

Anticipating the Future Building the 21st Century Postal Service

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Executive Summary

As the former Vice President for Strategic Planning of the United States Postal Service and as an active management consultant in the postal industry, I offer these comments to supplement those already given to the Postal Regulatory Commission to this point in the Universal Service Inquiry (Docket PI2008-3). I do so on behalf of the National Association of Letter Carriers (NALC), which filed comments of its own in the first part of this proceeding. The NALC's goal in reaching out to a former V.P. for Strategic Planning of the USPS is to solicit comments to serve as reply comments that look to the future to find ways to connect the long tradition of universal service with a fast changing marketplace.

In summary, I believe that while the Commission has asked important questions about the dimensions of universal service and has received a number of excellent comments, the strategic framework of this inquiry is critically important and requires renewed consideration. In this paper, I offer comments based on my experience that bring a new perspective, a focus that asks how might your findings impact the capacity of future postal managers to fulfill the USPS universal service mission while offering competitively superior value to customers in a changing marketplace?

Your excellent discussion questions should be answered by first connecting the postal mission with changing customer requirements that are today defining the future of an evolving market. Three topics guide this discussion – mission, market and institutional change through innovation – and are indexed to your questions in Table 1.

To summarize the key points made in this paper,

- As NALC emphasized in its initial comments, understanding the context of the inquiry is critically important. The narrow European definition of a USO tied to the scope of the monopoly is a concept formed in a different context – where a decision has been made to liberalize the marketplace; an American definition should be broad and flexible.
- In the U.S. case the decision to deliver postal services through a government monopoly was not linked to a universal service obligation (i.e. a reserved area equal to the USO).
- *Unless and until* the U.S. goal – to create a USPS “operated as a basic and fundamental government service¹” – is changed in the law, regulatory actions that seek to generate competition for the government will not only conflict with the statutory goal but will lead to a contagion of management challenges that will make it much more difficult for future postal leaders to be businesslike.
- In the U.S., in contrast with Europe, the concept of universal service is embedded in the very fabric of the United States Postal Service and its historic evolution is intertwined with democratic traditions. The breadth of the language is not a regulatory omission, but a policy decision governing the fundamental concepts on which the institution has been established.
- Looking to the future and to a rapidly changing postal marketplace, a flexible, evolutionary approach to universal service will be necessary to allow future postal management, employees and customers to sustain the broad democratic vision of universal service delivered with a businesslike, competitive enterprise.
- Since you must respond to the postal reform law’s direction to explore the parameters of universal service, irrespective these broad considerations of context, there is another important consideration of timing. As you calculate the “cost” for universal service, the PRC should recognize pending events that will certainly change the analytic outcome in the next two years.

There are three elements that are critical to calculating the cost of USO where you have not received any help from the comments that have been filed to date:

- The intangible value of the national infrastructure – the benefits to the nation of having a national delivery infrastructure
- The potential for revenue growth – value of the monopoly and market position in creating the “intelligent” mailstream, and
- The opportunity for innovation – the potential for cost reduction and new product development under the reformed postal law

Without understanding the benefits of the broad universal service infrastructure and without analysis of potential future revenue or the capacity of the post-reform USPS to lower current costs, key parts of the economic equation are missing. And in 2008 it may be too soon to make such a calculation.

- You should recognize that to sustain the accountability of the Postal Operator for providing service to the customer, you will best serve the mailing industry by granting the operator flexibility to adjust, at least until the framework of the law has been clarified. Such flexibility is consistent with the fundamental management principle of maintaining strategic alignment, a widely recognized best practice among the best-managed organizations.

As noted above, these comments are submitted as Reply Comments to supplement those that have already been made by other participants in this proceeding to add to the record a perspective that looks to the future value that the USPS might create for its customers and the nation.

Table 1
Index of Questions asked by the Commission to
This Paper's Discussion

| PRC Query | Summary Comment | Index to Following Discussion |
|-------------------------|---|--|
| 1. Scope of USO | The importance in noting the difference between the US case where the postal system has been an instrument of U.S. national development and democratic tradition and has been defined broadly in Section 101 of Title 39 and the narrower European definitions that result from the policy decision to liberalize is noted in multiple places and the argument is made that there should be a broad definition unless and until Congress redefines the mission of the USPS in section 101 of the organic act. | See the discussion in the Summary, Introduction p. 6 among other places. |
| 2. History | Two central points that are made are (1) the fact that the definition of universal service has evolved through history is valuable in this time of intense market change. And (2) the role of the universal postal system as a governmental tool for national development is important in defining the fundamental difference in the USPS mission and that of the European posts. | See particularly Section 2 p. 14. |
| 3. Geographic Scope | The question of whether current services are deficient in scope is being illuminated in the ongoing debate over the 21 st Century Service Standards. But a critical question that will need to be addressed by the Commission is the assertion that an on-demand service by competitors who retain the option to (1) decline service, (2) utilize the partnership with the USPS and (3) price non-competitively is in fact universal service. | See p. 13, 14, 15 |
| 4. Product Offerings | The postal service has requested that universal service be defined to give it maximum flexibility. This is a concept that may facilitate innovation in postal products. Yet there should be a concept offered that will permit conversion of products into universal ones when they gain sufficient scope. | See the conclusion of Section 4, p. 26 |
| 5. Access to Facilities | Comments of publishers in the public hearings noted the extent to which automation processes that are currently being defined impact competition among mailers. Specifically the comment that some mailers will be permitted to enter mail under destination entry rules and others will be directed to enter mail at the new FSS machines raises issues of discriminatory action and broadens the concept of access from traditional focus on retail units to seeing that it is the entire postal system at issue. | See Transcript of Flagstaff Hearing, p. 10, line 6. |

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| 6. Frequency of Delivery | <p>As the USPS is subjected to even greater degrees of competition and is encouraged to offer competitive products and services, there will be a need for new even-handed standards for making operating decisions that “discriminate” against certain customers. Just as access to destination entry (i.e. being able to bypass the FSS system and go directly to the street) will be an advantage for some customers so too would changes in frequency of delivery. In the future, there will be a need to show that actions are in the longer-term interest of the customers and that adverse impacts are limited.</p> <p>The comments in the field hearings repeatedly demonstrated customer support for 6-day delivery and Congressman McHugh affirmed the broad principle. Until there is a cost/benefit showing that would outweigh these strongly held views, 6-day delivery should be continued.</p> | See comments from Congressman John McHugh June 30, 2008. |
| 7. Rates/Affordability | The hypothetical question – “if the monopoly laws are repealed, how should the net costs resulting from imposition of the USO on the Postal Service (and perhaps other postal operators) be paid for?” ² have not been addressed for reasons of Congressional intent discussed at length. | See section 4.1 p. 20 for a discussion of the change introduced by PAEA retained earnings. See McHugh comments in PI2008-3 6/30/08. |
| 8. Quality of Service | The complexity of service issues argues for a “management process” rather than a “regulatory specification” approach be taken toward continuous improvement of quality. Setting service standards, allowing customers to debate them, reviewing performance has been shown to be a process that leads to continuous improvement. Granting postal management flexibility with accountability for performance is likely to be far more effective than specifying narrow regulations such as cluster box rules. | See Section 4 p. 26. |
| 9. Calculating Cost of USO and 2 Monopolies | As the Commission notes, Section 702 requires an estimate of costs in the event that recommendations are made. It is critical to recognize the difference between the cost of universal service and the incremental cost of a recommended change. Further, there is a critical distinction between the cost of universal service as it has been know (a Section 101 standard) versus a more narrow definition. | See page 12 discussion of the Future post among other places. See section 4.1 at page 20. |

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| 10. Implications for Monopoly | One key point made in this paper is that the European notion of linking the scope of the monopoly (the reserved area) to the cost of the USO is a false premise that has been introduced into this discussion. | See Introduction p. 6 and Section 2 on Mission p.13. |
| 11. USO Internationally | There is much more to be learned from the experience of other nations especially in those instances where there have been repeated delays in carrying through on liberalizing the marketplace. The most important point here concerns the fundamental difference between the goals and objectives of the US universal service aspirations (“to bind the nation together”) and those of the Europeans (to limit the obligation for a postal operator in a competitive marketplace.) | See discussion on page 6 among other places of the distinction between goals. |
| 12. Other Issues | The potential role of the postal network as a critical infrastructure has been noted. In the Portsmouth hearing Commissioner Langley picked up on the prepared statement of Mr. Moses and noted that the postal service has been designated a critical infrastructure by the Department of Homeland Security ³ . A second issue that has been raised in the PRC’s hearings has been the potential value to concerns about climate change and limiting the use of carbon based fuels may argue for increasing the services performed by the nation’s publicly owned postal infrastructure to (1) limit delivery fuel consumption and (2) provide a demonstration of new reduced fuel use strategies. | See the final section 5.1 for discussion of security and environmental concerns. |

1. Introduction: The USO Inquiry & Section 702

1.1. The Author's Experience

I am pleased to have a chance to present this paper to the Commission as it undertakes this important task outlined by Congress. A note on my perspective and experience may be helpful in understanding why I focus on the future management of the USPS. In 1993, I was recruited by the late Postmaster General Marvin Runyon and then Chief Marketing Officer, William Henderson to assume a newly created position, Vice President for Technology Applications. My mission was to envision and initiate innovative investments in postal services for the Internet Age.

From 1996-2001 I served as Vice President for Strategic Planning, first under PMG Runyon and Deputy PMG Mike Coughlin and then PMG Henderson and finally in the first year of Jack Potter's term. I had the opportunity to work for five years on a strategy for the future of the USPS⁴. During this time, the Board of Governors and Leadership Team focused on the USPS role as the "The Gateway to the Household" to embrace the universal service mission and, at the same time, to contend realistically with an increasingly competitive, changing marketplace.

Since 2001, when I returned to a private sector management consulting career, I have worked for clients throughout the mailing industry, for the President's Commission on the USPS, the USPS and others. I have had the opportunity to write about my experience and to continue to speak with groups about issues relating to the future of the USPS and the mailing industry. This paper is presented on behalf of the National Association of Letter Carriers. It is important to note that the central reason that they have asked me to work to develop this analysis is because of the NALC's strong view that this proceeding should, in the end, work to strengthen the position of the USPS and its ability to serve customers in the future.

1.2. The Commission's First Challenge: Defining the Strategic Context

The greatest challenge facing the Postal Regulatory Commission as it carries out the requirements of Section 702 of the Postal Accountability and Enhancement Act is likely to come in setting the appropriate context for this important inquiry. In Order 71 and in his remarks in opening the first public hearing, the Chairman made reference to holding the hearings “in the context” of European deregulation⁵. But in fact there are significant differences between the European examples and that of the U.S. Among the most important are the fundamental objectives of European postal policy, to liberalize the market including elimination of the postal monopoly, and to foster competition in the provision of postal services. In the U.S. the fundamental objectives are set in the first paragraph of Title 39 and they involve binding the nation together, not deregulating the market.

This strategic framework for your inquiry is critically important and deserves the Commission's close attention. First, the Commission should be clear about the role of universal service in the United States because your priorities in reviewing goals and objectives are likely to shape your direction and outcome. In Europe, the driving force behind defining the scope of universal service more rigorously is closely connected to defining the scope of the universal service obligation of incumbent postal operators⁶. The overall goal in Europe has been determined to be market liberalization: phasing out the monopolies and eliminating barriers to the liberalized market steps that are critical to achieving this goal.

In the U.S. a different mission and goal have been defined. In the course of 12 years of debate over postal reform the decision was made that the U.S. market would not be “liberalized” along the path that the European's have decided to follow⁷. The decision was made not to restructure the fundamentals of the Postal Reorganization Act of 1970, nor to privatize the U.S. Postal service in the way that such privatization actions have been taken in the Netherlands, Germany, Austria and commercialization steps have been

taken in Sweden, Great Britain and elsewhere. The recommendation of the President's Commission on the USPS, the actions of Congress in its limited amendment of Title 39 and the statement of Congressman John McHugh before the Commission have all reaffirmed this fundamental policy premise. Congressman McHugh states, "Congress debated the future of the postal service for 12 years and during that time a bi-partisan consensus formed that held that should be broadly defined to serve all Americans, rich and poor, urban and rural, nationwide. That has historically meant 6 day delivery, reasonable access to retail services as well as convenient access to collection boxes."⁸

Some argue that there should be fundamental changes to eliminate the postal monopolies over the carriage of letters and the delivery to the mailbox. For example, witness R. Richard Geddes of Cornell University argues that the "social cost of government-enforced monopoly" is not warranted⁹. Such arguments ignore or underestimate the value of national service and value for citizens that a monopoly financed network can create.

In any case, *unless and until* the Commission makes such a recommendation of fundamental policy change *and it is adopted by Congress in law*, it will be important to recognize that there is a difference between the U.S. and the European case where the goal is market deregulation and the scope of the Universal Service Obligation is limited by the absence of a monopoly.

Certainly, it is understandable that the Commission would study these issues because it was directed to do so by Congress. But it is important to draw distinctions. There is a difference between a *research* inquiry because it is valuable to understand what might be learned from others who have experience with Universal Service and a *regulatory* inquiry. The latter might casually assume that there is an implicit progress to be made in moving from the current state of government monopoly to a future state of deregulation and liberalization. In contrast with Professor Geddes, there is reason to question whether such a progression would represent progress for the postal system.

One of the most important reasons that it is essential for the Commission and the Congress to be clear about the goals and objectives for an American postal system is the modern USPS is an institution that has been stressed by economic conditions for more than a decade. Never have economic stresses been as great as they are today with the implications of recent turmoil in the real estate market being felt throughout the economy and especially in the mail volume producing area of financial services.

If the USPS is to continue to transform and to adjust to new forms of competition and technology change brought by increasingly sophisticated competitors and to a changing market for postal services, the management structure of the USPS will have to be aligned. Aligned policy and performance goals will ensure consistency in resource allocation, investment policy and management priorities.

This paper clarifies why strategic alignment is critical to the future of the USPS.

- First, the *mission* of the USPS is considered in further detail to establish the anchor to this discussion.
- Second, the future *market* for postal services is considered and the implications that this changing array of customer demands is going to have on postal transformation is considered.
- Third, the implications of the transformational changes that are currently underway are reviewed to emphasize the scope of the management challenge faced by the USPS and its employees and the importance of setting policy goals that foster sustained *innovation*.

Importantly, the argument that the postal system should not be stressed by adopting regulatory changes that conflict with the goal of maintaining the infrastructure to bind the nation together can be made with equal force in a positive sense. This is a crucial time of change for the postal system. We may be on the threshold of a revolution in the nature of the letter as it is reinvented with an Intelligent Mail Barcode that connects traditional hard copy mail to the Internet. Witness Cameron Powell of Earth Class Mail made such an argument without having the background of seeing the incipient development of the IMB¹⁰. This is the wrong time to imagine which parts of the vision of a universal U.S. postal network that has been an instrument of national design and

development since colonial times should be broken up and deregulated. Public private partnerships have demonstrated their value over time and the potential for “paper-electronic” partnerships holds great promise for the future.

1.3. *The Future Post*

My perspective in analyzing the business model of the USPS has been shaped by my 15 years of experience with transformation of the USPS. Not only do I believe that the principle of “strategic alignment¹¹” has been well established as a critical tenet of modern management practice, it is founded in the structure of the law governing the USPS¹². What is more, the power of strategic alignment as a tool for performance improvement is demonstrated in recent experience of the USPS.

One of the most vital lessons of recent years is the need to give the institution the opportunity to change. Change can move slowly for the \$75 billion USPS. There are important elements of the postal service today that represent dramatic changes from the USPS of a decade ago. With respect to postal performance, productivity, customer satisfaction, efficiency improvement and many other dimensions, the USPS has made demonstrable progress in that decade. But these achievements have required time and consistent management attention.

As an example, in 1995, the USPS held a conference with its most important customers, its unions and a number of progressive posts from around the world¹³. The “*Future Post*” meeting discussed both international experience and U.S. practice¹⁴. At that meeting there was a discussion of the importance of creating a parcel returns service. There is a returns business today but it has taken 10 years to establish it because of several important factors: (1) the complexity of the USPS operations structure requires time to define and implement a new service; (2) customers require time as well. The intricacy of the public-private partnership that is entailed in worksharing relationships adjusts customer incentives and impacts the flow of volume through the US system; and (3) the oversight of the regulator is triggered in the introduction of a new product and this

in turn introduces further complexity with which the PRC is familiar. For a complex organization such as the USPS there must be time to transform to carry out its mission and to serve its customers.

Yet even taking into account the time needed for transformation at the USPS should not lead to understating the magnitude of change that is currently planned and taking place. Section 3 of this paper reviews only a few of the major changes that are underway that will likely have significant transformational impact on the postal service. Along with forecasts of mail volume trends the impact of innovation should be considered in estimating the costs.

The question for the Commission is: With exceptional change underway, can you be certain that you can know the future? This question that has important relevance today was posed to me in 2000 when I was responsible for leading the development of the USPS's Second Five Year Strategic Plan. I went to see the distinguished Harvard Professor, Anthony Oettinger to seek a 3rd party review of the draft plan. At the time, we were reasonably confident that we should be projecting a decline in the First Class mailstream. After all, at the height of the Internet Revolution, who could have missed the thought that the Internet would impact the mailstream? Professor Oettinger asked, how can you know? How can anyone know the future for sure? And so we included several alternative plausible scenarios¹⁵ in the Five-Year Strategic Plan. In 2003 the Institute for the Future adopted a similar course in providing a forecast for the President's Commission on the USPS¹⁶.

As it turned out, mail volume actually did decline over the 2000-2007 period. However, nobody knows the future. Recall that in the mid-1970s some observers predicted the end of mail would come in the 1980s. But volume skyrocketed over the next five years as technology (targeting databases and smaller computers) and workshare discounts contributed to a rejuvenation of the mailstream. Thus, the question of forecasting the future is at the core of the challenge facing the Commission as it seeks to connect the guidance provided by the historic mission of providing universal service with

the task of recommending a framework that will ensure the future vitality of the post. By definition, the universal service obligation (USO) seeks to define the responsibilities that the monopoly post will be required to fulfill that would not be undertaken in the view of public policy makers were this service not required by law.

This paper argues that it would be wrong to recommend to the Congress to continue to have broad expectations for the services and mission of the USPS and, at the same time, to implement a narrow definition of universal service – in other words to simultaneously have both broad and narrow goals of the future USPS.

- In Europe, the narrow definition ties the scope of the monopoly to the scope of the USO. Beyond these narrow boundaries (that will continue to be narrowed), the marketplace is opened to competitors.
- In the U.S. there were different objectives. The first principles on which the USPS was built are fundamentally intertwined with the history of the nation, its westward expansion and the creation of a unified, national U.S. marketplace.
- If a narrow definition were adopted here, but the Congress does not revisit the law and explicitly narrow the goals and structure of the USO, postal management will face fundamental misalignment and this in turn will inevitably result in a negative performance impact.

The calculation of cost offers a second conundrum. There should be some question about whether the Commission is required by Section 702 to calculate the cost of Universal Service as a whole (as opposed to only the cost of recommended changes)¹⁷. Irrespective of future legal analysis of Congressional intent, it would appear that costs even of these smaller concepts might not be knowable with confidence at this time. Hence, it's important for your report to recognize that 2008 cost analyses are likely to be hypothetical. The analysis of cost inevitably sets forth calculations such as one that is often made of the cost of universal service in which the historic volume trends for individual routes are compared with projections of the costs of serving those routes in the

future. This analysis requires a calculation that must make three fundamental assumptions: first, that the value of the whole will be the sum of individual parts; second, that revenue can be projected from historic trends; and third, that enough is known about the network to project its costs (in spite of the extensive change that is currently taking place.) There are sufficient concerns with the foregoing assumptions to argue that the calculation of cost should be limited to proposed reforms at best and even there, at this point in the implementation of the postal reform law, conclusions will necessarily be preliminary.

The need to understand the role of competition is a third challenge. FedEx¹⁸ and UPS¹⁹ both make the point that they, in their views, offer universal service today by their commitment to deliver (surcharges are not mentioned) to any address. They state that regulation is not needed for them, nor is a subsidy needed for the USPS. Universal Service will take care of itself. But interestingly, neither firm points to their reliance on the USPS through Parcel Select (FedEx Smart Post, DHL Global Mail) or the choices that they can make in a competitive marketplace to consolidate or to price their services to defer parcels to the USPS. Without such a discussion of “coopetition” and defaults in a deregulated marketplace, they are describing only half of the picture.

Nor do the competitors – FedEx and UPS - discuss the role that regulation of competitors, competitive entry or the oversight committees of Congress should play in the future. Congressman McHugh suggests in his June 30 comments²⁰ that Congress will need a clear definition of Universal Service so that the USPS would be held accountable for providing such service in the stressed future. Would the USPS alone be regulated and not the competitors if they were to play a role in providing universal service?

In making his comment, Congressman McHugh seemingly confirms a principle pointed to by witness Murray Comarow that “regulators regulate”. Witness Comarow observes with some alarm the principle that by expecting that a regulatory approach to the challenge of defining universal service is desirable, the outcome is guaranteed that there will be regulatory changes that will be proposed. But without an understanding of

the role of the competitors and the role of the USPS, the discussion of the narrow definition of universal service will have limited value. The difficult management questions of a world without monopoly constraints will not have been addressed. Eliminating the monopoly, retaining regulatory oversight and a USO and not taking into account the capacity of the competitors to manipulate postal volumes through their pricing and their actions would create significant challenges for future postal managers.

In sum, there are three major challenges that will make the Commission's recommendations tentative at best since they must come, according to Section 702 of PAEA in 2008 rather than 2009 or even later when they could be better formed. First, if there is serious consideration given to proposing a narrow definition and limited monopoly there should be certainty, in the interest of sustaining strategic alignment, that the Congress will act to formally narrow goals and expectations. Second, if costs are to be calculated, they should be tentative and hypothetical ones unless an unforeseen event clarifies the shape of the future of the postal network that is almost unknowable at this time. And third, in order to give the future USPS the freedom to compete on a level playing field it will be necessary to also include any recommended regulation for the Express Carriers that today are in a position to impose costs on the USPS through their pricing policies.

2. The Universal Service Mission

As has been noted in many other comments received by the Commission, the Universal Service definition that has served to define the American postal system is included in Section 101 of the postal reorganization act, specifically in three key phrases.

In the first sentence of the law, Congress indicated that the USPS would not merely be a government agency but “shall be operated as a basic and fundamental service provided to the people by the government of the United States, authorized by the Constitution, created by an act of Congress, and supported by the people²¹.” The law

could not communicate more clearly that the USPS is intended to be a core American infrastructure. As a practical matter, it is, in spite of the hype of the dot com era.

Further, the law states the postal service “shall have as its basic function the obligation to provide postal services to bind the nation together through the personal, educational, literary, and business correspondence of the people²².” Some may debate whether the postal service as we know it today is in fact binding the nation together or whether that is even a fair obligation to give to a single communications infrastructure in the diverse modern marketplace. But there is little question that the “obligation” referred to in section 101 is a universal one.

The third phrase raises a more interesting question although perhaps the Commission’s proceeding has helped to resolve it. The law requires that the USPS “shall provide prompt, reliable and efficient services to patrons in all areas and it shall render postal service to all communities.” Although a pro-competition analyst seeking a narrow the definition of universal service might argue that service to patrons in all areas could be an “on demand” service in the way that FedEx and UPS offer service²³, this is not the way that the U.S. postal system has operated.

As the Postal Service has argued, possibly the competitive services could be rendered to only selected communities. (e.g. The USPS might offer a guaranteed product to a select target population as it has sought to in the past.) While perhaps it might be possible to parse the broad wording of section 101 and to offer a narrower service, Congressman McHugh has offered his view that “a bipartisan consensus formed that Universal Service should be broadly defined to serve all Americans.²⁴” and he states that this has generally meant “six-day delivery, reasonable access to retail services, as well as convenient access to collection boxes.²⁵” This is powerful support for the view that a broad definition should be adopted. The question of the meaning of the third key principle from section 101 would appear to be resolved with Congressman McHugh’s comment.

Some in the proceeding have suggested that the absence of an explicit definition of universal service is an omission, a fault in the current law. But the concept of universal service in the US is one that has been borrowed from the long debate over the structure of the telecom industry and elements of this discussion have further been incorporated in the debates over electricity and gas policy. The fact that this has been the case is not surprising in light of the history of these industries in which the consolidation of franchise territories has been a key and defining issue and the jurisdiction of and privately owned utilities and defining the jurisdiction of state public service commissions and federal policy makers.

In the case of the US postal service, the regulatory structure and the history of consolidation is quite different. There has not only been no requirement to provide such a definition, in this instance there has been no similar need to create a narrowly constructed definition. Indeed, the two core concepts that are embodied in section 101 have their historical precedents that may be found in the long history of the development of the postal service.

- *Democratic Principle*: the postal system was, from the earliest time a network serving democratic objectives. The colonial post built infrastructure through the construction of post roads and encouraged democratic traditions such as the distribution of news and nurturing an informed electorate. Benjamin Franklin embodied in its earliest form the concept that this democratic institution that was encouraging a free press and the exchange of ideas among the colonies was also a vehicle for commerce. In the 1830s when Alexis de Tocqueville took his famous journeys around America, research trips from which he wrote his work *Democracy in America*, he celebrated the fact that the lowliest frontiersman was as well informed as a citizen of France because of the reach of the postal system. And “by the mid-1800s Congress had established a national network and rate policy that encouraged the long-

distance exchange of news and correspondence between thousands of cities and towns²⁶.”

- *Commercial Enterprise*: Throughout its history, the effort to sustain an increasingly universal network of postal communications for a variety of democratic reasons, were intertwined with commercial purpose. Free city delivery began on July 1, 1863 to 49 cities. The event that most historians have credited as one of the most significant contributions to the creation of universal service, the introduction of rural free delivery, commenced with experiments sponsored by Postmaster General John Wannamaker in 1889. “Farm families found that RFD tied them into a national communication and marketing network. Regular receipt of correspondence reduced rural isolation, but the most striking change in rural residents’ communication patterns was their consumption of big-city newspapers and national magazines.²⁷” Expansion of delivery in the 1890s and early 20th century led to the creation of parcel post, one of the services (along with telephone and telegraph) that Postmaster General Wanamaker believed would put the postal service on a more businesslike footing.

The evolutionary character of the postal network and the dual uses to which it has been put has been characteristic from its earliest days. The creation a national market to which all would have access while encouraging the achievement of national goals - integration of the colonies, the westward expansion, the filling in of the national network after the closing of the frontier in 1890, this nation building that has established the foundation of the world’s largest democracy,

The Modern Uses of the Post

The argument is made that the fact that universal service is not a concept that has been fixed since colonial times but is instead an evolving definition, makes it easier to make changes today. Indeed, city delivery and rural free delivery and other major events in the history of the postal system have led to significant changes in the system.

But even though there are those who would adjust the scope of the monopoly (reserved area) to the scope of the social obligation, there are critical problems with doing this in the U.S. context. This linkage is inconsistent with the postal system's broad mission outlined in Section 101. Even more importantly, linkage may limit the potential value that the postal system might create for the American people and for customers in the future. The USPS wrestles with these considerations in commenting in this proceeding. "The Postal Service does not believe that universal service necessarily dictates or should *a priori* constrain any level of mix or frequency." The Postal Service states, "The key is to find the most efficacious mix of operations, finances, and service that maximize achievement of universal service goals. Universal service or the Postal Service's legal responsibilities under it, do not drive ineluctably any particular set of options."²⁸ In other words, even though these specific USPS comments relate to the narrow issue of frequency of service, the need for future management flexibility infuses this entire inquiry.

There are a number of examples of the way in which experiments with the postal infrastructure have suggested that it might offer new services that are closely related to the universal presence. In Oregon, Washington State, California and elsewhere there have been highly positive results from the use of mail ballots in elections. Vote by Mail offers a convenience that enables voters to participate when they would otherwise miss the election. While election decisions are local matters in American Constitutional democracy and growth of this service will have to continue to evolve, it's worth noting that there could not be a serve more central to democratic traditions. The results of Vote by Mail have been documented in multiple examples of increased turnout. Frequency of delivery and scope of service are attributes that are clearly connected to the reliability and positive reaction to this experience. In the future, with the Intelligent Mail Barcode, there may be new opportunities in democratic elections, in referenda and in private sector electoral processes (shareholder votes) that lead to increased interest in Vote by Mail and permit a new paper-electronic service.

Or, to take another example, the USPS partnered with the Department of Homeland Security to test the delivery of emergency pharmaceuticals through the postal system. No other infrastructure could provide the universal reach that is offered by the postal system in the event of an emergency such as an epidemic or a national security emergency.

From time to time, the postal system has been tested as a delivery vehicle for other government services²⁹. Federal agencies however are slow to reimburse the postal system for services performed and Congressional appropriations committees may even upon occasion frown on such reimbursements. Nevertheless, these are problems that could be resolved if there were a will to use the postal infrastructure more effectively. In an age of concern over the use of carbon based fuel, there is likely to be growing value in considering new ways for an even greener postal delivery infrastructure could be used. Consolidation of deliveries has made economic sense in some cases without including the cost of environmental “externalities” such as greenhouse gas reduction. In coming years, as policies to mitigate fuel price increases and concern with environmental effects are absorbed into standard operating procedures, there is almost certainly going to be growing interest in utilizing the postal delivery infrastructure in new ways and the USPS last week announced new initiatives involving investments in a environmentally friendlier Long Life Vehicle. The USPS is the current “gateway to the household” and concern for the environment as well as well-known concerns with security and privacy argues for greater utilization of and efficient delivery network.

3. The Future of the Posts

To complete the analysis that the Commission has been asked to undertake, it is necessary to understand both the revenue and the cost side of an equation in which all of the terms are changing. On the revenue side its essential to know how many units at approximately what prices will be carried by the postal network in the next decade to understand the revenue that may be available to support the social obligations of the USO. Yet for those who would believe that since postal volumes have been relatively

stable, albeit trending downward, this would seem to offer a relatively knowable future.

But in fact there is significant change taking place postal system and, while there are several points about these changes that are relatively well known to observers of the postal system, it is nonetheless valuable to review several observations about the near term future of the marketplace for mail services.

3.1. The Common Challenges to the Value Proposition

Postal researchers have long recognized that the character of the competitive threat posed by the changing marketplace and Internet communications is different from the public's perceptions. Many believe that email is replacing "Snail mail." And while there may be significant electronic substitution of new Internet based services for traditional paper-based communications, individuals are not, in the short term, the decision makers who impact postal volumes. As the USPS notes in its Strategic Transformation Plan, corporate and institutional decision makers account for 85% of mail volume.

Increasingly, these decisionmakers have choices about the way in which they can communicate. In 2008, the Internet reaches 3 of 4 households in America and 80% of this Internet group³⁰ has high-speed (broadband) service. What this means is that the Internet has become an increasingly effective transaction medium. Development of better business models and Internet applications will allow some key mailers (financial institutions, credit card companies etc.) to incentivize the migration of customers into electronics when it serves their business interests to do so. In recent years there has been continuing discussion with the postal community of whether a decline in mail volume has been associated with electronic diversion. The implication of this being so would be that a loss of mail to another communications medium would presumably be even more serious than a decline in volume resulting from economic reasons since in the former case the customers would be more difficult to get back when the economy improves.

Perhaps of most immediate significance to the economics of the USPS has been the change that has taken place in the mix of the mail since 1999. The decline of First Class Mail has been replaced with growing volumes of Standard Mail. Where there are some differences in service and service standards that may make it somewhat less expensive to handle the new mail volume on a per unit basis, overall the trend has replaced high contribution First Class Mail with mail that offers much lower contribution to support the network. These trends, referred to in USPS Annual reports as the “mix change” may be seen in Appendix A.

The significance of the change in the mix of the mail shown in Figure A-1 is that some will argue that the nation should think differently about a postal system that is primarily devoted to marketing mail. Since an important portion of First Class Mail is already devoted to marketing, the majority of communications has been marketing in character for a number of years, even before the 2005 shift in pieces. Figure A-2 shows the total volume scenarios as well as provides total mail volume actual pieces to the year 2007. The difference in the alternative scenarios looking forward represents a swing of nearly 40 billion pieces per year plus or minus 10% from a baseline that is largely flat.

Figure A-3 illustrates the relative proportions of the volume forecasts being discussed here.

The pessimistic scenario for total mail volume is mainly driven by the scenario of First Class Mail volume decline. In Figure A-4 the actual volume through 2007 is presented along with the scenarios presented in the Five Year Strategic plan. While actual volume trends are better than what might have been anticipated only a few years ago, the pessimistic scenario shown here does not appear to be unreasonable. In the strategic transformation plan, the USPS stated that realizing this scenario would depend upon economic conditions (that have since been declining somewhat significantly) and on the degree of electronic diversion (discussed above).

The implications of the potential decline in First Class Mail are seen in the comparison of Revenue, Pieces and Weights (Figure A-5). These three perspectives on the USPS show significantly different facets of the USPS. Revenue is significantly dependent on First Class Mail Volume. From the perspective of volume, the role of Standard mail pieces is more significant. Yet from the perspective of weight that may translate into labor costs, the periodical volume can be seen to be more important. In sum, the RPW perspective shows a service that is dependent on First Class Mail, dominated by commercial volume and carrying the weight of other expensive services that are often connected with core democratic traditions (such as a free press and a diversity of views.)

This complex institution that has relied on the value proposition of low cost, reasonable service (and in recent years, continuously improving service) is now facing the challenge of fundamental market shifts. As noted in the Strategic Transformation Plan and elsewhere, customers are now demanding new attributes that are more difficult for the traditional postal service to deliver. UPS advertises that it offers “global commerce synchronized” and emphasizes the value of integrated supply chain management with many added services. Both UPS and FedEx compete on speed and convenience and customer service. The competitors seek to meet growing customer demand for control with sophisticated technology platforms and, in recent years, have encouraged customers to take advantage of mid-course redirection and returns services in a “just in time” economy that they have helped to create.

In sum, the modern USPS faces challenges that are more complex than the substitution of electronic transactions for paper-based ones. To thrive in the future USPS will have to be more agile and more able to embrace change. A regulatory framework that limits flexibility while imposing costs will be increasingly burdensome. What is needed is an alignment of mission and regulatory structure that assures transparency and accountability but permits the agility and resilience discussed above and a regulatory structure that enhances the Postal Service’s strength as a last-mile delivery provider.

4. Postal Transformation and Innovation

The USPS is currently making a series of investments that may be seen as truly transformational. These include the largest investment in new automation that has been made in a decade, the Flat Sequencing Sorter system. The introduction of the Intelligent Mail Barcode that will make what has traditionally been an opaque network to customers into a transparent, interactive intelligent mail network. Fundamental realignment of the postal network outlined in a recently published facilities plan. And a new detailed system of performance standards and measures in compliance with the postal reform law.

These changes are creating a moving target for the Commission in this proceeding as it seeks to analyze the costs of providing universal services. Section 702 of the postal reform law requires that the Commission to include in the report “with respect to each recommended change ...an estimate of the costs of the postal service attributable to the obligation to provide universal service³¹” Unfortunately, at this time of significant change, this requirement will force analysts to take one of two courses: either to make broad assumptions that the costs of the USPS are likely to be what they have been (i.e. that in spite of the sweeping transformation taking place within the postal network that it will not impact costs), or to assume that the cost of a service is *de minimums*. With respect to all major recommendations, unfortunately, the delivery cost is in flux since the entire delivery infrastructure is changing.

4.1. Forecasting Profitability

For the USPS the most profound change that was introduced with the passage of PAEA was perhaps the most straightforward. The USPS recognizes that under the postal reform law “the postal service is now able to generate profit and to retain earnings. Profits are vital for investment in continuing innovation and service enhancement.³²” The heat that is often generated in discussions of profits in a public sector enterprise such as the USPS can obscure the significance that changing such a basic tenet may have to the day-to-day management of the USPS.

Rate cases began with a tacit recognition that the purpose of the case was to generate income to meet the USPS's "revenue requirement" set by the Board of Governors. This meant that the service has operated for more than 35 years on a "rate base" form of regulation. Within the limits of businesslike management, the USPS could essentially defer a difficult decision and make it a cost of doing business. Today that has changed. Not only is there a cap on price increases that would apply to more than 90% of postal volumes, there is the new opportunity to capture the benefits of cost reductions (in the form of profits and retained earnings).

This change is so fundamental that the assumption can no longer be made that historic costs can be the basis for calculating the future potential costs of the infrastructure.

4.2. The USPS Transformational investments

There is little question that four current initiatives that might be cited as examples that the USPS is demonstrably seeking to transform its current infrastructure and operational base in bold and significant ways. Yet because of the breadth of this notable vision alone, the service has raised questions among important stakeholders and constituencies in the mailing community. The nature of the questions and who is asking them creates some uncertainty about the future costs of postal operations if not the viability of the investments.

- *The Flat Sequencing Sorter (FSS)* will introduce a major new automation system to handle a significant portion of flats where flats are being processed by hand. While there are many open questions about the design and implementation of the new system, there is no question that it will require a major change in the current discounts that are given to mailers for worksharing. Clearly if mailers receive discounts today for transporting mail down stream close to the delivery point, the nature of worksharing will change when this transportation is no longer needed. But how will the new discount structure impact the size and location of future mail volumes? As incentives

to mailers change so too will the location of their volumes.

- *The Intelligent Mail Barcode (the IMB)* is the culmination of a decade of consolidation, a “one code vision” of combining the POSTNET Barcode and CONFRIM, a new 4-phase barcode that will carry far more intelligence about the sender and recipient of the mail. The implementation of the IMB is a massive technology and customer relationship challenge requiring every major customer to make investments to use the future mail system at a time when the value proposition for customers is still incompletely understood. Before making this investment some customers are pressing to understand the rules more clearly
- *The Service Measurement Plan* is the implementation of the second phase of the creation of 21st Century Service Standards called for by the postal reform law. The first phase, as is well known by the Commission, involved setting the standards. The second phase required specification of the measurement system. This enormous task that will ultimately involve implementation of the IMB as well as the measurement system will rely on the new barcode. But today the implementation is at the stage of evoking many detailed customer questions about what is being measured and what has been left out.
- *The Proposed Facilities Plan* published in June was also a requirement of the postal reform bill. The detailed plan is a public document of the 2008 version of the Network Alignment plan that was developed for the USPS Transformation Plan in 2002. This vision has evolved through several phases over time. Most notably today, the plan identifies facilities for transition and phase down as volumes decline and marketplace developments and automation create new requirements for change. But the plan is controversial in some respects as well. Changes in facilities impacts employees and customers alike. Proposed transformation of the Bulk Mail Centers has triggered more than one Congressional oversight hearing.

Arguably all of the four preceding investments would have been made without the postal reform bill. Each of them has been underway for a long time. But the new framework of the law has introduced new public consideration and has dictated the timing of announcements to some extent. For example, the facilities plan might not have been published in June in the manner in which it was presented without the reform law. Indeed, the network alignment plan that was contained in the first Postal Transformation Plan of 2002 was initially believed to be the source of a significant majority of the cost savings associated with the Transformation Plan³³ yet the USPS was able to find savings in other places as various constituent objections to the initial plans delayed their

implementation. The USPS met its overall goals but continued to face controversy related to the network plan. Hence the reform bill may have been needed before a document with the breadth of vision included in the June facilities plan could have been published.

The implementation of the reform bill may ultimately be the most significant force in shaping transformation. Certainly it has recently resulted in a sweeping new reorganization of the USPS. The foregoing investments describe a new processing system could impact a third of the mail volume and will incentivize movement of the location of volume within the system, a technology that will change the fundamental value proposition that many mailers find in the new intelligent mail network and will be used to measure performance against the fundamental service commitments of the USPS. If, as management experts Bossidy and Charron wrote, “what is measured gets improved³⁴”, the IMB is likely to usher in a new era of service improvement. And the facilities plan may yet introduce a new era of operational partnership between the USPS and the logistics partner that is as great as any that exists today. With respect to the universal service proceeding, this sweeping picture of change illustrates again the difficulty of projecting the cost of the future network.

4.3. The Potential for Innovation

One other important reason that the current postal system does not yield itself easily to the calculation of costs is because the investments that were discussed in the previous section will create a far more innovative platform than exists in any historical precedent. To calculate the cost of the future network on the basis of the historical (pre-postal reform) network and then to seek a narrow definition (linkage) that will constrain the potential for change would limit the future USPS at a time of significant potential innovation opportunity.

➤ *Collaborative Value and the Network of the Future*

- In calculating the value of the network it's important to understand the change that these collective investments are making by establishing an integrated network with the capacity to interact with the mailstream. As noted above, the IMB is a vehicle for creating an interactive network in which mailers and the postal system can become partners in a collaborative web.
- There will be learning on both sides of that interaction. For example, a mailer may be able to find the exact location of processing problems that have always been suspected. But the future interactive network may reveal that the root cause of the problem is with the mail that is being entered. This example is hypothetical. But it illustrates the way in which we are on the threshold of innovation that comes from the new intelligent network.

➤ *Joint Process Improvement*

- In their comments on June 30th both FedEx and UPS make a rather substantial and obvious omission in their presentations on universal service. Both competitors argue that they already provide “universal” service. Both do not mention extra charges that they apply to low volume, hard to reach areas. And both companies argue that they should not be regulated as service providers.
- For example, UPS states,³⁵ “In the case of competitive products there is a strong business case for providing universal service. That’s why UPS provides a broad range of products for the shipment of packages and expedited letters throughout the entire United States. For products not covered by the postal monopoly, UPS provides universal service³⁶”
- “Even where it is particularly costly to make deliveries, UPS has established a system through which universal service is provided on a sustainable business basis,³⁷” the company notes. In some cases, of course, this is achieved by deferring packages to the joint USPS-UPS services that the USPS would provide if UPS did not choose to serve the customer for reasons of cost.

➤ *Delivery Innovation*

- A second area of potential innovation that could be equally important may be found in delivery innovation. In the late nineties and again today there is an ongoing discussion between the USPS and the National Association of Letter Carriers and the National Rural Letter Carriers Association concerning ways to organize delivery work and to

optimize the value of the Postal Services' last mile network efficiently. The diversity of conditions facing carriers and the diversity of the carrier force suggest that there are many future opportunities for change.

- With the IMB and the creation of an intelligent mailstream, the ideal program implementation would spur a new burst of products and services.
- And the new pressures on every organization in the country to find ways to reduce reliance on carbon based fuels offers still another area that is a fertile area for discussion of future innovation that would enable the USPS to use its delivery network more efficiently. The Postal economies of scope might be leveraged by private carriers to permit an overall reduction of vehicle miles traveled by the delivery industry in general. This would not only reduce fuel consumption, but also reduce the emission of greenhouse gases.

The coming era of “intelligent mail” could offer the USPS and its customers an opportunity to innovate without historical precedent. Indeed there may well be new services that can find niche markets from which important new national services can be built. To take advantage of innovation and to sustain the traditional mission of being the nation’s postal service a middle ground should be established where new competitive services, once established, could be grown into universal services. Creative people will find ways to achieve such a goal through both product and pricing innovation. In the end, the goal should be to encourage the maximum degree of innovation to serve changing customer needs.

5. Anticipating the Future

In sum, the arguments advanced by this paper will resonate with those who believe that the timing of the present inquiry is unfortunate since it is taking place even before the reform law has been implemented. There is a surface logic to the PAEA Reports that are required by Section 701, 702 & 710 of the law. In theory, the universal service study would seem to be a logical first step, clarifying the mission and non-commercial obligations of the post first. Then the analysis of costs and benefits of recommended changes in the current law would be conducted. What makes this an

especially difficult process, however, is that the current law is not a stable concept. Its not possible today to “estimate costs...under current law³⁸”, at least not accurately. The current law is only being implemented today and is demonstrably ushering in a long list of transformational changes.

For example, in compliance with the requirements of PAEA in the month of June alone, the Postal Service has submitted a major document describing its facilities plans and a document describing the way in which performance will be measured under the law. Until the PRC and the USPS know what the future postal network will be and what future service obligations will be required, it is difficult to assert that an accurate assessment of costs and benefits is possible.

5.1. Setting The Policy Framework: Long Term Goals

This paper has made the point that there may be a growing tension in the future between social obligation and commercial imperative because of the extent of change that is taking place in the postal system and in the marketplace. There is substantial change on the revenue side that cannot be easily predicted. At this same time, the capacity to reduce costs and support for the traditional infrastructure remains uncertain.

The comments that you have received in this proceeding to date, unfortunately, do not offer you a solution. On the one hand there are a number of witnesses who have argued that there is no call for change in the scope of the service while others argue that there are excess costs that are unfairly being carried by the consumer (e.g. Geddes) and still others argue that there is no need to have a legal monopoly to ensure universal service because of the market incentives for serving a broad market (UPS, Fedex). These contrasting views unfortunately present the Commission with an unrealistic dichotomy.

Certainly the future market for transaction mail is likely to continue to erode. Offsetting growth is at best uncertain. There is no doubt that if the financial support for the current infrastructure continues to decline, change will be necessary. But until the

current implementation of PAEA has been clarified and stabilized to permit the postal infrastructure to adjust and to innovate, the costs that must be borne by even a declining revenue base are not clear. Nor is it necessarily clear at this point, before the infrastructure has been transformed that downsizing is the only possible direction.

But the uncertainty about the future is not limited to the postal side of the equation. There are equal uncertainties about the Internet market as well. If this common medium were relied upon to be the universal service provider and yet were to be redefined and fragmented in the way in which other modern media have been, there will be no universal network. The nation will have made a profound choice that will ultimately have a role in defining the future of our democracy.

Today, our nation is described by experts as being $\frac{3}{4}$ connected to Internet communications and $\frac{1}{4}$ not. But the realistic Internet market is not yet clear. Some point out that even the $\frac{1}{4}$ have access to the Internet either through their work or through public institutions (e.g. libraries). Yet most would agree that there are still barriers that face those $\frac{3}{4}$ connected to the Internet before they can have a fully functional communications system and, even then, the Internet is not going to serve all of the same purposes as are carried by the postal system and the express carriers. Some are not connected to high-speed lines. Others wish to communicate in ways that require hard copy. And still more common, others like to choose their medium day to day and to go back and forth.

There is little question that Internet services will continue to grow and perhaps replace some traditional mail uses. They may also help stimulate new mail as well. With an IMB a new interconnected pathway has been created that will tie some Internet users to individual mail pieces. And with other forms of intelligence that reach beyond the barcode, there will be still more communications linkages that reach beyond current limitations. Much is yet to be resolved.

Yet through this continuing market redefinition, the only institution that communicates with all Americans on a daily basis is the US Postal Service. Some will

argue that the line that connects Alexis de Tocqueville delighting in reach of the postal system of the 1830s to the edge of the frontier and our modern community is growing tenuous. Others will argue that the connection has been broken by the impact of the Internet Tsunami. In fact, the only way that these views could be true would be in the universal service proceeding were to abandon the vision of a nation bound together by its evolving, innovative postal system. The value to the citizen and to the nation that is provided by having a universal network providing access to all Americans is a feature of the postal system that has grown over time. As long as the Congress continues to endorse broad, flexible universal service definition the opportunity to continue to benefit from this most democratic of institutions will continue.

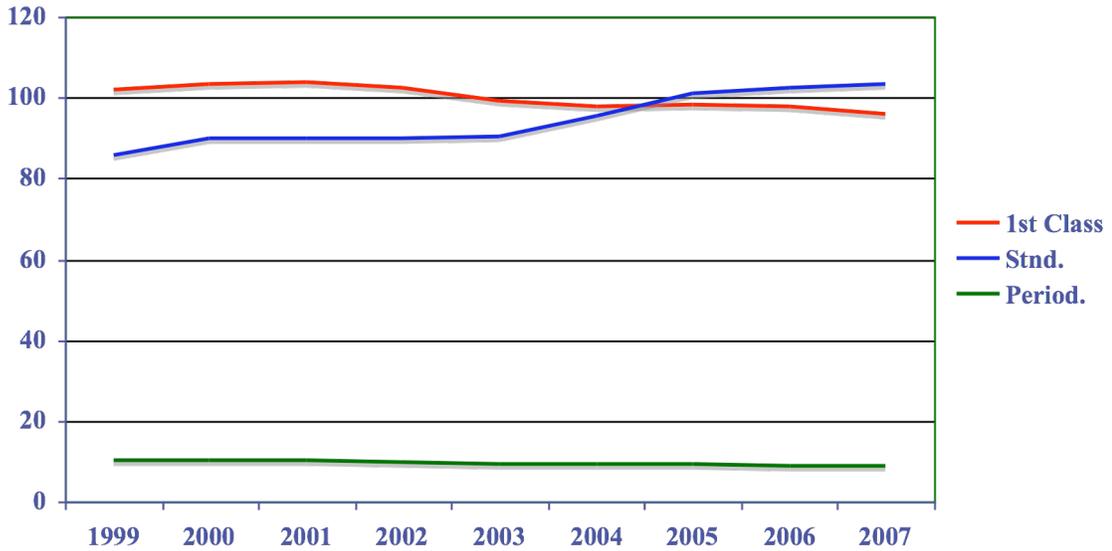
Appendices

A. Mail Volume Trends

- a. Figure A-1: The Mix Change
- b. Figure A-2: Volume Trends
- c. Figure A-3: First Class Mail Volume Trend Forecast
- d. Figure A-4: The Mail Volume Trends in Perspective
- e. Figure A-5: Revenues, Pieces and Weight Perspectives

Appendix A Volume Trends

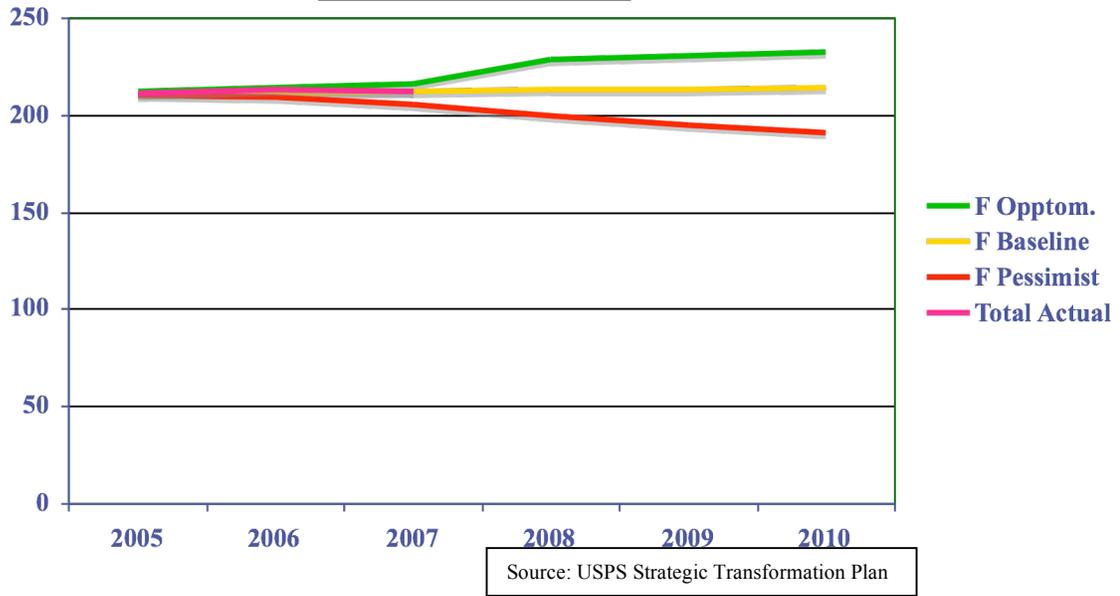
Figure A-1
Mail Volume Trends
The “Mix Change”



Source: '07, '03 USPS Annual Reports

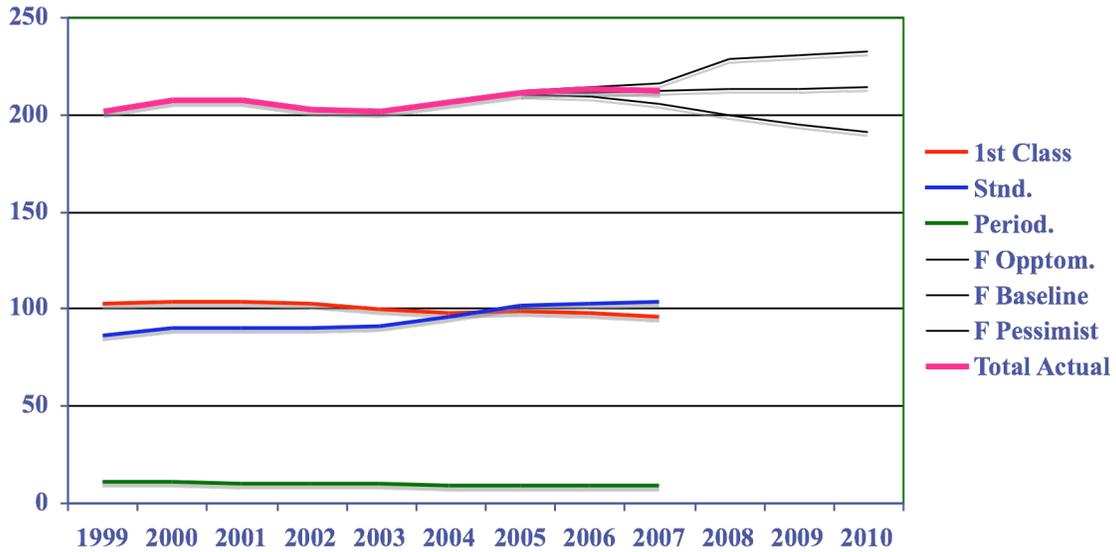
Perhaps of most immediate significance to the economics of the USPS has been the change that has taken place in the mix of the mail since 1999. The decline of First Class Mail has been replaced with growing volumes of Standard Mail. Where there are some differences in service and service standards that may make it somewhat less expensive to handle the new mail volume on a per unit basis, overall the trend has replaced high contribution First Class Mail with mail that offers much lower contribution to support the network.

Figure A-2
Looking Forward
Total Mail Volume



In the USPS Strategic Transformation Plan covering the five-year period 2006-2010, a forecast scenario was presented showing optimistic, baseline, and pessimistic scenarios for the balance of the decade. Figure 2 shows the total volume scenarios as well as providing total mail volume actual pieces to the year 2007. The difference in the alternative scenarios represents a swing of nearly 40 billion pieces per year plus or minus 10% from a baseline that is largely flat.

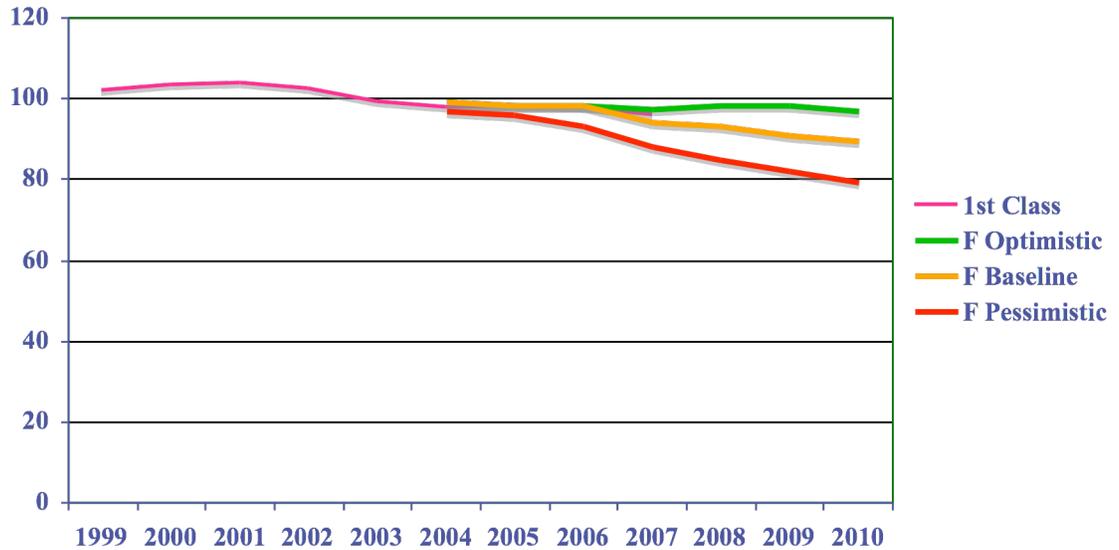
Figure A-3
Seeing the Relative
Proportions



Source: USPS Strategic Transformation Plan '07 & Annual Reports

Figure 3 illustrates the relative proportion of the volume forecasts discussed in the previous slide by showing the relative size of forecast of alternative scenarios of total mail volume to the mix change discussed above. Trend lines to 2007 are actual performance, 2007-2010 are forecasts.

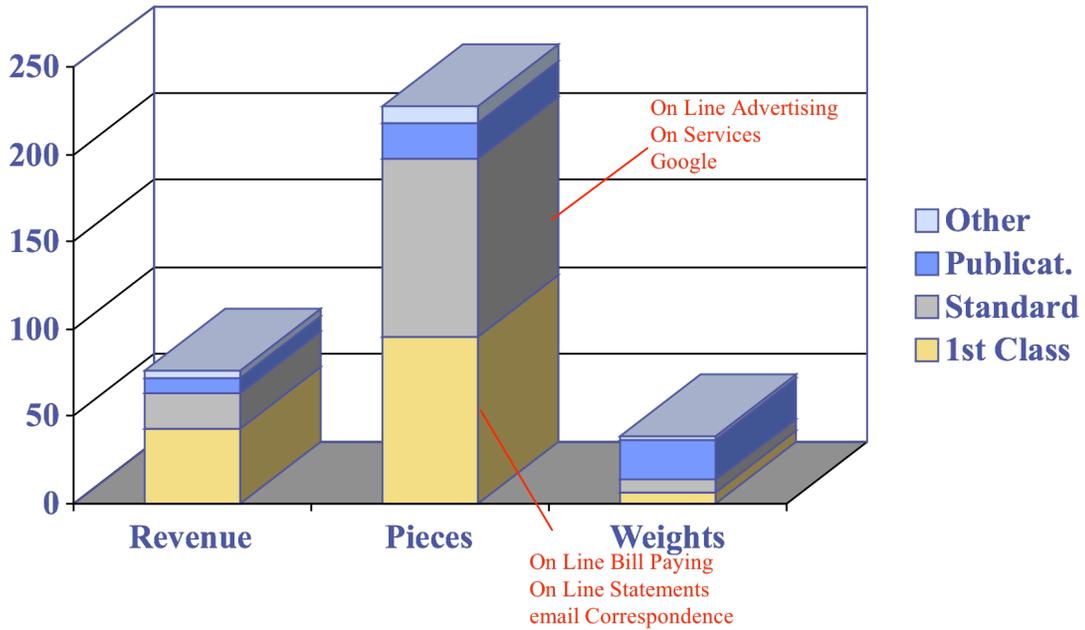
Figure A-4
First Class Mail
Forecast



Source: USPS Strategic Transformation Plan '07

The pessimistic scenario for total mail volume is driven to a large part by the scenario for First Class Mail volume decline. In Figure 4 the actual volume through 2008 is presented along with the scenarios presented in the Five Year Strategic plan. While actual volume trends are better than what might have been anticipated only a few years ago, the pessimistic scenario shown here does not appear to be unreasonable. In the strategic transformation plan, the USPS stated that it would depend upon economic conditions (that have since been declining) and on the degree of electronic diversion.

Figure A-5
Revenue & Pieces
Perspectives



Source: USPS Annual Report 2007

The implications of the potential decline in First Class Mail are seen in the comparison of Revenue, Pieces and Weights. These three perspectives on the USPS show significantly different facets of the service. Revenue is significantly dependent on First Class Mail Volume. From the perspective of volume, the role of Standard mail pieces is more significant and is the majority category of mail. Yet from the perspective of weight that may relate most closely to labor costs, the periodical volume can be seen to be more important. And, letter mail is competing with new electronic competitors

¹ Title 39 Sec. 101 (a)

² PRC Universal Service discussion memorandum page 17.

³ Opening Statement of Commissioner Nancy Langley, Portsmouth Hearing Transcript at PI2008-3, PRC.gov p. 9.

⁴ See the Government Performance and Results Act Five Year Strategic Plans of the USPS of 1997 and 2000.

⁵ Flagstaff hearing transcript, page 4, line 7.

⁶ Flagstaff hearing transcript, page 4, line 7.

⁷ Indeed, the USPS has made the argument on a number of occasions that the US model of workshare partnership where \$17 billion of potential USPS revenue (in theoretical terms) is shared with private sector partners who can provide most efficient components in the network is a form of liberalization. See for example testimony of Anita Bizzotto, former Chief Marketing Officer before the President's Commission on the USPS in Los Angeles.

⁸ Comments of Congressman John McHugh to the Postal Regulatory Commission, June 30, 2008.

⁹ Oral testimony of R. Richard Geddes before the Postal Regulatory Commission, July 10, 2008.

¹⁰ Statement of Cameron Powell of Earth Class Mail in the Flagstaff Hearings of the PRC on Universal Service.

¹¹ See "The Chief Strategy Officer", R. Timothy S. Breene, Paul F. Nunes, Walter E. Shill, Harvard Business Review, April 2008. "Using the Balanced Scorecard as a Strategic Management System" Robert S. Kaplan, David P Norton, July 2007. "Aligning Incentives in Supply Chains: V.G. Narayanan, Ananth Raman, November 2004 and others.

¹² The structure of the Government Performance and Results Act of 1993 specifies a hierarchy of goals objectives and performance strategies. The concept underlying this structure is that such a hierarchy is important to sustaining strategic alignment.

¹³ Royal Mail (Great Britain), Australia Post, Sweden Post and New Zealand Post all presented their experience at the FuturePost Conference in 1995.

¹⁴ As an additional note, at the Futurepost meeting, the U.S. experience with worksharing was contrasted with the European goal of market deregulation. (See also Elcano, Mary S., R. Andrew German, John T. Pickett, "Hiding in Plain Sight: The Quiet Liberalization of the U.S. Postal System" in Current Directions in Postal Reform edited by Michael A. Crew and Paul R. Kleindorfer, M.A. Kluwer Academic Publishers, 2001. The question may be asked today whether a hybrid structure in which a U.S.-style USO mission and a European concept of liberalization where the scope of the monopoly is limited to provide a reserved area that will fund a USO could be compatible with the uniquely U.S. system of public-private partnership that is entailed in worksharing.

¹⁵ Five-Year Strategic Plan 2000, USPS official document.

¹⁶ "Two Scenarios of Future Mail Volume" prepared by Greg Schmid, Director Global Mail Project, Institute for the Future, for the President's Commission on the USPS, July 1993.

¹⁷ PAEA, Sec. 702 (b), see also Discussion Memorandum p. 4.

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- ¹⁸ Comments of FedEx Corporation, June 30, 2008 in docket PI2008-3.
- ¹⁹ Comments of UPS Corporation, June 30, 2008 in docket PI2008-3
- ²⁰ Comments of Congressman John McHugh in docket PI2008-3.
- ²¹ Title 39, Sec. 101 (a).
- ²² Ibid.
- ²³ Comments of FedEx and UPS, June 30, 2008 in PI2008-3.
- ²⁴ McHugh Comments to the PRC, 63008
- ²⁵ Ibid.
- ²⁶ Kielbowicz, Richard B., “Universal Postal Service, a Policy History, 1790-1970”, prepared for the Postal Rate Commission, November 15, 2002, p. 2.
- ²⁷ Ibid. p. 28.
- ²⁸ USPS comments on June 30, 2008 in PI2008-3, p. 27.
- ²⁹ See for example, demonstrations of the concept of creating a postal “gateway to government” kiosks and Internet portal during the 1990s under the encouragement and sponsorship of the National Performance Review.
- ³⁰ Data from the Gartner Group cited in the Strategic Transformation Plan 2006-2010, on www.USPS.gov.
- ³¹ Sec 702 (2) (A)
- ³² Strategic Transformation Plan 2006-2010, Revised Final 12-31-07. P. iii
- ³³ Letter of Richard Strasser to the President’s Commission on the USPS, May 8, 2003 under Commission Requested Documents on the Commission website. “Transformation Plan Savings”
- ³⁴ Bossidy, Larry and Charon, Ram, Execution: The Discipline of Getting Things Done, Crown Business, 2002.
- ³⁵ UPS Comments in PI2008-3 June 30, 2008, p. 1.
- ³⁶ Ibid., p. 1.
- ³⁷ Ibid., p. 1.
- ³⁸ PI2008-3, Order 71.