







# Transformation Plan

## Progress Report

November 2004



**TRANSFORMATION PLAN**  
*Progress Report*  
**NOVEMBER 2004**



## MESSAGE FROM THE POSTMASTER GENERAL & CEO, JOHN E. POTTER

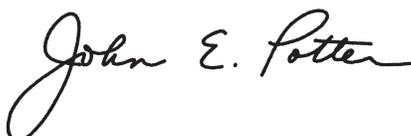
In early April 2002 the United States Postal Service submitted to the President and the Congress a *Transformation Plan* that analyzed both the challenges facing the Postal Service and its future. Since that time, the *Transformation Plan* has served as the blueprint for every aspect of Postal Service business. This blueprint has focused on what the Postal Service can do in the near-term, under existing legislation, to fulfill its legislative mandate to “bind the Nation together through the personal, educational, literary, and business correspondence of the people.”

The *Transformation Plan Progress Report* (November 2004) details specific developments and successes of transformation efforts since publication of the *Transformation Plan Progress Report* (November 2003). Additional information about transformation initiatives was also included in the *2003 Comprehensive Statement on Postal Operations* (February 2004). Together the annual progress reports and the comprehensive statements, as dynamic documents tracking strategies and initiatives as they evolve, allow the postal community to monitor and participate in the transformation process. They will continue to provide a full record of Postal Service transformation. The success of transformation is visible today throughout the organization. Some strategies identified in the 2002 Plan have been completed. Others are now ongoing and have been integrated into normal organizational processes and procedures, while a few were analyzed and discontinued.

The transformation strategies have helped the Postal Service in the accomplishment of its transformation goals: foster growth through customer value, increase operational efficiency, move toward a performance-based culture, and restructure enabling functions.

The Postal Service is on track to meet and perhaps even exceed its \$5 billion savings commitment made in the 2002 *Transformation Plan*. Through 2004, the estimated incremental annual savings totals \$4.3 billion. Cumulatively, that equates to \$8.8 billion for the first three years of the *Transformation Plan*. At the same time the Postal Service has achieved record-breaking service nationwide and historically high employee satisfaction scores on Voice of the Employee surveys. Enhancements to core products and services helped mitigate the decline in revenue associated with the loss of First-Class Mail volume. In addition the Postal Service has furthered its 2002 *Transformation Plan* commitment to reduce its outstanding debt from \$11.3 billion at the end of fiscal year 2001 to \$1.8 billion at the end of fiscal year 2004. These transformation achievements, along with five years of increased productivity, have allowed postal customers to enjoy one of the longest periods of rate stability since Postal Reorganization in 1970.

Transformation of the Postal Service is succeeding and will continue to drive further improvements. This report provides a summary level update on how the Postal Service is progressing on its near-term strategies that support the transformation process.



John E. Potter

## **YEAR REFERENCES**

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

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## SECTION 1: INTRODUCTION

### MEETING THE CHALLENGE

From implementation of the 2002 *Transformation Plan* through September 2004, the Postal Service reduced its career employee complement by 68,000. During the same period, new operational efficiencies improved cumulative total factor productivity by over 5 percent. In addition, approximately 1.8 million delivery points were added each year to the universal delivery network.

Despite the increasing workload, service performance has reached record levels during transformation. On-time service for overnight First-Class Mail service attained a record breaking 96 percent during postal quarter III 2004 — the best overnight delivery score in the history of the external First-Class measurement program, which began in 1989. Postal Service customers have benefited from record service performance, and employees report improved satisfaction on the Voice of the Employee survey. As this *Transformation Plan Progress Report* shows, the Postal Service's transformational journey is well underway.

### COMMITMENT TO TRANSFORMATION

The commitment of the Board of Governors and postal management to the *Transformation Plan* begins with strategic direction from the Board of Governors and the Executive Committee. Their decisions then flow through the organization at all levels. The integrated process that enabled development of the *Transformation Plan* across the various functional areas continues as the 2002 *Transformation Plan* is implemented. The Office of Strategic Planning facilitates the effort to ensure integration of transformation implementation plans.

Since publication of the *Transformation Plan*, the Postmaster General and Executive Committee have conducted regular, formal reviews of transformation strategies. The Postal Service budget process, the *Comprehensive Statement*, and the *Five-Year Strategic Plan, FY2004–2008* have all been aligned with the strategies, goals, and objectives outlined in the *Transformation Plan*. Cross-functional meetings at all levels of management have ensured and will continue to ensure that postal managers understand the 2002 Plan's interdependencies, structure, and milestones. All of these results have been and will continue to be communicated to the President, Congress, Government Accountability Office, Office of Inspector General, Postal Rate Commission (PRC), and other appropriate executive agencies, as well as major stakeholders and the general public.



## SECTION 2: PROGRESS AND OUTLOOK

In 2002 the Postal Service began monitoring all strategies contained in the *Transformation Plan*. This report focuses on progress made in 2004 and some deliverables scheduled for 2005 and 2006. The body of this report spotlights major transformation milestones and initiatives that realized significant gains or were completed in 2004. For explanations of milestones and initiatives that were the focus of action in 2002 and 2003, the *Transformation Plan Progress Report* (November 2003) should be consulted. The appendix to this report provides a summary of all strategies and substrategies contained in the original 2002 *Transformation Plan*.

### 2.1 FOSTER GROWTH THROUGH CUSTOMER VALUE

The Postal Service is financed solely through revenues generated by postal products and services. The *Transformation Plan*, under the overarching strategy of Foster Growth Through Customer Value, outlined opportunities to increase postal revenues through two main approaches: one, by enhancing retail access, and two, by adding value to and encouraging the growth of postal products and services.<sup>1</sup>

#### 2.1.1 RETAIL: EXPAND ACCESS TO POSTAL SERVICES

In the *Transformation Plan* the Postal Service promised to provide customers more options and better access to its products and services in order to make more efficient use of its extensive retail network. The shifting demographics of postal customers, the changes in customer lifestyles and behaviors, and the rise of new technology all affect how the Postal Service should provide access to its products and services. To encourage greater market growth, the Postal Service is employing technology to expand the use of self-service options and alternate points of access with such services as the Automated Postal Center (APC), vending machines, Stamps by Mail, Stamps Online, Stamps on Consignment, stamps through ATMs, Click-N-Ship, and Change of Address service online and via the telephone.

##### *Move Simple Transactions Away from the Retail Counter*

Many customers are unaware that there are convenient alternatives for buying stamps other than at a Post Office retail counter. Last year the Postal Service completed an advertising campaign that promoted alternative access to postal products and services, such as those mentioned above. This campaign included television and print ads, in addition to new logos and postal product signs displayed at the 60,000 locations selling stamps. Increasing awareness of retail alternatives to move simple transactions away from the retail counter is an ongoing effort that has been incorporated into normal business processes.

##### *Create New, Low-Cost Retail Alternatives*

As part of an ongoing effort to provide Quick, Easy and Convenient service to customers, the Postal Service will complete deployment of 2,500 APC units to high-traffic Post Office locations by late November 2004. APC units are customer-friendly self-service kiosks that allow individuals to conduct 80 percent of postal transactions available at window service. In many locations units will be accessible 24 hours a day, 7 days a week.

##### *Optimize the Retail Network*

Retail optimization is a dynamic and evolving process that establishes decision-making criteria for updating the retail network. When changes affect the retail network, such as a change in operating hours, the Postal Service uses a variety of media to advise the public, mailers, management associations, labor unions and employees of any such change. When a Post Office location is closed, however, the Postal Service follows a statutory procedure including customer notice and appeal rights.

<sup>1</sup>For better management control some of the Growth through the Customer Value strategies listed in the 2002 Plan have been consolidated with other strategies. These are noted in the appendix.

In practice, few retail outlets are closed or relocated. In a normal year about 100 of approximately 28,000 Post Office locations are closed. When a Post Office location is closed, communities on average appeal less than 10 percent to the PRC, which remands less than 1 percent of the total annual closures to the Postal Service for further consideration.

### *Develop New Retail Services that Increase Customer Value and Postal Revenue*

The Postal Service is conducting a limited test of Business Solutions Centers in targeted areas to meet the need for increased access of Postal Service products and services for small business customers. Business Solutions Centers provide a place for customers to meet with postal consultants to learn how to grow and retain their business using the mail and other postal products. The Postal Service also is expanding and enhancing services it already provides for government and larger commercial partners, such as acceptance of passport applications. As of September 2004 passport services were offered in 3,700 Post Office locations, an increase of 1,300 locations since September 2003. Due to increasing interest from government agencies and commercial businesses in utilizing space in retail lobbies, the Postal Service also has developed a Lobby Asset Valuation model to help determine the value of its lobby space. The model has been used to negotiate contracts and agreements for use of Postal Service retail space.

## **2.1.2 PRODUCTS AND SERVICES: IMPROVE VALUE AND GROWTH**

With First-Class Mail volume continuing to decline, the Postal Service is analyzing and initiating new ways to replace revenue and contribution to overhead.

### *Use Technology to Enhance Value*

The Postal Service, operating within a highly competitive marketplace, is using technology wherever possible to enhance customer value of its products and services.

In October 2003 the Postal Service teamed with eBay to offer eBay sellers easy access to online postal shipping labels.

In August 2004 the Postal Service launched a Business Reply Mail Web site that provides information about how to use reply mail, allows customers to apply for permits, accepts fee payments via credit card or through the Centralized Account Processing System systems, confirms ZIP+4 codes, and electronically creates preapproved camera-ready formats for Business Reply Mail.

Another innovation launched in September 2004 was the Return Receipt (Electronic) service that allows the sender to receive an electronic facsimile of recipients' signatures.

As the Postal Service provides more information about the mail to its customers, it envisions that end-to-end visibility of mail in the mailstream will become a reality. This vision, termed Intelligent Mail service, has three main components: uniquely identify mail and its aggregates (i.e., mail containers such as trays), develop and deploy an enabling infrastructure, and enhance address quality.

### **Uniquely Identify Mail and Aggregates**

A key element of Intelligent Mail service is the OneCode Vision, which refers to the creation of one distribution barcode per mail type that uniquely identifies the mail and its aggregates. In 2004 the Postal Service developed and began testing such a distribution code to identify letters and flats. Known as a four-state code because four different types of bars comprise the code, the code includes distribution and customer applied information. It also enables customers to select multiple services. In a similar development in 2004 the Postal Service also created a new, enhanced distribution label to uniquely identify trays and distribution information.

### **Develop and Deploy Enabling Infrastructure**

The information-sharing requirements of a successful Intelligent Mail effort depend on a supportive infrastructure. The Postal Service is developing and deploying enterprise-wide common infrastructures that will capture codes on mail and disseminate the

information in near real-time. In 2004 Phase I of the Mail Processing Infrastructure (MPI) program was completed on time and under budget. This program upgraded the wiring in 62 processing and distribution centers. MPI maximizes performance by ensuring flexibility, data integrity, and adequate bandwidth for communication between mail processing equipment and systems. Phase II, which will upgrade an additional 108 facilities, began in May 2004. By the end of September 2004, 27 plants were completed.

### **Enhance Address Quality**

The Postal Service, working closely with the mailing industry, is improving the filing of change-of-address orders. These efforts include improvements to the Internet Change of Address (ICOA) process, which has been deployed nationwide, and the development of Telephone Change of Address (TCOA), which was deployed to four areas in 2004. ICOA and TCOA are used by a growing number of households and businesses, and represent 6 percent of change-of-address orders filed in the closing months of 2004. The Postal Service also is redesigning the paper change-of-address form to make it easier to use and to improve the quality of information received from customers. Another initiative to improve the quality of addresses used by mailers is to ensure more frequent use of move update products that provide change-of-address information to qualified mailers. The overall benefits and impacts of such a change are being studied and, if warranted, will be implemented in the future. Procedures for Address Change Service (ACS) have been reviewed and improved to increase the provision of electronic notification, reducing the number of expensive, manual ACS transactions. The National Change of Address Linkage System (NCOA Link) was implemented in 2004 to replace the legacy NCOA system and further protect the privacy and security of customer information. NCOA Link provides access by mailers to secure data while providing a convenient means for correcting outdated customer addresses.

### *Design Rates and Mail Preparation to Match Customer Capabilities and Needs*

Streamlining the postal ratemaking process and developing more flexible procedural solutions to rate and classification cases have allowed the Postal Service to increase its responsiveness to customer needs. A number of key initiatives have been undertaken in this area.

The Postal Service has focused on a process to develop and implement negotiated service agreements (NSAs). The process facilitates customer-specific experimental contract pricing agreements that seek to increase volume and revenue and reduce costs. Beginning in September 2003 the Postal Service entered into its first NSA with Capital One Services. By the end of 2004 this NSA is estimated to have produced cost savings and new contribution that greatly exceed rate case projections.

In June 2004 two new *functionally equivalent* NSAs with Bank One Corporation and Discover Financial Services were filed at the PRC. These NSAs test the Postal Service's ability to expedite contract pricing for NSAs *functionally equivalent* to those already approved. The Board of Governors approved the NSA with Discover Financial Services in October 2004.

In June 2004 the Postal Service also filed at the PRC an experimental case to test the pricing for a Priority Mail flat-rate box. As proposed, customers will be allowed to choose from two box options, both with the same cubic volume, and will be charged one identical rate, regardless of weight or distance. The Board of Governors approved the experiment in October 2004.

In July 2004 the Postal Service filed a case with the PRC to test a new pricing approach for Repositionable Notes, self-adhesive notes placed by mailers on the outside of mail. The notes can be removed by the customer and used as a reminder.

Experimental Periodicals mail co-palletization dropship discounts for high-editorial publications will be implemented in fall 2004. This classification will help to reduce costs of Periodicals' mail by encouraging high-editorial, heavy-weight, small-circulation publications to co-palletize and dropship. These discounts would fill a gap in an ongoing co-palletization experiment.

### *Position Mail as a Key Communications Medium and as a Customer Relationship Management Tool*

Through such efforts as the re-launching of *www.usps.com*, the continuation of the Direct Mail Affiliate Merchant Program, the Simple Formulas Tool Kit, Direct Mail Made Easy Seminars, and ongoing customer outreach and liaison programs like the Postal Customer Councils and the National Postal Forum, the Postal Service has incorporated the positioning of mail as a key communication medium and as a customer relationship management tool into normal business procedures.

### *Enhance Package Services*

The Postal Service has a number of continuing strategies to position itself better in the package market.

Carrier Pick Up is a service that allows customers to contact their carriers online and arrange a pick-up on the following day at no additional cost. This service allows the customer to communicate directly with the carrier and provide specific instructions or requests online instead of leaving personal notes in mailboxes or waiting to talk to the carrier. Carrier Pick Up was piloted in November 2003; national implementation was completed in August 2004.

In October 2004 Parcel Return Service (PRS) completed the first year of its two-year experiment. PRS is a service that enables merchants or their agents to collect returned merchandise at selected postal facilities, which are often the same facilities where these customers enter their outbound mailings.

### *Map Channel Strategies Around Customer Needs, Contribution, and Growth Potential*

The Postal Service continues to improve its marketing effectiveness by implementing plans to target its marketing programs toward key mailing segments. Customer Connect is a program that encourages carriers to inform customers, primarily small to medium businesses, about products and services available through the Postal Service. Nearly 7,000 carriers working out of 1,500 Post Office locations are currently participating in the program and expansion will continue in 2005.

In the spring of 2004 the Postal Service launched a new Internet-based eBSN Web site that allows major mailers to track responses and add business information to the Business Service Network 24 hours a day, 7 days a week.

In the summer of 2004 new *PostalOne!* software replaced the legacy Permit system's acceptance unit and business reply user functions. The new technology provides more timely information and easier access for acceptance and verification processes.

### *Develop New Features and Services*

In 2003 the Postal Service introduced Customized *MarketMail* and Priority Mail prepaid flat-rate envelopes. In 2004 Click-N-SHIP was updated to allow customers who purchase Priority Mail and Express Mail postage paid labels to add insurance to these purchases. Additionally, in 2004, for added customer convenience the Postal Service requested an experimental Priority Mail flat-rate box in two shapes. Developing new product features and services is an ongoing effort that has been incorporated into business procedures and product offerings.

### *Develop a Corporate Pricing Plan*

The major criteria that determine the Postal Service's prices are established by the Postal Reorganization Act of 1970. The Postal Service works within these statutory parameters to price its products and services in response to customer needs and other market demands. The Postal Service corporate pricing plan encompasses an internal process that includes rate design, communication with stakeholders, and legal review. As part of transformation the Postal Service committed to improving its pricing process and began by addressing the needs of specific customer segments, specifically with a redesign of the *Domestic Mail Manual* (DMM).

In 2004 the Postal Service continued its redesign of the DMM series of publications with release of a Chinese-language version of the DMM 100, *A Customer's Guide to Mailing*. The earlier release of the DMM 100 included both an English and Spanish version. In

addition, both a large print version and an audio version of the DMM 100 are currently under development. The DMM 200, *A Guide to Mailing for Businesses and Organizations*, was published in 2003, and a revised version of the DMM 300, *Domestic Mail Standards of the United States Postal Service* (a general guide to mailing), will be released in 2005. Further DMM versions and updates are being incorporated into ongoing and normal business operations within the Postal Service.

### *Generate New Revenue for the Postal Service by Retaining and Increasing International Market Share*

The Postal Service is moving actively in the international mail market as it seeks to retain a viable share of the growing international mail and package business. These efforts place greater emphasis on delivery performance for all classes of international mail, particularly in the packages market.

In 2004 the Postal Service had strong revenue growth in international packages due to stable prices and continued improvements in service, resulting from pay-for-performance agreements for Global Express Mail and effective management of delivery providers in key economic regions for the United States including Europe and Asia. The Postal Service also maintained service continuity of its Global Express Guaranteed service — the Postal Service's premier international delivery service to more than 190 countries and territories worldwide — by entering into an alliance with Federal Express. In addition, the Postal Service continues to work closely with its largest customers by providing valued added customs systems to ensure smooth clearance across borders. Such activities to generate revenue and increase international market share have been incorporated into normal business procedures within the Postal Service.

## **2.2 INCREASE OPERATIONAL EFFICIENCY**

The *Transformation Plan* described 10 specific, efficiency-based strategies to eliminate costs from the Postal Service's operating systems. The major progress made since publication of the *Transformation Plan* to implement each of these strategies is described below.

### **ENHANCE ALREADY EFFICIENT LETTER PROCESSING**

In June 2002 the Postal Service awarded a contract for Phase I of the Postal Automated Redirection System (PARS), which allows the Postal Service to intercept undeliverable-as-addressed mail very early in the distribution process and redirect those mailpieces to their appropriate next handling, thereby eliminating unnecessary delays and handlings. A successful first article test for this process was completed in November 2003. Deployment to mail processing facilities began in January 2004, and PARS was partially deployed to nine sites. Due to some mail processing integration issues, deployment was temporarily placed on hold. However, deployment resumed and 29 sites have accepted PARS units. Deployment of Phase I is expected to be completed by November 2004.

### **COMPLETE AUTOMATION OF FLATS PROCESSING**

The Postal Service has developed several automation programs for the flat mailstream. The *Transformation Plan* focused on strategies to increase machine throughput, improve address recognition, enhance feeder systems, and add tray handling systems. A number of key investments have been made in these areas.

An automated flat feeder and optical character reader modification was added to the Flat Sorting Machine 1000, which is capable of sorting thick, hard-to-handle, flat sized pieces. Consequently, the name was changed to the Upgraded Flat Sorting Machine 1000 (UFSM 1000). The modification will increase machine throughput. Deployment of these equipment modifications was completed in 2004.

Two tray handling system initiatives have also been undertaken:

- The Automatic Tray Handling System for the AFSM 100 upgrades take-away conveyors with a state-of-the-art system that automatically dispatches full trays and replaces them with empty trays that are properly labeled. This system has been delayed to allow time to evaluate proposed technological design changes that could reduce costs and space requirements. Deployment is now expected to be completed by the end of 2006.
- A system similar to the AFSM 100 automatic tray handling system has been designed for the UFSM 1000. This program has been indefinitely suspended based on a strategic review of long-term plans for the UFSM 1000.

Another improvement to flats distribution is the consolidation of the keying of non-machine readable addresses on flats at the remote encoding centers with the Flats Remote Encoding System (FRES). This effort enables the Postal Service to standardize and improve the efficiency of the AFSM 100 video encoding operation. It will also provide an infrastructure to support other remote encoding demands for PARS and the Automated Package Processing System (APPS). A contract to develop FRES was signed in November 2003. A first article test is expected to be completed in February 2005.

## **EXPAND MECHANIZATION OF MATERIAL HANDLING OPERATIONS**

The Postal Service has implemented a number of operational initiatives focused on material handling activities. Two projects to expand mechanization of material handling operations, the Low Cost Tray Sorter (LCTS) and the Universal Tray System (UTS), were highlighted in the *Transformation Plan*.

LCTSs are justified and deployed on a site-specific basis and typically are operational within four-to-six months of approval. To date 160 units have been deployed; additional site-by-site justifications are possible, resulting in additional possible equipment deployments.

The installation of UTS was completed in Ft. Myers, FL, in 2003. There are no further plans for additional deployments due to both a low return on investment and a focus to pursue simpler, lower cost, standardized solutions.

## **IMPROVE DELIVERY EFFICIENCY**

Delivery, the Postal Service's largest cost center, grows each year due to the addition of approximately 1.8 million delivery points annually. Two significant research and development efforts began in 2004 — a Flats Sequencing System (FSS), which would allow the delivery point sequencing of flats, and Delivery Point Packaging (DPP), which would combine both letters and flats into individual delivery point packages.

FSS automates the manual sequencing of flats into delivery order. Fabrication and in-plant testing of prototypes began in July 2004 and will continue through September 2005.

DPP will sort letters and flats into a single unit that can be delivered as a delivery point package, with the package sequenced for delivery. Contract awards to develop this equipment are scheduled to be made in November 2004.

The development and training for a delivery route optimization modeling tool (Carrier Optimal Routing) was completed in April 2004. The route optimization process can assist in reducing workhours, vehicle mileage, and costs while improving safety.

A highly publicized transformation program, testing of the Segway Human Transporter, a motorized scooter which the Postal Service deployed experimentally along various postal routes, was suspended in 2004 until a more adequate battery can be developed.

## DEPLOY NEXT-GENERATION PACKAGE SORTING EQUIPMENT

The Postal Service continues to see package delivery as a revenue growth opportunity and is pursuing greater efficiency in package sorting activities. Deployment of the next generation of sorting equipment for parcels and bundles, APPS, began in July 2004 and is expected to continue through September 2005. In total 74 APPS are planned to be deployed to 70 mail processing facilities.

## OPTIMIZE TRANSPORTATION AND DISTRIBUTION NETWORKS

Several transportation management systems have been developed to ensure that mail is transported and routed effectively, and significant efforts have been made to assess costs and service performance associated with contracted transportation.

The Transportation Optimization Planning and Scheduling effort, which will help the Postal Service actively plan and execute its transportation operations, is in the process of gaining consensus and stakeholder buy-in.

The Surface Air Support System provides the Postal Service with a comprehensive transportation “visibility” approach through the capture of all scanned information for mail traveling via Federal Express and commercial air carriers. The scanned data are linked with the Surface Air Management System assignment data for payment reconciliation and service performance assessment. National deployment of surface scanning is expected by July 2005.

Efforts to create a flexible logistics network to reduce costs, increase overall operational effectiveness, and improve consistency of service, formerly called Network Integration and Alignment, continues as an evolutionary process. This effort, now more accurately called Evolutionary Network Development, currently focuses on a proposed bulk mail center (BMC) retrofit transition effort. This is a planning effort to possibly redefine BMCs as regional distribution centers for all parcels and bundles, as well as to function as part of a hub and spoke program. Existing networks are continuously reviewed and adjusted in response to changing circumstances.

## INCREASE RETAIL AND CUSTOMER SERVICE PRODUCTIVITY

Customer service productivity improvement strategies include continued automation of Post Office backroom activities, automation of mail forwarding, and standardization of operational best practices. The Postal Service has delayed the review process to baseline staffing requirements for Computerized Forwarding System sites, due to the anticipated impact of PARS.

Since publication of the *Transformation Plan*, the Postal Service reviewed retail facility designs in order to reduce overall construction costs for small facilities. As a result of this redesign effort, the cost of facilities constructed using this approach has been reduced by 50 percent.

## IMPROVE PERFORMANCE MANAGEMENT

The key activities planned to improve performance management in the *Transformation Plan* and other direct labor reviews, which were completed in November 2003, have been incorporated into normal business procedures. Area Mail Processing Consolidation is ongoing. Priority Mail standardization was completed in September 2003.

## MANAGE REALTY ASSETS

Due to ongoing efforts to review and aggressively manage excess real estate, the Postal Service realized gross revenues from property sales of \$23.5 million in 2004. After subtracting the book value of disposed assets and fees, the Postal Service had a net gain of \$11.2 million (these figures are subject to final audit). In addition, the Kansas City, MO Main Post Office and Arlington, VA Main Post Office were sold for a combined value of \$24.1 million, with the sale value used to offset the cost of replacement facilities.

## **INTERNATIONAL AIR TRANSPORTATION DEREGULATION**

The initiative to study deregulation of air transportation rates for the transportation of international and military mail, to gain the authority to contract competitively for such transportation in the open market, requires legislative action. The Postal Service continues to analyze the impact of this change and will continue to seek legislative support.

## **2.3 MOVE TOWARD A PERFORMANCE-BASED CULTURE**

To achieve the levels of performance necessary for transformation, the Postal Service is focusing on an effective, diverse, and motivated workforce, with individuals who know what is expected of them and are recognized for their personal and team accomplishments. A number of performance-based initiatives have been completed, some are in the initial stages of implementation, while others remain in development. The Postal Service's commitment is to position the right people, with the right skills, in the right places, at the right time.

### **RETAIN AND RECRUIT QUALITY EMPLOYEES**

Generally the Postal Service's turnover and quit rates have remained relatively consistent during the past five years when compared with those in other sectors of the economy. This is due to a variety of factors, including the stability of the Postal Service working environment, the cross-functional integration opportunities found throughout the organization, and the developmental programs available to employees at all levels. However, the Postal Service must understand why employees leave and determine what it can do to retain key employees, particularly those in skilled positions. The Postal Service also must replace those who leave with trained and qualified individuals. The organization has increased its retention and recruitment efforts through a series of new initiatives.

A six-month pilot of the Exit Interview Questionnaire (EIQ) process was completed in March 2004. The EIQ process standardizes the methodology that captures the reasons employees voluntarily separate from the Postal Service. The EIQ process will continue to be utilized for nonbargaining unit employees in 2005.

The Postal Service is focused on ensuring the continuity in the succession of Postal Service leadership over the long-term. As a result, three intern programs were launched in 2003 to develop managerial, operational, and professional and technical skills. These programs have been incorporated into Postal Service normal business processes.

A two-year training program prepares professional and specialist interns for critical positions such as accountants, statisticians, economists, compensation specialists, and psychologists; another program provides future operating managers in the field with two-years of management training; the third intern program exposes industrial engineers to all facets of operations, preparing them to help position the Postal Service relative to the hardware, software, and human resources needed to maximize the efficiency of mail processing, distribution, and delivery. All of these programs are continuing, and all now have graduates placed in permanent positions.

A pilot program to test the electronic collection of suitability data has been completed. This pilot was designed to facilitate the collection of information used to determine whether an applicant is an acceptable candidate to hire. Electronic collection of this data streamlines the suitability screening process. The pilot program was successful and *eScreening* was offered nationwide in 2004.

In the fall of 2004 the Postal Service will implement new selection procedures for the five most populated entry-level positions: city carrier, sales and services associate, sales and services distribution associate, mail handler, and mail processing clerk. This effort is the culmination of an 18 month study of the skills and abilities most critical to success in these positions. While the current testing model is still a valuable decision making tool, other critical skills and abilities need to be measured, including customer service, teamwork, attitude, safety, and attendance. These tests are used to predict on the job performance using industry best practices.

## **DEVELOP CURRENT AND FUTURE LEADERS**

The 2004 Corporate Succession Planning (CSP) process is complete. A total of 1,417 employees were identified at the Executive and Administrative Schedule (EAS) Level 22 and above level as potential successors to approximately 800 executive position pools. In response to corporate efforts to encourage minority participation, 29.1 percent of successors were minorities, an increase of nearly 16 percent above the former succession planning program.

Also, for the first time succession planning in 2004 was automated, from application submissions, to successors selected, to monitoring developmental activities of candidates. The Postal Service has become a leader in the federal sector with its CSP program and the Corporate Succession Planning Tracking System. A patent is currently pending on the overall process.

## **ENSURE TRAINING AND DEVELOPMENT**

As part of the effort to develop its leaders, the Postal Service is committed to ensuring that a dynamic training continuum is available to employees. A variety of programs are being investigated and implemented to guarantee that Postal Service employees have access to the most up-to-date training available.

The Executive Development Program Phase I, a week-long training program for each of the approximately 800 Postal Service executives, was delivered throughout 2004. Phase II, which will also provide intensive developmental opportunities for Postal Service executives, was designed and piloted in October 2004.

In February 2004 the Postal Service implemented a new Human Resources (HR) Manager Development Program. The program is designed to provide HR managers training that focuses on the strategic, as well as the core operational aspects, of the job.

## **CREATE A PERFORMANCE-BASED PAY SYSTEM**

The Postal Service has expanded its ability to improve accountability through greater use of performance-based pay to recognize individual and team efforts. In 2003 approximately 800 executives participated in a new pay-for-performance program based on the National Performance Assessment (NPA) system and evaluations of core requirements of their positions. Performance goals are set for each individual based on that individual's position in the organization and the level of contribution that can be made from that position toward achievement of the corporate goals. In 2004, as a result of successful consultations with the three postal management associations, 78,000 other nonbargaining employees were placed under the same evaluation system and are participating in pay-for-performance.

Key to the new system is an intranet-based tool that manages each employee's annual evaluation using automated workflow. An objective-setting process, that includes the approval of individual objectives, allows employees to align individual contributions to both unit and corporate successes. The system also documents evaluators' feedback at the midyear performance review and end-of-year evaluation. This reinforces the Postal Service's commitment to provide specific and tangible feedback on individual progress toward established targets. The new system also calculates end-of-year performance ratings based on individual achievements against targets, in addition to unit and corporate results.

The new pay systems are based solely on these performance evaluations. There are no automatic or across-the-board pay increases for executives or nonbargaining employees. All pay actions are made within a salary structure that is market-based according to an independent and comprehensive market analysis of postal positions. Salary structures at the top levels of the organization, however, remain compressed because of the statutory salary cap.

## **BUILD A HIGHLY EFFECTIVE AND MOTIVATED WORKFORCE**

In the transformation effort to build a highly effective and motivated workforce, the Postal Service built on existing programs to institute additional managerial accountability for workplace environment issues. By focusing on improving the workplace, as measured by the percentage of favorable responses to questions on the Voice of the Employee (VOE) survey, which now is a part of the NPA, the Postal Service successfully raised VOE scores to an all-time high.

In 2004 the Postal Service worked through trained field coordinators to encourage employees to view the VOE survey as an opportunity to voice their concerns about the workplace. The Postal Service also developed two VOE communication tools for 2005, a VOE video series and an informational direct mailpiece.

At the national level the VOE index score has improved steadily since 1999. In 2003 the Postal Service VOE index score increased 2.3 percentage points to 61.1 percent, while the response rate increased to 58 percent. By the end of 2004, the Postal Service attained a national index score of 62.1 percent favorable responses and a response rate of 64 percent, the highest ever recorded. The postal quarter IV 2004 VOE survey index score was 63.6 percent, an increase of 2.5 percentage points, and the response rate was 66 percent.

In the area of diversity, supervisors and managers in the field supported the work of the District Joint Employee Assistance Program Advisory Committee and Diversity's continuous education initiatives. Also, each Postal Service district maintains both a Threat Assessment Team and a Crisis Management Team and provides violence prevention awareness and sexual and workplace harassment prevention training.

The Workplace Environment Improvement Advisory Committee continues to identify troubled worksites based on established criteria and track progress of action plans for remediation. Work to organize data so that it becomes a reliable predictor of future behavior in the workplace and as a basis for proactive intervention, has been deemed to be infeasible and has been discontinued. From 2002 to the end of 2004 the number of troubled Postal Service worksites has been reduced from 39 to 8. These efforts will continue in 2005.

A cornerstone of having a motivated and effective workforce is a safe workplace. The Postal Service has achieved significant reductions in employee injuries in the past few years. Workforce safety is a corporate Government Performance and Result Act goal and is part of the *Annual Performance Plan*. A major accomplishment in 2004 has been a reduction in Occupational Safety and Health Administration (OSHA) injuries and illnesses by 36 percent from the 2001 baseline. Motor vehicle accidents have been reduced by 11 percent from the 2001 baseline.

To further workplace safety the Postal Service signed two agreements with its unions in 2004. One agreement was to implement the Voluntary Protection Program (VPP) between the Postal Service and the American Postal Workers Union (APWU). The VPP process is designed to improve safety and health at the worksite by reducing the number and severity of job-related illnesses and injuries. In the other agreement, the Postal Service and the National Association of Letter Carriers (NALC) established a national level task force to reduce city carrier motor vehicle accidents and injuries. Pilot tests are being jointly implemented in the Eastern, Pacific, and Great Lakes Areas.

In addition, the Postal Service, the APWU, the National Postal Mail Handlers Union, and OSHA entered into a landmark Ergonomic Strategic Partnership to work together to reduce employee musculoskeletal disorders (MSD) and injuries at major Postal Service mail processing facilities. MSDs associated with ergonomic risk factors account for about 40 percent of injuries and illnesses among postal employees. An Ergonomic Risk Reduction Process (ERRP) was implemented in 53 mail processing facilities in 2003 and 2004. ERRP will be deployed in another 32 mail processing sites in 2005, in 40 sites in 2006, in 40 sites in 2007, and in 11 sites in 2008. As of the end of 2004 the Postal Service had trained more than 40,073 employees in ergonomic risk reduction. Of the total, approximately 5,000 were managers; the rest were from the clerk, mail handler, maintenance, and vehicle services functions.

As a direct result of the ERRP success experienced in plants thus far, a Customer Service ERRP pilot was implemented in Albany, NY. The goal of the pilot is to extend the success of ERRP to customer service employees.

## **IMPROVE LABOR/MANAGEMENT RELATIONS**

The Postal Service successfully worked with the APWU, NALC, and Mail Handlers to improve communications by producing and publishing manuals that provide a joint understanding of the interpretation and administration of the provisions of the various national agreements. Joint labor/management training on these documents has been conducted across the country.

## **IMPROVE WORKFORCE PLANNING**

Complement management remains critical to an organization with approximately 700,000 career employees. The Postal Service has been planning, adjusting, and tracking complement, as well as projecting complement needs based on changes in business and operational requirements, using the tools it has developed.

These efforts to plan for and optimize employee complement needs provide the Postal Service with the ability to determine the right people and skills to handle current mail volumes, to project what skills will be required in a changing environment, and to facilitate employee movement to meet those needs.

## **EXPAND SHARED SERVICES AND EXPLORE OUTSOURCING**

No matter how successful its retention efforts or how effectively it relocates current employees to areas of greater need, the Postal Service always needs to hire new individuals. Hiring has long been a labor-intensive, paper-intensive, and time-consuming process. In 2004 the Postal Service continued to explore with the Office of Personnel Management (OPM) a process that reduces the amount of time, energy, and paper involved in hiring new Postal Service employees.

In addition, the Board of Governors in 2004 approved funding for a new initiative called *PostalPEOPLE*, which will change the way the Postal Service does business with employees. *PostalPEOPLE* will replace existing, outdated technology with a single, fully-integrated system featuring redesigned processes that are streamlined, standardized, and automated. The result will be a single view of the employee; that is, one secure system from which all employee information may be accessed. Deployment is planned for 2005.

In 2004 the Postal Service also completed its initiative to outsource equal employment opportunity investigations. The Postal Service maintains internal, centralized management while investigations are conducted by independent contractors retained by the Postal Service. The Postal Service will continue to seek additional outsourcing opportunities in 2005 and beyond.

## **IMPROVE THE COLLECTIVE BARGAINING INTEREST ARBITRATION PROCESS**

Of particular importance in the performance-based culture initiatives in the *Transformation Plan* is the Postal Service's commitment to improve the Collective Bargaining Interest Arbitration Process. The Postal Service has met with representatives of the labor organizations to discuss mutually beneficial changes to that process. As a result, agreement was reached with labor unions to support modification of the current interest arbitration process. While such modification would require legislation, the Postal Service and the four major unions supported the recommendation that mediation be substituted for fact-finding within the steps of the current negotiations and dispute resolution process.

## **REDUCE WORKERS' COMPENSATION COSTS**

Like all federal agencies and private sector employers, the Postal Service faces continually rising costs attributable to providing health care to employees who are injured on the job.

The Postal Service's agreement with First Health Corporation continues to be effective. In 2004 through association with First Health and its hospital and physician network, the Postal Service received more than \$2.3 million in gain share payments, and

avoided more than \$74 million in medical payments. The First Health contract is at no cost to the Postal Service. First Health buys the incoming injury compensation medical bills if they are from providers within their network. First Health submits the medical bills to the Department of Labor's Office of Workers' Compensation Programs (OWCP), which processes the bill and sends a check back to First Health according to the fee schedule. First Health then reimburses its provider according to established contract terms. The difference between the OWCP fee schedule and the First Health contract with the providers becomes the gain share amount. The gain share is then split according to the contract between the Postal Service and First Health. The larger savings has been the cost avoidance achieved by having a standardized process of the bills going to the OWCP. There is a much higher detection rate for redundant items when they go through First Health.

For the past two years the Postal Service and the OWCP have been cooperating to identify outplacement opportunities in the federal or private sector for injured Postal Service workers who have been rehabilitated. Because of operational changes at the Postal Service, the successful outplacement of employees with new employers is critical. Currently, 356 employees have been outplaced, have retired, or have received compensation reductions through the rehabilitation program.

## 2.4 ENABLING STRATEGIES

During 2004 significant progress was made on numerous enabling transformation initiatives in support of the Postal Service's commitments to foster growth through customer value, improve operational efficiency, and enhance a performance-based culture. These initiatives, which ranged from financial management to privacy, are at various stages of completion.

### 2.4.1 ENHANCE FINANCIAL MANAGEMENT

The Postal Service is improving financial management by reducing outstanding debt, enhancing reporting transparency, financing the delivery network, and exploring alternative investments for deferred retirement liabilities.

#### *Reduce Outstanding Debt*

In the *Transformation Plan* the Postal Service committed to reducing outstanding debt by recovering prior year losses and maintaining a disciplined capital investment program.

A debt reduction plan of \$800 million was incorporated into the 2003 Integrated Financial Plan. However, the Postal Civil Service Retirement System Funding Reform Act of 2003 (Public Law 108-18) significantly increased Postal Service cash flows. Aided as well by the increased flexibility provided by the refinancing activity undertaken in 2003, the Postal Service reduced debt by \$3.8 billion to an outstanding balance of \$7.3 billion.

For 2004 the planned debt reduction was in the range of \$4.2 to \$4.7 billion, well beyond the estimated \$2.7 billion required by Public Law 108-18. The Postal Service ended 2004 with \$1.8 billion in debt outstanding, a reduction of \$5.5 billion from the prior year, resulting in the lowest level of year-end debt since 1984. Interest expense on Postal Service debt in 2004 totaled \$14 million, which was \$321 million below the 2003 level, and the lowest since 1972. For 2004 the interest savings, net of investment income, that can be attributable to the 2003 refinancing, is estimated to be \$275 million.

#### *Enhance Reporting Transparency*

The Postal Service completed the following initiatives in 2004 to enhance reporting transparency:

The Postal Service released the *2003 Annual Report*, which included additional financial information in its footnotes and an expanded Management Discussion and Analysis section.

Beginning with postal quarter I 2004 the Postal Service has reported significant financial information on its commercial Web site, [www.usps.com](http://www.usps.com), consistent with the Securities and Exchange Commission (SEC) Form 8-K type reporting requirements.

Consistent with SEC Form 10-Q type reporting requirements, the quarterly Financial Reports were expanded in 2004 to include an enhanced Management Discussion and Analysis section, additional financial statements that provide the same level of detail as contained in the *Annual Report*, and segment analysis by product and function.

In early 2004 the Postal Service completed its conversion to monthly reporting from the 13 accounting periods used previously. Monthly reporting has eliminated confusion about the postal calendar year and allows comparisons of Postal Service financial results with those of competitors, customers, government, and other econometric databases, all of which generally report financial data in calendar quarter and monthly formats. The Postal Service also implemented a new general ledger system in 2004.

In 2004 the Postal Service established procedures that align with certain requirements in Section 404 of the Sarbanes-Oxley Act of 2002 (SOX). The Postal Service identified its major processes and is documenting and assessing them as part of its program management responsibilities consistent with SOX.

### *Finance Delivery Network Expansion on Current Basis and Explore Alternative Investments for Deferred Retirement Liabilities*

The Postal Service has considered adding a provision that allows for inclusion of land acquisition costs in the revenue requirement in future general rate cases. This provision could be included in the next omnibus rate case.

Postal Service efforts to address retirement liability issues and the Postal Civil Service Retirement System (CSRS) Funding Reform Act of 2003 (Public Law 108–18) have resulted in the Postal Service now having two fully funded pension plans. This replaces the strategy of exploring alternative investments for retirement liabilities.

Public Law 108–18 included a transfer to the Postal Service of the CSRS benefit cost associated with military service previously funded by the U.S. Treasury. This amounted to a retroactive cost transfer of \$27 billion. Resolution of this matter has been the subject of congressional interest throughout 2004, and legislation that would return the cost of military service for Postal Service retirees to the U.S. Treasury is pending in both the Senate and the House.

## **2.4.2 EXPAND USE OF SUPPLY CHAIN MANAGEMENT**

Through the implementation of a supply chain management (SCM) process across the organization, the Postal Service has achieved a total of \$1.4 billion in cost savings, reductions, and avoidances along with revenue generation since 2000. In 2004 more than \$641 million was attributed to SCM activities. The Postal Service achieved these benefits of SCM by analyzing what is bought, where it is bought, how it is bought, and even how suppliers obtain it.

In the area of *strategic sourcing*, the Postal Service consolidates local and regional buys into national contracts, leveraging previously fragmented buying power. The national contracts for information technology equipment and services, retail terminals, and office equipment yield continuous year-over-year impacts. In 2004 the Postal Service impact from these three areas was \$148 million.

In its efforts towards *continuous improvement*, Supply Management is using reverse auctions to capture true market pricing, compress competition, reduce cycle times, and lower total cost of ownership; applying standardization principles to reduce the variety of items, brands, and parts purchased; or outsourcing inventory management and distribution functions to increase efficiency and lower costs. To date the Postal Service has run nearly 600 reverse auctions, accounting for over \$320 million in purchasing spend.

The standardization of maintenance, repair, and operating supplies has positively impacted costs by over \$500 million in 2004, while improved management of vehicle inventories helped avoid \$4.8 million in costs in 2004. An in-depth market analysis and benchmarking study of the utility industry led to the implementation of a Shared Energy Savings Program, which resulted in savings of \$8.7 million in 2004.

Focus is also placed on *innovations* in product or service design. This is accomplished by listening to stakeholders and examining each link in the supply chain for possible cost reduction opportunities.

Applying SCM techniques during the purchase of modifications for AFSM 100s Flats Identification Code Sorter resulted in cost avoidances of over \$9 million in 2004.

The Postal Service's Easy Ebuy Access program has been recognized as one of the most innovative information technology programs in government. Implementation of a new Contract Authoring and Management System (CAMS), slated for early 2005, will expand SCM e-business process capabilities by interfacing requisition data among the Easy Ebuy Access application, CAMS, and a new accounts payable system. Integration of these systems will provide the ability to capture spend data for identifying future cost reduction opportunities.

Finally, the Postal Service completed development of policy design objectives and criteria within its purchasing function to maximize the flexibility given to it under current law and to reflect commercial best practices. Final language was published in the *Code of Federal Regulations* to establish purchasing regulations and procedures that have the force and effect of law. Purchasing changes are in progress and will be fully implemented in 2005.

### **2.4.3 STRATEGICALLY APPLY TECHNOLOGY**

In the area of technology, the 2002 *Transformation Plan* called for enhancing security, upgrading the infrastructure, and providing universal computing connectivity. The following sections highlight progress in these three areas.

#### *Enhance Security Across All Technology*

To ensure the security, privacy, and continuity of the nation's mail, the Postal Service is enhancing security across all technology. Strategies to accomplish this initiative include education and training, application certification, contingency planning, intrusion protection, and automated monitoring. These activities are well underway for completion by 2006. Some examples of progress made through 2004 include:

- Certifying 60 percent of critical or sensitive applications.
- Establishing compliant recovery plans for 57 percent of critical applications.
- Completing the deployment of 100 percent of intrusion detection sensors.
- Providing an additional layer of protection at more than 300 mail processing facilities to enhance security.
- Blocking more than 4 million non-business related and inappropriate Web sites.
- Scanning more than 13 million e-mail messages and 1 billion incoming Internet transactions monthly, which has prevented hundreds of thousands of viruses and harmful e-mails from entering the system.
- Providing security awareness and training to more than 130,000 Postal Service computer users in 2004.

#### *Upgrade the Infrastructure*

The Enterprise Data Warehouse (EDW) is the repository that collects Postal Service data from multiple sources for reporting and data analysis to provide a single source of information. Enforceable standards are being developed to ensure that this major database offers the reporting tools to support credible, reliable, consistent, and timely cross-functional analysis and reporting and that it provides customers an integrated view of all corporate data. Approximately 3,000 users now access the EDW daily, and produce more than 40,000 reports each week. EDW response time has also improved greatly in the last six months. The average report time is now less than 41 seconds, with 90 to 95 percent being completed in less than one minute. Performance will continue to improve as technical teams work with the user community to streamline report queries and fine-tune the system. More than 120 data

sources are now housed in the EDW. During 2004 more than 5,000 employees were trained in Micro-Strategy — the query language used to extract reports from the EDW — and both the number of users and reports have increased significantly.

During 2004 the Postal Service modernized, secured, and simplified its infrastructure with the Advanced Computing Environment (ACE) program. ACE will allow the Postal Service to realize significant savings by 2006 through centralizing and reducing support functions for the 130,000 Postal Service computer users at 28,000 postal facilities nationwide.

Through the implementation of ACE, 270 software packages were reduced to 60. Through 2004, 147 national applications were converted to ACE, and 12,000 servers were removed from the field. While the number of servers, support sites, and, therefore, costs are decreasing; capacity has increased. Service has not suffered because the system is less cumbersome, less complex, more reliable, and easier to maintain and manage. Renegotiated contracts have reduced labor rates paid to contractors by as much as 37 percent. Consolidation and use of remote management tools are also lowering support costs, including the elimination of 330 field contractor positions, 200 contractor positions from the Raleigh facility, and an additional 250 contractors from the help desk function from 2002 through 2004. ACE supports the Postal Service's Intelligent Mail products and other transformation initiatives.

In 2004 the Postal Service also continued upgrading its midrange computing infrastructure. The midrange computing infrastructure supports new technological and application changes without jeopardizing legacy computing on mainframes. The midrange computing level has the least costly applications, operations, and support services. The upgrade started in 2003 and will continue through 2006. When the upgrade is fully implemented in 2006, approximately 30 percent of the workload from the Postal Service's mainframe environment will migrate to midrange computing, thereby reducing costs.

#### *Provide Universal Computing Connectivity*

Like other large organizations, the Postal Service is becoming more mobile and more reliant on technology. With network technology demands growing daily, the network infrastructure must be upgraded. As a result, the Postal Service is employing consolidated voice, data, video networks, and wireless technology to ensure universal computing connectivity.

In mid-2002 the Postal Service started migration to a single network infrastructure to support movement of the mail and access to the mail by the thousands of users who require enterprise technical resources. More than 6,000 postal network locations were transitioned to this high speed data network in 2004; the next section of the network is scheduled to migrate in the next two to three years.

### **2.4.4 ENSURE THE SAFETY, SECURITY, AND PRIVACY OF THE MAIL**

In 2004 the Inspection Service completed development and staffing for the Comprehensive Intelligence Analyst Support function, which collects, analyzes, and assesses criminal and terrorist threats against the Postal Service. It also staffed the physical security specialist positions, which were created to conduct physical security surveys, threat assessments, risk analyses, and facility design reviews.

In 2004 the Inspection Service completed training in response to threats of weapons of mass destruction and hazardous materials (HAZMAT), which enables inspectors to respond capably to HAZMAT and Biological Detection System alerts.

The Inspection Service also completed the nationwide assessment of its security force, which is transitioning to a mobile, highly visible, hybrid security force comprised of Postal Police and contract security personnel.

The Inspection Service established two National Law Enforcement Communications Centers in 2004, which consolidate and improve monitoring and response capabilities for communications and alarm systems. They will be operational by the end of calendar year 2004.

Also in 2004 the Inspection Service continued initiatives to reduce and deter criminal attack against postal products, services, and assets by continuing the development and deployment of high security cluster boxes; continuing the use of Comprehensive Security

Reviews and the Facility Risk Rating Model to improve the security of postal facilities; and partnering with major mailers to improve the security of their facilities. Collectively, these actions have led to approximately a 20 percent decrease in mail theft instances.

### *Privacy*

During 2004 the Postal Service completed all of its transformation privacy initiatives, including the ability to track and process Freedom of Information Act (FOIA) requests electronically with the final implementation of its eFOIA tracking system. The eFOIA tracking system shortens the response time for requests and improves compliance with the statutory requirements on documentation and reporting. With approximately 1,500 FOIA requests annually, this electronic system has resulted in simpler, less burdensome compliance.

### **SECTION 3: THE FUTURE**

The *Transformation Plan*, which the Postal Service submitted to Congress in April 2002, is a dynamic document. Since its publication, economic trends, public policy decisions, and new technologies have impacted the 2002 Plan's near-term strategies. The Postal Service has consistently adjusted its transformation strategies to reflect the commitment of Postal Service leadership to transform internally within the framework of current law.

With this second annual *Transformation Plan Progress Report* the Postal Service continues its efforts to improve external communications by providing regular reports on transformation to Congress and postal stakeholders. The progress reports track a dynamic organization in which strategies and initiatives evolve over time. These reports help the postal community monitor the evolving transformation process.



## APPENDIX – TRANSFORMATION STRATEGIES AND SUBSTRATEGIES

	IN PROGRESS / UNDER DEVELOPMENT <sup>1</sup>	COMPLETED <sup>2</sup>	DISCONTINUED / SUSPENDED <sup>3</sup>
<b>2.1 FOSTER GROWTH THROUGH CUSTOMER VALUE</b> <i>(Some Growth through the Customer Value strategies listed in the 2002 Plan have been consolidated with other strategies as noted)</i>			
<b>2.1.1 RETAIL: EXPAND ACCESS TO POSTAL SERVICES</b>			
1. Move Simple Transactions Out of Post Offices <i>(Now called “Move Simple Transactions Away From the Retail Counter; Increase Household Access to USPS Products and Services”)</i>		X	
■ Communications on alternative services		X	
2. Create New, Low-Cost Retail Alternatives	X		
■ Expand self-service	X		
■ New functionality for <i>www.usps.com</i>		X	
■ Retail partnerships	X		
■ Product simplification <i>(See Design Rates and Mail Preparation)</i>	X		
■ Leverage commercially-developed innovations	X		
3. Optimize the Retail Network	X		
4. Develop New Retail Services that Increase Customer Value and Postal Revenue	X		
■ Government and other services	X		
■ Leverage retail assets	X		
■ Complementary retail products	X		
<b>2.1.2 PRODUCTS AND SERVICES: IMPROVE VALUE AND GROWTH</b>			
1. Use Technology to Enhance Value	X		
■ Identify and track mail-pieces	X		
■ Use technology to improve the response mechanism	X		
■ Use technology to improve the access, speed, and reliability of accountable mail services	X		
■ Intelligent Mail	X		

<sup>1</sup> In Progress / Under Development — Initiative is in the process of being implemented.

<sup>2</sup> Completed — Item complete. Strategy integrated into business processes.

<sup>3</sup> Discontinued / Suspended — Initiative determined to be infeasible or not viable. No further action to be taken at this time.

	IN PROGRESS / UNDER DEVELOPMENT <sup>1</sup>	COMPLETED <sup>2</sup>	DISCONTINUED / SUSPENDED <sup>3</sup>
2. Design Rates and Mail Preparation to Match Customer Capabilities and Needs	X		
<ul style="list-style-type: none"> <li>■ Simplify the rate structure, preparation, and acceptance requirements in accordance with differing customer needs</li> </ul>	X		
<ul style="list-style-type: none"> <li>■ Simplify the rate structure for mailing books and parcels from nine rates to two rates</li> </ul>			X
3. Position Mail as a Key Communications and Customer Relationship Management (CRM) Tool		X	
<ul style="list-style-type: none"> <li>■ Adopt optimal channel strategies to improve access to postal products and services</li> </ul>		X	
4. Enhance Package Services	X		
<ul style="list-style-type: none"> <li>■ Merchandise return — Implement acceptance scanning of return parcels</li> </ul>		X	
<ul style="list-style-type: none"> <li>■ Online postage label application — Design and implement online postage label for mailing packages</li> </ul>		X	
<ul style="list-style-type: none"> <li>■ New parcel categories — Make it easier for customers to mail with the Postal Service by reducing the number of mail categories, rate structures, and confusing requirements</li> </ul>	X		
5. Map Channel Strategies Around Customer Needs, Contribution, and Growth Potential	X		
6. Develop New Features and Services	X		
7. Leverage Existing Assets <i>(Incorporated into Retail: Expand Access; Enhance Package Services; and Develop New Features and Services)</i>			
8. Promote Greater Ease-of-Use <i>(Incorporated into Develop a Corporate Pricing Plan)</i>			
9. Make rules and regulations more market-responsive <ul style="list-style-type: none"> <li>■ Improve access to and ease-of-use of postal products and services as a way to build additional customer loyalty and penetrate new markets</li> </ul> <i>(Incorporated throughout other Growth Through Value strategies)</i>			

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<sup>2</sup> Completed — Item complete. Strategy integrated into business processes.

<sup>3</sup> Discontinued / Suspended — Initiative determined to be infeasible or not viable. No further action to be taken at this time.

	IN PROGRESS / UNDER DEVELOPMENT <sup>1</sup>	COMPLETED <sup>2</sup>	DISCONTINUED / SUSPENDED <sup>3</sup>
10. Develop a Corporate Pricing Plan	X		
11. Generate New Revenue for the Postal Service by Retaining and Increasing International Market Share	X		
<b>2.2 INCREASE OPERATIONAL EFFICIENCY</b>			
1. Enhance Already Efficient Letter Processing	X		
■ Deploy Postal Automated Redirection System (PARS)	X		
2. Complete Automation of Flats Processing	X		
■ Complete deployment of Automated Flat Sorting Machine (AFSM) 100		X	
■ Install automated flat feed and optical character reader (AFF/OCR) modifications on Upgraded Flat Sorting Machine (UFSM) 1000		X	
■ Deploy Automatic Tray Handling System (ATHS) for AFSM 100	X		
■ Deploy ATHS for UFSM 1000			X
■ Deploy semiautomatic tray take-away mechanism on the UFSM 1000			X
■ Deploy Flats Remote Encoding System (FRES)	X		
3. Expand Mechanization of Material Handling Operations	X		
■ Deploy low cost tray sorters	X		
■ Develop universal tray system		X	
4. Improve Delivery Efficiency	X		
■ Delivery point sequence of flat mail	X		
■ Delivery point packaging (DPP)	X		
■ Deploy delivery operations information systems		X	
■ Deploy managed service points		X	
■ Delivery performance achievement and recognition system (DPARS)		X	
■ Improve rural delivery		X	
■ Carrier optimal routing		X	
■ Segway Human Transporter			X

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<sup>2</sup> Completed — Item complete. Strategy integrated into business processes.

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	IN PROGRESS / UNDER DEVELOPMENT <sup>1</sup>	COMPLETED <sup>2</sup>	DISCONTINUED / SUSPENDED <sup>3</sup>
5. Deploy Next Generation Package Sorting Equipment	X		
■ Deploy Singulate, Scan, Induction Unit (SSIU)		X	
■ Deploy Automated Package Processing Systems (APPS)	X		
6. Optimize Transportation and Distribution Networks	X		
■ Deploy surface air management system		X	
■ Develop transportation optimization planning and scheduling (TOPS)	X		
■ Deploy surface air support system (SASS)	X		
■ Develop transportation contract support system (TCSS)		X	
■ Increase utilization of mail transport equipment (MTE)		X	
■ Evolutionary Network Development (END)	X		
7. Increase Retail and Customer Service Productivity	X		
■ Retail/customer service productivity improvement	X		
■ Facility design changes	X		
8. Improve Performance Management		X	
■ Area mail processing consolidation		X	
■ Other direct labor reviews and standardization		X	
■ Priority Mail standardization		X	
■ Implement Complement Planning, Tracking, and Management (CPTM) <i>(Incorporated into Performance-Based Culture strategies)</i>			
9. Manage Realty Assets	X		
■ Postal Service properties for sale/development	X		
■ Short-term leasing <i>(Incorporated throughout other Manage Realty Assets strategies)</i>			
■ Developmental leasing <i>(Incorporated throughout other Manage Realty Assets strategies)</i>			
■ Developmental added value properties <i>(Incorporated throughout other Manage Realty Assets strategies)</i>			
■ Other programs <i>(Incorporated throughout other Manage Realty Assets strategies)</i>			
■ Space to be outleased	X		

<sup>1</sup> In Progress / Under Development — Initiative is in the process of being implemented.

<sup>2</sup> Completed — Item complete. Strategy integrated into business processes.

<sup>3</sup> Discontinued / Suspended — Initiative determined to be infeasible or not viable. No further action to be taken at this time.

	IN PROGRESS / UNDER DEVELOPMENT <sup>1</sup>	COMPLETED <sup>2</sup>	DISCONTINUED / SUSPENDED <sup>3</sup>
10. International Air Transportation Deregulation	X		
<b>2.3 MOVE TOWARD A PERFORMANCE-BASED CULTURE</b>			
1. Retain and Recruit Quality Employees	X		
<ul style="list-style-type: none"> <li>■ Retain employees with skills critical to the success of the Postal Service</li> </ul>	X		
<ul style="list-style-type: none"> <li>■ Concentrate recruitment efforts on bringing talent, skills, and experience from within the organization and from the outside labor market to address potential loss of Postal Service leadership</li> </ul>	X		
2. Develop Future Leaders (Now called "Develop Current and Future Leaders")	X		
3. Ensure Training and Development	X		
<ul style="list-style-type: none"> <li>■ Maximize available training and development programs in order to have a pool of potential successors at all levels of the organization</li> </ul>	X		
<ul style="list-style-type: none"> <li>■ Implement more technology-based training solutions</li> </ul>	X		
<ul style="list-style-type: none"> <li>■ Secure/develop a learning management system utilizing current legacy systems to coordinate administration, scheduling, tracking, assessment, and testing of learners in both classroom and e-learning settings</li> </ul>	X		
4. Create a Performance-Based Pay System		X	
5. Build a Highly Effective and Motivated Workforce	X		
<ul style="list-style-type: none"> <li>■ Use existing programs and measures to create managerial accountability</li> </ul>		X	
<ul style="list-style-type: none"> <li>■ Organize the most predictive workplace data into proactive information for use by the districts and areas to create proactive interventions</li> </ul>			X

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	IN PROGRESS / UNDER DEVELOPMENT <sup>1</sup>	COMPLETED <sup>2</sup>	DISCONTINUED / SUSPENDED <sup>3</sup>
6. Improve Labor/Management Relations	X		
<ul style="list-style-type: none"> <li>■ Expand various joint employee involvement and quality of work life initiatives with labor unions. Develop and provide contract administration and labor/management training to both management and bargaining unit employees</li> </ul>	X		
<ul style="list-style-type: none"> <li>■ Postal Service employee and management leadership participation in joint initiatives</li> </ul>		X	
<ul style="list-style-type: none"> <li>■ Development and expansion of Joint Contract Administration Handbooks and Manuals</li> </ul>		X	
<ul style="list-style-type: none"> <li>■ Development and expansion of alternatives to traditional discipline and dispute resolution methods</li> </ul>		X	
7. Improve Workforce Planning	X		
8. Expand Shared Services and Explore Outsourcing	X		
<ul style="list-style-type: none"> <li>■ Expand Use of Shared Services <i>(Now called "Accounting Shared Services," Shared Services/Accounting is ongoing)</i></li> </ul>		X	
<i>(Shared Services/Human Resources is in progress.)</i>	X		
<ul style="list-style-type: none"> <li>■ Implement those outsourcing initiatives which have the potential to: increase service and quality levels; better utilize resources; reduce costs; allow greater emphasis on the Postal Services core business</li> </ul>	X		
9. Improve the Collective Bargaining Interest Arbitration Process	X		

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10. Reduce Workers' Compensation Costs	X		
<ul style="list-style-type: none"> <li>■ Expand the Preferred Provider Organization Program with First Health and Office of Workers' Compensation Programs</li> </ul>		X	
<ul style="list-style-type: none"> <li>■ Move all Federal Employees' Compensation Act recipients to FECA annuity at age 65</li> </ul>	X		
<ul style="list-style-type: none"> <li>■ Encourage the Office of Workers' Compensation Programs to revise current regulations to allow for direct contact with the treating physician by the employing agency</li> </ul>	X		
<ul style="list-style-type: none"> <li>■ Private sector outplacement of injured Postal Service employees and the creation of new internal positions to accommodate injured workers</li> </ul>		X	
<ul style="list-style-type: none"> <li>■ Interagency work cooperation to attain organizational objectives</li> </ul>		X	
<b>2.4 ENABLING STRATEGIES</b>			
<b>2.4.1 ENHANCE FINANCIAL MANAGEMENT</b>			
1. Reduce outstanding debt		X	
<ul style="list-style-type: none"> <li>■ Preserve liquidity while managing interest expense</li> </ul>		X	
<ul style="list-style-type: none"> <li>■ Incurring debt for high return capital investments only</li> </ul>		X	
2. Enhance reporting transparency		X	
<ul style="list-style-type: none"> <li>■ Monthly reporting — Converting from accounting period reporting to monthly and calendar quarter reporting</li> </ul>		X	
3. Finance delivery network expansion on current basis and explore alternative investments for deferred retirement liabilities		X	
<b>2.4.2 EXPAND USE OF SUPPLY CHAIN MANAGEMENT</b>			
<ul style="list-style-type: none"> <li>■ Focus Postal Service resources on lowering overall cost and furthering competitive and business objectives</li> </ul>		X	
<ul style="list-style-type: none"> <li>■ Consolidate purchases for better quality and lower cost</li> </ul>		X	

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<b>2.4.3 STRATEGICALLY APPLY TECHNOLOGY</b>			
Intelligent Mail <i>(Incorporated into Growth Through Value, Use Technology to Enhance Value)</i>			
<b>Enhance security across all technology</b>			
Enhance security across postal technologies to avoid disruption in critical operations and protect sensitive information from unauthorized disclosure or modification	X		
■ Education and training		X	
■ Certification process	X		
■ Contingency planning	X		
■ Intrusion protection		X	
■ Automated monitoring	X		
<b>Upgrade the infrastructure</b>			
Leverage technological advances and business partnerships to upgrade and leverage the infrastructure	X		
■ Upgrade distributed computing infrastructure		X	
■ Upgrade mainframe computing infrastructure	X		
■ Upgrade midrange computing infrastructure	X		
■ Technical shared services	X		
■ Corporate shared services	X		
<b>Provide universal computing connectivity</b>			
Expand core/backbone, wide area network, and local area networks to provide universal computing connectivity	X		
■ Consolidate voice, data, and video network	X		
■ Wireless technology	X		

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<b>2.4.4. ENHANCE THE SAFETY, SECURITY, AND PRIVACY OF THE MAIL</b>			
<b>POSTAL INSPECTION SERVICE — SAFETY</b>			
■ Ensure a safe, secure, and drug-free work environment		X	
■ Reduce and deter employee-on-employee assaults and credible threats		X	
■ Deter robberies of postal employees and facilities		X	
■ Reduce and deter illegal drugs in the postal environment		X	
<b>POSTAL INSPECTION SERVICE — SECURITY</b>			
■ Reduce theft of mail		X	
■ Reduce and deter attacks on postal vehicles, apartment panels, collection boxes, neighborhood delivery collection box units, and collection box units		X	
■ Identify and resolve domestic and international in-transit mail theft		X	
■ Reduce and deter mail theft-related identity theft and identity takeover crimes		X	
■ Reduce and deter criminal attack of postal products, services, and assets		X	
■ Reduce and deter embezzlements		X	
■ Reduce and deter criminal misuse of the Postal Service's workers' compensation program and reduce long-term compensation cost		X	
■ Reduce and deter postage fraud schemes		X	
■ Ensure sanctity and security of U.S. Mail		X	
■ Assist postal management in the deployment and implementation of new safety and security procedures and technology		X	

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<b>POSTAL INSPECTION SERVICE — INTEGRITY</b>			
■ Reduce the use of the mail to defraud consumers, businesses and government agencies		X	
■ Reduce and deter the use of the U.S. Mail for the procurement or delivery of materials that promote the sexual exploitation of children		X	
■ Reduce and deter the use of the postal system for prohibited, illegal, and dangerous mailings		X	
■ Reduce and deter multi-state domestic and international telemarketing operations and direct mail operations		X	
■ Reduce and deter deceptive mailing operations		X	
■ Reduce and deter the use of the nation's mail system by organized groups to transport illegal narcotics		X	
■ Reduce and deter use of U.S. postal money orders to launder money by disrupting money laundering operations		X	
<b>PRIVACY</b>			
■ Standardize privacy policies and processes		X	
■ Streamline compliance procedures to reduce costs and increase productivity by saving time		X	
■ Work with internal and external groups to ensure that privacy is built into data-oriented initiatives		X	

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<b>2.5 SEEK MODERATE REGULATORY AND LEGISLATIVE REFORMS</b> <i>(Progress on these reform initiatives is contained throughout this report.)</i>			
1. Seek the maximum flexibility consistent with the current rate-making process	X		
■ Negotiated Service Agreements	X		
■ Targeted Pricing Incentives	X		
■ Experimental Classification	X		
■ Phased Rates	X		
2. Rationalize Retail Network Facilities	X		
3. Modernize Purchasing Procedures	X		
4. Reform Labor and Employment Provisions	X		
■ Impasse Resolution	X		
■ Salary Cap	X		

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