



Testimony of
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Director of Postal Operations
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On Behalf of the
Association for Postal Commerce

Before the
U.S. House of Representatives
Committee on Oversight and Government Reform
Subcommittee on Federal Workforce,
Postal Service, and the District of Columbia

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**On behalf of
Association for Postal Commerce
And
RR Donnelley**

Chairman Davis, Members of the Subcommittee, I am Michael J. Winn, and I appear before you today in my capacity as a Member of the Board of Directors of the Association for Postal Commerce and as Director of Postal Operations for RR Donnelley. I am accompanied today by Gian-Carlo Peressutti, who has recently assumed the position of Vice President for Government Relations at RR Donnelley.

Neither the Association for Postal Commerce ("PostCom") nor RR Donnelley are strangers to this Committee, but I will briefly, for the record, summarize who we are and why we appreciate the opportunity to testify at this Oversight Hearing concerning the three Rs of the Postal Network Plan: "Realignment, Rightsizing and Responsiveness." PostCom is the leading trade association in the United States devoted exclusively to interests of commercial businesses and nonprofit organizations who depend upon the United States Postal Service to communicate with the public. Our membership, comprised of more than 300 companies and not-for-profit organizations, has a particular interest in matters affecting the Standard mail sub-classes but uses all classes of mail, and PostCom represents their interests in virtually all matters affecting the Postal Service. As a result, PostCom has been actively involved in the development and enactment of the Postal Accountability and Enhancement Act of 2006 ("PAEA") and in the work of both the Postal Service and the Postal Regulatory Commission in implementing that statute.

The Network Plan is a key element of the PAEA and vital to the economic viability, not just of the Postal Service, but of PostCom's members

RR Donnelley, headquartered in Chicago, is one of the largest leading integrated print and logistics solution providers to companies and governmental organizations throughout the United States and abroad. Our network of consolidation facilities is designed to aggregate mail, and to deliver it to points in the Postal Service's network providing our customers with the greatest efficiency, and lowest cost.

We – and I speak for all of the PostCom membership – endorse the goals and the objectives of the Network Plan the Postal Service has submitted to this Committee pursuant to Section 302 of the PAEA.

There is a compelling need for rationalization and integration and coordination of the Postal Service's processing and distribution facilities. That need was recognized in the 2003 Report of the President's Commission on the Postal Service, which lays the foundation for the PAEA. Indeed, many of the goals and purposes embodied in the Network Plan were anticipated by the Postal Service Transformation Plan that it submitted to Congress in April 2002 and updated last year.

The Postal Service began its 2002 Report to Congress with this sentence, "We live in challenging times." And that is doubly true today. Overall mail volume is at best stagnant or declining for a number of reasons including the volatility of the American economy. The unprecedented increases in the cost of diesel fuel particularly afflicts the Postal Service and the industries and companies, like RR Donnelley, that support and serve the Postal Services' commercial and nonprofit customers. This is because the Postal Network as it exists today and, in the future, is critically dependent on work

sharing. A key component of work sharing — as the Plan itself recognizes -- involves the destination entry of mail as deep into the postal system as is economically feasible. However, given the combined costs of diesel fuel and postage we are rapidly approaching the point at which the incentives (in the form of discounts) the Postal Service provides for drop entry and other forms of work sharing are no longer adequate to the task. We are at, or perilously close, to the point at which catalog companies, magazine publishers, and other mailers are either seeking alternative – usually electronic – means of communicating with their customers, or are electing to forego the discounts provided for work sharing in order to shift mail preparation and transportation costs back on to the Postal Service. The Postal Service can ill afford either outcome. We do indeed “live in challenging times.” The goals of the Network Plan -- looking toward realignment and rightsizing of its facilities -- are not merely important; they are indispensable to the preservation of universal service.

In its report the Postal Service has laid out its performance goals in terms of "continuous improvement" of both service and efficiency. It has described the purposes of the three integrated elements of its network rationalization plan involving the elimination of redundant airport mail centers, the realignment of the mail processing network as a whole and the transformation of the bulk mail network. In our view, these objectives are fundamentally sound.

At the same time, the establishment of these goals serves to underscore the central importance of the role the mailing industry — mailers and service providers alike — must play in the development of the specific measures needed to successfully achieve these objective and ends. For example, in explaining the rationale for transformation of

the BMCs, the Plan points out correctly that “the increase in destination entry” of periodicals, standard mail and packages over the past several decades has resulted in underutilization of existing BMC network capacity. That will remain true only so long as the price incentives remain adequate to induce mailer behavior in ways that serve mailer and Postal Service interests. The overriding objective of the PAEA is, of course, to maintain a commercially and financially viable Postal Service that is capable of providing universal service throughout the country. That objective can, however, only be achieved if the Plan yields the lowest *combined* costs to the Postal Service and industry.

The Postal Service states in its Plan that it "values the ongoing cooperation of the mailing community" in relation to operationalizing the Service Performance Standards it has adopted. But the need for mailing community involvement in rationalization and realignment goes far beyond service. If the only outcome — or the principal result — of the Plan is to shift more cost from the Postal Service to the private sector, the Plan will, quite frankly, fail. Put another way, we believe that, when the PAEA speaks of "affordable" rates based on "efficient" network operations it means the entirety of the production and delivery chain, including the work sharing, address hygiene and other undertakings of the private sector; efficiency and cost shifting are not the same thing. Now that the goals and objectives of the modernization plan have been defined, the need for mailing community involvement with the Postal Service in the refinement of the steps outlined in the Plan and in its implementation is more critical than ever.

Realignment and rightsizing cannot be accomplished overnight especially in the system as large and complex as that operated by the United States Postal Service. Still, there are incremental changes that can be made as the Postal Service advances toward its

goal of continuous improvement service both in terms in of quality and cost. The Report, for example, specifically notes that the Postal Service is committed to establishing FY2009 Service Standard Targets although the measurement systems necessary to establish baselines are still in development for expansion. While we are pleased to see the Postal Service move forward with service performance measurement, this is an example of the need for the Postal Service to understand and respond to the needs of its customers. As PostCom has pointed out to both the Postal Service and the Regulatory Commission the availability to the mailing industry of real time, reliable service performance data is imperative to the industry's ability to make the most efficient possible use of the system and to thereby achieve the lowest combined cost of service. With service performance data available to mailers and service providers on a real time basis, the industry will be able to react to specific problems to maintain efficiency throughout the value chain and thereby achieve the lowest combined cost. The Postal Service is to be commended, with respect to its commitment concerning service performance standards and the measurement of actual performance under those standards, but it must also recognize that this data must be made available to the industry in a timely and meaningful fashion. PostCom looks forward to working with the Postal Service as it proceeds to "operationalize" its service standards and service performance measurements.

But there is more that can be done through the Postal Service and industry working together toward the common goals of maintaining and enhancing the value of mail as a communications system. In his opening address at this year's National Postal Forum, Postmaster General Potter specifically pointed out that the Postal Service cannot be "timid" in the implementation of change and that it must learn to share "risk" with the

industries that it serves if it is to remain commercially and financially viable. These steps cannot be taken by the Postal Service alone in a silo or series of unconnected silos. The views, concerns and interests of the industry must be factored at each step in the process of implementation and, equally, in the development, refinement and filling in of the broad and general objectives that the Postal Service has laid out in the Plan it has submitted to Congress.

The devil is in the details in the manner in which the objectives and principles set forth in the 2008 Plan and its precursors are refined and put into actual practice. It is in this respect that in our view, the Postal Service's performance to date needs to be improved. At the strategic level, the development and implementation of the Intelligent Mail Bar Code (IMB) is an example of this issue of inadequate responsiveness to industry. The IMB is generally recognized by industry to be of value to both industry and the Postal Service; it is the long-term basis of service performance measurement and of increased operational efficiency and rightsizing within the postal system. However, until recently the Postal Service's communications concerning this major initiative has been at best confusing and incomplete and at worst entirely in conflict with the needs and capacities of industry resulting in enormous cost to the industry -- cost that could much better have been devoted to the actual production, printing and preparation of mail. I am happy to report that in recent weeks, the senior management of the Postal Service has come to recognize that there is a need for high-level coordination of all of the elements that go into the IMB and of the creation of mechanisms through which industry can express its views and concerns regarding consistent, reliable and meaningful information about the IMB Plan, pricing and requirements.

There are, however, other aspects of the Plan where the Postal Service's responsiveness to the needs and interests of the industry need to be improved. This is especially true at the tactical level. We in the industry understand that incremental changes in operations in the use of the facilities and in the routing of mail will occur with some frequency as the Postal Service moves to a network redesign and redeployment. However, too often mailers and the logistic companies they employ do not learn of operational changes at a particular region or at a particular facility until the truck carrying mail actually arrives at the mail facility only to be told by local officials that routing has been changed or processing equipment has been moved and the truck has to be re-routed to the newly designated acceptance site. Whether or not these unannounced changes in operations produce savings to the Postal Service misses the point. The added costs to the industry, especially in times of high fuel costs, defeat the goal of lowest combined cost and, therefore, the objectives which underline the PAEA. Accordingly, as to tactical and strategic matters, the Postal Services' communication of information and responsiveness to input from the industry can and must be improved.

In conclusion, PostCom and RR Donnelley believe that the basic objectives and purposes the Network Plan that the Postal Service has submitted to Congress are sound. There are aspects of that Plan that need to be worked through, perhaps modified and more fully developed. That task must be left to the Postal Service working closely with the associations that represent the industry and with companies like Donnelley that are in the trenches every day. Only through direct interaction between the Postal Service and the mailing community -- which speaks in this context for your constituents—can realignment and rightsizing take place in a rational and orderly fashion with results that

are responsive to and serve the needs and best interests of all of the Postal Service's stakeholders. The Network Plan advanced by the Postal Service lays the foundation for realization of these goals. We thank the Subcommittee for this opportunity to present our views on this centrally important Postal Service initiative.