

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

**Testimony of Michael J. Winn on Behalf of the Association for Postal Commerce
July 26, 2007**

Introduction

Mr. Chairman and members of the Subcommittee, thank you for providing me with this opportunity to testify on behalf of the Association for Postal Commerce, also known as PostCom. My name is Michael Winn, and I am Director of Postal Affairs and Mailing Operations for R.R. Donnelley. I am a member of PostCom's Board of Directors and the Executive Committee of the Board. On behalf of PostCom's membership, we appreciate the opportunity you have provided PostCom to submit our views on the significant postal issues you are examining in this hearing.

PostCom's membership consists of businesses and organizations -- large and small -- that use the postal system to communicate with their customers, donors and constituents, and the printers, logistic companies, fulfillment houses, software providers and others that make use of the postal system possible. Collectively, our membership is estimated to account for in excess of 70% of all revenues the Postal Service receives from the Standard Mail subclasses, but our interest in the postal system goes far beyond these subclasses. It is estimated that PostCom members account for about 50% or more of the total volume of catalogs weighing over one pound, books, audio and video materials, and parcels that the Postal Service handles each year. Our membership also makes extensive use of First-Class Mail, and of both domestic and international shipments handled by alternative service providers such as UPS, FedEx, and DHL. PostCom thus has a vital

interest in assuring the existence of an efficient, responsive, financially stable, and competitive Postal Service.

R.R. Donnelley is the largest printer and postal logistics provider in the United States. As a mail service provider, we work with our customers to prepare enormous amounts of mail in all classes – periodicals, catalogs, parcels, and letter mail. R.R. Donnelley produces a very significant percentage of all the mail pieces processed by the United States Postal Service, and provides logistics for an even larger percentage of all mail pieces processed.

The passage of the Postal Accountability and Enhancement Act (“PAEA”) was a critical step to enable the Postal Service to address the difficult issues that it confronts in its current market environment. The Postal Service faces the continued expansion of postal delivery points, which increases its costs, and at the same time a decline in the rate of growth of mail volume, which adversely affects its revenues. With the passage of this Act, Congress altered the regulatory framework in a comprehensive manner that strengthens regulatory oversight and enhances transparency, while providing the Postal Service with the necessary management incentives to meet these challenges through greater operational efficiency and high quality service standards. PostCom supported the passage of the PAEA and we are deeply grateful for the hard work that this Committee put into that effort.

Network Realignment/Evolutionary Network Development

The Postal Service has adopted goals to develop mail processing and transportation networks that are suited to current and future operational needs, to reduce inefficiency and redundancy, to make operations flexible, and to capture the resulting cost savings. While these goals may be designed to reduce costs, they are, plainly, not designed to eliminate jobs. A logistics network such as the Postal Service's must evolve

to meet changing operational demands. These changes are designed to make the Postal Service work smarter, not harder. PostCom strongly supports the Postal Service's network realignment goals.

However, there is room for improvement in the manner in which the Postal Service carries out its network realignment plans. This is not a one-way street. Just as PostCom members need a Postal Service that operates as efficiently and cost effectively as possible, the Postal Service needs the mailers and the mail service providers like Donnelley that drive the mail volumes and revenues that are the Postal Service's lifeblood. The ultimate objective of network realignment, as we view it, is not to enable the Postal Service simply to achieve the lowest possible cost of operation that it can. The objective of network realignment must be aimed at achieving the lowest combined cost of the Postal Service and the mailing community.

First, there must be improvement in the interaction between the Postal Service and the community it serves. This simply has to do with communication of information about network realignment by the Postal Service. While the Postal Service is a public agency, it is also a business, and like any business, the Postal Service cannot operate in a fishbowl. However, good business practices also demand an effective communications strategy. So, while complete transparency from planning stage to implementation may well be ill-advised, a reasonable amount of advanced notice to major mailers of operational changes is necessary so that mailers can anticipate how consolidation will affect us and our operations, and so that the effects of the transition on the entire postal industry (including the Postal Service) are minimized.

As the Postal Service implements its Evolutionary Network Development program, the current class-based network will be shifting to a shape-based network. Changes to the drop entry landscape will be occurring at a greater pace than ever before. Inadequate communication from the Postal Service about changes in its network poses serious problems for Donnelley and all PostCom members. For example, our trucks are too often redirected when they reach the postal facility to which they were told to bring mail. This results in delay in delivery and in added costs to the mailer. As the Postal Service implements changes, different drop locations are identified for different types of mail that have previously been consolidated on mailers' trucks for delivery to a single location. This, too, complicates an already complicated process. Mailers' costs also rise as the Postal Service makes changes to its processing facilities, removes old equipment and installs new equipment such as Flats Sequencing System (FSS) machines. All of these factors influence the results of a mailers' cost-benefit analysis of the mail.

There is a similar need for improved communication and care in the development of Postal Service rules and policies with respect to mail preparation – the manner in which printers and other mail service providers are required to sort and package and present their mail at Postal Service facilities. A recent example of this problem grew out of what PostCom members hope was the last rate case to be tried under the old statute. In that context, the Postal Service decided to more sharply define certain kinds of mail – particularly catalogs or other flats – apparently in order to achieve improved processing efficiency on its automated sorted equipment. To the Postal Service's credit, mailers were afforded the opportunity not once, but twice, to make their views on the changes known to the Postal Service. But the reality is that the Postal Service did not have a clearly defined plan in mind when it initiated the process and the result is that many of

the final, and very important details, about these new shape-based definitions did not become available until literally the last minute. The cost to the industry of bringing its business plans and operations into line with the Postal Service's last minute decisions were substantial. Regrettably, these costs emerge as diminished volumes to the Postal Service.

In short, early, well and thought-out clear information about near-term changes in the Postal Service's network and its mail processing equipment is essential to attainment of the network realignment goals.

Second, it is equally important that the Postal Service work much more closely with the mailing community than it ever has in the development of modernization plans. It weighs very heavily the needs and concerns of the mailing community in formulating its final decisions.

Too often in the past, Postal Service decisions concerning operational changes have been made in a vacuum – rules and policies are issued that may reflect what the Postal Service perceives to be in its best interest, but without adequate consideration or assessment of the effect of these operational changes on Postal Service customers. Several years ago, for example, the Postal Service became concerned – and properly so – about the extent of bundle breakage occurring on certain of its automated mail processing systems. Its solution was to abruptly and – frankly, arbitrarily – impose new and stringent “bundled integrity” requirements upon mail service providers and mailers; and these new bundled integrity rules were to be backed by the imposition of penalties. The problem with these requirements was that there was absolutely no evidence that even a

primary cause of bundle breakage was the result of inadequate or sloppy bundle preparation by the mailing community. Worse yet, the new standards were technologically impossible in some respects and far greater than what was legitimately needed in all respects. The issue was ultimately resolved to the mutual satisfaction of the industry and the Postal Service, but not without very substantial cost and time and effort on the part of PostCom and the industry.

Network realignment and modernization will not succeed unless the views and concerns and capabilities of the industry are taken into account. This does not mean that mail preparation and other standards imposed by the Postal Service on industry must be set at the lowest common denominator. But, by the same token, if the only or primary result of network realignment is to shift costs from the Postal Service to the private sector, the purpose of this process will not be realized.

Our common goal should be to encourage business mailers to sort, containerize and drop ship to the finest extent possible so that the Postal Service and the mailers can achieve the lowest combined costs of mail processing and delivery. We are confident that the Postal Service understands that maintaining or increasing mail volumes, and, through volumes, enhancing the Postal Service's earnings, depends on reducing the costs of a mailpiece from development through delivery, not just on reducing postage. Therefore, PostCom expects the Postal Service to evaluate its network realignment and operations with the perspective of lowest combined cost.

Service Standards and Performance Measurement

As you know, the PAEA established an administrative process for the development of service standards and a service performance measurement system. PostCom believes that the establishment of service standards and performance measurement reporting are inextricably intertwined. Meaningful standards are important, but meaningful standards without public reporting of actual performance is of very little value to mailers. Standards and performance measurement must be developed based on the needs of users of each product, balanced against Postal Service costs. And, precisely because the Postal Service is undergoing a technological and operational transformation, the Postal Service and the Regulatory Commission must not assume that the task of establishing service standards is a one-time event. As operational efficiencies are gained and as the lowest combined cost of services are realized, service standards must also be revised to reflect these new realities.

Service Standards

In PostCom's view, meaningful standards will recognize different service expectations with respect to various levels of presort, dropship, and containerization to enable mailers to make informed decisions with respect to the value of additional mail preparation and transportation prior to entry.

One of the important elements of meaningful standards is the relationship of Critical Entry Times to service. Critical Entry Times are the cut-off times used by the Postal Service to determine whether a particular type of mail is entered or arrives at a postal facility in time to make the necessary processing and transportation time lines to meet the service standard for that product. As PostCom pointed out in its comments on

service standards filed with the Postal Regulatory Commission in early July, Critical Entry Times and service standards are integrally linked: changing Critical Entry Times can equate to changes in service standards.

For example, if a postal facility moves the Critical Entry Time for Periodicals Mail earlier, any mail entered at (or arriving at) the facility after that Critical Entry Time would have an additional day added to its service standard, with cascading effects. Thus, Critical Entry Time data must be available along with service standards so that mailers can appropriately determine service expectations. Publishing and adhering to consistent Critical Entry Times enables mailers and mail service providers to adjust their schedules and thereby work in tandem with the Postal Service to advance delivery reliability consistent with the objectives of the PAEA.

Service Performance Measurement

Of course, establishing Service Standards without a mechanism for assessing performance in relation to those standards would be a meaningless exercise. Publicly available aggregate service performance measurement data is essential, not only to motivate the Postal Service to improve service, but to enable mailers to manage costs at their end. Aggregate performance data is required so that both Postal Service management and mailers better understand whether delivery standards are being met. The information can help us understand what factors are contributing to performance issues and how we should respond.

The importance of actual measurement data becomes clear when we examine the reasons why businesses like PostCom's members, use the Postal Service. Mail is not an end in itself. Businesses use the mail to convey information to the American public that individuals can act upon. Those actions range from managing their personal affairs,

ordering merchandise that they need and want, supporting the charities and other organizations to which they belong, to learning about matters that affect them in all aspects of their lives. In the mail, therefore, mailers must and do have sophisticated and carefully integrated business plans and processes that control their processes from inception to conclusion and are calculated to achieve the goal of the mailpiece in the most efficient manner possible.

Very often, the business plan of mailers starts with a targeted “in-home date.” For example, catalog companies need to know exactly when their customer receives the catalog so they can have the proper inventory on hand, and their call center staffed to handle incoming calls. Service performance data would allow the catalog mailer to develop a plan that backtracks from the expected delivery date to develop catalog production and delivery schedules, and even inventory acquisition schedules. In the world of Periodicals, subscribers expect to receive their magazine on certain days, and when they don't, they complain. Again, aggregate service performance data would allow periodical mailers and mail service providers to plan mail entry and drop shipments better. Periodical customers will be more likely to renew their subscriptions if they can depend on receiving their information on a predictable and regular basis.

With the exception of First-Class mail, the Postal Service does not now consistently or regularly evaluate or publicize performance in relation to guidelines. To its credit, the Postal Service realizes that performance measurement systems must also be established for all of the market dominant products created under the PAEA. It has established a task force through the Mailers Technical Advisory Committee to work with mailers in the development

of systems of measurement that are useable by the mailing industry in the formulation of their business plans.

Service performance measurement systems/solutions must evolve as technology and industry practices change. The Postal Service also quite correctly observes that developments in Intelligent Mail, which involve barcoding and tracking mail through the postal system, will facilitate better performance measurement systems, but performance measurement cannot await widespread adoption of these new technologies. Technology and data that now exists could readily provide accurate measurement of delivery times for certain products, and – as with service standards – the system of performance measurement must be expected to evolve and improve as technology and operational improvements occur.

Conclusion

In closing, thank you again, for the opportunity to testify. PostCom hopes that this testimony will help the Subcommittee in its oversight of the implementation of the PAEA and we look forward to working with you as that process moves forward.