

BEFORE THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF
COLUMBIA
UNITED STATES HOUSE OF REPRESENTATIVES

HEARING ON
“THE THREE R’S OF THE POSTAL NETWORK PLAN: REALIGNMENT, RIGHT-SIZING, AND
RESPONSIVENESS”

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TESTIMONY OF

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Good morning, Chairman Davis and members of the Subcommittee, I am Jerry Cerasale, Senior Vice President for Government Affairs of the Direct Marketing Association, and I thank you for the opportunity to appear today on behalf of the Direct Marketing Association concerning the Postal Service's June 2008 Network Plan required by section 302 of the Postal Accountability and Enhancement Act (PAEA).

The Direct Marketing Association, Inc. ("DMA," www.the-dma.org) is the leading global trade association of businesses and nonprofit organizations using and supporting multichannel direct marketing tools and techniques, including the U.S. Mail. Founded in 1917, DMA today represents more than 3,600 companies from dozens of vertical industries in the U.S. and 50 other nations, including a majority of the Fortune 100 companies, as well as nonprofit organizations. Included are catalogers, financial services, book and magazine publishers, retail stores, industrial manufacturers, Internet-based businesses, and a host of other segments, as well as the service industries that support them, such as printers.

DMA and our members appreciate this Committee's and Subcommittee's continued outreach to the business community on important issues involving the Postal Service. The DMA fully supported the Postal Accountability and Enhancement Act. One of the major goals of the PAEA was to enable the Postal Service to meet the 21st century market needs of individual and business mailers. To that end, the Postal Service must create the most efficient mail transportation and delivery network possible. The PAEA provides postal management with the tools it needs to create that network, but the tools alone do not guarantee success – it falls back to the Postal Service to provide the blueprint and carry through on the implementation.

Although I suspect the DMA's position on right-sizing of our nation's postal infrastructure is not unique, the perspective from which it reaches this position is. Not only do the mailpieces—some 70 percent of the total mail volume—that DMA's member companies send encompass the entire range of shapes, sizes and weights, but also DMA and its members utilize virtually every marketing channel. Thus, the views and business decisions of these companies take into account the competitive nature of the marketplace

and the importance of maintaining a postal system that will provide consistent and affordable service.

Over my career I have had the opportunity to view the issue of right-sizing the postal network from several different vantage points beyond just the DMA—as an attorney for the USPS, a senior staff assistant at the then-Postal Rate Commission, and as Deputy General Counsel of the former House Post Office and Civil Service Committee. I have come away from each of these positions having an appreciation for the potential consequences that every network change brings to one party or another. The Presidential Commission gained a sense of this from its deliberations and noted in its 2003 report,

The defining challenge, however, remains significant—the willingness of interested parties (employees, customers, partners, regulators and members of Congress) to support strategic realignment that will dramatically alter not *what* the Postal Service does, but *how* it provides its vital services to the nation. (at Chapter 5, page 7.)

The report that is the focus of today’s hearing is one of many required by the PAEA on a multitude of complex and important issues. In many respects, implementing the PAEA in a manner that will ensure that the needs of the nation are met now and in the future is akin to working a jigsaw puzzle in which a number of key pieces are changing shape. The Service’s report is in effect a template for how it will go about realigning its network but actual decisions will, for example, need to comport with (1) the universal service obligation and postal monopoly currently under study by the Postal Regulatory Commission and (2) the Service’s standards established for market dominant products.

Several years ago the Postal Service tagged its network right-sizing effort with an acronym, END, that may seem ironic but which stood for a sound concept—Evolutionary Network Design. The need for that evolution is now readily apparent. The mix of mail is and will continue to change. New technologies such as flat sequencing sorters and Intelligent Mail Barcodes are and will be brought online. Airlift capacity available to the Postal Service will change, and in the short term it may change dramatically. Environmental concerns will take greater prominence. Each of these changes will introduce new challenges to marketers and the Postal Service—new vectors into network realignment decisions.

These decisions will likely result in job and plant changes not only within the Postal Service but also for its customers, both large and small. We understand that change, in many instances, is difficult. DMA, nevertheless, is confident that the Service will continue to work closely with industry as it moves forward. I am equally confident that industry will react quickly should network changes result in either shifting cost burdens or any deterioration in service. Realignment may also move postal operations among different geo-political jurisdictions. Those moves may create difficulties for your constituents or the constituents of your colleagues. But for the Postal Service to succeed under the PAEA, it must have the ability to streamline its operations. That is the counterbalance to the CPI annual rate changes in the PAEA. Let the Service succeed. When it enacted the PAEA in December of 2006, the Congress reinforced the concept first introduced in the 1970 Postal Reorganization Act of a business-like Postal Service. By virtue of requiring the report that is the focus of this hearing and periodic follow-up reports, the Congress has formalized a common sense mechanism to oversee what over time may be a substantial overhaul of the Service's legacy network. The DMA hopes to be a partner in this ongoing effort aimed at ensuring a viable, predictable and affordable postal system to important to individuals and to commerce.

Oversight by the Congress and the Postal Regulatory Commission (PRC) on the effectiveness of any adjustment to the Postal Service network is necessary to the success of any realignment. Congress and the PRC should require periodic updates on the efficacy of the network changes along with an update on the effect of those changes in service for all service offerings, not just First-Class letter mail. Those changes must also comport with any labor agreement between the Postal Service and its employees. But mailers believe that if the Postal Service cannot create an efficient network, the result will be a shift of marketing resources to other channels leading to greater challenges for the Postal Service, its employees and its customers.

In conclusion, DMA urges this Subcommittee to support the Postal Service in its efforts to right-size its network today and in the future. We also urge that you continue strong oversight requiring the Postal Service to report often on the effectiveness of its right-sizing on costs, service and employees. DMA looks forward to future oversight hearings both here and at the PRC on this subject. It is important that the Postal Service

succeed and be able to react quickly should the need arise to shift course if not succeeding.

I thank you and look forward to any questions you may have.