July 2006

U.S. POSTAL SERVICE

Delivery Performance Standards, Measurement, and Reporting Need Improvement

GAO

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Highlights

Highlights of GAO-06-733, a report to Congressional requesters

U.S. POSTAL SERVICE

Delivery Performance Standards, Measurement, and Reporting Need Improvement

Why GAO Did This Study

U.S. Postal Service (USPS) delivery performance standards and results, which are central to its mission of providing universal postal service, have been a long-standing concern for mailers and Congress. Standards are essential to set realistic expectations for delivery performance and organize activities accordingly. Timely and reliable reporting of results is essential for management, over-sight, and accountability purposes. GAO was asked to assess (1) USPS's delivery performance standards for timely mail delivery, (2) delivery performance information that USPS collects and reports on timely mail delivery, and (3) progress made to improve delivery performance information.

What GAO Recommends

GAO recommends that USPS take actions to modernize its delivery standards, implement delivery performance measures for major types of mail by providing clear commitment and more effective collaboration, and improve the transparency of delivery performance standards, measures, and results. In commenting on a draft of this report, USPS disagreed that its standards are outdated and detailed its vision to improve service measures and transparency. USPS did not directly comment on three of our four recommendations. On our transparency recommendation, USPS said that its standards should be more visible and is exploring providing more of this information.

www.gao.gov/cgi-bin/getrpt?GAO-06-733.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine Siggerud at (202) 512-2834 or siggerudk@gao.gov.

What GAO Found

USPS has delivery standards for its major types of mail, but some have not been updated in a number of years to reflect changes in how mail is prepared and delivered. These outdated standards are unsuitable as benchmarks for setting realistic expectations for timely mail delivery, measuring delivery performance, or improving service, oversight, and accountability. USPS plans corrective action to update some standards. Also, some delivery standards are not easily accessible, which impedes mailers from obtaining information to make informed decisions.

USPS does not measure and report its delivery performance for most types of mail. Therefore, transparency with regard to its overall performance in timely mail delivery is limited. As shown in the table below, representative measures cover less than one-fifth of mail volume and do not include Standard Mail, bulk First-Class Mail, Periodicals, and most Package Services. Despite recent disclosures on its Web site, USPS's reporting is more limited than the scope of measurement. Without sufficient transparency, it is difficult for USPS and its customers to identify and address delivery problems, and for Congress, the Postal Rate Commission, and others to hold management accountable for results and conduct independent oversight.

USPS Delivery Standards, Measurement, and Reporting

Type of mail	Delivery standards	Mail volume (percent)	Representative measurement	Reporting on USPS Web site
Standard Mail	3-10 days	48	None	None
First-Class Mail: *bulk mail*	1-3 days	25	None	None
First-Class Mail: *single-piece*	1-3 days	22	Partial	Partial
Periodicals	1-7 days	4	None	None
Package Services	1-9 days	1	Partial	Partial
Priority Mail	1-3 days	[a]	Partial	Partial
International Mail	2 days to 6 weeks	[a]	Partial	None
Express Mail	1-2 days	[a]	Full	Partial

Source: GAO analysis of USPS information.

[a]Less than 0.5 percent.

Progress to improve delivery performance information has been slow and inadequate despite numerous USPS and mailer efforts. Some impediments to progress include USPS's lack of continued management commitment and follow through on recommendations made by joint USPS/mailer committees, as well as technology limitations, data quality deficiencies, limited mailer participation in providing needed performance data, and costs. Although USPS has initiatives to improve service and better track mail through its mail processing system, USPS has no current plans to implement and report on additional representative measures of delivery performance. USPS's leadership and effective collaboration with mailers is critical to implementing a complete set of delivery performance measures.

_____ **United States Government Accountability Office**

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Abbreviations

APQC	American Productivity and Quality Center
BMC	Bulk Mail Center
DBMC	Destination Bulk Mail Center
DDU	Destination Delivery Unit
DSCF	Destination Sectional Center Facility
EMS	Express Mail Service
EXFC	External First-Class Measurement System
GPRA	Government Performance and Results Act of 1993
MTAC	Mailers' Technical Advisory Committee
OCA	Office of the Consumer Advocate
P&DC	Processing and Distribution Center
PETE	Priority End-to-End
POM	Postal Operations Manual
PRC	Postal Rate Commission
PSA	Parcel Shippers Association
PTS	Product Tracking System
SCF	Sectional Center Facility
USPS	U.S. Postal Service

United States Government Accountability Office
Washington, DC 20548

July 27, 2006

The Honorable Susan M. Collins
Chairman
Committee on Homeland Security
    and Governmental Affairs
United States Senate

The Honorable Tom Carper
United States Senate

The U.S. Postal Service's (USPS) mail delivery standards and performance, which are central to its mission of providing postal services to all communities, have been long-standing concerns for mailers and customers who receive mail. Delivery performance standards (delivery standards) for on-time delivery of mail enable USPS, mailers, and customers to set realistic expectations for delivery performance, such as the number of days mail takes to be delivered, and to organize their activities accordingly. USPS and others rely on information about delivery performance results to understand whether delivery standards are being met and what is driving performance—that is, identifying which factors are contributing to both successful and problem areas. This information is vital for management, oversight, and accountability purposes. Mailers' concerns revolve around whether standards, measurement, and reporting are complete, transparent, and useful. These concerns include whether USPS's delivery standards reflect its operations and whether they can be used as a benchmark for measuring performance for all major types of mail;[1] whether delivery performance measurement is adequate for USPS to set goals, manage its operations, and improve its delivery performance; and whether the reporting of delivery performance is adequate for various stakeholders, such as mailers who need this information for business planning, as well as USPS's Board of Governors and the Congress, who

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[1]For the purposes of this report, major types of mail include: Express Mail (also referred to as Expedited Mail); Priority Mail (i.e., First-Class Mail that weighs over 13 ounces); First-Class Mail—single-piece mail (e.g., bill payments and letters sent at the rate of 39 cents for the first ounce plus 24 cents for each additional ounce) and bulk mail (e.g., bills and advertising); Periodicals (mainly magazines and local newspapers); Standard Mail (mainly bulk advertising and direct mail solicitations); Package Services (e.g., parcels, merchandise, catalogs, media mail, library mail, and books); and International Mail (e.g., letters, parcels, and periodicals destinating in foreign countries).

need this information to fulfill their respective oversight and accountability responsibilities. Delivery performance information also helps the independent Postal Rate Commission (PRC) review proposed rates and render advisory opinions on USPS proposals that USPS expects to affect the quality of postal services nationwide or on a substantially nationwide basis.

There is little statutory guidance on how USPS establishes delivery standards. However, USPS is subject to statutory requirements related to performance measurement and reporting. Since 1976, Title 39 of the U.S. Code has required USPS to submit an annual Comprehensive Statement to its congressional oversight and appropriations committees that must include "data on the speed and reliability of service provided for the various classes of mail and types of mail service," among other things. In addition, the Government Performance and Results Act of 1993 (GPRA) requires USPS to annually report to Congress and the public on its goals and actual performance relative to these goals. Sponsors of postal reform legislation have recognized concerns in the area of delivery standards, measurement, and reporting; and the House and Senate have passed postal reform legislation that would clarify USPS's delivery standards and create a strong postal regulator who would administer statutory obligations for USPS to annually report, for most types of mail, the level of service provided "in terms of speed of delivery and reliability."[2] The regulator would be required to annually determine compliance with this reporting requirement and would have the authority to obtain court orders to enforce compliance as well as to impose fines in cases of deliberate noncompliance.

This report assesses

1. delivery standards for the timely delivery of mail that USPS has established,

2. delivery performance information on timely delivery of mail that USPS measures and reports, and

3. progress USPS has made in improving its delivery performance information.

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[2]H.R. 22, 109th Congress, was passed by the House on July 26, 2005. The Senate bill was introduced as S. 662, 109th Congress and on Feb. 9, 2006, the Senate incorporated S. 662 into H.R. 22 and passed H.R. 22 in lieu of S. 662.

To address these objectives, we based our assessment on applicable laws—such as laws related to USPS's mission to provide prompt, reliable, and effective universal postal service, including the prompt and expeditious delivery of mail, and statutory reporting requirements related to USPS's delivery performance. We also developed criteria based on practices used by high-performing organizations, including practices for performance management identified by the American Productivity and Quality Center (APQC), a nonprofit organization that studies the best practices of top-performing organizations and benchmarks business performance to help organizations improve their quality and productivity. In addition, we based our criteria for practices used by high-performing organizations on our past work on USPS and other leading organizations.

Our criteria focused on the completeness, transparency, and usefulness of the delivery standards, measures, and results for various types of mail. We obtained information primarily from USPS documentation, including its current delivery standards and other material provided in response to our requests, publicly available USPS reports, documents filed in PRC proceedings, and other USPS material available on its Web site. We also obtained documentation from other sources, such as reports on joint USPS-mailer committees, articles, and material provided to us by mailers. We interviewed USPS officials responsible for USPS delivery performance information and postal stakeholders, including representatives of mailer groups, individual mailers, PRC, and PRC's Office of the Consumer Advocate, which is charged with representing the interests of the general public. We conducted a data reliability assessment of USPS delivery performance information that was sufficient for the purposes of our review. More details about our objectives, scope, and methodology are included in appendix I. Our work was conducted from August 2005 to July 2006 in accordance with generally accepted government auditing standards.

Results in Brief

While USPS has developed delivery standards for its major types of mail, the standards for several types of mail have not been updated in a number of years to reflect significant changes in the way that mail is prepared and delivered. As a result, these outdated standards are unsuitable as benchmarks for setting realistic expectations for timely mail delivery, measuring delivery performance, or improving service, oversight, and accountability. For example, the delivery standards for Standard Mail, USPS's largest volume mail category (48 percent of mail volume), were established in the 1970s and are generally based on distance. These standards do not take into account mailer activities, such as presorting

mail to the ZIP Code or carrier delivery route level, and entering mail at a postal facility that generally is closer to the destination, that have led to changes in USPS's mail processing and transportation networks. Such activities became much more prevalent after USPS began providing discounts to mailers for these activities more than 25 years ago. For example, the degree of presorting alters the amount of handling the mail receives by USPS and potentially speeds or slows delivery. For similar reasons, delivery standards for some Periodicals and most Package Services mail are outdated and do not reflect changes in the way mailers and USPS process this mail. USPS officials told us that because of the variety of ways these types of mail are sorted and enter the postal system, developing standards to reflect expected speed of delivery is challenging. Nevertheless, USPS has received several recommendations over the past decade from committees including USPS and mailers representatives to update its delivery standards to reflect these trends, but has not implemented them. Sponsors of postal reform legislation have recognized the need for action in this area, and Senate and House reform bills passed in this session of Congress would require USPS to, respectively, modernize its service standards and report its standards annually. To its credit, USPS has modernized its standards for some types of mail, such as Parcel Select. With regard to First-Class Mail (46 percent of mail volume), USPS has occasionally updated its standards to reflect changes in operations and performance, but PRC criticized changes that downgraded some of these standards. In addition, USPS's existing delivery standards for some major types of mail are not easily accessible, which impedes mailers from obtaining such information to make informed decisions about different mailing options with varying rates and service.

USPS does not measure and report its delivery performance for most types of mail—less than one-fifth of total mail volume is measured—therefore, transparency with regard to its overall performance in timely mail delivery is limited. No representative measures of delivery performance—measures that can be generalized to an entire class or major type of mail—exist for Standard Mail (48 percent of volume), bulk First-Class Mail (25 percent of volume), Periodicals (4 percent of volume), and most Package Services (less than 1 percent of volume). Similarly, USPS has only reported its delivery performance for a small portion of its mail volume, concentrating primarily on the single-piece First-Class Mail that is measured. Further, single-piece First-Class Mail volume has been declining over the past 15 years and is expected to continue declining. Since 1976, USPS has been required to provide "data on the speed and reliability of service provided for the various classes of mail and types of mail service" in its annual Comprehensive Statement that is submitted to USPS's oversight and

appropriations committees.[3] However, USPS has focused again only on single-piece First-Class Mail in reporting delivery performance in the Comprehensive Statement. Such limited measurement also appears to fall short of proposed requirements in the House- and Senate-passed bills for USPS to report annually on the level of service provided for most types of mail "in terms of speed of delivery and reliability." In April 2006, USPS improved its reporting on its Web site by posting delivery performance information on a newly created page, including selected results for the past quarter for the timely delivery of some Express Mail, Priority Mail, First-Class Mail, and Package Services. The information was provided as a result of an agreement with PRC's Office of the Consumer Advocate.[4] Nevertheless, USPS's measurement and reporting gaps are an impediment to diagnosing delivery problems and assessing the extent to which USPS is meeting its statutory requirements to provide prompt and reliable service to patrons in all areas of the United States.

USPS's rate of progress in developing a set of delivery performance measures for all major types of mail has been slow and inadequate, as has its progress in reporting its performance for these types of mail. In recent years, USPS has implemented additional delivery performance measures for some low-volume types of mail that collectively comprise less than 1 percent of total mail volume. USPS also tracks some mail for diagnostic purposes. However, several impediments continue to hinder USPS's ability to develop representative delivery measures for all of its major types of mail against USPS delivery standards, which specify the maximum number of days from entry to delivery for mail to be delivered in a timely manner. Impediments to measure end-to-end delivery time (i.e., the time from entry to delivery) include:

- The lack of adequate and continued management commitment and effective collaboration with the mailing industry to follow through on recommendations for improvements and to resolve issues between USPS and mailers is an overall theme in understanding the slow progress being made in developing and implementing methods of measuring performance.

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[3]39 U.S.C. §2401(e), initially added as 39 U.S.C. §2401(g) by Pub. L. 94-421, Postal Reorganization Act Amendments of 1976.

[4]The PRC's Office of the Consumer Advocate represents the interests of the general public. The written agreement with USPS is available at http://www.prc.gov/docs/46/46232/OCA_Notice_with_Letter.pdf.

- USPS has partially implemented technology that would allow it to track barcoded mail through its mail processing and transportation networks. Implementation of this technology is a multi-year project and could play a part in measuring delivery performance when completed.

- There has been limited mailer participation in applying unique barcodes to mail pieces for tracking purposes.

- Incomplete and inaccurate data from USPS and mailers about when USPS receives bulk mail make it difficult to know when to "start the clock" on measuring delivery performance for this mail.

  While USPS has taken a number of positive steps to transform its operations over the years, it has not implemented several key recommendations that have been made since the early 1990s to improve its delivery standards and measure delivery performance for all major types of mail, particularly for high-volume types of mail, such as Standard Mail and bulk First-Class Mail. These recommendations were made in 1992, 1997, 1999, and 2004 by committees consisting of representatives of USPS and the mailing industry. Further, USPS has no current plans to implement additional representative measures of delivery performance. Senior USPS officials told us that it would be too costly for USPS to measure delivery performance by tracking all 210 billion pieces of mail every year. However, these concerns about cost could be addressed by exploring sampling options or other approaches in collaboration with mailers to determine how best to measure delivery performance at much less cost than attempting to track every mail piece. Such collaboration would also allow the parties to determine their information needs, explore cost trade-offs associated with various options, and resolve associated data quality issues. We recognize that it will take time to resolve impediments to implementing additional delivery performance measures. However, USPS's leadership, commitment, and effective collaboration with mailers are critical elements to implementing a complete set of delivery performance measures that will enable USPS and its customers to understand the quality of delivery services, identify opportunities for improvement, and track progress in achieving timely delivery.

  We are making recommendations to USPS that include:

- modernizing delivery standards for all major types of mail to reflect USPS operations;

- providing a clear commitment to develop a complete set of representative delivery performance measures;

- implementing representative delivery performance measures for all major types of mail by providing more effective collaboration with mailers and others; and,

- improving the transparency of delivery performance standards, measures, and results by publicly disclosing more information, including in its Comprehensive Statement and other annual performance reports to Congress, as well as providing easily accessible information on its Web site.

In commenting on a draft of this report, USPS disagreed that some of its delivery standards are outdated. However, we did not make changes to the report because USPS's outdated standards do not reflect changes in how major types mail are prepared and delivered. Further, USPS recognized that its delivery performance measurement and reporting are not complete and provided detailed information about its ongoing and planned efforts to ultimately measure service performance and provide transparency for all classes of mail. USPS stated that it intends to lead the efforts required to reach this goal by working collaboratively with others in the mailing industry. USPS's letter also emphasized improving service— an emphasis we agree with—but we continue to have questions about whether USPS's measurement efforts will result in representative delivery performance measures for all major types of mail. For most major types of mail, USPS's vision of service performance measurement is generally limited to tracking mail through its mail processing and transportation networks, which is not the same as measuring end-to-end delivery performance against USPS delivery standards. USPS did not directly comment on three of our four recommendations. On our fourth recommendation concerning improving the transparency of delivery performance standards, measures, and results, USPS commented that its standards should be more visible and stated that it is exploring making information related to its standards available through additional channels, including its Web site.

Background

USPS is an independent establishment of the executive branch mandated by law to provide postal services to "bind the nation together through the personal, educational, literary, and business correspondence of the

people."[5] Established by the Postal Reorganization Act of 1970,[6] USPS is a vital part of the nation's communications network, delivering more than 200 billion pieces of mail each year. USPS is required to provide "prompt, reliable, and efficient services to patrons in all areas" and "postal services to all communities," including "a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining."[7] In determining all policies for postal services, USPS is mandated to "give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail."[8] Also, in selecting modes of transportation, USPS is mandated to "give highest consideration to the prompt and economical delivery of all mail."[9] More generally, USPS is mandated to provide adequate and efficient postal services that meet the needs of different categories of mail and mail users.[10]

USPS has designated improving service as one of its four goals in its Strategic Transformation Plan.[11] USPS's strategy to improve service is to "provide timely, reliable delivery, and improved customer service across all access points." Specifically, USPS plans to improve the quality of postal services by continuing to focus on the end-to-end service performance of all mail. The quality of mail delivery service has many dimensions, including the delivery of mail to the correct address within a time frame that meets standards USPS has established for timely delivery. USPS also plans to ensure that postal products and services meet customer expectations and that all customer services and forms of access are responsive, consistent, and easy to use. USPS has long recognized the importance of customer satisfaction and measures the satisfaction of its residential and business customers on a quarterly basis. USPS reports that its customer satisfaction measurement, which is conducted by the Gallup Organization, provides actionable information to USPS managers by

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[5]39 U.S.C. §101.

[6]The Postal Reorganization Act of 1970 (Pub. L. No. 91-375) reorganized the former U.S. Post Office Department into the U.S. Postal Service and created PRC.

[7]39 U.S.C. §101.

[8]39 U.S.C. §101(e).

[9]39 U.S.C. §101(f).

[10]39 U.S.C. §403.

[11]USPS, *Strategic Transformation Plan 2006-2010* (Washington, D.C.: Sept. 2005).

identifying opportunities to improve overall customer satisfaction. In addition to gauging overall customer satisfaction, USPS measures customer satisfaction related to specific postal functions such as mail delivery and retail service. As USPS recognizes, dissatisfied customers can seek and find alternatives to using the mail. USPS faces growing competition from electronic alternatives to mailed communications and payments as well as private delivery companies. In this challenging environment, establishing and maintaining consistently high levels of delivery service are critical to success.

Recognizing the importance of the timely delivery of mail, USPS has integrated performance targets and results for some types of mail into its performance management system. This system is used to establish pay-for-performance incentives for postal management employees. As we have reported, high-performing organizations use effective performance management systems as a strategic tool to drive change and achieve desired results. Among the key practices used is aligning individual performance expectations with organizational goals[12] by seeking to create pay, incentive, and reward systems that clearly link employee knowledge, skills, and contributions to organizational results. Further, high-performing organizations often must fundamentally change their cultures so that they are more results oriented, customer focused, and collaborative in nature. As we have reported, the benefit of collecting performance information is only fully realized when this information is actually used by managers to make decisions oriented toward improving results. Performance information can be used to identify problems and take corrective action; develop strategy and allocate resources; recognize and reward performance; and identify and share effective approaches. Practices that can contribute to greater use of performance information include demonstrating management commitment; aligning agencywide goals, objectives, and measures; improving the usefulness of performance information; developing capacity to use performance information; and communicating performance information clearly and effectively.[13]

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[12]GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational* Success, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

[13]GAO, *Managing for Results: Enhancing Agency Use of Performance Information for Decision-Making*, GAO-05-927 (Washington, D.C.: Sept. 9, 2005).

Some USPS Delivery Standards Are Not Useful and Transparent and Do Not Reflect Current Mail Operations

Some USPS standards for timely mail delivery are inadequate because of limited usefulness and transparency. In general, these standards have not kept up with changes in the way that USPS and mailers prepare and process mail for delivery. Outdated standards are unsuitable as benchmarks for setting realistic expectations for timely mail delivery, measuring delivery performance, or improving service, oversight, and accountability.

According to USPS, service standards represent the level of service that USPS strives to provide to customers. These standards are considered to be one of the primary operational goals, or benchmarks against which service performance is to be compared in measurement systems. USPS has established standards for the timely delivery of each type of mail; these specify the maximum number of days for "on-time" delivery based on the time of day, the location at which USPS receives the mail, and the mail's final destination. For example, USPS standards for 1-day delivery require the mail to be received by a specified cutoff time on the day that the mail is accepted, which varies depending on geographic location and where the mail is deposited (e.g., in a collection box, at a post office, or at a mail processing facility). In most cases, 1-day mail deposited before the cutoff time is considered to be delivered on time if it is delivered on the next delivery day, which generally excludes Sundays and holidays. USPS delivery standards vary according to the priority of delivery. Express Mail has the highest priority, followed by Priority Mail, other First-Class Mail, Periodicals, Package Services (e.g., packages sent via Parcel Post), and Standard Mail.

Postal officials, including the Postmaster General, told us that differences in postage rates for different types of mail reflect differences in delivery standards and priority. The Postmaster General noted that variability in the delivery standards and timing of delivery is built into USPS's pricing structure. He noted that lower-priced mail with lower delivery priority receives more variable delivery; this includes mail such as Standard Mail which receives discounts for presorting by ZIP Code and destination entry that is generally closer to where the mail is delivered. For example, USPS can defer the handling of Standard Mail as it moves through its mail processing, transportation, and delivery networks. Thus, some pieces of a large mailing of Standard Mail may be delivered faster than others. The Postmaster General explained that this variability of delivery is consistent with the relatively low rates afforded to mailers of Standard Mail, who pay lower rates than mailers of First-Class Mail.

In addition, standards for types of mail within each class can vary. For example, Parcel Select, a type of Package Service, has a faster delivery standard than other Package Services because it is made up of bulk shipments of packages entered into USPS's system close to the final destination. Delivery standards for each class and type of mail are summarized in table 1 and described in greater detail in appendix II.

Table 1: Summary of USPS Delivery Standards for Timely Delivery of Mail

Type of mail	Mail volume (percent)	Standards[a]	Highlights of standards and related policies and plans
Standard Mail	47.7	3 to 10 days	These standards have not been systemically changed since their inception in the 1970s and are loosely based on distance. The standards are generally based on the number of postal zones the mail must traverse from where it is accepted to its destination.
Package Services	0.6	1 to 9 days[b]	The concept for most of these standards has remained constant since the 1970s. These standards are loosely based on distance (i.e., on the number of postal zones the mail must traverse) and on USPS's Bulk Mail Center (BMC) network.
Periodicals	3.2	1 to 7 days	The concept for these standards, which are loosely based on distance (i.e., on the number of postal zones the mail must traverse), has not changed since the 1980s.
Priority Mail	0.4	1 to 3 days	These standards have existed since the inception of Priority Mail when it essentially replaced Air Mail in the late 1970s. Most standards call for 1-day or 2-day delivery.
First-Class Mail[c]	46.3	1 to 3 days	Most First-Class Mail is to be delivered in 1 day when it is sent within the local area served by the destinating mail processing center; 2 days when it is sent within the "reasonable reach" of surface transportation, which is often within a 12-hour drive time; and 3 days for other mail, such as mail transported over long distances by air.
Express Mail	0.03	1 to 2 days	These standards are supported by a money-back guarantee. A 1-day standard generally applies, with the rest to be delivered on the second calendar day or the second delivery day.
International Mail	0.4	2 days to 6 weeks	Standards range from 2 to 3 days for Global Express Guaranteed—which has date-guaranteed shipping—to 4 to 6 weeks for Global Economy Mail.

Source: USPS.

Note: Mail volume data are for fiscal year 2005.

[a]The range of days shown in this table summarizes USPS delivery standards for each class and type of mail, which vary depending on the ZIP Codes where each mail piece enters the postal system and is delivered.

[b]Standards range from 2 to 9 days for Package Services mail within the continental United States, except for Alaska and Hawaii, for which no Package Service standards exist, and except for Parcel Select, for which standards range from 1 to 3 days.

[c]For purposes of this figure, First-Class Mail does not include Priority Mail.

Some USPS Delivery Standards Have Limited Usefulness

Some USPS delivery standards lack usefulness—notably, the delivery standards for Standard Mail, Periodicals, and most Package Services mail—because they have not been systematically updated in many years and do not reflect USPS's operations or intended service. These standards are loosely based on distance and have tended to remain static despite changes in USPS networks, operations, and operational priorities.

Delivery Standards for Standard Mail

The delivery standards for Standard Mail are outdated. Although delivery standards are supposed to represent the level of delivery service USPS strives to provide to customers, differences between delivery standards and operational policies and practices for delivery service are evident for Standard Mail. For example, USPS operational policies state that Standard Mail entered at the delivery unit, where carriers pick up mail for final delivery, should be delivered in 2 days, whereas the standards call for such delivery in 3 days. Also, depending on mail preparation, such as presorting and destination entry, mail can be delivered faster than the standard. These differences can impede clear communication to mailers concerned with setting realistic expectations for when Standard Mail will be delivered and determining how to maximize the value of their mail. Correctly anticipating when advertising mail will be delivered is important to business planning and profitability. For example:

- Local retailers, ranging from department stores to restaurants, need realistic expectations as to when advertising mail will be delivered in order to effectively promote sales and plan for the appropriate level of staffing and inventory. To maximize customer response, retailers send advertising mail so that it will be received shortly before a sale—soon enough for potential customers to plan to shop during the sale, but not so early that they will forget about the sale. Also, if the advertising is delivered far in advance of a weekly sale, it can generate demand that is difficult to meet with available resources.

- Catalog companies also need realistic expectations about when catalogs will be delivered in order to plan for call center staffing and inventory.

Thus, reliable and predictable delivery of advertising mail helps businesses efficiently schedule staff and inventory to respond to fluctuations in demand. Anticipating the level of inventory has become more important over time with the trend toward just-in-time inventory that helps minimize storage and financing costs. However, the delivery standards for Standard Mail are not adequate for advertisers to set realistic expectations for mail delivery, in part because these standards do not reflect some operational

policies and practices that can lead to mail being delivered faster or slower than the standards call for.

Substantial changes have occurred in how mailers prepare Standard Mail and how USPS processes it, but these changes are not reflected in the standards. Today, most Standard Mail is presorted and entered into the postal system close to its destination. The degree of presorting and destination entry alters the amount of handling it receives by USPS and potentially speeds or slows delivery. For example:

- *Presorting*: Beginning in 1979, USPS provided discounts to mailers who reduce USPS's processing costs by presorting their Standard Mail to the level of carrier delivery routes—discounts extended in 1981 to Standard Mail presorted to the level of individual ZIP Codes. In fiscal year 2005, most Standard Mail was presorted by carrier routes (35 percent) or by individual ZIP Codes or ZIP Codes starting with the first three digits (57 percent). Mail that is presorted by carrier route can move through USPS's system faster than mail that is presorted by groups of ZIP Codes because it does not need as much handling by USPS. However, the delivery standards for Standard Mail do not take presorting into account.

- *Destination entry*: Starting in 1991, USPS gave destination entry discounts for mailers that deliver their Standard Mail to a postal facility that generally is closer to the mail's destination, such as the delivery unit facility where carriers pick up their mail or the local mail processing center that forwards mail to these facilities. Mail that is entered at a destination facility is delivered faster than other Standard Mail because it avoids some USPS handling and USPS assigns a low priority to handling Standard Mail. However, the impact of destination entry is not reflected in the delivery standards. For example, the delivery standards continue to call for delivering all Standard Mail in 3 days or more, whereas the *Postal Operations Manual* states that Standard Mail that mailers enter at delivery units should be delivered in 2 days.

USPS also works with mailers to deliver their Standard Mail within a range of dates that they request. Advertising mailers can request that their advertising be delivered within this range—known as the "in home" dates. As mentioned earlier, predictable delivery helps advertisers to plan their resources and inventory. Requesting "in home" dates may result in delivery that is faster or slower than the standard. The *Postal Operations Manual* states that in such cases, delivery units should attempt to meet the "in home" dates rather than the delivery standards. According to USPS, its delivery standards are supposed to be the benchmark against which delivery performance is compared and reflects the level of service that

USPS strives to provide. In this case, however, the delivery standards for Standard Mail would not be a suitable benchmark for measuring delivery performance, because they do not reflect USPS operations.

USPS provided mailers with guidelines in 2000 that recognized that Standard Mail can be delivered faster than the standard, depending on its level of presorting, and on whether the mailers deliver it closer to its destination. The guidelines presented a table for the speed of Standard Mail delivery depending on how the mail was presorted and where it entered the mail processing network. However, USPS did not consider these guidelines to be part of its delivery standards for Standard Mail, and according to USPS, these guidelines are now obsolete. Nevertheless, USPS officials told us that USPS continues to maintain internal guidelines for the desired delivery speed for Standard Mail, depending on its level of presorting and where it enters the postal network.

In 1992, 1997, and 1999, various committees composed of USPS officials and mailers recommended that delivery standards be improved for Standard Mail and other types of mail. In 1999, a working group of USPS officials and mailers recommended that the delivery standards for Standard Mail be updated to reflect how it is presorted and where the mail enters the postal system. USPS did not implement these 1999 recommendations and offered no explanation on why it did not. Then, when we met with Postmaster General in June 2006, he told us that it would be difficult for USPS to update its standards to reflect the wide variety of differences in mail preparation and processing, and that it might have an impact on the rates for some types of mail, to which he believes the mailers would object. In contrast, the Association for Postal Commerce (PostCom), a major mailer group, wrote the following to us in March 2006: "It is PostCom's belief that the development and publication of service standards based on existing USPS operations and networks is a critical first step toward the development of any service performance measurement system. There is no barrier to moving forward with defining service standards for all classes of mail." PostCom noted it actively supported the efforts of the 1999 working group, and said its recommendations—which included calling for standards based on existing mail processing and transportation environments, which for bulk mail would also reflect mail preparation and entry point—"largely still apply."

Because outdated delivery standards are an impediment to measuring and improving delivery performance, updating these standards could help increase the value of Standard Mail to businesses that mail advertising. As previously noted, understanding when Standard Mail will be delivered

helps mailers send this mail so it will be delivered at what they consider to be the optimum time and helps them to plan for staff and inventory. In addition, updating the delivery standards for Standard Mail would provide an appropriate benchmark for measuring Standard Mail delivery performance.

Delivery Standards for Package Services

For some of the same reasons as Standard Mail, delivery standards are likewise outdated for most Package Services mail. Delivery standards for most Package Services also date to the 1970s and are generally distance-based. These standards are predicated on USPS's national network of Bulk Mail Centers (BMCs) that accept and handle packages. USPS told us that the delivery standards for Package Services "are changed infrequently since the BMC network has not been appreciably altered since its inception in the 1970s." Since the 1970s, USPS has implemented many changes regarding the handling of packages, including discounts for presorting Package Services items to the carrier route or ZIP Code, as well as discounts for destination entry. However, these changes have not been reflected in changes to the Package Services standards.

A noteworthy exception involves useful delivery standards that USPS created for a specific type of Package Services mail called Parcel Select, when it was introduced in 1999. These standards were updated in 2002. USPS's standards for Parcel Select differentiate speed of delivery by point of entry, e.g., 1 day for entry at the destination delivery facility or 2 days for entry at the mail processing center that forwards the parcels to the delivery facility. These standards were intended to provide an appropriate benchmark for delivery performance measurement in order to facilitate efforts to improve the delivery performance for this mail. USPS subsequently collaborated with officials of the Parcel Shippers Association (PSA) to implement delivery performance measurement for Parcel Select against these standards, and the results are factored into individual pay-for-performance incentives for many USPS managers.

Both USPS and PSA officials told us that incorporating delivery performance results into these incentives—which was possible due to useful performance standards and measures—was a primary reason why on-time delivery performance has improved for Parcel Select. They said that as a result of improved delivery performance, Parcel Select has been able to maintain its viability as a low-cost alternative for lightweight packages within the competitive packages market. In this regard, we have

also reported that both establishing and maintaining consistently high levels of delivery service are critical to USPS's success in an increasingly competitive marketplace.[14] Further, we have noted that USPS had lost Parcel Post business to private carriers, who had come to dominate the profitable business-to-business segment of the market because they offered cheaper and faster service.

Parcel Select provides destination entry discounts for bulk mailings of Parcel Post. Most of Parcel Select's volume is tendered to USPS by a handful of third-party consolidators who receive packages from multiple companies and consolidate their volume to enable cost-effective destination entry. By entering parcels closer to their destination, the consolidators speed delivery and narrow the delivery window. However, prior to measuring and improving the delivery performance of Parcel Select, mailers considered Parcel Select to be a low-cost service with a reputation for low quality delivery. The delivery performance data has been used to identify delivery problems in a timely manner, such as problems in timely delivery of Parcel Select in specific geographic areas, so that corrective action could be taken to maintain and improve delivery performance. USPS actions to improve the performance of Parcel Select are consistent with practices we have reported are used by high-performing organizations: using performance information and performance management systems to become more results oriented, customer focused, and collaborative in nature; identify problems and take corrective action; and improve effectiveness and achieve desired results.[15]

Delivery Standards for Periodicals

As with Standard Mail and most Package Services, delivery standards are outdated for Periodicals that are delivered outside the local area from which they are mailed. The distance-based concept for Periodicals standards has remained the same since the 1980s and does not reflect mailers presorting mail by carrier route or ZIP Code or destination entry of mail at destination facilities. Like Standard Mail, USPS told us that the Periodicals delivery standards are meant to represent the maximum service standard targets for mail that is not presorted. However, the impact of presorting has not been incorporated into the Periodicals delivery standards.

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[14]GAO, *U.S. Postal Service: New Focus on Improving Service Quality and Customer Satisfaction*, GAO/GGD-96-30 (Washington, D.C.: Dec. 20, 1995).

[15]GAO-05-927, GAO-03-488.

In contrast, to USPS's credit, it has updated its 1-day delivery standards for Periodicals delivered within the local area where they are mailed. Further, it generally updates the standards at the same time for Periodicals and First-Class Mail that originate and destinate in the same local area so that the scope of 1-day delivery remains the same for both types of mail.

Looking forward, USPS plans to change the way its mail processing and transportation networks handle Periodicals mail this summer, which USPS officials said will lead to changes in some Periodicals delivery standards so that they reflect current operations. They said that Periodicals that are moved via ground transportation, which make up a majority of all Periodicals volume, will be combined with First-Class Mail. As a result, these Periodicals should receive comparable handling and faster delivery times than is currently the case. According to Periodicals mailers, inconsistent delivery performance that does not meet customer expectations causes renewal rates to decline and leads to customer service calls that are costly to handle. According to USPS officials, implementation of these planned changes to postal operations and standards can be expected to result in updating many of the specific standards for Periodicals mailed between specific pairs of ZIP Codes.

Delivery Standards for Priority Mail

Some of the specific delivery standards for Priority Mail may also need to be updated because they do not reflect USPS's operations. According to the Deputy Postmaster General, some Priority Mail delivery standards call for on-time delivery of Priority Mail in 2 days, but it is often physically impossible for USPS to meet these standards when that requires moving the mail across the country. As we reported in 1993, officials of the Postal Inspection Service questioned whether Priority Mail could be delivered everywhere within the continental United States within 2 days, which was then the delivery standard.[16] USPS has since established 3-day delivery standards for some Priority Mail, but these standards cover less than 5 percent of Priority Mail volume. USPS officials told us that USPS may make changes to some of the specific Priority Mail standards for mail sent between specific pairs of ZIP Codes so that the standards reflect USPS operations.

Delivery Standards for First-Class Mail

USPS has updated its standards for First-Class Mail over the years with the intent of reflecting its operations. However, questions have been raised in

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[16]GAO, *Priority Mail: Advertised 2-Day Service Is Not Guaranteed*, GAO/GGD-93-122 (Washington, D.C.: July 16, 1993).

PRC proceedings and advisory opinions about some of the changes.[17] By way of background, when USPS decides on a change in the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis, USPS is required by law to submit a proposal, within a reasonable time frame prior to its effective date, to PRC requesting an advisory opinion on the change. In 1989, USPS submitted a proposal to PRC for an advisory opinion that involved a national realignment of the delivery standards for First-Class Mail. This realignment involved downgrading the delivery standards for an estimated 10 to 25 percent of First-Class Mail volume, so that these standards would reflect actual operations or planned changes to operations. In general, these delivery standards were proposed to be downgraded by reducing the size of 1-day delivery areas, thereby downgrading some mail to 2-day service, and likewise reducing the scope of 2-day delivery, thereby downgrading some mail to 3-day service. USPS also stated that it would make changes to its operations, including moving some First-Class Mail by truck instead of by air, and that it expected to provide more reliable service as a result.

PRC advised against adoption of USPS's proposed national realignment, explaining that its review suggested the realignment may be an excessive reaction to what may be localized problems on a limited scale. PRC questioned if the proposed realignment could bring about significant improvement in delivery service commensurate with its effect on mail users. However, PRC agreed that existing delivery standards could not be met in certain areas, such as the New York City metropolitan area, and on that basis, said that some specific localized changes to the service standards to correct anomalies and major problem areas would be a sensible path for USPS to pursue. USPS proceeded to implement a national realignment to its First-Class Mail standards from 1990 to 1992.

In 2000 and 2001, USPS again changed many of its First-Class Mail standards in a manner that USPS said would have a nationwide impact on service, including downgrading some standards from 2 days to 3 days in the western United States and upgrading other standards. USPS reported that these changes were intended to provide consistent and timely delivery service for 2-day and 3-day mail. USPS also reported that the changes reflected a general trend toward making 2-day zones more contiguous, more consistent with the "reasonable reach" of surface transportation

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[17]Although Priority Mail is classified as a subclass of First-Class Mail, for purposes of this report, "First-Class Mail" refers to First-Class Mail that does not include Priority Mail.

from each originating mail processing facility, and potentially less dependent on air transportation—which had lacked reliability. USPS did not seek a PRC opinion on these changes in the year before implementation.

After a lengthy proceeding regarding the 2000 and 2001 changes, PRC issued an advisory report earlier this year that suggested that USPS reconsider its First-Class Mail standards, stating that the service resulting from the realignment cannot be said to be sufficient to meet the needs of postal patrons in all areas as required by law and that USPS did not consistently adhere to the statutory requirement to give highest consideration to expeditious transportation of important letter mail.[18] PRC urged USPS to give more effective public notice about First-Class Mail delivery standards, such as through Web-site postings and collection box labels. More generally, PRC also urged USPS to actively engage the public in major policy decisions and fully inform the public about matters of direct interest that affect USPS operations. PRC said that USPS, as a government monopoly, has a positive obligation to learn the needs and desires of its customers and to structure its products to meet them where doing so is not inconsistent with reasonably feasible and efficient operations.

In February 2006, USPS sought a PRC advisory opinion, which is pending, in connection with USPS's realignment of its mail processing and transportation networks.[19] USPS is currently planning and implementing a nationwide realignment of its mail processing and transportation networks. According to USPS, its long-term operational needs will be met best if its mail processing network evolves into one in which excess capacity is reduced and redundant operations and transportation are eliminated. USPS stated that it is not proposing to change the long-standing delivery standard ranges for any particular mail class; however, any changes to delivery standards that affect the expected delivery times from origin to destination between particular 3-digit ZIP Code pairs will be made incrementally as USPS implements changes to its networks.[20] USPS also stated that the overall magnitude and scope of potential service

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[18]PRC, *Commission Report: Complaint on First-Class Mail Standards Service*, Docket No. C2001-3 (Washington, D.C.: Apr. 17, 2006).

[19]PRC Docket No. N2006-1, Evolutionary Network Development Service Changes, 2006.

[20]A 3-digit ZIP Code area includes all addresses with the same first three digits of the ZIP Code.

standard upgrades and downgrades for any particular mail class cannot be known until numerous feasibility reviews have been conducted and operational changes implemented over the next several years. However, USPS stated that it expected that changes to its delivery standards are likely to be most pronounced for First-Class Mail and Priority Mail.

Delivery Standards for Express Mail

USPS has also made changes to its delivery standards for Express Mail to reflect changes in operations. Similar to the delivery standards for First-Class Mail, those for Express Mail were discussed in a PRC proceeding after USPS implemented changes to them. In April 2001, USPS reduced the scope of the overnight delivery network for Express Mail sent on Saturdays and the eve of holidays. According to USPS, it had contracted with FedEx to provide more reliable air transportation for Express Mail; but, because FedEx provided no service on Saturday or Sunday nights and some federal holidays, USPS changed its delivery plans for mail pieces accepted on Saturdays and the eve of holidays. Earlier this year, PRC issued an advisory report that found the changes to the Express Mail network had affected service on a substantially nationwide basis in 2001. PRC criticized the lack of public notice before the changes were made, but unlike its advisory opinions on changes to First-Class Mail standards, did not criticize the changes that USPS made to its Express Mail standards.[21]

Proposed Postal Reform Legislation and Delivery Standards

Over the past year, the House and Senate have passed postal reform legislation that would clarify USPS's delivery standards. The House-passed legislation would require USPS to annually report its delivery standards for most types of mail and the level of delivery service provided in terms of speed and reliability. The Senate-passed legislation included more detailed requirements regarding delivery service standards.[22] This bill would require USPS to establish "modern service standards" within 1 year after the bill is enacted. These standards would have four statutory objectives: (1) to enhance the value of postal services to both senders and recipients; (2) to preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining; (3) to reasonably assure USPS customers of the reliability, speed, and frequency of mail delivery that is consistent with reasonable rates and best business practices; and (4) to provide a system of objective external

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[21]PRC, *Order on Complaint on Express Mail*, Docket No. C2005-1 (Washington, D.C.: Apr. 18, 2006).

[22]The reporting requirements in the House and Senate postal reform bills do not cover types of mail classified as "competitive" such as Express Mail and Priority Mail.

performance measurements for each market-dominant product (e.g., mail covered by the postal monopoly) as a basis for measuring USPS's performance. In addition, USPS would be required to take into account eight statutory factors in establishing or revising its standards: (1) the actual level of service that USPS customers receive under any service guidelines previously established by USPS or service standards established under the new statutory system; (2) the degree of customer satisfaction with USPS's performance in the acceptance, processing, and delivery of mail; (3) the needs of USPS customers, including those with physical impairments; (4) mail volume and revenues projected for future years; (5) the projected growth in the number of addresses USPS will be required to serve in future years; (6) the current and projected future costs of serving USPS customers; (7) the effect of changes in technology, demographics, and population distribution on the efficient and reliable operation of the postal delivery system; and (8) the policies of Title 39 (i.e., the postal laws) and such other factors as USPS determines appropriate. Like the House-passed bill, the Senate-passed bill would require USPS to annually report on the speed and reliability of delivery of most types of mail.

In explaining the rationale for these requirements regarding delivery standards and service, sponsors of the Senate bill stated that the new standards would improve service, be used by USPS to establish performance goals, and continue to ensure daily delivery to every address, thereby preserving universal service. A Senate committee report on an earlier version of these requirements stated that they were intended to ensure that the service USPS provides is consistent with the statutory definition of universal service, as well as preserving and enhancing the value of postal products. In this regard, the report expressed concern that USPS may be tempted to erode service quality in an effort to cut costs, and stated that the reporting requirements would provide information to enable the postal regulator and all interested parties to evaluate the provision of service, with the service standards serving as a benchmark for measuring USPS's performance.[23]

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[23]S. Rept. 108-318, to accompany S. 2468, at 22-23 (2004).

USPS Delivery Standards Lack Adequate Transparency

Although USPS has recently provided information related to its delivery standards in ongoing PRC proceedings, USPS has not made all of this information easily accessible to all business mailers and the public. As a result, some customers are hindered from making informed decisions about different mailing options with varying rates and service, as well as from assessing USPS's delivery performance. Although USPS does have a CD-ROM with information about its delivery standards that is freely available to those who are aware of its existence, information about how to order the CD-ROM is not easily accessible on its Web site. The CD-ROM contains delivery standards for some types of mail, such as Standard Mail and Periodicals, which are not available on its Web site. Looking forward, USPS has the opportunity to further expand the accessibility of information on its delivery standards, much as USPS has done to improve the transparency of its financial information in recent years. For example, in an ongoing PRC proceeding, USPS provided new narrative summaries that explain its detailed standards; these summaries are posted on the PRC Web site, but not on the USPS Web site.

USPS Measurement and Reporting Of Delivery Performance Information Is Inadequate

USPS's delivery performance measurement and reporting is inadequate—in part because its delivery performance information is incomplete, since representative measures of delivery performance do not cover most mail, and in part because its reporting of this delivery performance information is deficient (see table 2). USPS tracks some mail pieces for diagnostic purposes, and plans to have more data available as it deploys automated equipment to sort flat-sized mail into the order it is delivered. However, a number of impediments have limited USPS's ability to track mail. The diagnostic data is not representative and does not amount to delivery performance measurement. Although USPS recently added a section on domestic delivery performance to its Web site, it does not provide complete performance information for some types of mail. Without complete information, USPS and mailers are unable to diagnose delivery problems so that corrective action can be implemented. In addition, stakeholders cannot understand how well USPS is fulfilling its basic mission, nor can they understand delivery performance results and trends. Deficiencies in measurement and reporting also impair oversight and accountability by PRC and Congress.

Table 2: USPS Measurement and Reporting of Timely Delivery Performance

Type of mail	Mail volume (percent)	Mail revenue (percent)	Representative measurement	Reporting on USPS Web site
Standard Mail	47.7	28.4	None[a]	None
First-Class Mail: bulk	24.6	23.7	None[a]	None
First-Class Mail: single-piece	21.7	30.4	Partial	Partial
Periodicals	4.3	3.2	None[a]	None
Package Services	0.6	3.3	Partial	Partial
Priority Mail	0.4	7.0	Partial	Partial
International Mail	0.4	2.6	Partial	None
Express Mail	0.03	1.3	Full	Partial

Source: GAO analysis of USPS information.

[a]No representative measure of delivery performance exists for this mail. Some mailers pay an additional fee to obtain data on the progress of their mail through USPS's mail processing system. However, these data are not representative, cover less than 2 percent of total mail volume, and do not include data on the date of delivery.

Note: Timely delivery performance is measured based on comparing the time for USPS to deliver mail against USPS's delivery standards. Reporting includes material on USPS's Web site. For purposes of this table, First-Class Mail does not include Priority Mail. Volume and revenue data are for fiscal year 2005 and do not add up to 100 percent because they do not include some small and unrelated types of mail.

USPS Delivery Performance Measurement Is Not Complete

USPS has not established a complete set of quantitative measures for delivery performance, largely because its delivery performance measurement covers less than one-fifth of its total mail volume—that is, only Express Mail and parts of First-Class Mail, Priority Mail, Package Services, and International Mail. USPS does not measure delivery performance for the remaining volume, which includes Standard Mail, bulk First-Class Mail, Periodicals, and most Package Services. In addition, the External First-Class Measurement System (EXFC) is limited to single-piece First-Class Mail deposited in collection boxes in selected areas of the country (see fig. 1). Thus, as USPS has reported, EXFC is not a systemwide measurement of all First-Class Mail performance. USPS has stated that it has strong business and operational reasons for using this EXFC methodology and that the areas selected for testing ensure coverage of its highest-volume areas. These reasons include EXFC covering areas from which most First-Class Mail originates and destinates, the ability of EXFC to provide results for specific geographic areas, and practical advantages for collecting data from fewer areas of the nation.

Figure 1: Geographic Coverage of Delivery Performance Measurement for First-Class Mail Deposited in Collection Boxes as Measured by EXFC
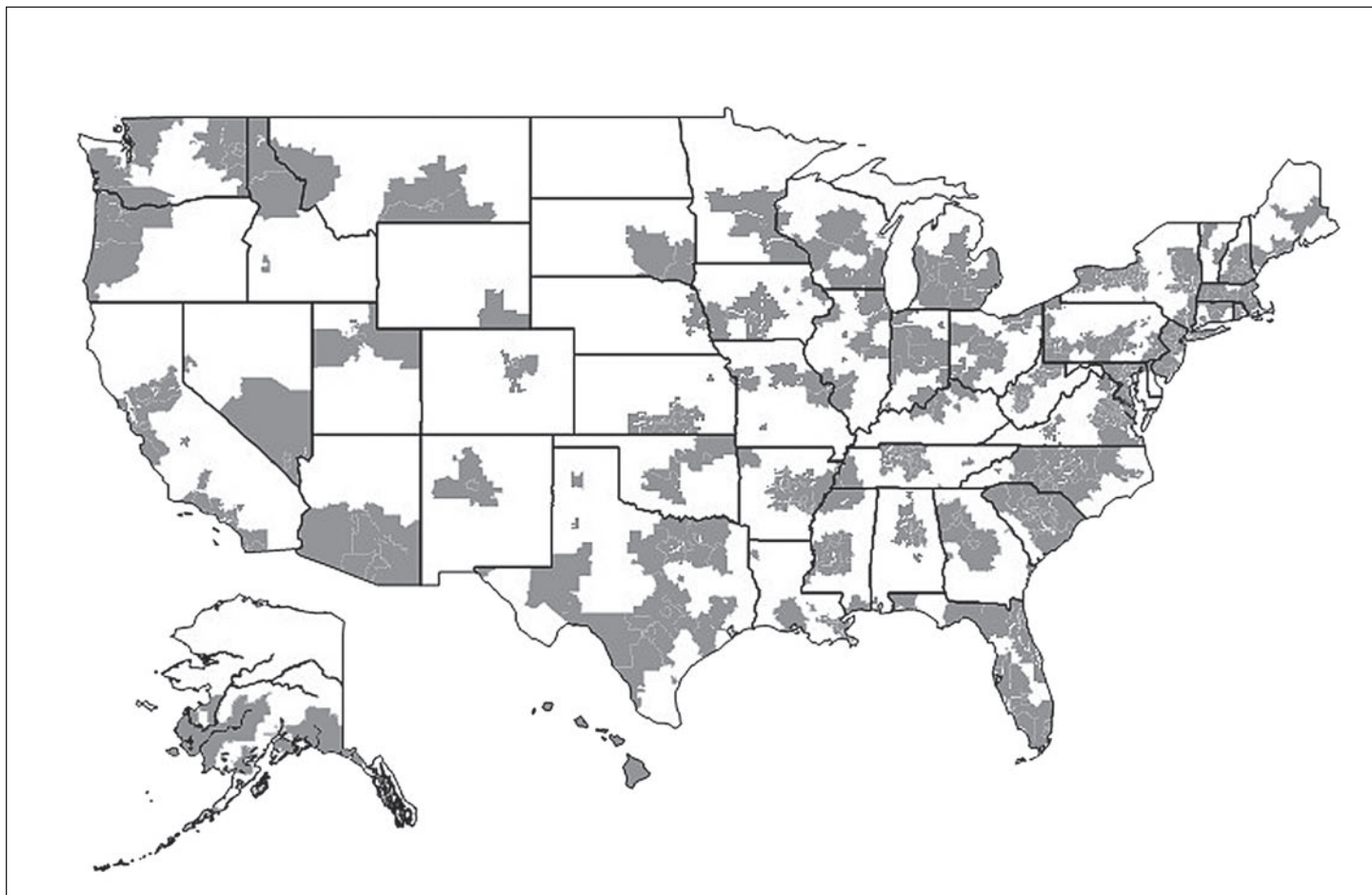
Source: USPS.

Note: Areas covered by EXFC are shaded. Boundaries within states are for 3-digit ZIP Code areas.

Similarly, delivery performance data for Priority Mail are limited because they only cover Priority Mail volume entered at post offices and other retail facilities, and for which mailers purchase Delivery Confirmation Service.[24] Such mail constitutes only 4 percent of all Priority Mail volume. According to USPS officials, USPS expects the volume of this Priority Mail

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[24]Delivery Confirmation service provides mailers with the date and time of delivery or attempted delivery.

to increase, which would increase the scope of delivery performance measurement. They said that this measure, which replaced the former Priority End-to-End (PETE) measurement system at the beginning of fiscal year 2006, covers all types of Priority Mail, including letters, flat-sized mail, and parcels. However, USPS officials also told us that USPS cannot currently measure the delivery performance for bulk quantities of Priority Mail with Delivery Confirmation, such as business mailings of merchandise, because USPS does not have accurate data on when the mail entered into its system.

On the positive side, USPS has implemented delivery performance measurement for Parcel Select and some types of International Mail, both of which operate in a highly competitive marketplace. It has used this measurement to establish targets and identify opportunities to improve service. Although these products are a small fraction of mail volume, USPS has developed delivery performance measures to address customer needs for timely delivery. Highlights for measurement of major types of mail are listed in table 3.

Table 3: USPS Delivery Performance Measurement by Type of Mail

Type of mail	How USPS measures timely delivery performance
Standard Mail	USPS does not measure delivery performance. This is the largest single class of mail, representing nearly half of total mail volume.
First-Class Mail	The External First-Class Measurement System (EXFC), administered by a contractor, measures when test mail pieces are deposited in collection boxes and received at various addresses. EXFC covers 463 3-digit ZIP Code areas judgmentally selected based on geographic and volume density. It does not cover bulk mail that comprises more than half of First-Class Mail volume.
Periodicals	USPS does not measure delivery performance. This mail volume and revenue is declining but is important to USPS's business and universal postal service.
Package Services	USPS does not measure the timely delivery of most Package Services. An exception is Parcel Select, which is tracked by scanning unique barcodes.
Priority Mail	USPS tracks Priority Mail volume when mailers use Delivery Confirmation Service, which enables USPS to scan unique Delivery Confirmation barcodes. Such mail, when entered at postal retail locations, constitutes 4 percent of all Priority Mail volume.
International Mail	International Express Mail is tracked through the scanning of barcodes. Some letter mail is measured by a system similar to EXFC that also uses technology to track the movement of mail.
Express Mail	USPS tracks virtually all pieces of Express Mail from acceptance through delivery by scanning a unique barcode on each mail piece.

Source: GAO analysis of USPS information.

As a result of the measurement gaps listed above, measurement is not sufficiently complete to understand how well USPS is achieving the following:

- performing its statutory mission of providing prompt and reliable service to patrons in all areas, including prompt delivery of all mail;

- delivering mail with different delivery standards, which helps fulfill the requirement that USPS provide mail service to meet the needs of different categories of mail and mail users;

- providing expeditious handling of important letter mail, such as bills and statements sent via First-Class Mail;

- fulfilling its statutory requirement to provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining; and

- identifying delivery problems, understanding the causes, and improving performance.

The lack of any representative delivery performance data for most mail volume increases the financial risk to USPS, which faces increasing competition. If mailers are not satisfied with USPS's delivery service, they could take their business elsewhere. For example, Standard Mail and bulk First-Class Mail are the largest segments not measured, collectively accounting for close to three-quarters of mail volume and half of mail revenues. Standard Mail is USPS's key growth product, but it must compete against multiple advertising media in a dynamic and highly competitive marketplace. Bulk First-Class Mail covers a significant share of USPS's overhead costs—including maintaining the retail and delivery networks—but is vulnerable to electronic communications and payment alternatives. In addition, USPS does not have representative delivery performance measures for Periodicals, which help USPS fulfill its statutory mandate to provide postal services to "bind the nation together" through business, educational, and literary correspondence; and for Package Services, such as Parcel Post, which provides the public with a low-cost option for sending packages.

Incomplete information also impedes USPS's potential for holding its managers accountable for delivery performance of all types of mail and for balancing increasing financial pressures with the need to maintain quality delivery service. Because delivery performance is measured for only some types of mail, and individual performance incentives are linked to the results, some mailers are concerned that in practice, this may skew delivery priorities and performance so that timely delivery is more important for the mail whose performance is measured than mail whose

performance is not measured. For example, as we have reported, soon after USPS implemented its EXFC measurement system for First-Class Mail deposited into collection boxes, USPS increased its emphasis on timely First-Class Mail service.[25] USPS managers at the local post office level were instructed to concentrate on particular activities that could improve EXFC scores, and more emphasis was placed on picking up mail from collection boxes on schedule.

Conversely, measurement gaps may impede effective collaborative efforts with mailers to quickly identify and resolve delivery problems, because both USPS officials and mailers have limited information for diagnostic purposes. In addition, measurement gaps impede the ability of external stakeholders, including Congress and PRC, to monitor accountability and exercise oversight. Measurement gaps cause PRC to consider proposed postal rates without adequate information on the actual value of the service provided for each class of mail, which PRC by law must consider when recommending postal rates. In addition, PRC is hindered in considering USPS's proposals for changes in the nature of postal services that are nationwide or substantially nationwide in scope, including the ongoing proceeding related to USPS's network realignment.

USPS Reporting of Delivery Performance Lacks Adequate Transparency

USPS's limited performance measurement also affects USPS's reporting of its delivery performance and does not provide adequate transparency so that customers can understand performance results and trends. Although USPS recently made additional delivery performance information available on its Web site, it still does not communicate its delivery performance for all of its major types of mail, particularly those covered by its statutory monopoly to deliver letter mail.

The main gap in USPS's reporting of delivery performance results, as shown in table 4, continues to be for mail entered in bulk quantities, including Standard Mail and bulk First-Class Mail, which collectively constitute most of USPS's mail volume and revenues. USPS also does not report delivery performance results for Periodicals and most Package Services. As previously discussed, USPS generally does not collect information on delivery performance results for these types of mail.

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[25]GAO, *Operational Performance of the United States Postal Service*, GAO/T-GGD-91-9 (Washington, D.C.: Mar. 5, 1991).

Table 4: USPS Delivery Performance Reporting by Type of Mail

Type of mail	USPS reporting practices
Standard Mail and Periodicals	USPS has not reported delivery performance data for this mail because it does not collect representative performance data.
First-Class Mail	USPS has reported results for First-Class Mail measured by EXFC, which does not cover bulk First-Class Mail and does not measure delivery performance in all areas of the country. For these reasons, EXFC covers less than half of First-Class Mail volume. USPS reports national EXFC results on its Web site for the most recent quarter. More complete quarterly data for each USPS Area and Performance Cluster[a] is posted in a section of the USPS Web site devoted to Mailers' Technical Advisory Committee (MTAC),[b] but not on www.usps.com, which is the primary Web site for public use. USPS reports annual EXFC results in such publications as its annual *Comprehensive Statement on Postal Operations*, its *Annual Report*, and its *Strategic Transformation Plan*. Some of these publications provide useful trend data, but they contain little explanation of results and trends.
Package Services	USPS reports only partial delivery performance results for some specific types of Package Services on its Web site for the most recent quarter. Results are reported for packages entered at retail locations (8 percent of Package Services volume) and are further limited to packages for which the mailer purchased Delivery Confirmation Service (1.2 percent of Package Services volume). In addition, results are reported for Parcel Select, which is a type of Package Services.
Priority Mail	USPS has reported partial delivery performance results on its Web site for the most recent quarter. These results are limited to mail entered at postal retail locations for which the mailer purchased Delivery Confirmation. Such mail constitutes 4 percent of all Priority Mail volume.
International Mail	USPS has not publicly reported delivery performance results. Such data are not provided to PRC, which does not review international mail rates in postal rate cases.
Express Mail	USPS has reported only partial delivery performance results on its Web site for the most recent quarter. These results are limited to mail entered at postal retail locations, such as post offices. USPS has not reported complete results for Express Mail in its Comprehensive Statement, although this is the only class of mail for which USPS collects delivery performance data for all pieces of mail. However, USPS has publicly provided such results in rate cases in response to requests by interested parties participating in those proceedings.

Source: GAO analysis of USPS information.

[a]USPS manages its field operations by dividing the nation into nine geographic areas and 80 performance clusters.

[b]http://ribbs.usps.gov/files/mtac/exfc/.

USPS's Delivery Performance Reporting Is Not Adequate to Meet Oversight Needs

USPS's reporting of delivery performance information has not adequately met information needs for congressional oversight purposes. Notably, USPS's practices for reporting delivery performance information in its annual *Comprehensive Statement on Postal Operations* fall short of the longstanding statutory requirement for "data on the speed and reliability of service provided for the various classes of mail and types of mail service."[26] This requirement was enacted due to "the need for effective

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[26]39 U.S.C. §2401(e), initially added as 39 U.S.C. §2401(g) by Pub. L. 94-421, Postal Reorganization Act Amendments of 1976.

oversight of postal operations to ensure that the postal services provided the public shall continue at an effective level and at reasonable rates."[27] Specifically, USPS has not included data on the speed and reliability of any entire class of mail in its annual *Comprehensive Statement on Postal Operations*. Instead, USPS has presented only national EXFC data, even though it collected data on timely delivery performance for all Express Mail, as well as some Priority Mail. The 2005 *Comprehensive Statement on Postal Operations* stated "while Express Mail and Priority Mail performance is tracked and has improved during the past 5 years, because these products are competitive, the data was considered proprietary and not published." However, USPS reached an agreement with the PRC's Office of Consumer Advocate last year to end this restriction and recently began reporting some delivery performance data on a newly created page on its Web site for some Express Mail, Priority Mail, First-Class Mail, and Package Services.

Moreover, USPS's reporting practices under the Government Performance and Results Act (GPRA) of 1993 have provided less and less performance information for oversight purposes.[28] USPS's latest GPRA report, which was included in its *2005 Comprehensive Statement on Postal Operations*, provided delivery performance targets (also referred to as performance goals) and results only for First-Class Mail measured by EXFC at the national level, with little accompanying explanation. For example, USPS reported that 87 percent of 3-day EXFC mail was delivered on time in fiscal year 2005, which did not meet its GPRA target of 90 percent, but USPS did not explain, as required by GPRA, why this specific target was not met. USPS also did not explain whether it considers the 90-percent goal—which remains unchanged for fiscal year 2006—impractical or unfeasible, or, alternatively, what plans USPS has for achieving this goal.

Delivery Performance Information Has Recently Improved but Remains Incomplete

USPS's reporting of delivery performance information on its Web site has recently improved but is still incomplete because it does not include performance results for all major types of mail. In April 2006, USPS posted delivery performance information on a newly created page of its Web site, including selected results for the timely delivery of some Express Mail, Priority Mail, First-Class Mail, and Package Services. This information is

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[27]H.R. Rep. No. 94-1444, at 14 (1976).

[28]GPRA requires that USPS submit strategic plans to the President and Congress, which are to be updated at least every 3 years, and to submit annual performance plans and annual performance reports to Congress.

oriented to members of the general public who make decisions on how to mail parcels and other items that can be sent using different types of mail. To facilitate such use, the information is linked to USPS's Postage Rate Calculator and is accompanied by brief summaries of the applicable delivery standards for each type of mail. The new information addresses USPS's written agreement with PRC's Office of the Consumer Advocate[29] in the 2005 rate case, which was implemented after further discussions between the two parties. USPS's recent disclosures are a good step toward providing easily accessible information on delivery performance results on its Web site for key types of mail used by the public.

The information on delivery performance results, however, did not cover major types of mail that are not measured—Standard Mail, bulk First-Class Mail, Periodicals, and most Package Services. Further, the information provided to the public was limited. First, performance results covered only the most recent quarter, although results for some types of mail have varied by 7 percentage points or more from one quarter to another within the same fiscal year. Second, only partial information was provided for Priority Mail and Package Services. For example, the results for Priority Mail covered only 4 percent of total Priority Mail volume. This limited scope of measurement was not disclosed on USPS's Web site. Without more complete reporting of delivery performance information, Congress and the American public do not have adequate information to determine how well USPS is accomplishing its mission of providing prompt and reliable delivery services.

For the future, a possible model to enhance the completeness and usefulness of USPS's reporting of delivery performance information would be to provide some information similar to the financial information that USPS already provides on its Web site. In the financial area, USPS has instituted a dedicated USPS Web page that has links to its financial reports, related reports and data, and timely disclosure of important developments. USPS also improved the quarterly financial reports that provide explanations for results and trends, as well as its financial outlook.

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[29]The PRC's Office of the Consumer Advocate represents the interests of the general public. The written agreement with USPS is available at http://www.prc.gov/docs/46/46232/OCA_Notice_with_Letter.pdf.

Progress In Developing Complete Delivery Performance Measurement Is Unsatisfactory Due To Lack of Management Commitment and Effective Collaboration

USPS has made slow and inadequate progress in modernizing its delivery standards and in implementing delivery performance measurement for all major types of mail. USPS's limited progress has left major gaps in each of these areas, despite numerous recommendations for improvements that have been made in these areas over the years, including those by USPS-mailer task forces and working groups, as well as some USPS initiatives to develop delivery performance measurement. Without management commitment and effective collaboration with mailers, it will be difficult for USPS to overcome technical challenges and achieve progress and results that are in the interest of both USPS and its customers in today's competitive marketplace.

Key Recommendations from Collaboration Efforts Involving USPS and Mailers Have Not Been Implemented

Some of USPS's and the mailers' collaboration efforts over the years have resulted in successes; but key recommendations from these efforts have yet to be realized. A broad cross section of mailer groups and mailers who met with us shared their concerns about delivery standards and related information; delivery performance measurement and reporting; and implications of delivery performance information and gaps in this area. They expressed frustration with the slow pace of USPS's progress in improving delivery performance information. As one mailers' association recently wrote, "We do not expect the USPS to move tomorrow to the ultimate service performance measurement system, but the total lethargy to take any step forward is unacceptable." Also, "the Postal Service's lack of clockwork-like predictability is the number one reason for repeated industry calls for standards and measurements."

Many recommendations for improving performance information were made by committees that comprised USPS and mailers, as noted in table 5 below. Some notable examples include the 1992 Competitive Services Task Force, the 1997 Blue Ribbon Committee, and the 1999 follow-up effort by a USPS-mailer working group. We asked USPS what actions, if any, it had taken on the 1999 recommendations, but we did not receive a response.

Table 5: Timeline of Actions and Recommendations Related to Delivery Performance Measurement

Year	Actions and recommendations
1990	USPS began to implement EXFC to measure delivery performance for some First-Class Mail in 86 cities covering 271 3-digit ZIP Code areas. This system has been expanded and revised over the years, including expanding its coverage to 463 3-digit ZIP Code areas.
1992	The Competitive Services Task Force, composed of more than 50 postal executives and industry representatives, recommended that • USPS improve its delivery standards and performance measurement for Standard Mail, First-Class Mail, Periodicals, and Package Services. These and other recommendations were intended to stimulate the growth in mail volume and to support USPS's financial viability by improving the quality of service and customer satisfaction, especially in areas where customers have choices.
1993	USPS awarded a contract to implement delivery performance measurement for Standard Mail and Periodicals by measuring delivery performance for test pieces of mail. These efforts were discontinued in 1996.
1997	The Blue Ribbon Committee, formed at the request of Postmaster General Runyon and included USPS and industry representatives, recommended that • USPS should work closely with its customers to define its service standards, publish these standards for each class of mail, and report on a regular basis its performance against those measures.
1998	USPS implemented Delivery Confirmation Service, which is critical to delivery performance measurement for Express Mail, Priority Mail, and some types of Package Services mail, including Parcel Select.
1999	A USPS-mailer working group followed up on the Blue Ribbon Committee, and after nearly 2 years of effort, the group made more extensive recommendations for improving delivery standards, measurement, and reporting. These included • defining service commitments and standards for all classes of mail based on existing mail processing and transportation environments, which for bulk mail would also reflect how the mail is prepared (e.g., how it is presorted by ZIP Code and whether it is organized in trays or in sacks) and the type of mail processing facility where it enters the postal system; • using multiple technologies or measurement tools to measure service performance for all mail classes; • creating a database to provide actionable measurement data in a user-friendly fashion and in real-time, or close to real-time, so that mailers and USPS managers could determine the impact of various elements on its performance goals; and • providing aggregate data that compares actual performance with standards and goals, which would then be presented with breakdowns according to the delivery standards. The group recognized that USPS could take interim steps toward implementing the recommended database, stressed the need for mailer involvement in implementing the recommendations, and asked USPS to begin working on them immediately.
2001	USPS began to fund implementation of its "information platform" to track mail in its processing and transportation networks. USPS officials said that Confirm Service, which provides tracking data on the progress of mail through USPS's processing network, would be the "centerpiece of the information platform" and would provide data for "performance measurement" for letters and flat-sized mail. They said the "objective is to measure it so we can improve it." However, the Confirm program had implementation difficulties, some of which have persisted despite years of study by working groups with USPS and mailer representatives. According to USPS, it does not use Confirm data for delivery performance measurement, in part because of continuing issues with the validity of mailer-provided information on bulk mailings.

Year	Actions and recommendations
2003	According to mailer newsletters, the USPS Chief Operating Officer, who is the current Deputy Postmaster General, told mailers that he would like them to join USPS in a commitment to implement delivery performance measurement, based on Confirm technology, for Standard Mail, bulk First-Class Mail, and Periodicals within a year and that USPS needed to redouble its efforts to resolve Confirm issues.
2004	After several years of effort by multiple USPS-mailer working groups, an MTAC working group recommended that • USPS implement delivery performance measurement and reporting for bulk First-Class Mail using Confirm technology, and • a follow-up group be formed to work on implementation issues. No follow-up ensued, however. USPS told us it took no action because of continuing Confirm data quality issues and related cost issues.
2005	Another MTAC working group dealing with service performance measurement asked that the MTAC Leadership Committee, which includes USPS and mailer representatives, address continuing Confirm issues.

Source: GAO analysis of USPS information and other sources, such as reports of the above committees.

Impediments Remain to Implementing Performance Measurement for all Major Types of Mail

Multiple impediments have contributed to USPS's slow progress toward implementing delivery performance measurement for all major types of mail. The most important impediment is the lack of management commitment and effective collaboration with the mailing industry to follow up on recommendations for improvements and to resolve issues between USPS and mailers. Additional impediments include technological limitations, limited mailer participation in providing information needed to facilitate performance measurement, data quality deficiencies, and costs.

Lack of Management Commitment and Effective Collaboration

USPS has not provided management commitment and effectively collaborated with mailers to develop delivery performance measures for all major types of mail. To achieve effective collaboration, it is necessary to build consensus among diverse mailers with different information needs, as well as between mailers and USPS. Such a challenge requires leadership and an effective process for follow up, particularly given the complexity of measurement issues and the time frame that likely will be required to overcome longstanding issues. Based on our discussions with mailers and postal officials, some of the commitment and collaboration challenges have included:

• USPS has lacked commitment to implementing delivery performance measurement and reporting for all major types of mail; particularly, as some mailers told us, USPS has tended to resist greater transparency, oversight, and accountability. A USPS senior vice president told us that USPS had no plans for implementing additional measures of delivery performance. A second USPS senior vice president explained that although some pieces of mail may be tracked as automated equipment reads barcodes on the mail, enabling more information for management

and diagnostic purposes, these pieces are unrepresentative, and USPS has no plans for using mail tracking data to develop representative measures of delivery performance. As for major types of mail that are not measured, USPS has publicly reported that it has no system in place for measuring service performance for Standard Mail on a systemwide basis and currently has no plans for the development of such a system.[30] Similarly, USPS officials told us that it has no plans to develop representative measures of delivery performance for bulk First-Class Mail, which, after Standard Mail, is the second-largest volume of mail that is not measured.

Further, USPS stated in its Strategic Transformation Plan that it would be prepared to extend performance measurement and reporting to additional mail classes as it achieves high levels of delivery service performance. A USPS vice president told us that USPS agreed in 2005 to begin reporting delivery performance results on its Web site for Express Mail and Priority Mail because USPS had already improved delivery performance for these types of mail to high levels, and therefore the results could help USPS promote these types of mail. This statement contrasts with a general performance principle that a major use, if not the major use, of regularly collected outcome information should be by program managers themselves to improve the effectiveness of their programs.[31] As we have reported, the benefit of collecting performance information is only fully realized when this information is actually used by managers to make decisions oriented toward improving results.[32]

- Although many groups have issued recommendations to USPS, follow-through on key recommendations did not occur. USPS often did not officially respond to the recommendations at the time they were made and did not implement the recommendations, so it was not clear whether USPS agreed or intended to implement the recommendations. Moreover, once a group completed its report with recommendations to USPS, it disbanded, which limited the continuity that otherwise could have been helpful for follow-up.

- Effective collaboration has been impeded by USPS's resistance to sharing some diagnostic data it collected with mailers. In general, USPS has

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[30]USPS response to ValPak interrogatory in Evolutionary Network Development Service Changes proceeding, USPS-T1-15, PRC Docket No. N2006-1, filed Apr. 25, 2006.

[31]National Academy of Public Administration, *How Federal Programs Use Outcome Information: Opportunities for Federal Mangers* (Washington, D.C.: May 2003).

[32]GAO-05-927.

maintained that delivery performance data below the national level are proprietary, such as data on performance related to any particular mail processing facility or transportation segment. Therefore, according to USPS, it should not be required to publicly disclose these data in PRC proceedings in response to requests by any interested party. However, voluntarily sharing diagnostic delivery performance information with mailers experiencing delivery problems could be useful for both USPS and mailers to collaboratively develop an understanding of whether the problems are limited to particular mailings or are systemic—resulting from specific USPS operational problems. Such an understanding can help in identifying the cause of delivery problems and in implementing corrective action. Although USPS representatives may communicate with mailers about these problems, the mailers told us they often lack sufficient timely and actionable data on delivery problems. They have called for USPS to share more aggregate delivery performance information.

The absence of management commitment and effective collaboration matters for the future because give-and-take by both USPS and mailers will be required to achieve consensus on designing measurement systems that meet different information needs, finding ways to cover the associated USPS costs, increasing mailer participation in providing information needed to facilitate performance measurement, and overcoming remaining impediments to implementing valid measurement systems. In this regard, we are encouraged that USPS has engaged in collaborative efforts to improve performance measurement for Parcel Select, starting with the Deputy Postmaster General reaching out to the Parcel Shippers Association (PSA), which represents major Parcel Select mailers, and offering to engage in collaborative efforts. The Deputy Postmaster General assigned responsibility to a single manager for follow-up. USPS followed through by reaching consensus on standards, performance measurement, and the sharing of aggregate data, which required actions by both USPS and mailers to successfully implement. According to PSA officials, the standards, measures, and performance incentives have led to a marked improvement in delivery performance for Parcel Select; and, as a result, USPS has been able to maintain its viability within the competitive package services market. The USPS official with responsibility in this area made similar comments. In addition, USPS recently proposed requiring mailers to barcode some Parcel Select items; if this increases barcoding, it will facilitate delivery performance measurement. USPS's Parcel Select provides a successful model for updating the delivery standards for other types of mail, implementing delivery performance measurement, and holding USPS accountable for results.

Similarly, USPS worked with other stakeholders to implement delivery performance measurement for Global Express Mail, which is managed by an international organization called the Express Mail Service (EMS) Cooperative.[33] Timely delivery of EMS items, including Global Express Mail, has reportedly improved since delivery standards and measurement were implemented.

Other Impediments for Measuring Delivery Performance

Several other impediments have limited the development of delivery performance measures for all major types of mail. Two key impediments involve limitations in technology, which limited USPS's ability to track mail from entry to delivery; and limited mailer participation in providing information needed to facilitate performance measurements, which limited the representativeness of the performance data collected. In addition, data quality deficiencies and cost concerns have impeded progress.

Technological limitations. USPS has not fully implemented technology that will enable it to track barcoded mail through its mail processing and transportation networks that could play a part in measuring performance when completed. Although some implementation, such as upgrading barcodes for individual mail pieces and mail containers, is under way, full implementation will take years. According to the Deputy Postmaster General, USPS expects to make substantial progress in resolving these technological limitations over the next 5 years. For example, near the end of this decade, USPS is planning to install new automated equipment to sort flat-sized mail, such as large envelopes and catalogs, into the order it is delivered, which promises to greatly expand the automatic scanning of barcodes on mail pieces. More generally, USPS officials said that USPS is working toward tracking mailings from acceptance (which they said will depend on mailers providing accurate data) through USPS's mail processing and transportation networks. Such information is a step toward additional delivery performance measurement. In the interim, however, major gaps remain in USPS's ability to track most types of mail.

Limited mailer participation. Mailer participation is low in applying unique barcodes to mail pieces for tracking purposes, which means that the tracking data cannot be considered representative of overall performance. Using USPS's Confirm Service, mailers can apply unique

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[33]The EMS Cooperative has more than 130 members, including USPS and foreign postal administrations.

barcodes to Standard Mail, First-Class Mail, and Periodicals, when the mail is letter or flat-sized and can be sorted on USPS automation equipment. Although these types of mail constitute most of the total mail volume, less than 2 percent of total mail volume is tracked by the Confirm program. Participation in Confirm is limited, in part because its use is voluntary, mailers must pay a fee to participate, and mailers also incur additional expenses related to their participation, such as for mail preparation. Although USPS officials expect mailer participation to increase as improved technology is implemented, they expect participation to continue to be unrepresentative, with some mailers more likely to participate than others. They explained that Confirm will continue to be of greatest interest to large mailers with well-developed capabilities to use tracking data. These mailers include large companies that track bills and remittance mail and large advertisers that track mailed catalogs in order to efficiently schedule staff and inventory.

Another factor in low participation is the mailers' continuing use of non-USPS delivery performance measurements that they have established or paid third parties to do so, such as "seeding" their mailings with mail sent to persons who report when it is received.[34] As long as a nonrandom group of mailers participates in Confirm—which is likely to be the case for the foreseeable future—the aggregate results will not be representative as a measure of overall systemwide performance. Thus, the main options for obtaining representative results for any given type of mail (such as bulk First-Class Mail) would appear to be (1) obtaining sufficient participation by all mailers who send that type of mail or (2) obtaining information on mail that is sent by a representative sample of mailers. For either option, USPS, mailer groups, and mailers would need to collaborate to achieve the level of mailer participation necessary to generate representative performance data that could be useful to all parties.

Data quality. According to USPS, data quality deficiencies have been another problem in measuring delivery performance, because USPS has no way to determine when it receives bulk mail, such as Standard Mail and Periodicals, which is commonly referred to as obtaining a valid "start the clock" time. At present, USPS relies on mailer-provided information submitted with each mailing, which USPS officials told us does not always

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[34]For example, Red Tag News Publications Association, a nonprofit association of 64 magazines and other publications that generate about 830,000 pieces of Periodicals mail annually, has 1,000 monitors who receive magazines and who report when they arrive.

include accurate information on when and where the mail was submitted. Based on their experience, USPS officials do not consider mailer-provided information to be sufficiently accurate for measuring delivery performance.

The issue of inaccurate data has persisted for years despite repeated efforts by working groups composed of USPS and mailer representatives. In this regard, USPS officials told us that resolving this issue would likely entail additional costs for mailers, which they said mailers have not been willing to pay; however, some mailers disagree with this view. On the positive side, the USPS Senior Vice President for Intelligent Mail and Address Quality told us that USPS has initiatives under way that should help ameliorate data quality deficiencies.

Costs. Senior USPS officials told us that currently, it would be too costly for USPS to create new representative performance measures for any major type of mail. They said that given current technology, USPS would incur substantial costs to implement delivery performance measurement for all major types of mail if USPS were to use bar codes to track every mail piece from when it enters the postal system to when it is delivered. A senior USPS official told us that delivery performance measurement for all mail—which would have involved tracking more than 210 billion pieces of mail in fiscal year 2005—would cost hundreds of millions of dollars and expressed doubt that mailers would want to pay those additional costs even in return for performance data. In this regard, sampling approaches could be used to obtain representative data on delivery performance that would likely be much less costly than seeking to measure delivery performance for every piece of mail.

A related cost issue is how USPS would recover the associated measurement costs from mailers and the impact of this decision on mailer participation that would be needed for USPS to measure delivery performance. As the Confirm program illustrates, a fee-based program creates a disincentive for mailers to participate. In contrast, USPS chose to build its tracking costs into the rate base for Parcel Select, so that the costs would be shared by all Parcel Select mailers. USPS officials told us they had rejected this approach for other types of mail for several reasons, including the uncertain benefits to USPS and mailers' preference for lower rates, particularly for mailers who would not wish to pay the costs associated with collecting delivery performance data.

However, some major mailer groups disagree with USPS's perspectives of mailer willingness to cover costs as a key impediment to implementing

representative measures of delivery performance for all major types of mail. The Mailers Council, a coalition of over 50 major mailing associations, corporations, and nonprofit organizations, told us that its members would be willing to pay additional USPS costs, within reason, for delivery performance measurement, stating that such costs would be small compared to total postal costs. Until USPS commits to developing additional representative measures of delivery performance for all major types of mail and considers various approaches for measuring the delivery performance of its major types of mail, discusses their usefulness and feasibility with mailers, and estimates the associated costs, it will be difficult to get beyond USPS's assertion that measurement is cost-prohibitive and mailers' assertions that the costs could be relatively low and that they would be willing to bear them.

USPS Plans to Improve Service Performance, But Not to Implement Representative Measures of Delivery Performance Across All Product Lines

Although USPS plans to improve its service performance, it has no current plans to implement additional representative measures of delivery performance. USPS states in its latest Strategic Transformation Plan that it plans to improve the quality of postal services by continuing to focus on the end-to-end service performance of all mail. Further, it states that "customers expect timely, reliable mail service, and the Postal Service has delivered. Under the 2002 Transformation Plan, the Postal Service successfully improved service performance across all product lines." We acknowledge and agree with USPS's emphasis on improved service performance. However, we do not know whether service has improved across all product lines, nor does USPS, because as we noted earlier, USPS does not collect or provide representative delivery performance information that would be needed to support this statement. USPS has information from various operational data systems, but this information does not amount to delivery performance measurement. Gaps in delivery performance measurement information are hindering USPS and mailers in identifying opportunities to improve service across all product lines, as well as effectively addressing these opportunities by understanding whether problems are specific to a particular mailer or systemic problems in USPS's mail processing and transportation networks. Without complete delivery performance information that is regularly reported, stakeholders must rely on the publicly available information that USPS chooses to provide, which often highlights only positive results. For example, in discussing its strategy for providing timely, reliable end-to-end delivery service, the Strategic Transformation Plan states "customer satisfaction scores have never been higher." Although customer satisfaction information is valuable and useful to USPS and other organizations that provide products and services, it does not measure delivery performance.

USPS's currently available delivery performance information does not provide sufficient context to determine (1) actual delivery performance results for all of its product lines, (2) how performance is changing over time through the assessment of trend information, and (3) whether USPS's delivery performance is competitive. Timeliness is a critical factor in today's competitive business environment, where many companies operate with just-in-time inventories and rely on timely delivery to meet their needs. It is likely to become even more important in the future. Thus, reliable delivery performance information reported in a timely manner is critical for high-performing organizations to be successful in this environment. USPS's Strategic Transformation Plan discusses strategies for providing timely, reliable mail delivery, which include plans to improve the quantity and accuracy of service performance information collected through passive scanning and improved start-the-clock information, provide customers with information about their own mailings, and create better diagnostic data so that bottlenecks can be eliminated throughout the system. These are all positive steps needed to improve delivery performance information. However, the Plan falls short of committing to developing end-to-end delivery performance information that could be used to measure how well USPS is achieving its strategy of improving service performance across all product lines. Further, the Plan does not discuss what delivery performance information USPS plans to report publicly.

Pending legislation does address what delivery performance information Congress would like to see USPS report in the future. However, USPS could demonstrate that it wants to provide leadership in this area by not waiting for the legislation to be enacted. Instead, USPS could clearly commit to developing representative end-to-end delivery performance measures for all of its product lines. USPS could also take the lead in collaborating with mailers to implement such performance measures. As we previously stated, effective collaboration with mailers is needed to resolve the impediments that hinder progress in this area, such as data quality issues involving how to improve the accuracy of start-the-clock information. Concerns about cost could be addressed by exploring options such as sampling in collaboration with the mailers to determine how best to measure delivery performance at much less cost than attempting to track every mail piece. Such collaboration would also allow the parties to determine their information needs, explore cost trade-offs associated with various options, and resolve associated data quality issues. In its letter to us, PostCom noted that delivery performance measurement could be implemented in many ways that would not be costly. PostCom said that measurement costs could be affected by multiple factors, such as whether

all mail pieces or a sample are tracked; whether tracking is to the point of delivery vs. the last automated scan plus a "predicted" time for delivery; whether data is collected automatically by equipment in a passive scan vs. other methods requiring USPS employees to scan mail; and whether USPS technology developments will be used exclusively to measure performance or primarily for processing the mail.

We recognize that it will take time to resolve impediments to implement additional delivery performance measures. However, USPS's leadership, commitment, and effective collaboration with mailers are critical elements to implementing a complete set of delivery performance measures that will enable USPS and its customers to understand the quality of delivery services, identify opportunities for improvement, and track progress in achieving timely delivery.

Conclusions

USPS delivery standards are not as useful and transparent as they should be. Standards for key types of mail—including Standard Mail, USPS's main growth product—are largely static, and do not fully reflect current operations. Thus, they cannot be used to set realistic expectations for mail delivery, to establish benchmarks for measuring performance, or to hold individuals accountable through pay-for-performance incentives tied to measurable results. USPS's delivery performance measurement and reporting is not complete, because it does not cover key types of mail— including Standard Mail, bulk First-Class Mail, Periodicals, and most Package Services. Further, despite recent disclosures on its Web site for some types of mail, USPS's reporting remains limited and has fallen short of statutory requirements to include specified delivery performance information. Because of gaps in delivery performance measurement and reporting, stakeholders, including the Congress, cannot understand how well USPS is fulfilling its basic mission, nor can they understand delivery performance results and trends. As a result, USPS and mailers are hindered in identifying and diagnosing delivery problems so that corrective action can be implemented. This situation increases the financial risk to USPS, which faces increasing competition. If mailers are not satisfied with USPS's delivery service, they could take their business elsewhere.

Prospects for progress continue to be uncertain, in part because USPS has not committed itself to modernizing its delivery standards or developing representative performance measures for all major types of mail. USPS management commitment and more effective collaboration with mailers will be critical for resolving impediments to delivery performance

measurement and reporting. Give-and-take by both parties will be required to achieve consensus on designing measurement systems that meet different information needs, increasing mailer participation in providing information needed to facilitate performance measurement, addressing data deficiencies, finding ways to cover the associated costs, and overcoming impediments.

Recommendations for Executive Action

To facilitate greater progress in developing complete delivery performance information, we recommend that the Postmaster General take the following four actions:

1. modernize delivery standards for all major types of mail so that they reflect USPS operations and can be used as benchmarks for understanding and measuring delivery performance;

2. provide a clear commitment in USPS's *Comprehensive Statement on Postal Operations* to develop a complete set of delivery performance measures for each major type of mail that is representative of overall delivery performance;

3. implement representative delivery performance measures for all major types of mail by providing more effective collaboration with mailers and others to ensure effective working relationships, follow-through, accountability, and results; and

4. improve the transparency of delivery performance standards, measures, and results by publicly disclosing more information, including in its *Comprehensive Statement on Postal Operations* and other annual performance reports to Congress, as well as providing easily accessible information on its Web site.

Agency Comments and Our Evaluation

USPS provided comments on a draft of this report in a letter from the Postmaster General dated July 14, 2006. These comments are summarized below and included as appendix III. In addition, the Postmaster General provided oral comments in a meeting on June 26, 2006, with suggestions for further clarifying information, which were incorporated where appropriate.

USPS's letter recognized that its delivery performance measurement and reporting are not complete and provided detailed information about its ongoing and planned efforts to ultimately measure service performance and provide transparency for all classes of mail. USPS stated that it

intends to lead the efforts required to reach this goal by working collaboratively with others in the mailing industry. USPS's letter further stated that ultimately, "the core issue is service—and according to all indicators, we are succeeding in our goal of continuous service improvement. We are not satisfied with maintaining the status quo." USPS stated that although it recognizes the desire for aggregate service performance results for all mail categories, it believes that it serves mailers best by focusing first on providing service measurement and diagnostics to individual customers, then looking to provide aggregate results. Regarding the draft report's findings related to service standards, USPS disagreed that some of its delivery standards are outdated and stated that its service standards are modern and up-to-date. USPS did not directly comment on three of our four recommendations. On our fourth recommendation concerning improving the transparency of delivery performance standards, measures, and results, USPS commented that its service standards should be more visible and stated that it is exploring making information related to its service standards available through additional channels, including its Web site.

We are encouraged by USPS's commitment to ultimately measure service performance and provide transparency for all classes of mail and its intention to take the lead in working with mailers to achieve this goal. Further, we recognize in our report USPS's ongoing efforts to implement technology that will track mail throughout USPS's mail processing system, which is a step toward improved delivery performance measurement. We also agree, as we noted in our report, that mailer participation is necessary to generate representative delivery performance measures for all mail categories. USPS's letter details many ongoing and planned efforts necessary to improve performance measurement, as well as specific actions that USPS calls on mailers to take to enable its vision of measurement. We agree with USPS's emphasis on improving service, but we continue to have questions about whether USPS's efforts will result in representative delivery performance measures for all major types of mail. For most major types of mail, USPS's vision of service performance measurement is generally limited to tracking mail through its mail processing and transportation networks, which is not the same as measuring end-to-end delivery performance against USPS delivery standards. Considering USPS's lack of commitment to implementing a complete set of delivery performance measures, as well as the lack of timeframes in USPS's letter, we also have questions about how long it will take to achieve this goal. We recognize that it will take time to implement many of the ongoing and planned initiatives described in USPS's letter. Thus, USPS's sustained leadership is critical to ensure that effective

collaboration with mailers takes place so that USPS implements and reports on representative delivery performance measures for all major types of mail. We also believe that USPS should establish specific timeframes so that timely progress can be made in this area.

USPS's letter states that it will first provide individual mailers with delivery information before working to provide aggregate delivery performance information, stating that aggregate information on average performance may be irrelevant to mailers. We do not believe that these are mutually exclusive goals that have to be addressed sequentially, because both aggregate and individual performance information have benefits that would meet varying needs of different postal stakeholders. We recognize and agree that mailers want to have performance information related to their own mailings to determine the status of their mail as it moves through USPS's system. However, appropriate aggregate information is needed to put mailer-specific information into context so that USPS and mailers can understand whether any delivery problems that occur are specific to particular mailers or reflect systemic issues within USPS's processing and transportation networks. Appropriate aggregate information may need to be more specific than the average performance for a general type of mail, so that comparisons can take geographic and other variations in performance into account and thereby provide useful diagnostic information to USPS and mailers. USPS has recognized this principle in its EXFC measure of First-Class Mail deposited into collection boxes, which provides aggregate data that can be broken down by geographic area, delivery standard (e.g., results for 1-day, 2-day, and 3-day mail), and other subgroups of this mail. Moreover, USPS's diagnostic data is not representative and does not amount to delivery performance measurement. USPS's letter does not fully recognize the critical importance of aggregate delivery performance measurement for accountability purposes, by parties both inside and outside USPS. As USPS's letter demonstrates, where USPS has delivery performance measures, it can report on how well it is achieving one of its primary goals to improve delivery services. However, USPS is not in a position to make such assessments for more than four-fifths of its mail volume, because it does not measure and report its delivery performance for most types of mail.

USPS's letter also states that "we share the mutual goal of complete network transparency to provide mailers with a comprehensive view of the service they receive." Our view of transparency is broader than providing mailers with data on their own mail. As a federal government entity with a monopoly on some delivery services, USPS is accountable to

the American public, Congress, PRC, USPS's Board of Governors, and postal customers for the delivery services it provides. However, as noted earlier, stakeholders cannot understand how well USPS is fulfilling its basic mission due to gaps in delivery performance measurement and reporting, nor can they understand delivery performance results and trends. USPS's letter does not address what actions USPS plans to take to improve the transparency of publicly available delivery performance information. Without sufficient transparency, oversight and accountability are limited.

We disagree with USPS's comments that its service standards are modern and up-to-date. Consistent with the input we received from numerous mailers, we believe that these standards do not work for the mailers and for USPS. As we noted in our report, some of USPS's delivery standards, including those for Standard Mail, some Periodicals and most Package Services, do not reflect changes in how mail is prepared and delivered. These standards are unsuitable as benchmarks for setting realistic expectations for timely mail delivery, for measuring delivery performance, or improving service, oversight, and accountability.

Specific comments in the USPS letter were organized into the following six sections: (1) "Focus on Service," (2) "Service Performance Results," (3) "Some Areas of Concern," (4) "Modern Service Standards," (5) "Measurement Systems and Diagnostic Tools," and (6) "Customer Collaboration and Reporting." These comments are summarized below with our analysis.

Focus on Service: USPS commented that one of its primary goals in its *Strategic Transformation Plan 2006-2010*, is to improve service. USPS said this goal is supported by strategies that include a "balanced scorecard" that uses service performance metrics to support personal and unit accountability. Goals for these metrics, which include delivery performance measures as well as operational indicators that USPS said are critical to on-time service performance, are incorporated into USPS's pay-for-performance incentives for its managers. We agree with USPS's focus on improving service and holding its managers accountable for results. Our draft report noted that USPS had recognized the importance of the timely delivery of mail and integrated performance targets and results for some types of mail into its performance management system. However, USPS has not yet achieved its aim of a "balanced scorecard" for delivery performance because its delivery performance measures cover less than one-fifth of mail volume, and these measures do not cover Standard Mail, bulk First-Class Mail, Periodicals, and most Package Services mail. This

gap impedes USPS's potential for holding its managers accountable for delivery performance of all types of mail and for balancing increasing financial pressures with the need to maintain quality delivery service.

Service Performance Results: USPS stated that its focus on service has resulted in "record performance across all mail categories," adding that its measurement systems for First-Class Mail, Priority Mail, and Express Mail show that USPS had met or exceeded the performance targets it set for them. However, we do not know whether service has improved across all mail categories, nor does USPS, because as we noted earlier, USPS does not collect or provide representative delivery performance information that would be needed to support this statement. Further, in fiscal year 2005, USPS did not achieve record delivery performance for all categories of mail that it measured, and did not meet all of the delivery performance targets it had set. For example, the *2005 Annual Performance Report* included within the *2005 Statement on Comprehensive Operations* reported that on-time performance for First-Class Mail with a 3-day delivery standard, as measured by EXFC, was 87 percent in fiscal year 2005, down 2 percentage points from the previous fiscal year and falling short of USPS's goal of 90 percent. On-time delivery scores for Priority Mail also declined over the same period.

With respect to reporting on its delivery performance, USPS commented in its letter that it has posted delivery performance results on its Web site, including for some of its competitive products. As our draft report stated, USPS improved its reporting of delivery performance results by starting to post information on its Web site in April 2006, including selected results for the past quarter for the timely delivery of some Express Mail, Priority Mail, First-Class Mail, and Package Services. We stated that USPS's recent disclosures are a good step toward providing easily accessible information on delivery performance results on its Web site for key types of mail used by the public. However, we also found that the information is incomplete because it does not include delivery performance results for all major types of mail. Some major types of mail are not measured, while the information on the Web site provided limited information for mail that is measured, and did not fully disclose the limited scope of this measurement. We continue to believe that without more complete reporting of delivery performance information, Congress and the American public do not have adequate information to determine how well USPS is accomplishing its mission of providing prompt and reliable delivery services.

Some Areas of Concern: USPS stated that our draft report did not fully consider some important issues related to performance measurement. USPS commented that although our draft report did discuss data quality issues, it had not accounted for some relevant factors, including the completeness, accuracy, and validity of mailer information submitted when mail is entered. However, our draft report included a discussion of the major impediments that have contributed to USPS's slow progress toward implementing delivery performance measures for all major types of mail, including impediments relating to the quality of mailer information submitted when mail is accepted into USPS's system, which is needed for "start the clock" delivery information. Our draft report provided USPS's view that mailers do not provide accurate information on its mailings that would be needed to "start the clock" for delivery performance measurement and noted that this issue has been persistent despite repeated efforts by USPS-mailer committees. In discussing measurement issues, USPS further commented that the mailing industry must embrace changes such as improved address quality and increased presort accuracy. We believe that although these outcomes would facilitate USPS handing of mail, this should not be a reason to delay measurement of delivery performance. Other federal entities routinely set performance goals and measure results for important activities that are partly outside their control, and use the results to work with their partners to improve their performance.

On another matter, USPS stated that our report's discussion of USPS attempts to measure performance did not account for complexities unique to Standard Mail and Periodicals. USPS also stated that its experience has demonstrated that it is particularly difficult to design a broad and effective measurement system for Standard Mail and Periodicals, explaining that its previous attempts were unsuccessful for reasons including lack of information on the acceptance of this mail into USPS's system and complexities relating to different types of mail preparation and entry. We disagree that our draft report did not adequately account for these complexities and believe USPS can address these complexities to successfully implement delivery performance measures for Standard Mail and Periodicals. As noted above, our draft report discussed issues in obtaining information needed to "start the clock" on delivery performance measurement. We also recognized that Standard Mail and Periodicals have complexities in mail preparation and entry that USPS should incorporate into its delivery performance standards so that they can serve as suitable benchmarks for measurement. Further, our draft report provided a detailed discussion of attempts to measure performance by task forces and working groups comprised of USPS and mailer

representatives, who were well versed in the complexities of Standard Mail and Periodicals. These groups repeatedly recommended that USPS measure the delivery performance of Standard Mail and Periodicals, including the 1997 recommendations of the Blue Ribbon Panel and the 1999 recommendations of a follow-up USPS/mailer working group that were made years after USPS's short-lived attempt to measure delivery performance of Standard Mail and Periodicals. The 1999 recommendations stated that USPS should implement performance measurement for Standard Mail, Periodicals, and other classes of mail in a manner that would provide aggregate performance data with breakdowns according to delivery standards, which for bulk mail such as Standard Mail and Periodicals would reflect how the mail is prepared and the type of postal facility where it enters USPS's system. The working group asked USPS to begin working on implementing these recommendations immediately. As we concluded, gaps in performance measurement mean that stakeholders cannot understand how well USPS is fulfilling its basic mission, nor can they understand results and trends—a situation that also increases the financial risk to USPS, which faces increasing competition.

Modern Service Standards: USPS stated that our draft report did not fully acknowledge its long history of establishing and revising delivery standards. We disagree because our report provides a detailed history of delivery standards, noting that USPS has updated its standards for some mail, such as First-Class Mail and Parcel Select. Our draft report also stated that delivery standards are outdated for several types of mail, including Standard Mail, some Periodicals, and most Package Services, because they have not been updated in many years to reflect significant changes in the way mail is prepared and delivered. In addition, USPS commented that the concept of modernized delivery standards may, for some, denote upgrading service levels, warning that upgrading service would result in increased costs and prices. However, our draft report does not discuss whether service needs to be upgraded and focuses instead on the need for USPS delivery standards to reflect current USPS operations including presorting and destination entry.

Measurement Systems and Diagnostic Tools: USPS commented that the description of USPS performance measurement systems in our draft report was incomplete and unintentionally misleading. USPS commented that the draft report overlooked "the fact" that EXFC, which measures First-Class Mail deposited into collection boxes, is reflective of delivery performance for all First-Class Mail including bulk First-Class Mail. USPS stated that bulk First-Class Mail is handled in the same manner as collection box mail. USPS's comment about EXFC is contradicted by years

of USPS reporting, including in its annual *Comprehensive Statement on Postal Operations* and its quarterly press releases, that "EXFC is not a systemwide measure of all First-Class Mail performance." USPS has repeatedly used this statement in response to a recommendation made in a report issued in 2000 by the USPS Office of Inspector General, which also found that EXFC does not consider the delivery performance of bulk First-Class Mail.[35]

Customer Collaboration and Reporting: USPS commented that many of its service measurement systems and diagnostic tools were designed jointly or in collaboration with its customers. Our draft report discusses USPS's many collaborative efforts with mailers, but, as noted previously, our concern is that USPS has not implemented key recommendations that have been made since the early 1990s by numerous USPS/mailer committees. Further, our work found that the lack of adequate and continued management commitment and effective collaboration with the mailing industry to follow through on recommendations for improvements and to resolve issues is an overall theme in understanding the slow progress being made in developing and implementing methods of measuring delivery performance. Thus, while we are encouraged that USPS presented several initiatives to develop the ability to track mail through its mail processing and transportation networks, as outlined in our report and our analysis of USPS's comment letter, we continue to believe that there needs to be greater progress in implementing representative measures of end-to-end delivery performance.
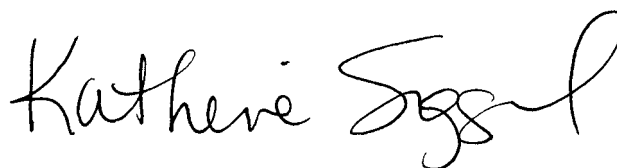
We are sending copies of this report to the Ranking Minority Member of the Senate Committee on Homeland Security and Governmental Affairs, the Chairman and Ranking Minority Member of the House Committee on Government Reform, Rep. John M. McHugh, Rep. Danny K. Davis, the Chairman of the USPS Board of Governors, the Postmaster General, the Chairman of the Postal Rate Commission, the USPS Inspector General, and other interested parties. We also will provide copies to others on request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

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[35]USPS Office of the Inspector General, *External First-Class Measurement System*, report number DS-AR-00-001 (Arlington, VA: Mar. 27, 2000).

If you or your staff have any questions regarding this report, please contact me at siggerudk@gao.gov or by telephone at (202) 512-2834. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

Katherine A. Siggerud
Director, Physical Infrastructure Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives were to assess (1) the delivery standards for the timely delivery of mail that the U.S. Postal Service (USPS) has established, (2) the delivery performance information on the timely delivery of mail that USPS measures and reports, and (3) the progress USPS has made in improving its delivery performance information.

We based our assessment of USPS's delivery standards, measures, and reporting using the concepts of completeness, transparency, and usefulness of delivery standards, measures, and reporting (see table 6). We identified applicable laws related to USPS's mission, ratemaking, and reporting; statutes and practices used by high-performing organizations related to delivery standards, measurement, and reporting, including practices identified through our past work. The basis of our assessment is described in greater detail in table 6.

Table 6: Basis for GAO Assessment of USPS Delivery Standards, Measurement, and Reporting

Assessment criteria	Basis for criteria
Completeness	
Completeness of delivery performance information provided internally and externally so that USPS and other stakeholders understand how well USPS is fulfilling its statutory mission and specific statutory requirements for mail delivery.	Statutory criteria • USPS has 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 people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.[a] • USPS must provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining.[b] • In selecting modes of transportation, USPS must give the highest consideration to the prompt and economical delivery of all mail.[c] • USPS must give the highest consideration to the expeditious collection, transportation, and delivery of important letter mail.[d] • Modern methods of transporting the mail by containerization and programs designed to achieve overnight transportation to the destination of important letter mail to all parts of the nation shall be a primary goal of postal operations.[e] • USPS operations include delivering mail with different standards for speed of delivery, which addresses the requirement that USPS provide types of mail service to meet the needs of different categories of mail and mail users.[f] Varying types of mail have been established in accordance with the importance of establishing classifications with—and without—extremely high degrees of reliability and speed of delivery.[g] GAO postal-related work • Without complete and reliable performance data, USPS and other stakeholders cannot determine USPS's progress towards meeting its intended performance results.[h] • The Government Performance and Results Act of 1993 (GPRA) requires USPS to prepare strategic plans and annual performance plans, which are to include performance goals related to its mission, and are to be similar to those developed by executive branch agencies.[i] Practices used by high-performing organizations • Key attributes of successful performance measures include, among other things, (1) core program activities, so that measures cover the activities that an entity is expected to perform to support the intent of the program and (2) balance, which exists when a suite of measures ensures that an organization's various priorities are covered.[j] • According to the American Productivity and Quality Center (APQC), best-practice companies are using performance measurement results to identify areas for improvement and consider the application of performance measurement data to be their competitive advantage. The ultimate purpose of performance measurement is the compilation and analysis of strategically aligned data from which decision makers and teams can make decisions and implement actions to improve business performance and achieve strategic objectives. These companies view the analysis of performance data, and the subsequent use of these data in changing processes, as what gives them a competitive edge.[k]

Assessment criteria	Basis for criteria
Transparency	
Availability of transparent information on delivery performance internally and externally, including to USPS managers and employees, the USPS Board of Governors, mailers, PRC, Congress, and the public.	Statutory criteria • USPS is required to annually report data on the speed and reliability of service provided for the various classes of mail and types of mail services to its congressional oversight committees.[l] • GPRA requires USPS to annually report to Congress and the public on its goals and actual performance relative to these goals.[m] USPS is required to review the success of achieving its goals, and, for any goals not met, explain and describe (1) why the goal was not met, (2) plans and schedules for achieving the established goal, or, if the performance goal is impractical or infeasible, (3) why that is the case and what action is recommended. USPS may report any proprietary goals to Congress in a non-public annex.[n] GAO postal-related work • USPS is a governmental entity with a monopoly to deliver letter mail[o] and has a vital role in communications and commerce; thus, the transparency of its delivery performance information is important to assessing how well it is achieving its basic mission.[p] • Given the vital role of the nation's postal system, it is imperative that USPS, its stakeholders, and the public have adequate information available to them to assess USPS's progress toward meeting its performance goals and future plans.[q] Practices used by high-performing organizations • The demand for transparency and accountability is a fact that needs to be accepted in any public sector transformation.[r]
Usefulness	
Usefulness of information on delivery performance to enable effective oversight, and accountability— including by USPS managers, the USPS Board of Governors, PRC, and the Congress—as well as effective USPS performance.	Statutory • *USPS Board of Governors*: The Board is required to direct the exercise of the power of USPS, including directing and controlling USPS expenditures and reviewing its policies and practices. Governors are required to be chosen to represent the public interest generally.[s] *Postal Rate Commission (PRC)*: When considering USPS proposals to change postal rates and fees, PRC is required to consider the value of mail service actually provided for each class of mail,[t] which PRC has interpreted to include actual results for timely mail delivery[u] When considering changes to mail classification, which USPS or PRC can initiate, PRC is required to consider the importance of providing classifications with and without high degrees of reliability and speed of delivery.[v] When USPS proposes changes that will have a nationwide or substantially nationwide effect on service, PRC is required to review the proposals and render an advisory opinion.[w] When interested parties believe that they are not receiving postal services in accordance with the policies of Title 39, they may lodge a complaint with PRC. If PRC considers a complaint regarding delivery service to be justified, it is required to issue a public report to USPS that is advisory.[x]

Assessment criteria	Basis for criteria
	• *Congress*: USPS is required to annually report information to its congressional oversight committees, including data on the speed and reliability of service provided for the various classes of mail, trends in postal operations, and analyses of the impact of various internal and external factors on USPS. USPS is also required to annually submit such information as the committees may determine necessary to ensure that Congress is fully and currently consulted on postal operations, plans, and policies.[i]
	GAO postal-related work
	• Timely, accurate, and relevant performance data will be critical for effective management as well as communications with customers, Congress, and other stakeholders.[h]
	Practices used by high-performing organizations
	• For planning and performance measurement to be effective, federal managers need to use performance information to identify performance problems and look for solutions, develop approaches that improve results, and make other important management decisions.[y]
	• The benefit of collecting performance information is only fully realized when this information is actually used by managers to make decisions oriented toward improving results. Performance information can be used to identify problems and take corrective action; develop strategy and allocate resources; recognize and reward performance; and identify and share effective approaches. Practices that can contribute to greater use of performance information include demonstrating management commitment; aligning agencywide goals, objectives, and measures; improving the usefulness of performance information; developing the capacity to use performance information; and communicating performance information clearly and effectively.[y]
	• A major use, if not the major use, of regularly collected outcome information should be by program managers themselves to improve the effectiveness of their programs.[z]
	• High-performing organizations often must fundamentally change their cultures so that they are more results oriented, customer focused, and collaborative in nature.[bb] These organizations use effective performance management systems as a strategic tool to drive change and achieve desired results. Among the key practices used is to align individual performance expectations with organizational goals[bb] by seeking to create pay, incentive, and reward systems that clearly link employee knowledge, skills, and contributions to organizational results.[cc]
	• In defining and articulating a common outcome, where appropriate, federal agencies should involve nonfederal partners, key clients, and stakeholders. In doing so, federal agencies can better address their interests and expectations and gain their support in achieving the objectives of the collaboration. The ability to work collaboratively requires mutual trust among the respective parties—a shared belief that the partners will carry out their part of the joint agreement.[aa]

Source: Criteria developed by GAO based on laws, practices used by high-performing organizations, and past GAO work.

[a]39 U.S.C. §101(a).

[b]39 U.S.C. §101(b).

[c]39 U.S.C. §101(f).

[d]39 U.S.C. §101(e).

[e]39 U.S.C. §101(f).

[f]39 U.S.C. §403(b)(2).

[g]Types of domestic mail are established in the Domestic Mail Classification Schedule, which is incorporated into the PRC subpart of the Code of Federal Regulations (Appendix A to Subpart C of 39 C.F.R. Part 3001, following 39 C.F.R. §3001.68). Statutory guidance for domestic mail classification is specified in 39 U.S.C. §3623.

[h]GAO, *Major Management Challenges and Program Risks: U.S. Postal Service*, GAO-01-262 (Washington, D.C.: Jan. 2001).

[i]GAO, *The Results Act: Observations on the Postal Service's Preliminary Annual Performance Plan*, GAO/GGD-98-144 (Washington, D.C.: July 10, 1998).

[j]GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002).

[k]APQC, A*chieving Organizational Excellence Through the Performance Measurement System: Consortium Benchmarking Study: Best Practice Report* (Houston, Texas: 1999).

[l]39 U.S.C. §2401(e).

[m]39 U.S.C. §2803-2804.

[n]39 U.S.C. §2803(d).

[o]Laws restricting private delivery of letters include 39 U.S.C. §601-606 and 18 U.S.C. §1693-1699.

[p]GAO, *U.S. Postal Service: Key Elements of Comprehensive Postal Reform*, GAO-04-397T (Washington, D.C.: Jan. 28, 2004), *U.S. Postal Service: Bold Action Needed to Continue Progress on Postal Transformation*, GAO-04-108T (Washington, D.C.: Nov. 5, 2003); *Major Management Challenges and Program Risks: U.S. Postal Service*, GAO-03-118 (Washington, D.C.: Jan. 2003).

[q]GAO-03-118.

[r]GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformation*, GAO-03-669 (Washington, D.C.: July 2, 2003).

[s]39 U.S.C. §202(a) and §205(a).

[t]39 U.S.C. §3622(b)(2).

[u]PRC, *Presiding Officer's Ruling No. R2000-1/51*, Docket No. R2000-1 (Washington, D.C.: Apr. 26, 2000).

[v]39 U.S.C. §3623.

[w]39 U.S.C. §3661.

[x]39 U.S.C. §3662.

[y]GAO, *Managing for Results: Enhancing Agency Use of Performance Information for Decision-Making*, GAO-05-927 (Washington, D.C.: Sept. 9, 2005).

[z]National Academy of Public Administration and IBM Endowment for the Business of Government, *How Federal Programs Use Outcome Information: Opportunities for Federal Managers* (Washington, D.C.: May 2003).

[aa]GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

[bb]GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

[cc]GAO, *Human Capital: Observations on Final Regulations for DOD's National Security Personnel System*, GAO-06-227T (Washington, D.C.: Nov. 17, 2005).

To address the first objective, assessing delivery standards USPS has
established, we obtained information from USPS on its delivery standards
for the timely delivery of mail. Information consisted of USPS's narrative
description of its standards; documentation of its standards included in
the *Domestic Mail Manual* and related policies included in the *Postal
Operations Manual*; and written responses provided to us by USPS. We
also obtained material on delivery standards that USPS provided in Postal
Rate Commission (PRC) proceedings and that were posted to the PRC
Web site. These proceedings included postal rate cases and "nature of
service" proceedings that considered the USPS proposals expected to have
an effect on the nature of postal services on a nationwide or substantially
nationwide basis. We reviewed publicly available material that USPS
reported on its delivery standards, which was posted on the USPS Web
site, including the section of the USPS Web site devoted to the Mailers'
Technical Advisory Committee (MTAC). Our assessment of USPS's
delivery standards was also informed by the views of mailing
organizations, mailers, PRC, and PRC's Office of the Consumer Advocate
(OCA), which is charged with representing the interests of the general
public and the views of other postal stakeholders. Some of these views
were provided in written material issued by the stakeholders, including
material provided directly to us, material provided in PRC proceedings,
and articles in the trade press. Other views were provided to us in
interviews we conducted with these organizations.

To address the second objective, delivery performance information USPS
measures and reports, we obtained documentation and related written
material on USPS's delivery performance measurement systems, which
included the External First-Class Measurement System (EXFC), the
Product Tracking System (PTS), the now-discontinued Priority End-to-End
System (PETE), and other measurement systems for international mail.
We obtained documentation on the data collection procedures and
internal controls for these systems and obtained detailed explanations of
these systems in interviews with USPS officials. In addition, we obtained
publicly available information on these systems from USPS reports,
material that USPS provided PRC in past rate cases, and published articles
about these systems. We conducted a limited data reliability assessment of
EXFC, PTS, and PETE. Our assessment was informed by obtaining the
views of USPS officials, mailing groups, mailers, and other stakeholders,
both in writing and in interviews.

To address the third objective, assessing the progress USPS has made in
improving its delivery performance information, we obtained information
from a variety of sources on the progress USPS has made and its

opportunities for improving delivery performance information. We
obtained information on the history of studies that recommended USPS
improve its delivery standards, measurement, and/or reporting. These
studies included joint USPS-mailer committees, some of which were ad
hoc efforts and some of which were sponsored by MTAC. Information on
these studies included written reports by the committees, documentation
on these groups provided to us by USPS and mailers, and interviews of
USPS, mailer committees, and mailers. More generally, we obtained the
views of USPS officials, mailing groups, mailers, and other stakeholders on
USPS's progress and remaining opportunities in this area, both in writing
and in interviews.

We requested comments on a draft of this report from USPS; these are
reproduced in appendix III. We conducted our review from August 2005 to
July 2006 in accordance with generally accepted government auditing
standards.

Appendix II: USPS Delivery Standards

Table 7: USPS Delivery Standards by Class and Type of Mail

Type of mail	Number of days[a]	Explanation of delivery standards and available information
Standard Mail	3 to 10 days to all valid ZIP Codes	These standards have not been systemically changed since their inception in the 1970s. As an "approximate overview," the number of days is loosely based on the number of postal zones that mail must travel, which in turn are loosely based on a mileage radius to the destinating Sectional Center Facility (SCF).[b]
		Usually, 3 days for mail within the same SCF, depending on the size of the Intra-SCF area. All other non-Intra-SCF destinations are 4 days or greater.
		While the 3- to 10- day range outlines the official USPS standards, USPS sometimes does have independent "programs," or "guidelines," outside of the Service Standards, which attempt to facilitate the delivery of Standard Mail (sometimes directly in concert with mailers). In some cases, these time frames are more ambitious or differ from the official Service Standards.
		For example, the *Postal Operations Manual* (POM)[c] specifies that
		• some Standard Mail is to be delivered 2 delivery days after it is entered into the postal system. This applies to mailer-prepared carrier-route presort mail that mailers dropship to delivery units (including post offices, branches, and stations) where letter carriers pick up their mail for delivery.[d]
		• delivery units should make every effort to adhere to mailer-requested, in-home delivery dates. Mail should not be delivered earlier than the date the mailer has requested.[e] If delivery units receive Standard Mail with a mailer-requested delivery date later than the USPS-scheduled delivery day, the USPS-scheduled date should be changed to match the last requested in-home delivery date, to comply with the mailer's request.[f] If delivery units receive Standard Mail with a mailer-requested delivery that has already been passed, the decision regarding delivery or disposition of this mail (including disposal without delivery) must be consistent with the current national policy on this subject.[g]
		If Standard Mail is mixed with a higher class of mail (e.g., First-Class Mail) in USPS's mail processing system in such a manner as it loses its identity, it must be considered upgraded and treated as the higher class of mail.[h] Technically, such commingled items do not become the higher mail class. However, USPS enacts this policy in order to not slow down the ultimate delivery of such pieces by not requiring that they be re-isolated and "extracted" from the higher mail class and subsequently re-entered with their "correct" mail class, a process which could possibly slow down delivery and provide worse service than was originally intended (although the re-segregation of such commingled mail, by mail class, is always an option, if operationally feasible).
		There are no prohibitions against making USPS management agreements below the national level, which accelerate the delivery expectations for any Standard Mail versus national policy.[i]

Type of mail	Number of days[a]	Explanation of delivery standards and available information
Periodicals	1 to 7 days to all valid ZIP Codes	Delivery standards are 3-digit-to-3-digit ZIP Code based. Periodicals mail is a "preferential" product that travels normally by surface to all valid ZIP Codes. The standard range of 1 to 7 days is loosely equivalent to the eight Postal Zones (which are also based on a Mileage Radius), minus 1, as shown in Table 8.[j]
		In accordance with policies adopted in 1990 after the conclusion of a PRC proceeding that began in 1989,[k] the 1-day delivery area should normally be adjusted to be the same as the overnight area for First-Class Mail, with exceptions subject to regional and headquarters concurrence.
		2 to 3 day standards can be as fast as First-Class Mail but are not usually intended to be faster. Nearly all of the Service Standard pairs meet this "Mail Class Hierarchy" guideline.
		The concept for these standards has not changed since the 1980s. Newly activated ZIP Codes (or ZIP Code areas that have been revised due to an Area Mail Processing Plan implementation) are "cloned" to have the same Periodical delivery standards as the other originating or destinating ZIPs served out of the same processing plant.
Package Services Includes Parcel Post (except Parcel Select), Bound Printed Matter, Media Mail, and Library Mail	2 to 9 days to most ZIP Codes	2 to 9 days to all valid ZIP Codes within the contiguous 48 states.
		There are no established Package Services delivery standards to Alaska, Hawaii, or offshore destinations (e.g., Guam, Puerto Rico, Virgin Islands).[j]
		The delivery standards are 3-digit-to-3-digit ZIP Code based. Package Services mail is a product that travels normally by surface to all ZIP Codes. The standards are therefore predicated on the Bulk Mail Center (BMC) network. Normally, the standards would change only if the Area Mail Processing (AMP) Plan resulted in the origin or destination ZIP Code moving to within a new BMC area because the gaining facility was located in a different BMC area than the previous facility. The concept for Package Services service standards has remained constant since the 1970s. Newly activated ZIP Codes (or revised ZIP Codes areas due to an AMP Plan implementation) are "cloned" to have the same Package Services service standards as the other originating or destinating ZIPs served out of the same BMC or Auxillary Service Facility.
Parcel Select	1 to 3 days	Parcel Select comprises Parcel Post items that are mailed in bulk quantities; are entered by mailers at USPS facilities, including Destination Bulk Mail Centers (DBMCs), Destination Sectional Center Facilities (DSCFs), or Destination Delivery Units (DDUs); and meet other rules for mail preparation and entry. The delivery standards include:
		• 1 day for DDU entry by 4 p.m.
		• 2 days for DSCF entry by 3 p.m.
		• 2 to 3 days (generally 2 days) for DBMC entry by 3 p.m.
		2-day versus 3-day for DBMC entry is based on the Parcel Post standard for the 3-digit ZIP where the DBMC is physically located and the destination 3-digit ZIP of the parcel. These standards were determined as part of the Parcel Select product creation. Originally, all BMC entry was 3-day. This change to most 2-day was made in 2002.[j]

Type of mail	Number of days[a]	Explanation of delivery standards and available information
Priority Mail	1 to 3 days	Delivery standards have existed for Priority Mail since its inception, when it essentially replaced Air Mail in the late 1970s. The standards currently range from 1 to 3 days to all valid ZIP Codes. However, Priority Mail is primarily a product that is targeted for delivery within 2 days. (Over 93 percent of Priority ZIP Code pairs currently have either a 1-day or 2-day standard.) These standards are determined on a case-by-case basis, depending on processing times and available transportation. Priority Mail service standards are usually equal to, or faster than, First-Class Mail standards to/from the same domestic ZIP Code pairs.[j]
		Newly activated ZIP Codes (or revised ZIP Codes areas due to an Area Mail Processing Plan implementation) are cloned to have the same Priority Service standards as the other originating or destinating ZIPs served out of the same processing plant.
First-Class Mail	1 to 3 days	*First-Class Mail other than Priority Mail*: 1 to 3 days, depending on the 3-digit ZIP Code of acceptance and the destination address. Standards do not vary by shape, size, or weight.[j]
		The same standard applies to all mail originating or destinating in the same 3-digit ZIP Code area.
		USPS policies for First-Class Mail Service Standards are as follows:
		1-day (Overnight) Delivery Standard: Overnight delivery standards must include all of the intra-SCF area. Other areas may be considered for overnight delivery if significant business/mail volume relationships exist and they are within the reasonable reach of surface transportation.
		2-Day Delivery Standard: Two-day delivery standards must include all areas that currently have an overnight standard but will not, as proposed, be in the new overnight area. Two-day delivery standards must also include all SCFs with the home state and nearby states that are within the reasonable reach of surface transportation (as defined by the USPS Office of Transportation and International Services). In addition, 2-day delivery standards may include other 3-digit areas outside of the reach of surface transportation if significant business/mail volume relationships exist and if dependable and timely air transportation is available.[l]
		3-Day Delivery Standard: Three-day delivery standards should include all remaining destinations.
		Service standard changes reflecting the new overnight definition were implemented in 1990 to 1992. In 2000 to 2001, in order to increase the 2-day reach but make it achievable at a consistently appropriate level, USPS expanded the 2-day reach to include non-overnight offices that were as far away as a 12-hour drive from the originating "parent" Processing and Distribution Center (P&DC) to the destinating Area Distribution Center (ADC) via surface transportation.
		At the same time, the USPS determined that the existing commercial air transportation network had deteriorated and had become too unreliable for maintaining the 2-day service standard for First-Class Mail beyond the reasonable reach of surface transportation. Accordingly, USPS changed the service standards for this mail from 2 days to 3 days.
		Although this deterioration and resulting unreliability of commercial air service made it infeasible for USPS to continue to apply the 2-day standard to destinations beyond the reasonable reach of surface transportation, the overall number of origin-destination pairs with 2-day standards increased in 2000-01 because of the adoption of the 12-hour drive time definition.

Type of mail	Number of days[a]	Explanation of delivery standards and available information
Express Mail	1 to 2 days to designated locations[m]	Overnight and second-day service to designated areas and post offices, supported by a money-back guarantee.[m] • Next-day Service provides overnight service to designated 3-digit and 5-digit ZIP Code delivery areas, facilities, or locations,[n] based on the time of acceptance and available service-response air and surface transportation. • Second-day Service is offered for areas not on the next-day network, including any 3-digit or 5-digit ZIP Code destination not listed in the Express Mail Next Day Service directory, but may not be available at or between all post offices or at all times of deposit.[o] • Second Delivery Day is not a distinct service but applies to mailings to those ZIP Codes where postal delivery is not provided on Sundays or federal holidays, and delivery is guaranteed on the next regular delivery day. This typically applies only to mailings made on Friday to a destination that lacks Sunday/holiday delivery. In that case, the piece is guaranteed for delivery on the next regular delivery day, which is a Monday, or Tuesday if Monday is a federal holiday.[p] Unlike most other types of mail, Express Mail service may involve delivery on Sundays.[q] At the point of sale, each customer is notified of the specific service standard for the mailed item. This standard is based on information in an electronic and/or hardcopy directory containing detailed information about local and destination ZIP Code acceptance and delivery capabilities. The clerk who accepts the mail annotates the customer receipt to indicate whether the mailed item was accepted for next- or second-day delivery. Further, customers can obtain the guaranteed delivery commitments for some individual pieces of mail through the USPS Web site by entering their originating and destinating 5-digit ZIP Codes.
International Mail	2 days to 6 weeks[r]	USPS and its overseas delivery partners establish delivery standards in conjunction with international organizations including the Universal Postal Union and the International Post Corporation.
International Express Mail	2 to 5 days	Global Express Mail Guaranteed: 2 to 3 days with date-certain shipping to over 200 countries. Global Express Mail: 3 to 5 days to over 190 countries with date-certain shipping to selected countries.
Global Priority Mail	4 to 6 days	Global Priority Mail includes single-piece mail under 4 pounds sent from the United States to over 50 countries.
International Priority Air Mail	4 to 7 days	International Priority Air Mail includes mailings of items under 4 pounds, virtually worldwide, sent in bulk quantities at lower rates than Global Priority Mail.
International letter-class mail (single-piece)	4 days to 6 weeks	Global Air Mail letters: 4 to 7 days, including 5 days to Europe; 4 days to Canada; and 1 to 3 days for transit within the United States. Global Economy Mail letters: 4 to 6 weeks.
International parcels	4 to 6 weeks	Global Air Mail parcels: 4 to 10 days to virtually all countries. Global Economy Mail parcels: 4 to 6 weeks.
International Business Reply Service	4 to 7 days	Prepaid business reply postcards and letters to virtually all countries.

Source: USPS.

[a]The number of delivery days after acceptance of the mail, which generally does not include Sundays or holidays.

[b]USPS, *Direct Testimony of Pranab M. Shah on Behalf of the United States Postal Service*, USPS-T-1, PRC Docket N2006-1 (Washington, D.C.: Feb. 14, 2006). See Table 8 for more detail.

[c]The *Postal Operations Manual* (POM) is incorporated in its entirety into the Code of Federal Regulations, but is not available on the USPS Web site.

[d]POM 458.341d.

[e]POM 458.2h.

[f]POM 458.341f.

[g]POM 458.341h. Also see USPS, *Postal Bulletin 22110*, p. 19 (Washington, D.C.: Sept. 4, 2003), *Postal Bulletin 22045*, p. 18 (Washington, D.C.: Mar. 8, 2001).

[h]POM 458.2b.

[i]POM 458.2e.

[j]USPS-T-1, PRC Docket N2006-1.

[k]PRC Docket No. N89-1.

[l]USPS policies call for consideration of 2-day standards (as opposed to 3-day standards) in some circumstances, such as when mail flows reach specified thresholds. For example, 2-day standards are to be considered when a destinating mail processing facility called an Area Distribution Center receives more than 0.5 percent of its incoming mail volume from an originating mail processing facility.

[m]The *Domestic Mail Manual* (DMM) 113.4, http://pe.usps.com/text/dmm300/113.htm. (The entire DMM is incorporated by reference into the Code of Federal Regulations.) See *USPS Quick Service Guide 110, Express Mail*, http://pe.usps.gov/cpim/ftp/manuals/qsg300/q110.pdf, for a summary.

[n]DMM 113.4.1.1, http://pe.usps.com/text/dmm300/113.htm, and POM 674.

[o]DMM 113.4.3.1, http://pe.usps.com/text/dmm300/113.htm, POM 675.

[p]More detailed information is available at http://www.usps.com/serviceperformance/dayofmailing.htm.

[q]POM 126.43.

[r]http://www.usps.com/global/sendpackages.htm and http://www.usps.com/global/sendmail.htm.

Table 8: USPS's Approximate Overview of the Service Standard Ranges for Standard Mail and Periodicals (not specifically required)

Number of zones from origin to destination	Distance	Approximate standard (Days)	
		Standard Mail	Periodicals
1	Non local zones within 50 miles radius	3[a]	1[b]
2	50 to 150 mile radius	4	1[b]
3	150 to 300 mile radius	5	2[b]
4	300 to 600 mile radius	6	3[b]
5	600 to 1,000 mile radius	7	4
6	1,000 to 1,400 mile radius	8	5
7	1,400 to 1,800 mile radius	9	6
8	1,800 miles and over	10	7

Source: USPS.

Note: USPS divides the United States into eight zones. The approximate delivery standard for Standard Mail is equal to the number of postal zones from origin (i.e., where the mail is accepted by USPS) to destination (i.e., where the mail is delivered), plus 2 days. The approximate delivery standard for Periodicals that traverse at least two postal zones is equal to the number of zones from origin to destination, minus 1 day. The specific delivery standards are defined for each combination of origin and destination 3-digit ZIP Codes and may differ from the approximate overview in this table.

[a]Usually, ZIP Codes within the same Sectional Center Facility (SCF) are targeted for 3 days. Depending on the size of the Intra-SCF area, all other Non-Intra-SCF destinations are 4 days or greater.

[b]This can be equal to First-Class Mail delivery standards between ZIP Code Pairs, but is not intended to ever be faster.

Appendix III: Comments from the U.S. Postal Service

JOHN E. POTTER
POSTMASTER GENERAL, CEO

UNITED STATES
POSTAL SERVICE

July 14, 2006

The Honorable David M. Walker
Comptroller General of the United States
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548-0001

Dear Mr. Walker:

The U.S. Postal Service appreciates the opportunity to review and comment on the draft report titled <u>U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement,</u> which assessed delivery standards, associated performance measurements, and reporting systems.

We are encouraged by the fact that the Government Accountability Office (GAO) shares our ultimate goal of maximum transparency throughout our network. Our current efforts and our vision are focused on the development of systems that provide individual mailers with the ability to determine the status of their mail as it moves through all steps of our system. Beyond this, we envision a time when individual systems are linked from the beginning to the end of the entire mail supply chain—from mailpiece conception, through all aspects of production, acceptance, processing, and delivery by the Postal Service.

In preparing our response, we are grateful for the one-week extension provided to us for comment. While we recognize the GAO's interest in the prompt completion of a final report, the issues raised are complex and, accordingly, are best addressed by a response that examines our delivery performance standards from the perspectives of their history and development, their ongoing adjustment, their limitations, as well as our current activities and plans for the future. We believe these subjects would benefit from additional dialog, and we offer full cooperation in exploring them further with you.

Certainly, the details of service standards, performance measurement systems, diagnostic tools, and customer collaboration related to these subjects are important to the Postal Service, as attested to by our efforts over more than three decades. Ultimately, however, the core issue is service—and according to all indicators, we are succeeding in our goal of continuous service improvement. We are not content with maintaining the status quo.

To most effectively convey our position on the issues raised in the report, our response is organized into six sections: Focus on Service, Service Performance Results, Some Areas of Concern, Modern Service Standards, Measurement Systems and Diagnostic Tools, and Customer Collaboration and Reporting. Relevant supplementary material is included in appendices.

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Focus on Service

Postal employees are committed to providing the best possible service every day, for every customer, in every location, and for all mail. We recognize that our products must continue to provide maximum value in an increasingly competitive marketplace. Maintaining and increasing that value is fully dependent on providing timely and reliable delivery.

Our commitment to service is demonstrated by the many activities designed to improve performance. One of the four primary goals defined in our Strategic Transformation Plan, 2006-2010, is to improve service, a goal supported by a number of specific, actionable strategies. We have also implemented a "balanced scorecard" that bases 40 percent of our organizational success on achievement of defined service performance metrics, supporting personal and unit accountability. The recent introduction of the concept of the "24-Hour Clock" identifies specific performance indicators for timely completion of key operational activities that are critical to on-time service performance. Additional information about these initiatives is in Appendix A.

Service Performance Results

Our focus on service has resulted in record performance across all mail categories. Our measurement systems for First-Class, Priority Mail, and Express Mail show that we have met or exceeded the performance targets we have set for them. These results and others are posted on our Web site, although some of these products are competitive and similar data generally is not provided by other carriers. In addition, an externally conducted measurement system, the Phoenix-Hecht Postal Survey™ indicates that speed of delivery for First-Class remittance mail continues to accelerate. And, while not a direct measure of service performance, our Customer Satisfaction Measurement shows sustained high levels of overall customer satisfaction. More detail of our service performance results is contained in Appendix B.

Some Areas of Concern

Clearly, we share the mutual goal of complete network transparency to provide mailers with a comprehensive view of the service they receive. However, our efforts to achieve this goal must be considered within the context of a number of important issues that are not fully considered in the draft report:

1. Visibility: As we noted, visibility must extend through the entire mail value chain, not solely the activities performed by the Postal Service once mail has been entered into our system.

Our vision, contained in the Strategic Transformation Plan, 2006-2010, is to ultimately measure service performance and provide transparency *for all classes of mail through the entire mail supply chain*. The benefits would be inestimable, providing customers with a single window that offers critical information about the status of their mail at every step of the chain. This would be a fully transparent system that tells the person or organization paying for the mail the status of a mailing, whether there were delays or problems, at what point in the process they occurred, and how those problems were resolved.

We intend to lead this effort by implementing a variety of technological solutions, such as the 4-State Customer Barcode and enhancements to our bulk mail acceptance systems. Our vision requires an equal commitment from our customers. It is not our intention to unilaterally demand that mailers comply, but, rather, to work collaboratively with others throughout the supply chain to balance needs with their capabilities.

To make this vision a reality, our customers must be willing to improve and perfect all of their mail preparation processes. All members of that supply chain—from the printers, to address list providers, software vendors, presort houses, transportation consolidators, and the Postal Service, need to provide the person paying for the mail, as well as oversight bodies, with a clear view of successes and failures. We are encouraged that the GAO report recognizes that "mailer participation (is) necessary to generate representative performance data . . ."

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The mailing industry must embrace changes such as improved address quality, increased presort accuracy, and effective service performance measurement processes. This visibility will allow for informed decisions about which supplier of each and every service along that chain offers the best value, resulting in a competitive advantage for quality suppliers. We recognize that our ultimate vision will not happen overnight; it will take time and resources to accomplish. More on our future vision is contained in Appendix C.

2. Individual Customer Diagnostics: While we recognize the desire for aggregate service performance results for all mail categories, we believe we serve mailers best by focusing first on providing service measurement and diagnostics to individual customers, then looking to aggregate results.

As in any business, customization is a growing trend. We believe our customers want to know what happens with *their* particular mailings—the average performance for their general type of mail may be irrelevant to them. This is why we choose to begin at a more granular level and to build up. A variety of diagnostic tools are used to detect service concerns for specific mailings of most major mail types. While some tools monitor mailings from larger customers, which can account for significant percentages of mail volume, any resulting improvements benefit all customers. We will work to aggregate those data to derive average service performance measurements. A more complete description of systems and diagnostic tools are in Appendix D.

3. Choice—the Value Equation between Service and Price: Customer needs and expectations can vary, resulting in the selection of products that provide the optimum combination of price and service for a specific application. We cannot lose sight of the basic value equation between service and price as we focus on improving and measuring service. There is a clear balance of these factors for each of our products. Each product's price is based on a combination of speed of service, cost, and value-added services, such as forwarding.

Mailers have the choice of services that can weigh more heavily toward economy or speed. Those whose primary concern is speed and predictability of delivery have the option of choosing —and do choose—First-Class Mail®, Express Mail®, or Priority Mail™. The price of these products is based on these features. Standard mailers, on the other hand, are opting for a lower price, which is a direct result of the operational deferability and flexibility inherent in that service. Standard Mail was designed to be deferrable to allow processing and delivery during non-peak times and to maximize productivity as filler mail. Today Standard Mail, Periodicals, and Parcel Select mailers presort and use destination entry both to manage service expectations and achieve better service at lower rates.

Today the Postal Service allows bulk mailers flexibility to presort within a 5 percent tolerance, have barcode readability within a 10 percent tolerance, choose from a range of dropship appointment windows, overspray dates on mail presorted for others, and to update mailing lists a minimum of every 180 days. Choices to improve all of these aspects have clear positive implications for service. However, customers balance these with the cost of making changes.

Also, any steps to improve service through enhanced or new delivery performance measurement systems will, of necessity, be reflected in our pricing. The Postal Service is committed to providing the best possible service and, at the same time, maintaining reasonable prices and clear product differentiation. We strive to continue to hold all price increases within the Consumer Price Index (CPI), as we have done, on average, since 1971. The value equation is further detailed in Appendix E.

4. The Complexities of Standard Mail and Periodicals Mail: The levels of complexity inherent in Standard and Periodicals Mail, given the wide range of presort and entry options, create a significant range of variables—often within the same mailing—that would not necessarily be reflected in aggregate scores for these products, diminishing the value of those scores.

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Our experience has demonstrated that it is particularly difficult to design a broad and effective measurement system for Standard and Periodicals Mail. Our previous attempts were unsuccessful for several reasons. Standard Mail lacks a postmark or other reliable measure of acceptance into our system. Also, a single Standard mailing can be entered at multiple facilities, presort levels, container levels, and on different days. These same complexities exist for Periodicals Mail, a situation compounded by various publication frequencies, ranging from daily, with same-day delivery, to quarterlies.

In examining our attempts to measure performance, the draft report contends that there are data-quality issues affecting our ability to measure some types of mail. Our experience indicates that this does not account for other relevant factors. These include the completeness, accuracy, and validity of information submitted when mail is entered, as well as the complexities unique to Standard Mail and Periodicals Mail.

Modern Service Standards
The Postal Service has a long history of establishing and revising service standards, a point not fully acknowledged by the draft report. Our efforts include developing and implementing service performance measurement systems, developing diagnostic tools to monitor service performance and resolve service issues, and collaborating with our customers in all of these efforts.

Although the report recommends that we modernize our service standards, our standards are modern and up-to-date. For over three decades, we have established, monitored, and refined our standards, as appropriate, based on operational changes. The fact that some standards have remained consistent over time cannot and should not be interpreted to mean that those standards have not been reviewed or that they are outdated. Rather, it means we have determined that they still work for the mailers and for the Postal Service.

In large part, our service standards are based on and designed around three factors—transportation, our sortation capacities, and the way in which our customers conduct their business. As operational capabilities and customer needs change, our standards are reviewed and, as appropriate, adjusted to reflect those changes. A complete review of all service standards is currently under way as part of the Evolutionary Network Development case filed with the Postal Rate Commission in February, in which, mailers have an opportunity to participate in the proceedings.

We recognize that the concept of "modernized service standards" may, for some, denote upgrades of service, particularly for Standard Mail and Periodicals Mail. By design, these products offer less expeditious service than First-Class Mail, and this is reflected in their pricing. Following a call for modernizing service standards along these lines would result in upward revisions of service levels, increasing our costs, which would have to be offset by appropriate price adjustments. In essence, this would be a surreptitious pricing and classification change, without the benefit of review through our statutory regulatory process. This approach would blur service and product distinctions, shift mail volumes from higher contribution to lower contribution products, and, through the combination of increasing costs and decreasing revenue, have a negative effect on the financial well-being of the Postal Service. Where there may be the potential for upward adjustment to service standards, they must be carefully considered, developed, and implemented—consistent with actual operational capabilities and in a fiscally prudent manner. Further descriptions of current service standards are contained in Appendix F.

Measurement Systems and Diagnostic Tools
We also believe that the GAO description of our performance measurement systems is incomplete and unintentionally misleading. The Postal Service has a number of robust delivery service measurement systems for First-Class Mail, Priority Mail, Express Mail, and Parcel Select. Some of our earlier systems have been totally replaced; others have been enhanced. The report

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overlooks the fact that our External First-Class measurement system (EXFC), while measuring end-to-end performance, beginning with mailer deposit in a collection box and ending with delivery to a recipient's mailbox, is reflective of service performance for all First-Class Mail. Bulk First-Class Mail is deposited at various points within that end-to-end system, and is processed, transported, and delivered the same as all mail within that end-to-end system measured by EXFC. As previously mentioned, we are committed to the cost-effective measurement of all mail classes. Appendix D contains a description and a chart illustrating these First-Class Mail streams.

Customer Collaboration and Reporting

The Postal Service has a solid track record of working with customers to improve the entire value chain of mail preparation, transportation, induction, mail processing, and delivery. This is founded in the shared objective of a strong postal system. Joint efforts have touched on all aspects of mailing, from making mail easy and affordable to improving service. Many of our service measurement systems and diagnostic tools were designed jointly or in collaboration with our customers. We view the Mailers Technical Advisory Committee (MTAC), the Mailing Industry Task Force (MITF), the Postal Customer Councils (PCCs), the Business Service Network (BSN), and the National Postal Forum (NPF) as invaluable to our efforts to engage customers in an ongoing dialog and to constantly receive their feedback to help us improve service performance. Appendix G contains a summary of customer collaborating venues.

With regard to GAO's recommendation concerning transparency, we agree in principle that our service standards should be made more visible. Currently customers can query applicable service standards between particular origins and destinations on *usps.com* for Express Mail, First-Class Mail, Priority Mail, and Package Services. A comprehensive compact disc of service maps is provided to customers upon request. We are exploring making this information available through other channels, including our Web site.

If you or your staff wishes to discuss any of these comments further, I am available at your convenience.

Sincerely,

John E. Potter
John E. Potter

Attachments

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❖ Appendix G – Customer Collaboration

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Year References

All references to a specific year or "the year" refer to the government fiscal year ending September 30. However, specific month and year references pertain to the calendar date.

Appendix A
Focus on Service

Overview

The Postal Service has always focused on providing the best possible service to our customers in every location, every day, for all mail, and we are not content with maintaining service at today's high levels. We intend to aim even higher, and have taken concrete steps to drive continuous service performance improvement.

Service Improvement Efforts

We fully understand that all of our product lines face ever-increasing avenues of competition. We know that to remain relevant and competitive in tomorrow's marketplace, we must provide timely and reliable delivery for every customer, every day. Our commitment to outstanding service performance is demonstrated by the many policies, strategies and procedures we have adopted, which are targeted at improving service performance. These include:

- Identifying service improvements as one of the four major goals of the Strategic Transformation Plan, 2006-2010. As we stated, our goal is to "[i]mprove the quality of postal services by continuing to focus on the end-to-end service performance of all mail."

- Establishing a "balanced scorecard" to keep track of the Postal Service's success in meeting its corporate goals and objectives. Our corporate success is measured by a number of performance-related metrics, 40 percent of which are based on achieving on-time service for Express Mail, and within two-day Priority Mail™ both surface and air performance, as well as First-Class Mail overnight, two- and three-day. In addition, non-bargaining operational employees have a service component as part of their individual goals and objectives.

- Tracking and disseminating operational performance throughout the organization on a *daily* basis, serving as a constant reminder of how we are doing and where there are opportunities for improvement.

- Keeping all processing plants and delivery units focused on the "24 hour clock," which sets performance indicators for completion of various mail processing and delivery activities throughout the day, every day. National, area, district and plant performance is tracked and reported on a daily and weekly basis.

- Refining sort plans on our mail processing equipment to minimize handlings. We developed a standardized naming convention for all sort

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plans that are used to process mail on all of our mail processing equipment. This allows us to differentiate between classes of mail and selected service levels. The next step will be to incorporate the sort plan dynamics into an optimization program. This will decrease handlings and reduce cycle times, continuing to improve service while reducing costs.

- To improve our air transportation service, a pay-for-performance system for commercial airlines was instituted. We also entered into an historic transportation contract with FedEx, which was motivated by service concerns and which has contributed to improved service. We just awarded an expanded domestic air contract to United Parcel Service (UPS), which calls for UPS to transport primarily First-Class and Priority Mail to and from 98 U.S. cities. Service under the contract began July 1. The contract is for three years, with the possibility of a two-year extension.

- Using daily counts of on-hand and delayed mail volumes from our Mail Condition Reporting System to examine the performance of processing plants.

- Using our PLANET Code technology to seed test mailpieces and analyze the resulting scans from various sortation operations to identify service issues and develop corrective actions.

- Receiving and monitoring feedback from our customers consistently, using CONFIRM, Delivery Confirmation, and other diagnostic services.

These are just some examples of our ongoing efforts to improve service. We are constantly looking for, considering, and implementing further opportunities to enhance our service performance, particularly low-cost opportunities that will allow us to maintain reasonable prices for our customers.

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Appendix B
Service Performance Results

Overview

Throughout our history, we have regularly reviewed our service standards to align with our network and have worked to develop enhanced measurement capabilities and diagnostic tools. We think the real focus of our customers, however, is on results. We have concentrated on achieving service results and have succeeded. Our measurement systems for First-Class, Priority and Express Mail all show results that meet or exceed the service targets we have set for ourselves. We continue to enhance those targets to measure service at more detailed levels and to make those targets more challenging. In addition, the Phoenix-Hecht Postal Survey™, shows improved delivery times for remittance mail, the result of improved service. And, while not a direct measure of service performance, the Customer Satisfaction Measurement shows sustained high scores for overall customer satisfaction with the Postal Service. Quarterly results from our First-Class Mail and Customer Satisfaction Measurement systems are shared at open Postal Service Board of Governors' meetings, included in press releases, and published in our annual reports.

Service Performance

The Postal Service's commitment to providing excellent service to both domestic and international customers has achieved results. Our service significantly improved over the past five years, reaching record delivery performance levels. We continue to deliver 95 percent of overnight committed First-Class Mail on time. Service performance also improved for First-Class two- and three-day service. Both Express and Priority Mail continue to meet or exceed their targets.

In 1990, the Postal Service moved to First-Class Mail service performance measurement. The External First Class Measurement System (EXFC) measures service performance from a customer perspective and produces accurate, independent, externally generated results. For eleven consecutive quarters, the Postal Service achieved 95 percent or better in overnight service. All time high levels of service were achieved in Fiscal Year (FY) 2005. We experienced a minor decline in service performance in the beginning of FY 2006. Service performance has since returned to 95 percent for overnight service.

The following EXFC overnight service performance chart shows quarterly performance from Quarter 1 FY 1995 through Quarter 2 FY 2006.

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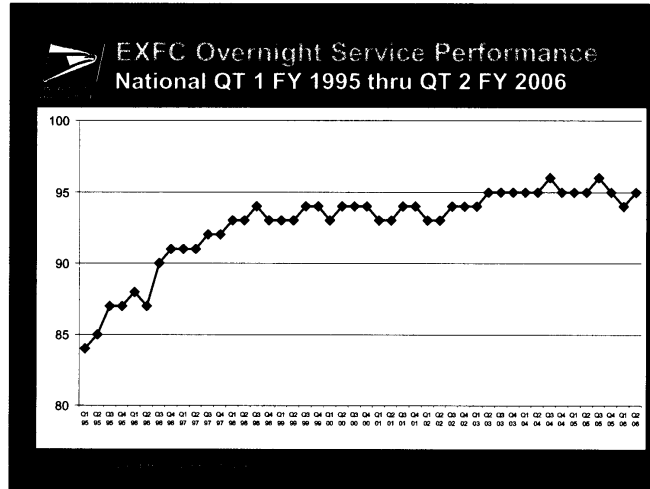
Impacts to Service Results

The ability to achieve outstanding service results depends on a wide variety of factors, many of which are beyond the Postal Service's control. Service is affected by how our customers prepare the mail. Address and barcode quality, the types of containers used, and container integrity can work equally to improve service or slow it down. Equipment malfunctions, poor address quality, weather conditions and transportation failures – all factors over which we either have only limited or no control – also have an impact on service performance.

Service Target Enhancements

As explained in our FY 2005 Comprehensive Statement on Postal Operations, over the past several years, service measurements have been enhanced and more specifically identified. The First-Class Mail two- and three-day target was changed from a combined overall target to individual day-specific measurements, contributing to improved service in both categories. Priority Mail delivered within two days was a single measurement. Several years ago we separated the measurement into two categories, mail traveling by surface and mail traveling by air transportation, given that we are exclusively dependant on third parties to provide air transportation. This provided additional focus and diagnostic information used to monitor and improve service performance.

Priority Mail service measurements were also enhanced in FY 2006 by changing from Priority End-To-End (PETE), a test piece sample method, to an actual piece

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measurement system using customer-purchased Priority Mail Delivery Confirmation at postal retail units nationwide.   The unique Delivery Confirmation number provides accurate acceptance and delivery dates and times, and measures the actual customer experience. Results of the change are that this new method provides a more representative mail mix and provides the actual service seen by customers on their individual mail pieces.

International Express Mail service was incorporated into our domestic mail service measurements, resulting in improved International Express Mail service performance. Starting in FY 2007, International First-Class Mail will be incorporated into our domestic mail service measurements. We expect similar improvements in service attained with International Express Mail.

All of our internal service performance targets for each measured mail class are reviewed each year with the Board of Governors based on the Malcolm Baldridge National Quality Award process criteria – the Establish, Deploy and Review processes. The targets for service performance increased several times over the past few years, each time making the targets more challenging. The target-setting review is based on demonstrated service performance and the Postal Service's expectation of continuous improvement, as well as network changes.

More details on the measurement systems are in Appendix D.

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The Phoenix-Hecht Postal Survey™

The Phoenix-Hecht Postal Survey™ is an objective, carefully monitored, statistically validated measurement of remittance processing performance. It is conducted by an independent firm and provides a service measurement of First-Class business remittance mail for lockbox customers. This service report measures transit times from originating offices to destinating lockbox offices. The report identifies service improvements and slippage, and ranks major metropolitan office performance. The results of this survey are used by both mailers and the Postal Service to improve remittance mail service performance. Remittance mail service improvement is critical to our lockbox customers, whose businesses are heavily dependant on the float received from bill payments.

The Phoenix-Hecht Postal Survey™ reports that since 2001, the average time for delivery of this type of mail has improved by more than 8 hours.   Much of this results from collaboration between remittance mailers and local, area and Postal Service Headquarters operations personnel.

The following graph shows the 10 year trend of average time for delivery.

10-Year Trend of Average Site in Nationwide Hours Mail

Source: Phoenix-Hecht Postal Survey™ Executive Summary
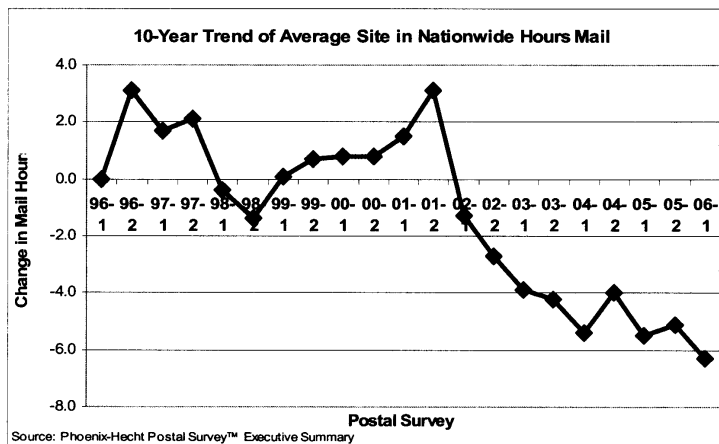
B-4

Customer Satisfaction Measurement (CSM) System

Our Customer Satisfaction Measurement (CSM) system is an ongoing, independent assessment of both residential and business customer experience with the Postal Service. CSM is administered by an independent firm, The Gallup Organization. Delivery service performance is one of many elements of that experience. CSM information collected from customers is used to: determine customer satisfaction with performance of postal products and services; improve performance and customer satisfaction; and provide summary results to the Congress, GAO, and the Postal Rate Commission. Data are used to assess customer satisfaction nationwide and to assist Post Office, district and area managers in determining which improvements in their operations would most benefit customers. Survey results have been used for development of corporate success indicators. A total of 1.1 million residential and 400,000 business responses are received annually. CSM response rates for business accounts are over 50 percent since FY 2001, and CSM residential is 20 percent. These rates are consistent with industry response rate standards of 10 to 30 percent. From Quarter I, FY 2002 to Quarter 4, FY 2005, customers have rated overall satisfaction with the Postal Service at 93 percent or better.

As with EXFC overnight service performance, CSM performance also declined in FY 2006. CSM performance was 91 percent in Quarter 2, FY 2006. This was the first time in 18 quarters that residential satisfaction levels were below 92 percent. Historically, after a drop in EXFC service performance, such as in Quarter 1, FY 2006, changes in the level of customer satisfaction tend to follow in the next quarter as in CSM for Quarter 2, FY 2006. EXFC performance improved

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in Quarter 2, achieving 95%; overall customer satisfaction is expected to show improvement as well.

<u>Commitment to Service</u>

An example of our commitment to service was recently highlighted by the Louisiana Legislature with the adoption of resolutions authorized by the Speaker of the House and President of the Senate recognizing the dedication and commitment Postal Service employees have shown since Hurricanes Katrina and Rita. The Postal Service also worked closely with the Louisiana Secretary of State's Election Division to make certain that absentee ballots were distributed nationwide and received in a timely manner. A Postal Service news release describing these resolutions is attached as Exhibit A.

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Exhibit A

UNITED STATES
POSTAL SERVICE ——————————— **POSTAL NEWS**
FOR IMMEDIATE RELEASE   Contact: Joanne Veto
June 2, 2006   U.S. Postal Service
                                                                      301-325-1960
                                                                  Jennifer Marusak
                                              Louisiana Secretary of State's Office
                                                                      225-342-4479
                                                          Release No. 06-039
                                                                   www.usps.com

Louisiana Legislature declares June 2 'United States Postal Service Day'

Resolutions in state House, Senate cite 'exemplary service' in New Orleans elections

WASHINGTON – Encouraging the citizens of Louisiana to show the U.S. Postal Service "the respect and honor befitting them and their service" to the state, the Louisiana Legislature has declared today as "United States Postal Service Day" in the state.

In separate actions Thursday, the state House and Senate adopted resolutions authored by Speaker of the House Joe Salter and President of the Senate Don Hines, respectively, establishing the day, recognizing the dedication and commitment Postal Service employees have shown since hurricanes Katrina and Rita devastated much of the state. The resolutions specifically acknowledge successful efforts in the recent elections in New Orleans.

"The state of Louisiana should honor the United States Postal Service as an outstanding group of individuals in recognizing their exemplary service," the Senate Resolution states.

The Postal Service worked closely with the Louisiana Secretary of State's Election Division to make certain that absentee ballots were distributed and received in a timely manner. Postal Service outreach efforts included placing posters in all 38,000 Post Offices publicizing absentee ballot mailing deadlines; lifting the embargo on bulk rate for campaign and political mailings, making it easier for candidates to mail campaign pieces; meeting regularly with Louisiana Secretary of State Al Ater and his staff to support them in the absentee ballot effort; and contacting every candidate with information explaining mailing options, stressing deadlines and explaining available services and options available to them.

Both resolutions acknowledge this collaboration.

"We are very thankful for the special assistance that the U.S. Postal Service provided our displaced voters during this very critical election cycle," Secretary Ater said. "It was extremely important that we let our voters know that their requests for ballots, the mailing of their ballots, and receipt of their ballots would be done in a timely manner to insure that they were counted in the elections."

The resolutions also thank the Postal Service for introducing Confirm®, a mail tracking system used on each of the absentee ballots, recognizing the efforts to "ensure that voters displaced as a result of the hurricanes received their mail."

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About 12,000 absentee ballots were processed with Confirm by the Postal Service for the May 20 New Orleans mayoral run-off election. All but one ballot were turned over to the Secretary of State's Office by the deadline. That lone ballot arrived the next day. Confirm service provides near real-time tracking information about First-Class Mail®, Periodicals, and Standard Mail. Confirm service takes advantage of existing technologies that provide enhanced mail tracking and visibility. With Confirm, each piece of mail is identified with an additional barcode. As these barcodes are processed, electronic records are created and sent to the Postal Service.

Both resolutions also acknowledge the tireless efforts of Postal Service employees and the Postal Inspection Service involved in the processing and delivery of election-related materials: "All made significant, meaningful contributions to the success of both historic elections in New Orleans."

"We are honored by this recognition of the work we do every day in cities and towns across the country but are especially thankful for these two resolutions as they acknowledge the partnership with the state of Louisiana that we deeply value," said Delores Killette, Vice President and Consumer Advocate.

Since 1775, the Postal Service and its predecessor, the Post Office Department, have connected friends, families, neighbors and businesses by mail. It is an independent federal agency that visits more than 144 million homes and businesses every day and is the only service provider delivering to every address in the nation. The Postal Service receives no taxpayer dollars for routine operations, but derives its operating revenues solely from the sale of postage, products and services. With annual revenues of $70 billion, it is the world's leading provider of mailing and delivery services, offering some of the most affordable postage rates in the world. The U.S. Postal Service delivers more than 46 percent of the world's mail volume—some 212 billion letters, advertisements, periodicals and packages a year—and serves seven million customers each day at its 37,000 retail locations nationwide.

# # # #

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Appendix C
Visibility – The Future Vision

Overview

We will make changes that will improve service and allow for enhanced delivery service performance measurement. The Postal Service intends to lead this effort, with plans to implement a variety of technological advancements and solutions. This will require a similar commitment from customers who want to participate. Our vision is to eventually measure every mailpiece that enters our mailstream. To make this vision a reality, our customers must be willing to improve their mail preparation processes. The GAO report recognizes that "give-and-take by both USPS and mailers will be required to achieve consensus on designing measurement systems that meet different information needs, finding ways to cover the associated USPS costs, increasing mailer participation in providing information needed to facilitate performance measurement, and overcoming remaining impediments to implementing valid measurement systems." In addition, we believe that all of the steps in the overall mail value chain, from the creation of a mail piece to its ultimate delivery, must be totally transparent to the person paying for the mail to sustain a real commitment to service and to improve that service. As we stated in our Strategic Transformation Plan, 2006-2010:

> Efforts will be focused on all components of the mail value chain, from mail creation through delivery. The Postal Service will continue to work closely with mailers to improve address quality, to maximize barcoding on all mail, and to improve the accuracy of information about their bulk mailings. New service measurement approaches will be developed to allow for an even more open and transparent mail system. More data will become available to help target processing bottlenecks and untimely or inconsistent distribution or transportation handoffs.

The following sections are organized under three major topics. First, we discuss the Postal Service's future plans for improved service performance measurement, including the technological advancements that will make this possible. Next, we discuss the part that mailers will play in the value chain, including improved mail quality and preparation. Finally, we discuss our vision of a transparent value chain, extending from mail creation through delivery.

Postal Service Future Plans for Improved Service Performance Measurement

The Postal Service will continue to use EXFC to track First-Class Mail performance. As explained in other sections, this provides statistically reliable results for single-piece First-Class Mail, but its usefulness extends beyond that. It also reflects the service received by bulk First-Class Mail, since bulk volume

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enters the system and is processed within the same end-to-end processes covering single-piece mail.

As indicated in the Strategic Transformation Plan, 2006-2010, the future plan also includes using data from *PostalOne!*, Delivery Confirmation, CONFIRM, and transportation tracking, by integrating and reviewing the data to improve service for commercial products. The Postal Service believes that it will ultimately be possible to measure service performance for all classes of mail by combining passive scanning of barcodes with enhanced "start-the-clock" information resulting from improved bulk acceptance systems. The Postal Service is committed to working with our customers to make this a reality.

These plans and other means to enhance service performance and measurement will become possible through a variety of technological changes, some of which are discussed below. The Postal Service will provide customers with convenient electronic payment solutions and seamless electronic acceptance. We will promote barcodes on key mailing assets, from mailpieces to containers, in order to track mail throughout the network. A performance-based verification approach will recognize high-quality mailers and focus support on mailers that have opportunities for mail-quality improvements. Furthermore, operational improvements will be identified through analysis of scan data of mailpieces processed on automated equipment. Technology-enabled solutions will provide customers and the Postal Service with greater visibility into the postal supply chain enabling near real-time reporting on postage expenditures, account status, and mailing information.

Improving barcode intelligence
The barcode strategy will enable unique identification of containers and pieces. Individual mail pieces will use new barcodes, such as the 4-State Customer Barcode (4-CB) to uniquely identify the mail piece. The 4-CB is a new information-rich barcode designed to identify individual mail pieces, particularly letters and flats. The barcode will contain the ZIP Code information and allow the customer access to services such as CONFIRM. The current Delivery Confirmation barcode will also be modified to expand tracking capabilities for packages. Individual mail pieces will be nested into containers that contain barcodes to facilitate tracking. These barcodes, when affixed to mail components, will be scanned during processing operations to provide an enriched platform for automating verification, processing and visibility throughout the system.

To appreciate the implications of improved barcode intelligence, consider the 4-CB, used on letters and flats. The 4-CB eliminates the separate barcodes used for sorting and identifying different services. The Postal Service, in partnership with the mailing industry, developed the 4-CB to increase the amount of information carried on letter and flat mail pieces to allow for expanded tracking capability, creating greater visibility into the mailstream.

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The 4-CB combines the routing information used for sortation currently carried by the POSTNET barcode and the tracking information carried by the PLANET Code barcode into one single unique barcode. Moreover, the 4-CB provides longer field lengths for customer and mail piece identification to meet the need of high-volume mailers to uniquely identify their mailings. The 4-CB includes a 3-digit service type code that can be used to specify various combinations of special services. When fully implemented, mailers will be able to use one single barcode on a mailpiece to convey routing and tracking information and request multiple special services. For example, instead of applying a POSTNET barcode, a PLANET Code barcode, the Participant Code and Keyline Information for Address Change Service, and a Certified Mail barcode label on a mail piece, mailers simply apply one single 4-CB, as illustrated below.
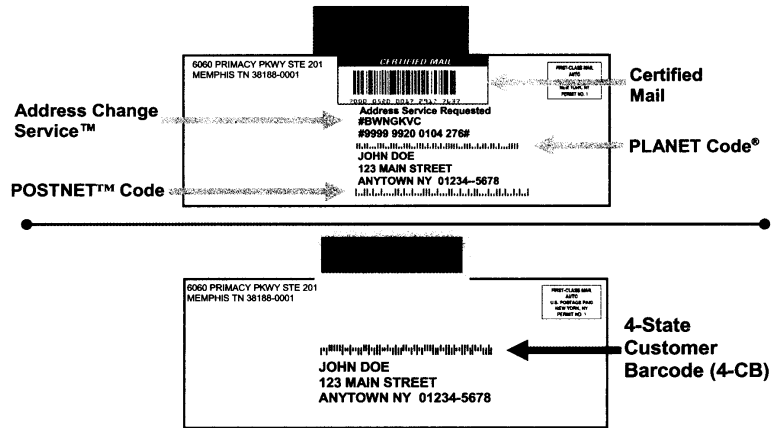
Multiple barcodes and identification data replaced by
a single 4-State Customer Barcode

As the processes and technology are employed, measurement systems will be enhanced to measure and improve service. A combination of accurate measurement of a mailpiece acceptance and transparency through uniquely identified barcodes gives the Postal Service the capability to monitor bulk letter and flat mail.

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Integrated Mail Management for Payment, Induction, and Verification
The Postal Service has deployed the *PostalOne!* system, a new technology that facilitates convenient centralized payment capabilities and electronic postage reporting. We will be integrating other systems and functions with *PostalOne!* to create an integrated mail management approach to accept electronic documentation and payment, forward advance notification to pertinent processing and support functions, automatically schedule appointments to enter the mail, and utilize barcodes to automate processing and provide valid "start-the-clock" information, enhancing *visibility through the supply chain*. Electronic documentation will eliminate paperwork for both the Postal Service and the mailer, making the acceptance process quick, easy, and convenient.

An in-process verification approach is envisioned and will analyze mail as it arrives and flows through the mailstream. Seamless verification entails analyzing mail at induction and as it flows through postal automated processing equipment.

The Facility Access and Shipment Tracking system (FAST) is an electronic appointment system that enables mailers to provide mailing information ahead of time, and enables the Postal Service to align resources in anticipation of upcoming mailing activities. Customers can integrate their supply chain management software with FAST. The FAST system was designed to consider mail shape (e.g., letters, flats, parcels) and pallet presort level information to maximize the capacity offered at each facility. Information regarding mail redirections has also been included in FAST. Redirections information is available to all customers on FAST and is updated daily as changes occur to ensure that the appointment is scheduled for the right induction location based on mail class and shape.

Expanding Mail Visibility
Transparency in the mail value chain will be based on an integrated set of information systems, operational procedures, and the passive capturing of information as part of normal operations using standardized codes to uniquely identify and report on the status of mailpieces, trays and larger containers. As the actual containers arrive at postal facilities, container barcodes will be scanned and the system will compare them to the mailers' electronic manifest to confirm that containers are being entered at the proper location. As individual mailpieces are processed on automation equipment, barcodes are passively read and the system will again compare them to the mailers' electronic manifest to confirm that the mail pieces processed match the manifest. The mailer's quality information can be used to provide feedback to the customer and determine any adjustments to the postage paid. Additional visibility enables improved diagnostics, particularly to analyze service performance opportunities and potential fail points and bottlenecks in the system.

Surface Visibility utilizes barcode technology to track assets (handling units, containers, trailers) for mail that moves via the Postal Service surface
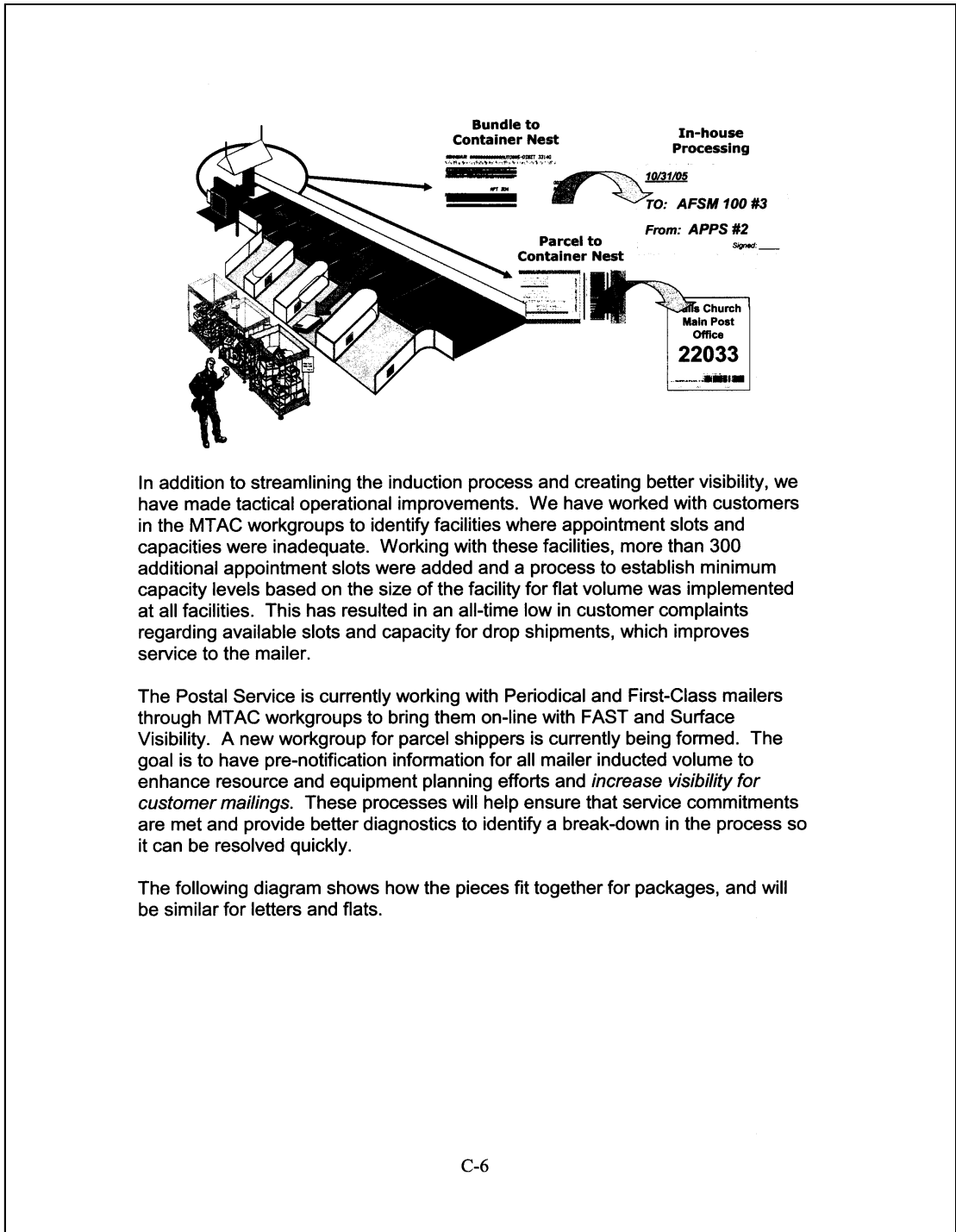
C-4

transportation network. Although this system was originally focused on improvements for our own transportation network, we have expanded this technology to provide additional benefits to the mailing community. The Surface Visibility technology consists of a wireless network and the use of new scanning devices, with deployment just getting underway. The system is integrated with FAST to display drop shipment appointment information on the device's inbound status screen to support employee real-time decisions on the dock. The device provides employees the ability to capture information about when a mailing arrived at the facility and when unloading of the containers began and ended. This process has been further enhanced by the introduction of a Surface Visibility mailer barcode, which can be included on the mailer's documentation and scanned using the Surface Visibility device as each container is offloaded from the trailer. The device is also used to capture information when a driver arrives for an appointment and is unable to get to a dock door prior to the scheduled appointment arrival time.

Information regarding the content, presort level and the number of containers is fed from *PostalOne!* to FAST. This information is included in the FAST appointment record displayed on the Surface Visibility scanning device. As part of the induction process, we are able to validate that the number of pallets on which postage was collected matches the number of pallets inducted, and we are also able to verify that the mailer has dropped the pallet at the same location that the drop-shipment discount was claimed.

By utilizing nesting capabilities and new data points, the Postal Service will be able to provide additional enroute scanning points after induction. Visibility for cross-dock pallets is captured when Surface Visibility scanners capture a load scan using the placard barcode as the container is loaded onto a trailer and an unload scan is performed at the destination facility as the pallets are offloaded. At the destination facility, visibility for bundles and individual pieces can be captured via automation equipment scans and pieces nested to a container. A container can then be nested to a trailer for dispatch to a Post Office.

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Bundle to Container Nest

In-house Processing

10/31/05

TO: AFSM 100 #3

From: APPS #2

Signed:____

Parcel to Container Nest

Church Main Post Office

22033

In addition to streamlining the induction process and creating better visibility, we have made tactical operational improvements. We have worked with customers in the MTAC workgroups to identify facilities where appointment slots and capacities were inadequate. Working with these facilities, more than 300 additional appointment slots were added and a process to establish minimum capacity levels based on the size of the facility for flat volume was implemented at all facilities. This has resulted in an all-time low in customer complaints regarding available slots and capacity for drop shipments, which improves service to the mailer.

The Postal Service is currently working with Periodical and First-Class mailers through MTAC workgroups to bring them on-line with FAST and Surface Visibility. A new workgroup for parcel shippers is currently being formed. The goal is to have pre-notification information for all mailer inducted volume to enhance resource and equipment planning efforts and *increase visibility for customer mailings*. These processes will help ensure that service commitments are met and provide better diagnostics to identify a break-down in the process so it can be resolved quickly.

The following diagram shows how the pieces fit together for packages, and will be similar for letters and flats.

C-6
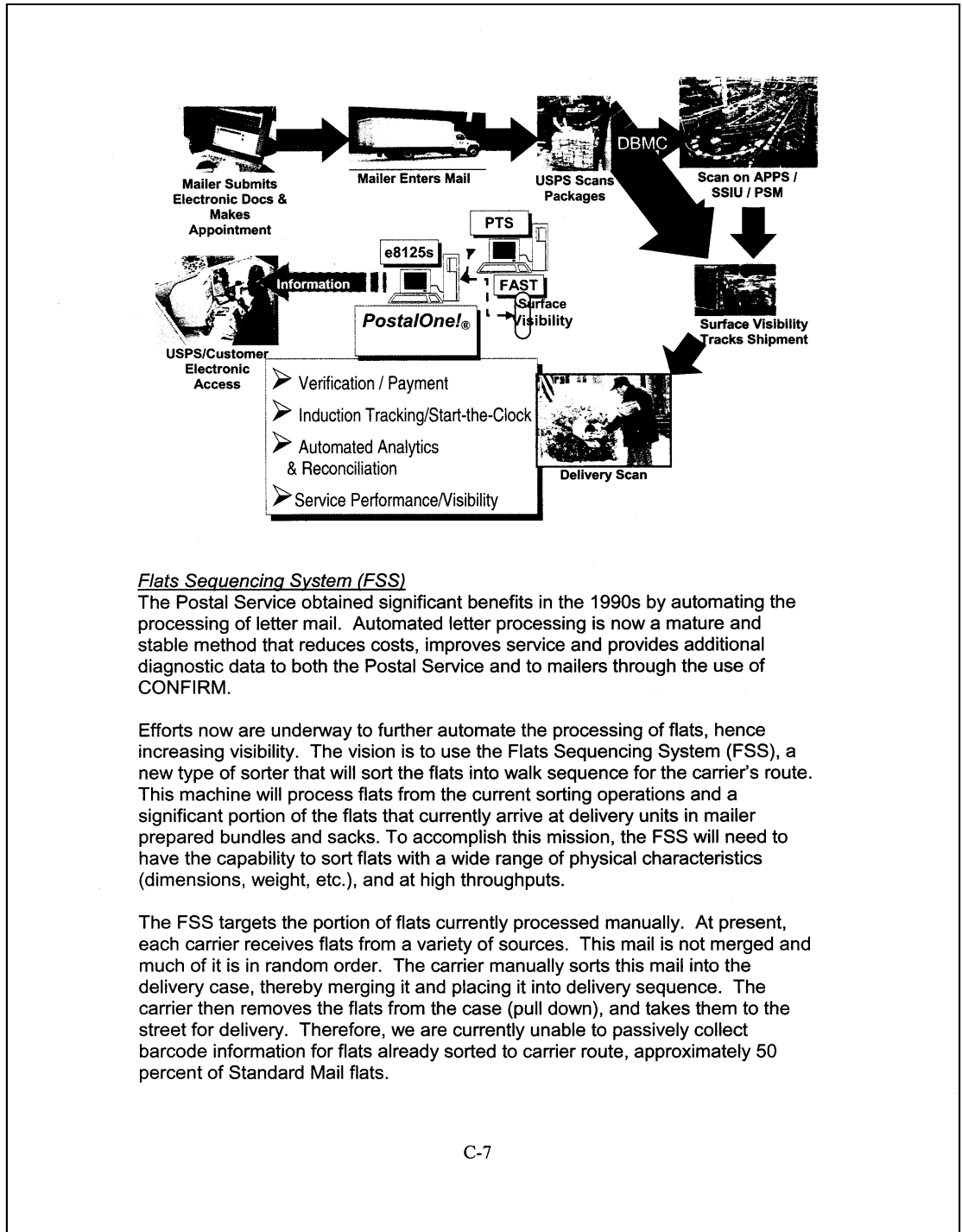
Flats Sequencing System (FSS)
The Postal Service obtained significant benefits in the 1990s by automating the processing of letter mail. Automated letter processing is now a mature and stable method that reduces costs, improves service and provides additional diagnostic data to both the Postal Service and to mailers through the use of CONFIRM.

Efforts now are underway to further automate the processing of flats, hence increasing visibility. The vision is to use the Flats Sequencing System (FSS), a new type of sorter that will sort the flats into walk sequence for the carrier's route. This machine will process flats from the current sorting operations and a significant portion of the flats that currently arrive at delivery units in mailer prepared bundles and sacks. To accomplish this mission, the FSS will need to have the capability to sort flats with a wide range of physical characteristics (dimensions, weight, etc.), and at high throughputs.

The FSS targets the portion of flats currently processed manually. At present, each carrier receives flats from a variety of sources. This mail is not merged and much of it is in random order. The carrier manually sorts this mail into the delivery case, thereby merging it and placing it into delivery sequence. The carrier then removes the flats from the case (pull down), and takes them to the street for delivery. Therefore, we are currently unable to passively collect barcode information for flats already sorted to carrier route, approximately 50 percent of Standard Mail flats.

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A better way to achieve this result is to pass as much of the flats workload as possible through a machine that is designed to accomplish the same result. For the portion of the flats that can be processed on the new FSS, the manual casing and pull-down activities described above would no longer be necessary. A prototype FSS was recently successfully tested at the Indianapolis, Indiana Mail Processing Annex.

Based upon the Postal Service's experience in the 1990s with letter mail automation, we expect a major reduction in carrier office time and in manual sorting work hours once the FSS is deployed. In addition, moving manually processed flats to automation will allow us to take advantage of technology by significantly expanding the amount of diagnostic information collected through CONFIRM to the benefit of the Postal Service and our customers.

Mailers Must Play Their Part in the Value Chain

Any focus on improved service and service delivery measurement cannot succeed without the direct participation of the mailers. The value of the workshare discounts given to mailers exceeded $18 billion in FY 2005. In FY 2005, nearly 75 percent of Standard Mail and over 62 percent of Periodicals received destination-entry discounts. Mail preparation has a direct bearing on service and costs. The mailers and their partners in the mail value chain must take specific steps to improve the quality of their mail and to keep price increases to a minimum. The areas where we expect mailer improvement are outlined below. We have tried to set out staggered deadlines for completion, where applicable, taking into account the practical ability of the industry to implement these changes and to allow the mailing industry to provide us with feedback on these proposals.

The Link between Mail Preparation and Service
In order for our bulk classes of mail, including Standard Mail, to have value, the mail pieces must connect with the recipient in order to achieve the intended response. In an attempt to provide our customers with the best opportunity to create and prepare valuable mail pieces, we provide tremendous flexibility in terms of the type of mail that can be inducted into our system. If fact, the Postal Service provides some of the most extensive suite of options in terms of mail-piece design of any post in the world. For example, a marketing newsletter can be prepared in a standard envelope but can also be folded into a self-mailer and left unsealed to increase response rates. Also, a customer may choose to prepare flat mail pieces in poly bags and include rigid compact disks with each mail piece. Customers can even request that their mail bypass automation, to prevent the application of barcodes that are deemed by certain customers to degrade the value of the mail.

Furthermore, customers will weigh the cost of producing the mail pieces with the value and potential response. A customer working with a limited budget may

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choose to reduce the paper stock or packaging materials in order to lower costs. Again, the Postal Service provides a great deal of flexibility along these lines in order to increase the pool of potential mailers.

With the extensive variability in terms of mail piece design and quality comes a resulting variability in service performance. Though customers will pay higher rates in some cases based on the decisions they make in terms of mail piece design, there may not be an adjustment in their expectation for service performance. However, manual handling is inherently more labor intensive, and a reliance on human factors can impact delivery. Also, mail pieces meeting all automation standards are significantly more likely to remain in the automated mail stream throughout the process and therefore unlikely to be rejected into a manual operation. To summarize, any service measurement system must take into consideration that, for example, a manual letter could have a different service expectation and visibility than a fully automation-compatible letter otherwise there will need to be a reevaluation of the flexibility offered to our customers.

Furthermore, customers will need to change their mail preparation processes in order to further reduce the inherent service variability in their mailings. For example, today's acceptance function is meant to mitigate the risk of additional costs associated with mailings that fall outside of our work-sharing specifications and create an incentive for preparing good-quality mailings. The process incorporates statistically valid samples within a mailing, which are then verified against mailing standards. Mailings determined to be outside of the specifications are either returned to the customer to allow corrections to be made or assessed a postage adjustment.

Though the expectation is that all mail must be barcoded, presorted, and containerized accurately, the verifications incorporate tolerances. For example, our automated systems that verify the quality of barcodes allow a tolerance of 10 percent of the codes to fall outside of the specifications for readability. For presort ad mail, five percent of the pieces can be improperly sorted or sequenced while still qualifying for the requested discount. Finally, due to significant concerns from the mailing community, address and barcode accuracy is not a factor in determining whether a mailing must be corrected or a postage adjustment assessed despite the fact that deficiencies in address and barcode accuracy affect service performance and costs.

These tolerances and other considerations are in place to account for the variability that exists in any production process and customers have long insisted on retaining them even though there is a clear consequence to service. Therefore, tolerances are important to consider in the context of service measurement. While the Postal Service will almost certainly be measured against a delivery standard for all pieces, for example, in a given tray; there could be factors working against the delivery performance that are not transparent to

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the measurement system. For a system to accurately measure our performance and create a meaningful expectation in the eyes of the customer, these tolerances must be significantly tightened or possibly eliminated to ensure our errors are not confused with customer errors.

Better Addressing
The Postal Service's goal in the area of Address Quality is to have perfect addresses on all mail which receives an automation discount. In order to achieve this goal, it would require mailers to update their mailing list weekly to make sure the file does not include any addresses that are undeliverable as addressed. The Postal Service will be working with mailers to determine the optimum level of Address Quality requirements. A perfect address would allow us to deliver a mail piece quickly, on the first attempt, and at the lowest cost, improving overall service for all classes of mail. When a mail piece requires forwarding or is returned because of an incorrect or incomplete address, the Postal Service incurs avoidable expenses associated with processing, handling and transporting. Moreover, if a mailpiece does not have a delivery point barcode, or one cannot be applied, the Postal Service misses the opportunity to take advantage of its sophisticated automation equipment to fully, efficiently, and reliably process the mail. As a result there is a negative impact on both service and cost. The Postal Service has already taken several steps to address a variety of address quality issues. One such example is a work group cosponsored by the mailing community through the Mail Technical Advisory Committee to work on new procedures for certifying mail lists.

In addition, we are finalizing the appropriate steps needed to increase address quality requirements for mailers. As a first step, in August of 2007 mailers will be required to use Coding Accuracy Support System (CASS) certified software with Delivery Point Validation. CASS is run on a mailing list at a minimum of once every six months and ensures that the addresses are valid street addresses or Post Office boxes. One enhancement that would improve service is to require all mailers across all mail classes to use a Move Update tool to update their mailing lists. This would ensure that the recipient of the mailpiece has not moved. The Postal Service Intelligent Mail and Addressing Quality group has developed new tools, such as One Code Address Change Service, that will allow customers to receive near real-time address updates. We will continue to develop new tools and increase our addressing requirements over time. We envision these move updates tools being run weekly in order to ensure optimum service.

Barcode Readability and Usage
Barcodes must be readable to limit costly and timely manual handling and to improve service. If mailers want improved service, then they will need to tighten their procedures so that all barcodes are readable by automation. This means that the mailing community will have to take steps to reduce or eliminate spraying over barcodes.

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Presort Tolerances
Currently, we accept a mailing and give a full presort discount so long as 95 percent of the mailing is properly presorted. In an effort to improve service and reduce the costs associated with manual handling, mailers and presort houses must work to increase the percent of their mailings that are properly presorted.

FAST Appointments
The Postal Service presently makes every effort to assist mailers who make drop ship appointments, even if those mailers show up hours early or late or without an appointment. Because early, late and unscheduled arrivals are detrimental both to our efforts to improve service and to reduce costs, mailers and their logistics providers must make a concerted effort to schedule appointments and arrive on time. Results are provided in Appendix D.

The Postal Service's Vision of a Transparent Value Chain

The Postal Service, however, is interested in more than just our part. We would like to see a completely transparent mail system, from mail creation through delivery. When a mail piece is conceived, there is a certain expectation of when the mailing must reach the recipients to, for example, maximize the effectiveness of the marketing message or the financial transaction. The Postal Service only supplies a portion of the services associated with the value chain. If service is not rendered at *any* step along the chain such that delivery cannot be affected consistent with the customer expectation, a service failure is the result in the eyes of the customer. In our 2002 Transformation Plan, Appendix C, page C-2, we described the mailing industry value chain:

> The mailing industry can be defined in terms of a value chain. The mailing industry value chain supports business mailer activities such as customer acquisition, service delivery and customer retention. Mailing service participants, working on behalf of a manufacturer or retailer, might include a creative design agency, an address manager, service bureau responsible for processing a mail piece, a printer, a letter shop, a presort bureau, and a shipper, all of whom play roles designed to get a mailing into the postal network. Equipment manufacturers, software vendors, retail outlets, and other stakeholders support and share interests with these players.

> The following illustration gives a good overview of the multitude of activities that take place in the value chain.

C-11

The Mail Value Chain

| Pre-Production | | | | Production | | Logistics | USPS | |

| Mailing Strategy Development | List Acquisition | Mail Piece Design | List Services | Print | Finish | Presort | Transportation Services | Mail Processing | Delivery |

* Message
* Audience
* Mailing Date(s)

* Shape
* Style
* Content

* List Preparation
* Address Hygiene
* List Presort

* Letter Insert
* Binding
* Traying / Bundling

* Presort Bureau
* Offline Co-Mailing / Co-Palletization

* Routing
* Dropship
* Consolidating

* Origin
* Destination

As the Postmaster General indicated in a recent speech to the Twin Cities Postal Customer Council, our network is just one part of this larger chain, which begins with design and printing, addressing and presorting and transportation to the Postal Service. Each one of these steps, as well as the Postal Service's part, is critical to a successful mailing. A recent example concerned a large mailing from a national grocery store chain, with desired in-home delivery dates in advance of a planned sale. By the time the mailing was dropped off with the Postal Service, the sale was over. That company deserves to know where, when and why something went wrong with their mailing, so the appropriate link in the chain can be held accountable. History has shown that the other service providers within the chain are very unwilling to share information about their service performance, yet we believe this is extremely important, since we are the public face of the mail and are often held accountable in the eyes of the recipients. This is no different than the grocer being held accountable by its customers for being out of milk though the distributor failed to deliver the expected quantity.

As also said in the speech, "The person paying for the mail has to be able to see it all before and after it gets to the Postal Service. Because at the end of the day, it's the payer who's most interested in what's happening – and whether there are any delays." We also think it vitally important that our regulator, who may be judging our compliance with our service standards, as well as other oversight bodies, have insight into all elements of the value chain, and know where, when and why delays and problems occur, and how they are addressed and resolved

The Postal Service is firmly committed to this ultimate vision of improved service and enhanced service delivery performance measurement systems, but it must be understood that it will take time, effort and resources to accomplish. It will be a challenge to implement this technology, but still be mindful of the value

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equation between service and prices, keeping prices within the Consumer Price Index. It will be an added challenge to implement the necessary changes if the Postal Service becomes subject to the requirements of Sarbanes-Oxley. The detailed effort and massive resources needed to document and test all applicable processes may well result in a delay of several years in making progress toward this vision.

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Appendix D
Measurement Systems and Diagnostic Tools

<u>Overview</u>

We have developed a number of measurement systems and diagnostic tools "used by managers to make decisions oriented towards improving results" and to monitor service performance and identify issues needing resolution. While some of these tools may monitor mailings from our larger customers, any resulting operational improvements benefit all of our customers. The chart on the next page shows the measurement systems and tools used for each class of mail. The measurement systems and diagnostic tools are explained in detail in the sections following the chart.

D-1

Domestic

Mail Class Service Option	Service Standard (Entry to Delivery)	FY 2005 Volume (mil pcs)	FY 2005 Revenue ($ mil)	FY 2005 Average Contribution per pc ($)	Performance Scorecard Indicators	Diagnostic Indicators
Express Mail	1-2 days	55.5	872.3	6.569	Express Mail Performance ("A" + "B" Labels) Express Mail Validation System (EMVS) Express Mail Scanning Performance	
Priority Mail	1-3 days	887.5	4,633.3	1.497	DCPM-R (Retail Priority Mail) Delivery Confirmation Validation System Delivery Confirmation Scanning Performance	ODIS, MCRS
First Class Mail	1-3 Days					
Single-piece	1-3 days	45,892.7	20,260.9	0.189	EXFC	ODIS, CONFIRM, Customer Based, CSM. MCRS, CSDRS, Phoenix-Hecht (SP only)
Presort	1-3 days	52,173.3	15,520.9	0.203	EXFC	ODIS, CONFIRM, Customer Based, CSM, MCRS, CSDRS
Periodicals	1-7 days	9,070.0	2,160.8	-0.025		CONFIRM, Customer Based Systems, CSM, Advance
Package Services	1-9 days	1,165.5 (Composite)	2,200.7 (Composite)	0.132 (Composite)		
Parcel Select	1-3 days	387.8	1,232.5	0.268	Manifest Delivery Confirmation in concert with Mailers and Consolidators	Customer Based Systems, CSDRS
Parcel Post	2-9 days				First Entry Scan to Delivery (FESTD) (Delivery Confirmation)	ODIS, MCRS, CSDRS
Bound Printed Matter	2-9 days	583.8	595.8	0.144	First Entry Scan to Delivery (FESTD) (Delivery Confirmation)	ODIS, MCRS, CSDRS
Media Mail	2-9 days	194.0	370.1	-0.192	First Entry Scan to Delivery (FESTD) (Delivery Confirmation)	ODIS, MCRS, CSDRS
Standard Mail	3-10 Days				Parcels Delivery Confirmation	
Regular	3-10 days	65,918.6	13,217.2	0.075		CONFIRM, Customer Based Systems, MCRS, CSDRS, Advance, CSM
ECR	3-10 Days	35,023.4	5,627.2	0.082		

International

Mail Class Service Option	Service Standard (UPU Agreement)	851.5 Million Pcs (Composite)	Performance Scorecard Indicators	Diagnostic Indicators
Global Express Guaranteed	1-3 days			Pay for service performance with FedEX scan information
Global Express Mail	3-5 days		Kahala Group (end-to-end limited destinations) Express Mail Performance ("B" Labels) (Domestic inbound and outbound portions only)	
International Express Mail			Express Mail Performance ("A" + "B" Labels, Domestic portion Only)	
Global Priority Mail	4-6 days			
Global Airmail Letter-Post	4-7 days		International EXFC, UNEX	
Global Economy Letter-Post	4-6 weeks			

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Measurement Systems

First-Class Mail

In 1990, the Postal Service replaced the Originating Destinating Information System (ODIS)-based First-Class service measurement system with a more effective External First Class Measurement system (EXFC). ODIS lacked the necessary quality controls over non-dated, metered indicia, and presorted mailings.

Mailers who use metered indicia have complete control over the date printed by the metering machine and the date and city in which the metered mail is deposited. The typical scenario is that an employee of the firm using a meter drops the outgoing mail into a collection box on the way home. This is certainly convenient for the office employee, but offers the potential of inaccurate service performance measurement. Issues with ODIS included:

1. The Postal Service cannot control whether the mail is dropped after the last collection of the day, in which case, ODIS will report the mail as late based on the meter date, when in fact it was not.
2. The Postal Service cannot control whether the meter date is set correctly, is stale or is set forward of the correct date. Future dates can not be included in a service measurement.
3. The Postal Service cannot control the location at which mail is dropped into the system, regardless of the terms of use specified in the meter license. In fact, most employees of a firm using metered postage may not know that mail is required to be deposited in the city in which a meter license is issued. A typical example is when an employee works in one city, like Washington, DC, and lives in another, like Manassas, VA, and drops the office mail into a collection box after arriving home. Mail bearing a Washington, DC meter impression deposited and processed in another city will be misattributed by ODIS as to origin and misreported as late whenever Washington, DC and Manassas, VA, service commitments do not match.

The creation of First-Class presort discounts added an additional complication to First-Class service measurements. Discounts only apply when sufficient mail is entered into the Postal Service, sorted to specific ZIP Code ranges. Presort providers often delay the induction of individual customers' First-Class metered mail when necessary to wait for more volume to maximize their postage presort discount. Mail that is held beyond that day's processing distorts the true delivery time and customer perception of mail delivery performance.

The creation of EXFC, an external First-Class measurement system, addressed these quality issues and provided a far more accurate and realistic service measurement system. EXFC measures service performance from a customer perspective. EXFC is an end-to-end service performance measurement system; it measures First-Class Mail performance from the time mail enters the mail stream until it is delivered to a household, small business, or post office box.

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EXFC is administered by an independent firm, IBM Consulting Services. Sample mailings that statistically represent both mail volumes between locations and mail characteristics are used to insure data integrity and accuracy. EXFC is designed to provide quarterly estimates of First-Class Mail service performance for all 80 performance clusters, encompassing 463 3-digit ZIP Codes, at their overnight, two-day, and three-day service standard areas. This network represents approximately 80 percent of the nation's destinating First-Class stamped and metered mail volume. Every Processing and Distribution Center (P&DC) is represented by at least one 3-digit ZIP Code. The annual cost of EXFC is approximately $21 million.

All First-Class Mail receives the same preferential service, regardless if entered as single-pieces by residential customers or in massive quantities by business mailers. EXFC measures the end-to-end processes of the First-Class Mail stream from the earliest possible acceptance point, the collection box, to the recipient's mail box. Bulk First-Class Mail deposited by business mailers enters the mail stream at various mid-points in the end-to-end process based on the presort level of their mailing and the entry locations. Large business mailers, especially presort bureaus, usually drop their mail off at the processing facility and bypass Postal Service collection and initial handlings. Residential and business mailings are combined in our processing, distribution and transportation activities. Therefore, all First-Class Mail service is reflected in this service measurement.

The diagram which follows titled "First-Class Mail Stream" shows a high-level view of the First-Class mail stream. The portion of the diagram at the bottom, outlined in red, depicts the typical path of a First-Class single mailpiece from receipt by the Postal Service to delivery. This flow would also be characteristic of those EXFC test pieces which are currently used to measure the service performance of our system.

The flow begins with the originating receipt of mailed items at acceptance points such as the familiar blue Postal Service collection box or a Post Office lobby. Once collected, mail pieces are consolidated at local Post Offices and transported to P&DCs where they are postmarked and prepared for processing on automated distribution equipment. Based upon volume densities and service standards, this equipment performs a distribution of mail to various sort levels which correlate to subsequent distribution responsibilities at destinating postal facilities throughout the country.

Upon completion of outgoing distribution activities, individual mail pieces are sorted within appropriate transport equipment and assigned to programmed transportation. Primarily, inter-facility transportation modes include air, surface, or a combination of both. There are cases where the next level of distribution is performed within the same facility where the outgoing distribution was performed, primarily where local delivery is involved, and the mail simply moves between distribution operations.

As determined by a variety of factors, such as mail shape, volume, and final sort level requirements, destinating processing and distribution operations can result in multiple

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handlings of mail received from originating operations. In general, destinating mail normally receives both a primary and secondary distribution. At the completion of destinating distribution, mail is prepared for dispatch through programmed transportation to local delivery units.

Upon receipt at delivery units, mail that has been prepared to a delivery-ready sort level will be staged in preparation for carrier departure. A final distribution is performed on any remaining mail which is not already in carrier-walk-sequence format. Once all mail volume is finalized to this sort level, it is delivered, thus completing the flow.
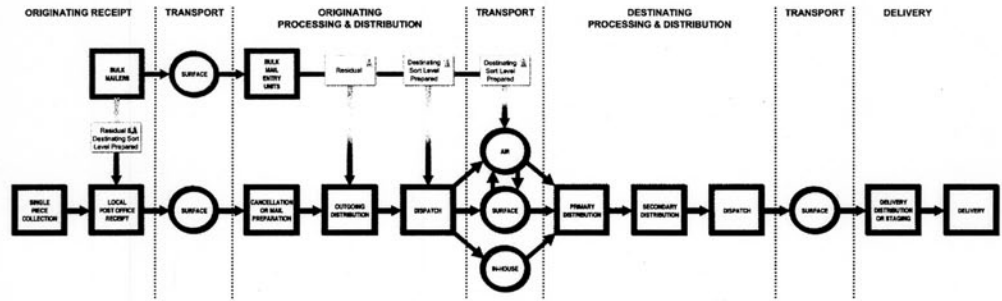
The portion of the flow diagram at the top, outlined in green, provides a high-level view of the typical path taken by mail pieces prepared by bulk mailers of First-Class Mail. This flow also indicates the most common points where the workshared presorted product is merged with the single-piece First-Class Mail flow.

Upon completion of their destination sort level activities, bulk mailers deposit daily mailings at postal facilities for system entry and payment processing. Depending upon mailing requirements and services available, the acceptance and entry point may be a Post Office local to the mailer or a centralized Bulk Mail Entry Unit (BMEU), which serves the local mailing community and is often located at the originating plant.

Once a mailing is accepted by the Postal Service, it enters the single-piece First-Class Mail flow based upon the destinating sort level to which it was prepared by the bulk mailer. Allowable residual volumes, which were unable to be presorted to finer sort levels, enter the previously described single-piece flow through an outgoing distribution operation. The remainder of the mailing enters the same flow in a downstream dispatch operation, where it is assigned to transportation that supports the service level of the destinating sort-level of the mailing. In some instances, bulk mailers have the ability to assign their own destinating sort level volumes to postal transportation. In these cases, their mail may actually enter the flow through a Postal Service operation at a major airport.

Regardless of the originating entry point of First-Class Mail prepared by bulk mailers, all volumes enter the previously identified single-piece mail flow prior to final delivery by postal delivery personnel. Given the fact that the service performance of this flow is systemically measured through EXFC, it is valid that the resulting performance score applies to each component of the system workload being monitored, including First-Class Presorted Mail volumes prepared by bulk mailers.

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First-Class Mail Stream

| ORIGINATING RECEIPT | TRANSPORT | ORIGINATING PROCESSING & DISTRIBUTION | TRANSPORT | DESTINATING PROCESSING & DISTRIBUTION | TRANSPORT | DELIVERY |

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Express Mail

Express Mail is a seven-day-a-week product, including delivery on Sundays and holidays. Scanning is built into the Express Mail rate for every piece, unlike other classes of mail and optional services. With the unique piece identifier and processes to scan the mail, we have a virtual census of all Express Mail pieces. We measure each Post Office to Post Office ("A" label) mail piece and Post Office to Addressee ("B" label) mail piece from acceptance to delivery and compare the actual service to the current service standard. The scan data for Express Mail is used for a reliable performance measurement system, service problem diagnostics, and to check that pieces have indeed received the service for which the customer paid. Domestic Express Mail is a day-certain, money-back guaranteed product. Customers can access their tracking and delivery status at usps.com or 1-800-ASK-USPS.

The overall intent of the Express Mail Validation System is to determine if the scanning procedures and processes are valid and accurate. This external, independent measurement system allows us to test our systems. Keeping our scan data accurate helps us find areas where improvement would be helpful, and helps us better understand how our customers experience our service.

Six postal administrations (Australia, China, Hong Kong, Japan, South Korea, and the United States) formed an alliance, the Kahala Group International, by aligning the Global Express Mail (GEM) service network, including processing operations, transportation, and delivery. This expedited service has a day-certain, money-back guarantee, and customer tracking. These posts scan pieces at delivery, so that both we and our customers can track service. The posts are paid based on service performance. The service was launched in July 2005. Additionally, Royal Mail of Great Britain has recently signed on to the Kahala Group and we are in negotiations with additional foreign entities.

For other International Express Mail, we are limited to the measurement of the domestic legs of service due to the technical and diplomatic complexity of obtaining transit information from foreign countries. We measure International inbound Express Mail from the point it leaves Customs (which "starts the clock") to the domestic delivery of that piece, and the outbound International Express Mail, which is measured from the originating Post Office to the domestic plant that is one of the international gateway offices.

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Priority Mail

In FY 2006, we replaced the Priority End-to-End (PETE) measurement system with Delivery Confirmation Priority Mail purchased at retail units nationwide. PETE was an external, weighted sampling method measuring service from acceptance to delivery. Approximately 450,000 test pieces were inducted annually in specific ZIP Code locations that were representative of our delivery network, at an annual cost of $10 million. This external measurement gave us the first opportunity to accurately record acceptance, or "start the clock," and delivery times. Customers now can purchase Priority Mail with Delivery Confirmation service at postal retail units nationwide. Given the increasing volume of retail Delivery Confirmation, we were able to switch to an internal system, take advantage of technology, and eliminate costs associated with an external system. Using retail Priority Mail with Delivery Confirmation has increased our sample size of 450,000 PETE test pieces to over 23,000,000 actual mail pieces annually.

By scanning the Delivery Confirmation barcode at retail acceptance and at delivery, we are able to measure the service performance of this mail class from entry by the customer to delivery to the recipient. There are processes in place to ensure that the data are accurate at specific points in the system. Those processes allow us to have a high confidence in the quality of the data. The costs of Delivery Confirmation are voluntarily borne by the retail customers who select this service. We have taken advantage of the scanning features to provide both confirmation of delivery and the elapsed delivery time from end-to-end to the customer via our website at usps.com.

The Delivery Confirmation Priority Mail retail (DCPM-R) service performance measure is complimented by two sampling programs that validate performance based on a sampling of test mail. One of the samplings uses Priority Mail with Delivery Confirmation, and one uses Priority Mail without Delivery Confirmation. DCPMR-Validation is very similar to the Delivery Confirmation process that uses the scans of customer's mail. A person (IBM dropper) goes to a Postal Service window, presents Priority Mail pieces they wish to mail, and asks for Delivery Confirmation for the mail pieces. The pieces are monitored by both the Delivery Confirmation scans and by IBM's reports from the droppers and reporters. DCMPR-Validation compares the delivery results of test mail to scans in the Product Tracking System (PTS). A match rate is generated based on how often the PTS scan matches the reporter's receipt date. The primary goal is to help improve service to customers and this program helps us see performance through the customer's eyes. We are measuring from and validating our customers' experience. This is the core value of our tests.

Delivery Confirmation is a service provided to commercial mailers who submit an electronic manifest with their bulk Priority Mail pieces. The manifest is scanned at acceptance. In order to reliably "start the clock" on the commercial pieces, the

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manifests must contain all the pieces, and only the pieces in the shipment. These accurate manifests have to be received in a timely manner. That requires the mailer to put additional safeguards in place to better control what mail is actually on what truck, and to ensure timely transmission of that data. Many mailers are not ready for that level of precision. As electronic mail-acceptance technology improves and commercial mailers and mail providers improve their daily operational quality control process to provide an accurate piece level "start the clock," commercially-manifested Priority mail will be included in the service performance measurement system.

Package Services

Retail-purchased Parcel Post represents a situation in which customers largely do not want to bear the cost of either Delivery Confirmation or Signature Confirmation, and for that reason, there are not enough pieces to represent this product through a unique measurement system.

The commercial Parcel Post product is Parcel Select, which is tracked since Delivery Confirmation is built in as part of the service. Parcel Select offers commercial mailers and mail providers several options. Mail can be entered as far up stream as a Bulk Mail Center, requiring several levels of distribution prior to arriving at the delivery unit or mail can be entered directly at a specific delivery unit. Mailer quality, correctly manifested pieces dropped at the correct location, and entry times prior to 7: 00 AM, have a direct impact on delivery performance. The service standard for Parcel Select is next day for mail entered at delivery units by 7:00 AM. Currently, 43 percent of all Parcel Select volume entered at a delivery unit is delivered on the same day it is tendered to the Postal Service and 98 percent of this category is delivered by the next day.

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Standard and Periodicals Mail

Measuring Standard Mail and Periodicals Mail successfully has been an elusive goal for us. In the 1970s and 1980s, we used an internal measurement system, ODIS, to measure point-to-point volume by class of mail. This same system was used during that period to measure service performance by comparing the postmark date with the date the piece passed through the last processing operation prior to going to the delivery unit. Although attempted, Standard Mail could not be reliably measured. Standard Mail lacks a postmark or other reliable measure of acceptance into the postal system. The complexity of the Standard Mail entry also hampers its measurement. A single mailing may be entered at multiple postal facilities, at multiple presort levels, at multiple container levels and on multiple days. The same issues and complexities exist with regard to Periodicals Mail.

In the 1990s, two external, end-to-end sampling systems were designed and tested by Price Waterhouse: the External Second Class Measurement System (EX2C) to measure Periodicals, and the External Third Class Measurement System (EX3C) to measure Standard Mail. Both of these systems involved working with volunteer commercial mailers on a small scale to deliver "proof of concept" sample-based measurement systems. The concept systems required a high level of cooperation between the commercial mailing community and the Postal Service, along with a high level of participation among the mailers to produce representative numbers to measure the complexity of presort and entry levels.

EX3C and EX2C was a great learning experience. We realized it is difficult to track the variabilities of presort and drop-ship entry and the diversity of the product. We learned we could not create a single service measurement for Periodicals or Standard Mail that addresses all the complexities offered with these mail categories. Standard Mail was created as a low-cost mailing alternative that allows mailers greater opportunities to lower their cost and to give postal operations greater flexibility in when they process and deliver Standard Mail. Mailers have greater leeway in the make up, preparation and entry level, allowing them to reduce their total mailing costs. Postal operations can determine the most cost-effective time to process and sort the mail, taking advantage of non-peak processing windows, avoiding the use of overtime and increasing productivity. After First-Class, Priority and Express volumes have been dispatched, the delivery operations can manage the day-to-day delivery volume and deliver Standard Mail on non-peak delivery days.

Periodicals have additional complexities. Periodicals range from daily, weekly, bi-monthly, monthly and quarterly publications with expected or desired delivery of same day to day-specific service. Some daily newspapers are dropped off at 4:00 AM and receive same day delivery. Rates vary from news content, in-county, out-of-county, and agricultural publications. More stringent specific delivery expectations will eliminate or curtail existing flexibilities for both the

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mailing industry and the Postal Service resulting in higher cost. Given that
Periodicals often do not cover their costs, any cost of new systems would directly
impact their rates.

Diagnostic Tools

Mail Condition Reporting System (MCRS)

MCRS is a national data collection system used in our plants for the analysis of a
facility's performance, an indicator for service performance, and the analysis of
operating units within a facility. Reports from this system examine facility
performance by looking at operating plan conditions in terms of volumes on-hand
and delayed volumes. Part of the system contains expected thresholds which
differ by plant, so it is easy to determine potential service implications. Local,
area and national operations management use this information daily to identify
potential problems and take corrective action to improve overall operational
efficiency in processing, distribution and dispatch of mail.

Customer Service and Delivery Service Reporting System (CSDRS)

Customer Service and Delivery Service Reporting System (CSDRS) is a delivery
unit based data collection and reporting system that provides data to all levels of
postal management. It provides a snapshot of the daily condition of the mail in
the delivery units. There are approximately 7,300 delivery units reporting in
CSDRS, which represents about 159,000 city routes or 95 percent of all city
delivery routes. As with MCRS, local, area and national operations management
use this information daily to identify potential problems and take corrective action
to improve overall operational efficiency in delivery of mail.

Color-Coding

We use an internal color-coding process to identify mail based on its entry into
the postal system, thereby keeping the mail flowing in first-in, first-out order.
Our national color code policy and procedures are in place to support the timely
processing, dispatch and delivery of Standard Mail within established service
standards. Standard Mail processed at all outgoing, ADCs or SCFs regardless of
where received (e.g., associate office, P&DCs, or other location) must be coded
with the color that represents the day the mail is scheduled to be processed. All
other destinating Standard Mail must be coded with a delivery color that
represents the scheduled day of delivery. Once the color code is applied, it
remains on the mail until it is taken out for delivery. There are no prohibitions
against management agreements being made below the national level which
accelerates the color coding and/or delivery expectations for any Standard Mail
versus this policy. The color coding, and hence the service, varies depending
upon the amount of processing required. If a container of mail is sorted to a
delivery unit, it goes out right away. If mail is sorted to 3-digit ZIP Code, it must

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first be sorted to either 5-digit ZIP Code, carrier route or walk sequence, depending on the shape and volume of the mail.

ADVANCE Notification and Tracking System

The Postal Service is very aware that timing the delivery of advertising and promotions is critical to the success of direct-mail campaigns and marketing strategies. We also recognize that publications must be delivered in a timely and consistent manner. We have offered ADVANCE since 1995, to track the delivery process for qualified Standard Mail and Periodicals mailings. ADVANCE also offers delivery performance reports for Standard Mail mailings with required in-home delivery windows and Periodicals mailings with preferred delivery dates.

Delivery performance is tracked by approximately 7,000 delivery units serving over 11,000 ZIP Codes. ADVANCE mailers provide information prior to entry of the mailing. This information includes a sample mail piece, entry location, beginning and ending in-home date or preferred delivery date requests, mailpiece description, and mail preparation level. ADVANCE posts information via the Internet to all participating delivery units. The date the mailing arrives at the delivery unit is recorded. The delivery unit also enters when delivery begins and when it is completed. Using the process, the district and area offices can track the mailing to ensure receipt and delivery at the delivery unit.

After the delivery unit has entered the required dates, ADVANCE provides delivery performance reports for the mailings calculated from the data entered by the delivery units. These reports can be obtained in real time through the ADVANCE Mailer Web page, where they can be viewed and/or downloaded by the mailer in a password protected environment. In this way, mailers are kept informed of the progress of their mailings.

CONFIRM Service

CONFIRM service was originally designed to provide raw scan data from a second mailer-applied barcode (the PLANET Code) to subscribing bulk First-Class and Standard Mail customers. In an attempt to use these data to measure service performance, the Postal Service developed a process in which mailers would submit electronic preshipment notifications documenting where and when individual CONFIRM mail pieces were being entered. The Postal Service would record the entry of those shipments by scanning a unique barcode included on the entry documentation. These "start-the-clock" scans would provide evidence of receipt of the mailing by the Postal Service and could be matched to downstream scans of individual PLANET Codes to determine the time to deliver that mailing.

The Postal Service originally expected to rely upon pre-shipment notifications as a tool to increase the utility of CONFIRM scans. However, that expectation was

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not borne out operationally. Some of the issues that prevent CONFIRM service from being a service performance tool include inconsistent mail preparation and barcoding methods by CONFIRM mailers; inconsistent induction procedures; system infrastructure limitations that impact the ability to uniquely identify mailpieces within a pre-shipment notification; lack of integration with postal mail acceptance and verification procedures; and incorrect entry of information on mail processing equipment that becomes associated with a CONFIRM scan.

In an effort to address these issues and use customer mail to measure accurately, the Postal Service and the mailers jointly developed a CONFIRM certification process. To date, only a handful of mailers have attempted certification, and only two have passed. Generally, mailers either cannot, or chose not, to change their processes to produce data and mailings accurate enough to pass certification. Some report the costs they would incur as a deterrent to certification. In many cases, the scan data provided to them from CONFIRM is enough for them to do their own internal analysis and diagnostics, and fully meets their needs. The end result is a delivery performance product that provides the mailers with desired information, but still is inadequate for the service measurement of Standard Mail or bulk First-Class Mail.

CONFIRM is also used as an internal analytical tool today by the Postal Service seeding test pieces and analyzing the sequence of scans from those pieces. PLANET Code labels are applied to mail pieces selected from key points in mail processing. Data are collected from scans in subsequent sortation operations and analyzed to determine whether mail is being moved in a timely and effective manner between mail processing operations. These data are used by postal facilities nationwide to monitor and improve service performance. The results of these efforts have shown improvement to plant-specific 3-digit service for overnight, two-day, and three-day service performance. Mail Processing continues to diagnose both on-time to failed mail pieces to determine the root causes and to resolve issues causing the delays, so we can better serve our customer.

Similarly, some CONFIRM customers have relied upon their own scan data when approaching the Postal Service to discuss service issues. The Postal Service has responded by developing reports that permit isolation of each customer's data. The purpose of these reports is to help standardize the evaluation of customers' data.

Regardless of the source of CONFIRM scan data, its use to measure, diagnose, monitor, or improve mail processing is used on an ad hoc basis to highlight and resolve specific problems.

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24 Hour Clock Indicators

In February 2006 the Deputy Postmaster General and Chief Operating Officer (DPMG/COO) implemented the "24 Hour Clock" indicators. These indicators measure the Postal Service's internal processes by establishing national standard completion times for key activities. Improvements to these indicators have a positive impact on service performance. Meeting commitments by deadline helps the next shift, or the next plant or post office further down the mail stream meets its deadlines. A field operations executive meeting in June 2006 focused attention on these indicators, showing their relation to service improvement, included sharing success stories, and identifying opportunities for improvement.
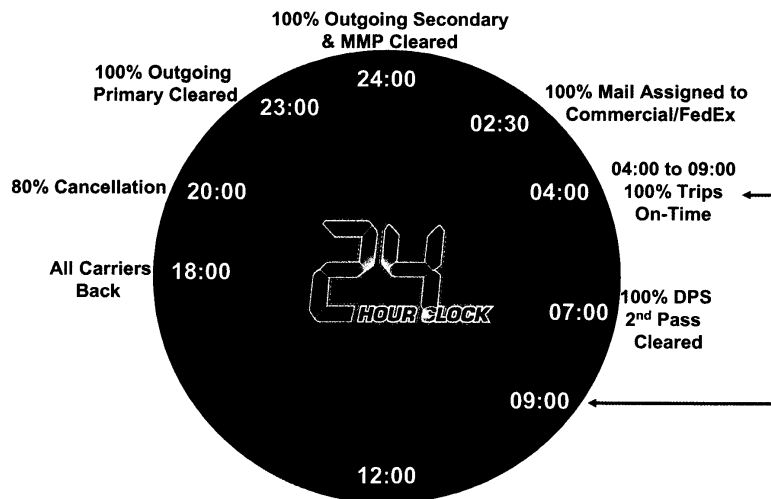
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<u>Facility Access and Shipment Tracking (FAST)</u>

The Postal Service instituted a drop ship appointment system to allow mailers to schedule appointments with the facility where they desire to drop off their mail for delivery. Mailers are supposed to arrive with the mail and the accompanying paperwork at the scheduled appointment time. The mailing and paperwork can be immediately reviewed and verified, thus avoiding potential delays and improving service.

The Facility Access and Shipment Tracking (FAST) recently replaced our previous drop shipment appointment system. The FAST system report that follows shows some weekly variation, with scheduled appointments tending to increase toward the end of the week, on Thursdays and Fridays. Although these are recent data from spring and early summer, there also are seasonal variations, resulting in greater Standard Mail volumes during the fall as opposed to other times of the year. The fluctuations in weekly and seasonal workloads demonstrate the necessity for flexibility and deferability regarding service standards for Standard Mail. The data also show the frequency of late arrivals and the percent of "no shows," compared to the portion actually on time. The portion of scheduled on-time appointments (where "on time" actually covers mailers arriving 30 minutes late) —10 percent or less -- pales in comparison to the early and late arrivals and the "no shows." These data demonstrate, even more compellingly, the need for flexibility and deferability in service standards for certain types of mail. We could not "start the clock" based on the appointments made since over 20 percent are late and another 20 percent or more are "no shows."

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Facility Access and Shipment Tracking Report

Month	Day	Early		On Time		Late		No Show		Unscheduled Arrivals	
		Average	Percent	Average	Percent	Average	Percent	Average	Percent	Average	Percent
APRIL	SUNDAY	201	43%	39	8%	101	22%	93	20%	34	7%
	MONDAY	2104	42%	429	9%	1158	23%	1088	22%	187	4%
	TUESDAY	1681	41%	352	8%	1005	24%	956	23%	150	4%
	WEDNESDAY	1402	40%	295	8%	844	24%	793	23%	166	5%
	THURSDAY	2193	42%	442	8%	1310	25%	1100	21%	173	3%
	FRIDAY	2674	42%	514	8%	1478	23%	1453	23%	189	3%
	SATURDAY	1217	39%	304	10%	749	24%	787	25%	97	3%
MAY	SUNDAY	202	40%	46	9%	112	22%	115	22%	37	7%
	MONDAY	1670	41%	321	8%	910	22%	1066	26%	140	3%
	TUESDAY	1743	39%	378	9%	1061	24%	1052	24%	181	4%
	WEDNESDAY	1793	40%	371	8%	1091	24%	1074	24%	164	4%
	THURSDAY	2022	41%	405	8%	1204	25%	1099	22%	181	4%
	FRIDAY	2534	42%	469	8%	1447	24%	1365	23%	191	3%
	SATURDAY	948	38%	218	9%	591	24%	665	26%	87	3%
JUNE	SUNDAY	189	41%	35	8%	109	24%	93	20%	35	8%
	MONDAY	1903	42%	353	8%	1011	22%	1075	24%	169	4%
	TUESDAY	1541	40%	325	9%	872	23%	917	24%	155	4%
	WEDNESDAY	1612	40%	353	9%	946	24%	938	23%	153	4%
	THURSDAY	1528	40%	330	9%	889	23%	886	23%	150	4%
	FRIDAY	1872	42%	392	9%	1046	23%	1031	23%	140	3%
	SATURDAY	671	38%	167	9%	397	22%	474	27%	59	3%

Notes: An on time arrival is up to 30 minutes after the scheduled appointment time.

Data are from 4/5/2006 to 6/29/2006.

Appointments include Standard, Package Services, and mixed mail classes. Appointments are not required for First-Class Mail, Priority Mail or Periodicals.

Delivery Units are not included.

More detail on FAST is included in Appendix C – Visibility -- The Future Vision.

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Appendix E
Choice – The Value Equation between Service and Price

Overview

The Postal Service is committed to providing the best possible service for its customers while at the same time maintaining reasonable prices. This is as necessary for the future viability of the Postal Service as it is for our customers to run successful businesses or efficient households. As stated in the GAO report, "The Mailers Council, a coalition of over 30 major mailing associations, corporations, and nonprofit organizations, told us that its members would be willing to pay higher postage rates, within reason, for delivery performance measurement." The issue of reasonable cost for all Postal Service customers is one of our main focuses and concerns. In making service improvements, whether establishing processes to move the mail more timely or to monitor service performance, the value equation must be kept in mind. There is a clear value equation of service and price for every one of our products and the definition of reasonable cost differs from user to user. Each product's price is based on a mix of speed of service, cost, and value added services, such as forwarding.

Mailers Have Choices

Mailers implicitly recognize that value equation in selecting their mail service. Mailers desiring speed of delivery and predictability choose First-Class, Express or Priority Mail and recognize that the higher value of these services comes at a higher price. Standard mailers, on the other hand, are opting for a lower price, which is a direct result of the deferability and flexibility inherent in the service accorded Standard Mail. The greatest flexibility and value in mailer options to determine presort levels, entry destinations including day and times, and requested windows of delivery days, also comes with less rigid service measurements. However, both Standard and Periodicals mailers can chose to presort to carrier route and use destination entry to achieve better service at even lower rates.

First-Class Mail volume is declining due to customer migration to alternative methods of delivery and bill payment. Single-piece First-Class Mail has been most affected and has steadily declined since FY1998 despite record service levels. Standard Mail volume is growing steadily and is expected to continue growing. We are aware that some First-Class mailers have moved to Standard Mail because they are willing to accept deferability and flexibility in exchange for paying a lower price. Although still important, service alone does not determine a customer's use of the Postal Service. Periodicals volume has declined every year since FY2000. Priority and Express Mail volumes are price sensitive and have declined four out of the last five years, with increases last year. These mail volume declines and shifts only reinforce the fact that an extremely careful

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balance must be struck between such improvements as increased delivery service measurement and the prices paid by our customers.

Costs of Measurement Systems and Postal Rates

The cost of service improvements, including measurement systems, must be considered within the context of postage rates since the cost of any measurement system ultimately has to be paid for through the prices charged to mailers. The mailing industry is sensitive to price increases, especially for Periodicals and Standard Mail, so the costs of service measurement have to be weighed against the benefits to ensure that customers desire and are willing to pay for the service without driving business away. In addition, the value created by any new system, and any resulting changes in service, would add to the value for the affected products. By law, as a part of the ratesetting process, the costs of the systems as well as the increases in the value of service would be built into prices by the Postal Rate Commission. If, for example, Standard mailers wanted a date-specific product, the price would have to be higher to support the higher costs associated with providing this increased level of service.

Installing a full external measurement system, similar to EXFC, for the other mail classes would require contracts for preparation of transit time mailings and independent reporting, plus additional costs for data storage, retrieval, data analyses, diagnostics and reporting. It would require much more complicated seeding within customer's mailings to reflect the various presort levels and dropship entry points. The current annual cost for EXFC is approximately $21 million to measure single-piece First-Class Mail. The complexity and cost of full external measurement for all mail classes would be much higher and the cost would have to be borne by the ratepayers, many of whom are already aware of the service they are receiving on their specific mailings because of the various diagnostic tools used by the Postal Service. We also believe that building measurement systems from the bottom up, using diagnostic tools that measure individual mailings, is a more appropriate strategy and will better meet the individual needs of our customers.

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Appendix F
Modern Service Standards

Overview

Our service standards are modern and up-to-date. For over three decades, we have established, monitored, reviewed and refined our standards, as appropriate. The fact that some standards have remained consistent does not demonstrate that those standards have not been reviewed or are outdated. Rather, it means we have determined that they still work for the mailers and for us. In large part, our service standards are based on and designed around three factors. One factor is our transportation capabilities; another is our sortation capacities. In other words, our service standards reflect our network. The third factor is how our customers conduct their businesses – our service standards reflect our customers' needs. If our operational capabilities and customers' needs change, standards will be reviewed and, as appropriate, adjusted to reflect those changes.

Changes Affecting Multiple Mail Classes

AMP Changes

As our dynamic mail processing infrastructure has evolved, Area Mail Processing (AMP) changes, or consolidations of volumes, have helped us maintain a maximum degree of efficiency. While the AMP process generally transfers all processing responsibility from one plant to another, it is common for exceptions to be made for Express Mail, which is always handled as expeditiously as possible. Prior to approval, AMP proposals are scrutinized to ensure that any changes to levels of service are justified. Where appropriate, service standards are upgraded to maintain traditional performance levels among community and business areas of interest. Potential impacts to service are discussed in an open "town hall" forum with communities involved in AMP-related changes. After review of community feedback and official approval, the AMP proposal is implemented.

The AMP process provides a framework for analyzing individual network changes to ensure that sound business practices are followed. It is also a methodical way to work though the entire service standards database, reviewing it completely before we proceed with any movement of mail. Comprehensive review of the application of current service standard definitions is an integral part of the ongoing Evolutionary Network Development initiative and is expected continue through the next few years (as described in testimony in Postal Rate Commission Docket No. N2006-1).

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Preparation, Transportation and Routing Changes
All preparation, transportation and routing changes for First-Class Mail, Periodicals, Package Services Mail, and Standard Mail are coordinated carefully with the mailing community. They are printed in the Postal Bulletin, the Domestic Mail Manual and are available online. These changes also require related service standards adjustments for First-Class Mail and Package Services since the basis for the aggregation of their service standards is at the Area Distribution Center (ADC) or Bulk Mail Center (BMC) level.

Changes Affecting Individual Mail Classes

Express Mail

Reflecting its position as our premium product, the service standards for this product carry a money-back guarantee. Express Mail service standards are based on the total end-to-end logistics and operations supply chain and are updated approximately every two months, maintaining a current set of commitments at all customer access points, at postal locations or online. Given the blend of logistics providers that we utilize, these service standards fluctuate incrementally to synchronize our operations with the dynamic nature of transportation schedules. Since there can be as many as 16 different levels of service between each 5-digit ZIP Code origin and destination pair, the service standard changes for Express Mail are often just a matter of a few hours at the point of acceptance or delivery.

Priority Mail

Priority Mail service standards are traditionally faster than or equal to the service standards of First-Class Mail (FCM). However, the focus of Priority Mail is to maximize delivery within two days. Consequently, while the overnight service standards of Priority and FCM are designed to be equal, over 93 percent of Priority Mail pairs, or 97 percent of volume, has an overnight or two-day service standard. Priority Mail standards are continually kept current based on AMP and the preparation, transportation and routing changes noted above.

First-Class Mail

First-Class Mail service standards were adjusted on a nationwide basis in 1989 and were again adjusted in 2001. Also, as described above, First-Class Mail service standards are revised when affected by AMP changes, which are publicly discussed during AMP "town hall" meetings, and also are revised as required by preparation, transportation and routing changes, which are published in the Postal Bulletin, the Domestic Mail Manual and are available online.

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Periodicals

Periodicals service standards are designed to be overnight in the same areas
that Priority and First-Class Mail are overnight. These standards are continually
reviewed as part of the AMP process and as a result of preparation,
transportation and routing changes, as noted above. The standards are based
on postal zones, which also are the foundation of Periodicals rate categories.

There is an additional, important dimension related to Periodicals service
standards. A broad spectrum of worksharing opportunities, including presort and
destination-entry discounts, enables customers, printers, and logistics providers
to collaborate with the Postal Service to effectively move their products into
zones with faster service standards, as appropriate for their purposes.

Package Services Mail

Formerly Parcel Post, these service standards were revised to correlate with the
BMC network. Changes to this network, including AMPs, which affect the
location of processing, are adjusted continually within the service standards
database. Mail preparation changes are also focused on improving service. For
example, in FY 2000, Bound Printed Matter was required to be palletized,
thereby reducing unloading times by up to 8 hours. Zone-skipping (like dropship)
results in more parcels and Bound Printed Matter deposited close to destination.

Worksharing opportunities exist, similar to those available for Periodicals, as
described above. In addition to those worksharing opportunities, there is Parcel
Select, which was added in 1999. Parcel Select has a faster service standard of
one to three days.

Standard Mail

Service standards are kept current as part of the AMP program and as a result of
preparation, transportation and routing changes, as described previously, but the
predominant service standard related programs for this class of mail are related
to collaborative worksharing efforts with the mailing community (including printers
and logistics providers). A variety of presort and destination entry opportunities
exist to effectively move customers' products into zones with faster service
standards, as appropriate for their purposes. This strategy has been leveraged
as the service-related mechanism of choice, allowing an effective balance
between service and price.

Transparency of our Service Standards

As appropriate to each individual customer, service standards of *all possible mail
classes* are shared at all access points, including retail POS ONE terminals,
Automated Postal Centers (APCs), and the online inquiry application available on

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usps.com. In addition, various guidelines for mailing have been circulated through the Mailers Technical Advisory Committee to help determine appropriate service expectations for mailings which move in a more streamlined fashion through our networks due to various levels of presort and destination entry options.

An example of these guidelines covers requests by some Standard mailers for in-home delivery dates. Under these guidelines, the Postal Service works closely with large mailers to improve delivery performance and resolve outstanding issues. For instance, the Postal Service has a close working relationship with a large national retailer. Mailings from this customer are tracked and measured in accordance with the requested in-home date using CONFIRM service. Delivery is measured in three categories - percent early, percent on time and percent late. Service performance is provided at the area, district and Post Office level. Customer mail entry locations, date and time are also tracked. Data gathered through this cooperative effort help the customer identify correct entry locations as well as the best time of day and day of week to enter their mail to improve the delivery performance within the requested delivery window. Area and district staffs use the Post Office level data to identify specific locations needing improvement. The overall result is that the printer, logistics provider, and the Postal Service can all work cooperatively to deliver service for the organization paying the postage.

Since their inception, our service standards have been directly tied to our operational capabilities – they mirror our networks – and to our customers' needs. Changes to facility locations, processing technologies and available transportation either enhance or limit the service that can be provided consistently. One of the principal aspects of the Evolutionary Network Development initiative is to ensure service standards are reviewed in light of new operational capabilities. As both the operations network and our customers' needs evolve, evolution of our service standards, where appropriate, also will take place.

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Appendix G
Customer Collaboration

<u>Overview</u>

The Postal Service has a solid track record of working with our major customers to improve the entire value chain of mail preparation, transportation, induction, mail processing, and delivery. This is founded in the shared objective of a strong postal system. The joint efforts touch on all aspects of mailing, from making mail easy and affordable, to improving service. In fact, these collaborative efforts set the standard of how posts around the world are now starting to work with their customers.

<u>Strategic Transformation Plan Process</u>

During the process of preparing the <u>Strategic Transformation Plan, 2006-2010</u>, we solicited stakeholder input. We began by asking attendees at the March 2005 National Postal Forum to complete a survey and respond to five open-ended questions. The following month, we published a *Federal Register* notice requesting comments on the Plan.

An aggressive effort was made to involve the Postal Service's 700,000 employees. In addition, press releases and targeted mailings were sent to key individuals and organizations and senior postal executives contacted postal oversight organizations. Dedicated channels, such as unique websites were used to provide information about the Plan as well as to provide a quick, easy and convenient way for stakeholders to give feedback. A total of 1,400 items of feedback were received, including survey responses, emails and letters. The response rate was nearly ten times greater than that for previous, similar outreach efforts. The feedback we received was that the Postal Service was on the right track – and just keep improving. The <u>Strategic Transformation Plan</u> reflects this continuation of momentum.

<u>Mailers Technical Advisory Committee (MTAC)</u>

A prime example of customer collaboration is the Mailers Technical Advisory Committee (MTAC), which recently celebrated its 40th anniversary. MTAC was established in 1965 as a partnership between the Postal Service and leading companies in the mailing industry to share information and ideas for improving mail services and products. Over the years, MTAC member companies have helped us use technologies that led to the implementation of the 5-digit ZIP Code, ZIP+4, presorting, barcoding, automation, drop shipment, and a growing list of new efficiencies to improve service, reduce costs and add value to the mail.

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Also, collaborative MTAC activities have yielded a number of changes to the standards that dictate how mail is prepared and entered. Not only have most of the proposed changes been vetted through industry stakeholders during the development stage, customers have the opportunity to comment and provide input within a formal process on all proposed changes that will impact how they do business with the Postal Service. Currently, MTAC is organized into four main activities, one of which is "Service Measurement and Improvement." One of the workgroups under this channel is focused on the standardization of service reporting and performance.

An MTAC work group was tasked with developing an affordable service measurement, specifically for First-Class bulk mail, in addition to the current EXFC service measurement. The work group developed a certification process using the CONFIRM system, which if used as designated, would offer a valid "start the clock" acceptance for measuring service performance for that specific mailing. Funding for the additional First-Class service matrix was to be borne by the mailers wanting the additional service. However, lack of mailer participation has prevented implementation at this time.

Mailing Industry Task Force (MITF)

Another example of the Postal Service working with customers is the Mailing Industry Task Force (MITF). In 2001, the MITF was created to focus on industry-wide issues that included the best opportunities to improve mail and the mail channel, through the creation of targeted strategic initiatives. Approximately 60 mailing organizations and 175 postal and industry executives participated in the MITF. They defined three overarching strategic principles that would further define their objectives: respond to customer needs; unify the mailing industry, and make the mail and the mail channel more responsive. These strategies led to MITF members collaborating on standardizing mail preparation and distribution, developing a CEO-level advisory council, and developing ideas for intelligent mail and consumer services. As a result, the MITF conceived and supported over 40 opportunities. Examples of these initiatives range from the approval to have Automated Change Service (ACS) preprinted on envelopes which reduces mailer's cost and increases the percentage of ACS, to the creation of an official snowbird program, Premium Forwarding Service, which handles forwarding of mail for seasonal travelers, reduces forwarding costs and increases customer satisfaction. Over the course of its three-year term, the MITF demonstrated that it was a catalyst for positive change by producing meaningful and achievable results.

Postal Customer Councils (PCCs)

Postal Customer Councils (PCCs) are made up of Postal Service leaders and business mailers who work together at the local level to promote the value of

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mail, address mailing concerns, and exchange ideas to maximize the benefits of postal services used by all businesses. Through regular meetings, educational programs, mailer clinics, and seminars, PCC members learn about the latest postal products and services that will help them grow their businesses by deriving greater value from the mail. PCCs also serve as an important resource and shared experience network that help the local mailing community learn from others to become more efficient as they become more knowledgeable about various aspects of the mailing experience. The PCCs are essential grass root-level partnerships that allow local managers to address specific local issues.

Business Service Network (BSN)

We also view the Business Service Network (BSN) as a further way to receive customer input and respond to their needs. Customers contact us concerning anything from service issues to requests for information about new products or operational changes.

The BSN is a dedicated nationwide network that serves as the primary point of contact and provides customer service support to the Postal Service's larger customers who make up a significant percent of postal revenue. This customer base has a combination of simple and complex issues and requires an integrated and cross functional approach to resolution. In addition, the BSN handles customer requests for information, supplies, and equipment. Customers can access the BSN by calling their BSN representative, via email, or using the Internet-based BSN eService.

The BSN was initially established in 1998. At that time, the primary focus was to document and track customer service complaints and issues, and notify the appropriate internal people that issues existed. Most BSN personnel were assigned to the district and were limited in their ability to solve problems that crossed district and area boundaries. The BSN has changed dramatically over the past several years and continues to evolve. In response to our customers' changing and diverse business needs, the BSN is positioning itself to be proactive and focused on problem identification and resolution. The BSN structure aligns resources so that more complex issues can be handled at the area level and less complex issues will be handled locally.

In addition to being the primary point of contact for customers to report issues and request services, the BSN makes special contacts to customers when new products or operational information might impact mail service operations. The BSN received recognition from the mailing industry for providing outstanding communications during Hurricanes Katrina and Rita. Specifically, the BSN provided frequent communications to customers regarding postal operations and mail service in the hurricane-impacted areas. The BSN effectively communicated critical information to customers that alleviated confusion and provided up-to-date information on the status of postal operations.

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National Postal Forum (NPF)

The premier educational venue, trade show and networking event, the National Postal Forum (NPF), is now an annual event, with the purpose of assisting the Postal Service in building relationships with and educating mailers in the most effective and efficient use of products and services. The NPF was established in 1968 by a group of major postal customers who were committed to an ongoing partnership with the Postal Service. The last three events each had over 6,000 attendees who heard directly from Postal Service senior management about our focus on service, as well as our longer term vision of quality and what their roles are in that vision. During the NPF, each area and district meets with customers to discuss service, mail preparation and other more local issues.

All of these joint efforts provide opportunities to improve the Postal Service from the standpoint of our financial position and the service we provide our customers. Though it may not be spelled out as the specific purpose of a Postal Service/industry effort, the underlying objective is always to enhance our ability to render postal services in a cost-effective and service-responsive manner.

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Appendix IV: GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

In addition to the individual named above, Teresa Anderson, Cynthia Daffron, Tamera L. Dorland, Kathy Gilhooly, Brandon Haller, Kenneth E. John, Catherine S. Kim, Karen O'Conor, Jacqueline M. Nowicki, and Edda Emmanuelli-Perez made key contributions to this report.

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