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MAILERS COUNCIL

TESTIMONY BEFORE THE HOUSE SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

JULY 24, 2008

TESTIMONY OF
ROBERT E. MCLEAN, CAE
ON BEHALF OF THE
MAILERS COUNCIL

Good afternoon, Mr. Chairman, and members of the subcommittee. The Mailers Council appreciates the opportunity to testify on postal issues. My name is Bob McLean, and for the past 12 years I have been the Council's executive director.

BACKGROUND

The Mailers Council is the largest group of mailers and mailing associations in the nation. We represent for-profit and nonprofit mailers (large and small) that use the United States Postal Service to deliver correspondence, publications, parcels, greeting cards, advertising, and payments. Collectively the Council accounts for approximately 70% of the nation's mail volume.

The Mailers Council believes that the Postal Service can be operated more efficiently, supports efforts aimed at containing postal costs, and has the ultimate objective of keeping rates below the Consumer Price index without compromising service. We believe that the Postal Service should be given the discretion it needs, and which it received under the Postal Accountability and Enhancement Act (PAEA), to operate in a way that will allow it to maintain high-quality service at the lowest possible rates.

We welcome this opportunity to testify on the Postal Service's operational network and the need to realign its network. This reduction is a difficult but necessary response to the unprecedented changes in mail volume the Postal Service is experiencing and will continue to experience for years to come. Reducing the network size is essential if the USPS is to provide affordable, reliable universal postal service to your constituents.

FUNDAMENTAL CHANGES IN MAIL DELIVERY

As we testified one year ago this month, the Postal Service is working diligently to implement the many changes required by the PAEA, the postal reform bill signed into law in December 2006. Working with the support and direction of the Postal Regulatory Commission (PRC), the Postal Service has made tremendous progress in such important areas as modernizing its rate-making system and developing new delivery standards.

Despite these successes, the Postal Service faces many unprecedented changes in how we as a nation communicate and conduct commerce. Collectively these changes are largely irreversible and include:

- overall mail volume is declining;
- revenue from First-Class mail, the most profitable class delivered, continues to decline, as does First-Class mail volume;
- revenue from Standard mail continues to increase, but at a much slower pace than in the past decade;
- higher fuel costs are adding millions in unprecedented costs every day, a problem that is likely to increase in the next year; and
- higher inflation will mean significant cost of living allowances for postal employees that, along with higher health insurance costs, will add millions in costs in FY 2009.

Because of these multiple, daunting challenges, it will become increasingly important for the Postal Service to operate as efficiently as possible—starting now—to avoid significant annual postage increases that would only accelerate the decline in total mail volume or, if such increases are precluded by PAEA's price cap provisions, to avoid serious service declines that will have the same effect.

CLOSING AND CONSOLIDATING POSTAL FACILITIES

In its efforts to improve delivery performance, and in response to ongoing and future changes in mail volume and composition, the Postal Service must be allowed to reduce the size of its opera-

tions network, much of which was designed 40 or more years ago when there was more mail that was processed quite differently, notably more First-Class mail, and less competition from delivery and communication alternatives. More specifically, the Postal Service must move now to realign and reduce the delivery network, which will lead to the closing and consolidating of some mail processing facilities, especially in cities where there are multiple plants.

The Mailers Council fully supports the Postal Service's plans for realigning its mail processing and delivery network. Given the number of new deliveries in many cities, and the changes underway in the mailing industry, reducing the size of the network is the best possible way of containing postal costs without compromising service—which is the Mailers Council's mission.

We can appreciate the implications of these changes on postal employees who are understandably concerned about closing postal facilities. These employees have pleaded with you and other members of Congress to prevent facility closings for fear that they will lose their jobs. There are three reasons why we encourage you to allow the Postal Service to move forward with realignment.

First, the Postal Service has more capacity for processing mail than it needs, because technology allows more mail to be processed faster, with fewer employees, and in less time than was the case even a decade ago. Also, the Postal Service has used the utmost care regarding its employees during this transition toward automation. It has reduced its workforce with attrition and has provided relocation and/or retraining options for affected employees. There have been no employee layoffs under PMG Jack Potter, a striking difference compared to large private sector companies in the United States that are also facing the need to downsize or change their operations.

Second, although mail volume is expected to decline, mail delivery points will continue to increase at an astounding level. While the Postal Service is delivering fewer pieces of mail to each address, the number of addresses to which it delivers mail is increasing at historically unprecedented levels. For many years, the Postal Service has added one million or more new delivery points annually, requiring the construction of new delivery units (not mail processing plants), the

hiring of additional letter carriers, the purchase of more delivery vehicles, and the purchase of more fuel—all adding billions to operational costs.

Third, and most importantly, unless the Postal Service is allowed to control its costs, especially those now incurred to sustain an outdated, outsized mail processing network, the Postal Service will no doubt be unable to live within the price cap imposed by Congress in the PAEA. This inability will in turn lead to either a relaxation of the cap, followed by extraordinary rate increases, or major service reductions. Either way, more customers will be driven from the mail, further reducing mail volume and leading to even higher prices and the much discussed death spiral that led to passage of the 2006 postal reform law.

As we said to you in 2007, we recognize that any decision to close a postal facility is a difficult one, because it affects the lives of many individuals. However, right-sizing the postal network as the mailstream changes is essential to maintaining affordable postage rates. Higher postage will affect every one of your constituents now and could eventually hasten the demise of the Postal Service. Higher postage and a bloated operational network will, in the long run, be much more devastating to postal employees. The Postal Service is hoping for the authority to offer early retirement to 40,000 employees in the next year. Unless Congress allows the Postal Service to consolidate facilities now, we soon will be talking about more than 40,000 layoffs. This is a dire prediction but one we can state without equivocation, because the Postal Service's potential financial losses are so large, and so unavoidable given the current overhead costs.

Congress has given the Postal Service a mandate to deliver excellent service to every American in every state without government financial support, which it has done for the past several decades. We want that situation to continue, as I'm sure members of this committee do as well. Let's avoid having the Postal Service become a burden on taxpayers and allow the Postal Service to manage itself. Give the Postal Service the opportunity to respond without encumbrances to the many profound, and in some cases unprecedented, changes it faces now and will face in the coming years. Let postal management reduce the size of the postal operational network, because it is essential to improving the efficiency of the Postal Service. Congress has demanded that the

Postal Service operate more like a successful business. It should not simultaneously prevent it from doing so.

Mr. Chairman, thank you again for the opportunity to present our view on network realignment. I would gladly answer any questions you and your colleagues may have.
