding the market for mail, service providers represent an important area of growth, and the Postal Service will dedicate sales personnel to manage this opportunity. The strategy positions postal business solutions for broader marketplace acceptance and will help both customers and service providers better understand and incorporate new technology such as Intelligent Mail. New sales professionals will promote best practices for direct mail and package shipping across this prolific business partner channel to improve customer access to mail while increasing mail volume and revenue.

Increase the Visibility of Commercial Accounts Usage

To distinguish mail owners as the actual source of postal revenue from service providers, who facilitate the use of mail, the Postal Service will focus on more targeted account structures. Improved commercial mail acceptance provides a flow of information among “owners,” service providers, and the Postal Service. The IM barcode provides mailer identification in the processing and transportation networks. Mailer IDs embedded in the barcodes will allow for consistent customer reporting, eliminate manual data corrections, and make additional data metrics available.

Expand Industry Outreach

The Postal Service and its customers benefit from collaborations through local organizations such as Postal Customer Councils (PCCs) and national groups like the Mailers’ Technical Advisory Committee (MTAC). The Postal Service will continue to expand mailing industry outreach through these mailer associations, as well as at the annual National Postal Forum. A PCC Web site has been created as an additional tool to reach and educate local businesses on relevant topics such as shape-based pricing, international and expedited products, and Intelligent Mail. PCCs receive DVDs of select MTAC presentations to disseminate information at the “grassroots” level. To remain relevant and promote greater participation, new structures and programs are being developed for these venues to ensure that participating customers continue to get the most for their investment in mail.

Incorporate New Approaches to Promote Mail

A new Postal Service brand statement — *Today’s Mail* — will appear in all its advertising. Today’s Mail represents what the Postal Service can do for customers now. The Postal Service is using postcards, radio spots, magazine publications, and the Internet to let customers know about its

services. The campaign uses cutting-edge graphics to advise business and residential customers about the advantages of online postal services like buying postage, printing labels, ordering free eco-friendly shipping supplies, and scheduling free parcel pickup.

Attracting a new generation of postal customers will take focused and creative outreach. These potential customers, with little inclination to go to a Post Office, are not aware that many convenient options exist online and at their mailbox. The Postal Service will continue to explore new advertising alternatives to attract their interest, using avenues that match their lifestyle and needs.

Generate Revenue – Summary of Priorities

- Encourage and develop new mail applications. Create new services that improve the value and utility of mailing and shipping services for recipients.
- Expand awareness of Intelligent Mail as a tool to help customers better manage their business.
- Use flexibility to customize products and prices.
- Tailor shipping services to market requirements, including full track and trace.
- Build on domestic strengths to increase international business.
- Streamline mail acceptance, postage payment, documentation, and verification for commercial customers.
- Make online services a key competency.
- Strengthen customer outreach through local contact programs, industry partners, and advertising that reinforces the value and relevancy of mail in today's market.

GENERATE REVENUE

*Strategic Transformation Plan
2007 Update*

II. INCREASE EFFICIENCY

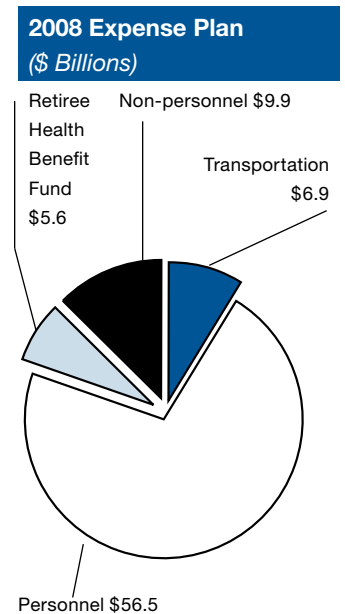
The Postal Service continues its commitment to reduce costs by \$1 billion each year. The new postal law places a limit on price increases at the CPI for all mailing services, which comprise 90 percent of postal revenues. The cap means that price increases cannot sufficiently cover costs if overall postal expenses increase above the rate of inflation. The Postal Service has limited control over some growing expenses, such as the price of fuel and employee benefits inflation. The law also requires that the health benefits of future retirees be funded by 2017. The cost for this change alone is \$5.6 billion in 2008.

To succeed in this new environment, the Postal Service must continue to increase efficiency and drive down costs in all operations and processes. Strategies pursued to date have been very effective, producing eight straight years of productivity growth and more than \$7.5 billion in savings since 2002. Further process improvement gains can be achieved in virtually all areas. New tools, technologies, and unprecedented levels of information are identifying opportunities to reengineer processes that add little value.

Improvements in efficiency go hand in hand with improvements in service quality. The same Intelligent Mail data that are helping flag missorted mail are also identifying mail that should be processed by automation but instead is being handled manually. Similarly, steps to streamline business mail entry by reducing paper documentation will add convenience at acceptance, reduce administrative costs, and improve data exchange. The enormous potential of Intelligent Mail lies in its capacity to identify areas to improve efficiency at all points in the system, starting with the quality of addresses and mailing lists, up to the capture and correction of sortation errors at the point of delivery.

Roughly one-third of the \$1 billion savings planned for 2008 will come from investments in enhanced equipment and systems. The Postal Service will continue to focus on automating as much of the mail stream as possible, especially by increasing the amount of mail sequenced in the order of delivery. Notwithstanding steady advances in automation, labor still represents 79 percent of postal operating costs. Workforce planning is a top priority, and the Postal Service is redoubling efforts to anticipate and match workload with the most efficient staffing. Here, too, information is key.

The remaining two-thirds of planned savings will come from process improvements. Most letter operations have been successfully automated; however, 40 percent of flat mail is still processed manually. Deployment of the Flats Sequencing System (FSS), starting in 2008, promises to bring efficiency gains to flat mail similar to those achieved by sequencing letters. Increased standardization will support the capture of savings from FSS and from multiple other initiatives. The use of continuous improvement strategies and Lean Six Sigma tools, along with increasing amounts of actionable data, will help increase equipment utilization and streamline support processes.



Broader use of leading supply chain practices will continue to improve the quality and timeliness of purchased goods and services while helping the Postal Service get more value for its money.

To remain competitive the Postal Service must become more efficient across all operations. That was true before passage of the new law. The price cap only put that imperative into sharper focus. The law strongly endorses continuing efforts to adapt the postal network in conjunction with changes in mail volume. However, the law does not alter the Postal Service's basic cost structure. Nor does it provide any new labor flexibility. Recent productivity achievements were the result of disciplined field management, improved visibility on costs, and better information flows with mailers and business partners to improve quality, control complement planning, and optimize mail preparation. These approaches will continue to drive efficiency in the years ahead.

1. Introduce Cost Management by Class

To separate financial tracking for mailing and shipping services, the Postal Service will transition to reporting and managing cost on a more real-time basis at the class level. This class-specific approach will be established across the organization from an operational, financial, and marketing perspective. Existing postal systems provide some of the necessary data on an annual basis. The Postal Service is now identifying the best way to manage costs by class at the operational level along with optimizing cost in the entire system. Expanding use of the IM barcode promises to increase the visibility of costs at ever finer levels.

In the longer term more detailed and timely cost information will uncover new opportunities to increase efficiency and margins. The level of capital investment in new equipment and systems will be driven by expected impact on product profitability as well as return on investment. Richer data flows, especially from expanded use of Intelligent Mail, will help drive improvements in process, network design, and customer mail preparation requirements.

2. Expand Standardization

Reduce Manual Handling

Great strides have been made to replace less efficient manual operations by expanding automation and standardization. However, opportunities remain to further reduce manual processes. Previous transformation targets for reducing manual handling — 10 percent of letters and 45 percent of flats — have already been achieved. New targets have been set to build on this success.

Optimizing delivery point sequencing (DPS) for letters remains a top priority. Currently, 86 percent of letters are in DPS. The Postal Service's target is to be at 95 percent by 2010. A number of tools are in use to expand standardization. They include value stream mapping to maximize the amount of mail processed by automation, and integrated operating plans to reduce variability between tours and among plants. Data available from the mail history tracking system and IM barcode help target problems in areas such as mailing address, mail preparation, and equipment performance.

Increase Deliveries per Route

As automation has reduced manual work, delivery managers have reduced costs by matching workload to workhours, adjusting routes accordingly, and following a rigorous standardization of best practices. Delivery routes are established to provide optimal customer service based on average mail volumes. A new delivery staffing model is helping managers adjust resources to match workload to ensure efficient and consistent service. Future efforts will center on further integrating workload data to increase the model's effectiveness in projecting resource needs.

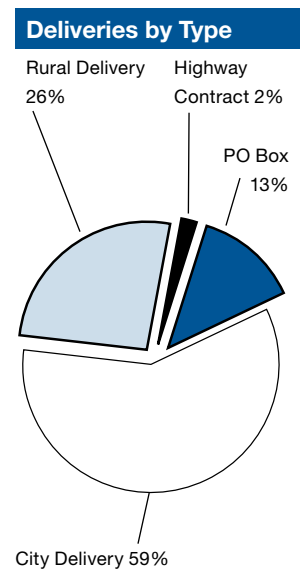
The use of two additional management tools will also be expanded. Carrier Optimal Routing configures delivery routes in efficient and contiguous patterns, eliminating unnecessary drive-time and cost. The Growth Management Tool helps managers design more efficient and appropriate delivery solutions when planning for the addition of new homes or other developments.

Optimize Retail Resources

Standards are established for retail operations to provide a consistent level of quality and customer service at all Post Offices. The Postal Service uses a variety of tools to accomplish this. Retail service plans are developed for each postal district, using the Automated Workload Planning System to identify workload and the resources necessary. Increasingly, to optimize resources, managers are aided by robust new scheduling tools, including the Customer Service Variance report and Customer Service Staffing Opportunity model. Both were deployed in 2007 to help managers align staffing to changes in customer demand.

Focus on Continuous Improvement

The breakthrough productivity initiative (BPI) has helped drive productivity gains throughout the Postal Service. Higher performing operations will continue to be standardized and serve as best-practice models. Value stream mapping is being used to eliminate steps that reduce efficiency and impede service. Increasingly, Lean Six Sigma tools will help apply a consistent approach to problem solving, starting with equipment and process standardization in plants. New field operational industrial engineers



will play a key role to expand standardization in large plants. Over 300 field engineering positions will be filled in 2008.

A new mail processing staffing model is helping improve staffing efficiency by analyzing data from work hours, overtime, leave, and the equivalent staffing opportunities associated with processing operations. It allows managers to better respond to workload fluctuations, ensuring a better alignment of resources to mail volume, and ultimately saving work hours. Another newly-designed program analyzes productivity by comparing performance against targeted expectations.

To help evaluate the day-to-day effectiveness of processing equipment, a new forecasting and scheduling model was developed to compare plan and actual production data. The information supports continuous improvement by targeting opportunities to increase processing efficiency, equipment utilization, and reduce variation.

Processes for standardizing maintenance are being developed. At select facilities, remote video maintenance support will be expanded to shorten repair cycle times, reduce maintenance costs, and improve readiness. reliability-centered maintenance (RCM) plays a critical role in preventive maintenance of processing equipment and deployments. RCM analysis will

be performed on the FSS in 2008 to ensure equipment optimization.



This carrier is holding all the letters she had to sort for the day. Most letter mail is automatically sorted in the carriers' line of travel, or delivery point sequence.

Value-added management processes will continue to increase equipment output and improve productivity and performance. Management innovations come from both field and Headquarters sources. The mail history tracking system, developed by field managers, reduces the risk of missorted mail. The tray consolidation initiative, designed at Headquarters, improves the density of trays and standardizes and consolidates sort plans and mail flows.

3. Standardize the Use of Actionable Data

New tools are now giving managers unprecedented visibility across postal operations. Making the best use of these data and ensuring that information is actionable are essential to success. Increasing amounts of information about individual mailpieces will help pinpoint problems at the source and speed corrective action. Exception reports consolidate information and isolate major opportunities. For example, *mail piece at-risk indicators* are helping identify mail that is missorted or incorrectly “kicked out” of the

automated mailstream. This mail requires additional handling, adding cost and sometimes contributing to delay.

The *24-Hour Clock* indicators will continue to direct attention to opportunities to integrate consistency across operations. The indicators help identify where improvements are needed, from collection, through all steps in processing and transportation, to delivery. Surface Visibility continues to improve insight into mail dispatch and transportation. Information about a mailing is recorded as it first arrives at a facility, and containers are then tracked from one step to the next. Scan data is integrated with the Facility Access and Shipment Tracking appointment system to support real-time decisions on the dock. Having these data available in advance provides opportunities for more effective scheduling.

Expanded use of actionable data goes well beyond operations. Efforts to improve consistency and reduce redundancy across information systems will provide opportunities for efficiencies in other functions as well.

4. Manage Complement to Assure Flexibility and Efficiency

Improve Workforce Availability

Improving workforce flexibility is becoming increasingly important as changes in mail volume dictate adjustments to operations. Each day unplanned absences result in inefficient performance and higher-than-necessary overtime. More effective and appropriate use of part-time and temporary employees, supported by the new labor contracts, will help improve workforce availability. Reports that track complement and complement correlation trends will be used to evaluate the success of current staffing with business processes. The incremental complement management tool will help managers make beneficial staffing and overtime decisions by day of the week and by operation.

The National Reassessment Process is a key initiative to find appropriate and productive assignments for employees who experienced on-the-job injuries and are covered under the Workers Compensation program. The process helps evaluators re-examine the status of employees listed in rehabilitation and limited duty assignments, ensuring that every evaluated employee has the opportunity to return to work where appropriate.

5. Optimize Equipment Utilization and Performance

The Postal Service continually optimizes the use and performance of processing and other equipment. The Advanced Facer Cancellation System (AFCS) 200 is planned to begin replacing aging AFCS equipment with new technology in 2010. AFCS, a central component of letter cancellation,

is used to face letters, cancel stamps, lift mailpiece images, read facing identification marks, and sort mail for downstream processing. The AFCS 200 includes new cameras with better image lifting capabilities, an IM barcode printer, and additional stackers. It has a higher throughput and lower maintenance costs than existing equipment and will further reduce manual handlings.

The distribution quality improvement (DQI) program finalizes letter mail to the finest depth of sort while increasing recognition for handwritten and machine-printed addresses that the remote computer reader equipment cannot otherwise finalize. Higher accept rates result in fewer images being sent to remote encoding centers, improving service and lowering costs. Additional deployments of new technology on DQI are expected in 2008.

Ongoing efforts continue to develop improved letter automation equipment. A new version of the Delivery Barcode Sorter (DBCS), called the DBCS-7, will be field tested in late 2008 with production deployment possible in 2011. This enhanced version is expected to increase operational throughput by 30 percent over the current DBCS.

Current deployment of the Postal Automated Redirection System (PARS) for letters is complete. This system identifies and redirects forwardable mail during processing operations, reducing the time it takes mail to be delivered to the new address. Future plans include development and deployment of PARS to forward flat mail starting in 2009. In addition to reducing processing, transportation, and delivery costs, PARS will reduce forwarding time, increase efficiency, and improve customer satisfaction for flats as it has done with letters.

The Postal Service continues to develop new methods to improve material handling efficiency. A new generation of high-speed tray sorters is being deployed to automate tray sortation at large plants and transportation hubs. The Postal Service has also developed specialized de-palletizing equipment for trays to be deployed in conjunction with high-speed tray sorters. New equipment also under development will automate sorting of large, bulky items. Integrated Dispatch and Receipt (IDR) systems combine equipment for dispatching and receiving operations with integrated tray transport systems to reduce handlings. Deployment of IDR systems to over 200 plants was completed in 2007 with additional deployments currently in development.

A new parcel and bundle sorter is being developed called the Postal Package Processing System. These planned systems would automate the processing of more packages and bundles as well as serve as a replacement for existing Small Parcel and Bundle Sorters reaching the

end of their technological life. These new systems will have a variety of configurations that will custom-fit to different size sites. Benefits from these new systems could begin as early as 2009.

The Powered Industrial Vehicle Management System (PIVMS) enables safe and efficient management of power industrial vehicles, such as forklifts. Facilities using PIVMS have successfully reduced equipment and maintenance costs. The primary focus is to replicate success in these locations and continue deployment to new sites.

The number and variety of Mail Transport Equipment continues to be reduced to standardize operations, lower replacement costs, improve equipment availability, and tighten inventory control. The Postal Service will continue to explore additional standardization of sacks, trays, and air transport containers.

6. Automate Flats Sequencing

Delivery point sequencing (DPS) of letter mail started in 1993. Prior to DPS, carriers were required to manually “case”, or sort letters and flat mail in delivery order. Today 86 percent of letters are sequenced using automation equipment. The two major components impacting delivery costs involve in-office operations and street delivery. Sequencing both letters and flats provides a platform for maximizing efficiencies in both of these functions and sets the stage for the elimination of other fixed costs such as delivery unit space and the number of delivery vehicles. The next step is to replicate the letter automation program by automating the sequencing of flat mail with deployment of the Flats Sequencing System (FSS). Flat mail volume exceeded 52 billion pieces in 2007 and represents about one-quarter of the total volume.

Pre-production Flats Sequencing System (FSS)

The FSS will sort flats into delivery sequence at high speeds and at a much higher productivity than today’s manual process. Prior to roll-out of the production systems, a pre-production FSS has been installed. This integrated end-to-end system consists of several major components. Combined, these various components can sequence flat mail at 16,500 pieces per hour. The FSS is equipped with a self-contained staging and material handling system. At the end of pass-one sorting an automatic sweep occurs and all trays are returned to the feed area in correct order for immediate pass-two sequencing. At the end of the run, mail is automatically swept, placed into street trays, and discharged onto mail transport equipment that will be dispatched to the dock, and ultimately loaded onto trucks destined for delivery units.

This one-year pre-production operation provides time to work through the technology changes, processes, and human impacts associated with this new system. Working with this machine will allow testing of the technology, further development of processes and methods, and valuable operating experience. The knowledge gained will go into the production phase. The production phase of 100 FSS machines will begin October of 2008 and deployment is expected to take about two years.

Changes to Flat Mail Design, Preparation, and Entry

The Postal Service provides customers incentives to integrate mailer production techniques with postal processing to improve overall operating efficiency. Affordability and quality service are key to fostering growth in the mailing industry. The Postal Service is committed to continue to work closely with the mailing industry on initiatives regarding flat mail to reduce handlings.

As the Postal Service works with commercial mailers to reduce the total cost of flat mail, several collaborative strategies will be pursued. New standards will require optimal addressing and the use of an IM barcode or 11-digit POSTNET barcode on automation-rate flats. Bundling and containerization requirements for flats will be developed to align with the new flats sequencing environment. Technology solutions and mail make-up modifications will continue to be explored and feasible concepts will be tested during the pre-production and early phases of the production operation. Matching mail preparation requirements to processing needs and structuring rates to support sortation and handling will benefit the Postal Service and the mailing industry toward achieving lowest combined costs.



FSS will eliminate the need to manually sort and sequence flat shaped mail using carrier cases such as this.

Plan Future FSS Phases

Planning for future phases of FSS is underway. Full implementation could require up to 400 systems. Space planning activities, primarily examining existing space, are in progress and considerations for flats sequencing technology with lessened capacity

requirements and a smaller footprint needs to be considered to enable a full-up flats environment. In addition to the savings expected with FSS, the program is helping to shape a path to other related benefits. Delivery vehicle stowage and retrieval systems are under consideration for vehicles servicing FSS sites. These new units are designed to provide ergonomic solutions and tools for loading, organizing, conveyance, and presentation of mail to the

carrier. Testing is in progress and final design for deployment is expected in 2008.

7. Evolve to an Efficient, Customer-Focused Network

The costs of excess capacity in processing and transportation undermine the Postal Service's ability to deliver efficient and cost-competitive services. Continuing developments in technology, fluctuations in mail volume, and changes in mail preparation and deposit require ongoing network adjustment. The Postal Service will continue to modify its network, as it has for the last 30 years, and will explore alternatives concurrent with new requirements associated with changes in service standards.

A new concept, in the initial evaluation stage, would create a time-definite surface network to support the distribution and transportation of Standard Mail, Periodicals, and Package Services mail. The Postal Service is conducting research to better understand industry best practices and capabilities for such a network. The concept includes consideration of options to revitalize the Bulk Mail Center network to keep it efficient, affordable, and responsive to evolving needs.

The consolidation of operations improves productivity, increases mail density in containers, and achieves better utilization of processing equipment and transportation capacity. Local offices will continue to review operations for Area Mail Processing opportunities. Airport Mail Centers (AMCs) are usually located on expensive airport property. This year, some of the non-core operations such as mail assignment were transferred from AMCs to processing plants. This year over 40 air-stops with commercial air and cargo suppliers were standardized with additional AMCs to be standardized in 2008. Advanced technology will continue to change the infrastructure of facilities, such as the consolidation of remote encoding centers and centralized forwarding sites.

Ease International Regulated Transportation Rates

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

Improve the Purchase, Repair, and Disposition of Facilities

Significant improvements to all facilities policies and procedures in coordination with standardization in processes will positively impact the construction, repair, and purchase of facilities. The new Facility Condition Assessment program will reduce repair costs through more focused, routine, and standardized building assessments that identify small problems before they become more costly.

A new and streamlined facility prioritization process using operational data and weighted by factors relevant to today's business strategy will establish a national ranking of projects for matching against available funding. In 2007, the Postal Service completed multiple revenue-producing real estate transactions with more future opportunities identified.

Modified building design standards using industry best practices are on target to reduce construction costs by 25 percent for major facilities, and 10 percent on smaller customer service facilities from the 2005 baseline. A new workroom space standard, based on new equipment implementation, will support significant cost avoidance on new customer service facility projects. Cost savings have already been realized in the new Oklahoma City major facility and in all new customer service construction projects started in 2007.

Submit Reports to Congress on Network and Workforce Changes

As required by the new law, the Postal Service in June 2008 will submit to Congress its initial plan to meet service standards, including any network changes required. It must also submit an annual plan each December. These plans will describe the changes to be made in the processing, transportation, delivery, and retail networks to allow the Postal Service to meet performance goals.

8. Optimize Mailer Preparation

The Postal Service will continue to work closely with MTAC, PCCs, the Mail Technology Strategy Council and at the National Postal Forum and other mailing industry venues to optimize mailer preparation requirements. The goal is to improve service quality and reliability, while increasing efficiency and achieving lowest combined cost.

Standardize Critical Entry Times by Class and Location

The Postal Service establishes critical entry times for facilities based on its ability to process the mail to meet service standards. Local postal facilities will continue to review and determine critical entry times for First-Class Mail and Periodicals by location. Establishing national standardized entry times

for Standard Mail is under consideration. Managers will continue to work with mailers to use the Facility Access and Shipment Tracking system to schedule appointments at times that meet their needs but recognize local facility capacities. Realistically, all mail cannot be adequately processed if every mailer arrives at the same time.

Explore Additional Preparation Options to Increase Container Densities

As the Postal Service moves toward flat sequencing, there is an increased value in providing an option for flat mailers to prepare mailings with mixed classes (Periodicals and Standard Mail) through co-mailing and co-palletization. A pilot of this initiative involving several interested customers is underway. Combining mailings with pieces of the same shape but across classes can further reduce the number of bundles and containers within the mailings and improve presort and drop ship penetration. The Postal Service will continue to take steps to reduce the use of sacks and evaluate the economies of using alternate containerization.

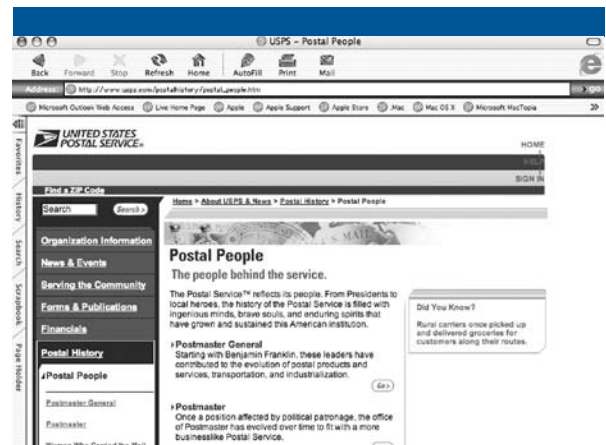
To maximize the transportation and sortation capacity by helping to reduce the number of partially filled trays, the Postal Service in 2007 offered a reduced-overflow tray option on First-Class Mail for automation letters. High-density trays reduce air transportation and handling cost significantly. Related cost reduction efforts include increasing use of pallets, improving container labeling and tracking, and working with mailers to ensure that customer sorting requirements (e.g., labeling lists) are frequently updated.

9. Streamline Business Processes

In addition to operations, all postal support functions are examining their activities to streamline processes and eliminate non-critical expenses. Major areas of focus include expanding supply chain management (SCM), standardizing information technology, using shared services to centralize accounting and personnel transactions, and consolidating legal support.

Maximize Supply Chain Management Opportunities

Supplier-related costs account for almost 20 percent of postal operating expenses, so the performance of key suppliers has a direct bearing on postal financial performance. The Postal Service continues to expand SCM to eliminate waste, improve quality, and reduce cycle time. New e-business solutions,



PostalPEOPLE allows employees to manage their benefits from almost anywhere, at any time – online or by phone.

such as automated invoicing and electronic solicitation, are targeted for broader implementation to improve standardization and drive down costs. In 2008 a supplier relationship management tool will be deployed to improve supplier performance and collaboration. Among other functions, the software automates subcontract reporting.

The Postal Service is exploring ways to realize efficiencies by developing an integrated and standardized approach to managing postal assets. Potential integration opportunities include consolidated warehousing and distribution networks and standardized processes for inventory management, material handling, order processing, packaging, parts and service support, and asset recovery. Possible technology options are also being evaluated to reduce the number of legacy systems and increase the visibility and control over assets.

The Postal Service will continue to identify and leverage supplier capabilities, including the innovative capabilities of small, minority-, and women-owned businesses. Commodity strategies for supplies, services, transportation, equipment, and facilities will target new cost savings, and industry benchmarks will be used to assess and improve cost performance against leading supply chain management companies.

Standardize and Consolidate Information Technology

Additional opportunities remain to further standardize and consolidate postal information technology. Computer and peripheral standardization is continuing through the refresh of the Advance Computing Environment II (ACE II) rollout that will take place during 2008-2010. Printer standardization has reduced the types of standard printers from 350 to 50, eliminating many stand-alone printers and cutting demand for supplies.

The Postal Service also entered into a contract that will reduce telecommunications costs by up to 10 percent by auditing invoices, analyzing usage, and providing greater management oversight. New procedures and validation techniques will help ensure that corporate data is protected from unauthorized changes and access. Implementation of encryption for applications containing sensitive data will further enhance data security. In 2008, the Postal Service will pilot authentication for all external development and maintenance access as well as a fully-operational disaster recovery capability for all IT infrastructure and application components.

Enhance and Expand Shared Services

The Postal Service will continue to take advantage of enterprise-wide shared services. Shared services centralizes transactions previously

performed by multiple functions, producing economies of scale and improving service quality and consistency. *PostalPEOPLE*, part of Human Resources Shared Services, automates most traditional personnel tasks. Besides eliminating redundant activities, *PostalPEOPLE* allows employees to manage their benefits from anywhere, at any time. Employees are able to change tax withholding, add beneficiaries to life insurance, increase their Thrift Saving Plan contributions, and perform many other functions online or by phone. Enhancements planned for 2008 include an improved process for posting and filling vacancies.

The Postal Service's legal department has already centralized the processing of appellate, complex, and personal injury litigation, as well as facilities, transportation, and many advice functions. Consideration is underway to centralize revenue collection efforts.

Increase Efficiency – Summary of Priorities

- Reduce delivery costs by standardizing best practices, maximizing DPS, and absorbing new delivery growth.
- Begin national FSS roll-out. Leverage experience from initial locations to refine support processes and mail design, preparation, and entry.
- Expand the use of workload data to optimize employee scheduling and availability.
- Expand standardization to optimize equipment, simplify mail flows, reduce manual handlings, and increase container density.
- Maximize use of service-responsive ground transportation. Ensure transportation reliability and consistency with performance-based transportation contracts.
- Continue ongoing adjustments and innovation to achieve a more efficient network focused on meeting customer needs and new service standard requirements.
- Streamline and consolidate business processes to reduce costs while improving quality and minimizing risk.
- Begin to manage costs by mail class, developing systems and processes built on the foundation of Intelligent Mail. Use class-level cost data to improve product profitability while optimizing system-wide processes and capital investments.

INCREASE EFFICIENCY

***Strategic Transformation Plan
2007 Update***

III. IMPROVE SERVICE

Service is the heart of the Postal Service brand and the key to increasing competitiveness and profitability. Evolving customer needs, shaped by the Internet and a new generation of customers, are redefining expectations for service and convenience. Continuous service improvement, aligned to customer needs, is essential for all products, services, and channels.

Service improvement strategies are concentrated in two broad areas — the quality and consistency of service provided at all customer contact points and the speed and reliability of end-to-end mail delivery across all product lines. Although the requirement exists only for market dominant products (or mailing services), service standards for *all* products will continue to be refined to address changing customer needs. In the near future, the Postal Regulatory Commission will issue its decision on the Postal Service's proposal on the process and systems to measure service performance. The proposal relies primarily on the use of Intelligent Mail.

1. Improve the Customer Experience across all Channels

Postal customers define quality as reliable, courteous, and responsive service. They expect quality service whether they come to a Post Office, initiate contact by phone or the Internet, or ask their carrier about a service. Opportunities to enhance service exist at all contact points and the Postal Service will accelerate efforts to provide a level of service that exceeds customer expectations.

To stay abreast of changing customer expectations, the Postal Service is benchmarking best practices to redesign processes that customers use to request information, obtain service, register concerns, and provide feedback. New systems will collect more timely data closer to the point of customer contact and track postal response and follow-up. New customer satisfaction data will be actionable and bring heightened management accountability. The Customer Satisfaction Measurement (CSM) survey has long been employed to track service from the customer's perspective. CSM design improvements will enhance its usefulness by making data more focused, timely, and actionable. CSM data is already bringing new insight to service improvement strategies. For example, it has helped confirm that customers are noticing improvements from the Postal Automated Redirection System (used to forward mail), expanded Post Office business hours, and self-service kiosks. CSM data has also guided management action to address issues such as misdelivered mail and waiting time at the Post Office.

When obtaining information, requesting service, or attempting to resolve service issues, customers expect to receive a quick, accurate response. CSM data related to the quality and ease of obtaining information are showing significant gains. This is a reflection of improvements to the speed and consistency of postal information services. For example, the Postal Service recently redesigned its phone and online interfaces making it easier for customers to complete transactions at their first contact. Soon postal

customers will also be able to request services and register complaints online. Besides offering more choice, logging contacts electronically is expected to help the Postal Service ensure more timely responses.

Restructuring the Business Service Network (BSN) is also improving customer satisfaction among large-volume mailers. The BSN serves as a critical liaison with large commercial customers, primarily to help resolve service issues. BSN representatives are assigned a specific set of customers and trained to understand those customers' unique business needs. This restructuring of BSN responsibilities gives business customers a single point of contact.

Delivery and Pickup Services

Mail provides a vital, daily connection between American businesses and households, and the Postal Service's 290,000 carriers make that connection a reality. Carriers are the only service providers who make house calls six days per week. Efforts to improve delivery service are focused on ensuring consistent delivery times, eliminating misdelivered mail, and making more customers aware of free carrier pickup services.



Specific data-driven strategies are reducing the incidence of misdelivery and improving delivery-time consistency. For example, data from Mail History Tracking System reports alert delivery managers to missorted mail, first identified in the processing system. When the mail arrives at the delivery unit, carriers are alerted to manually correct sorting errors in advance of delivery. Automated equipment and software are being upgraded to recognize and correct missorted mail in process. Automating delivery point sequencing of mail also drives delivery time consistency.

One aspect of customer service is convenience. There is nothing more convenient than leaving letters and prepaid packages for the carrier to pick up. This provides customers the ability to do all the business of mailing without leaving their homes or offices. The Postal Service will continue to make customers aware of this free service and will explore additional options to add customer convenience.

Continue to Enhance Customer Access

Even without counting pickup services, customers now have more ways and places to do business with the Postal Service than ever before. Mailing has never been as quick, easy, or convenient. Business hours at many Post Offices have been expanded to include evenings and Saturdays. Stamps are

now sold at more than 51,000 supermarkets, drug stores, and convenience stores. The Postal Service will continue to improve service quality and consistency at Post Offices, while simultaneously reaching out to customers where they live, work, and shop.

Many customers are still unaware that they can perform most of their postal business online. The Postal Service will continue to raise awareness of the many choices available. At *usps.com*, customers can buy postage (and choose from a wider variety of stamps than are available at most Post Offices), look up ZIP Codes or verify addresses, submit a change of address, or learn about direct mail and other business services. Since November, customers may also search online for Post Office boxes available to rent in their area.

Many still find it most convenient to mail from their neighborhood Post Office. To improve their experience, the Postal Service will continue to enhance the quality and consistency of product information, the availability of forms and supplies, and the scheduling of employees to better match customer demand. Retail transaction data are being used to better match Post Office services, hours of operation, and staffing schedules with local customer needs. Mystery Shopper surveys will continue to be used to ensure that service meets customer expectations. The surveys focus on waiting time, mail acceptance procedures, employee product knowledge, product information and displays, and facility conditions.

Technology continues to offer new ways to meet customer needs. The Automated Postal Center (APC) offers a customer-friendly self-service option and is frequently available after hours and on weekends. APCs are handling about 20 percent of possible transactions at APC sites. The Postal Service is exploring how to better integrate the self-service APC with the full-service retail counter, and is drawing from other retailer's experience by examining a variety of assisted-checkout technologies. The Postal Service is also evaluating strategic partnership opportunities for kiosks capable of printing on-demand postage, dispensing other postal products, and providing complementary government services.

2. Provide Reliable, Predictable Service for All Products

Revise Service Standards for Mailing Services

The *Strategic Transformation Plan 2006 – 2010* included a commitment to measure service performance for all classes of mail. That process began this year with revisions to standards for all mailing services, and included ongoing consultation with the PRC.

Customer needs and preferences were the starting point. The Postal Service used a combination of methods to reach out to customers. It consulted

with MTAC, analyzed CSM information, and conducted a special consumer and business survey. Postal representatives met with and solicited mailers' comments at the Postal Service/Postal Regulatory Commission Summit and the National Postal Forum. Comments received by the PRC at public hearings also were reviewed. The Postal Service also solicited input from its unions and management associations. The main theme that emerged from this extensive outreach was that customers want standards that are reliable, consistent, realistic, and attainable. There was broad support for a low-cost approach to service measurement that provides performance data that is actionable for mailers and the Postal Service.

Service standards that meet that goal were created by aligning standards with today's operational and logistical realities. Creation of new business rules that define how mail should move through the network was a key step. For example, business rules for products using surface transportation, such as Periodicals, Standard Mail, and Package Services, allow for shared transportation to keep costs down. To evaluate network capability and track how mail flows through its network, the Postal Service used data from EXFC (which measures single-piece First-Class service performance), the Product Tracking System, internal diagnostic data, and data provided by mailers. Extensive computer modeling was used to determine how best to match customer expectations with network capabilities and to map standardized mail flows. Computer programs using actual travel times between specific facilities helped calculate days-to-deliver for every possible 3-digit ZIP Code pair for each class of mail. By aligning the proposed standards with operational capabilities, the Postal Service can provide reliable, consistent service, and fulfill the service expectations of both senders and recipients.

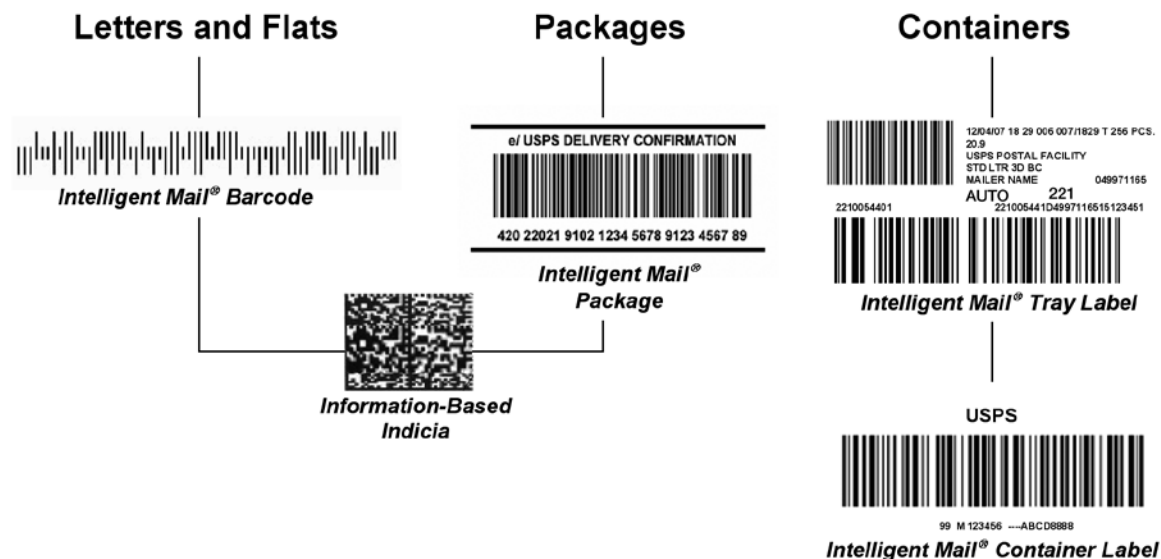
The new standards will give customers clearer expectations about the services offered. They maintain the policy of requiring the same service level for each mail class, regardless of mailpiece shape. The standards integrate destination-entry with end-to-end standards to produce a more accurate and complete expectation of delivery time for all mailers.

New service standards were also developed for Special Services. The Postal Service offers two categories of Special Services: ancillary and stand-alone. Ancillary Special Services are additional services purchased for a fee in addition to postage. A principal feature is usually the electronic provision of information on the status of a particular mailpiece. It may consist of confirmation that delivery was attempted or completed, a copy of the recipient's signature, or address correction. Service standards include an objective expectation of availability of information for these ancillary special services products. Stand-alone Special Services, such as PO Box delivery and Insurance claims processing, will also have standards and be measured. Final standards were published in December 2007. Because mailing practices and processing technology will continue to evolve, the standards will be reviewed periodically.

Maximize Passive Scanning and Intelligent Mail to Measure Service

The Postal Service plans to use a combination of external and internal methods to develop service measurement data. The measurement system as proposed to the PRC, will expand the EXFC measurement system to virtually all 3-digit areas and incorporate Intelligent Mail-based data with the data from the EXFC measurement system and the Product Tracking System. This hybrid approach will evolve as Intelligent Mail adoption increases. The Postal Service will develop and test the service measurement system in 2008 and make it operational in 2009. The combination of improved technology and increased use of electronic documentation and Intelligent Mail barcodes by customers will make the measurement system very robust.

The ability to scan Intelligent Mail barcodes on letter processing equipment is already in place. Passive scanning on flat automation is near completion. With a final upgrade to the Flat Sorting Machine 1000 in early 2008, the passive scanning of letters, cards, and flats will be in place throughout the postal automation network. For Package Services, Delivery Confirmation and Signature Confirmation service scans will “start-the-clock” at retail and other entry points and “stop-the-clock” at delivery. New handheld scanners to support scanning were fully deployed in 2007. Enhanced software is being developed to enable additional scanning features required by service measurement. These software updates will be in place in the spring of 2008.



Intelligent Mail integrates scans from multiple barcodes to track the flow of letters, flats, packages, and containers throughout the mailstream.

Performance measurement will bring unprecedented visibility and enable not only service measurement and improvement, but also improvements in mail quality and operational efficiency. Service reporting will enhance the value of mail and allow customers to continue to make informed choices regarding the desired service level.

Reduce Service Variability

This year service variability has improved greatly for single-piece First-Class Mail. The Postal Service's goals require continuous improvement to reduce service variability. The performance measurement systems, internal seeding of mail, other tracking systems like the *24-Hour Clock* and *Mail Pieces at Risk* indicators, and Surface Visibility transportation data, will provide increasing amounts of detailed data about mail and operations. That data, matched against the network model developed for service standards, will enable more sophisticated, real-time analysis of service performance and a quicker response to resolve service issues, and reduce service variability. Additional tools such as value stream mapping and Lean Six Sigma will be used to improve the standard operating procedures, color coding policies, reporting systems, and other management tools necessary to support expanded service measurement.

Submit Plan to Meet New Goals

The Postal Service must submit to Congress by June 2008 a plan for rationalizing and implementing changes to its infrastructure and workforce to meet the new service standards. The plan will include performance goals and describe any changes to Postal Service processing, transportation, delivery, and retail networks necessary to meet the performance goals.



Real-time information is helping identify and resolve service issues during processing, reducing variability and improving performance

Service performance goals will reflect product features, a balance of customer needs for timely delivery, and the capabilities of the postal network with a focus on reliable and consistent service. Many partners in the value chain affect service. Therefore, the plan will also identify needed improvement in mail design, production, and transportation before mail even arrives at a postal facility.

To meet the requirements for annual compliance reporting, the Postal Service will provide service data currently available for single-piece First-Class Mail, as well as for retail Package Services in the *Annual Compliance Report*. In 2009, new service measurement systems will be operational with scores reported quarterly.

Adjust Shipping Services Performance to Meet Market Requirements

The Postal Service plans to develop market-based benchmarks for shipping services products. Those benchmarks will be used to adjust service offerings and pricing strategies to meet customer expectations and the needs of the marketplace. For some products, opportunities exist to change current operations and transportation. Other adjustments will include bundling features and services to improve customer convenience and reduce transaction and other costs. Performance data gathered from shipping services will enable further improvements in service, mail quality, and operational efficiency. It will also enable the ability to provide track and trace information. New features will enhance the value of shipping services and allow customers to continue to make informed choices.

3. Cut Undeliverable-as-Addressed Mail Costs in Half

Estimates of the amount of mail that is undeliverable-as-addressed (UAA) are in the billions of pieces, resulting in well over \$1 billion in postal costs each year and enormous waste and unnecessary expense for mailers. Addresses that are incomplete or out of date affect service as well as costs. Even when incorrectly addressed mail can be delivered, it is commonly delayed and re-routed multiple times.

The Postal Service's goal is to cut the 2004 cost of UAA mail in half by 2010. To achieve this goal, it is working with mailers to validate address information and improve the quality, accuracy, and timeliness of address lists. Best practices for maintaining correct addresses include using both pre-mailing tools like the National Change of Address (NCOA) software and post-mailing tools like the Address Change Service (ACS) software to verify move updates. As a result, customers are running and matching more address records and mail address quality is improving. In 2006, a real time electronic service was introduced that enabled mailers to update their address databases more frequently.

Intelligent Mail provides an electronic link that drives down the cost of the ACS processing. Convenience and lower costs are increasing use of ACS to update addresses. OneCode ACS for First-Class Mail and Periodicals allows mailers to update addresses for customers who have moved. OneCode ACS for Standard Mail was made available in October 2007.

Expand Internet Change of Address

The Postal Service goal is to increase the annual number of COAs submitted online from almost 7 million in 2007 to 12.5 million in 2010. Receiving COA information from movers electronically eliminates transcription errors and manual keying of COA data. It is usually more convenient for movers and can be linked to other move-related activities through Internet links. Most

importantly, electronic COA allows instantaneous address validation when a customer submits the COA, reducing the number of incorrect or incomplete addresses, thereby improving service. To improve the quality of address information, the Postal Service will continue to promote the Internet as the primary method for change of address.

Continue to Improve the Address Management Database

Traditionally, the Postal Service relied upon Address Management System (AMS) audits in delivery units to verify the AMS database accuracy. The audits validated that all addresses were in the database, that addressing included all the necessary elements and correct format, and that files contained no incorrect information. In 2007 the Postal Service began using an additional, fundamentally different approach for improving address database quality by using in-process scanning to identify addresses that receive mail but are not in the AMS database or cannot be sorted to a delivery point. Using the system reports, managers are better able to identify problem addresses and update AMS with the correct address information. Database quality was also improved by the deployment of the Address Quality Reporting Tool (AQRT). It evaluates individual delivery routes and PO Box sections, ranks them on address quality, DPS percentages, and other key statistics. Managers use AQRT reports to more effectively prioritize address quality reviews.

Another AMS enhancement will increase the amount of DPS mail destined to high-rise buildings. Previously it was often not possible to sequence mail to businesses in multi-unit buildings unless the address included the office suite number. A new application, SuiteLink, uses in-process scanning software to identify business names that appear on mail that cannot be sequenced. SuiteLink reports those names to delivery managers who can then enter them into AMS and link them with the correct DPS-level address. Beginning in August 2009 software developers will be required to certify SuiteLink and make it available to their end-users.

Improve Mail and List Quality with Real-Time Feedback

Several tools and products are available to mailers to correct addresses and barcodes, and update the addresses of customers who have moved. To improve address list quality, the Postal Service is upgrading Coding Accuracy Support System (CASS) certification requirements. CASS certification now includes the Delivery Point Validation process which matches addresses on a list to addresses within the AMS database. Customers can correct non-matching addresses using Address Element Correction software. Use of these tools dramatically improves automation performance, increases address quality, and reduces undeliverable-as-addressed mail. More frequent mailing list updates to correct the addresses

for customers who have moved is another step mailers must take to reduce undeliverable mail and the need for forwarding. New Move Update policies requiring mailers to update customer information within 95 days of mailing will be effective for First-Class Mail and Standard Mail in November 2008.

Once UAA mail is in the mail stream, new processes are available using the Intelligent Mail (IM) barcode, such as OneCode ACS, to provide feedback to mailers regarding their UAA mail so that addresses are corrected before the next mailing. Current innovative pricing for this electronic service encourages mailers to use the Address Correction Service to improve the quality of their mailings lists, resulting in more effective mailings and less UAA mail.

Mailers often acquire address lists and use them for mailings without a way to determine the deliverability of the names and addresses within the list. Using a list with outdated or poor-quality addresses reduces the value of a mailing and burdens the Postal Service with additional handling costs. In 2007 the mailing industry and the Postal Service began working together to implement a process to certify the quality of mailing lists. Although the procedures are not yet complete, they will shift the focus from processes to results. When implemented, list certification will take address quality to a new level. It will benefit the mailing industry by fostering a foundation of trust for list brokers and renters while improving mailers' return on their investment.

4. Aggressively Pursue Total Mail Visibility

With the introduction of Intelligent Mail (IM) barcodes for mailpieces and containers, the Postal Service and customers have taken the next critical step in automation. The new IM barcode contains triple the information of previous barcodes. The additional information provides a unique identification code for each mailpiece and container so that individual mailpieces can be tracked at all steps in the process — from creation by the mailer and deposit with the Postal Service, through various stages of transportation and processing, up to the point of delivery. This total mail visibility is a key to improving service, reducing costs, and adding value to mail.

For many businesses, information about the mail is as important as the mailpiece itself. The ability to track mail through the postal network supports applications that have become critical parts of how they use mail to manage communications with their customers. Businesses track when mailings are going to arrive in order to coordinate other marketing efforts or staff call centers. They track courtesy reply envelopes coming back from customers to know when orders are mailed and payments will be received.

The chart on the following page illustrates the six major steps in the value chain of a typical large commercial mailing. Total mail visibility will add important new value at each step.

Visibility Infrastructure

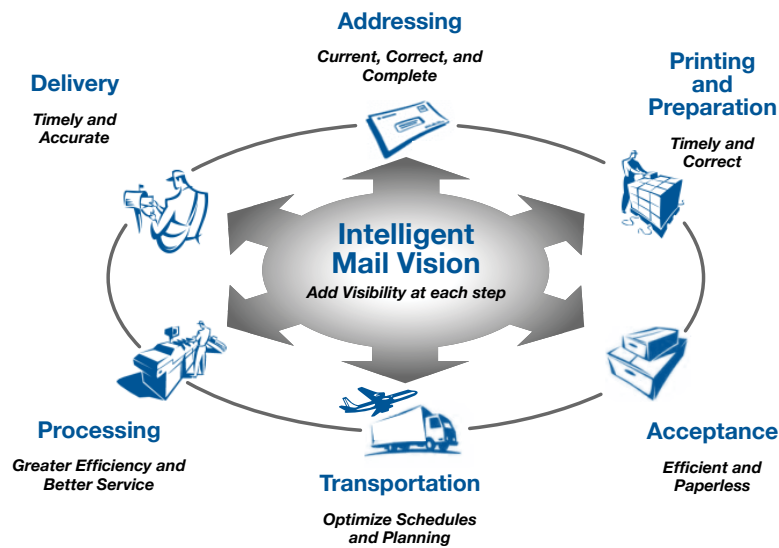
The conduit for transmitting operating and mail tracking data is a local area network backbone that connects all mail processing equipment. The upgrading of the local area network was completed ahead of schedule in 2007. In 2008, the passive scanning of letters, cards, and flats will be enabled throughout the postal automation network.

As with the progress on letter and flat mail visibility, the infrastructure to provide package visibility is also coming into place. Shipment Confirmation Acceptance Notice procedures were initiated in 2006 to provide “start the clock” scans and enhance visibility for carrier pickup mail. The Automated Postal Center, Click-N-Ship, and mailer applications were enhanced to use Intelligent Mail barcodes. Barcode scans provide “start the clock” data at retail and other entry points and “stop the clock” data upon delivery. Upgrades to Automated Package Processing Systems and Small Parcel and Bundle Sorter Systems enabled passive package scans. The process to transition to full package visibility is expected with the goal of having a barcode on every package.

Encourage Intelligent Mail Barcodes on Pieces and Containers Before 2009

Total mail visibility depends on IM barcodes applied not only to individual mailpieces but also to containers. Linking container and mailpiece barcodes enables tracking. Both mailers and postal managers can use a new Web-based system to produce IM container labels that provide routing information to identify each tray, sack, tub, or pallet. The labels track unit loads as they enter the postal system and throughout operations.

IM barcode usage is growing. Mailers can use IM barcodes to qualify for automation discounts and for IM services, including OneCode CONFIRM and OneCode ACS. By the end of 2007, there were IM barcodes on more than 530 million mailpieces and outreach with customers continues. More than 200 Postal Customer Councils have conducted IM workshops for more than 13,000 mailers. Simplified mail acceptance processes using IM barcodes and electronic documentation are being tested with First-Class Mail and Standard Mail customers. IM barcodes are giving mailers better data regarding addresses that are no longer current and barcodes that do not pass delivery point validation tests. This information allows mailers to clean up address files and barcode print quality. Pilot testing is providing information about what mailers must do to convert.



Addressing. Efforts to improve address quality will be enhanced with detailed feedback to mailers about out-of-date, incorrect, or incomplete addresses. Internal efforts have brought improvements to the AMS database. Tighter update requirements and systems tracking when address data is updated will bring these improvements to address lists.

Printing and Preparation. New containerization procedures and labels enable visibility and updated Intelligent Mail printing requirements will drive automation compatibility. PostalOne! documentation facilitates seamless acceptance and provides customers the status of mailings.

Acceptance. Mail acceptance is becoming streamlined, thanks to a seamless flow of information among customers, mail services providers, and the Postal Service. When mail is correctly prepared and documented, verification can be completed as mail is processed. Data on when mail first arrives at a postal facility will provide “start the clock” information for customer tracking and service measurement.

Transportation. Visibility tracks the movement of mail between operations and facilities whether in mailer or postal-provided transportation. FAST helps mailers identify the most appropriate entry points and schedule entry, and helps postal managers optimize resources. Embedded quality controls will reduce misdirected and misdelivered mail.

Processing. Better mail flow data will provide new ways to address quality problems and create new cost-saving opportunities. Data will enable broader service performance measurement. Mailers will be able to track their mail as it moves through the network, opening new opportunities to better serve their customers.

Delivery. Data at the point of delivery closes the loop. Data for parcels containing delivery and signature confirmation are captured at delivery; for letters, delivery is assumed on the day of DPS processing. Visibility systems will also enable processes to correct the many address and barcode quality issues that end up in delivery.

Testing conducted by the Postal Service and a contingent of flat mail printers answered many questions related to IM barcode printing specifications and the ability of high-speed ink-jet printers to meet them. Adjustments to the proposed print specifications resolved a number of issues and make it easier for mailers to convert. Technical discussions coming out of the testing are encouraging rapid industry conversion to IM barcodes. To ease the transition of mailers to encode and decode IM barcodes, the Postal Service has made encoder software available that supports multiple personal computer and mainframe platforms. For decoding, a barcode reader or software is required for conversion. Scanners have been provided to bulk mail entry units for data quality checks. In addition, an online solution is available at *ribbs.usps.gov* that can be used for manual, low volume barcode encoding and decoding.

Expand Use of Facility Access and Shipment Tracking System (FAST)

The Postal Service is requiring mailers to use the FAST system for making appointments and providing electronic mailing documentation. As mailer containers arrive at postal facilities, the container barcodes are scanned and the FAST system matches the incoming mail data to the mailers' electronic manifest. This enables accountability for contractors that print, prepare, and transport mail to the postal facility by identifying the type of mail and when it enters the postal network.

Complete Phase I Surface Visibility

In 2006, the Surface Visibility system began using barcode technology to track mail through the processing and transportation network. This system was originally designed to improve the Postal Service transportation network but was expanded to also provide information to mailers, making the entire value chain more transparent. Surface Visibility data enhances the management of transportation contractors and provides comprehensive data for network management. Currently activated in 171 plants, Surface Visibility tracks the quantities and movement of mail between operations and destinations whether transportation is supplied by mailers or the Postal Service. Trucks and containers traveling between postal facilities are scanned and tracked from one step to the next. Quality controls embedded in the systems reduce misdirected and misdelivered mail, thereby improving service. A potential Phase II will expand Surface Visibility scanning to additional plants.

Visibility in Delivery Operations

Delivery data closes the loop on visibility, providing confirmation or proof of delivery. Giving mailers timely feedback on the ultimate delivery of a mailpiece is key to gaining insight into service. Much of the visibility process is already in place in delivery operations. Individual mailpieces will already

have been linked with containers at the plant. Scanning mailing manifests will identify that drop-shipped mail has been accepted at the delivery unit. Carrier scans at the point of delivery will confirm delivery of Express Mail, mail with Delivery Confirmation or Signature Confirmation, and accountable items such as Registered Mail. To measure service performance for saturation mail and for Periodicals, carriers may have additional scanning requirements.

Improve Information Exchange with Customers

Intelligent Mail will provide the Postal Service with high-value data for working with customers to improve service. As mailing scans occur, customer reports are available in near-real time. Acceptance data will compare entry and preparation data with postage paid, identify addressing and barcode quality issues, and provide mailers with specific feedback. Tracking data are processed and compiled for tracking systems and end-user applications such as CONFIRM, which allow mailers to receive the visibility data.

As information exchange and service tracking capabilities mature, the Postal Service and its customers will both benefit. Receiving mailing information from customers earlier in the process will enable better postal scheduling of transportation, equipment, and complement, leading to improvements in service and efficiency. Mailers in turn will be able to obtain new information about the quality of their mail that will enhance their ability to manage suppliers, communicate with their customers, and improve their operations.

5. Ensure Security, Privacy, and Trust

The Postal Service continues ongoing efforts to ensure the security of mail, the privacy of its customers, and the trust of the American public. In 2007, it was again recognized in the *Privacy Trust Study of the U.S. Government* as the agency most trusted by Americans to protect their information. The study was conducted by the Ponemon Institute, which is dedicated to responsible information and privacy management in business and government. The mail remains a safe, trusted, vital communications medium providing services Americans appreciate.

To avoid security breaches, the Postal Service continues to apply a number of controls over its computer equipment and data systems. Encryption is incorporated on workstations and portable devices with sensitive data. The controls also require a review of all persons who have access to sensitive data and the type of access they have. New policies place controls on personal information resources brought into postal facilities and prohibit use of non-postal devices to access the Postal Service intranet or to store Postal Service information. Guidelines were issued encouraging managers to limit the assignment of laptop computers to employees.

Improve Service — Summary of Priorities

- Complete the design and implement a new, hybrid service performance measurement system for all mailing services. Pilot and refine the system to begin external reporting in 2009.
- Communicate revised service standards to establish clear expectations and accountability. Update processes to meet those new expectations. Drive continuous improvement in service by using data to pinpoint opportunities and reduce variability.
- Continue progress toward Total Mail Visibility. Speed customer adoption of IM barcodes and electronic documentation. Maximize scan rates and improve the availability and use of data.
- Work with the mailing industry to develop more accurate, up-to-date mailing lists. Reduce undeliverable-as-addressed mail by ensuring that addresses are current, correct, and complete.
- Provide a convenient, high-quality customer experience at all points of service.
- Continue to earn the customers' complete trust in the safety and security of the mail.

IV. CUSTOMER-FOCUSED CULTURE

The Postal Service will continue to create a more customer-focused culture — employees with the right skills and behaviors for today's customer-centric environment. The Postal Service will continue to align the workforce with changing customer needs, new technologies, and emerging markets. Major strategies include attracting and retaining talent, engaging employees to provide outstanding service, and increasing accountability and recognition through performance-based management.

Success under these strategies will depend on the efforts of the nearly 800,000 career and temporary employees of the Postal Service. The new law changes many things, but not our employees' focus — delivering affordable universal service and creating new growth. The Postal Service will continue to clearly communicate expectations, reinforce performance, and eliminate workplace distractions. The rules of the business have changed and the workforce must be positioned to win. Employees will be guided to achieve optimum results through training and leadership development. Performance will be recognized and rewarded in direct relation to the outcomes necessary for success in the Postal Service's new business environment.

To meet customer expectations and advances in technology, employee roles will continue to evolve. Employees will be assessed for skills and competencies that fit organizational needs and advance the Postal Service's strategic direction. Workforce planning will be optimized by placing the right mix of employees, in the right location, at the right time. The commitment to being an employer of choice means a continuous effort to strive for trust, integrity, and valued employee contributions in a performance-driven environment.

1. Attract and Retain Talent

The Postal Service will continue to focus on its talent pool by developing employee strengths, identifying high performers, grooming future leaders, and recruiting to complement in-house resources. The focus is shifting toward more targeted and relevant training to help improve employee performance. Employees need to have a clear understanding of desired behaviors



and outcomes from the start. All employee training programs will evolve from business strategies.

Develop Future Leaders

Continuous leadership development is a key Postal Service strategy focused on preparing leaders for the challenges to come. The organization's approach identifies individuals at all levels who best meet the desired attributes of true leadership for a customer-focused organization.

Educational opportunities will concentrate on creating the critical skills necessary to succeed. Leadership competency models have been updated for all levels to align with the strategic needs of the organization. To date, models consisting of up to eight competencies have been completed and incorporated in all executive training. The Postal Service will continue to use a corporate succession planning program to maintain leadership continuity. Strong educational opportunities and challenging management assignments will be used to develop people before moving them to positions with greater responsibility.

Talent Acquisition

Talent requirements will be forecasted to support current and future business strategies, such as skills required to leverage new pricing flexibilities. The Postal Service is focusing attention on recruiting new employees to fill the gaps. A strong campaign promoting the Postal Service as an employer of choice is being developed to attract employees to a postal career. These employee efforts are being made to develop a unified postal employment brand.

The Postal Service's corporate recruitment strategy is a proactive approach to assist in developing and sustaining critical workforce skills, while at the same time helping to balance the career and lifestyle goals of employees. Activities include participation with other federal agencies in annual career fairs and visits to colleges and universities to strengthen the existing talent base. Recruitment activities raise awareness of the Postal Service to assist in its efforts to fill vacancies, and develop and maintain skills profiles of qualified applicants. Today's employee is interested in a fulfilling career in which the work-life balance is considered and respected. The Postal Service will continue to strive to meet these expectations.

Employer of Choice

The Postal Service is improving its recruitment communications to appeal to high-quality candidates as an "employer of choice." Most people recognize



New brochure promoting the Postal Service as an employer of choice

the Postal Service as a unique American institution, with traditions of service rooted deep in the nation's history. However, they may not be aware of the wide range of career opportunities, competitive salaries, and excellent benefits available nationwide with the Postal Service. To help design and implement this recruitment program, the Postal Service is benchmarking the best practices of other public and private-sector companies, with refinements based on feedback from potential employees about the clarity, creditability, and effectiveness of the campaign.

2. Engage Employees to Provide Outstanding Service

The success of the Postal Service depends on an engaged workforce. Employees must be committed stakeholders with a mutual and vested interest in fulfilling the Postal mission and vision. Today, employees are engaged with postal customers through Customer Connect and Business Connect. These programs allow more employees to become proactively involved in the growth of the business. At the same time, employees are engaged in a number of workplace improvement programs that enhance overall workplace safety and security, and reduce workplace disputes.

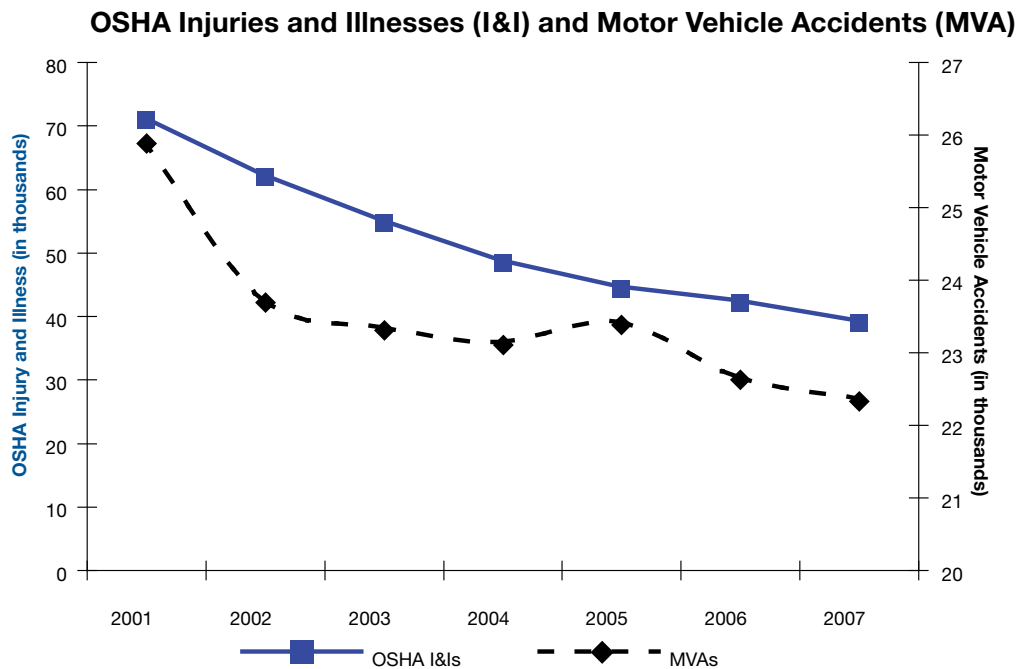
Going forward, communications within the organization will be critical so that employees understand the impact of legislative changes, how the changes affect them and customers, and the Postal Service's strategic direction. Each employee must understand his or her role in this new business environment.

The Voice of the Employee

Employee feedback is a vital tool for continuous improvement and organizational success. The Postal Service will continue to rely on the Voice of the Employee survey to identify and address areas of concern. The Postal Service will evaluate the survey to ensure that only relevant information is captured and will improve the timeliness of response to issues.

Improve Employee Health and Safety

Making the workplace safe for employees is, and will remain, an important strategic focus. In the past six years, the Postal Service has reduced the total number of Occupational Safety and Health Administration (OSHA) injuries and illnesses by 45 percent and the total number of motor vehicle accidents by almost 14 percent. Engaging employees and continuous communication has contributed to success in reducing overall injuries and accidents. Continuous improvement in workplace safety will be achieved by expanding existing successful venues.



The Voluntary Protection Program (VPP), in partnership with OSHA, continues to improve workplace safety by engaging all employees to identify potential hazards and by defining and standardizing best practices. Data show that VPP sites typically post OSHA injury and illness reduction figures that are 11 percent lower than non-VPP sites. This program is being implemented through national, area, and local joint labor-management safety committees. The Postal Service will expand VPP as part of its commitment to be a leader in workplace safety.

The Ergonomic Risk Reduction Process (ERRP) also significantly contributes to safety improvements in the workplace by reducing both the number and severity of musculoskeletal disorders. ERRP provides a forum for management and craft employees to work together to improve work methods. It was implemented in 31 sites in 2007 and is scheduled for an additional 24 sites in 2008. A revised program for customer service employees began rolling out in 2007 based on employee requests.

As new employees are recruited and when contract services are acquired, the Postal Service will ensure that proper security controls are in place. Background checks are necessary for all facets of the workforce to ensure everyone's safety.

Reducing Workplace Disputes

Unresolved disputes in the workplace cause anxiety and unproductive distractions. Improving employee relationships will continue to be an area of

focus. By continuing to diffuse tension when it first arises, the organization has successfully reduced workplace disputes. The Postal Service has greatly improved EEO and grievance complaint processes to ensure timeliness and resolution at the lowest possible level.

3. Increase Accountability and Recognition with Performance-Based Management

The Postal Service will continue to build a culture of continuous improvement, where performance is measured and rewarded. Pay-for-Performance (PFP), the Postal Service's award-winning performance measurement system, was implemented in 2003 for postal executives and extended to non-bargaining employees in 2004. The foundation of the system is a balanced scorecard of independently verifiable measures of service, productivity, workplace environment, and financial performance. Indicators are measured at the corporate and unit levels so that meaningful performance distinctions are made within the line-of-sight of all participants. Achievement of goals is the basis for pay actions in the PFP system. Starting in 2008, PFP goals are more aligned with the direct responsibilities of each position. Individuals are recognized for the contributions they make. The Postal Service will continue to drive the right behavior that gets the results.

Customer-Focused Culture — Summary of Priorities

- Develop future postal leaders by reaching out to high-potential candidates and strengthening skills to prepare them for current and future challenges.
- Recruit motivated new employees that help develop and sustain the critical skills required in the workforce. Promote the Postal Service as an “employer of choice,” clearly communicating the appeal, diversity, and benefits of a postal career.
- Continue to improve workplace safety by engaging all employees to identify potential hazards and by defining and standardizing best practices.
- Minimize workplace disputes and other distractions, allowing employees to focus on customers and performance. Enhance the use of the Voice of the Employee survey and other feedback tools to identify opportunities for continuous improvement.
- Continue to refine compensation and recognition by aligning compensation with individual performance and organization results.

CUSTOMER-FOCUSED CULTURE

***Strategic Transformation Plan
2007 Update***

V. ENHANCE SUSTAINABILITY

Sustainability — meeting the needs of the present without compromising the future — has become a business imperative. Increasingly, customers choose to do business with companies that operate in an environmentally responsible manner. The Postal Service has a strong track record. Since 1995 it has been honored with 37 White House Closing the Circle Awards. The Postal Service also won the Environmental Protection Agency's 2007 WasteWise Partner of the Year Award, the program's highest honor, for the eighth year in a row. To build on these achievements, the Postal Service will develop a conservation culture throughout the organization and form new partnerships with its customers and government. It will focus on two areas: expanding environmentally-friendly business practices and accelerating energy conservation.

1. Environmental Leadership

The Postal Service's approach to improving its "environmental footprint" is built on the principle of integrating environmental activities within day-to-day operations and engaging every employee to take ownership and responsibility. By working with mailers to reduce undeliverable mail, saving customers unnecessary trips, expanding the use of recycled and recyclable products, and minimizing potentially hazardous and toxic materials, the Postal Service accomplishes its mission while leading the way in environmental stewardship.

The Impact of Mail

The Postal Service has sponsored several initiatives to quantify the impact of mail, including the 2007 *Environmental Impact of Mail* study. The study showed that advertising mail has a net benefit to the environment by encouraging shopping from home, which reduces customer miles driven and harmful automotive emissions. In 2007 the Postal Service also reinstated the Greening of the Mail Task Force, originally formed in 1995. Participants include mailers, industry groups, suppliers, regulators (Environmental Protection Agency and the White House Office of the Federal Environmental Executive) and the National Recycling Coalition. The task force will drive a multi-year effort to improve mailpiece design, improve address and list quality, expand recycling and waste-disposal practices related to mail, and improve communication on the impacts of mail on the economy and society.



In 2007, Priority Mail and Express Mail shipping supplies were redesigned, achieving "Cradle to Cradle" certification. The Postal Service is the first shipping company to attain this environmental standard.



Supporting the Greening of the Mail Task Force is a life-cycle inventory model, prototyped by the Postal Service in 2007 to identify the environmental impacts of different classes of mail. The model covers the entire “life-cycle” of the mail, from mailpiece production through disposal, and identifies the most significant environmental impacts in the process. The Task Force will help refine the data and will use the model results to prioritize initiatives.

Enhancing the Value of the Mail

Today’s customer is looking for convenience — convenience that balances necessity with environmental responsibility. The Postal Service is dedicated to helping mailers go green. In 2007, its free Priority Mail and Express Mail shipping supplies were redesigned, achieving “Cradle to Cradle” certification. The Postal Service is the nation’s first shipping company to achieve this certification standard which establishes 39 criteria on toxicity, renewable energy, water use, recyclability, and other factors affecting human and environmental health. Cradle to Cradle certification assures that the packaging is manufactured to avoid harming the environment even after its useful life. Based on the annual recycled content of new packaging, more than 15,000 metric tons of carbon equivalent emissions will now be prevented each year. The Postal Service has begun to expand Cradle to Cradle to additional packaging and similar green initiatives throughout its supply chain.

Many consumers prefer to shop online and by catalog because of its convenience and flexibility. The Postal Service facilitates this process by picking up and delivering nearly 10 million packages per day. Besides saving time for consumers, postal delivery and pickup helps them reduce emissions and fuel use: rather than have multiple cars driving to the Post Office or the mall, one carrier stops at multiple homes. The Postal Service also delivers packages for other shipping firms, minimizing the number of total delivery trips to neighborhoods nationwide.

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

Recycling and Reducing Waste

Each year the Postal Service recycles 1 million tons of paper, plastic, and other material, resulting in millions of dollars in revenue and cost avoidance. In 2007, \$7.5 million was generated through recycling and waste prevention. The Postal Service also purchases more than \$200 million in products with recycled content, including envelopes, packaging, and mail containers. New water-based inks used to print stamps are made from soybeans and contain no heavy metals. Stamps are produced with gum-free pressure sensitive adhesive to ease recycling. By switching to linerless labels on stamp coils, 700 tons of scrap paper were eliminated and disposal costs cut. A pilot partnership with New York City is helping the Postal Service evaluate new opportunities for recycling undeliverable Standard Mail, cardboard, shrink-wrap, and other materials. If the partnership proves successful, similar programs will be developed across the country.

The Solid and Hazardous Waste Program ensures that potentially hazardous and toxic wastes are handled in a way that safeguards public health and the environment and meets legal mandates. The Postal Service is reducing municipal solid waste and industrial waste through its partnership with EPA's WasteWise program, which challenges organizations to cut waste in innovative ways.

The Water Management program was formed to meet environmental standards for pollutant discharges, storm water runoff, and safe drinking water. It also supports efforts to minimize water usage. The Postal Service is committed to a two percent per year water reduction in its facilities using technology and best practices to measure and drive results. An overall water management strategy has been developed to ensure compliance with the requirements of the Clean Water and Safe Drinking Water Acts. In addition, Vehicle Maintenance Facilities will continue the policy of "zero pollutants" in the discharge from washing vehicles. Contracts include provisions to capture runoff and use environmentally-preferable products.

In February 2007 the Postal Service provided a report on its recycling efforts to the Government Accountability Office (GAO) in support of that agency's requirement to report on postal recycling activities. Supporting the use of recycled paper, and encouraging the recycling of waste paper have been postal strategies for almost two decades. The first Postal Service policy for recycling paper, including undeliverable Standard Mail, was issued in 1990. The program has evolved steadily since then. The Postal Service's effort now encompasses the full lifecycle of mail, and it works with industry partners such as the Direct Marketing Association to continue to increase

SOAR

Saving Of America's Resources

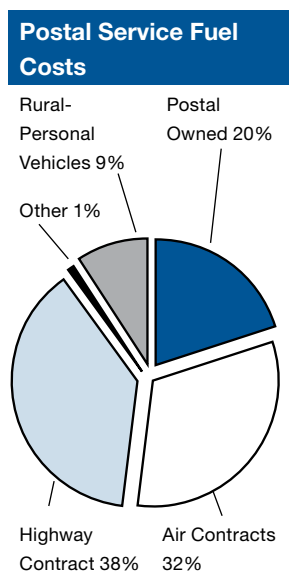


The Postal Service launched its nationwide recycling program — SOAR (Saving of America's Resources) — in 1995.

the amount of recycled paper and other materials that are used to produce mail and packaging.

2. Reduce Energy Use

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



Transportation

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

Although the Postal Service has the nation's largest civilian vehicle fleet, most transportation expenses are for contracted air and ground transportation. The Postal Service partners with suppliers to obtain service-responsive transportation at the best value. It also continues to refine the transportation network so that more mail will meet service commitments using ground transportation. In general, moving more mail from air to surface transportation offers improved performance while reducing fuel consumption.

For its own fleet of vehicles, the Postal Service will reduce miles driven while absorbing the addition of new deliveries each year. New computer modeling tools are helping delivery managers create more efficient routes to minimize fuel use. Carriers are being made aware of best practices to reduce vehicle idling, given the frequent starts and stops required on most routes. Improvements in mail processing will increase the number of deliveries per route and reduce the number of vehicles on the road. The Postal Service will continue to take advantage of opportunities to consolidate trips and centralize new deliveries.

The Postal Service operates the nation's largest alternative fuel-capable fleet, including more than 36,000 E85 flex-fuel vehicles that can operate on gasoline, E85, or any mixture of the two fuels. The Postal Service is working with the Department of Energy's National Renewable Energy Laboratory and

Clean Cities Program to determine the best places to put E85 vehicles. A database linking alternate fuel vehicles, ethanol stations, and delivery data has been created for the identification and strategic management of E85 fuel use.

Postal Service use of biodiesel is expected to rise in coming years due to future prospects of lower fuel costs and readily available commercial refueling infrastructure. Research partnerships with the Department of Energy's National Renewable Energy Laboratory will continue to expand practical knowledge in using biodiesel, allowing shared experiences with manufacturers, the biodiesel industry, and the general public. Identifying locations that have adequate supply of biodiesel will serve as the cornerstone in the strategy for increasing use of this fuel in postal vehicles. Hybrid vehicles are also being tested for more energy-efficient mail delivery. The Postal Service is currently testing 10 hybrid Ford Escape vehicles in actual delivery situations in Los Angeles and San Francisco. Plans to convert a 2-ton van into a parallel hybrid vehicle will be evaluated.

Since 2004, the Postal Service has partnered with General Motors to explore the applicability of fuel cell vehicles (FCVs) for mail delivery. The Postal Service FCV program is generating technical and operational information needed to better understand issues related to the infrastructure needed to support hydrogen-fueled vehicles. This demonstration of emerging fuel cell technology, coupled with other advanced and AFV vehicle initiatives, has the potential to provide multiple benefits for the nation, including improved fuel efficiency, increased energy independence, and reduced emissions. The Postal Service will continue to seek opportunities to support fuel cell research and support activities to help transition the technology to the public.

Utilities

With more than 34,000 facilities, the Postal Service consumes a significant amount of energy, presenting a major opportunity to make a difference. The first step to reducing utility use is to go back to the basics — turning out lights, setting thermostats appropriately, closing doors, and turning equipment off when not in use. By educating employees on conservation best practices and holding everyone accountable for energy use, significant reductions will be achieved.

The Postal Service commits to a 20 percent reduction in facility energy use by 2012. It will reduce energy costs and consumption by focusing first on the largest facilities, which are estimated to consume about 60-70 percent of total facility energy expenses. These facilities will receive energy upgrades that meet or exceed federally mandated requirements. Improved

energy oversight of facility resources will ensure the achievement of energy consumption targets.

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

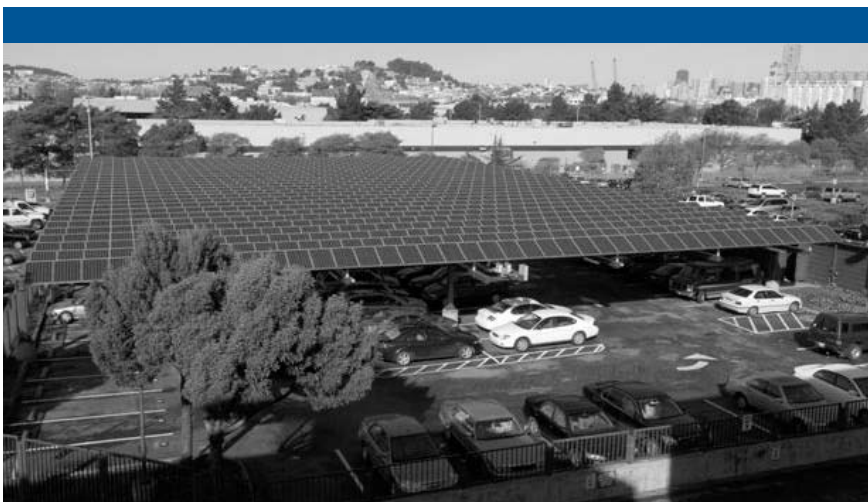
Comprehensive energy audits are being conducted in plants and other large facilities. An enterprise-wide energy management system is being developed that will allow for continuous monitoring of facility energy performance and quickly identify where utility-related repairs and modifications are needed. This system is key to ensuring that investments made to reduce energy consumption continue to achieve estimated savings.

The Postal Service will also reduce energy costs and minimize risk by using leveraged supply contracts in restructured electricity and natural gas markets. These contracts offer improved price stability and reduce risk by fixing supply costs during periods of volatility.

Sustainable Facility and Equipment Design

A variety of sustainable building design concepts have been integrated within the Postal Service's national standard design criteria. These criteria

are used for all new construction as well as repair and alteration projects. The result is facilities that use less energy and have less impact on the environment. Examples of sustainable building concepts include use of high-efficiency lighting and HVAC, low-volatile organic compound paints, recycled-content materials, and low water use fixtures. The EPA has honored the Postal Service with its Environmental Achievement Award for its "green solutions" in the Pacific



This San Francisco mail processing facility has completed energy efficiency upgrades that include a 300-kilowatt solar power system nearly the size of two football fields. The Postal Service has more solar photovoltaic systems than any other civilian agency.

Area, including solar photovoltaic systems, fuel cells, and combined heat and power generation.

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

In addition to the sustainable concepts incorporated into all of its projects, the Postal Service is continuing to evaluate new technologies and concepts to reduce its environmental impact. This includes living roofs where plant material is actually grown on the roof surface, which reduces the energy needs of the building, controls storm water, and reduces the heat island effect. These roofs are being evaluated for possible installation at a test facility this year.

Renewable energy systems also are continuing to be evaluated and different business models being developed in the market that will allow the Postal Service to effectively gain the value of energy produced through renewables at a cost that is competitive with power produced on the grid.

The Postal Service is conducting an inventory of its greenhouse gas emissions to serve as a baseline for improving its “carbon footprint.” The inventory includes all facilities, operations, and vehicles, and adheres to the California Climate Action Registry protocol, which has been adopted by 34 states. The Postal Service’s early participation in the registry allows it to participate in ongoing policy and regulatory discussions.

Enhance Sustainability — Summary of Priorities

- Build a conservation culture throughout the Postal Service. Integrate energy conservation into day-to-day operations and engage every employee to take ownership and responsibility.
- Help customers go “green.” Encourage pickup and delivery to help consumers save time and reduce emissions and fuel use. Expand Cradle to Cradle certification to additional packaging.
- With the Greening of the Mail Task Force, guide efforts to improve address and list quality, expand mail recycling, and improve communication on the benefits of mail to the economy and society.
- Expand postal use of recycled and recyclable products. Help businesses and households recycle or dispose of materials using the mail.
- Reduce fuel use by the postal-owned fleet and transportation contractors. Continue to explore alternative fuel technologies, including flex-fuel, hybrid, and fuel cell.
- Reduce energy use in postal facilities by 20 percent in 5 years. Conduct energy upgrades on largest facilities and use sustainable building concepts for new construction and repair and alteration projects.

VI. REGULATORY STUDIES AND REPORTING OBLIGATIONS

Several studies and reports are required of the Postal Service and other agencies over the next 10 years as part of the Postal Act of 2006, in addition to those already mentioned. Many have long-term implications for the postal business model, such as recommendations on the postal monopoly and universal service obligations. Some are focused on additional accountability, such as compliance with Sarbanes-Oxley.

1. Implement Sarbanes-Oxley

The Sarbanes-Oxley Act of 2002 (SOX) is an ongoing process to improve corporate governance and enhance the accuracy of financial reporting. Under SOX, corporate leaders are responsible for establishing, evaluating, and monitoring the effectiveness of internal controls over financial reporting. The Postal Act of 2006 now requires the Postal Service to comply with Section 404 of SOX by 2010. A postal-wide effort, SOX involves the support of all functional groups and employees. SOX is about accountability and ownership of internal controls and following established policies and procedures. This will provide an opportunity to further standardize and reengineer processes.

Over the next three years, the Postal Service will follow best practices and guidance published by the Public Company Accounting Oversight Board (PCAOB) and the Securities and Exchange Commission to achieve compliance by 2010 as shown in the following table. Compliance entails establishing a top-down, risk-based approach to identify, assess and report internal controls affecting financial reporting.

SOX Implementation Timeline

Target Fiscal Year	Activity
2007	SOX Program Management Office created Implementation plan created and deployed
2008	Processes and control documentation completed Significant accounts identified Control framework to manage risk used
2009	Control testing begun and identified control weakness remediated Process improvements identified and initiated
2010	Compliance with SOX begun and improvements sustained Annual SOX compliance testing begins

2. Prepare Annual Reports

As part of its obligation under the law to compile data into reports, the Postal Service must prepare additional information on a yearly basis as presented in the following table.

Annual Report	Purpose
Annual Compliance Report	Provided to Postal Regulatory Commission (PRC) to present analysis of costs, revenue, pricing, and quality of service for all products. For market dominant products, also presents measures of customer satisfaction, and information about discounts and market tests.
SEC-Formatted Financial Reports	Provided to PRC to present detailed financial information: quarterly (10-Q format), yearly (10-K format), and significant financial events (8-K format).
Competitive Products Fund	Provided to U.S. Treasury and PRC to account for withdrawals from revolving Competitive Products Fund to pay costs attributable to competitive products and all other costs incurred by Postal Service.
Financial Firewall and Competitive Products Fund	Provided to U.S. Treasury, PRC, and Office of Inspector General (OIG) to show separation of financial accounting between competitive and market dominant products.
Annual Report on Operations	Provided by PRC to President and U.S. Congress on PRC operations under new regulatory system and extent to which regulations meet objectives. An estimate of costs incurred by Postal Service for providing postal services, free or reduced prices as required by law, and other public services and activities.

3. Prepare Additional Reports and Studies

The law also requires additional reports with designated timelines from the Postal Service and various agencies.

Report or Study and Target Date	Purpose
Nonprofit Rate Deficiencies <i>December 2007</i>	Provided by OIG to President, Congress, and Postal Service to document Postal Service administration of nonprofit prices and compliance with cooperative mailing rules.
Identify Laws that Apply Differently to Postal Service Competitive Products <i>December 2007</i>	Provided by Federal Trade Commission to President, Congress, and PRC to identify federal and state laws that apply differently to Postal Service with respect to competitive products as compared to private companies.
Postal Service Accounting Methodology for Product Split <i>December 2007</i>	Provided by U.S. Treasury to PRC to recommend accounting practices and principles to separate market dominant and competitive products to prevent cross-subsidization.
Minority, Women and Small Business Contracts <i>December 2007</i>	Provided by Postal Service Board of Governors to President and Congress to report number and value of postal contracts and subcontracts with minorities, women, and small businesses.
Report on Diversity <i>December 2007</i>	Provided by Postal Service Board of Governors to President and Congress to report extent to which women and minorities are represented in supervisory and management positions.
Workshare Discounts <i>Tied to effective date of new price setting rules</i> <i>December 2007</i>	Provided to PRC to detail justification for newly established workshare discounts.
Universal Service Obligation and Monopoly <i>December 2008</i>	Provided by PRC (with consultation and written comments from Postal Service) to President and Congress to evaluate and assess Postal Service universal service obligation and postal monopoly, with recommended changes.
Annual Determination of Compliance <i>March 2009</i>	Provided by PRC to show whether any rate or fee in effect during year was not in compliance or any service standard in effect during year.

Report or Study and Target Date	Purpose
Future Business Model <i>December 2011</i>	Provided by Government Accountability Office (GAO) to President and Congress to present assessment of future business model of Postal Service, including long-term structural and operational reforms.
Assessment of New Postal Law <i>December 2011</i>	Provided by PRC to President and Congress to show assessment of operation of new postal law and recommendations for changes.
Periodicals <i>No date</i>	Provided by Postal Service acting jointly with PRC to President and Congress to report on Periodicals cost attribution, possible efficiency improvements, and recommendations for administrative or legislative action.

4. Manage Regulatory Uncertainties

The law also presents some uncertainties on the administration, interpretation, and effect of new regulations, policies, and procedures as they are established based on many of the studies and reports mentioned above, specifically:

- The implementation of the new price setting process; the establishment of market tests; the transfer of products between market dominant and competitive categories; classification changes; the complaint process; and grandfathering of non-postal services.
- The accounting methodology that the U.S. Treasury will recommend to the PRC to separate market dominant and competitive products and the extent to which the PRC will incorporate these recommendations into its rules.
- The application of laws to the Postal Service with respect to competitive products based on the FTC recommendations.

CONCLUSION

This update to the *Strategic Transformation Plan* comes one year after passage of the Postal Act of 2006. During this time, the Postal Service, the Postal Regulatory Commission, and postal stakeholders have been adapting to the changes prescribed by the law. Much work has been completed and more remains to be done. The Postal Service will continue to respond proactively to all requirements of the law, working closely with the mailing industry in the same spirit of collaboration that has characterized its efforts to date.

In the meantime, the Postal Service continues to process and deliver the nation's mail – 212 billion pieces in 2007. Creating more value for customers and delivering excellent service remain at the core of all postal strategies. The Postal Service continues to make its products and services more convenient and accessible. In the coming year, it will begin to take advantage of new flexibility to tailor prices and features to the needs of specific customer segments. Generating new business — *profitable* new business — is more important than ever, now that price increases for most classes are capped at the rate of inflation.

Efforts to increase productivity continue to rely on automation, process improvement, and standardization. The Postal Service has realized enormous benefits to date, but much opportunity remains. Deployment of the Flats Sequencing System, which begins this year, will usher in a new wave of productivity gains. At the same time, more comprehensive mail flow data and optimization tools will guide management efforts toward greater efficiency and more streamlined processes. The Postal Service continues to target removal of \$1 billion in costs per year.

Intelligent Mail is moving from a promising concept to a powerful reality, rapidly leading to the time when mail will be trackable at all points in the system. It is creating a radical new level of visibility, one that will fundamentally change how customers use the mail, and certainly add value and utility. Postal managers will benefit from a much-improved ability to use data to eliminate sorting errors, transportation failures, and incorrect mailing addresses.

Postal employees are making great strides meeting the challenges of a changing market. None of the advances in recent years would have happened without their efforts. They are the heart of the Postal Service brand and the key to transitioning to an organizational culture dedicated to satisfying customers. Agreements are now in place between the Postal Service and its unions and management associations. All employees can focus on the task at hand — improving the quality, consistency, and competitiveness of the services they deliver every day.

CONCLUSION

Strategic Transformation Plan
2007 Update

The Postal Service is part of every American community. Each day, tens of thousands of Post Offices open for business; postal vehicles drive along countless neighborhood streets, and a quarter-million carriers drop off the day's mail and collect outgoing packages. With its size and reach, the Postal Service is uniquely positioned to take a leadership role in conserving resources and helping customers conserve as well. Already recognized as an innovator in several areas, the Postal Service will expand its use of recyclable materials, continue research into alternative-fuel technologies, and use sustainable facility and equipment designs to cut energy use. However, the Postal Service's most important and immediate role is to lead industry efforts to improve the quality of mail and mailing lists. With so many tools available to update addresses and lists, there is no justification for continuing to absorb the waste of processing millions of pieces of undeliverable-as-addressed mail each year.

In 2008, the Postal Service will develop an entirely new strategic vision, with new strategies and objectives designed to recast the mail for tomorrow's market. Ideas are welcomed and encouraged — from customers, employees, industry partners, and anyone with an interest in sustaining the mail. Comments may be addressed to transformation@usps.gov, or to Office of Strategic Planning, U.S. Postal Service Headquarters, 475 L'Enfant Plaza, SW, Washington DC 20260-5126.

We welcome your questions and
comments at:
United States Postal Service
Office of Strategic Planning
475 L'Enfant Plaza, SW
Washington, DC 20260 5126

Read this update to the *Strategic
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