

**Testimony
of
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Before the
Committee on Oversight and Government Reform

Subcommittee on the Federal Workforce,
Postal Service and the District of Columbia
U.S. House of Representatives**

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Good morning Mr. Chairman and members of the Committee. Thank you for giving me the opportunity to appear before you this morning to discuss new revenue generation initiatives and the future of the Postal Service.

BRIEF SUMMARY

I would like to submit my testimony for the record, Mr. Chairman, and briefly summarize it here.

In my testimony I explain that I have been working on these issues since I was recruited to be Vice President for Technology Applications of the Postal Service more than a decade ago when the Internet was first becoming a global force. I explain why I believe the Postal Service and the mailing community can become a source of innovation that is an engine for creating new postal revenue through the **public private partnerships that were encouraged by Congress in Section 1004 of the Postal Accountability and Enhancement Act (PAEA.)**

Today there is broad consensus that bold action must be taken to reinvigorate the postal system. And fortunately ***there are real and tangible opportunities to create new value for postal customers.***

To be clear, let me offer a few examples that might be called “enabling the last mile”, “extending democracy’s reach” and “promoting green routes.”

1. Enabling the Last Mile

By enabling the last mile I refer to the many opportunities that exist for putting technology in the hands of the Letter Carrier, in other words, on the doorstep of the mailing consumer. One of the areas of greatest interest to mailers has been wanting to know where their mail is while its on route to its destination. The USPS has been seen as a black hole compared with FedEx and UPS who have invested billions of dollars to enable their higher end services to “track and trace” and much more.

This will change because the Postal Service is on the verge of creating a “smart grid” of intelligent mail services. Now we can go *beyond the barcode* with tracking technologies that offer exciting possibilities for adding new value for customers. What’s more, we can download applications to scanner technology that is finally, in the last six months, in the hands of the Letter Carriers. Customers can

realize new tangible benefits and create new postal revenue. To make this happen we need to collectively create an innovative enterprise of tests and trials and partnerships and stop shooting the messengers from the future.

2. Extending Democracy's Reach

A second broad theme that Chairman Ruth Goldway in particular has championed has been Vote by Mail. The Postal Service can do this and provide many other government services as well. To be practical and secure it will require connecting hard copy services to Internet Services and ***that*** will necessitate new partnerships. But the opportunity to expand the capacity of the Postal Service to continue to serve as our democracy's agent is here.

3. Promoting Green Routes

Third, there are opportunities for the Postal Service to again serve the nation by carrying parcels that today cause three and four trucks to travel the same route. We can reduce carbon emissions by creating Green Postal Routes. This will take some reengineering and perhaps recognition under Cap and Trade. But there are new opportunities here if we seize them.

In conclusion I didn't invent these ideas. They came from the community, from Letter Carriers who say "why not?" They come from creative mailers who have said, "Why can't we have a smart envelope?" and suppliers who have shown how.

To tap this creativity, mindsets that were established when the Internet was still a future vision have to be changed. To home grown ***governmental*** Internet services its time to say, "that was then, and this is now."

In the future, innovation is going to come through collaboration and partnership where the Postal Service does what it does best, and private companies provide the Internet services. But if we make ***modern Postal Services relevant to a multichannel Internet marketplace, they will generate more mail. This is the real revenue opportunity.***

The coming years could be an exciting time of transformation or they could be a train wreck. The difference will be whether there is clear public policy guidance that can define the creative balance between what should be public and postal and what should be a public private partnership. Thank you Mr. Chairman.

TESTIMONY
of
Robert A. F. Reisner, President
Transformation Strategy

Introduction

My Experience

I am a management consultant and I have had the privilege in recent years of working with clients who bring many different perspectives to these issues: large global consulting firms and small shops of experts, for the Postal Service, for the President's Commission on the USPS, for major suppliers, for unions and for mailers.

I have been working on the revenue generation issues of interest to the Committee this morning since 1993 when Postmaster General Marvin Runyon and Bill Henderson, then the Chief Marketing Officer¹, recruited me to become the first USPS Vice President for Technology Applications.

The Internet was barely a vision in the future, a dream of creating an Information Superhighway. Marvin Runyon thought that the USPS should make that happen to benefit all Americans at a time that many were still worried about the Internet creating a "digital divide." He asked me to lead the initial effort. In the mid-nineties we demonstrated some services that are still delivering value to postal customers today.

For example, we tested CONFIRM bar codes in the summer of 1995 and created First Class Phone Cards (partnered with American Express) as a stepping stone to smart cards. We tested services that were not sustained but are beginning to look interesting once again today such as self-service kiosks and a Web Interactive Network of Government Services. And we created some service pilots such as a

¹ William J. Henderson went on to become Chief Operating Officer and served as Postmaster General from 1998-2001.

postal “electronic postmark” with public key infrastructure, remittance services, hybrid mail and other concepts that may or may not find a place in the future².

My enduring memory of that time was of the creativity and innovation that already existed in the minds of participants in the mailing industry from mid-level engineers, to postal workers to mailers and suppliers to average citizens. Ideas literally walked in my door. This was a good thing and it can happen again for USPS Mailing and Shipping Services President Robert Bernstock and others.

In 1996 I was given the opportunity to become V.P. for Strategic Planning working for Deputy Postmaster General, Michael Coughlin, and I was responsible for leading the development of the 1997 and 2000 Five-Year Strategic Plans. I was present at the creation of the Transformation Plan for the Postal Service.

I was a champion of the “Last Mile Strategy”, believing that the Postal Service had an opportunity to create unique customer value because of its mission, its history and its relationship with its customers.

The Outline of this Testimony

To reestablish the atmosphere of creativity and innovation that we experienced in the mid-nineties when the Internet was young will require three things:

- First, to recognize how important, indeed urgent it is to change long standing tradition,
- Second to recognize that the market is fundamentally different today than in the mid-nineties and
- Third, to create vehicles that can allow the Postal Service to generate new revenue through public private partnerships.

1. The Situation Today and The Imperative for Change

The current situation has been anticipated for a long time.

² This experience was described in Reisner, Robert, “When a Turnaround Stalls”, *Harvard Business Review*, and February 2002.

Volume Decline Predicted in the FY 2000 Strategic Plan

In 2000, I led the development of the second USPS Five Year Strategic Plan. My partners in the USPS Finance department and I concluded that it was impossible to see what was already happening to the mail stream and not conclude that there would be a severe volume decline in the future.

Figure 1 shows the scenarios that we drew at the time and the actual mail volume through September one year ago. What it shows is that we painted a grim picture in 2000 and actual mail volume was worse. There was recovery from 9-11, a decline and a rise that no one could have anticipated. But mail volume in recent years was tracking the rapid diversion case.

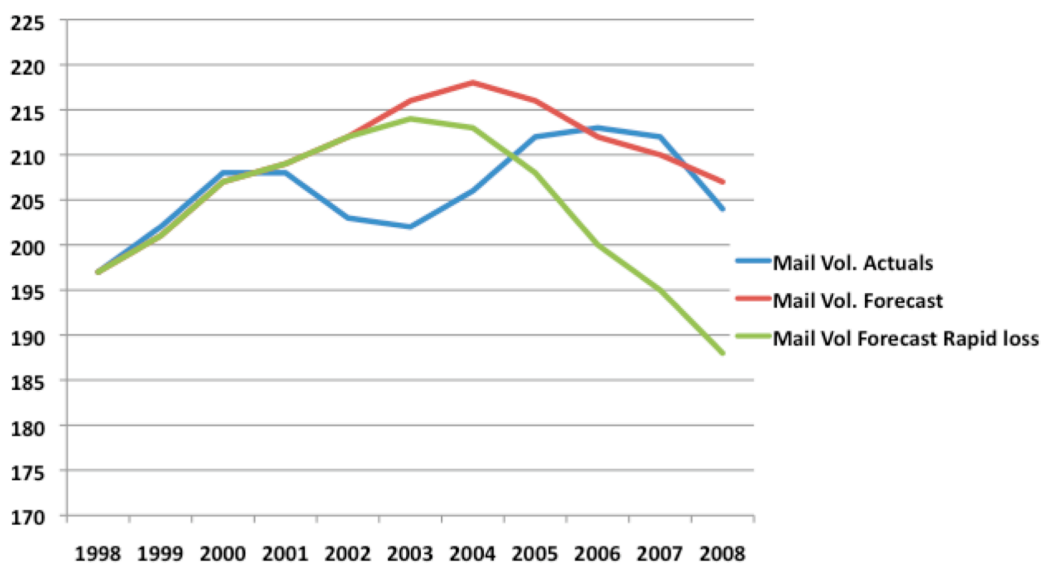


Figure 1

FY 2000 Five Year Strategic Plan Mail Volume Forecast & Actual Trend (as of 2008)

Then in 2008 the financial crisis caused the mail volume trend to fall off the table. I will leave to the description of the current situation and projections for the future to the USPS experts who can take the story from 2008 to the present time.

Four Core Choices for the Future

This volume decline consigns the USPS to a difficult future. Either there must be new sources of revenue or there will have to be significant cost cutting, or both. The problem as everyone knows is that there are no easy cost cutting targets.

There are four broad choices for the future but three of them are poor ones. If Postmaster General Jack Potter and his team cannot cut costs to match mail volume and if its infeasible to contract out the postal system or to privatize it as the Europeans and Japanese have tried with grim results, and if taxpayer subsidy is a poor solution, then there is only one remaining choice, to create new sources of Postal Service revenue.

The Importance of New Postal Revenue

There should be no question that the leadership of the Postal Service has done a remarkable job. Postmaster General Jack Potter's team has cut costs and sustained service and customer satisfaction in creative ways that no postal observers would have thought possible in the days following 9-11 and the Anthrax crisis when the USPS wrote its initial Transformation Plan³.

But continued cost cutting will not solve the problems that face the USPS today. There is a need for the key stakeholders who support the Postal Service, with Congressional oversight and guidance, to establish a pathway that will permit the Postal Service to generate new revenue. This is an urgent priority with broad national implications for universal service and indeed our democracy⁴.

2. A New Market and New Products and Services

Fortunately, there are a number of significant opportunities to create new revenue for the Postal Service. The details will be filled in by the marketplace and by trial and error. But here we can describe three broad themes and you will have a sense for some of the concrete possibilities for the future.

³ USPS Transformation Plan, April 2005.

⁴ Such high phrases are no long an exaggeration in a time in which there is open discussion of the end of newspapers. (See for example, Rodriguez, Richard, "Final Edition, Twilight of the American Newspaper" Harpers, November 2009 and see John, Richard, *Spreading the News: American Postal System From Franklin to Morse*, Harvard University Press, 1998 on the role that the postal system played in early American history.)

Enabling the Last Mile, Beyond the Barcode

By enabling the last mile I am referring to the many opportunities that exist for putting technology in the hands of the Letter Carrier, in other words, on the doorstep of the mailing consumer. One of the areas of greatest interest to mailers has been wanting to know where their mail is while its on route to its destination. The USPS has been seen as a black hole compared with FedEx and UPS who have invested billions of dollars to enable their higher end services to “track and trace” and much more.

This will change because the Postal Service is on the verge of creating a “smart grid” of intelligent mail services. Now we can go *beyond the barcode* with tracking technologies that offer exciting possibilities for adding new value for customers. What’s more, we can download applications to scanner technology that is finally, in the last six months, in the hands of the Letter Carriers. Customers can realize new tangible benefits and create new postal revenue. To make this happen we need to collectively create an innovative enterprise of tests and trials and partnerships and stop shooting the messengers from the future.

The Intelligent Mail Barcode (IMB) implementation has been difficult for the Postal Service and for the mailing community. To imagine that we can implement new technology beyond the IMB without making changes in the way in which new technology tests are conducted would be naïve.

There are arrays of new technological opportunities that exist today and can be imagined on the horizon that would allow the postal system to go beyond its current capabilities. Radio Frequency devices and symbols that can be embedded in logos, payment indicia and even coding information in the fabric of the envelopes are all possible choices. Nano technology and future inventions may take these possibilities for adding intelligence to mail even further.

The opportunity for the optical scanning platform of the USPS to read and interact with envelopes moving at high speed has not begun to be exhausted. The intelligent mail system that is being created today is only the beginning of what could be a much larger venture.

I doubt that the experience of implementing the Intelligent Mail Barcode is one that either the mailers or the Postal Service would want to repeat. And, to be sure, there is certainly a balance that must be struck between the needs for network standards and simplicity and the many bells and whistles that customers and mailers would invent if they were given the chance. But recognizing this balance, the IMB should become a platform for invention of new services, a place where trials can take place and a laboratory for innovation that will allow customers to co-create new value between the Postal Service and private sector partners.

In a multichannel marketplace, intelligence about the location of individual mail pieces can be the centerpiece of a marketing program.

The Postal Service should be encouraged to create new revenue streams and should be allowed to participate in the revenue that this creates. Which part should be postal and which part should go to the private sector? How far should the Postal Service go in creating services that are not demonstrably “ancillary to” core postal services? These are policy choices for Congress, the regulator, the courts and the Postal Service to negotiate.

Agent for Democracy

A second broad theme where new services might be created is captured by Vote by Mail. The Postal Service can do this and provide many other government services as well. To be practical and secure it will require connecting hard copy services to Internet Services and ***that*** will necessitate new partnerships. But the opportunity to expand the capacity of the Service to continue to serve as our democracy’s agent is here.

Vote by mail may not be a huge revenue producing service by itself. But it may be the most important component of a family of government services that the Postal Service can and should provide. If the Postal Service is going to create new value with electronic services then the place where it should have the most leeway, it would seem, is where the service is a government to government. Security services, health care records, benefit delivery, tax matters, there are many government services where postal hard copy and electronic service could be facilitating the mission of other government agencies. The Postal Service has many

sophisticated IT suppliers with whom it could provide these services at a world-class standards and it should be encouraged to do so.

Green Routes

The basic premise behind a series of new green ideas comes from the fundamental notion that we as a nation have a concern that our trucks and automobiles are consuming carbon in a way that ultimately contributes to global warming and therefore, would it not be better to have one truck go down the street instead of 3 or 4? Today, UPS and the Postal Service have modestly used relationship called Parcel Select and FedEx has introduced a similar service.

In busy cities we are familiar with 3 or 4 trucks parked on the same street. But in areas with lighter parcel delivery, the financial incentive for UPS and FedEx has been to use postal delivery instead of their own.

Green routes would have the benefit of adding another incentive. The economics are not dramatic according to the specialists. An individual truck consumes approximately 21 lbs. of carbon per mile and carbon sells on the European exchange where they have a cap and trade law for \$20 per ton⁵. So there are only modest reasons that would add the carbon removal incremental incentive – perhaps \$10.50 per fifty-mile truck trips.

But even if the initial economics are modest they are all trending in the right direction for this idea. As gasoline prices go up (because of geopolitics, a carbon tax or a cap and trade law) FedEx and UPS and others will have additional incentives for finding alternatives to running their trucks down light routes. Further, there has been enough economic work done already to demonstrate that delivery of parcels is environmentally preferable to having consumer trips to the mall.

If offsets are granted through a new cap and trade law then gaining environmental benefits for improving society's environmental efficiency is an area that should be examined. Perhaps there should be a credit granted to FedEx, UPS,

⁵ Figures from SLS Consulting the economic analysis firm that has conducted many of the major postal energy economics studies for the USPS.

other shippers such as Newgistics and the USPS for consolidating their shipments⁶. Credits could be shared among those who are contributing to creating these environmental benefits.

The marketplace is already moving in this direction today. Firms are entering the market today to solve these kinds of transactions. Third parties are entering the market to provide carbon credit services at the level of individual shipments.

What We Should Expect

These three broad themes share two common concepts – they focus on the core Postal Service and they emphasize partnership. Each will require a postal system that is connected to and enhanced by Internet services. These services that are ancillary to the mail seek to leverage the last mile asset that is inextricably connected with the Postal Service universal service mission. They focus on technology. But the revenue that would come from a business case would be mail, not Internet service revenue.

The details of all three concepts will need to be filled in by customers and the market. But this is where the ideas will come if the Postal Service can create a platform that will accept new ideas, where customers say **“We Have An App For That”** and private services can plug and play with the public infrastructure.

3. Public Policy Considerations: Creating a Vehicle

We should not think that any of this change could happen easily. In a competitive marketplace there will always be someone who will argue that anything we name can be done better in the private sector. But if that were true, we wouldn't need a Postal Service.

Yet, as the Committee knows, Congress decided in 2006, and the President's Commission found in 2003, that there was a strong *public interest* in having a national postal system. Years of debate reaffirmed that the postal system is an

⁶ There may be a balance among environmental, economic and antitrust considerations here in implementing such an idea. But this is exactly why Congressional guidance will be useful.

inherent governmental service. Universal Service is a common good that must be protected in the interest of our democracy.

If the postal system is to be sustained as a public institution, the same debate confirmed that there is no realistic possibility that the Postal Service, or any government monopoly, will be permitted to become a competitive Internet services provider to compete with the private sector.

PAEA makes a distinction between “postal services” and other services. Unfortunately, the market’s demands are and consumer preferences are often more complicated. The marketplace isn’t bipolar. The multi-channel market often seeks services that are connected to the Internet.

So there is the dilemma. There is a strong public interest in universal postal service that will continue to require a postal system. To be relevant to the future marketplace, the Postal Service must take advantage of new technology and must be connected to Internet Services. If this happens, mailers will send more mail.

The 2006 Sense of Congress embodied in Section 1004 of PAEA offers a solution, a pathway from where we are today to an innovative Postal Service.

Recognizing and Clarifying the Goal

First, and most importantly, there is a need for your leadership in clarifying the goal. Postal leadership and the mailing community found the decade from 1995, when Postmaster General Marvin Runyon first called for postal reform and Congressman John McHugh responded, to 2006, when the PAEA version of postal reform was finally passed, to be exceptionally difficult. There is no greater contribution that the Committee and Congress could make to the future of the Postal Service than to provide clear, unwavering guidance that the goal is to sustain a vital postal system.

Creating new sources of revenue will be critical to having such a system. If customers want to have new services that join mail and electronic services on the scale that the postal network can achieve, then Congress should guide the creation of a public private framework for doing this. The framework needs to be both fair to small companies who have had such a vision and it should preserve the

entrepreneurial excitement of their initial achievements. But the goal should be to make mail relevant to the modern marketplace.

Second, Guiding the Creation of An Innovation Framework

One area where the Committee's leadership will be particularly important will be in framing the public policies that will make these public private partnerships possible. The Committee is familiar with Section 1004 of the Postal Enhancement and Accountability Act of 2006⁷ in which Congress stated that

“It is the sense of Congress that the Postal Service should ... implement commercial best practices in Postal Service purchasing policies to achieve greater efficiency and cost savings by taking full advantage of private-sector partnerships as recommended in July 2003 by the President's Commission on the United States Postal Service.”

What the President's Commission said in 2003 was

“The Postal Service should continue to explore opportunities to utilize its core strengths in the first and last mile of the mail delivery stream through the development of mutually beneficial partnerships with the private sector.”

“The Postal Service should develop additional private sector partnerships to better serve the consumer and expand access to postal products and service beyond the traditional post office⁸.”

Does this mean contracting out the core of the Postal Service or privatizing key functions and losing experienced employees? No, it does not. My testimony does not concern traditional postal operations.

My focus here is on making the mail relevant to the marketplace by connecting to the Internet. Customers may want to have multichannel marketing services, online addressing services, secure email addresses connected to their physical addresses, new intelligent mail services and more. Creating partnerships to add technology that has been developed in the private sector to the core

⁷ Postal Accountability and Enhancement Act, Public Law 109-435 Section 1004

⁸ Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service, Report of the President's Commission on the USPS, 2003, page 103

strengths of the Postal Service is the only way that this can happen in the modern marketplace.

I point to these concepts since they provide a starting point for the Committee's work. Many objections to the Postal Service's past efforts – competence, mission-creep, inappropriate competition, cost escalation and so forth – can be resolved through public private partnership. This was the sense of Congress in Section 1004 of PAEA and by the President's Commission on the USPS in 2003.

And the magic of making this public-private connection is that we don't have to invent solutions here in Washington, D. C., the customers will shape the future.

Facilitating Collaboration Among the Stakeholders

I have discussed several broad themes and directions in which we can be certain that there are opportunities for the Postal Service to create new value for customers. We can know this because the competition to the Postal Service both the conventional express carriers and new forms of electronic competition are inventing new forms of service every day.

There is no inherent reason why the postal infrastructure cannot be adapted too, especially if the changes were to allow these vital parts of the economy to “plug and play” with the postal network.

The broad themes of enabling the last mile services, encouraging delivery of new government services and creating new green services are all areas where Postmaster General Jack Potter and his team have an interest. But they need help. Congress needs to provide clear guidance and ensure that everyone has a clear understanding of what the postal services should be – not new non-postal services but service that is in the words of the law postal services and services “ancillary thereto”.

When I worked to create new businesses for the Postal Service I learned through a partnership that we created with one of our best customers, American Express, just how difficult it is to make the creative balance work. But this mailer showed me that if the Postal Service provides the outreach and the scale that it does best, the creativity and the energy of the market will do the rest.

We live in a multichannel market today. Mailers will be drawn to a reinvigorated Postal Service. While my testimony focuses on technology and public policy, they are important because the message for the postal system is that the real revenue opportunity will come in reinventing mail.

Thank you, Mr. Chairman and Members of the Committee