

Comprehensive Statement 2001



United States Postal Service 2001 Comprehensive Statement on Postal Operations

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All references to "2001" or "the year" refer to the government fiscal year ending September 30, 2001.

Chapter I Compliance with Statutory Policies

A. Fundamental Service to the People

(39 U.S.C. 101 (a))

1. General

It was a year of challenge and a year of change. A softening economy resulted in a slowing demand for postal services. At the same time, our universal service responsibility saw the Postal Service expand its delivery network to accommodate some 1.7 million new residential and business addresses.

In light of an extremely challenging financial situation, Postal Service management and the Board of Governors acted quickly and decisively to control costs while maintaining service excellence. This included a temporary hold on more than 800 capital facility projects nationwide. At Headquarters, we instituted a hiring freeze and reduced programs. Career employment throughout the system was reduced by 11,600. And this was on top of the previous year's reduction of 10,300 positions. USPS Total Factor Productivity for the year grew by 1.3 percent, double the planned increase. That gain translated into savings of \$900 million.

Through it all, the men and women of the Postal Service delivered. For the second straight year, customer satisfaction measurements showed that 92 percent of households surveyed rated their level of satisfaction with the Postal Service as "good," "very good," or "excellent." And independently measured delivery scores remained at record levels, showing that 94 percent of local First-Class Mail was delivered on time.

Service remained foremost in the Governors' minds with their selection of John E. Potter as the 72nd Postmaster General of the United States. This brought a renewed focus on operational performance and core products and services. Potter, only the sixth career employee to lead the world's largest postal system, established specific strategies to support continued organizational success. By developing people, managing costs, improving service, growing revenue, and realizing reform, the Postal Service can succeed long into the new century.

A restructuring of Headquarters and field operations by the new Postmaster General reduced administrative functions and better aligned resources with tasks. This included a combined Marketing and Sales function, which brought the

development, management, and sales of products and services into a single, streamlined organization better able to serve our customers.

Looking forward, management began work on a comprehensive Transformation Plan to give the Postal Service needed flexibility to finance itself and meet the challenges of expanding competition and technological change. Working with all stakeholders, management created and circulated a discussion document to assist in the development of a comprehensive plan for submission to Congress and the Administration. The three-phase plan explores changes within our existing legislative framework, moderate legislative change in areas such as pricing, and long-term transformative efforts that would define and support the role of the Postal Service in a new century.

The Postal Service's role as provider of a fundamental service to the people of the United States was dramatically underlined following the September 11 terrorist attacks on New York and Washington. The sight of our letter carriers in every neighborhood in the nation — including the affected cities — brought a welcome sense of reassurance and normalcy to those we serve.

Within weeks of the attacks, however, the Postal Service itself became a new "ground zero." In an unprecedented use of the mails for bioterrorism, leaders of Congress and the news media were targeted with letters contaminated with deadly anthrax. Tragically, these criminal acts resulted in death and serious illness of innocent Americans. Two Postal Service employees were among the five Americans killed; others were made critically ill. In the uncertainty that followed, the U.S. mail was disrupted and Americans learned again the criticality of daily, universal mail service to our nation.

The Postal Service, working with federal, state, and local public health and law enforcement officials, worked tirelessly to protect the safety of the American people, the safety of our employees, and the safety of the mail. A program of education, investigation, intervention, and prevention — notable for the involvement of the mailing community as well as Postal Service unions and management associations — was quickly developed and put in place. This helped us to address the threat to daily, universal mail service, one of the most important unifying elements of a far-flung, diverse, and free nation.

The Postal Service recognizes its responsibility in continuing to provide this fundamental service. Neither snow, nor rain, nor heat, nor gloom of

night, nor the winds of change, nor a nation challenged will stay us from the swift completion of our appointed rounds. Ever.

2. Board of Governors

As the governing body of the U.S. Postal Service, the 11-member Board of Governors has responsibilities comparable to a board of directors of a publicly held corporation. The Board is composed of nine Governors appointed by the President of the United States with advice and consent of the Senate. The other two members of the Board are the Postmaster General and the Deputy Postmaster General. The Governors appoint the Postmaster General, who serves at their pleasure without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General (39 U.S.C. 202).

The Board meets on a regular basis and at the annual meeting in January the chairman is elected by the Governors from among all members of the Board. The vice chairman is elected by the full Board.

The Board directs the exercise of the power of the Postal Service. It establishes policies, basic objectives, and long-range goals for the Postal Service in accordance with Title 39 of the U.S. Code. Except for those powers specifically vested in the Governors, the Board may delegate the authority vested in it by statute to the Postmaster General under such terms, conditions, and limitations, including the power of redelegation, as it deems desirable (39 U.S.C. 402). The Governors are authorized to establish reasonable and equitable classes of mail and reasonable and equitable rates of postage and fees for postal service (39 U.S.C. 3621). A specific power reserved by statute for the Governors alone is to approve, allow under protest, reject or, by unanimous written decision, modify recommended decisions of the Postal Rate Commission on postal rate and mail classification changes (39 U.S.C. 3625).

The Board held regular monthly meetings during 2001 for a total of 24 days. Nine of the regular meetings were held in Washington, DC, and the other three in cities across the country. In addition, the Board held six special meetings.

The Board had three standing committees: Audit and Finance, Capital Projects and Strategic Planning. The committees held regularly scheduled meetings during the year to consider matters within

their areas of responsibility and refer items to the full Board for consideration.

In October 2000, the Board approved two capital projects: expansion of the Processing and Distribution Facility in Champaign, IL, and additional funding for a new Springdale Station in Stamford, CT. They also approved a resolution to borrow money as well as their meeting schedule for 2001.

In November 2000, the Board approved a resolution for Approval of International Postage Rates, Special Service Fees, and Miscellaneous Charges. The Board approved capital funding for the Information Technology Enhanced Security Capability and approved the FY 2001 Integrated Financial Plan.

In December 2000, the Governors, in separate votes, approved the Recommended Decisions of the Postal Rate Commission on Postage Rate and Fee Changes and on Selected Mail Classification Matters, Docket No. R2000-1, under protest. The Board approved a resolution setting January 7, 2001, as the effective date for the new classification and fees. The Board approved the FY 2000 Audited Financial Statements and the EVA Variable Pay Program for FY 2001. The Board approved three capital projects: restoration of the parking area at the Milwaukee, WI, Processing and Distribution Center; the mail processing annex in Indianapolis, IN; and additional funding for automated flats feeder and OCR capability for Flat Sorting Machine 1000s.

In January 2001, the Board approved a resolution supporting the transportation and drop box agreements with Federal Express. The Board approved a resolution on capital funding and the FY 2000 Annual Report. The Board approved four capital projects: Integrated Data Systems Upgrade, Time and Attendance Collection System, Standard Accounting for Retail Systems, and Postal Field Computing Infrastructure. The Governors elected Robert F. Rider as Chairman of the Board and the Board elected S. David Fineman as Vice Chairman for 2001.

In February, the Board approved a resolution to borrow money and capital funding for a new Mar Vista Station in Los Angeles, CA.

In March, the Governors approved the Decision rejecting the Further Opinion and Recommended Decision of the Postal Rate Commission on Postage Rate and Fee Changes, Docket No. 2000-1, and requested reconsideration. The Board approved filing of a Priority Mail Niche Classification and capital funding for upgrades at

the Processing and Distribution Center in Seattle, WA.

In April, the Board approved a resolution clarifying the role of the Strategic Planning Committee. The Board also approved the FY 2000 Comprehensive Statement on Postal Operations and a resolution to borrow money.

In May, the Governors unanimously approved the decision to modify the postal rates and fees recommended by the Postal Rate Commission. The Board approved a resolution setting July 1, 2001, as the effective date for the new classification and fees. The Board approved a resolution revising the Audit and Finance Committee charter, the FY 2002 appropriation request, and a resolution to borrow money. The Board approved capital funding for enhancements to the letter recognition program.

In June, the Governors approved the Postal Rate Commission's Recommended Decision on Experimental Presorted Priority Mail Rate Categories, Docket No. MC2001-1. The Board approved July 15, 2001, as the effective date of the new classification and rates. The Board approved capital funding for the Surface Air Support System and for advance site acquisition for the Processing and Distribution Center in Teterboro, NJ.

In July, the Board approved Pay for Performance goals for FY 2002 and Board meeting dates for calendar year 2002. The Board approved a motion to seek acceleration for the reimbursement for forgone. The Board approved capital funding for the West Bethesda Branch in Bethesda, MD, and for administrative space at the North Lynn Street facility in Arlington, VA.

In August, the Board held a one-day closed session to review financial and pricing information for filing an omnibus rate case with the Postal Rate Commission.

In September, the Board approved filing a rate case with the Postal Rate Commission, extension of the experimental ride-along case, and filing an experimental case for delivery confirmation. The Board approved the FY 2002 operating budget for the Office of Inspector General. The Governors approved the Postal Rate Commission FY 2002 operating budget. The Board approved the FY 2002 operating budget and capital investment plan for the Postal Service, and a resolution to borrow money. The Board approved funding for lease renewals for the Priority Mail Processing Center Network.

Postmaster General William J. Henderson retired from the Postal Service on May 31, 2001.

The Governors appointed John E. Potter as Postmaster General effective June 1, 2001.

3. Strategic Planning

The Office of Strategic Planning supports the Postmaster General, the Executive Committee, and the Board of Governors in the development and implementation of the Five-Year Strategic Plan and the Annual Performance Plan, as required by the Government Performance and Results Act of 1993. The Office of Strategic Planning also assists senior management in addressing long-term strategic issues, and supports headquarters departments in the development of functional plans.

a. The Five-Year Strategic Plan, FY 2001–2005

The Government Performance and Results Act (GPRA) required agencies to develop a *Five-Year Strategic Plan*, beginning in 1997, with updates at least once every three years. The Postal Service published the first updated Five-Year Strategic Plan in September 2000.

The Strategic Plan was used as the basis for an independent evaluation of the Postal Service conducted by George Washington University and *Government Executive* magazine. This evaluation is part of a multi-year study of the performance of 27 government agencies and their adherence to GPRA principles. *The Federal Performance Report: Grading Government*, was published in April 2001 and included the Postal Service and several other agencies. The study team stated that “The Postal Service is one of the better-run agencies in government.”

The Postal Service received top ratings on managing for results. The key factors listed by the study team were:

- Clearly stated mission, linked to performance plans
- Sophisticated business forecasting
- Balanced scorecard with integrated planning
- Outcome-focused measures
- Reliable data
- Strong workforce planning
- Information Technology planning integrated with mission and strategies
- Budget, spending, and asset planning linked to strategic and performance goals

The FY 2001–2005 Strategic Plan focused on three major strategic challenges resulting from an increasingly uncertain economic environment.

These challenges were:

1. The increasingly difficult task of maintaining postal prices at competitive levels as postal

workload (mail volume and delivery points) and associated costs increase, while the Postal Service is restricted from making major structural changes associated with the universal service obligation (such as closing post offices because of unprofitability);

2. The limitations on the Postal Service that reduce its ability to generate new revenue in an increasingly dynamic and competitive market; and

3. A need to become more flexible, innovative, and responsive to customer needs while improving labor–management relations and employee commitment to results-oriented performance.

The Strategic Plan stated that the Postal Service would continue to focus on improving service performance, customer and employee satisfaction, and productivity, but that incremental improvements would not meet the needs of the public or postal customers. Significant change required adjustments to the regulatory and legislative framework established more than thirty years earlier by the Postal Reorganization Act of 1970. The Board of Governors then requested Congress to consider changes in the Act. The General Accounting Office agreed that the current framework required transformation, and placed this issue on the government’s “High Risk” list.

b. The Transformation Plan

As a result of this review and subsequent congressional oversight hearings, the Postal Service was tasked with developing a comprehensive transformation plan that would address these issues and outline alternative strategies. A cross-functional Office of Transformation Planning was established within the Strategic Planning Department, and the Postal Service published “Outline for Discussion: Concepts for Postal Transformation” on September 30, 2001. This document was intended to serve as background for an extensive program of outreach to postal stakeholders. A comprehensive Transformation Plan, representing an integrated discussion of options on the major issues facing the Postal Service, was originally scheduled to be published on December 31, 2001. Congress extended the deadline to March 31, 2002.

c. Stakeholder Outreach

The Postal Service and several of its key stakeholders have been involved for several years in discussions about legislative reform. The Postal Service Five-Year Strategic Plan, FY 2001–2005,

incorporated additional specific comments about many of the issues facing the postal community, and the Postal Service formed a task force with the mailing industry to discuss short-term opportunities for change. A request for comments on the policy questions related to transformation raised by Congress and the General Accounting Office was published in a Federal Register notice, posted on the Postal Service website, and was mailed to major mailers, suppliers, the mailing industry, and postal unions and associations. The Postal Service held a number of meetings with stakeholders and conducted surveys and focus groups to gather extensive data on the subject of postal transformation. These results will be incorporated into the Transformation Plan.

d. Annual Performance Planning

The annual planning cycle (see Table 1.1) begins with an assessment of the postal business environment. The preliminary assessment, circulated to the executive committee in June 2001, indicated that the U.S. economy was not expected to grow as fast in FY 2002 and 2003 as in the recent past. However, these preliminary forecasts, comparable to the best government and private sector forecasts, did not predict the dramatic decline of the U.S. economy. The Business Environment Assessment (BEA) did suggest that direct competition and technological substitution for traditional postal services would continue to increase and would adversely affect mail volumes and revenues.

The BEA noted the need for increased transportation flexibility and independence from scheduled airlines as mail service suffered from problems in that industry. The disruptions to the national air transportation system as a result of September 11 and subsequent actions were exceptional, but the Postal Service had already begun making alternative arrangements — most notably the arrangements with Federal Express and the strategy to replace air service with ground service wherever possible. These actions minimized the disruptions to mail service.

The BEA also noted that American consumers indicated that security and safety were increasing concerns — not just for mail, but as part of their overall needs not completely satisfied in the economy and society. Unfortunately, those fears were justified by the terrorist attacks on the United States, including the use of anthrax in the mail.

The FY 2002 *Annual Performance Plan*, published in October 2001, did not include the impact of the dramatic reduction in economic growth or

the disruptions caused by the response to terrorist attacks. The full impact has not yet been assessed, and the Postal Service has advised Congress of the levels of assistance to cover the costs of terrorism and related issues.

Chapter 5 of the *Comprehensive Statement on Postal Operations*, 2001 provides a report of postal performance during FY 2001, as required by the Government Performance and Results Act. Chapter 4 provides the preliminary performance targets for FY 2003, as the Postal Service begins the planning cycle for that year. Following the acceptance of the Integrated Financial Plan by the Board of Governors, the final targets will be published in the Annual Performance Plan in September 2002.

The planning documents and associated information are distributed to internal and external audiences in a number of formats and are available on the Strategic Directions website of the Strategic Planning Office.

e. Strategic Analysis

The Strategic Planning Office, usually in partnership with other functional departments, participates in a number of conferences and conducts several studies focused on long-term changes that will affect the Postal Service. In FY 2001, Strategic Planning sponsored the following:

- Postal Service Household Diary Study Trends
- Future of Global Mail
- 2010 Market Scenarios
- Assessment of Universal Service Research and Trends
- Consumer Decision-Making in the 21st Century
- Trends in Household Penetration and Use of Internet (Mail Diversion Studies)

- Case Studies in Organizational Transformation
- Customer Value Analysis and Brand Equity Measurement
- Balanced Scorecard and Performance Measurement

These studies supported the planning process, customer outreach programs, the Transformation Team and other management initiatives.

4. Quality

Consistent with the FY 2000 decision to phase out a separate Quality function, the Headquarters Quality department was officially eliminated at the end of 2001 with the creation of the new Performance and Field Operations Support group.

Performance and Field Operations Support assumes permanent responsibility for most activities formerly performed by the Breakthrough Productivity Initiative; continued development and implementation of the Standardization effort begun by the Quality Core Applications group; and the support functions of the process review, deployment, requirements, and short-term planning activities previously performed by the Operations Process Support group.

Three primary Quality initiatives from 2001 will be carried forward for further development and final implementation in FY 2002 by the Field Operation Support functions. Specifically, these are the Automated Flat Sorting Machine (AFSM 100) standardization, the standardized "shape-based separation" of priority mails, and the project management of the "Bold Actions" project tracking system. Other new standardization efforts planned

TABLE 11. ANNUAL MANAGEMENT PLANNING CYCLE												
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
Establish	Set Preliminary Targets for Next Year						Set Final Targets for Next Year					
Deploy				Negotiate Requirements (Develop Budgets) for Next Year								
Implement	Implement Prior Year's Programs and Budgets											
Review	Assess Previous Year's Performance											
	Monitor Current Performance and Adjust Programs, Budgets, and, where necessary, targets											
GPRA and related Documents	BEA		AR		PAPP and APR in CSPO	CTP						APP 5 Year Strategic Plan

Business Environment Assessment (BEA); Annual Report (AR), includes the audited financial statements of the USPS, and other relevant data, in response to the Chief Financial Officers Act, and related legislation; Preliminary Performance Plan (PAPP); Annual Performance Report (APR); Comprehensive Statement on Postal Operations (CSPO); Annual Performance Plan (APP); Five-Year Strategic Plan (updated at least every three years; the most recent update was September 2000, for the period FY 2001-2005); Comprehensive Transformation Plan (CTP) is a special report responding to congressional oversight and General Accounting Office (GAO) concern.

for FY 2002 include customer service operations, improved mail condition reporting and indicators, and continued enhancements to the operations performance achievement and assessment systems.

5. Diversity

a. General

The Postal Service is facing internal and external business obstacles that provide both challenges and opportunity for improved financial performance. The business of the Postal Service is built upon a diverse customer base. It is good business for our workforce and supplier base to reflect this same diversity. Internally, we must continue to work toward the most inclusive workplace possible, one that builds upon our diverse talents and does not tolerate discrimination and sexual harassment. The related external issues are retention of talented employees, meeting legal and regulatory equal employment opportunity mandates, enhancing our corporate image as a responsible corporate citizen of the diverse communities we serve, and promoting business and community partnerships.

To meet these challenges, Diversity Development is focused on four corporate strategies: fostering broader participation in our employee development programs, strengthening management accountability, enhancing messaging about the value and benefits of diversity, and broadening our community outreach efforts. These will ensure that the Postal Service remains a great place to work, a place where everyone's participation is welcomed and no one is subjected to discrimination or sexual harassment. It will also be a place where employees have access to programs that help them advance as far as their talents and desires will take them.

Diversity Development's initiatives include special emphasis programs that encourage employees to appreciate each other's differences and exclude no one from organizational advancement because of those differences. We are working to ensure that both personnel selection and development participation are inclusive. We are taking steps to maximize the return on our investment in organization partnership in multicultural communities. Diversity Development is actively involved with ensuring that the succession planning process is inclusive. We will continue efforts to help build a diverse supplier base by welcoming participation of small, minority, and women-owned businesses. Realizing that suppliers also are our customers,

our key objectives are to generate revenue from these sources and to increase customer service and satisfaction.

b. National Diversity Recognition Program

The Postal Service National Awards Program for Diversity Achievement recognizes individuals and teams that demonstrate exemplary efforts to encourage and promote diversity within the organization.

In 2001, there were more than 2,800 nominations. Categories for award consideration were Individual, Team, Leadership, and the Dot Sharpe Lifetime Achievement Award. And the vice president's category recognizes employees, both individually and collectively, who helped to advance the vision of diversity within the Postal Service.

Recognizing and valuing diversity continues to be a business requirement and is the key to attaining strategic organizational goals. Recognizing postal employees for their diversity efforts will help ensure that the Postal Service remains an inclusive and diverse organization.

c. Employment of Individuals with Disabilities

The Postal Service uses regular competitive procedures in selecting individuals with disabilities for employment. Individuals with severe disabilities receive noncompetitive employment consideration through referrals from individual state departments of vocational rehabilitation or the U.S. Department of Veterans Affairs. In 2001, the Postal Service's career workforce included 47,937 employees with reported disabilities and 7,329 employees with targeted disabilities.

The Postal Service was recognized by *Careers and the Disabled* magazine for an outstanding employee award. The award acknowledged the Postal Service as a great place to work for people who are disabled.

Each year, the Postal Service submits an Affirmative Employment Plan and an Accomplishment Report for Individuals with Disabilities to the Equal Employment Opportunity Commission. The Affirmative Employment Plan is disseminated to Postal Service field installations. Each installation head is responsible for its implementation.

d. Veterans' Employment

The Postal Service is one of the largest employers of veterans and disabled veterans in the nation. At the end of 2001, the Postal Service employed approximately 235,985 vet-

erans, including 77,521 who are disabled because of injuries received in the uniformed services. Of that number, 19,183 have disabilities of 30 percent or more. The Postal Service prepares an annual Accomplishment Report and Plan Certification for disabled veterans for submission to the Office of Personnel Management.

e. Affirmative Employment Programs

The Affirmative Employment Program (AEP) unit provides national guidance on the affirmative action and employment program of the Postal Service. During 2001, the following initiatives were taken to improve the inclusiveness and retention of the postal workforce:

- Streamlined the Affirmative Employment Annual Accomplishment Report process. With the concurrence of the Equal Employment Opportunity Commission (EEOC), the number of required reports for the AEP reporting process was reduced from 372 to 98. To facilitate barrier analysis, the AEP unit developed enhanced statistical data graphic displays to supplement the workforce demographics required by the EEOC for AEP report submission. These reports contain a summary of the steps taken to address barriers and graphics to display progress.
- Completed and submitted AEP Annual Accomplishment Reports. These reports addressed the prevention of sexual harassment, discrimination complaints, recruitment and hiring, employee development, promotions, separations, retention, program evaluation, and employee group representation.
- Published and distributed the Affirmative Employment Plans and Accomplishment Report for individuals with disabilities to postal management and the EEOC.
- Published and distributed the Affirmative Employment Plan and Accomplishment Report for disabled veterans to postal management and the Office of Personnel Management.
- Enhanced and revised the Affirmative Employment Quarterly Tracking Report used to monitor affirmative employment activities nationwide.
- Published and updated the Equal Employment Opportunity and Affirmative

Employment policy statement of the Postmaster General.

A new on-site AEP evaluation process was implemented as an internal auditing procedure to measure, assess, and verify progress toward achieving a discrimination-free workplace. An on-site evaluation team reviewed diversity achievements in performance clusters with the greatest challenges. The completed reports included best practices and recommendations.

The Diversity Reporting System (DVRS) provides detailed statistical reports on the postal workforce. These reports include workforce profiles by grade level groupings, hiring, promotions, separations, development activities, and trends. Statistical information from DVRS is provided on request to the General Accounting Office, the EEOC, Congress, and other external and internal customers.

The Postal Service also administers the National Hispanic Program, the Women's Program, and the Special Emphasis Program. These programs focus attention on the special needs, obstacles, and concerns of all groups where they are underrepresented in postal employment. Major accomplishments for these programs are described below.

1. National Hispanic Program

The National Hispanic Program (NHP) Executive/Managerial Development Process, through its field network, continued to address the organization, its goals, and underrepresentation of Hispanics in the Postal Service.

The NHP also sponsored or attended recruitment and community outreach activities. Hispanic Program specialists continue to participate in recruitment drives, testing preparedness seminars, Form 991 preparation, and Advanced Leadership Program recruitment.

In its efforts to respond to the corporate goals, the NHP sponsored numerous national events involving the National Council of La Raza, the U.S. Hispanic Chamber of Commerce, Hispanic Data (the electronic job-posting website), the Hispanic National Bar Association, the National Organization for Mexican American Rights, the National Hispanic Leadership Institute, the Transporte Integrado y Masivo Hispanic Yearbook, the League of United Latin American Citizens, and the Hispanic Business Expo of Central Florida. These outreach activities have helped to establish the Postal Service as a benchmark among our

nation's businesses in addressing the needs of the Hispanic community.

2. Women's Program

The Postal Service continued its commitment to improve the status of women in the workforce. Through structured programs and positive actions, these efforts helped to identify and remove barriers and include women at every level in the organization. Major accomplishments designed to address the underrepresentation of women in the Postal Service include:

- Revised and published the Women's Program policy statement.
- Sponsored the Family Financial Planning Expo, to assist men and women in their personal financial planning.
- Updated the Women's Program website with information on recruitment and career development and to hyperlinks to national women's organizations.

More women are being prepared for management positions. During FY 2001, 40.1 percent of graduates of the Associate Supervisor Program were women, as were 44.6 percent of Advanced Leadership Program graduates.

The National Women's Program will continue its awareness campaign using postal media and the websites of women's organizations. The program assists women with career development and facilitates networking and support. It provides sponsorship to the Advanced Leadership Program and executive education programs at various universities.

The Women's Program will continue to analyze studies that focus on work and family life and address issues such as recruitment, retention, mentoring, and succession planning.

3. Special Emphasis Program

The Special Emphasis Program focused on recruitment, retention, and promotional opportunities for African Americans, American Indians and Alaskan Natives, Asian Americans and Pacific Islanders, people with Disabilities, veterans, and white males. White females and Hispanics are addressed by the Women's Program and the National Hispanic Program, respectively. Some of the major accomplishments of the Special Emphasis Program were:

- In conjunction with Executive Order 13126, the Special Emphasis Program developed a multi-year plan to address the White House Initiative on Asian Americans and Pacific Islanders as a result of the *Interim Report to*

the President and the Nation, released on January 17.

- Diversity Development was featured in *Fortune* magazine for its national minority supplier diversity initiatives and best practices.
- Collaborated with the National Congress of American Indians Youth Council to promote the availability of postal products, services, supplier, and career opportunities.
- Revised Publication 354, *African Americans on Stamps*.
- Program partnered with external national special emphasis organizations to establish a common goal to identify multicultural opportunities for increasing access to postal products, services, supplies, and career opportunities.
- The Postal Service received one of only two agency awards and recognition from the Federal Asian Pacific American Council for its commitment to the Asian Community.

f. National Sexual Harassment Prevention

Between fiscal years 1999 and 2001 diversity Development made a substantial commitment in the area of comprehensive sexual harassment awareness and prevention training. Craft and EAS employees received one and two hours of training, respectively.

During fiscal year 2001 the Postal service conducted service talks and offered sexual harassment facilitator training in several locations. These facilitators assist by delivering training at the local level.

In addition, the Office of the General Counsel continued to offer interactive web training for supervisors and managers on preventing sexual harassment activity.

Postal attorneys, Diversity Development staff, and specially trained facilitators provided briefings, upon request, for groups of employees.

The Postal service continued to educate through communicating its zero-tolerance policy.

- In February, the postal Service revised pertinent sections the Employee and Labor Relations Manual, specifically section 670, which addresses sexual harassment.
- In April, the chief operation officer released a letter reaffirming the commitment of postal leadership on the zero tolerance policy and posters were distributed to 34,000 facil-

ities nationwide, which provided employees with additional information.

- ⁿ Senior postal leadership further reiterated this commitment and featured “Tough message: Sexual Harassment Could Get You Fired” in an employee communication.
- ⁿ The National Association of Supervisors printed an article entitled “Supervisors Must Prevent sexual Harassment in USPS” in the postal Supervisor. Last, the Postal service revised Publication 552, and Manager’s Guide to Understanding Sexual Harassment and Publication 553, employee’s guide to Understanding Sexual harassment.

B. Service to Small or Rural Communities

(39 U.S.C. 101(b))

Effective March 16, 1998, the United States Postal Service imposed a moratorium on management initiated post office closings and consolidations. Under this moratorium, post offices will not be closed unless no reasonable alternative is available. Some closings (and suspensions) may be necessary or appropriate if postmasters retire suddenly or catastrophic events such as flood, fire, or earthquake occur.

The Postal Service along with representatives of the National League of Postmasters, continues to review all recent and proposed post office closings and emergency suspensions to help determine appropriate courses of action. During 2001, the Postal Service closed or consolidated two post offices, seven community post offices, and one classified station. These post offices were in the process of being closed before issuance of the moratorium and thus were allowed to continue through the closing process.

C. Employee Compensation and Career Advancement

(39 U.S.C. 101 (c))

1. Collective Bargaining

Negotiations with postal unions cover a full range of topics involving wages, benefits, and conditions of employment. The terms of the new 2000 National Agreement between the Postal Service and the American Postal Workers Union,

AFL-CIO (APWU), were determined pursuant to an award issued by an interest arbitration panel chaired by neutral arbitrator Stephen Goldberg on December 18, 2001. The three-year contract, covering approximately 337,000 employees represented by the APWU, is for the period from November 21, 2000, through November 20, 2003. Arbitrator Goldberg, who rejected the APWU demand for wage parity with city letter carriers, awarded three general wage increases of 1.2 percent effective November 18, 2000; 1.8 percent effective November 17, 2001; and 1.4 percent effective November 16, 2002. The award continues the current cost-of-living adjustment (COLA) formula and payment schedule for career employees, except that in lieu of COLA payments for the first year of the contract, eligible career employees were to receive a one-time lump sum cash payment of \$499. Arbitrator Goldberg awarded selective one-pay-level upgrades for six maintenance and motor vehicle positions. The positions of Mail Processor and Senior Mail Processor also received a one-pay-level upgrade.

An interest arbitration award was issued on February 3, 2002, which sets the terms of a new four-year collective bargaining agreement covering approximately 118,000 rural letter carrier employees represented by the National Rural Letter Carriers’ Association (NRLCA). The agreement is for the period from November 21, 2000, through November 20, 2004, and provides general wage increases of 1.2 percent effective November 18, 2000; 1.8 percent effective November 17, 2001; 1.4 percent effective November 16, 2002; and 1.2 percent effective November 15, 2003. The NRLCA and the Postal Service also could extend the labor agreement for a fifth year if the parties reach a settlement on the economic provisions, based on the comparable year in either the APWU or National Association of Letter Carriers (NALC) national agreements. In addition to the general wage increases, the interest arbitration panel chaired by neutral arbitrator John Calhoun Wells provided for the continuation of the current COLA formula except that in lieu of COLA payments for the first year of the agreement eligible career employees will receive a one-time lump sum cash payment of \$499. Arbitrator Wells also awarded two pay adjustments, one of which is, in effect, the equivalent of a one-pay-level upgrade. The other is a \$300 wage increase. Those two pay adjustments are being funded by major productivity changes in rural carrier standards. The standards involve flat and letter mail casing rates,

the strapping out of mail, and the definition of letter size mail. Also of note, the Postal Service secured a national mail count beginning February 28, 2002, and ending March 13, 2002.

Negotiations between the Postal Service and NALC began in August 2001 for a successor to the collective bargaining agreement that was to expire on November 20, 2001. Productive discussions took place throughout the fall and the parties reached agreement to extend the discussions past contract expiration and into 2002. The motivating factors to extend the discussions were the September 11 terrorist attacks and the anthrax threats, which had consumed much of the attention of the negotiators. The agreement will cover approximately 239,000 employees represented by the NALC.

Negotiations with the National Postal Mail Handlers Union, AFL-CIO (NPMHU), which represents approximately 60,000 mail handlers for a successor to the collective bargaining agreement that expired on November 20, 2000, reached impasse. It is anticipated the parties will resume discussions aimed at resolution of the dispute either through further discussions or by utilization of the dispute resolution procedures of the Postal Reorganization Act.

The Postal Service reached agreement with the International Association of Machinists and Aerospace Workers, AFL-CIO (IAM), in February 2001 on the terms of a four-year agreement covering tool and die shop workers at the Mail Equipment Shops in Washington, DC. The agreement expires on January 30, 2005.

Collective bargaining agreements between the Postal Service and certain smaller bargaining units — National Postal Professional Nurses, Information Systems/Accounting Service Centers (APWU), and Operating Services/Engineering, Facility Services (APWU) — expired with the parties having failed to reach agreement on the terms of successor agreements. Discussions between the parties have continued in an effort to resolve the specific disputes.

While collective bargaining sessions with the NALC in the fall of 2001 addressed a wide variety of work rules and issues, the parties concentrated on rewriting Article 15 of the Grievance-Arbitration Procedure to reflect the new dispute resolution process, the first major restructuring of the grievance-arbitration procedure in more than twenty years.

During 2001, the Postal Service and the NALC completed the joint nationwide implemen-

tation of the new dispute resolution procedure in accordance with the September 2000 Memorandum of Understanding Re: Dispute Resolution Process Implementation. Implementation, which included training 230 management and union representatives, was completed in September 2001. Streamlining the old grievance-arbitration procedure, the new process reduces the number of steps before arbitration from three to two. In addition, the process encourages the resolution of disputes at the lowest possible level of the organization.

In September 2001 the parties published the third edition of the USPS-NALC Joint Contract Administration Manual, which was distributed to every city delivery unit in the system. First negotiated and published in 1998 and updated each year thereafter, this contract guide has been widely used in the field, and it has been crucial to the parties' goals of reducing the incidence of workplace disputes.

The Postal Service and the NPMHU have completed the second full year of their test procedure, which eliminates the third step of the grievance procedure at selected sites. Despite a significant increase in the number of grievances appealed to Step 2, the number of cases resolved at Step 2 remains steady. The parties continue to evaluate other changes that can be made to improve the effectiveness of the grievance process. The parties have made significant progress in completing the Contract Interpretation Manual. With only a few articles left to finalize, it is expected that the manual will be released to field personnel in 2002.

The Postal Service and the NPMHU hosted their fourth annual Quality of Work Life Conference. This national event, which showcases local initiatives developed jointly by labor and management, has increased the visibility of the Quality of Work Life process and created a greater awareness among managers and craft employees of the benefits that the process can bring to the workplace.

In the area of Labor Relations Systems, the redesign of the Grievance and Arbitration Tracking System (GATS 2.0) was fully implemented. With all field offices now required to input grievances at the Step 2 level of the process, GATS 2.0 offers aid to management in identifying and analyzing workplace disputes earlier in the grievance process. In addition, GATS 2.0 continues to facilitate changes in the grievance/arbitration scheduling process as agreed to by the major unions, resulting from

negotiations. Additional enhancements to the system are under way to further increase management's use of GATS 2.0 as a labor relations tool.

2. Consultation with Management Associations

In accordance with Title 39, U.S. Code, Section 1004, consultations were conducted in 2001 with the National Association of Postal Supervisors, the National Association of Postmasters of the United States, and the National League of Postmasters of the United States. These sessions provided an opportunity for the management associations to participate directly in the planning and development of programs and policies related to pay policies that impact some 80,000 postmasters, supervisors, and other managerial personnel through 2001. Pay consultations commence in February 2002, with continued emphasis on accountability through the Merit Pay for performance program. The principle of market-based pay will be a fundamental concept underlying these consultations, ensuring that supervisory and managerial pay in the Postal Service is comparable to that maintained in the private sector, as required by the Postal Reorganization Act.

As in the past, each of the management associations will continue to provide representatives to participate on Headquarters and field teams tasked with formulating and testing procedures for new programs.

3. Personnel

a. Postal Career Executive Service

There were 1,002 individuals in the Postal Career Executive Service (PCES) ranks at the close of 2001. Of this total, 838 individuals held PCES-I positions. The remainder (other than officers) served in Executive and Administrative (EAS) positions. There were 45 PCES-II officer positions in the Postal Service at the end of the fiscal year. The makeup of the PCES officers and executives is representative of the Postal Service's diverse workforce.

b. Succession Planning

Succession planning is the deliberate and systematic effort by the Postal Service to ensure leadership continuity and build talent from within the organization. The objectives are to identify individuals who can move into executive positions, to develop people for corporate needs, and to foster diversity among the leadership

ranks. Individuals are identified as potential successors based on their leadership skills, functional and management expertise, and performance results. Succession planning has been designed to place the right people in the right jobs. After completing the seventh full year of succession planning, fewer than 1 percent of executive vacancies were filled by outside hires, 20 percent were filled by promotions of EAS employees to PCES, and the remaining 79 percent were filled from within the executive ranks.

During 2001, the Postal Service also piloted EAS Leadership Development, a process designed to build a cadre of well-prepared individuals with leadership and functional skills to assume key field management positions.

c. Equal Employment Opportunity

The Office of Equal Employment Opportunity (EEO) and the REDRESS® (Resolve Employment Disputes, Reach Equitable Solutions Swiftly) program enjoyed its first full year as an integrated organization. A renewed effort by EEO professionals at the district level has focused attention on dispute resolution at the early stage of the conflict. For the third consecutive year, the number of EEO pre-complaint counselings in the Postal Service decreased.

This continued reduction in precomplaint counselings is attributable in large measure to the Postal Service's EEO mediation program, REDRESS. REDRESS and traditional EEO counseling are both offered as alternatives to individuals seeking precomplaint counseling. The mediators in REDRESS are non-postal contractors who are neutral and practice a form of mediation that is built on the "transformative" model. Through empowerment and recognition, the parties to the mediation are encouraged to listen and respond to one another's views effectively and with better understanding of their differences.

In 2000, the participation rate in REDRESS for those seeking precomplaint counseling was nearly 73 percent. In 2001, the participation rate rose to 76 percent nationally. Successful resolution of disputes that go through mediation is nearly twice the rate of resolution of disputes that remain in the traditional counseling process. As a continuation of the Postal Service's commitment to the resolution of workplace conflict, REDRESS was implemented in the U.S. Postal Inspection Service during 2001 and is now available to Inspection Service employees who seek precomplaint counseling through the Office of EEO.

Additionally, the ongoing implementation of REDRESS II is under way. REDRESS II brings transformative mediation to the formal complaint process through the hearing stage. This program is being implemented across the country through cooperation with the Office of the General Counsel. Initial indications show that REDRESS II is a highly successful tool in resolving formal EEO complaints. The success of the entire REDRESS program is encouraging. It will continue to be emphasized as a means of bringing employees and managers face to face to learn to deal with conflict and misunderstanding in the workplace.

d. Combined Federal Campaign

The Postal Service joins other federal agencies in the Combined Federal Campaign (CFC) drive each fall. In 2001, postal employees nationwide pledged a total of \$39,505,281.66 in payroll deductions to the charities of their choice. The average gift was \$190.

e. Injury Compensation

In 2001, the Postal Service had an increase in workers' compensation cash outlays of approximately \$56 million (8.8%) over 2000, for a total cash payout of \$694.1 million. Total paid compensation claims increased by 856 (3.2%), and total medical claims increased by 5,433 (4.5%).

The Postal Service cost control strategy was again directed through the continued efforts to manage disability cases. Approaches include Nurse Case Manager services, which assist injury compensation staff with medical management strategies to help employees with work-related injuries or illnesses move into safe, positive, and productive assignments. The Postal Service also began pilot agreement with First Health Corporation, the nation's largest preferred provider organization, to help reduce workers' compensation medical costs. The pilot is now operational in four Office of Workers' Compensation Programs district offices, and it will expand nationwide during 2002.

The Postal Inspection Service continued its efforts to investigate fraud associated with postal employees' compensation claims. As a proactive measure to identify and eliminate fraudulent claims earlier in the process, Postal Inspectors' efforts in the past fiscal year emphasized continuation-of-pay (COP) investigations. This resulted in \$93.8 million in long-term cost avoidance and \$5.5 million in COP savings, totaling \$99.3 million in savings. As a result of Postal Inspectors' work, there was a

30 percent increase in COP cost savings from 2000 and a 24 percent increase overall in identification of employees defrauding the workers' compensation system. Specifically, Inspectors identified 403 individuals as defrauding the workers' compensation program and 40 employees were arrested.

4. Compensation and Benefits

a. Pay Comparability

1. Bargaining Unit Employees' Pay and Benefits

The average pay and benefits for career bargaining unit employees (excluding corporate-wide expenses) is \$54,481 per work year.

In an attempt to achieve compensation rates comparable to those in private industry, negotiations between the Postal Service and its unions for the various bargaining units that have reached negotiated settlements continue to apply the principle of moderate restraint set forth in past interest arbitration awards.

2. Non-bargaining Unit Employees' Pay and Benefits

Pay for supervisors, postmasters, and other nonbargaining staff employees generally meets or exceeds private sector levels. It also provides an adequate and reasonable differential between first-line supervisors and bargaining unit clerks and carriers.

In FY 2001, of the Pay for Performance Program (formerly the EVA Variable Pay Program) for EAS employees aligned this pay practice with PCES executives and corporate success measures as established under the CustomerPerfect! process. This pay package provided management the framework to drive the necessary behavioral changes that make the Postal Service competitive in the marketplace.

3. Executive Pay and Benefits

Due to the limit imposed on Executive Schedule I salaries by the Postal Reorganization Act, pay and benefits for Postal Service officers and some key executives do not meet private sector comparability standards. During 2001, the average salary for Postal Service officers was \$141,593. The average executive salary was \$105,494.

The Postal Service continued to focus on corporate objectives through the 2001 Pay for Performance Program, which recognizes the significant role that postal executives and EAS employees play in achieving corporate success. The Pay for Performance Program awards payouts for achieving breakthrough performance.

Furthermore, by using the same performance measures for officers, executives, and EAS employees, participants become stakeholders in the success of the Postal Service. To focus on continuous improvements and long-term results, the 2001 payments consisted of a percentage of prior year's reserve account and the current year's earned credit. In 2001, award payouts averaged \$2,270 for exempt nonbargaining EAS employees, \$876 for nonexempt nonbargaining employees, and \$8,858 for executives. While the program was designed to recognize team performance, provisions were made to exclude individual employees who did not contribute to the performance of the organization.

4. Merit Pay Performance Evaluation

In 2001, the Postal Service continued to emphasize the importance of the Merit Performance Evaluation process. This process evaluates and rewards the performance of professional and managerial personnel. The process employs indices and measurements tied to the work unit's mission when establishing employee objectives for the year. These indices and measurements are used to assess an the employee's success in meeting these mutually agreed-upon objectives. As with last year's program, the Merit Performance Evaluation process continues to be closely aligned with the CustomerPerfect! philosophy. It provides a mechanism to link employee contribution to corporate goals.

In 2001, an individual Merit Performance Evaluation process covering executives was continued. Its primary purpose is to promote individual accountability to support both corporate goals and certain critical indicators that contribute to the success of the Postal Service. One critical indicator emphasizes diversity and requires executives to develop individual goals that promote diversity, while taking into account the specific activities identified in their organizational affirmative action plan when setting specific targets for success. Like the performance evaluations for professional and managerial employees, the executive evaluations also link contributions to the overall achievement of corporate goals.

b. Leave Programs

Postal Service employees are provided both sick and annual leave at the same rate as other federal sector employees. However, postal employees have a higher annual leave carryover limit than their federal sector counterparts. Postal employees

used an average of 8.4 days of sick leave per employee during 2001.

Earned annual leave may be donated to other career or transitional Postal Service employees who have exhausted their own leave and have a serious health problem.

Under the Family and Medical Leave Act, eligible employees may take up to 12 weeks off from work for covered conditions. Postal Service employees may use annual leave, sick leave, or leave without pay for covered conditions in accordance with applicable collective bargaining agreements and current leave policies.

Postal Service career nonbargaining unit employees and some bargaining unit employees can participate in a leave exchange program through which a portion of annual leave that would otherwise be earned in the following leave year can be exchanged for cash.

The Postal Service allows the use of 80 hours of accrued sick leave for dependent care under a policy available to all career employees.

c. Health Insurance

Health care contributions totaled \$3.2 billion, or 6.3 percent of the Postal Service's total pay and benefits during 2001.

The Postal Service continued to pay most of the premium cost of employee health benefit coverage. Career employees are automatically enrolled to pay their share of health benefit premium contributions with pre-tax payroll deductions.

Under the Omnibus Budget Reconciliation Act of 1990, the Postal Service is required to fund the annuitants' share of the Federal Employee Health Benefit premiums. The cost of funding the health care benefits for postal annuitants and their survivors was \$858 million.

d. Life Insurance

The Federal Employees Group Life Insurance program provides life insurance coverage for Postal Service employees. The Postal Service assumes the full cost of basic life insurance for eligible employees. During 2001, Postal Service costs for employee life insurance were \$198.6 million and the cost of funding life insurance for postal annuitants and their survivors was \$7.6 million.

e. Retirement Systems

Postal Service career employees, like federal career employees, are covered by one of three retirement systems administered by the U.S. Office of Personnel Management.

At the end of 2001, there were 774,657 career employees covered by a federal retirement program. Of this total, 514,870 employees (66.4 percent) were covered by the Federal Employees Retirement System (FERS); 248,347 employees (32.1 percent) were covered by the Civil Service Retirement System (CSRS); 11,440 employees (1.5 percent) were covered by CSRS Offset.

CSRS is a defined benefit retirement system. Annuity benefits are based on an employee's high-three average salary and years of service. CSRS Offset is similar to CSRS but requires Social Security contributions. Upon Social Security eligibility, the CSRS annuity is reduced (offset) by any Social Security benefit resulting from periods of CSRS Offset service, to produce a benefit equivalent to what would have been received under CSRS.

FERS is a retirement system with both defined benefit and defined contribution components. Under FERS, employees receive retirement benefits from a federal retirement annuity, Social Security, and the Thrift Savings Plan. The FERS annuity benefit, while also based on an employee's high-three average salary and years of service, produces a smaller benefit than CSRS does.

The Postal Service and career employees make retirement contributions to the Civil Service Retirement and Disability Fund. For 2001, CSRS employees contributed 7.0 percent of basic pay to the Fund. FERS and CSRS Offset employees contributed 0.8 percent of basic pay to the Fund and 6.2 percent of gross pay to Social Security.

f. Thrift Savings Plan

All career employees may participate in the Thrift Savings Plan (TSP), which is administered by the Federal Retirement Thrift Investment Board. The rules for TSP participation differ depending on the employee's retirement system. For FERS employees, the Postal Service contributes one percent of basic pay to TSP, fully matches employee contributions up to 3 percent of basic pay, and matches one-half of employee contributions from 3 to 5 percent of basic pay. In 2001, FERS employees could contribute up to 11 percent of basic pay to TSP on a tax-deferred basis, subject to IRS maximum limits. The Postal Service does not match CSRS or CSRS Offset

employee contributions to the TSP. In 2001, CSRS employees' contributions were limited to 6 percent of basic pay. At the end of 2001, 417,511 FERS employees and 147,019 CSRS and CSRS Offset employees participated in TSP.

g. Flexible Spending Accounts

Employees continue to take advantage of Flexible Spending Accounts (FSAs) to pay for certain health care and dependent care expenses with contributions made through pretax payroll deductions. FSAs were first offered in 1992 to certain nonbargaining unit employees and now include all employees. In 2001, 55,273 employees were enrolled in health care FSAs (a 4.1 percent increase from 2000), with an average contribution of \$1,393. In 2001, 5,743 employees were enrolled in dependent care FSAs (a 3.6 percent decrease from 2000), with an average contribution of \$2,691. The projected 2001 savings for the Postal Service resulting from the FSA program is approximately \$2.7 million (net of administrative expenses). Employees experience tax savings as well, which vary according to the individual's contribution amounts and marginal tax rates.

5. Employee Development

Employee Development has two main areas of responsibility: Product Development and Evaluation, which designs, develops, and evaluates curricula; and Delivery, which operates at the William F. Bolger Center for Leadership Development, Potomac, MD and at the National Center for Employee Development, Norman, OK. Both centers are self-contained campuses with classrooms, conference facilities, housing, dining and related services. There are 85 Postal Employee Development Centers throughout the nation that support operational needs by providing local training assistance to employees.

While traditional classrooms, on-the-job instruction, and correspondence courses are still prevalent, delivery platforms increasingly include satellite networks, videotape, computer-based interactive programs, web-based instruction, and combinations of these.

a. Management Training

With the continuation of the Associate Supervisor Program (ASP), Career Management Program (CMP), and Advanced Leadership Program (ALP), the training and development needs of supervisors and managers at all levels of the organization are being met.

The 16-week ASP for first-line supervisors continues to be a national success. All 85 districts have participated in the program, which has graduated 10,390. In 2001, approximately 125 classes were conducted.

The CMP was introduced in the spring of 1999. CMP addresses the needs of supervisors and managers in the EAS level 15-22 range. In 2001, more than 40 offerings were completed for 1,015 EAS employees. There are three entry points or tracks representing initial and advanced supervisory skills and management development. Participants complete an assessment based on the leadership competency model to determine their appropriate entry point into the program. Currently the program consists of one week of classroom instruction for each track. In addition, functional/technical training is available for delivery and mail processing supervisors. Several other functions have functional/technical curricula already in place for supervisors.

The ALP continued to make significant progress in preparing high-potential managers for the challenging leadership roles of the future. By the end of the year, a total of 48 classes with approximately 42 students per class had entered the program. Several program design improvements were made. Among them were a new ALP video describing the Executive Competency model; an updated enrollment guide and website; a new evening speaker series called Executive Chat; and the addition of two postal vice presidents as regularly appearing ALP faculty. This year introduced the first of a planned series of seminars for ALP graduates: the ALP Strategic Direction Seminar Series, the result of a partnership between Employee Development and Strategic Planning. Each seminar focuses on one point of the Postmaster General's "star," the five success strategies. The first seminar focused on pursuing legislative reform.

ALP was reviewed by the American Council on Education and was rated as carrying 12 undergraduate college credits. As a result, ALP students pursuing college degrees will now be able to apply their ALP experience toward college degree requirements.

The Processing and Distribution Management program focuses on the core operational aspects of the plant manager position. The course has been structured to touch all functional areas, and to provide reference materials and tools to the plant manager candidate. The course is a combination of classroom lecture, real world

examples, and the application of learning through projects and On-the-Job Instruction (OJI). The course material provides an overview of basic mail processing operations, performance expectations, and support functions that directly support plant performance. The participant receives a macro view of facility operations and planning, expands knowledge of support functions, and develops a strategic plan for change. The week of OJI involves visiting a designated trainer plant manager. It allows the participant to visit a Processing and Distribution Center, a Bulk Mail Center, and an Airport Mail Center. Individuals identified on Performance Cluster succession plans for the positions of Manager, Processing and Distribution Facility, EAS-23; Manager, Processing and Distribution Center, EAS-25; and Manager, Processing and Distribution Center PCES-1 (small) are eligible to attend. Six classes were held in 2001, with 119 participants.

In a continuing partnership with PBS, The Business and Technology Network, postal employees received training on a number of topics affecting them and their workplace. Programs aired via the Postal Satellite Training Network covered safety, diversity, customer service, and management issues. Most programs could be taped for viewing at another location or time, saving travel time and expenses over traditional seminar training venues. Safety programs, were seen by more than 50,000 postal employees nationwide.

Safety for Postal Leadership was rolled out to an audience of more than 35,000 postal leaders. This 16-hour course provides an opportunity for supervisors, managers, and craft leaders to study together. It underscores the critical role of leaders in promoting safety in postal operations. This course is now an integral part of ASP and lays a critical foundation for members of Joint Labor Management Safety and Health Committees and Facility Safety Coordinators in smaller facilities without full-time safety professionals.

Facility Safety Coordinator (FSC) Training is a self-directed, self-paced course, available in both paper and web-based formats. FSC training covers thirty-eight critical safety topics in three areas: leadership, technical, and administrative tasks. The target audience is any EAS employee with facility safety coordination responsibility.

b. Technical and Craft Education

The National Center for Employee Development (NCED) achieved the goal of capturing its program revenues and journal voucher transfers from Postal customers greater than expenses incurred in first year to receive zero dollars from the Postal Service in its program budget. Aggressive seat management, a curriculum widened beyond traditional technical courses, and revenue generation efforts contributed to this success in the Center's mandate to become self-funding and independent from the postal headquarters budget by FY 2005.

In FY 2001, NCED's traditional headquarters' program funding was moved to field offices, and NCED received an administrative budget of \$18.4 million and a \$0 program budget. The Center began charging postal clients and stepped up efforts to attract non-postal conference and training clients. Through intensive revenue efforts and cost control, NCED held administrative budget costs below its allocation, covered FY 2001 program expenses with revenues, and ended the year with a \$1.34 million surplus in the program budget. NCED supported a \$39 million training and conferencing operation, with a headquarters budget cost of only \$17 million.

NCED provided critical support to core business and employee development. The Center delivered automation and motor vehicle maintenance and operations courses, as well as environmental compliance and automation management programs. It continued to offer more than a dozen technical and administrative courses for postal supervisors, and programs such as elevator maintenance and natural-gas vehicles for non-postal clients. Staff conducted 280 courses, in 2,770 class offerings, for 37,900 postal employees. Efforts continued to cultivate other educational partnerships with non-postal business groups.

The Oklahoma Center transmitted more than 3,475 hours of Postal Satellite Training Network (PSTN) programming. NCED originated more than 1,330 broadcast hours of course and technical information and it transmitted another 2,135 broadcast hours originated elsewhere, including the Business and Management Channel, the Center for Leadership Development, USPS-TV, and Southeast Area District programs. Using both PSTN and PATN (Postal Audio Teletraining Network), NCED delivered 23 distance-learning courses to 12,320 employees in their home offices, for 128,980 total distance-learning training hours.

The Center also implemented and enhanced the new web-based Automated Enrollment System, improving user interface and accounting capabilities supporting revenue generation.

1. Major NCED Accomplishments

During 2001, NCED listed its major accomplishments as follows:

- Supported national Breakthrough Performance Initiative processes by providing field courses for Automated Facer Cancellor System and Delivery Bar Code Sorter feeder alignments and system optimization. Courses on Automation Systems Management, Managing Automation for Postal Supervisors, and BPI for the Carrier Sequence Bar Code Sorter contributed to improved field automation operations, efficiency, cross-functional teamwork, and unit productivity.
- Began development of CISCO, Microsoft, and Oracle information technology courses for postal and external clients. By year-end, NCED had delivered five offerings of Maintaining CISCO Network Devices for postal groups, earning \$92,000 in revenue. Customized Windows NT instruction captured another \$78,000. NCED is expanding its IT education capability and customer base in FY 2002. Planned courses include network security and intrusion detection, computer forensics, ORACLE database, Windows 2000 certification, advanced network and routing, and Windows NT 4.0.
- Provided nine deployment course offerings for 114 employees on the new MERLIN (Mailing Evaluation Readability Lookup Instrument) system. MERLIN analyzes presorted mail to ensure that the mailer has earned a claimed discount. Course offerings supporting deployment will continue into March 2002.
- Completed development of the Remote Input Output Subsystem course. Delivered 27 offerings for 200 technicians who maintain local-area and wide-area-network remote and host systems.
- Developed and delivered a new Vehicle Maintenance Facility (VMF) Management Training course to support vehicle maintenance operations. Delivered nine offerings for more than 100 supervisors.
- Conducted five offerings of a new Periodicals course for postal business-mail and mailing-requirements clerks. It covers administration and verification of periodicals, helping to

ensure proper revenue collection on mailings coming in through Business Mail Entry Units. About 125 students completed the course in FY 2001. Development has also begun on a Periodicals course for business mailers.

- Installed two Automated Flat Sorter Machine 100s to assume mail processing equipment mechanic training from the vendor. NCED educated 312 students in eight months by delivering simultaneous classes on two shifts. Moving the program to NCED saved field offices about \$1,000 per student in travel and lodging costs. The Postal Service also avoided the costs of funding the vendor-delivered course.
- Provided field-based introductory courses for postal automation systems. Also delivered 252 offerings of 22 distance-learning courses to 11,000 students in their home offices.
- Supported ongoing Time and Attendance Collection System (TACS) deployment. Creative scheduling reduced the need for instructors from four to three.
- Conducted about 30 environmental health and safety programs on postal compliance with national rules and regulations. Courses included hazard communications, waste reduction and recycling, refrigerant education and certification, asbestos management, and toxic substance control.
- Served as an active participant in the Integrated Logistic Support Plan process, contributing to the efficient and cost-effective support of more than 20 new and evolving national equipment systems.
- Supported systems include Automated Flat Sorter Machine 100 Phase II, Delivery Bar Code Sorter – Expanded Capability, Delivery Bar Code Sorter Input/Output Subsystem, Direct Connect, Postal Automated Redirection System, Central Plant Operating Control System, Flat Bundle Collator, Automatic Tray Sleever, Automated Airline Assignment, Automated Scan Where You Band, Automated Parcel Processing System, PC104 Modification to Small Parcel and Bundle System, Enhanced Plant Wiring, Information-Based Indicia Program, Wide Field of View, MLOCR/MPBCS Replacement, Universal Flat Sorting Machine 1000, Automated Flat Feeder/Optical Character Reader, Singulate Scan and Induction Unit, Package Bar

Code Sorter Printer Replacement, Planet Code for Flats, and Robotic Containerization System.

2. Revenue Generation

Center staff captured more than \$4 million in total revenues from external business along with \$18 million in journal voucher transfers from postal customers for training and other efforts to help offset NCED operating expenses. Total housing room nights rose slightly to 206,270, of which 30,370 were conferees.

- Training revenues of \$16.4 million came from core technical programs for postal clients. Postal courses on business mail, safety, The Occupational Safety and Health Organization (OSHA), and management drew another \$2.5 million. Courses for non-postal clients covered elevator maintenance, natural-gas vehicles, building systems, and computer networks.
- Conference services garnered \$1.6 million from room nights plus sale of meeting space. Events ranged from small banquets, to meetings and retreats, to large conferences for 600. Major non-postal clients included Phillips Petroleum, North American Retail Dealers Association, Sonic Corporation, Department of Health and Human Services, Bureau of Indian Affairs, College Boards, and the American Red Cross. The University of Oklahoma football team held planning retreats the night before each home football game, and continues to do so this season. Numerous postal training and conference groups included sales, engineering, and a national maintenance managers conference. Since NCED opened conference facilities to the public, it has experienced a steady increase in community meeting business.

c. William F. Bolger Center for Leadership Development

The Bolger Center continues to strive toward becoming self-reliant. In 2001, the Center generated \$4.3 million in cash revenue from external business along with \$9 million in Journal Voucher Transfers from postal customers. Phase III of the Center's master construction plan is providing a campus environment that has been enriched by the rerouting of roadways, allowing for a more collegiate look and adequate parking for all guests. In addition, it remedied several Americans with

Disabilities Act (ADA) and safety issues that required action.

The Bolger Center was designated as the Continuity of Operations Plan site for headquarters' critical functions in the event of an emergency affecting operations at headquarters. The program was tested on September 11, 2001, and a comprehensive plan has been written to ensure that the Center can provide the Postal Service with the capability to continue performing its essential functions in the event of an emergency or disaster situation.

The opening of a Postmark America store was popular with Center customers, with revenue exceeding forecasts by 80 percent during the first 10 months of the year.

A total of forty-five Advanced Leadership Program groups have completed the first phase of the program. Thirty-eight of these groups have completed Phase II. Some 1,882 participants have enrolled in the program to date. Also, 201 ALP participants submitted certificate of completion forms with official transcripts, signaling their completion of all program requirements for the next program graduation, held on March 4, 2002.

The Center hosted several first-time initiatives during the past year. The first in a series of Strategic Direction Seminars was held on July 31, 2001, for ALP participants and interested PCES managers. The seminar was sponsored by Human Resources and Strategic Planning, and provided the opportunity to hear from key figures within and outside the Postal Service on issues of strategic importance to the business. Two training sessions for Event Planning and Coordination were held for headquarters and Mid-Atlantic budget coordinators and meeting planners. Also, a Processing and Distribution Management class was added to the course offerings at the Center. It focuses on the core operational aspects of the plant manager position. Since its kick-off at the Center, 121 participants have successfully completed the course.

The Media Unit produced 41 PSTN broadcasts, which amounted to more than 70 hours of broadcasting. Thirty videos were produced, which earned several Telly and Videographer Awards in recognition of their excellence. These videos included Ethics Survivor, E-Travel, and ALP – Your Pathway to the Future. The Media Unit also produced several Resource Management Updates for Employee Resource Management, which helped to inform employees about the successful implementation of this program nationwide. After the September 11 incidents, the Media Unit assisted Public Affairs and Communications with produc-

tion of videos detailing the activities of the Continuity of Operations Group at Bolger. During the anthrax emergency, the Media Unit produced a PSTN broadcast on proper cleaning procedures for mail processing equipment and a video describing the proper use of respirators and gloves for all postal employees. These productions assisted senior postal management in their mission of keeping postal employees informed at a very crucial time in the Postal Service.

6. Selection, Evaluation, and Recognition

a. Selection, Evaluation, and Recognition (SER) is responsible for the following:

- Establishing guiding principles for recruitment and hiring of a qualified workforce.
- Designing and delivering effective, efficient, and fair assessment systems.
- Providing guidance on organizational selection, placement, and evaluation methods.
- Partnering with internal customers to achieve operational success.

The following initiatives were undertaken:

- Reengineered the hiring process, using interactive voice response technology and the Internet by introducing Postal Applications and Scheduling System.
- Designed an approach for implementing the Associate Supervisor Program (ASP) in remote locations.
- Developed enhancements to the recruitment selection and placement processes for ASP graduates.
- Designed a web-based maintenance selection system tool.
- Administered the Voice of the Employee (VOE) survey.

1. Postal Applications and Scheduling System

In January, SER announced the deployment of a national interactive voice response (IVR) system to automate entrance examination application methods. This replaced labor-intensive manual activities. The new system streamlines and standardizes the test application process at a substantial cost savings, protects sensitive application information, reduces cycle time between application and exam, and provides a national web-based scheduling component with an automated fulfillment process for mailing applicant scheduling packages. In 2000, SER's field offices used approximately 60,000 work hours handling these cards for battery exam openings alone. The average cost to process applications

previously was \$3.26 per applicant. The average per call cost for the IVR usage in 2001 was 56 cents. This, combined with the 43 cents for the printing and mailing of the application package, brings the cost per applicant to 99 cents, for an average savings of \$2.27 per applicant.

Less than one year after national implementation of the IVR, the system was enhanced to include the following: (1) a web application process accessible through the Postal Service's website at usps.com/employment, (2) the added capability for offices to announce casual/temporary employment opportunities, and (3) the inclusion of additional entry-level exams on the system. In 2001, more than 843,147 applicants applied for postal examinations or for casual/temporary employment through either the IVR or the web, saving more than \$1.9 million over the manual process.

2. Associate Supervisor Program Review and Revisions

Ongoing efforts to update and revise current programs included a complete review of ASP. Revised materials were disseminated nationally. In addition, the results of a comprehensive survey of all ASP participants and their managers were analyzed with plans to address the survey findings.

To attract qualified first-line supervisors, SER developed a recruitment toolkit, which is specifically designed to assist Human Resources professionals in their recruitment and pre-employment efforts. Before its inception, many facilities were faced with high numbers of supervisory vacancies, decreased numbers of applicants for supervisory positions, and increased numbers of supervisors moving to other functional areas.

Based on the recommendations of a functional work team, which included representation from the National Association of Postal Supervisors, agreement was reached to make changes that involved the placement of EAS-15 associate supervisors into EAS-16 initial-level supervisor positions after a period not to exceed 18 months.

Another concern that surfaced was the need for consistency in the selection methods allowed when filling initial-level supervisor positions. As a result, an implementation plan has been developed to sunset the initial-level supervisor selection method. This plan will be implemented in early 2002.

3. Attracting the Right Applicants for the Right Jobs

To educate the public about our entry-level positions and examination process, an orientation guide was developed that provides all the necessary information for making an informed decision about postal employment and required examinations. This

guide explores certain aspects of the examination process, a first step for employment consideration. It highlights key aspects about the entrance examination (timing, scoring, etc.). It also provides details about the hiring process.

4. Recruiting for Specialized Skills

In June 2001, SER initiated a national recruitment effort for specialized skills, especially for the postal maintenance and automotive mechanic careers, beginning with its participation in the annual SkillsUSA-VICA and Techspo Conference. More than 13,000 of the world's most competitive technical students attended this conference, presenting the Postal Service with a unique opportunity to set a model for recruiting highly skilled workers for hard-to-fill positions. Conference participants learned about technical postal careers and benefits and applied for open examination announcements. They were also tested onsite and offered tours of the Kansas City Packaging and Distribution Center and Vehicle Maintenance Facility. Of those applicants tested onsite, 79 percent qualified, demonstrating a venue for future recruitment efforts.

5. Giving Special Consideration to Temporary Employees for Career Positions

SER deployed new policies to further the consideration of postmaster relief/leave replacement (PMR/LR) employees for career positions through competitive examinations and direct application for vacancies. The Commission on a Safe and Secure Workplace reported that "a number of managers are frustrated that they cannot give special consideration to casual, temporary, substitute, and relief employees for career positions when the non-career employees have already been screened and trained and are known to be good workers." The new policies for PMR/LR employees act on the recommendation of the commission to provide special consideration to temporary employees by allowing PMR/LRs to get examination ratings for placement on local hiring registers for career jobs other than postmaster and reducing the minimum service required to apply for postmaster jobs. In addition to examination opportunities, the new policies provide for a shorter period of time (from three years to one year) that PMR/LRs must serve before they can apply for permanent postmaster positions. The policies further expanded PMR/LRs' ability to apply from only in the office in which they worked to career postmaster vacancies within the commuting area.

6. Managing Transition

In January 2001, the Postal Service made a transition of the Priority Mail Processing Center (PMPC) network from contract to postal. SER was tasked to support this transition to develop and deploy an employment strategy that would allow 10 PMPC sites to effectively and efficiently transition up to 6,000 contract employees to postal employees while maintaining Priority Mail service during transition. SER provided innovative tools and processes to address the issues of recruitment, quick hiring and retention. The area teams hired more than 6,000 employees in a record time of 60 days from the date of the official announcement to the transition to a postal-run operation. All ten sites were able to maintain operations through the transition and to meet or exceed the staffing needs to support the PMPC operations.

7. VOE Survey

SER has developed and implemented employee opinion surveys, called Voice of the Employee (VOE) surveys for the last 10 years. The surveys sample one-fourth of career employees each quarter. Each survey elicits opinions on a wide variety of work-related issues and provides a mechanism to monitor the organization. Results from the surveys are provided on the WebEIS, and local managers are given tools to guide use of the survey results. Starting in FY2000, an index formed from six of the survey questions has been used as the primary measurement of the VOE under the Postal Service Pay for Performance Program.

The national VOE survey results for FY2001 show an index number of 58.1, an improvement over the baseline FY2000 index of 57.5. The overall response rate for 2001 was 55 percent versus a 47 percent rate in FY 2000. The results reflect improved scores in the areas of employee recognition, supervisory treatment of employees, and ability to communicate with employees.

Survey data and employee suggestions will help the Postal Service to achieve continuous organizational improvement.

7. Workplace Environment Improvement (WEI)

The Office of WEI was created in September 1998 to reflect management's commitment to improving the postal work environment and bringing focus to "people issues" in the Postal Service. Recently the work of EAP and WEI were combined under one manager. The function includes the Employee Assistance Program, violence prevention and crisis management activities, the identification and propagation of indicators,

and measures and initiatives for workplace environment improvement. Key components of WEI for 2001 and 2002 continue to be:

- Coordination and implementation of recommendations from the report by the Independent Commission on a Safe and Secure Workplace.
- Development of the role of the Employee Workplace Intervention Analyst position to play a more strategic and consultative role in field WEI efforts to provide organizational development activities.
- Integration, assessment, and communication of employee feedback and other workplace environment information.
- Support for replication of a broad array of workplace improvement initiatives and practices.
- Communication of progress in improving workplace environment. Specific areas in which these components are carried out are:

a. Employee Assistance Program

The Postal Service EAP provides free, voluntary, confidential, in-person counseling services to employees and family members from master's-level counselors housed in or near local postal facilities. Counselors are available 24 hours a day, seven days a week, in convenient locations to assist employees and family members with a variety of difficulties that affect their lives and their work, including emotional, financial, legal, chemical dependency, marital, and family problems.

The EAP provides consultation to managers and supervisors regarding not only individual workers, but also the work setting within which they function. The EAP intervenes when appropriate through preventive efforts, such as manager coaching and educational seminars on communication and stress management. EAP also provides ameliorative efforts that include conflict resolution sessions and organizational interventions and restorative actions, such as debriefings after a critical incident (e.g., suicide, domestic violence at work, armed robbery, accidental death). In 2001, 42,285 employees and their family members received counseling from the EAP.

48 percent of employees reported some type of work problem that impacted their work performance. EAP staff responded to more than 556 critical incidents and provided assistance to more than 9,511 employees after these incidents.

Health and wellness seminars on topics ranging from stress management to elder care to substance abuse were provided to 57,425 employees.

b. Violence Prevention and Crisis Management

The Workplace Environment Advisory Committee, including representatives of employee unions, management associations, labor relations, and human resources, was created shortly after the inception of this office in late 1998 with the manager of WEI as chair. This group, working closely with the Inspection Service and WEI, uses a standardized protocol for the identification and resolution of potential “troubled worksites.” These are postal sites that may be susceptible to threatening or other undesirable behavior as a result of individual or systemic problems. In addition, WEI assists the field in ensuring that local threat assessment and crisis management teams are in place and that desired training is provided. Finally, WEI staff are involved, on an ongoing basis, in communication with and response to potential threats and crisis incidents throughout the Postal Service to ensure prompt response, swift resolution, and maximum safety of postal employees.

WEI played a key role in the dissemination of the report of the independent Commission on a Safe and Secure Workplace, also known as the Califano Commission, because it was chaired by Joseph A. Califano, Jr. The commission conducted a comprehensive review and analysis of violence in the Postal Service over a two-year period and released its findings in August 2000.

The Commission found that while postal employees are not more likely to be victims of violence at work, they are more fearful than other employees about violence in the workplace. On the other hand, postal employees are less angry, aggressive, hostile, depressed, and stressed than those in the national workplace. The Commission recognized the Postal Service’s strong efforts in developing a comprehensive array of programs to reduce workplace violence, but made recommendations for the following improvements:

- ⁂ Continue and step up violence prevention programs already in place and address underlying sources of friction.
- ⁂ Screen job applicants more carefully.
- ⁂ Define “zero tolerance” for violence policy.
- ⁂ Continue violence awareness training for employees, with unions playing a greater role.

- ⁂ Ensure that warning signals of violence are heeded and employees know how to report threats and violence.
- ⁂ Establish communication systems such as cell phones or beepers for carriers on delivery routes, especially in high crime and remote areas.
- ⁂ Allay employee concerns about confidentiality of the EAP.
- ⁂ Encourage joint local union/management oversight.
- ⁂ Train managers and union officials to better handle employee terminations.
- ⁂ Increase training of supervisors and managers in interpersonal skills.
- ⁂ Strengthen incentives to focus managers on the workplace environment, in addition to customer satisfaction and financial performance.

Also, according to the Commission, the Postal Service, unions, and management associations should overhaul dispute resolution processes and agree on a system of financial performance incentives for craft employees. Finally, the Commission recommended that Congress should consider revamping compensation systems for postal managers and employees to eliminate or at least raise the pay ceiling to attract the best managers and effectively reward good performance of all postal workers.

WEI continues to lead the efforts to implement the recommendations. Communication regarding changes is ongoing.

c. Integration of Employee Feedback and Workplace Environment

WEI plays a pivotal role in increasing the effectiveness with which data from the VOE survey and other workplace environment information are used. The Board of Governors approved a compensable indicator using six survey questions for the 2000 survey. This index will be retained as a compensable indicator for 2002. WEI provides technical assistance to the field in interpreting and responding to these data. It also facilitates sharing of information about field and best practices that impact positively on the work environment.

WEI staff serve as internal consultants on WEI efforts throughout the country, with an emphasis on increasing the efficiency and effectiveness of these activities, particularly with regard to the use of outside consultants. Also, WEI is propagating information throughout the Postal Service regarding internal and external resources for

addressing workplace environment issues, including local and national Postal Service initiatives and outside sources, which have been shown to improve workplace relationships and climate. Finally, WEI will continue to deliver national messaging in 2002, to ensure that the business case for improving the workplace is recognized and accepted.

d. Dependent Care

Pursuant to a Memorandum of Understanding (MOU) negotiated with the APWU, AFL-CIO for the 1998 - 2000 National Agreement, the Postal Service and the APWU jointly selected a vendor to provide a dependent care resource and referral service to management and APWU employees. The service allows employees to get assistance in locating dependent and elder care resources as well as a variety of options to help balance work and home life. The MOU remains in place through September 2003.

D. Postal Cost Apportionment and Postal Ratemaking Developments

(39 U.S.C. 101 (d))

1. Omnibus Rate Case: Docket No. R2001-1

On September 24, 2001, the Postal Service filed a request with the Postal Rate Commission for a recommended decision on changes in rates and fees. The proposed overall percentage change was 8.7 percent and included a 3-cent (or 8.8 percent) increase from the current 34-cent basic First-Class Mail rate. The proposed increase was designed to provide an additional \$4.3 billion in annual revenue, based on a test period of FY 2003.

The filing also included numerous classification changes that would be responsive to customer needs and the changing environment. For example, the Postal Service proposed that Delivery Confirmation service be expanded to First-Class Mail parcels, and that delivery information be available for certified First-Class Mail letters and flats; it proposed a new drop ship discount and a new pallet discount for Periodicals mailers; it proposed an incentive for customers to enter large, heavy parcels at the destination Sectional Center Facility; and it proposed including Delivery Confirmation as a Parcel Select feature. Also, the Postal Service proposed continuing the restruc-

turing of post office box grouping and fees that was begun in the previous omnibus case to better reflect the local cost of providing the service.

On October 25, 2001, Chairman Omas of the Postal Rate Commission suggested that the participants pursue settlement discussions with the goal of terminating the case before the end of the ten-month litigation schedule typically experienced in omnibus rate cases. Commissioner Omas proposed settlement in light of recent events, including the September 11 terrorist attacks and the anthrax mailings, that had precipitated a greater need for revenues than had been reflected in the Postal Service's filing. An early termination of the case would allow the Postal Service to implement rate and fee changes earlier, and would result in greater overall revenues.

The Postal Service and the other participants undertook extensive settlement negotiations involving two general settlement conferences and numerous discussions in smaller groups. Eventually, the participants reached a settlement agreement that would permit most of the Postal Service's original proposals to be implemented as early as June 30, 2002. The agreement also incorporated several relatively minor changes in the proposed rates and fees. A total of 56 out of 62 parties in the case signed the agreement. Only one party, the American Postal Workers Union, opposed it, challenging the proposed discounts for First-Class Mail presort and automation letters. The Commission scheduled hearings to consider APWU's opposing testimony.

When the hearings are completed, the Commission must evaluate the settlement agreement and submit a recommended decision to the Postal Service's Governors.

2. Omnibus Rate Case: Docket No. R2000-1

As a result of Docket No. R2000-1, filed with the Postal Rate Commission in January 2000, the prices the Postal Service charges for products and services offered to the public increased an average of 6.3 percent. These increases were implemented in two stages. In the first stage, rates and fees increased an average of 4.6 percent on January 7, 2001, when the Postal Service implemented the Postal Rate Commission's recommendations under protest. An additional average 1.6 percent rate increase was implemented on July 1, 2001, as a result of the Postal Service Governors' determination that the rates recommended by the Commission would not provide enough revenue to

maintain the financial integrity of the Postal Service.

The Commission issued its first Docket No. R2000-1 Recommended Decision in November 2000, ten months after the Postal Service filed its request. The Governors determined that the rates and fees that the Commission recommended would have resulted in a revenue shortfall of approximately \$1 billion. After considering their statutory options, the Governors decided to allow the Commission's recommendations to take effect "under protest" and to return the case to the Commission for reconsideration. Although in its second Recommended Decision the Commission agreed with the Governors on several technical points, it recommended limited changes that did not correct the projected revenue shortfall. The Governors responded by rejecting it and remanding the case to the Commission for another round of reconsideration.

When the Commission's third Recommended Decision did not address the issues raised by the Governors and correct the projected revenue shortfall, the Governors in May 2001 chose to modify the decision. Under the Postal Reorganization Act, the Governors must ensure that postal revenues are sufficient to cover total estimated costs. If the Commission recommends rates that are insufficient, the Governors have a limited ability to change or modify those rates to correct the revenue imbalance. Any decision to modify a Commission-recommended decision must be unanimous, with all Governors voting in favor of the modified rates. The Docket No. R2000-1 case was only the second time that the Governors have found it necessary to modify a Commission-recommended decision in an omnibus rate case. The Postal Service implemented the modified rates on July 1, 2001.

Two petitions to review the Governors' modification decision were filed in the U.S. Court of Appeals, but both petitions were withdrawn shortly after filing, leaving the modification unchallenged in the courts.

3. Ride-Along Experiment Extension Case: Docket No. MC2001-3

On September 28, 2001, the Postal Service filed a request with the Postal Rate Commission to extend the expiration date of the ongoing experimental Periodicals Ride-Along classification, which had been established in Docket No. MC2000-1. The Ride-Along experiment permits an enclosure included in periodicals mailings to

pay a flat, per-piece rate of ten cents. This is more affordable for mailers than the prior requirement to pay the Standard Mail rate for the piece. It is also simpler for the Postal Service to administer.

The Postal Service requested the extension, pending the issuance of a Postal Rate Commission recommendation on the permanent classification and rate changes for Ride-Along proposed in the omnibus rate case, Docket No. R2001-1. The experimental classification would have expired on February 20, 2002, unless the Postal Rate Commission recommended the requested extension.

The participants in the proceeding negotiated a settlement agreement based on the Postal Service's proposal. On January 11, 2002, the Commission issued its Recommended Decision, essentially adopting the unopposed Stipulation and Agreement to extend the experiment.

4. Experimental Suspension of Fee for Manual Delivery Confirmation Case: Dockets No. R2001-2 and MC2001-2

On September 20, 2001, the Postal Service requested a Commission-recommended decision on an experimental mail classification proposal that would allow the Postal Service to offer Delivery Confirmation service without fee to retail Priority Mail customers from December 1 through 16, 2001. The proposal had three objectives. First, the proposed experiment was expected to give postal customers an incentive to mail packages before the busiest week of the holiday mailing season, with a possible associated reduction in the Postal Service's resource needs during the peak period. Second, it would introduce the retail Delivery Confirmation service to customers who otherwise would not be aware of it. Third, the experiment was expected to provide valuable experience with more flexible pricing approaches.

The Postal Rate Commission established an expedited schedule for consideration of the proposal, with the goal of issuing a recommended decision in mid-November. On November 5, 2001, the Postal Service withdrew its request. It explained that, in light of the need to face the challenges posed by the recent world events, including use of the mail for bioterrorist acts, the most prudent course would be to focus its window service and retail operations on the provision of existing domestic services during the upcoming holiday peak mailing season. The Commission closed this docket on November 6, 2001.

5. Experimental Presorted Priority Mail Rate Case: Docket No. MC2001-1

On March 7, 2001, the Postal Service requested the Postal Rate Commission to issue a recommended decision on a proposed experimental Priority Mail presort classification. The Postal Service proposed a three-year experiment to determine the effect on Priority Mail costs, volumes, and revenues resulting from new Priority Mail work-sharing discounts. The experiment would offer discounts to a limited number of customers for sortation to the ADC, 3-digit or 5-digit level. Following negotiations among the participants in the proceeding, on May 17, 2001, the Postal Service asked the Commission to base its recommendation on an agreement settling all the issues in the case. This Stipulation and Agreement limited the term of the experiment to approximately two years. On May 25, 2001, the Postal Rate Commission issued a decision recommending the implementation of this experiment, based on the terms of the Stipulation and Agreement. The Governors of the Postal Service approved, and the Postal Service implemented the Priority Mail experimental presort discounts on July 15, 2001.

6. First-Class Mail Service Standards Complaint Case: Docket No. C2001-3

On May 19, 2001, a complaint was filed with the Postal Rate Commission, pursuant to 39 U.S.C. 3662, alleging that in 2000 and 2001 the Postal Service implemented changes in two- and three-day service standards for First-Class Mail on a nationwide or substantially nationwide basis, without first requesting a Commission advisory opinion, pursuant to 39 U.S.C. 3661. The complaint also alleged that the First-Class Mail service resulting from these service standard changes did not comply with various policies under the Postal Reorganization Act. While the Postal Service admitted that service standard changes occurred during 2000 and 2001, it did not consider that a request for an advisory opinion was required. Rather, it contended that the service standard changes were part of a more extensive realignment plan previously submitted for Commission review in Docket No. N89-1. The Postal Service also did not consider that the service resulting from the changes was inconsistent with any policies of the Act. The complaint proceeding is pending before the Commission.

7. Priority Mail Rates Complaint Case: Docket No. C2001-2

On January 12, 2001, a complaint was filed with the Postal Rate Commission, pursuant to 39 U.S.C. 3662, alleging that the one- and two-pound Priority Mail rates implemented on January 7, 2001, as a result of Docket No. R2000-1, did not conform to the policies of the Postal Reorganization Act. The complaint argued that, by rejecting a Commission-recommended change in the Priority Mail flat-rate envelope classification in Docket No. R2000-1, while at the same time implementing the Priority Mail rates the Commission had recommended, the Postal Service Governors had implemented one-pound and two-pound Priority Mail rates that were not supported by the evidentiary record of the case. The Postal Service moved to dismiss the complaint on a variety of statutory and jurisdictional grounds, and because the complaint was substantively without merit. On April 27, 2001, the Postal Rate Commission declined to institute proceedings and dismissed the complaint.

8. Sunday and Holiday Collections Complaint Case: Docket No. C2001-1

On October 27, 2000, a complaint was filed with the Postal Rate Commission, pursuant to 39 U.S.C. 3662, alleging that changes in Sunday and holiday mail service implemented by the Postal Service in previous years had resulted in a nationwide or substantially nationwide change in service for which the Postal Service should have requested an advisory opinion from the Postal Rate Commission under 39 U.S.C. 3661. The Postal Service moved to dismiss the complaint on the grounds that it did not allege a belief that the Postal Service was failing to provide services in conformance with the policies of the Act. The Postal Rate Commission dismissed the portion of the complaint relating to the termination of outgoing mail service on Sundays in 1988, but it declined to dismiss the portion of the complaint relating to changes in holiday mail service. The complainant has yet to complete presentation of his direct case, and the case is still pending.

9. PosteCS Complaint Case: Docket No. C99-1

In October 1998, United Parcel Service (UPS) filed a complaint with the Postal Rate Commission, pursuant to 39 U.S.C. 3662, concerning the Postal Service's provision of PosteCS, a wholly electronic, Internet-based document service designed to sup-

port secure electronic communications. The fundamental basis for the complaint was the allegation that the Postal Service is offering PosteCS to the public without having first submitted to the Commission a request for a recommended decision on classification provisions and rates associated with this service. The complaint further alleged that provision of PosteCS at no charge on an introductory basis is contrary to the pricing standard of the Postal Reorganization Act. Finally, the complaint alleged that the service constituted a “nationwide change in service” for which an advisory opinion must be requested under that Act, pursuant to 39 U.S.C. 3661.

The Postal Service moved to dismiss the complaint. In its motion to dismiss, the Postal Service maintained that the Commission does not have subject matter jurisdiction to entertain the question of whether PosteCS is a “postal” service. Even if the Commission had jurisdiction to consider the complaint, the Postal Service asserted that PosteCS is plainly not a “postal” service for purposes of the Commission’s jurisdiction, according to the definitions of that term put forth by the courts, the Commission, and the Governors of the Postal Service. On May 3, 1999, the Commission issued an order denying the Postal Service’s motion to dismiss and ordering further proceedings on the question of whether PosteCS is a “postal” service for purposes of the Commission’s rate and classification jurisdiction. Throughout 2000 and 2001, the Commission addressed disputes related to discovery. On November 9, 2001, the Presiding Officer issued a ruling granting a motion by UPS to suspend proceedings in the complaint case, pending the conclusion of the omnibus rate case, Docket No. R2001-1.

E. Transportation Policies

(39 U.S.C. 101 (e),(f))

1. General

The Postal Service spent \$5.1 billion for the contractual transportation of mail in 2001. This represents a 7.4 percent increase in the transportation expenses as reported in 2000. However, in FY2001, the Priority Mail Processing Center (PMPC) contract was cancelled and, as a result, costs totaling \$275 million in 2001 that previously were classified as other expenses under the PMPC contract are reported as transportation expense in

FY2001. When the 2001 transportation expense is adjusted to a basis comparable to 2000, the increase is only 1.5 percent.

2. Domestic Transportation

a. Air Transportation

Air transportation costs in 2001 totaled \$1.9 billion. These costs include the use of commercial airlines (passenger and freight) and dedicated networks. The Postal Service contracted with 55 commercial airlines to move more than 2.94 billion pounds of domestic mail last year. Twelve of the commercial airlines handled 75 percent of the total volume. Since September the Postal Service has not been able to transport certain mail on commercial airlines due to FAA restrictions. This resulted in dramatically lower volumes flown on commercial airlines and will continue to do so as long as the restrictions are in place.

To supplement the movement of mail by air, the Postal Service operated dedicated networks for most of the year. These dedicated networks gave way to a transportation agreement with FedEx in August, 2000 that improves air operations. This new alliance replaced all of the existing air networks and most of the point-to-point aircraft. The alliance addressed transportation requirements for significant portions of Express Mail, Priority Mail, and First-Class Mail.

The events of September 11 had a profound impact on the need for dedicated air service. The inability to transport certain mail resulted in the need to expand the FedEx alliance and also required some additional dedicated air taxi service to offshore locations such as Hawaii, Alaska, and Puerto Rico.

b. Rail Transportation

Postal Service expenses for all rail transportation were \$239 million for 2001. This represents a 13.5 percent decrease from 2000. The Postal Service held contracts with eight railroads that perform service on approximately 2,100 rail segments. Contracts with one major rail supplier were not renewed in September 2001 because of their request for double digit price increases.

In 2001 the Postal Service paid Amtrak \$90 million for rail transportation service. The

Amtrak transportation network provides service for the majority of Periodical Mail.

c. Highway Transportation

The Postal Service expended approximately \$2.3 billion for highway mail transportation in 2001, an 8.1 percent increase over 2000. This increase was driven by the reclassification of expenses from services to transportation for the PMPC and the realignment of two- and three-day service. The two- and three-day service realignment resulted in mail being diverted from the air to service-responsive surface transportation.

d. Hub and Spoke Program

The hub and spoke program was expanded by four facilities in 2001. The hub and spoke program is crucial to the two- and three-day service realignment and continues to support dedicated air transportation.

e. Domestic Water Transportation

In 2001, the cost of transporting mail to domestic offshore destinations was \$29 million, a 3 percent decrease over 2000.

3. International Transportation

a. International Air Transportation

The Postal Service continues to align its air transportation strategy to provide universal service that satisfies the global delivery requirements of American businesses and consumers. In 2001, the Postal Service spent \$182 million for international air transportation to provide global delivery service to more than 188 foreign postal administrations. U.S.-flag suppliers were paid \$143.2 million, and foreign-flag suppliers received \$38.8 million. The use of foreign-flag suppliers, particularly for airmail service, expands the Postal Service's ability to reach destinations where U.S.-flag suppliers do not provide the required service. In addition, the cost of military mail, reimbursed by the Department of Defense, was \$122.7 million.

b. International Surface Transportation

In 2001, the cost of international surface transportation by ocean was \$6.6 million. Ocean suppliers are awarded on the basis of a best value, comparative analysis of proposals.

c. Terminal Dues and Transit Charges

Under the acts of the Universal Postal Union (UPU) each postal administration which receives mail from another administration has the right to collect from the sending administration a payment

for the costs incurred in processing and delivering mail received from that administration, those charges are called terminal dues. Additionally, the UPU provides for transit charges for mail which is exchanged between administrations through a third country.

Transit charges are paid by the sending country to the intermediary country for forwarding mail to the destination. During FY 2001 the Postal Service paid \$477.2 million for these fees and in FY 2000 \$425.8 million was paid.

4. Postal-Owned Transportation

**TABLE 1.1
POSTAL SERVICE VEHICLE INVENTORY FY 01**

Vehicle Type	Inventory
1/4-Ton	3,378
1/2-Ton	172,768
1-Ton	1,307
2-and 2 1/2-Ton	7,253
Cargo Vans	2,424
Tractors	1,819
Spotters	405
Trailers	5,146
Service	5,068
Administrative	5,453
Law Enforcement	2,871
Mobile Post Office	218
Miscellaneous	135
Total Owned	208,318
Leased Vehicles	7,212
Grand Total	215,530

Postal Service Vehicle Operating Trends 2000	
Number of vehicles	208,318
Miles traveled (millions)	1,151
Miles per gallon	9.5
Cost per vehicle	\$ 4,132
Cost per mile	\$ 0.76

5. Mail Transport Equipment (MTE)

The Mail Transport Equipment (MTE) contract service provides an integrated network (i.e., distribution, logistics/network management, and information services supporting tracking and tracing) for the Postal Service's mail handling equipment. Five operational suppliers manage 22 MTE service contract sites broken out by city clusters of normally three pairs. These city clusters are located throughout the United States. Moreover, the network is operated through an Operating Systems Integration and Management contract. Six firms' fixed-priced contracts were competitively

awarded among five suppliers on September 19, 1998. The contracts are currently funded for \$1.7 billion, with a 5-year basic contract period and one 5-year option period. During FY 2001, the MTE service contracts processed and repaired more than 1,185,000,000 units valued at \$227.2 million, at an average unit price of \$17.86 cents.

The independent and externally administered Customer Satisfaction Measurement system consistently shows high marks, from both premier and national accounts, for the availability of serviceable MTE.

F. Postal Facilities, Equipment and Employee Working Conditions

(39 U.S.C. 101 (g))

1. Safety and Health

The Postal Service continued to enhance the safety and health program, through inspections, program evaluations, targeted accident reduction efforts, and partnerships with federal regulators.

The Postal Service implemented a new safety inspection process to ensure inspection of every facility on a timely basis. To support this effort, national mailings of inspection checklists were accomplished and facility safety coordinators were introduced to a new training program and a series of “Infopaks” detailing technical and administrative information. Both safety professionals and line management were supported by the upgraded Safety Toolkit, a computer program to assist with inspection reporting and abatement. The Postal Service also continued to upgrade the Safety Toolkit Resource Page, a comprehensive source of references, guidance, and other information on employee safety and health.

Internal safety and health program evaluations were accomplished, to provide a “leading indicator” of safety performance. Improvements in program scores were noted across the board. Program guides were upgraded, and a new small facility guide was issued. The program guide continues to be based on OSHA guidance and best industry practices.

The Postal Service also continues to partner with OSHA on employee safety and health. Two facilities (Buffalo, NY, and Pittsburgh, PA) achieved “Star” status under the OSHA Voluntary Protection Program. This is the highest rating under the prestigious OSHA program. The Postal

Service also continued to pursue strategic partnerships with OSHA on several issues, as well as timely investigation of employee complaints and response to citations.

Management was tasked with developing action plans to focus on critical causes of accidents: slips, trips, and falls; materials handling; motor vehicle accidents; and employee history of repeat accidents. This is an ongoing, sustainable effort to target these causes and reduce injuries and illnesses. To support this effort, an Accident Reduction Center was created on the Toolkit Resource Page, which contains action plans, best practices, and accident data and analysis.

Employee communication was a principal safety and health goal this year. The Postal Service began sending out a series of special communications programs using videos, posters, and safety talks, as well as other internal communications vehicles. The purpose was to remind all employees why working safely is important to them, to those they love, and to the Postal Service.

2. Environmental Programs

The Postal Service awarded four national environmental service contracts that reduced costs, increased efficiency, and assured standardized delivery of services necessary to support environmental compliance activities.

These four contracts replaced more than 270 existing contracts and will save the Postal Service \$30 million over the next four years. Services covered under these contracts include planning, program development, testing, sampling, analysis, compliance reviews, training, studies, and surveys on environmental issues.

The contracts provide a mechanism for Postal Service personnel to obtain top quality services necessary to support environmental compliance activities and programs while reducing costs, eliminating duplication of effort, and taking advantage of innovations and increased efficiencies by the contractors.

These contracts also enabled the Postal Service to reduce its field environmental complement of environmental staff by 30 percent and significantly cut expenditures last year. Stakeholders continued to receive all necessary support, however, due to a business-driven realignment of environmental field support services, improved technology solutions, and strategically driven budgeting.

In 2001, the Postal Service won seven White House “Closing the Circle” awards — the most ever received by the Postal Service. These awards are the federal government’s top award for environmental leadership and innovation. One of these initiatives — Total Resource Management — also won the Postal Service’s top project management award.

In May 2001, the Postal Service received the first of 500 electric delivery vehicles that will be deployed in California, New York, and the Washington, DC, metropolitan area. The new electric postal vehicle has no tailpipe because it creates no fumes. It has a battery pack instead of a fuel tank, which means no foreign oil and no trips to the gas station. It tracks better through the snow because it's heavier than the gas-powered version and has better wheel alignment. And the postal carriers who have tested the prototypes making curbside deliveries in California say they also like one other feature of the quiet electric vehicle — the dogs don't hear it.

Ongoing efforts include deployment of the 500 electric-powered delivery vehicles began in February and will be completed in April 2002. Letter Carriers in southern California, White Plains, NY, and Washington, DC, are using these zero-emissions vehicles successfully.

3. Facilities

a. Real Estate Inventory

TABLE 1.2 POSTAL SERVICE REAL ESTATE INVENTORY	
Total owned facilities	8,203
Total owned interior square feet	218,741,826
Total owned land in square feet	890,468,826
Total leased facilities	26,594
Total leased interior square feet	103,179,262
Total GSA/other government facilities	451
Total GSA/other government interior square feet	4,446,759
Annual rent paid to lessors	\$818.9 million

b. Realty Asset Management

Realty Asset Management is the part of Facilities that provides internal expertise to identify, analyze, and maximize the return on underutilized and surplus real property assets controlled by the Postal Service. This organization generates income from real estate assets by maximizing postal property value through its highest and best use, leasing or subleasing excess postal space to government and public tenants,

and selling surplus real property. During 2001, revenues totaling \$86.7 million were generated by Realty Asset Management from the following sources:

c. Facilities Workload

TABLE 1.3 REALTY ASSET MANAGEMENT	
Leasing to private tenants	\$10.2 million
Leasing to government tenants	\$29.6 million
Sales of excess property	\$22.7 million
Rent from developmental property	\$24.2 million

4. Purchasing and Materials

TABLE 1.4 FACILITIES PROJECTS		
	Projects Completed During 2001	Projects Ongoing as of End of 2001
New construction, major renovations, and expansion projects	210	314
Building purchases	86	54
New lease construction	230	243
Other lease actions (alternative quarters, new leases, and lease renewals)	6,064	1,597
Expense repair and alteration projects	9,496	3,605
Capital repair and alteration projects	8,983	1,974

a. Introduction

In 2001, the Postal Service made more than 38.7 thousand contractual actions (contract awards and modifications) worth more than \$13.8 billion. While this dollar total is one of the largest in Postal Service history, it includes the award of a \$6.3 billion contract to Federal Express for mail transportation services, the largest contract ever awarded by the Postal Service. Generally, 2001 saw a decrease in Postal Service purchase actions due to the overall fiscal state of the Postal Service. In this business environment, Purchasing and Materials took effective steps to maximize purchasing leverage and to simplify processes throughout the organization. Results from these efforts have proven very positive, in areas such as supply chain management, fuel programs, and materials management-

related initiatives, and will continue to pay dividends for years to come.

b. Supply Chain Management

Purchasing and Materials has identified the supply chain management philosophy and attendant business practices as central to its efforts to further the business and competitive objectives of the Postal Service. During 2001, Purchasing and Materials dramatically expanded its application of these business practices throughout Postal Service purchasing and materials management, and the results have been impressive.

Over the past several years, supply chain management has become one of the most important aspects of successful contemporary businesses; a few years ago, it became a major tenet of the Postal Service's Breakthrough Productivity Initiative. In general terms, supply chain management is the analysis of the purchase process and the supply stream, from the supplier's supplier to the customer's use and disposal, in order to increase customer satisfaction and decrease overall cost. Effective supply chain management involves a number of business practices, including close interaction among end users, buyers, and suppliers, long-term contracts, and ongoing analysis and improvement of operating and administrative processes.

A Supply Chain Management Core Team has been in place for the past several years, using process management data analysis and other business practices to help implement supply chain management throughout Postal Service purchasing and material management. More than 90 supply chain "Centers of Excellence" (COEs) (an increase of 30 over last fiscal year) have been established throughout Purchasing and Materials and are using supply chain management business practices to benefit the Postal Service. The COEs are centered around cross-functional teams, representing both purchasing and internal customers, and each is commodity-focused, investigating how customer satisfaction can be improved and savings realized. As a result, strategic partnerships have been developed with, among others, suppliers providing office products, packaging for expedited mailings, mail transport equipment, and cellular phones and services. These partnerships offer quick delivery, and often cost savings, through electronic commerce. The Postal Service also receives discounts and rebates depending on the amount of business done with a particular supplier. Due to the wide variety of goods and services purchased by the

Postal Service, such partnerships will grow, as will the customer service and financial benefits received.

During 2001, several significant new partnerships were formed. A gain-sharing contract was awarded to SBC Global Services, Inc., for voice network services at more than 37,000 Postal Service facilities. As part of the contract, SBC has guaranteed \$15 million in savings, and in August the company provided the Postal Service with the first rebate check, in the amount of \$5 million. Partnerships were formed with two custodial product suppliers to provide all of the Postal Service's needs for this commodity. The business advantages include lower prices through consolidation of requirements and volume purchasing, enhanced quality, and end-user satisfaction.

Goodyear Tire and Rubber Co. was awarded a long-term contract and is now the exclusive supplier of new tires for the Postal Service's 200,000-plus fleet of trucks, vans, and delivery vehicles. During the term of the contract, the Postal Service expects to save at least ten percent per year. An added aspect of this contract is that Postal Service employees will receive significant personal savings in tire purchases and automotive services from participating Goodyear dealers.

These commodity-based contracts are illustrative of how the Postal Service is using supply chain management business techniques to reduce costs and deliver quality. Cross-functional purchase teams define requirements, analyze demand data, use process management tools to devise optimum business approaches, and work with suppliers to reach mutually beneficial agreements. Although in the past several years supply chain management has led to some substantial achievements, FY2001 raised the bar — cost reductions had been predicted to be \$100 million — and instead they reached \$157 million. Some of this amount contributed directly to the Postal Service's bottom line, and the remainder was reinvested.

One commodity receiving particular attention was transportation fuel, which annually costs the Postal Service more than \$700 million. A Fuel Management Program has been established, based on a pilot test that began in 1998. The program provides lower cost fuel to suppliers who transport and deliver mail on behalf of the Postal Service (historically, these suppliers purchased the fuel on the open market). Two contracts have been awarded to suppliers for approximately 95 million

gallons of fuel nationwide, and savings have been estimated at about \$0.12 per gallon. Additionally, savings are being realized nationwide through the use of a fuel card that can also be used for vehicle maintenance services.

Innovative business practices have been and continue to be used to further supply chain management. Reverse auctioning, an Internet-based business practice, was first used during FY2000 for selected commodities. Reverse auctioning allows potential suppliers to adjust their proposed price on-line as they react to the proposed prices of their competitors. The results for the Postal Service are lower prices, better negotiating position, shorter purchasing cycles, and improved productivity. During 2001, reverse auctions were held for several commodities. In one case, a reverse auction for corrugated boxes generated savings of \$2.5 million.

The adoption of supply chain management by Purchasing and Materials has obviously led to some real successes. However, more can be achieved. Purchasing and Materials' senior management began a complete review of organizational structure, effectiveness, and human resources and skill sets. During FY 2003, a new structure will be in place, and it will maximize the use of commodity teams, supply chain management business practices, and technology to ensure that Postal Service purchasing and materials management continue at the forefront of both the public and the private sectors.

c. Process Simplification

For some time, small purchases have been made locally by Postal Service employees via credit card. This allows users to purchase day-to-day operational needs quickly and efficiently. The new emphasis on supply chain management and large consolidated contracts for many of these common items has somewhat reduced the need for these buys (while also increasing Postal Service purchasing power), but providing local offices with the means to get what they need when they need it remains important. During 2001, the number of credit cards in use remained approximately the same as it was in FY 2000, and the total dollar amount of such purchases shrank by approximately one-sixth, mostly due to the Postal Service's financial position and budget tightening.

New policies and tools have also been introduced to simplify the purchasing process. In FY 2000, several years worth of effort led to a complete redesign of the contractual documentation

used for Postal Service solicitations and contracts. With the issuance of the new policies in January 2002, Postal Service solicitations will consist of three basic solicitation provisions, and contracts will consist of two basic clauses. Contracting officers and purchase teams will add to or modify these basic terms and conditions based on the item being purchased or the contract type being used, and the result will be contracts that have far more in common with commercial terms and conditions than those generally used in government contracts.

Among the new tools bringing greater efficiency to Postal Service purchasing is a web-based application, eBuy, which links Postal Service employees, purchasing and materials management professionals, web-based catalogs, and suppliers. EBuy provides a "paperless" requisitioning, purchasing, and payment system, while ensuring adequate oversight. The benefits are significant. Transaction and other administrative costs have been reduced, prices for most available commodities have fallen, and large inventories are no longer required. At the same time, lead times are reduced, and purchasing professionals are freed from concentrating on transactions and now can concentrate on strategic sourcing. Another new tool we are introducing is the electronic Governmentwide Point of Entry (GPE), which has replaced the Commerce Business Daily as the means of publicizing purchase opportunities. The GPE is accessed via the Internet.

d. Materials

The materials organization of Purchasing and Materials is responsible for managing thousands of line items required for daily Postal Service operations, providing purchasing and materials support to the areas through ten Purchasing and Materials Service Centers (PMSCs), and operating of one Material Distribution Center. The Materials cataloging function maintains more than 25,000 stocked items and more than 6,000 direct supplier items.

Gross sales for the Materials wholesale operations were \$356 million in parts, supplies, printed materials and equipment. Issues from wholesale inventories amounted to \$156 million, while electronic commerce-based direct sales from 90 suppliers rose to \$200 million, a 25 percent increase over last year. At the same time, the Label Printing Center produced more than 2 billion mail processing labels, and the Mail Equipment Shops produced more than 1.6 mil-

lion sacks and pouches, 4.4 million keys, and 330,000 locks.

Continuing our process management efforts with internal Postal Service partners, Materials worked with Retail to save an additional \$11 million on the distribution of merchandise to all postal stores and outlets and \$412,000 in packaged stamps. Another partnership was established with the Consumer Advocate, under which a test for the on-line sales of unclaimed property from the Mail Recovery Centers (MRCs) was begun. Using a single MRC as a pilot test, more than 36,000 items were sold, and this generated approximately \$1.4 million in net revenue. In its preliminary findings, the Consumer Advocate's organization stated that this figure was three times that of past returns, and this test will be extended into FY 2002.

Partnerships with other Postal Service organizations yielded similar successes. Working with the Maintenance Management organization, Materials improved order and delivery cycle times from 14 days to 10 days. This will decrease field inventory investments by more than \$2 million annually. In partnership with Delivery Confirmation, we developed and obtained funding, and initiated equipment acquisition for consolidating national delivery confirmation label production into the Label Print Center. This is projected to save \$1.8 million by the fourth quarter of FY 2002. And, working with Retail's POS ONE (Point-of-Service One) program, Materials was able to institute a program that identified \$3 million in underused equipment and redeployed it in lieu of new purchases.

Materials Distribution organization also began using the Freight Traffic Management System (FTMS) — a web-based software system that calculates expected freight charges and allows a user to select the best value carrier. The system is used by materials distribution and materials management specialists at the areas and districts; it calculates expected freight charges and allows a user to select the best value carrier. Materials also worked with Fleet Management, the Inspection Service, Finance, the General Services Administration, and four vehicle manufacturers to purchase 1,083 non-mail vehicles. The purchase ensures timely deliveries and prompt payments, and it resulted in overall cost avoidance of \$2 million. Last in this area, Materials evaluated more than 42 major acquisitions for transportation opportunities and obtained an average 10 percent savings.

To reduce operating costs and improve customer service, Materials reviewed distribution requirements and support structure. This led to the closing of the South River, NJ Materials Distribution Center. The closing resulted from a volume decline in supply and equipment operations and an accelerated use of direct vendor deliveries. Operational savings of \$2 million will be realized from the closing, as will an additional \$2 million once the facility is leased to commercial operations. Additional savings were obtained by reducing wholesale inventories from \$148.5 million to \$138.6 million through increased use of direct vendor deliveries and implementation of phased deliveries under the automated warehouse replenishment initiative.

The Recovery of Assets and Materials (RAM) initiative, begun in 1998, continues to reap successes. RAM manages field surplus and excess equipment. In 2001, equipment reallocations and cost avoidance in lieu of new purchases were more than \$78 million, an 80 percent improvement over FY 2000.

e. Professional Development

In order to further integrate commercial best practices into Postal Service purchasing, we are changing our training to focus more on the private sector. However, while in the process of phasing out most of our in-house curriculum, we continue to conduct select purchasing and materials courses. During 2001, more than 500 purchasing and materials employees attended 23 courses. All of the courses receive college credit recommendations from the American Council on Education.

As noted, Purchasing and Materials is transitioning to full implementation and management of an integrated supply chain, and we are transitioning to the use of commercially available supply management courses. In 2001, 448 Purchasing and Materials professionals systemwide attended 18 offerings of the two-day Institute for Supply Management seminar, "Purchasing and Materials: Creating a Seamless Process." Purchasing and Materials professionals will attend more such courses in FY 2002 and beyond. In terms of education and professional attainments, as of January 2001, more than 60 percent of Purchasing and Materials' professional and administrative staff attained at least a bachelor's degree or higher, and more than 38 percent had attained a professional certification in either the purchasing or materials management discipline.

Under the Office of Government Ethics (OGE) guidelines, the Postal Service must provide designated employees with annual ethics update training. In 2001, web-based ethics training was developed and provided to more than 350 Purchasing and Materials employees, thereby meeting the OGE annual training requirement.

f. Major Purchases

The contract awarded to Federal Express for handling and transportation of expedited mail, worth \$6.3 billion, is the largest contract ever awarded by the Postal Service. Performance began in August 2000, and is scheduled to continue for seven years. More than 61 million pounds of mail per year will move under the contract. The Postal Service also entered into a retail agreement with Federal Express for the placement of its collection boxes at designated Postal Service facilities. An indefinite delivery contract with United Airlines for the transportation of First-Class Mail amounted to \$427.9 million, and a similar contract awarded to Delta Airlines amounted to \$390.4 million.

In the Supplies and Services area, significant contractual actions included the exercise of an option contained in an existing contract with Ford Motor Company calling for the delivery of more than 11,000 carrier vehicles and priced at more than \$235.1 million. Another contract modification, this one with Lockheed Martin and for Recognition Improvement Program II, was executed in September and valued at \$152 million. Also of interest is a two-year contract for the aggregated natural gas requirements of 125 Postal Service facilities in the Eastern, New York Metro, and Capital Metro Operations areas. The contract, which was awarded to a Native-American-owned, Tulsa, OK, company, stabilizes and reduces natural gas prices for these facilities.

In the Design and Construction commodity area, a \$35.5 million contract was awarded for major renovations to the Seattle Processing and Distribution Center (PDC). The renovations include a complete roof replacement, security improvements and structural and seismic upgrades. A \$9.1 million contract was awarded in November for an expansion at the Champaign, IL, PDC. The work, which was completed 90 days ahead of schedule, included the construction of an 88,000-foot addition to the existing workplace.

g. Supplier Diversity

The Postal Service's Supplier Diversity program is a fundamental element in its corporate strategy to remain competitive and profitable in the marketplace. The Postal Service's record is a good one, and because its business and financial challenges are more similar to those of the private sector than to those of government agencies, the Postal Service has adopted more of a private-sector approach to supplier diversity. That approach is based on strengthening the supplier base by reaching out to identify strong suppliers and providing them with opportunities to compete for Postal Service contracts.

The Postal Service periodically benchmarks itself against both the public and private sectors, and historically, the results have proven substantial. These efforts continued during 2001. For example, the Postal Service participated in a supplier diversity survey of Conference Board firms. The survey found that the Postal Service was a leader in the use of small and woman-owned firms, and "above average" with minority-owned firms. While direct comparisons are extremely difficult, given the wide differences among the data available for comparison, this leadership position was reconfirmed from a second source. In the second annual DIV2000.com survey of 100,000 small, minority, and woman-owned suppliers, the Postal Service ranked sixth among public sector entities in promoting "multicultural business opportunities." While this ranking reflects both effort and success, it is a drop from the Postal Service's number two ranking last year. However, overall program results naturally were affected by the general decrease in contract opportunities during 2001, and the statistical spike resulting from the contract awarded to Federal Express.

Earlier in the year, the Postal Service was the only public sector entity chosen to participate, with a number of Fortune 100 firms, in the development of a Public Broadcasting Service series on the importance of supplier diversity. The program is now being aired in several markets, and the Postal Service uses it as part of its ongoing supplier diversity training. The Postal Service also has developed a Computer-Based Training course addressing postal-specific supplier diversity issues. The course will be broadly distributed and used during 2002, and appears so promising that at least one local chapter of the National Minority Supplier Diversity Council has requested use of the course.

The Postal Service continues to maintain close relationships with a number of national associations and their affiliates that support supplier development and diversity throughout the country. During 2001, the Service sponsored or actively participated in an estimated 100 fairs and events focused on supplier diversity across the nation. The Postal Service website, USPS.com, contains a variety of material designed to provide information on how to do business with the Postal Service, connects to buyers and key contact points, and delivers information on contract opportunities as they arise.

Policy changes regarding subcontracts with small, minority, and woman-owned businesses introduced in 1999 continue to gain attention. Some 440 firms submitted subcontracting reports in 2001, up markedly from the 310 that

reported last year. However, despite the increase in firms reporting, subcontract dollars with small, minority and woman-owned businesses for 2001 were significantly lower than last year.

Outside of the subcontracting area, more than \$3.8 billion (representing more than 69 percent of contractual actions) went to small businesses. Nearly \$314 million (representing 8.8 percent of contractual actions) went to minority businesses, and more than \$569 million (representing 12.3 percent of contractual actions) went to woman-owned businesses. Last, the Postal Service committed more than \$58.3 million to suppliers that employ blind and severely handicapped people under the Javits, Wagner, O'Day statutes.

Chapter II Postal Operations

A. Public Perceptions, Customer Outreach and Mailer Liaison

1. Customer Feedback Analysis

The Postal Service uses a variety of methods to communicate with customers about our services, products, policies and personnel. The aggregated data from these sources allow us to formally integrate the voice of the individual consumer into our business practices and provide feedback to operations where we can take action, respond and improve. In 2001, the number of customer contacts through traditional methods of communications (i.e., letters, phone calls, customer walk-ins) decreased. The number of customer inquiries via Internet, an alternative customer communication vehicle, increased 40 percent.

The Postal Service logged 254,200 customer contacts during 2001, an approximate 5 percent decrease. Of these, 3 percent were compliments, 2 percent were general information requests and 95 percent were service issues. The volume of Internet inquiries skyrocketed, reaching 159,804 e-mails – 68,779 over last year.

The increase in customer contacts occurred in all ten Postal Service areas.

2. Customer Outreach and Mailer Liaison

a. National Postal Forum (NPF)

National Postal Forums were held in Orlando, FL, and Denver, CO, with over 10,000 business customers and exhibitors attending. Business mailers attended the Forum for information on mailing industry issues, trends and opportunities; to learn about cutting-edge technology; to participate in information-packed business and educational sessions; to have access to Postal Service decision-makers; and for networking opportunities. Today's Forums provide professionals with ongoing training in a rapidly changing industry, and the opportunity to build on the business partnership between the Postal Service and its customers, to network with industry peers, and to talk directly with postal officials.

"Innovation in the Mail" was the Forum's theme in 2001. General Sessions provided attendees with insight into the vision, plans and priorities of mailing industry leaders. The Postmaster General outlined the Postal Service's objectives and priorities for the future. The Deputy Postmaster General and Pitney Bowes

Chief Executive Officer reported on the findings of the Mailing Industry Task Force, which they co-chaired. The report focused on three major themes: unifying the industry; making the mail channel more competitive; and responding to customer needs. The Postmaster General and the Chief Executive Office of Federal Express discussed implications of their new alliance. And the Chairman of the Board of Deutsche Post World Net shared his perspective on implications of postal deregulation.

Attendees received information about technology available to improve the value of the mail through numerous sessions, workshops and exhibits. Postal executives, along with industry leaders, led discussion groups that addressed remittance mailers, periodicals mailers, package mailers, and advertising mailers service issues. Postal officers hosted several "Business Builder Strategy Sessions" at each Forum. The sessions featured Postal Service programs and initiatives and customers who have benefited from them. Forum attendees also were offered sessions on address management, how to keep costs and rates low, and avoiding fraud scams. Mail security was particularly emphasized at the Denver Forum.

In all, the Forum's training and education program offered customers approximately 100 business sessions and workshops at each Forum. These training and education programs were designed around customers' business processes and categorized as follows: Getting and Keeping Your Customers, Managing Mail Preparation and Acceptance, Distribution and Fulfillment, Mail Center Operations, and Postal Rates and Policy. As part of the Postal Service commitment to continuing education, a Mail Center Professional Certificate Program was offered to those who attend required sessions in specific mail preparation and mailing operations areas. Applicants for this program, who attended the required sessions, received a Mail Center Professional Certificate. To date, approximately 800 individuals have participated in this program. Complementing the Forum's educational program was the exhibit floor, which featured approximately 290 companies at each Forum. The exhibits displayed the latest in mailing supplies, services, mail automation equipment, software, and computer hardware.

b. Consumer Advisory Councils

Consumer Advisory Councils (CACs) offer a unique opportunity for the Postal Service to maintain contact with residential customers nationwide.

CACs operate at the Post Office level and are made up of a cross-section of community and local postal officials. The Consumer Advocate provides functional guidance and support to our CACs. Based on the results of a 1999 benchmarking study, the Consumer Advocate identified long-range strategies for tying local council activities to the Postal Service's corporate objectives, ensuring that the voice of the consumer is heard at the corporate level.

c. Postal Customer Council®

Postal Customer Councils (PCCs) are grassroots organizations comprised of businesses that use the mail. They provide networking and educational opportunities to help businesses effectively and efficiently communicate and enhance their relationship with customers and identify prospective customers through the mail. They also provide the Postal Service the opportunity to enhance its working relationship with local businesses and to better identify their needs. In 2001, many PCCs became more active in seeking the participation of small and medium-sized businesses as members since they depend on mail now more than ever to enhance their business strategy. During the year, the 250 local PCCs held over 1,500 total customer meetings.

Keeping Posted, the national PCC newsletter is featured as an insert in our monthly *Memo-to-Mailers* and now reaches well over 150,000 customer addressees; virtually all of whom are members of PCCs. The newsletter communicates the plans and successes of each PCC thus serving as a "best practices" manual for other PCCs. Complementing the newsletter is the PCCs own website at <http://www.usps.com/nationalpcc>. The website helps businesses find the location of their closest PCC and enables veteran PCC members to locate informative presentation material for their local meetings.

Providing guidance and assistance to the PCCs is the Postmaster General's PCC Advisory Committee. This select group of industry leaders and postal executives/managers has many years of experience in the leadership of PCCs. They have provided unique and innovative methods to support PCCs' needs and to recognize their accomplishments. Among the committee's innovative ideas is the "Meeting in a Box" series, which provides videotaped material to the PCCs for their local meetings. In addition, this group selects the coveted PCC Leadership Awards. These awards represent the highest honor given by the Postal

Service to PCCs and their members. In 2001 the awards were presented at the National Postal Forum in Orlando, FL. Awards were given to the most creative and innovative PCCs in the categories of Best PCC Newsletter, Best PCC Event, Best PCC Co-Chair team, and Best Membership Campaign.

This year the advisory committee launched the first-ever PCC Leadership Conference, held in October at the National Postal Forum in Denver, CO. This half-day event focused on enhancing the leadership skills of the PCC co-chairs and individuals aspiring to PCC leadership. The conference included motivational talks by several Postal Service senior officers and best practices presentations by members of the National PCC Advisory Committee. The conference was attended by postal and industry co-chairs from around the country. Based on their feedback it was judged a complete success and another leadership conference is planned for April, 2002.

Recognizing the capability of the PCC network to communicate important information to customers, the Chief Operating Officer Pat Donahoe and Chief Postal Inspector Ken Weaver called the PCCs to action in October and November to hold meetings and address mail security issues in light of the bio-terrorist attacks on America's Postal Service. These meetings included the local postal inspector, district manager, postmaster and a postal medical representative. The sessions not only focused on anthrax and general safety best practices, but also reinvigorated customer confidence in the safety of mail.

Customers said they were pleased with the information they received. Additionally, many PCCs are including mailroom security articles in their newsletters and on their websites to reach a broader audience. The PCC network is helping us effectively and efficiently communicate with our customers.

d. Mailers Technical Advisory Committee (MTAC)

The resulted in significant accomplishment and progress for one of the mailing industries and Postal Service's premier resources — the Mailers' Technical Advisory Committee — commonly referred to as MTAC. Never before has the preparation, processing and delivery of mail been changing so rapidly and this environment has offered many important opportunities for making a positive impact. MTAC's purpose is to share technical information, advice and recommendations on matters concerning mail related products

and services to enhance customer value for mutual benefit of all involved. MTAC membership consists of associations representative of all segments of the mailing industry.

MTAC has a 25-year track record of finding meaningful solutions to the challenges facing both the Postal Service and its customers. This past year was no exception. Work groups brought together dedicated and hard working Postal Service and industry specialists who determined how best to move forward in such areas as PostalOne!, Unit Load Tracking, Maximizing the Value of Planet Code, and Presort Optimization, just to name a few. The MTAC leadership also determined this year that a number of work groups actually completed their mission or are close to it. These include groups such as Bound Printed Matter, Future Flats Strategies, Preparation of Trays on Pallets, Drop Ship Appointment System, and Mail.dat, also just to name a few. Much was accomplished in each of these areas which has enhanced the progress and/or implementation for each of these programs. Other key initiatives such as MERLIN (Mailing Evaluation Readability and Lookup Instrument) and Product Redesign, although not specific MTAC work groups themselves, have been provided this year with significant developmental support by the MTAC membership.

During the challenges of late 2001, MTAC played an important role in maintaining the confidence of key stakeholders in the safety and effectiveness of mail. Members heard from senior Postal Service management at MTAC meetings about what was being done to educate employees and customers about bio-terrorism in the mail and how service had been rapidly restored after the attacks. Expert medical consultants to the Postal Service were made available to MTAC members to discuss the risks related to contracting anthrax in the mail and the effective Postal Service response to the discovery of anthrax. MTAC developed an electronic rapid communications network through which real time information was disseminated on a regular basis after the September 11 terrorism and the October anthrax attacks to provide guidance and to keep mailers informed and focused on facts rather than fears.

e. Mid-Market

The Mid-Market is a customer segment-driven opportunity to grow Postal Service revenues from the efforts of smaller commercial mailers to acquire and retain customers. One of

the key strategies to activate this revenue opportunity is to work with the industry of direct mail service providers — third party intermediaries — to establish and build relationships with the one million Mid-Market customers that the Postal Service cannot reach with personal contacts.

This year the Postal Service engaged in several pilots to test strategies for reaching this market. At the core was an initiative with the Mailing and Fulfillment Service Association to partner on several pilots including seminars targeted to several specific audiences such as marketing executives, and Hispanic businesses.

In March, as part of the National Postal Forum in Orlando, we pioneered an innovative seminar for direct mail service providers about how to grow business in the Mid-Market. In October, we tested a mini-conference strategy with service providers in Denver. Tracking systems established to monitor results suggest that this event will generate almost two million new pieces of ad mail volume — which translates to about \$400,000 in new postage from this one small market alone. We anticipate rolling out the marketing model established in this test into several additional markets this year.

Another significant initiative was the development of a new data analysis tool, the Opportunity Index, which uses quantitative criteria to rank the growth potential of prospective customers into four quadrants. This process will enable the development of specific selling strategies and the alignment of selling teams according to customer growth potential. The Index is being tested in two California sales centers.

Additionally, we began to develop performance metrics to track volume, revenue and customer satisfaction in the Mid-Market. Also we completed focus group research among Mid-Market mailers to develop requirements for enhancements to product and pricing features.

f. Mail Recovery Centers

The Postal Service operates three Mail Recovery Centers (MRCs) in San Francisco, CA; St. Paul, MN; and Atlanta, GA. These facilities are responsible for the final disposition of undeliverable and non-returnable mail. During 2001, they processed approximately 1.7 million parcels and 118 million letters. To better serve customers, the Postal Service uses MRCs as diagnostic tools to pinpoint specific problem areas that affect mail volumes received at our facilities. By communicating these problems to our mailers, they are able to

improve their mail preparation and/or packaging. We work closely with mailer organizations to determine ways we can work together to provide better service and reduce operating costs. A direct result of this process was the Expanded Return Program, whereby undeliverable mail items found in company-identifiable packaging are returned in bulk, as postage due to the 35 participating companies. Approximately 445,000 pieces were returned through this program during 2001. Additionally, the Mail Recovery Centers realized a substantial decrease in cycle times and processing work hours through Process Management efforts. The Mail Recovery Program also has initiated various internal functional partnerships with Operations, Delivery Programs, Retail and the Inspection Service, to improve organization efficiency. These will be ongoing initiatives in FY 2002.

g. Corporate Contact Management

Corporate Contact Management provides postal customers easy toll-free access to a broad range of products and services through 800.ASK.USPS. CCM also handles Domestic Express and Priority Mail tracking and tracing calls on 800.222.1811 and Dinero Seguro or Money Movers calls on 800.ENVIOMX. The overall goal of CCM is to improve customer service and operating efficiency, decrease general information calls to post offices and increase revenue through establishment of an effective national contact-handling infrastructure. Presently, the CCM network, including two centers - located in Denver, CO and Kansas City, KS respond to 64 million phone inquiries from across the nation regarding general information, mailing rates, hours and locations of local postal facilities and service opportunities

Call center responsibilities were transferred to the Vice President and Consumer Advocate's office in 2001. The Consumer Affairs office enhanced the program with automated voice recognition technology that answers customer requests for ZIP Codes and post office hours and locations. The Consumer Advocate has outlined a strategic vision for the program that streamlines and consolidates enterprise contact center customer care and leverages CCM infrastructure to support personalized product and service transactions whether by phone, email or Web.

B. Core Business

The Postal Service has a fundamental requirement to provide products and services that meet the needs of its different business and consumer customers. The Postal Service continues to improve its monitoring of the business environment through market research, customer satisfaction/loyalty measurements and Customer Value Analysis for specific products and customer segments.

The Postal Service conducted a broad number of studies in 2001 in areas such as billing and payments, package services, advertising, and product pricing. These studies were designed to provide actionable information to decision-makers in support of the development and implementation of marketing and service programs.

1. First-Class Mail

Effective and efficient service is the foundation of our flagship product, First-Class Mail. This year, high service performance was achieved as measured by the External First-Class Measurement system (EXFC). Our continued focus on transactions mail (bills, statements and payments) has positioned the Postal Service to continue to be the primary enabler for businesses and consumers to conduct financial transactions. Continued refinement of the National Firm Holdout program, redesign of Business Reply Mail (BRIM) service, and continued attention to two and three-day service performance have all supported improved service in this critical part of the First-Class Mail base.

On October 1, 2001, we successfully launched the new production system for Confirm – the mail tracking system for letters and flats. The improved system contains the following attributes:

- Near real-time data access.
- Start-the-clock™ data to verify place and date of mail induction.
- Service performance measurement tools that enable the Postal Service to improve performance.
- Expanded PLANET Code functionality for increasing the amount of data assigned within the codes to meet mailers' business needs.
- User-friendly web site.
- Dedicated customer support.

Confirm information allows mailers to make better business decisions by knowing where mail is in the mail stream and when it is about to be delivered. Confirm also serves as a performance measurement system and diagnostic tool for Postal Service Operations to identify and correct opera-

tional deficiencies. Deployment of hardware and software to enable all bar code sorters in the field to read and transmit PLANET Code data is essentially complete for both letter and flat sorters. In 2002, we will continue to improve scan rates for flat mail by installing automated feeder systems on FSM 1000 machines.

In 2001, Confirm was the winner of the World Mail Innovation award, which was presented in London.

Product Development began testing several new First-Class Mail application enhancements, including MicroPayment and Friend-To-Friend Mail in 2001. MicroPayment concept uses stamps as a form of currency. MicroPayment reply cards, either business reply or courtesy reply, offer customers the option of using stamps as payment for low price point purchases valued between \$1 and \$10.

2. Advertising Mail, Standard Mail

Standard Mail is the primary class of mail for delivering advertising content to the mailbox. It is a valuable medium for the distribution of information about products and services (catalogs and direct mail), organizations (fundraising), and individuals (campaign materials). It can target the right audience, it can deliver personalized messaging, it allows for testing of different creative and mailpiece elements as well as the entire advertising campaign, and it delivers these benefits within the framework of the security and privacy of the U.S. Postal Service. These attributes position Standard Mail as a cost effective and efficient advertising medium.

To better serve our customers, Product Development has refined the already successful www.uspsdirectmail.com website to better fit the corporate look and feel of www.usps.com. The improved website launched this spring and continues to offer on-line help to businesses interested in adding to their customer base and/or better meeting the needs of their existing customers. New for this year is the addition of five Authorized Affiliate Merchants that can help the new mailer with any or all of their mailing needs.

Product Development conducted more than forty direct mail seminars that provided the small business owner with all the tools necessary to begin using the mail to advertise their product or service. These seminars are provided in conjunction with the local district offices and members of the mailing community.

Working closely with the Sales team, new and improved materials were developed to support local

and national sales personnel in their pursuit of new customers. These materials were developed with a corporate look and message so that all core products are presented with uniformity.

Product Development is working closely with many other functional areas in the organization in to provide an integrated offer that will meet all the emerging needs of the small business and mid-market customer segments.

Working with Operations, industry associations, and the direct mail and mail order industries, increased attention to service, improvements in delivery predictability and better coordination with the mailing community at large was achieved.

3. Periodicals Mail

The Postal Service is the primary deliverer of subscription publications in the United States. Working closely with the periodicals industry, the Postal Service has identified opportunities for cost reduction, service improvement and business growth. Over the past year, Product Development has worked with cross functional groups on such efforts as future flats strategies, package integrity, service measurement and mail irregularity feedback. Core Business also collaborated on several process efficiencies, including customer and operations training packages, and standard operating procedures for our processing plants and airmail facilities.

We have established an electronic communications vehicle that links publishers and printers with Postal Service delivery units, sufficient to identify and resolve subscriber delivery and service issues. In combination with Area marketing and operations functions, quarterly Periodicals Focus Group meetings are conducted with industry representatives to educate, inform and collaborate on issues designed to facilitate customer service and periodicals business growth. Attendees of the National Periodicals Focus Group Conference describe the event as the best industry-focused meeting ever.

Product Development looks forward to continuing our business building initiatives through a periodicals Web page and opportunities to increase subscription marketing for publishers.

4. Special Services

Special Services add value to mail services in three primary ways; 1) they provide safe choices on how to send money with postal money orders, 2) they provide alternative ways and places to receive mail through the Post Office Box service, and 3)

they customize First-Class Mail, Expedited and Package services with a variety of accountable mail special services. Customers may confirm receipt and delivery of their mail, obtain signatures, insure mail contents, officially register mail security and have the Postal Service perform Collect on Delivery (COD) services.

- Product Development initiated electronic enhancements for Certified Mail and Return Receipts. Market research was conducted to assess customer interest in electronically enhanced Certified Mail and Return Receipt Services. Customers overwhelmingly favor electronic enhancements that will allow them to access delivery status of their Certified Mail on the Internet or receive a Return Receipt with delivery information and an image of the recipient's signature returned to their email address. These new service enhancements were included in the R2001-1 rate case filing. Development work was initiated with a launch planned for /fall of 2002.
- The first cost-based Post Office Box fee structure was implemented along with the R2000-1 rate case. The fee structure for Post Office Boxes is now based on one of six fee levels that best match the cost of the PO Box space for a given post office. Further refinements of this fee structure have been proposed for the R2001-1 rate filing. This will make it possible for PO box fees in a number of locations to cover their costs which will create more fair and reasonable box fees over time and improve the contribution to institutional costs.
- Special Services messaging in retail locations continued to improve, making it easier for customers to see menu boards with services and prices for specific special services.

C. Expedited/Package Services

In 2001, Expedited/Package Services served as the focal point for all Postal Service package initiatives. As with all other Postal Service products and services, Expedited/Package Services aimed to provide consumers a reliable, affordable, and dependable delivery product..

We sought to position the Postal Service as one of the top providers in the package delivery market by emphasizing customer value with its service to everyone, everywhere, every day. We

also provided a variety of solutions to meet the business needs of individuals, and small and large businesses by concentrating on a few strategic goals – customer ease-of-use, consistent service, and price advantage.

Growing the Postal Service's package business entails meeting the following objectives:

- **Image** — Increased customer ease-of-use and continual positive advertising to enhance and establish the Postal Service's position in the package business.
- **Service** — Consistent, reliable service and continuous improvements in overnight, 2/3-day and ground parcel services.
- **Price** — Ensuring price advantage as a key strategy to maintaining the competitive edge for postal package products.

1. Package Products

Prior to the events surrounding September 11, Express Mail saw modest growth in concert with the entire overnight package service industry. Since that date, the overall industry has seen a flattening in the overnight market. Customers continue to view Express Mail as a reasonably priced alternative in the overnight market.

Priority Mail maintained its position as leader in 2-3 day service. However, as a result of the rate increase and aggressive competition, Priority Mail began losing market share.

Throughout 2001, Expedited/Package Services worked with functional areas throughout the Postal Service to develop strategies to enhance the growth and development of Package Services.

The Postal Service's Package Services menu also includes Parcel Post, Parcel Select, Media Mail, Bound Printed Matter and Library Mail. These services continue to provide valuable options in the ground parcel category.

Parcel Select has emerged as a growing force in the package delivery market, quickly becoming a key part of many companies' service strategies. The number of service providers for Parcel Select has grown rapidly, giving shippers a strong network of national and regional parcel consolidators and expeditors to work with.

Parcel Select represents a real value alternative for package shippers who can save on their parcel shipping costs and choose a level of service which best meets their shipping needs. The concept behind Parcel Select originates from a term that parcel shippers have known for years – zone skipping.

Through this concept, parcel shippers who can provide their own transportation are able to bring their parcels directly to a postal facility. Since distance and transportation are major cost factors in postage rates, the Postal Service is able to reduce its costs and pass those savings on to the shipper as postage discounts. The closer the mail is dropped to its final destination, the greater the savings. Overall, Parcel Select is an economical way to leverage the Postal Service's greatest strength, its nationwide six-day a week neighborhood delivery network.

2. Global Express Guaranteed™

Global Express Guaranteed, our international expedited shipping service, is an outgrowth of the Postal Service's strategic alliance with DHL Worldwide Express. This premier guaranteed international service is now a permanent shipping service, as designated by the U.S. Postal Service Board of Governors in August 2000. Global Express Guaranteed service is available to over 200 countries and territories worldwide and is available for purchase at approximately 20,000 Post Offices across the U.S.

Service enhancements to Global Express Guaranteed in 2001 include preparation and payment of shipments online, online discounts, and convenient payment of postage.

3. Confirmation of Delivery Services

Delivery Confirmation service scan performance scores remain strong. As a result, the scanner equipment infrastructure meets other organizational needs. The launch of the Confirm Program in October 2001 is a prime example.

Signature Confirmation service was launched on February 4, 2001. This service gives customers the ability to see if their mail piece has been delivered. If customers require additional proof of delivery, they can request a copy of the recipient's signature (provided by fax or mail). Potential new features under consideration for 2002 could attract more customers to our confirmation services. These include bulk delivery record downloads for electronic option customers.

The USPS Shipping Center site at www.usps.com is a big hit. Launched in late May, 2001, this site is the third most visited site on www.usps.com. A special feature offered at this site is an online shipping label which provides customers the ability to print Priority Mail labels with no fee electronic option Delivery Confirmation service. Thus far, labels are being generated at over

20,000 per week. A PC Postage (electronic postage) feature will be added in 2002.

4. Package Services Promotions

We renewed Postal Service sponsorship of and commitment to the "Help Stamp Out Hunger" food drive conducted annually by thousands of members of the National Association of Letter Carriers (NALC). We also renewed Expedited/Package Services sponsorship of the Heisman Trophy. Ballots for Heisman Trophy voting are mailed to and from the nation's sportswriters via Priority Mail. The Heisman and Priority Mail are linked because they both represent the very best in their field.

3 Direct Marketing Campaigns

Expedited/Package Service's worked with the Postal Service Sales organization to integrate its four commercial direct mailings with both the Leads Generation and Sales Region acquisition teams.

Additionally, 450,000 direct mail pieces were sent to Small Business Customers advertising Global Express Guaranteed, the Postal Service's premium guaranteed two-day international service. Global Express Guaranteed is delivered internationally by DHL as a postal alliance partner.

The anticipated service improvement resulting from the Postal Service's landmark agreement with FedEx, which provided for domestic air transportation for USPS expedited products, was the cornerstone of a full-fledged direct marketing campaign. The elements of the campaign designed by the Postal Service's direct advertising Agency, Foote, Cone and Belding (FCB), included a direct mail postcard, e-mail and banners.

The postcards offered recipients a chance to win a USPS Pro Cycling Team bike in an effort to drive traffic to the USPS Web site. The direct mail portion of the Network Alliance sweepstakes was targeted to all small- and mid-sized businesses to increase awareness of the Postal Service's network enhancements and stimulate interest, specifically all 21,396,218 names in the Postal Service Business Customer Database. (Florida names were excluded from the mailing due to Florida sweepstakes law.)

To help equip the Sales force with the tools necessary to attain their goal of increasing revenue, Expedited/Package Services helped develop the Selling Integrated Package Solutions

training program. Another enhancement to the Selling team is "The One Book" produced by the Sales team. "The One Book" was written for CEO's to see how postal products and services can help them achieve their business goals. It offers numerous packaging solutions and provides testimonials by notable customers such as Land's End and Lillian Vernon.

6. Sales and Service In The Fall Holiday Mailing Season

To reinforce sales force training and to increase revenue during the Holiday 2000 mailing season, Expedited/Package Services and Sales aired the PSTN broadcast, "Sales and Service in the Fall Holiday Mailing Season." This live program, broadcast in September 2000, contained a call-in question and answer segment, to help ensure viewers' understanding of the material presented.

D. International Mail

International Business achieved modest revenue growth during 2001 while at the same time reducing administrative overhead and related expenses. Postage revenue increased by 1.8%. Corresponding outbound international mail volume, however, declined by 1.5%. Major focus was directed at both product and market development for package services, infrastructure improvements through electronic data interchange with customers, suppliers, and foreign postal administrations; and progress in forming among like-minded countries to emphasize service performance as a major initiative.

1. Volume and Revenue

During a period of economic slowdown in the national economy, total international revenue grew by 4.5% or more than double the rate of growth of domestic mail. Revenue for 2001 was \$1.731 billion, up \$74.1 million over the prior year. Mail volume was 1.08 billion pieces, down 16.9 million pieces from 2000. Revenue and volume performance was mixed across all international product offerings. International Priority Airmail and Air Parcel Post showed the most dramatic strength with revenue gains of 35.5% and 20.1%, respectively, on corresponding volume increases of 38.2% and 20.6%. Surface Parcel Post also posted revenue increases of 16.9% on a 4.4%

increase in volume. Surface and Air Letter-post traffic both declined with respect to revenue, pieces and weight. Of the \$74.1 million net increase in revenue, \$2.3 million was derived from international mail fees, \$25.5 million from outbound postage revenue, and \$46.3 from foreign postal administrations to cover the cost of handling and delivery of foreign origin mail in the United States.

2. Product/Rate Restructuring

On January 7, 2001, new restructured international product lines and prices were introduced to make it easier to do business with the Postal Service. Content-based rate distinctions were eliminated for retail customers and our product lines were reorganized according to delivery speed. Pricing anomalies that have confused customers and employees were eliminated; our prices now clearly reflect differences in delivery speed and reliability. The rates most international mailers pay were simplified. Twelve different rates for documents weighing 1 ounce or less were replaced by two rates: 60 cents for North America and 80 cents for the rest of the world. Other changes were made to the international rates to ensure appropriate levels of cost coverage. Categories of mail that have consistently lost money or that cannot be offered at reasonable prices given the level of service were eliminated. International rates have always been organized by groups of countries to reflect differences in transportation and foreign delivery costs. These country groupings were updated to reflect significant changes in foreign delivery charges set by the Universal Postal Union.

3. New Rate Discounts

In 2001, the Postal Service introduced a new discount program for its Global Express Mail service. The portfolio of postage reduction opportunities is coordinated to help customers keep their distribution expenditures in line with the service requirements they need. The first level is a 5 percent discount for all mailers who use the Express Mail Corporate Account (EMCA). In addition to the EMCA 5 percent discount, if a mailer commits to sending at least 600 items or \$12,000 in postage annually, they can receive larger discounts under the Global Package Discount program through an International Customized Mail Agreement.

4. Management/Cost Reductions

Administration and overhead costs were reduced at the Headquarters level for International Business. Program budgets, capital budgets expense, and administrative costs were dramatically cut. This was accomplished through the elimination of redundant and low priority activities. Executive and staff reductions contributed to lower administrative costs.

International Call Center operations have been made more efficient through the enhancement of the existing interactive Voice recognition (IVR) system. Telecommunication costs were reduced.

All work processes have been reviewed and defined. Ineffective and antiquated practices have been replaced by more modern cost effective practices. We have saved additional dollars by moving some manual work to an internet-based system.

We anticipate continued savings by consolidating the international operation with the domestic operation. This consolidation will allow sharing of the existing infrastructure and agent functions.

5. Improving Service for International Express Mail and Air Parcels

The Postal Service continues a multi-year process of improving the reliability and features of its expedited and package service offerings. In 2000 Global Express Guaranteed was established. This offering now provides premium guaranteed service at a premium price. To complement this service, and to clarify related options for customers, International Business has taken steps to transform its existing Global Express Mail and Global Air Parcel services into a consistent and reliable menu of companion options that are predicated on days to delivery and geographic service area. These services have been designed to offer reliable two-day, four-day and six-day service options to the major cities in Europe, and corresponding three-day, five-day and seven-day service options to major cities in Asia. The absence of day certain delivery will permit these services to be value-priced under Global Express Guaranteed.

To launch these service-related distinctions, the Postal Service took two important steps during fiscal year 2001. First, new pay-for-performance agreements were negotiated with those foreign postal administrations with whom service and traffic warranted improvement. These new agreements, which establish penalties for failure to scan, track, and deliver items on time, codify the basis for

service improvement. Second, the concept of a new delivery approach to provide of Global Express Mail and Global Air Parcels to continental Europe, with emphasis on levels of service, was fully developed. This concept has culminated in an agreement that replaces numerous separate bilateral arrangements with European posts, and offers the advantage of standardizing scanning and delivery procedures that are uniform.

6. State Department Coordination

The Universal Postal Union (UPU) High Level Group completed its work in July 2001 and reached agreement on recommendations to allow wider participation by the private sector in 2002. A new Consultative Committee will serve as the forum for the private sector. Private sector members of this new committee will also have observer status in other UPU bodies, including the UPU Congress, the Council of Administration and the Postal Operations Council. While the next Congress of the UPU in 2004 will be responsible for formally approving these proposals, both the Council of Administration and the Postal Operations Council have agreed to implement them on an interim basis beginning in 2002. This development provides an opportunity for a substantial improvement in dialogue, understanding and cooperation among the diverse public and private sector stakeholders in the international delivery services arena.

The Postal Service has continued to work in cooperation with the U.S. Department of State, which has primary responsibility to formulate, coordinate and oversee policy with respect to U.S. representation in the UPU. The Department of State leads a consultation process on postal policy issues with all stakeholders, including the Postal Service, other government agencies, customers and private providers of delivery services. This responsibility was granted to the Department of State though legislation that Congress passed in October 1998. The Department of State's role is to ensure that the Postal Service not enter into any agreement that provides an undue or unreasonable preference to the Postal Service, a private provider of postal services or any other person.

In addition, the Postal Service, Department of State and Postal Rate Commission agreed to sponsor a joint study of the email provisions of Article 43 of the Convention of the UPU and their impact on key stakeholders. The results of

this study, carried out by an independent consultant, shall contribute to formulation of U.S. policy on the fees postal administrations pay for the delivery of international letter mail. The Postal Service shall also continue its efforts through the UPU to implement a more cost based terminal dues system for industrialized countries with a link to service quality in 2004. This system, adopted at the UPU Congress in Beijing in 1999, provides a transition to more cost-based terminal dues system for all countries.

The Postal Service also participated on the U.S. delegation to the UPU High Level Group, which was created by the Beijing Congress in 1999 to address issues of UPU reform and wider participation by key stakeholders in postal issues. This delegation was led by the Department of State and included representatives from other government agencies and the private sector.

E. Mail Volume and Service Performance

1. Mail Volume

As shown in Table 2.1, mail volume fell slightly in 2001. In fact, volume fell for every class of mail except First-Class Mail, largely due to economic slowdown and the effect of rate increases. Total mail volume fell by 420 million pieces, or 0.2 percent.

For 2002, the Plan projects growth of about 1.2 percent. Since it is now clear that this growth will not occur, the Postal Service and its stakeholders have taken steps not contemplated in our FY 2002 plan to ensure the Postal Service's continued financial viability.

Flexible pricing, an essential element of Postal Reform, would allow the Postal Service to accommodate unanticipated increases in costs and to increase mail volumes by offering a variety of pricing incentives to customers. In slow mailing periods, customers could be offered lower rates whereas premium rates could fairly be charged for mailing during high volume mailing periods when service is more costly. Such pricing flexibility is commonplace business practice in competitive markets. It is also practiced by government enterprises such as public transit systems.

Revenue grew about 2 percent in 2001, largely because of R2000-1 price increases, which were implemented in January and July. The price increases offset losses in volume and decreasing weight per piece. Priority Mail volume fell over 8.5 percent, but revenue actually grew slightly as a result of a 15 percent rate increase. Across almost all classes of mail, average weight per piece was down in 2001. This trend is most pronounced in Periodicals, Express Mail and Parcel Post. All of these classes declined well over 5% in weight per piece since the rate change in January 2001. In the case of Periodicals Mail the weight decline is largely due to the economic slowdown and consequent weakness in the advertising market. Actions by our competitors to secure some of the volume in the

wake of the rate increase also affected these classes. At the same time, differences in growth rates between classes of mail are changing the mail mix. More and more mailers are taking advantage of presort and dropship rate incentives, which affect our revenue and workload. Within First-Class, single-piece letters, which generate more revenue, fell close to 3 percent, while the less expensive workshared letters grew almost 6%.

In the 2002 planning cycle, we had expected volume to grow a little over 1 percent, as indicated by Table 2.1. We anticipated a decline in First Class volume, but projected growth in Standard Mail and a recovery in Priority Mail. However, the onset of recession, the events of September 11, 2001, and the anthrax incidents in the following months, have rendered these

TABLE 2.1 HISTORICAL AND PROJECTED MAIL VOLUME BY FISCAL YEAR*

(billions of pieces)

	2000	2001	Projected 2002	Projected 2003
First-Class Mail	103.5	103.7	103.5	103.3
Priority Mail	1.2	1.1	1.2	1.2
Express Mail	0.1	0.1	0.1	0.1
Periodical Mail	10.4	10.1	10.1	10.0
Standard Mail	90.1	89.9	92.3	95.6
Package Services	1.1	1.1	1.1	1.1
International	1.1	1.1	1.3	1.2
Other	0.4	0.4	0.4	0.4
Total Mail	207.9	207.5	209.9	212.9

*The slowing of the economy coupled with the impact of the events of September 11 and the subsequent use of the mail as a vehicle for bio-terrorism will result in costs and negative business impacts, the magnitude of which are unknown at this time. Due to the range of uncertainty relating to the financial impact of these events, this submission reflects assumptions included in Postal Service rate case docket number R2001-1, filed on September 24, 2001, and reflecting pre-September 11th estimates. Significant actions have been taken since September 11th to address the potential financial damage. These include a \$1.3 billion reduction in expense plans, negotiation of a proposed settlement of the Postal Service's rate filing with a view to accelerated rate implementation, and passage of legislation authorizing appropriations for certain financial losses directly associated with terrorist attacks and the screening and security of mail.

plans and projections obsolete. Actual mail volume declined 5.5 percent in the first quarter of 2002, and through the end of December revenues were already more than \$1 billion below plan. Management has responded to this setback by ordering a \$1.3 billion reduction in FY 2002 expense plans to mitigate the impact of lost revenues. At the same time, to protect the Postal Service's financial viability, most members of the mailing community represented in the rate case process have agreed to early implementation of new postage rates. Accelerated rate implementation will infuse revenue needed to preserve the Postal Service's financial health and will forestall rate increases greater than the 8.7 percent average increase that the Postal Service had proposed.

2. Service Performance Measurement

First-Class Mail service performance results are measured through the Transit Time Measurement System (TTMS), which measures service performance from the time mail is entered into the system at an induction point until the time it is received in the home or small business. TTMS is independently administered by PricewaterhouseCoopers under a contract with the Vice President and Consumer Advocate.

TTMS' main goal is to measure service performance from the customer's point of view. The information gathered determines the effectiveness of system performance in satisfying customer requirements. The External First-Class (EXFC) system is an external measurement system of collection box to mailbox delivery performance. EXFC continuously tests a panel of 463 ZIP Code areas selected on the basis of geographic and volume density from which 90 percent of First-Class volume originates and 80 percent destinate. EXFC is not a system wide measurement of all First-Class Mail performance. The EXFC measurement system has been in existence since 1990. The independent EXFC system showed an average national overnight performance of 94 percent for 2001. National service performance for two and three-day service commitment areas averaged 85 and 81 percent respectively.

Measuring customer satisfaction is an ever-evolving process. The Customer Satisfaction Measurement (CSM) for the Postal Service is focused on improving customer satisfaction. CSM is composed of three distinct components: one that measures residential satisfaction CSM-R, one that measures business customer satisfaction CSM-B and one that measures event-based customer satisfaction CSM-EVB.

The CSM survey process supports the goal of the Voice of the Customer under CustomerPerfect!. Customer satisfaction is measured independently by The Gallup Organization through a contract with the Vice President and Consumer Advocate.

The CSM-R results (See Table 2.2) showed that 92 percent of the nation's households rated Postal Service Overall Performance as "excellent," "very good," or "good" for the last quarter of the fiscal year.

TABLE 2.2 CUSTOMER SATISFACTION RATINGS BUSINESS AND RESIDENTIAL PERFORMANCE IN 2001 PERCENT RATED EXCELLENT / VERY GOOD / GOOD

PERFORMANCE BY QUARTER	1ST	2ND	3RD	4TH
National Accounts	94	93	89	91
Premier Accounts	92	92	91	90
Business Accounts	89	89	88	88
Residential Accounts	92	92	91	92

A redesigned CSM Residential survey was implemented in 2001 to better reflect consumers' expectations of delivery products and services and to better measure postal corporate strategies. The survey was designed to provide more actionable data to field postal managers.

For the CSM-B, National accounts reported an overall performance rating of 91 percent for the last quarter of the fiscal year. These business customers have been identified as the Postal Service's largest customers. Approximately 250 accounts are designated as National Accounts.

The Premier accounts reported an overall performance rating of 90 percent for the last quarter of the fiscal year. These are the second largest group of business customers. There are approximately 12,000 Premier accounts.

Business accounts reported an overall satisfaction rating of 88 percent for the last quarter of the fiscal year. Business accounts are all other business customers not identified as National or Premier Account companies or sites.

F. Mail Distribution

1. Automation Activities

The Postal Service continues to focus on automating mail distribution operations to improve efficiency and reduce costs. The foundation of this effort is based on barcode technology, which includes generating barcoded mail, processing barcoded mail in automated operations and adjusting the workforce as neces-

sary to capture savings.

a. Letter Mail Automation

In 2001, customers generated over 90 billion barcoded letters, representing about 61 percent of total letters. The Postal Service generated barcodes for another 42 billion - about 29 percent of all letters. Of the barcodes we generated and applied to letters, Multiline Optical Character Readers (MLOCRs) and the Remote Bar Coding System (RBCS) accounted for about 19 billion. Other operations accounted for the remainder.

1. New Equipment and Software

This year, the Postal Service continued its campaign to improve automated processing of letter mail through deployment of additional hardware and software. New automation equipment is allowing postal operations to keep pace with the increasing volume of letter mail and the growth of our delivery network. (See Table 2.3)

TABLE 2.3 NEW CONTRACTS WERE AWARDED FOR:	
Assorted Flat Sorting Machine (AFSM)100s	382
Collection and Delivery Vehicles	24,00
CSBCS Stacker Modules	353
Delivery Bar Code Sorter Expanded Capability Kits	108
Mail Entry Verification Systems	200
Parcel Singulators/Readers	42
Recognition Improvement - Typed & Printed Addresses	1,088
Small Parcel and Bundle Sorter Control Systems	192
TOTAL	4,741

The deployment included 334 Delivery Bar Code Sorters, 198 Input/Output Sub-System Kits, and 246 Output Sub-System Kits. This equipment allows mail that was being processed manually to enter the automated mail stream, thereby reducing work hour requirements.

Since 2000, the Postal Service has worked to increase the physical limits of mail that can be processed on automation equipment, thus increasing the amount of automated mail and reducing the amount of manual mail. Currently, about 8 percent of letter mail is processed manually. Yet, it accounts for one-half of the total letter mail processing labor costs. Letters can be processed using automation equipment at one-tenth the cost of manual processing.

In support of this effort, six prototype Delivery Bar Code Sorter Expanded Capability (DBCS-EC) machines have been deployed at three major processing plants. A contract for 25 Delivery Bar Code Sorters with Expanded

Capability and 81 Expanded Capability kits was awarded in 2000. These EC kits, when added to our existing DBCS machines, allow them to process a wider range of mail than is currently possible. The DBCS-EC machines will be capable of handling flimsy mailpieces as well as thick and heavy items.

Letter mail recognition rates continued to rise in 2001 as we deployed additional hardware and software upgrades for our existing Multiline Optical Character Reader (MLOCR), Delivery Bar Code Sorter Input Output Subsystems (DIOSS) and Remoter Computer Readers (RCRs). The RCR 2000 program resulted in a 75 percent handwritten address encode rate. The Recognition Improvement Program (RIP) is projected to yield an approximately 88 percent overall system encode rate by 2004. During 2001, we tested and deployed improvements to 346 mail processing centers under this program. RIP is an incentive-based program where the vendor is paid based on incremental performance improvements (pay for performance).

We performed a competitive test for a replacement camera system/barcode reader for our deployed barcode sorters. A Wide-Field-Of-View (WFOV) camera system will replace the current Wide Area Bar Code Reader (WABCR) on the DBCS, DIOSS, and CSBCS machines. This camera system will read the Information Based Indicia (PC Postage) in addition to the POSTNET and PLANET barcodes read by the WABCR. The WFOV camera system demonstrated a significant improvement over the WABCR in reading POSTNET and PLANET barcodes during the competitive test. A purchase is planned for 2002, with national deployment beginning in 2003.

2. Remote Encoding Centers

When all electronic means of resolving address information have been exhausted, the mail-piece image is sent to a Remote Encoding Center (REC) where operators use video display terminals and keyboards to process the address information.

Providing partial RCR results with the image often allows the operator to process the address with minimal keystrokes. The results of RBCS activities are barcodes sent electronically to a barcode sorter. There, the barcode is applied to the mailpiece, keeping it in the automated mail stream.

Between September 1999 and the end of 2001, reduced keying requirements due to recognition rate improvements allowed us to close 30 of

the original 55 RECs. More closures are expected in 2002. While we are looking into other consolidation options that could result in the closure of additional RECs, we expect images from other product lines to be processed at RECs. The AFSM 100, PARS, and APPS programs, which are discussed in the next section, will increase the REC workload.

3. Process Improvements

a. Sorting Technology

Over 9,000 barcode sorters have been retrofitted with an Identification Code Sort (ICS) upgrade kit. The ICS System enables mailpieces with unreadable POSTNET barcodes to be sorted using the unique mailpiece identification tag and the piece's associated ZIP Code. The ICS System eliminates the need to re-label and reprocess these mailpieces, saving two additional passes through the barcode sorters as well as associated labor and label material costs.

The ICS system now connects all of our existing barcode sorters, including Delivery Bar Code Sorters, Carrier Sequence Bar Code Sorters, and Mail Processing Bar Code Sorters. Approximately 1,700 ICS computers are linked together via three ICS Electronic Post Office Servers to provide ID Tag/ZIP data to all letter mail barcode sorters across the country.

We completed deployment of 438 Manual Modification kits for our MLOCRs during 2001. This enhancement allows the MLOCRs to process a wider range of mail, including thick mailpieces that previously had to be sorted manually. This modification has improved the machine's performance by reducing the jam rate, which is resulting in higher throughputs and reduced mail damage.

During 2001, the Postal Service deployed 101 CSBCS Stacker Modification Kits. This 21- or 25-stacker addition provides the CSBCS with the capability of sorting to a greater number of delivery points even though the volume of mail in the route (or combination of routes) may not have changed. Bin overflows, manual processing requirements, processing costs, and delays in getting mail to the carrier are being reduced. Deployment of 252 additional kits will be completed in 2002.

b. Undeliverable- As-Addressed Mail

Development of the Postal Automated Redirection System (PARS) continued during 2001. This system will handle Undeliverable-As-

Addressed (UAA) letter mail more efficiently than today's process. The UAA mail will be intercepted earlier in the sorting process, resulting in a reduction in total handlings and processing costs. The system will notify mailers of patrons' address changes electronically for mailers that subscribe to this service or hard copy for mailers that do not. Both services generate revenue for the Postal Service. The system will also automate processing of Change-of-Address forms.

During 2001, a field demonstration of the system's capabilities was conducted at the Dulles, VA, P&DC. A PARS pilot is currently being conducted at the Dulles P&DC where valuable technological and operational information is being learned.

c. Advanced Facer Canceler Upgrade

Funding was approved in 2001 to modify selected AFCSs to process mail without phosphorescence in the stamp, indicia, or meter mark. This will avoid the current manual operation required to face and cancel such mail. At least one AFCS at each of the 286 major mail processing facilities, for a total of 358 machines of the 1,086 deployed, will receive this Video Facing Modification. Deployment is scheduled to begin in 2002.

d. Flat Mail Automation

Over 50 billion pieces annually fall into the flat mail category. In 2001, customers generated barcodes for almost 40 percent of them. Postal computer forwarding system activities also generated a small percentage of barcodes as part of the forwarding process.

An important addition to our automation processing capability has been the Automated Flat Sorting Machine (AFSM) 100. The enhanced features of this machine have enabled us to expand the benefits of automation to the flat mail stream. These features include three automatic feeding stations yielding a potential throughput of over 17,000 pieces per hour, OCR reading with on-line video encoding (i.e., real-time keying) of OCR rejects, and a tray take-away system with adaptability to robotic handling systems. This enhanced processing is providing additional flat sorting capacity. Deployment of 175 AFSM 100s was completed in 2001. A second phase, deployment of 362 machines, which will primarily replace our older and less capable FSM 881s, began in January 2001 and is scheduled to be completed in 2002. Phase 2 hardware and software enhancements have

increased the read rate and potential throughput of the machine to over 20,000 pieces per hour.

During 2001, we conducted a competitive test of automatic feeders and optical character readers for the Flat Sorting Machine (FSM) 1000. The FSM 1000 can process mail, such as newspapers and poly-wrapped material, that cannot be handled by our primary flat sorters, the FSM 881 and AFSM 100. The feeder and OCR modifications will provide higher machine throughputs and lower staffing requirements. We expect to award a contract in early 2002 to enhance all FSM 1000s, with deployment beginning late in 2002.

In 2001, the Postal Service completed deployment of PLANET/CONFIRM capability on all flat sorters. This program addresses the needs of many customers, particularly national mailers who want to improve their business processes or refine customer data. PLANET/CONFIRM provides mailers with information regarding origin or destination confirmation, address correction, forwarding, and tracking.

Evaluation of Identification (ID) tag methods for flats application was completed in 2001. ID tagging will extend Identification Code Sorting (ICS) methods used in letter mail to flats. Currently, a flat-mail ZIP that has been resolved by video keying is available only for the current sorting operation. By adding an ID tag, the piece can be matched to its ZIP during subsequent distributions, also. This will greatly reduce manual keying.

A number of initiatives were started in 2001 to develop sorting systems for Delivery Point Sequencing (DPS) of flat mail. DPS processing will sort flat mail to delivery sequence for the carrier, reducing office time and increasing street time. A two-month test to observe effects and gain insight into flats DPS issues was completed in Annapolis, MD, and a development strategy has been formulated.

e. Parcel Automation

The increase in barcoded packages is driving efforts to improve processing efficiency, including package singulation. During 2001, we deployed 7 parcel Singulate and Scan Induction Units (SSIU) to 7 Bulk Mail Centers (BMCs). These machines reduce the labor required to process parcels. By program end in 2003, a total of 38 SSIUs will be deployed to 19 BMCs.

During 2001, we deployed seven new Small Parcel and Bundle Sorter (SPBS) Feed Systems,

bringing the total number in use to 271. Each system supports one SPBS, reducing allied labor required to feed mail onto the SPBS.

We continued the development of a next-generation sorter that takes advantage of the latest technology to distribute small parcels and bundles. This new equipment, known as the Automated Package Processing System (APPS), will automate the existing package processing network by providing automatic package singulation and address reading through an Optical Character Reader/Bar Code Reader/Video Coding System (OCR/BCR/VCS). The APPS includes automated container unloading to support the high throughput requirements. The system will be compatible with the Postal Service's Information Platform and will support in-route tracking of Delivery Confirmation codes. The competitive test was interrupted by the tragic events of September 11th and is planned for completion in 2002.

In 2001, we began the installation of universal sorting technology in a new 220,000 square-foot expansion of the Los Angeles Bulk Mail Center. The state-of-the-art sorting system is designed to handle four separate postal products on a common backbone. Like the APPS, this system utilizes camera-based recognition technology with OCR/BCR/VCS capability for optimum efficiency. Full-scale activation of the system is expected to take place in 2002.

f. Business Mail Acceptance

The Postal Service has automated the labor-intensive process of evaluating bulk mailing eligibility for work-sharing discounts. The Mailing Evaluation Readability and Lookup INstrument (MERLIN) verifies nearly all mail preparation requirements for both letters and flats. It produces all reports necessary for mailing acceptance and provides images of preparation problems for the mailer to support process improvement. Deployment of the first 200 MERLIN units began in 2001. An additional 1,003 units were purchased in 2001 and will be deployed as a continuation of the first phase effort. Completion is expected in the fall of 2003.

4. Material Handling

Material Handling continues to be a significant target of opportunity for technology investments to reduce operating costs and improve productivity and efficiency. The primary objective will be to pursue appropriate material handling solutions that produce quantifiable benefits,

meeting our minimal corporate investment criteria, while providing capturable savings.

In 2001, the Postal Service completed deploying and commissioning the Universal Transport System (UTS). This system will serve as a test bed for material handling technology development and applications to complement its ability to automate the movement of letter and flat trays. These trays of mail are transported, based on operational need, to each separate area in the plant where mail is processed and then from the last processing operation to dispatch. Featuring state-of-the-art material handling technologies and information systems, this equipment will enable the Postal Service to contain work hour growth while providing improved work and information flow within our processing plants. Research and development of complementary technologies for receipt and dispatching operations that integrate with the UTS will be done to determine appropriate technologies and applications to help the Postal Service reduce allied material handling costs and improve productivity.

The Postal Service has completed deployment of new rectangular array robots and Automatic Airline Assignment systems. Additional material handling technologies that have been universally deployed in 2001 include equipment that will automatically sleeve (providing the covering) for different types of letter mail trays. When mail is ready for dispatch from the facility, trays of mail must have sleeves and strapping applied to secure the mail during transport, and we can now automate this process.

In addition to improvements in the handling of our unit-loads, development is ongoing for automating some of the handling processes that continue to be largely manual operations. The Postal Service is researching the handling of flat mail, such as magazines and periodicals, with human assist technology to reduce costs and improve the ergonomics and safety of these repetitive processes. Research and development are underway to produce flat tub lidding technology so that this technology can go in-line with many of our deployed dispatch systems. Development has also continued in the areas of "unsleeviers" and "unlidders". This equipment will remove the shipping strap from the tray that holds the sleeve/lid in place. The mail tray will then be held in position with robotic arms while a separate mechanical device removes the tray from the sleeve or the lid from the tub. These pieces of equipment will automate those current manual tasks required to

prepare and present both letter and flat mail trays for their various downstream processing operations as well as for dispatch. This will provide for a more automated and controlled processing environment.

Beyond the development of new technology applications, efforts to support field initiatives for breakthrough productivity and cost reduction of allied material handling labor are supported by the field fixed mechanization activity. In this venue, technology such as the low cost tray sorter and modifications to deployed systems are under consideration to support operating requirements.

a. Automated Seamless Dispatch System

The Automated Seamless Dispatch System automates, streamlines, and organizes mail dispatch operations. The program integrates three primary material handling components — the Automatic Tray Slewing (ATS) system, the Automatic Airline Assignment (AAA) system and the Robotics Containerization System (RCS) — for the continuous flow of mail trays through dispatch.

The ATS automatically sleeves all sizes of fiberboard or plastic letter trays used in Postal operations. Deployment of 123 systems began in 2001 and will be completed in 2002.

The AAA system automatically assigns sleeved and strapped letter mail trays and flats tubs to airline flights. Deployment of 220 systems began in 2000 and will be completed early in 2002. A related material handling device, the Semi-Automatic Scan Where You Band (SASWYB), provides a semi-automated means to scan the distribution label, weigh the item, generate a Dispatch and Routing label to be attached by the operator, and discharge the mailpiece. Deployment of 125 systems is underway and will be completed in 2002.

The RCS automatically sorts and loads letter trays and flat tubs into mail containers or onto pallets for dispatch. Deployment of 100 systems has been completed.

These systems are critical new components that support dispatch operations and will be integrated with UTS and other systems to provide information-rich, automated material handling operations.

b. Mail Cartridge System and Direct Connect System

The Postal Service continued development of the Mail Cartridge System (MCS) and the Direct Connect System (DCS), which are the results of prior research efforts associated with the Integrated Buffer System. The MCS automates the feeding

and sweeping of Delivery Bar Code Sorters and will recirculate local mail for two-pass sorting. By replacing the DBCS sort pockets with lightweight barcoded cartridges, it allows robotic sweep-side equipment to remove full cartridges and sort them onto racks according to their destination. MCS will eliminate work hours associated with feeding and sweeping the DBCS and reduce sweeping errors. A pre-production MCS was successfully tested in 2001 and adapted to process incoming secondary mail using only one operator. It will continue to be run in this mode until July 2002. Due to production cost estimates that exceed potential savings, there are no plans to pursue a production phase.

The DCS automatically transports mail from an Advanced Facer Canceler System (AFCS) and feeds it into a DBCS. A prototype system has been successfully tested in Ft. Myers, FL. Due to the current USPS financial condition, a production program is on hold.

5. Support Systems for Mail Processing

Current cost savings initiatives focus on maintaining critical systems and replacing obsolete ones.

a. Transportation Information Management Evaluation System

The Transportation Information Management Evaluation System (TIMES) is a data collection system designed to track highway contractor performance as well as measure the utilization of the truck transportation network. TIMES is currently operational in over approximately 482 P&DCs, AMCs, and Airport Mail Facilities and at the Hub-and Spoke Program sites (HASPs). Future plans for TIMES include system enhancements that will provide greater visibility of actual content by mail class that is transported on the truck transportation network.

b. Dedicated Air Tracking

The Postal Service Air Operations group controls the consistency of the movement of mail on postal dedicated aircraft through several air networks including the Daytime Dedicated Network (DNET) and the Christmas Dedicated Networks (CNET). The Dedicated Air tracking System (DAT) provides the Postal Service with the information and tools to monitor air and truck operations within these dedicated air networks, to supervise air cargo contractors involved in moving the mail, and to supply accurate and timely reports

to postal management. DATS allows users to track and manage mail from either a hub or Point-To-Point (PTP) network perspective.

DATS provides real-time operational data that allows users and managers to manage the transportation of expedited mail, and to review the current day's operations. The information and automated tools provided by DATS assist users in ensuring that service standards are achieved, dedicated aircraft are effectively utilized, and operational alerts are dealt with on a timely basis.

DATS is capable of managing dedicated postal air networks 24 hours a day, 52 weeks a year, providing a wealth of timely operational information to all levels of postal management. It represents the latest in computer technology and provides the Postal Service with a solid foundation for further improvements in the management of its dedicated air networks.

c. Surface Air Management System

The Surface Air Management System (SAM) was fully deployed in 2001, replacing the Air Contract Data Collection System as our new mail assignment engine. SAMS provides the ability to assign mail to indexed surface and air routes, and to allocate capacity by mail classes, and track manifests on-line. The system also provides an individual routing assignment, with unique serial identification for each item presented for dispatch. The routing assignment and serial number are bar code printed on a self-adhesive dispatch & routing tag, which is applied to the item being dispatched. The dispatch & routing tags are scanned providing 'visibility' for sacks, trays, and large parcels as they are handed-off to transportation suppliers until delivery back to the Postal Service at destination. This data is used for internal quality and performance monitoring and contractor compliance measures.

d. Surface Air Support System

The Surface Air Support System (SASS) was deployed in 2001 to integrate scan data received from transportation suppliers with existing transportation systems, to ensure service performance accountability and accurate payment verification. With SASS, we have created a central 'visibility' database to receive assignment data from SAMS and scan data from our own facilities and from our transportation suppliers. SASS also provides an interface and reports used to share visibility data with external transportation suppliers and other

Postal Service logistics systems. This scanning data provides both service and security benefits, giving the Postal Service better data regarding service performance for transportation suppliers, as well as, information regarding mail transported on a specific flight, truck, train.

G. Delivery Unit Operations

1. Delivery Point Sequencing

Today, over 9,700 zones receive their mail in Delivery Point Sequence (DPS) order. These 9,700 zones account for over 83 percent of all city carrier routes and 65 percent of our rural routes, with each route averaging approximately 1,400 DPS letter pieces daily.

At the end of 2001, the number of city delivery points was approximately 83.7 million, rural deliveries totaled approximately 29.7 million, Post Office box deliveries were 19.7 million, and highway contract routes served 1.9 million deliveries for a total of 134.5 million delivery points.

2. Delivery Operations Information System

Delivery Operations Support System (DOIS) replaces the Decision Support Information System, the Route Examination System and the Projected Office and Street Time application. DOIS was designed to provide actionable data to the Delivery Unit Supervisors, assisting them in managing office activities, planning of street activities, and managing the route inspection and adjustment activities. Used properly, the actionable data provided by DOIS will assist the Delivery Unit Supervisor in making sound business decisions related to carrier operations.

The Board of Governors approved a plan to deploy the DOIS business solution in August of 2000, with deployment to the first three Areas beginning in the Spring of 2001. Nationwide deployment will be completed by March 2003.

Deployment of DOIS to districts within the Western, Mid-Atlantic and Capital Metro areas was completed during 2001. The planning for the Phase 2 areas (Eastern, Midwest and Southeast) was started. In excess of 1,400 units have been activated using the DOIS business solution.

H. Stamp Services

1. Stamp Program

The Postal Service produced a wide variety of commemorative and definitive stamps. The stamps

that were issued began as proposals from the public that were researched, reviewed and recommended by the Citizens' Stamp Advisory Committee (CSAC.) CSAC annually receives, through the Office of Stamp Services, approximately 50,000 proposals for subjects to be considered on stamps. The stamps issued in 2001 recognize a variety of great people and their achievements in the American experience, nostalgic and cultural American icons, significant events and the natural beauty and wildlife of the United States.

The 2001 commemorative stamp and stationery program consisted of 23 stamp issues, four stamped cards and one envelope. The seventh issuance in the Legends of Hollywood series, Lucille Ball, pleased a large number of American households, where even today, she appears on reruns of "I Love Lucy." Legendary Baseball Stadiums presented a picture of another time and some bygone places where Americans enjoyed their favorite pastime. The legendary Looney Tunes series came to its end with Porky Pig uttering the famous phrase "That's All Folks!" and an entire generation of Peanuts lovers celebrated the issuance of a Snoopy stamp depicting him atop his doghouse, portraying the Red Baron. The art of illustration was honored with a collection of 20 stamps entitled "American Illustrators," which proved to be one of the most popular stamps of the year. Illustrators such as Norman Rockwell, N.C. Wyeth, Frederick Remington and Maxfield Parrish had their talents recognized on the popular pane of stamps. Diabetes was the subject of the latest in our social awareness stamps. Two new subjects in our expanded Holiday Celebrations series were added with the issuance stamps for "Thanksgiving" and the Islamic celebration of "Eid." Famous personages such as Roy Wilkins, the civil rights activist, Enrico Fermi, the Nobel Prize-winning physicist, and Leonard Bernstein, the famed composer and conductor, were among many other exciting and important issues during the year.

The events of September 11 brought great sadness but with it came a greater appreciation for our nation. The Postal Service was proud to take part in the tribute to the Heroes and afford Americans another way to share in their patriotism with the dedication of the "United We Stand" stamp, which was designed and produced in record time.

We successfully responded to the Semipostal Authorization Act of 2000. The Act authorized the Postal Service to establish a 10-year program to sell semipostal stamps. The Postal Service responded in

February, 2001 by publishing its proposed rule for public comment in the Federal Register. After comments were considered, the Postal Service published its final rule and solicitation for proposals for semi-postal stamps in the Federal Register. Although semipostals are common in other foreign postal administrations, this was the first time the Postal Service was given the authority to create a semi-postal program. The response was overwhelming in terms of inquiries and amount of public participation. CSAC Members reviewed 35 qualified proposals including the proposals for executive agencies that would administer funds raised for 33 different humanitarian and social awareness causes submitted in accordance with the rules and regulations established for the semipostal program.

The 2002 stamp program was successfully completed earlier than previous years. The accelerated schedule affords earlier development of stamp and retail products and earlier release of designs to the media, field offices, and the public.

2. Production Activities

Significant production reductions were realized which resulted in measurable savings in the stamp production budget.

- For the rate implementation that took place in January 2001, stamp production was able to reduce the number of rate change transitional stamps by approximately eight billion stamps with a resultant reduction in costs of \$26 million.
- Additional savings have been realized by competitively bidding many of the commemorative stamp issues among the private supplier base. An overall cost reduction of 34 cents per thousand was attained, with a resultant overall cost reduction that resulted in a savings of \$15 million from pricing based on FY 2000. (FY 2000 unit costs were \$3.17/1,000 stamps; FY 2001 unit costs were \$2.83/1,000 stamps.)
- We successfully met all stamp production and distribution commitments for both the commemorative and definitive stamp programs.

3. Stamp Fulfillment Services (SFS) Activities

Stamp Fulfillment Services fulfilled 1.5 million customer orders, totaling \$105.9 million in revenue. 30 percent of this business was via the Internet. The remaining 70 percent is attributed

to USA Philatelic catalog sales. SFS also processed 213,000 personalized envelope orders for \$78.4 million in revenue. Total revenue flow at SFS for stamp sales, envelopes, consignments, LibertyCash and product sales was \$757 million in 2001.

I. Licensing Program

In January, 2000, the Office of Brand Management, which oversees Licensing for the Postal Service, made a decisive step towards implementing a broad scale licensing program by competitively selecting Equity Management Incorporated (EMI) as the exclusive worldwide licensing agency for the Postal Service. Over the past year, the Postal Service has been working with EMI to increase royalty revenue to a level consistent with the Postal Service's intellectual property potential.

In FY 2000, the category distribution for licensed products was comprised primarily of collectible items. In fact, collectibles accounted for 79 percent of all licensed merchandise with far smaller percentages constituting apparel/accessories (17 percent), stationery/gifts (2 percent), home products (1 percent), and other/miscellaneous merchandise (1 percent). The program business plan calls for marked diversification of category distribution in an effort to make a fundamental shift in the Postal Service licensing business.

During 2001 the Postal Service executed 30 new contracts with licensees. Thirteen of these were publishing/one-time use deals, and 17 were longer term licensing contracts for merchandise sold in retail venues. The continued effect of these initiatives is to maximize Postal Service trademark equities and enhance the Postal Service brand with high quality products, while pursuing revenue growth. These new sales strategies will not impact royalties for at least 18 months, producing hard numbers during FY 2002.

In order to emphasize the standards by which potential licensees are measured, EMI reviewed nearly 400 products in 2001, some of which were multiple products from one vendor, but only 30 new deals were signed. EMI incorporates strict product review guidelines. This means that only the highest quality products are put into the marketplace. Each product that is reviewed pursuant to an active trademark license agreement undergoes a rigorous trademark review process to ensure proper trademark usage and the appropriate trademark language.

Organizations wishing to sell products bearing the Postal Service's copyrighted images or marks must obtain a license from the Postal service. Furthermore, in conjunction with the Postal Service Law Department, Licensing has been protecting Postal Service intellectual property in assets represented by websites such as www.usps.com and postoffice.com.

J. Sales

1. Sales

The sales organization is responsible for the development, implementation and evaluation of all commercial sales and account management plans, programs, and policies nationwide, including customer service and satisfaction activities. Their work generates the bulk of the Postal Service's annual commercial revenue. Through the National Accounts program, Sales provides direct support to 232 of the Postal Service's largest commercial mailing customers. Over 14,000 other large mailers classified as Premier Accounts are served by Account Managers housed across the nation.

a. Business Service Network

For the past several years the Sales organization has also provided customer assistance through the Business Service Network, a nationwide network of service contacts that provides National and Premier customers (established accounts) a local point-of-contact for resolving local concerns. Headquarters oversight and management of the BSN Network is shifting in 2002 to the newly formed Service and Market Development group under Marketing, for better focusing of customer service activities. The network, however, will continue to be strategically housed at major postal operational points around the country.

b. Event Marketing

Sales leads are generated through several avenues, but the Event Marketing program has been our most effective lead generation resource. This program provides a Postal presence at conventions and industry events, educating potential new customers, and pairing those customers interested in learning more, with postal sales representatives in their home locations that can help. During 2001 the Event Marketing Program targeted 30 events for participation representing

the Catalog and Direct Marketing, Financial Services, Internet/e-Commerce, Retail, Travel and Hospitality, Entertainment, Sports, Automotive, Multi-Level Marketing, and Health/Food industries. From these events, 1,170 leads were generated worth \$684 million in potential revenue.

c. Pro Cycling Sponsorship

The Postal Service also continued the winning sponsorship of its top-ranked cycling team, led by Lance Armstrong, the three-time winner of the Tour de France. This sponsorship has four primary objectives:

- Generate revenue by making sales to companies and individuals affiliated with cycling;
- Enhance the Postal Service brand through activities that positively impact customer perception of the Postal Service;
- Reap the public relations value of sponsorship through a variety of activities focused on customers and employees; and
- Leverage retail sales on-site at domestic cycling events, on the team's Internet site and at Postmark America.

Sales has leveraged the business relationships developed through the cycling sponsorship, closing more than \$18 million in new sales in the past three years. Beyond the revenue generated, the Postal Service benefits from the tremendous public relations value of Lance Armstrong's victories in the 1999, 2000, and 2001 Tours de France.

d. Sales Force Training

Sales force training received focused attention during 2001 to help ensure the Postal Service's success in an increasingly competitive business environment. A multimedia approach was developed to deliver cost effective training to sales personnel nationwide. This blended learning approach incorporated classroom training, manager coaching, video conferencing, website training and information, and training via the Postal Service Training Network – a satellite TV network that provides interactive capability. Of particular interest was a course called "Selling to Very Important Top Officers." This training, a model of blended training solutions, showed 800 students how to reach the real decision-makers when contacting potential new customers, and coached them on how to ensure that mutual interests were satisfied.

K. Retail Programs: Building the Core

Each day, over seven million Americans visit our post offices and contract postal units. The vast majority of these customers perform the very basic functions of buying stamps, mailing packages, and collecting mail from their post office boxes. Many more obtain stamps or other postal products by mail, online, through our vending equipment, and through supermarkets and other authorized agents. The primary role of the Retail function is to make it easy for them to do business with us, while making the transactions increasingly productive and profitable for the Postal Service.

1. Marketing Calendar

Although the Postal Service has a straightforward product line, many of our customers are not familiar with some of our basic services, or how to best use them. Addressing this need for basic product information is central to retail marketing activities. A principal tool in this effort is the Retail Marketing Calendar, a tightly managed 18-month schedule of planned promotions, activities, and events that help to guide our customers and employees through major mailing seasons. The calendar also helps to support ongoing promotions for products such as Express and Priority Mail by presenting basic information at a time customers are most likely to buy and use the services.

Although the Postal Service has achieved success with its product information programs, until recently, our efforts have been focused largely on consumers. In the past, small business customers — who represent the lion's share of retail revenues — have largely been ignored. In 2000, we began several efforts to use our established relationships within the small business community to assist small businesses with their mailing needs and generate new revenue. These include building a response infrastructure that ensures customer follow-up and an on-going relationship with the customer. We also expect to grow volume and market share within this segment through the use of solution-based promotions that target the small business customer.

Roughly 89 percent of all retail revenue and 96 percent of all retail operating expense accrue from the Postal Service's classified post office and contract unit full-service options. They are

augmented by Stamps By Mail, over 30,000 revenue-generating vending machines, and stamp sales at thousands of commercial retail outlets and ATMs.

2. Retail Sales

Retail is the way most Americans buy and use mail. This provides local access for the core product applications of correspondence and transaction mailing, domestic and international package shipping, and special services, including delivery through more than 18 million post office boxes. Major customer segments are small businesses and consumers (customers using the mail for personal, rather than business reasons). It is estimated that consumers and small firms generate Postal Service retail revenue of \$7.4 billion and \$8.7 billion, respectively (meters, permits, and corporate accounts not included).

3. Retail: New Solutions, New Partners

The Postal Service faces an ever-changing marketplace. New services and business arrangements are necessary to expand our customer base and meet the growing needs of our customers.

We continue to expand programs such as Ready Post, which are pre-packaged shipping products designed to make shipment preparation easier, and Dinero Seguro, an electronic money transfer service to Mexico, to capture incremental revenue. We are also examining a Hold for Pick Up concept that would enable shippers the ability to designate specific post offices where packages would be held for customer pick up. A major market for hold services, for example, are large commercial customers who routinely make urgent shipments for early pick up by employees in remote locations.

In addition to the development of new solutions for our customers, creating agreements with business partners and other commercial carriers that help to capture the profit potential of our retail network will help us to create sustainable net revenue for our organization. For example, the drop box agreement signed with FedEx not only provides the Postal Service with a significant amount of new revenue but it also leverages our retail network.

We plan to expand customer choice the introduction of credit card payment for Express Mail corporate accounts will provide customers with ease of use alternatives for their package shipments. We plan to test this service in four

district markets. Accepting credit card payments for online shipping and frequent shippers using Express and Priority mail is also being considered.

4. Retail Operations: Reaching the Customer

Today's society demands the convenience of one-stop shopping solutions. In response, the Postal Service is making strides to develop convenient alternatives to post offices that assist the customer with their mailing needs. Instead of requiring customers to come to us, the Postal Service will instead serve them where they live and work. This means moving from a more or less one-dimensional brick and mortar strategy to one that integrates our physical branch network into a flexible set of customer contact options (on the web, through letter carriers, through partnerships, and so on).

Contract Postal Units and other commercial agents and partners allow the Postal Service to reach customers at times when post offices are deemed inconvenient or are closed. Typical locations for these units are shopping centers, local malls, and other locations that customers may frequent. Extended evening, weekend, and holiday hours of these facilities provide postal customers with the utmost convenience.

Similar to CPUs, new services are being developed to implement basic mailing services, First-Class and Priority Mail under 20 lbs., into additional retail store locations. This will not only give postal customers more access channels to postal services, but it will provide them with those services at actual post office prices.

The development of mapping and functional analysis tools has significantly aided in finding optimum locations for the alternative access channels listed above. Mapping allows the Postal Service to analyze specific areas of the country, and make customer-focused determinations for the placement of CPU's and other new services.

5. Point-of-Service One

The vision of POS ONE is to provide customers, retail associates, and Postal Service management with the most effective retail sales, service, reporting, and decision support functionality that conveys value to our customers and enables a service orientation for our employees.

POS ONE is replacing current integrated retail terminals with state-of-the-art hardware and software, along with support services and training. POS ONE is a relationship builder and enables improved business insight and decision making. Through POS ONE, postal customers will receive improved and timely information about available services and have immediate access to options and costs to make quick, informed decisions. Retail associates will receive consistent information on a daily basis to keep them up-to-date on corporate direction, promotions, and new product and service offerings, as well as keep them abreast of immediate changes in policies. Additionally, supervisors and managers will use the data to improve their units' day-to-day performance.

By the end of December 2001, POS ONE was deployed to over 9,400 retail sites, capturing detailed transaction information for over 70 percent of Postal Service walk-in revenue.

6. Retail Workforce Strategies

Comprehensive changes were introduced in 2000 to support a strategic shift in the way retail employees perceive their role in providing excellent customer service. Programs and tools implemented included new position descriptions and qualification standards, new job titles, a highly customer-focused training program, and newly designed uniforms. The momentum created by these changes continued in fiscal year 2001 with the implementation of additional tools and support.

With the activation of the Retail Data Mart, reports and information critical to making optimal business decisions at the unit level are now available in POS One post offices. This level of information was previously inaccessible. Training for approximately 20,000 front-line supervisors was developed that focuses not only on skills required to use the Retail Data Mart, but also on best practices and actions required based on performance measured in a few key reports. In order to quickly deliver this training at the lowest cost, distance learning technology was used. This course will represent the first broad application of this training format for a significant number of field employees. Another "first" is the capability built to link individual training evaluation to performance on-the-job that is measured in terms of business results such as increased special service retail revenue and efficient staffing of retail operations.

The Retail Coach network also expanded in 2001. A retail coach is a retail associate who has additional duties and responsibilities in helping new associates on the job as well as fellow associates on new procedures. Retail coaches are sent information directly in a timely way to ensure that important information is disseminated to all associates, thus ensuring excellent service to customers.

7. Self Service

During 2001, the Self Service office continued to focus on improving performance, increasing access points for consumer stamp purchases, and generating revenue. Continued emphasis was also placed on increasing consumer awareness of alternative locations for stamp purchases. Additional information is provided below:

Approximately 7 percent of retail revenue is generated from self-service vending. During 2001, the Postal Service focused on reducing the costs per revenue dollar in vending (decreased 2 cents), improving customer satisfaction (increased by 3 percentage points), and reducing the number of out-of-date machines (decreased by 20 percent).

a. Provide New Services

The Postal Service continued the pilot test of the Automated Postal Center (APC). The APC is a self-service kiosk that enables consumers to weigh, rate, print postage (using the information-based indicia technology), and mail packages. It also offers the ability to purchase sheetlets of stamps and to obtain general mailing information. The APC has the capacity to provide approximately 80 percent of the commonly requested postal transactions in a self-service environment. This use of new technology further leverages our plans to reduce costs and improve customer satisfaction.

b. Stamps on Consignment

Approximately 8 percent of retail revenue is generated from the Stamps on Consignment program. This program is designed to offer consumers easy access to purchase stamps. These alternative locations include grocery, drug, and convenience stores as well as ATMs in various bank branches. The number of alternative locations provided by this program was approximately 40,000 in 2001.

8. Postage Technology Initiatives

Building on the security architecture put in place in the 1990s to correct revenue leakage from misuse of postage meters, Postage Technology Management (PTM) integrates technology

advancements further for the purposes of cost savings, cost avoidance, revenue generation and mail security. PTM's three-prong strategy to improve security of postage evidencing through the introduction of advanced technology required moving the industry to more secure metering devices, counterfeit countermeasures designed into the indicia and a comprehensive network of information systems for audit and control and reduction of manual processing. In addition to increased revenue protection, an outgrowth of the organization's deliberate activities to migrate the postage metering industry to more secure technology continues to provide opportunity for introduction of new applications for secure postage evidencing technology.

a. Secure Metering Systems

The goal in this area is to move the industry to safer, more secure postage evidencing systems to safeguard against revenue loss due to tampering and misuse.

With the introduction of PC Postage™ products as a new product category for postage over the Internet, PTM raised baseline security expectations with the requirement of a tamper-resistant Postal Security Device (PSD) as the postage vault. A PSD incorporates computer chip technology that is programmed to shut down in the event that it is tampered with. The migration of metering technology from least secure to most secure follows the progression from manually set meters, to Computerized Meter Resetting System (CMRS) letter press meters, digital meters, digital Information Based Indicia (IBI) meters, to PC Postage products. In addition, migration of manual set to remote set meters moved into Phase II. The migration to remote set meters means more secure meter technology as well as cost avoidance associated with manually setting meters.

The migration of manually set electronic meters began in February 2000 with the stop placement of any new manually set meters, and the actual withdrawal began in June 2001. PTM reported a 43 percent reduction in the manual reset meter population in 2000-2001. 59,000 manually set meters were withdrawn from service and 95,000 digital meters were installed into service. Two new postage meter models were introduced that combined the safest technology introduced for PC Postage, i.e., the PSD and IBI. Of the population of 95,000 new digital meters, 12,000 of these were the two newest and safest models.

**b. Advanced Secure Postage Evidencing:
the Information Based Indicia**

The Information Based Indicia (IBI) is part of the PTM security architecture and the objective to secure postage against counterfeit attack. The goal is to incorporate technology into the postage mark that makes it harder to counterfeit, that makes counterfeiting easier to detect, and that offers value beyond postage.

Unlike traditional postage meter indicia, each IBI is unique. IBI incorporates digital printing of indicia that includes human readable and machine readable (barcode) data containing, among other information, certain “security critical” data elements. The IBI also incorporates cryptographic services which digitally “sign” each indicium making it possible to verify its authenticity.

In addition, because it conveys digital data on the mail piece and has the capacity to encode additional information, the IBI can provide benefit beyond revenue security in two areas, including value-added services to customers and valuable data contribution to the Information Platform. In 2000-2001 the IBI has been incorporated into two new meter models, and Postal Service on-line products for secure postage evidencing. Further, moving into 2002, the IBI is recognized as a promising technology platform for extending “intelligence in mail.”

c. Centralized Data Management

PTM continues the enhancement of its centralized databases to track and manage products, customers and revenue associated with postage meter use. The goal is to move decentralized data and data processing to centralized data management to improve audit and control capability, transition as many manual processes to automated processing in order to achieve work hour savings, and improve customer service. Many of the initiatives undertaken to move to electronic transfer of funds not only serves to improve Postal Service data management and savings, but also provide improvements for customers because they eliminate any delay in use of their postage funds that may have been caused by manual processes.

The primary database systems include the Centralized Meter Licensing System, the Meter Accounting and Tracking System, and Computerized Meter Resetting System (CMRS). These systems are used to provide the data necessary to conduct full loop audit and review procedures as part of the all-encompassing security architecture for postage evidencing products.

Four particular accomplishments in 2001 include; 1) Secure CMRS Funds Transfer which introduced automated transfer of funds between CMRS meters resulting in approximately 9108 work hours eliminated by this task, 2) Manual Migration Process allowing transfer of funds from manually set meters to CMRS meters and saving approximately 2609 work hours eliminated by this task, 3) Electronic Change of Accountable Post Office eliminating the need to bring a meter into a post office for withdrawal and reinstall, resulting in elimination of 630 work hours, and 4) New Meter Examination Schedule eliminating the need for certain meter examinations and potentially eliminating 392,000 work hours. Further, withdrawing 59,000 manually set meters would eliminate manual settings required for 118,000 work hours.

L. Pricing and Classification

Key among the accomplishments of Pricing and Classification last year were the development of the rate and classification proposals in Omnibus Rate Cases Docket No. R2000-1 and Docket No. R2001-1, along with the implementation of the resulting rates. This includes important roles in the Governors’ rate modification in Docket No. R2000-1 and the settlement efforts in Docket No. R2001-1. Pricing and Classification also is responsible for developing the experimental and classification proposals during the period, including the Periodicals Ride-Along and Priority Mail presort experimental cases.

1. Omnibus Rate Case R2000-1

Departmental efforts were important during the close of Docket No. R2000-1. First, with the help of Pricing and Classification, the Governors were able to point out several technical errors in the Postal Rate Commission’s initial Recommended Decision. This ultimately led to more proper calculations in several areas in subsequent Recommended Decisions, including those involving Standard nonprofit mail and Bound Printed Matter. In addition, the department was heavily involved in the effort to develop modification rates that comported with the record evidence in Docket No. R2000-1 and met the revenue needs of the Postal Service.

A comprehensive plan was developed and utilized to support the implementation of the new

rates and fees. The plan focused on communications, cross-functional teamwork, and training to ensure customer and postal readiness of the new rates, fees, and classification changes. The plan included the involvement of postal and customer implementation readiness teams (IRTs) and an implementation advisory board (IAB) comprised of 15 postal members ranging from postmasters in rural communities to a district manager. The IRTs and IAB helped to identify internal and external impacts and provided solutions that would ensure all parties were prepared for the January 7, 2001, and the July 1, 2001, Docket No. R2000-1 Omnibus Rate Case and the modification effective dates. Implementation and communication were accomplished through the extensive use of internally developed postal and customer implementation packages, kits, posters, Postal Service Television Network (PSTN) broadcasts, conferences, postal publications, and Web technology. In addition, the department provided training for and coordinated efforts of the Technical Speakers Bureau. These speakers made presentations at more than 200 internal and external events, including Postal Customer Council meetings and the National Postal Forums.

2. Omnibus Rate Case R2001-1

In Docket No. R2001, Pricing and Classification was responsible for the development of rates that met the revenue needs of the Postal Service, while fostering product improvements and incentives for customers to reduce postal handling costs. Some of these improvements and enhancements are described in Section D, Postal Cost Apportionment and Postal Ratemaking Developments. One measure of the success of the proposals is that those rates served as the foundation for the rate case settlement discussions. With very few changes, a diverse group of rate case participants agreed that these rates were reasonable and appropriate for the extraordinary times facing the Postal Service.

3. Realignment of Rate and Classification Service Centers

Effective September 8, 2001, the five Rates and Classification Service Centers (RCSCs) consolidated into three service centers, and a new Non-Profit Service Center (NSC) was established. The realignment provides an efficient and effective structure that benefits both the Postal Service and its customers. The rates and classification work

managed by the RCSCs includes matters concerning rate eligibility, mail preparation, mail classification decisions and exception requests. The NSC is responsible for processing applications for nonprofit eligibility related to Nonprofit Standard Mail, Additional Entry and Reentry for Periodicals, and SOA/Pandering.

The Northern Virginia RCSC closed. Customers formerly supported by that office (the Allegheny, Capital Metro, and Mid-Atlantic Areas) are now supported by the New York RCSC. The Memphis RCSC closed. Customers formerly supported by that office (the Southeast and Southwest Areas) are now supported by the Chicago RCSC. The New York, Chicago, and San Francisco RCSCs handle internal and external customer support for rates and classification issues and report to the vice president, Pricing and Classification.

M. Marketing Technology and Channel Management

Throughout 2001, Marketing Technology and Channel Management stayed the course of its commitment to improving the way the Postal Service does business with its customers, and to the development and implementation of new and innovative uses of technology in meeting the business mailer community's needs.

On this front, Marketing Technology and Channel Management realized two critically significant accomplishments in the Business Mail Acceptance area. Automated verification, made possible with MERLIN (Mailing Evaluation, Readability Lookup INstrument), enables Acceptance Units to more effectively accept and verify discounted mailings. MERLIN is an automated system that simultaneously verifies presort mailings makeup, barcode readability, tray label accuracy, meter identification, piece counts and mailpiece characteristics. During 2001, MERLIN began Phase I deployment of 200 machines, 70 of which were deployed throughout the Southeast and Southwest Areas. The completion of MERLIN's Phase I deployment is scheduled for March 2002. Funding for Phase II, approved October 2001, includes the commitment of an additional 1,003 machines to be deployed beginning March 2002 throughout the rest of the Areas.

Funding was approved in 2001 for e-VS, electronic Manifest Verification of parcels to validate postage. Using e-VS, barcodes placed on each parcel by the mailer give exact mailpiece characteristics and details. The information captured by the barcode is then sent to our San Mateo Processing & Distribution Center via electronic manifest file and electronically compared to its mail counterpart which is verified by a Postal Service scanner and scale. A 30-day sampling of the two is then electronically reconciled to validate postage. With e-VS, mailers can bypass the Business Mail Entry Unit/DMU, saving time without sacrificing accuracy.

We made tremendous progress with the Transportation Management capability of PostalOne! Designed to integrate customer and Postal Service business processes, PostalOne! uses information technology and supply chain management techniques to align processes and systems to reduce costs and improve service to customers. Through PostalOne!, mailing acceptance occurs at the customer's plant using electronic transportation assignment of mail and the use of a Fully Automated Scan-Where-You-Band system or desktop version. Transportation Management results in substantial savings from diversion of scheduled air transportation of mail into the surface transportation network. Currently, 48 systems have been installed with an additional 35 systems identified for deployment during FY 2002.

Yet, our commitment to improving services through technology can only be ensured by the commitment made to the training provided to BMEU employees. In 2001, for the third year in a row, BMEU employees reached their Proficiency Index Improvement Goals, scoring 10 percent higher than in the previous year. The Business Mail Academy, located in Norman, Oklahoma provides a 10-day extensive training course in the rules, regulations, and courtesy skills of business mail acceptance. During the year, 645 new BMEU employees successfully completed this training.

N. The Internet: Secure, Convenient, Reliable Choices

The Internet has become a mainstay in both American society and in the American economy.

The Postal Service has historically used technology to enhance its core products and services and the Internet has proven to be a valuable tool. The Postal Service is using the Internet to communicate with its customers more efficiently and effectively, and to offer them options on how to access the products and services they want and need from their Postal Service more easily, conveniently, and securely – to conduct the business of their lives.

1. Our Web Presence: www.usps.com

The Postal Service's online presence has attracted approximately 7 million visitors every month – making it one of the most heavily trafficked federal web sites. Customers can look up ZIP Codes, track and confirm delivery, buy stamps and postage-related products, calculate rates, pay bills, send money, download forms, change their addresses, and electronically retrieve important information.

The Postal Service is developing innovative ways to meet customer needs. One example is NetPost Mailing Online which is an electronic-to-paper mail preparation and delivery service targeted at individuals and small businesses. Mailing Online combines the power and flexibility of desktop publishing with the convenient accessibility of the Internet and the speed of electronically distributed printing and mailing. This hybrid mail service allows “what you create tonight on your computer” to be on its way to the recipient's mailbox as soon as the next day.

The Postal Service will strive to enrich our online presence and continue to improve the performance and usability of our web site, as well as enhance the products and services offered online. Our goal is to meet the needs of the American public and to provide the same level of security and privacy we have offered for over 225 years to the electronic environment.

Just recently the Postal Service has begun to “Get Involved” by partnering with Youth Service America to encourage volunteers nationwide to give their time to some worthwhile groups. “Get Involved America!” is featured on the Postal Service's web site and by simply typing in your ZIP Code, customers get a list of groups in their neighborhoods in need of volunteers. It's our way of helping individuals in communities across the country give back and get involved to make this a better place for everyone.

2. Secure Electronic Services: Delivering the reach and authority of the United States Postal Service to customers in the e-commerce world.

The Postal Service has launched new services that leverage today's technology to electrically transmit important communications and still provide the same level of confidence and security our customers expect from hard copy mail.

PosteCS is a Web-based file-delivery service that lets users send electronic files that are too large for most commercial e-mail systems. PosteCS notifies a recipient where to pick up a document at a secure online location. The service allows senders to protect the files with passwords and provides a return receipt that lets the sender know that the recipient has received the file. Commercial and government customers use the service. PosteCS gives senders more control over their documents end-to-end security, confidentiality and integrity.

In a joint venture model, the Postal Service has partnered with firms, including IBM Corp. and AT&T, to ensure the success of its NetPost.Certified service, the equivalent of certified e-mail. The service enables public-sector personnel to securely transmit sensitive information in digital form to government agencies. Both the sender and receiver of NetPost.Certified messages receive electronic certificates certifying that their file has been received and has not been tampered with. The service is being used in 46 post offices nationwide by employees from the Social Security Administration and the Centers for Medicare and Medicaid Services. It is also being piloted by the FBI. The Postal Service also is talking with the states of Texas, North Dakota, Maryland and others interested in adopting it.

The Postal Service's Electronic Postmark® (EPM) digitally time stamps and signs electronic files and detects any subsequent tampering of the postmarked document or transaction. The EPM is integrated into PosteCS, eBillPay, Netpost.Certified and other commercial secure electronic services that enable the Postal Service to provide customers the same level of confidence they value today in the postmarking of hard copy mail.

In September 2000, the Postal Service nationally launched its hybrid mail service, NetPost Mailing Online. This service allows customers to prepare electronic communications on their personal computers and electronically transmit them via the Internet to the Postal Service

along with their mailing lists. Once received, the communication is routed to a network of printers, printed, inserted envelopes and entered into the mail stream at a local Post Office. This service is available to customers anytime, anywhere and saves them both time in preparation and speed in delivery.

3. Online Payment Services: Extending Traditional Value in Today's Marketplace

During 2001, the Postal Service continued its effort to explore new and better ways to extend and enhance the Postal Service's traditional products by leveraging today's quickly evolving technology. In August, we expanded Online Payment Services, available through usps.com. Our customers can now not only pay all of their bills online through USPS eBillPay™, but also have the ability to send and receive person-to-person payments using USPS Send Money!™, and transfer funds directly between bank accounts. The USPS Electronic Postmark® (EPM) verification, which provides consumers with an official time and date stamp and an indication of tampering, was also integrated into all Online Payment Services transactions. The EPM is a unique feature not offered by any competitor, and it embodies the extra trust brought by the Postal Service. Pay@Delivery™ was also integrated into Online Payment Services. Pay@Delivery™ allows customers to purchase online auction items and have the service hold their payment until the delivery of the item is confirmed through the scanning of a Delivery Confirmation barcode on a Priority Mail package.

4. Bringing Choices to Our Customers

The Postal Service has leveraged new technology and innovations for many, many years to provide faster, better more secure service to our customers. Traditionally, we have done this through contractual arrangements and we will continue this methodology as appropriate. However, we rely heavily on strategic alliances and partnerships to help us deliver more choices and services to our customers. This type of arrangement improves speed-to-market and leverages best technologies and core competencies of other companies to meet the needs of our customers.

O. Technology

Throughout 2001, the Postal Service expanded its strategic use of innovative technology products and services to solve business needs. To support the core mission, the USPS focused on systems that render the delivery process transparent, streamline internal processes, and create new business opportunities. We also fortified the foundation of our technology environment, the infrastructure. By focusing on key, enabling mechanisms, we leveraged our vast infrastructure to provide a solid information platform for future needs.

1. Strategic Technology Initiatives

The Postal Service supports its core operations by designing and deploying systems that provide customers information and services they demand, applications that automate manual processes, and initiatives that ensure a secure technology environment.

- ⁿ In 2001, the Postal Service focused on initiatives that address customer demand. Originally deployed in 2000, the Postal Service upgraded the Confirm system. As one of the primary projects designed to enhance USPS's relationship with its customers by providing them with detailed information about the status of their mail, the Confirm system already allows participating mailers to "see" when individual mail pieces are scanned by postal equipment or employees. This capability will be extended so that customers will be able to "see" delivery information for both mail that they send and receive.
- ⁿ In addition to focusing on new business opportunities, the Postal Service focused on streamlining internal processes that reduce costs. In 2001, The Postal Service successfully deployed the Surface-Air Support System and the Surface-Air Support System. A critical system in the Postal Service's strategic partnership with Federal Express, SAMS assigns surface and air transportation and supports the payment of the air carriers. SASS is the corresponding reporting mechanism. Together, these systems help the Postal Service reduce transportation costs and optimize the transportation services necessary to support operations. In order to streamline the internal process of

resource timekeeping, the Postal Service designed and deployed the Time and Attendance Collection System (TACS). TACS replaces five disparate time-keeping systems, and will provide supervisors with accurate, real-time labor data. This single-source system reduces data entry and analysis time, enabling managers to make more informed decisions more quickly. Other examples of automated processes include eTravel, a travel voucher system, and eBuy, a supply order and payment system.

- ⁿ With external-facing systems such as the EPM and the many internal system highlighted above, the Postal Service is extending the public's trust from our secure and reliable delivery of paper mail to our secure and reliable electronic transmission of data. By investing in the security of information technology, the Postal Service protects the 1.3 million e-mail messages that are processed daily and the 8 million visitors to the usps.com Web site each month. The Postal Service outlined its approach to enhancing security in its *Information Security Five-year Strategic Plan*. To realize that strategic vision, the Postal Service established an Information Security Executive Council to provide leadership and direction across the enterprise. We also established a Computer Incident Response Team to rapidly identify, analyze, contain, and respond to security threats. In addition to updating our plans and testing our infrastructure, we developed an enterprise-wide awareness and training program.

2. Information Technology Infrastructure

The Postal Service technology environment is huge, complex and among the five largest in the world. The Postal Service's recent efforts focus on leveraging this vast infrastructure for future needs by updating its outdated components, negotiating contracts that save reduce costs, and protecting the infrastructure with contingency plans.

- ⁿ One major initiative that addresses the aging infrastructure is the Advanced Computing Environment (ACE), which replaces existing workstations and transitions existing applications to a web-based environment. While the implementation of ACE will be phased in over the next two years, the Postal Service

successfully implemented a pilot of ACE to 500 users. This new environment reduces the Postal Service's expenses because it requires fewer resources to support it. Corresponding efforts include an updated

- n e-mail system and consolidated help desks.
- n The Postal Service focused on its goal to better manage costs by reducing enterprise-wide software and telecommunication costs via contract negotiations. Specifically, we focused on negotiating long-term agreements, while reducing the administrative expenses affiliated with the process of renegotiation. These new contracts that will generate millions of dollars in savings over the next five years.
- n The Postal Service implemented a strategic disaster recovery process to test and recover critical system to meet business requirements and security objectives.

3. Information Technology Accessibility

As an amendment to the Rehabilitation Act of 1973, Section 508 requires federal agencies to procure and maintain electronic and information technology that is accessible to persons with disabilities. The Postal Service formed a group to create specific guidelines for the Postal Service, which update policies and procedures. This team successfully brought the Postal Service into compliance with Section 508 by the June 21, 2001, deadline. During 2001, the dedicated team provided educational services, reviewed nearly one thousand Postal Service Web sites, modified hundreds of systems, and identified over one thousand unregistered sites within the Postal Service web environment. While the 508 Program Team has focused primarily on the Web to this point, their attention is turned now toward other aspects of the Postal Service, including documents pertaining to the human resources department, the purchasing department, the legal department, and the Consumer Advocate's Office. Section 508 will continue to guide how the Postal Service provides universal access to information.

P. Operations Planning

1. Staffing and Scheduling

Our future success as an organization will be significantly influenced by our ability to use work

hours efficiently and to maintain stability in our staffing relative to workload. In a joint effort with Human Resources, the Integrated Resource Management (IRM) program was successfully implemented in 133 sites covering 370,000 employees. This success builds on the 19 pilot sites implemented in FY 2000.

A major component of the IRM initiative is Resources Management (RM), an automated system used to assist supervisors and managers in plants and post offices to record, track and manage the leave administration process. During fiscal 2001, sites implementing RM have achieved a reduction of more than 960,000 hours of sick leave and corresponding reductions in leave without pay and overtime, saving nearly \$73 million in direct costs. Plans are underway to convert RM to eRMS, a Web-based application, and expand the reach of the system nationwide. Thus far, over 500 users have been trained to use RM.

A second significant component of the IRM initiative is the Coaching for Performance and Accountability (CFPA) training. Through this training, supervisors learn to sit with each of their employees and explain what is expected of them, not only in terms of attendance, but everyday work performance, as well. As part of this process, the rewards for success and consequences for failure are also discussed. So far, in the sites that have implemented the CFPA training, productivity is higher than in non-IRM sites, and processing costs are lower.

An outgrowth of the RM effort is a more intense focus on ensuring uniformity and consistency in staffing at the plant and post office level, and in maintaining flexibility to adjust staffing as workloads shift. Many current staffing authorizations are outgrowths of organizations that no longer exist and do not accurately reflect the work performed. Where this occurs, new staffing guidelines will be developed or existing guidelines revised. These staffing criteria reviews will follow a three step process.

First, to determine the role and range of responsibilities to be carried out within various jobs and organizations. This is accomplished by analyzing the work content of functional area managers along with objective decisions regarding how this work fits into the overall mission of the Postal Service. Second, the factors that determine workload, and methods to link duties to specific factors that predict workload, are identified. Finally, a method for measuring the workload and linking the process of allocating positions nationwide

without increasing overall staffing unless justified from a workload standpoint is developed and implemented. Labor Relations staff, as well as knowledgeable representatives from Area and field offices will perform these analyses.

Coupling an increased emphasis on attendance with a systematic approach to staffing should provide the basis for more effective work hour use, and ultimately, reduced costs.

2. Address Management

The success of our automation program is dependent upon our ability to ensure that each mailpiece has a correct bar code. Our address management services provide that capability by maintaining current data on each delivery point served by the Postal Service and by regularly providing that data to Postal Service facilities and customers.

a. Forwarding

The Postal Service uses the Computerized Forwarding System (CFS) to forward mail to the 17 percent of the nation's population that moves each year. Over 3 billion pieces of forwarded mail and nearly 44 million change-of-address cards were processed in 2001. CFS sites are located in 220 postal facilities nationwide. Each CFS site presently consists of a centralized computer, mechanized terminals for processing letters, flat forwarding terminals for flats and magazines, and nonmechanized terminals for processing change-of-address cards and non-machinable mail. The CFS database provides the data for all address correction activities.

b. 100 Percent Database Quality

Address Management is making progress toward the goal of 100 percent Address Management Systems (AMS) database quality by pursuing an aggressive policy of ongoing quality reviews and by developing and implementing technological and procedural improvements to ensure better communication between Delivery and field AMS sites.

These steps have resulted in improvements to AMS database quality. AMS now provides more timely delivery point addressing information for use in all automated mail processing, bar coding and sorting operations. It also is the source of all address information products required by the commercial industry to prepare automation compatible mailings.

In 2000, the Postal Service initiated the National AMS Street Review Program, moving responsibility for AMS data quality measurements from the Areas to Headquarters and ensuring that the measurements are applied evenly across the nation. In 2001, the national team reviewed 2,120 individual carrier routes.

c. Address Quality Improvement

Improving address quality (ACE) reduces the amount of undeliverable-as-addressed mail and improves the effectiveness of automated mail-processing operations. The Postal Service makes available to mailers, products and services that assist them in attaining – and maintaining – 100 percent deliverable address lists. Mailers who utilize the resources detailed below are able to produce more deliverable mailpieces and gain access to worksharing discounts.

1. Address Element Correction

The Address Element Correction service was designed to correct addresses that could not be matched to the Postal Service's national ZIP+4 file using Coding Accuracy Support System (CASS) certified address-matching software. AEC corrects deficient addresses and identifies those that do not exist. Already, millions of addresses in mailers' files have been examined and corrected, leading to improved customer satisfaction.

AEC uses a variety of computer logic resolution processes to correct as many addresses as possible. And, it produces a diagnostic report about the mailer's list management practices. Current electronic success rates average 35 to 50 percent of the previously unmatched addresses. More than 19 million addresses were processed in 2001 with 6 million addresses corrected.

2. Barcode Certification

To ensure the accuracy of bar codes applied by mailers, the Postal Service evaluates the ability of customers' hardware and software to produce properly constructed bar codes that meet Postal Service automation requirements. In 2001, eight printers were certified as producing bar codes that meet the required physical characteristics.

3. Coding Accuracy Support System

Coding Accuracy Support System improves the accuracy of the carrier route, five-digit ZIP, ZIP+4 and delivery point codes that appear on mailpieces. The program is a quality control measure that ensures that software vendors provide

accurate, updated information and software to customers who purchase this information to process their mailing lists. CASS is available to all mailers, service bureaus and software vendors who want to evaluate their address-matching software and improve the quality of their ZIP+4, carrier route, and five-digit coding accuracy. The Postal Service's National Customer Support Center (NCSC) grades this process and the results are returned to mailers to provide useful diagnostics for correcting deficiencies. CASS enables the Postal Service to evaluate the accuracy of address-matching software programs in three areas: (a) ZIP+4 delivery point coding, (b) carrier route coding and (c) five-digit coding. CASS allows vendors/mailers the opportunity to test their address-matching software packages and, after achieving a minimum percentage of accuracy, be certified by the Postal Service.

4. Correct Address Notification

Responding to requests from the mailing industry and the need for consumers to use complete and correct addresses, the Postal Service developed a system of customer address notification. The notification effort seeks to influence the public to use all the elements of a complete and correct address. Notification mailpieces were delivered to approximately 201,000 customers.

5. Customer Notification Letter

The Customer Notification Letter is a notification to postal customers who have submitted change-of-address (COA) orders (PS Form 3575). The notifications include details of the COA order, providing customers an opportunity to verify the COA information on file with the Postal Service. Customers are instructed to contact the Post Office serving their old address if any of the COA information is not correct. The telephone numbers for both the old and new Post Offices are provided. The notifications also include a question and answer section advising customers what to do if they are not receiving mail at their new address. There is also information on how customers may notify others of their new address, and a reminder to register or reregister to vote. In 2001, approximately 35 million customer notifications were mailed.

6. Delivery Sequence File

The Delivery Sequence File is a comprehensive licensed address data system that expands the level of information beyond the ZIP+4 code. The system contains a complete address register with carrier

delivery sequence information. Mailers who match their address records to DSF can validate the existence of the address and identify deficient elements. Consistent with other address quality systems, DSF standardizes the addresses submitted by mailers to ensure automation compatibility. Mailers in 2001 matched more than 75 billion addresses, a 200 percent increase from 2000.

7. Locatable Address Conversion System

The Locatable Address Conversion System (LACS) process enables business mailers to electronically update their rural-style addresses with new, locatable city-style addresses in areas that are experiencing 911 emergency response address conversions. There are currently 5 million converted addresses in the LACS file. Improved address quality increases mailer access to work-sharing discounts and improves deliverability. The Postal Service licensed 13 firms to assist mailers in updating their address records or to perform the matching service for business mailers.

8. Move Validation Letter

In April 1996, the Postal Service implemented a process to circumvent the fraudulent submission of COA orders. The solution, a Move Validation Letter (MVL), is a notification that is mailed to postal customers at their old address alerting them that a request has been made to forward mail from the old address. If a potentially fraudulent situation exists, the customer is instructed to contact their local Post Office for assistance. The telephone number of the local Post Office is provided. These notifications are generated for COAs entered into the Computerized Forwarding System (CFS) database on a daily basis. They are mailed within 24 hours of receipt by the National Customer Support Center (NCSC) in Memphis, TN. In 2001, more than 34 million notifications were mailed.

9. Multiline Accuracy Support System

The Multiline Accuracy Support System (MASS) is an extension of the CASS, which is a process designed in cooperation with the mailing industry to improve the accuracy of postal codes that appear on mail. Whereas CASS focuses on the processing of addresses stored electronically in computer data files, MASS tests the quality of address matching occurring on MLOCR equipment and direct-view encoding stations. These systems have to lift an address image directly from a mailpiece to accomplish processing. MASS allows vendors/mailers the opportunity to test

their machines and, after achieving a minimum percentage of accuracy, be certified by the Postal Service.

10. Presort Accuracy, Validation Evaluation

The Presort Accuracy, Validation Evaluation (PAVE) program is a process designed in cooperation with the mailing industry to evaluate presort software and determine its accuracy in sorting address files according to *Domestic Mail Manual* (DMM) standards. PAVE is available only to software and hardware developers - companies that develop presort software or manufacture presorting equipment for resale or internal use. Participation in the program is purely voluntary. Although this program evaluates and validates presort products manufactured by the developers, PAVE does not guarantee acceptance of mail prepared using PAVE-certified hardware and/or software; however, it does provide national approval of computer-generated facsimiles of Postal Service postage statements, standardized documentation and other presort documentation.

11. Rapid Information Bulletin Board System

Rapid Information Bulletin Board System (RIBBS) was introduced to provide members of the mailing industry with rapid access to postal information. The information in RIBBS includes Customer Support Rulings, Federal Register notices, weather and natural disaster condition reports, DMM labeling lists, certified vendor information, office locator services, reports and data for ADVANCE participants and minutes of the Mailers' Technical Advisory Committee meetings.

12. Delivery Confirmation Certification

Delivery Confirmation, a recently implemented program for Priority Mail and Standard Mail, provides a method for customers to verify the delivery status of packages. Customers choosing the electronic file option are required to participate in a certification process to ensure the accuracy and quality of customer-generated data that is entered into the Delivery Confirmation System. The Postal Service certifies the customer's ability to accurately format and populate mail-piece information in the required fields of the Delivery Confirmation electronic file and to accurately transmit that file to the Postal Service's host computer. Bar coded labels, used to capture delivery data, are physically examined and scanned for readability and compliance with the Delivery Confirmation requirements. In 2001,

842 customers successfully completed electronic file and bar coded label certification.

13. Electronic Address Sequencing

Centralized electronic address sequencing service eliminates field work hours in the handling of manual address sequence cards and improves the consistency of the service provided. With average processing times of seven days, the electronic service assists walk sequence mailers in updating their address lists in a much more efficient and time saving fashion. 19.6 million addresses were validated and sequenced, with an estimated 18,000 work hours saved, in a two and one half month period.

d. The Mover's Guide

The Mover's Guide is an all-in-one guide to moving, designed to improve customer satisfaction and reduce costs. The booklet provides Postal Service change-of-address forms, mail-forwarding information, moving-related commercial advertising, advertiser discount coupons and tips on moving. Consumer reaction continues to be positive. Customers are provided with a greater understanding of the activities associated with forwarding mail. *The Mover's Guide*, a result of a strategic alliance with a private company, is designed, printed and produced at no cost to the Postal Service or its customers. A strategic alliance with the company to continue the distribution of both the English and Spanish versions of *The Mover's Guide* has been extended to year 2002.

e. MoversNet Website

An enhanced version of the MoversNet Website, MoversGuide.com, was launched September 2001. The enhanced version offers an additional customer choice to file a change-of-address, allowing change-of-address orders to be accepted electronically via the Internet, with valid identity validation. This enhanced change-of-address method does not change or affect any of the other currently acceptable change-of-address methods. In addition to the ability to submit change-of-address orders electronically over the Internet, the enhanced web-site also offers customers a variety of value-added move-related products and services, such as setting up utility hookups and cable connections, establishing long-distance service, ordering packing supplies, and other move-related products and services.

f. The Welcome Kit

The Welcome Kit is a new value-added program for customers who have recently moved. It is designed to reduce Postal Service costs and improve service. The Welcome Kit contains the following: the customer's address change Confirmation Notification Letter; local phone numbers and addresses for the customer's new area; a Settling-In Guide, with helpful information and advice on getting settled; savings on products and services customers typically need after moving; and information on how customers can notify the Bureau of Motor Vehicles, the IRS and voter registration offices of their new address.

g. Move Update Implementation

The Move Update requirement of Classification Reform, which became effective July 1, 1997, was established to reduce the estimated \$1.9 billion annual expense and negative service standard impacts that undeliverable-as-addressed mail creates. The requirement specifies that addresses used to obtain all First-Class presorted and automation discount rates must be updated for move activity within 180 days (six months) prior to the date of mailing by a Postal Service-approved method. Address Management has direct responsibility for all approved methods with the exception of the manual address correction process, which is mailpiece endorsement based. The Address Management methods include the following:

1. National Change-of-Address

The National Change-of-Address process provides business mailers with change-of-address information for customers on their mailing lists prior to mailing, thus ensuring that subsequent communications are directed to the current address. This process reduces the amount of undeliverable mail and promotes the use of automation-compatible address formats by ensuring that all addresses submitted are standardized with complete and accurate information, including ZIP+4 codes. More than 8.5 billion address corrections were provided to business mailers through the NCOA service during 2001, an increase of 52 percent from 2000.

2. Address Change Service

The Address Change Service (ACS) offers mailers automated address-correction service following the issuance of their mailings. Address correction notifications are generated from change-of-address orders (PS Form 3575) submitted to the

Postal Service by customers who move. This change-of-address data is maintained in the CFS database. In order to participate in ACS, mailers are required to modify the address label or address block of each mailpiece for which an electronic ACS notification is requested. They are also required to utilize an ACS compatible ancillary service endorsement. ACS electronic notifications are provided at a fee of 20 cents per notification. However, participation in ACS does not eliminate the provision of manual address correction notifications (hardcopies), which are provided at the manual address correction fee of 60 cents each. By rapidly updating their address lists, mailers improve the deliverability of their mail. In 2001, the number of corrections processed through ACS was 191 million.

3. FASTforwardSM

In 1997, Address Management deployed to the mailing industry, under Postal Service license, cutting-edge technology that provides an effective means for mailers to update addresses on mailpieces processed on MLOCRs. This technology, known as FASTforward, will direct mailpieces to the customer's new mailing address when a change-of-address order has been filed with the Postal Service. FASTforward provides a fast, accurate, safe and secure method for users of MLOCRs to apply new address information and the correct bar code for the new address as the mailpieces are being processed. In 2001, more than 3.3 billion mailpieces were processed and over 41 million corrections provided, an increase of 6 percent over 2000. Concurrent with the MLOCR effort, Address Management also provides a second version of FASTforward technology for Mailing List Correction (MLC). This version of FASTforward provides correction to computerized address files when a change-of-address is identified for a customer's address record. In 2001, more than 18.9 billion address records were processed and over 318 million corrections were provided to business mailers using FASTforward for MLC, representing a 45 percent increase over 2000.

4. Alternate Qualification Method

A Postal Service stand-alone testing process, based on FASTforward technology, allows mailers to demonstrate that they have their own process in place to update address changes on mailing lists with 99 percent accuracy. If the Postal Service verifies this, the mailers' lists are then qualified for a period of 12 months.

h. Electronic Publication Watch System (ePUBWATCH)

The Electronic Publication Watch System, commonly referred to as ePubwatch, is a web-based periodicals complaint tracking and resolution system which allows a registered publisher to enter a subscriber's postal related complaint, request an electronic publication watch, or request the assistance of a Periodical Service Improvement team member through the completion of a Systemic Complaint Resolution form. ePubwatch was designed to replace the existing paper-based Publication Watch system in those delivery offices which have a delivery unit computer.

Development and testing of the Publisher's web page, the Delivery Unit's Data Entry web page, and the ePubwatch Reports web page have been completed. All the necessary hardware has been purchased and installed to support a web-based system. National deployment is expected to begin in February 2002.

i. The Collection Box Management System

The Collection Box Management System (CBMS) provides a monitoring tool for delivery

unit management to ensure adherence to our collection box schedules and policies. The system consists of a data collection device that scans a bar code located inside a collection box to collect time, location and date information. The information collected by the scanner is then placed in a data transfer device at the delivery unit for downloading into the Delivery Unit Computer. The data is then loaded into the CBMS software program, which allows management to quickly ascertain the status of each collection. A small percentage of delivery units still utilize the wand/button technology to manage collections.

j. ADVANCE Notification and Tracking System (ADVANCE)

The ADVANCE Notification and Tracking System, commonly referred to as ADVANCE, is designed as a manual delivery confirmation system to meet the time-sensitive mailing needs of Standard and Periodical mailers. ADVANCE tracks the delivery performance of qualified Standard mailings and Periodical mailings in over 7,000 delivery units and in over 11,000 five-digit ZIP Codes. In fiscal year 2001, over 4.5 billion mail pieces were tracked using ADVANCE.

Chapter III Financial Highlights

The Postal Service has sought to avoid redundancy in our *2001 Annual Report* and this *2001 Comprehensive Statement*. In this chapter, we present Financial Highlights in a condensed format. We focus discussion and analysis on: Postal Service financial results for 2001; aspects of our financial management on which Congress has requested that we report; business programs on which we are required to report, such as the Breast Cancer Research Semipostal program; and topics of particular interest to Congress, such as Appropriations. We provide more detailed analysis of the financial results of our operations for 2001 in the *2001 Annual Report of the United States Postal Service*.

A. Financial Summary

1. Revenue

Operating revenue in 2001 grew 2.0 percent, or \$1.3 billion, to \$65.8 billion. This is a decline in the rate of revenue growth compared to the previous two years and evidences a 0.2 percent decline in mail volume compared to 2000. Although mail volume growth rates had been declining in recent years, no other year-to-year decrease in mail volume had occurred since the recession of 1991. Operating revenue in 2000 grew 2.9 percent, but was nearly \$800 million below what had been forecast as First-Class Mail grew less than expected; mailers shifted their choices of mail classes to reap the price bene-

	2001	2000	Change	%Change
First-Class Mail	\$35,876	\$35,516	\$360	1.0%
Standard Mail	15,705	15,193	512	3.4%
Priority Mail	4,916	4,837	79	1.6%
Special Services	2,341	2,191	150	6.9%
Periodicals	2,205	2,171	34	1.6%
Package Services	1,994	1,912	82	4.3%
International	1,732	1,657	75	4.5%
Express Mail	996	996	0	0.0%
Other	2	3	-1	--
	<u>\$65,767</u>	<u>\$64,476</u>	<u>\$1,291</u>	<u>2.0%</u>

	2001	2000	Change	%Change
First-Class Mail	103,656	103,526	130	0/1%
Standard Mail	89,938	90,057	(119)	-0.1%
Periodicals	10,077	10,365	(288)	-2.8%
Priority Mail	1,118	1,223	(105)	-8.6%
Package Services	1,093	1,128	(35)	-3.1%
International	1,083	1,099	(16)	-1.5%
Other	498	484	14	2.9%
	<u>207,463</u>	<u>207,882</u>	<u>(419)</u>	<u>-0.2%</u>

fits of the automated mail classes; and, as diversion of messaging from hard copy mail to electronic media continued. These trends strengthened in 2001 and were compounded by the effects of the

softening economy and economic dislocations related to the terrorist attacks of September 11th. Together, they depressed mail volumes. Revenue grew nevertheless due to a rate increase in January and a rate modification in July. Tables 3.1 and 3.2, show revenue and volume by class of mail.

2. Expenses

	2001	2000	Change	%Change
Personnel compensation	\$37,924	\$36,981	943	2.5%
Personnel benefits	13,427	12,551	876	7.0%
Transportation	5,056	4,709	347	7.4%
Supplies and services	3,061	2,982	79	2.6%
Interest on deferred liability	1,603	1,568	35	2.2%
Depreciation and write-offs	2,255	2,068	187	9.0%
Other	1,548	1,369	179	13.1%
Rent and communication	1,086	1,127	-41	-3.6%
Vehicle/building maintenance	600	588	12	2.0%
Utilities	537	466	71	15.2%
Interest	306	220	86	39.1%
Advertising	146	151	-5	-3.3%
Total	<u>\$67,549</u>	<u>\$64,780</u>	<u>\$2,769</u>	<u>4.3%</u>

Compensation and benefits, including interest on deferred retirement, comprise more than 78 percent of our total expenses. In 2001, Postal management controlled costs aggressively, cutting workyears by 11,500, while servicing the national delivery network with its 1.7 million new residential and business delivery addresses. These actions held the increase in compensation and benefits to 3.6 percent, or \$1.8 billion, down from the 4.6 percent growth of \$2.2 billion in the previous year. Still, due to salary increases and inflation in health benefit costs, this year's rate of growth in compensation and benefits exceeded that of the Consumer Price Index (CPI) and the Employment Cost Index (ECI). Workers' compensation costs, a component of compensation and benefits, increased by almost \$60 million in 2001, following the more than \$300 million increase in this category in 2000.

TABLE 3.4 WORKERS COMPENSATION EXPENSE AND CASH PAYMENTS*

(dollars in millions)

Fiscal Year	Estimated Annual Increase/Decrease in Liability for Active Claims	Administrative Charge (DOL)	Total Annual Expenses	Payments to DOL for Postal Service Active Claims and Admin. Charges**
1990	\$ 753	\$ 15	\$ 768	\$ 671 ***
1991	174	9	183	397
1992	1,071	14	1,085	454
1993	928	17	945	487
1994	311	16	327	501
1995	860	17	877	520
1996	718	19	737	531
1997	187	19	206	538
1998	739	21	760	567 ****
1999	583	20	603	585
2000	891	20	911	671
2001	937	33	970	694 *****

* All years prior to 1993 include nominal expenses for DWCP health benefits. Listed payments include payments for active Postal Service claims and for associated DOL administrative charges.

** Payments exclude all payments for Post Office Department claimants.

*** Payment comprises 1989 and 1990 active claims and 1990 administrative charge. Separate payments were made in October of 1989 (1989 active claims and 1990 administrative charge) and September of 1990 (1990 active claims and 1991 administrative charge).

**** Previously-reported number changed to exclude POD portion of payment from Postal Service total payments.

***** Excludes contested and unpaid administrative expense of \$37 million.

Historical fluctuations in workers' compensation expense can be seen in Table 3.4.

3. Net Loss

We posted a net loss of almost \$1.7 billion in 2001. Despite an increase in postage rates, Postal Service expenses increased at more than twice the rate at which revenue increased. Due to the factors mentioned in the Revenue section above and the R2000-1 recommended decision of the Postal Rate commission that set rates lower than we requested, revenues came in below expectations. Total costs were in line with projections. Additionally, continued inflationary cost increases, particularly in postal compensation and benefits, exceeded the savings effected through our cost reduction programs and the additional revenue earned from increased postage rates. The 2001 net loss followed the net loss of \$199 million in 2000.

At the same time, through effective resource management, the Postal Service achieved an increase in Total Factor Productivity (TFP) of 1.3 percent in 2001. That equated to nearly \$900 million in reduced expenses for the year and lessened what otherwise would have been an even greater net loss. This gain in productivity followed the 2000 TFP gain of 2.4 percent, a seven-year high for this measure. Our productivity success is explained in greater detail in the next section.

4. Financing

The amount we borrow over time is largely determined by the difference between our cash flow from operations and our capital cash outlays. Our capital cash outlays are the funds we invest in the business for such capital improvements as facilities, vehicles, automation equipment, and information technology, much of which is required to service our ever-expanding delivery network. From 1997 through 2001, our capital cash outlays exceeded cash flow from operations by \$5.2 billion; the difference was covered with borrowed funds. Our debt outstanding with the Department of

TABLE 3.5 INCOME AND EXPENSE STATEMENT

(dollars in millions)

	FY2001	FY2000	Change	% Change
Income				
Mail revenue	\$ 63,426	\$ 62,284	\$ 1,142	1.8%
Special services	2,341	2,192	149	6.8%
Revenue forgone appropriation	67	64	3	4.7%
Operating revenue	<u>65,834</u>	<u>64,540</u>	<u>1,294</u>	2.0%
Expense				
Compensation and benefits	51,351	49,532	1,819	3.7%
Other costs	14,289	13,460	829	6.2%
Operating expense	<u>65,640</u>	<u>62,992</u>	<u>2,648</u>	4.2%
Income from operations	194	1,548	(1,354)	NM
Interest income	35	41	(6)	-14.6%
Interest expense on deferred retirement liabilities	(1,603)	(1,568)	35	2.2%
Interest expense on borrowings	<u>(306)</u>	<u>(220)</u>	<u>86</u>	39.1%
Net loss	\$ (1,680)	\$ (199)	\$ (1,481)	NM

TABLE 3.6 FINANCING HISTORY

	Year-End Debt (\$ billions)	Average Debt (\$ billions)	Interest Expense (\$ millions)
1997	5.9	4.4	307
1998	6.4	3.2	167
1999	6.9	3.9	158
2000	9.3	4.7	220
2001	11.3	6.4	306

Treasury's Federal Financing Bank increased by \$5.4 billion. Debt outstanding at the end of 2001 was \$11.3 billion, an increase of \$2 billion compared to 2000.

Normally, our debt balance at the end of our year represents our highest level of debt for the year because, while expenses for workers' compensation and retirement benefits are accrued throughout the year, the actual payments are not made until late September of each year. The amount that we paid this year was \$4.5 billion, including \$694 million for workers' compensation and \$3.75 billion for the Civil Service Retirement System and Cost of Living Adjustments for retirees. Our cash flow during the year was sufficiently strong to reduce debt from the prior year-end level. Debt outstanding reached a low of \$4.6 billion in July. In other words, we had eliminated 50 percent of the debt that we had entering the year. Since we have debt financing flexibility, we can manage the fluctuations in our debt during the year by actively managing our credit lines. However, just as our debt balance at year-end has increased in recent years, so has our average debt balance. In 2001, our average outstanding debt was \$6.4 billion, far less than the year-end balance but an increase of 36 percent, or \$1.7 billion, over the prior year's average debt.

The interest expense on our debt in 2001 totaled \$306 million, compared to \$220 million in 2000. Managing cash to minimize debt on a daily basis produces favorable financial results because average debt is one of the two primary drivers of annual interest expense. Interest rates are the other important driver, as is evident in an interest rate comparison of 1997 with 2001. In 2001, our average debt outstanding was \$2 billion higher than 1997, a 45 percent difference. Yet our interest expense was no higher than in 1997, because of lower interest rates.

Our interest expense is determined by debt management activities as well as by prevailing interest rates. It was a challenge to manage interest expense during a year of increasing average debt outstanding. We cannot claim any credit for producing lower interest rates but we did position our debt portfolio to benefit from declining rates and simultaneously took some steps to stabilize future interest expense volatility by managing the mix of fixed- and floating-rate debt on our books.

In planning for 2002, we prepared a financing plan with a \$1.6 billion net increase in our debt. However, we made that estimate before the attacks of September 11 and the ensuing events

increased our costs and decreased our revenues. We are not now able to predict the 2002 net increase in our debt with any degree of certainty.

B. Productivity

1. USPS Total Factor Productivity: The Productivity Measure

The Postal Service measure of its productivity, Total Factor Productivity (TFP), includes all factors of production. TFP measures the growth in the ratio of resources used, or inputs, and the outputs, or products and services they produce. By tracking resource use and outputs, TFP provides a measure of historical performance.

The Postal Service's main outputs are delivered mail and the servicing of an expanding delivery network. To account for variations in resources used to process different types of mail, TFP weights each mail type according to its workload content and the amount of labor used in its processing and delivery. That measure of workload is determined by factors including size, weight, mailer preparation, such as bar coding and pre-sorting, and mode of transportation used, such as air or highway. The Output Per Workhour component of TFP uses only labor input as a measure of resource use. In addition to labor, TFP also measures capital and materials inputs, such as

TABLE 3.7 PRODUCTIVITY

	USPS Total Factor Productivity		USPS Output per Workhour		Multi Factor Productivity ¹	
	Annual ²	Cumulative From 1971	Annual	Cumulative From 1971	Annual ²	Cumulative From 1971
1990	2.9	8.6	3.4	13.9	0.0	11.3
1991	(1.8)	6.8	(0.1)	13.7	(1.0)	10.3
1992	0.4	7.2	1.0	14.8	2.0	12.3
1993	3.8	11.0	4.6	19.4	0.5	12.8
1994	(0.2)	10.9	0.8	20.2	1.0	13.8
1995	(1.9)	8.9	(1.3)	18.9	0.4	14.2
1996	(1.3)	7.6	(0.1)	18.8	1.4	15.6
1997	1.3	8.9	1.7	20.5	1.0	16.6
1998	(1.0)	7.9	1.2	21.7	1.2	17.8
1999	(0.1)	7.9	0.9	22.6	0.7	18.5
2000	2.4	10.2	2.0	24.6	1.7	20.2
2001	1.3	11.5	1.7	26.3	(0.5)	19.7

¹ 2001 MFP Data are estimates of DRI-WEFA. BLS Data for 2001 has not yet been released.

² Historical data are subject to revision as certain data used in calculating productivity are periodically revised. Price indexes released by the Bureau of Labor Statistics and the Bureau of Economic Analysis that are used to calculate resource usage are subject to regular historical revisions by these agencies. When historical revisions are released, they are incorporated into the TFP calculation, which can result in historical TFP revisions. TFP for the reporting year is also subject to revision when final Postal Service cost data for the reporting year is available. Generally, this revision occurs in April of the following year.

Note: Certain Annual/Cumulative amounts may not sum due to rounding.

mechanized and automated equipment, facilities, transportation, and other non-personnel costs. Multiple factors may cause TFP growth to vary in the short term. Expenditures to enhance service and improve customer satisfaction may cause short-term declines in TFP growth. TFP can fluctuate from one year to another because of time lags between making major investments and realizing the associated savings. Consequently, when assessing short-term productivity performance, consideration should be given to the factors affecting TFP growth.

2. TFP: 2001 and the Future Plan

In 2001, the Postal Service achieved a TFP growth of 1.3 percent, the second consecutive year of positive TFP. Output Per Workhour growth in 2001 was 1.7 percent. The growth in TFP in 2001 equated to \$870 million in expense reductions. Combining TFP growth for 2000 and 2001 yields TFP growth of 3.7 percent, equivalent to taking \$2.5 billion in expenses out of the system.

When compared to other years with strong positive TFP growth, the achievement of 2001 is significant. In previous years, strong TFP growth was driven largely by workload growth. During the 1990's TFP grew at an average rate of 0.2 percent, while workload grew 1.9 percent annually, on average. In 2001, the strong productivity growth of 1.3 percent was achieved through substantial reductions in the use of resources. As workload declined by 0.6 percent, the Postal Service effectively managed its resources to achieve a 1.9 percent decline in total resource use. Labor and materials use declined by 2.3 percent and 3.6 percent, respectively. This achievement followed the significant reductions of 2000, when labor use was reduced by 0.2 percent and materials use by 5.1 percent.

The Postal Service plans to continue to improve TFP over time while meeting the need for continuing service improvements to increase customer satisfaction and remain competitive in the marketplace.

TABLE 3.8 HISTORICAL AND PRESENT-YEAR IMPACT OF CONGRESSIONAL APPROPRIATIONS ON MAIL REVENUE 1971, 1976, 1986, 2001

(dollars in millions)					
Year	Total Mail Revenue	Mail Revenue Without Appropriations	Appropriation Category	Income from Appropriation	Appropriation as a percent of Total Mail Revenue
1971*	\$ 8,752	\$ 6,665	Deficiency in rates and fees; and Public Service	\$ 2,087	23.8%
1976	\$ 12,844	\$ 11,199		\$ 1,645	**12.8%
			Free and Reduced Rate Mail	725	
			Reconciliation for Prior Years	none	
			Public Service	920	
1986	\$ 30,818	\$ 30,102		\$ 716	2.3%
			Free and Reduced Rate Mail	750	
			Reconciliation for Prior Years	(34)	
			Public Service	none	
2001	\$ 65,834	\$ 65,767		\$ 67	0.1%
			Free Mail for the Blind and Overseas Voting Material	71	
			Reconciliation for Prior Years	(4)	
			Public Service	none	

* The figures for 1971 are from the old Post Office Department prior to the creation of the Postal Service on July 1, 1971.

** This figure does not include the appropriation for Post Office Department Transitional Costs.

3. TFP: Relative Value of Benchmark Measures

In the past, Postal Service TFP has been benchmarked against the Private Non-Farm Business Multifactor Productivity Index (MFP), reported by the Bureau of Labor Statistics (BLS). Although the private non-farm business sector represents 77 percent of the U.S. Gross Domestic Product (GDP), MFP measurements of changes in productivity in this sector are heavily influenced by performance in the capital intensive and high technology sectors of the economy. The broad MFP measure does not provide separate breakouts of service and labor intensive industries, such as the Postal Service, and does not, therefore, provide an ideal benchmark. Nonetheless, historical indices of Postal Service TFP and the broad MFP measure are included here for the record.

Table 3.7 shows annual and cumulative TFP and Output Per Workhour achieved by the Postal Service and shows the MFP index of the broad non-farm economy for the years 1990 through 2001. Over the long run, a successful organization will average positive growth in productivity, as has the Postal Service, but year-to-year fluctuations in TFP and output per workhour are common. Cumulative TFP growth for the Postal Service from 1971 through 2001 is 11.5 percent, or an average annual rate of 0.4 percent. MFP growth for the entire non-farm business segment of the economy during this period was 19.7 percent, or an average of 0.7 percent annually. Cumulative Output Per Workhour growth for the Postal Service for the same period was 26.3 percent, or an average of 0.9 percent per year.

4. TFP: Additional Considerations

Worksharing discounts to mailers impact Postal Service productivity performance. Worksharing incentives have shifted a greater proportion of the workload associated with automation compatible mail to business mailers. While worksharing discounts provide cost savings for the Postal Service and enhance the productivity of the economy as a whole, worksharing also transfers the Postal Service's prime opportunities for productivity improvement to our partners, the mailers.

C. Federal Government Appropriations

The Postal Service can receive three types of appropriations from the federal government.

These include appropriations for public service, transitional costs and revenue foregone.

Currently, appropriations are made only for revenue foregone and they accounted for only 0.1 percent of total revenue in 2001. During 1971, the year preceding the creation of the Postal Service through the Postal Reorganization Act, these appropriations totaled over 23 percent of total revenue.

The Postal Service currently is authorized to request up to \$460 million for public service costs. This is the amount authorized by statute in 1970 and is not intended to represent the present cost of providing universal service. The Postal Service has neither requested nor received any public service reimbursement since fiscal 1982.

The transitional cost category of reimbursement provides a means to fund costs related to the former Post Office Department (POD) and shelters current ratepayers from such costs. Workers' compensation claims arising prior to July 1, 1971, are the last known POD cost. In the Balanced Budget Reform Act of 1997, Congress transferred responsibility for these costs to the Postal Service. Therefore, we have not received transitional cost appropriations since 1997.

In 2001, the Postal Service booked a revenue foregone reimbursement of \$67 million to fund free mail for the blind and for overseas voting. That reimbursement was paid in October 2001, shortly after the close of the fiscal year.

D. Breast Cancer Research (BCR) Semipostal Stamp

In 1977, Congress authorized the issuance of the first semipostal stamp for the specific purpose of raising funds from the American public to assist in finding a cure for breast cancer. The stamp was sold for 40 cents and is valid for the current cost of a one-ounce First-Class letter. Congress directed that the difference between the price of the stamp and the First-Class Mail rate, less program costs, be directed to two designated research agencies, the National Institutes of Health (NIH) and the Department of Defense (DOD) Medical Research Program. In accordance with the law, the General Accounting Office (GAO) has reviewed this program.

From program inception through the end of 2001, approximately 326 million BCR stamps

have been sold. Three years of sales raised a net voluntary contribution of \$22.3 million, of which \$5.5 million was raised in 2001.

The law provides for semiannual payments to be made on a schedule agreed to by the research agencies and the Postal Service. Proceeds from BCR stamp sales from July 28, 1998 through early September 2001 have been paid to the research agencies in a total of seven payments.

The costs associated with the BCR stamp include: design, printing, packaging, advertising,

promotion, training, legal fees, market research, programming for retail automation and receipt printing costs. The Postal Service deducts selected incremental costs from BCR stamp revenues and then pays the proceeds to the research agencies. From the beginning of this program through the end of 2001, a total of slightly more than \$650,000 has been withheld to cover these incremental costs.

Chapter IV Preliminary 2003 Annual Performance Plan

This chapter responds to the requirements of the Government Performance and Results Act (GPRA) of 1993 by providing the preliminary *FY2003 Annual Performance Plan* of the United States Postal Service. The final *FY2003 Performance Plan* will be published as a separate document at the completion of the annual planning cycle in September.

A. Introduction

1. Government Performance and Results Act (GPRA) Requirements

Congress created a statutory requirement for government agencies to identify, measure and disclose outcome and performance data for public programs. The purpose of the law is to improve the accountability of agencies for delivering results. The law requires agencies to publish long-range strategic plans¹, annual performance plans and annual performance reports.

TABLE 4.1 GPRA REQUIREMENTS FOR AGENCY PERFORMANCE PLANS

Requirement
1. Establish performance goals
2. Express goals in objective, quantifiable and measurable form
3. Briefly describe the operational processes, skills, and the technological, human capital, information or other resources required to achieve performance goals
4. Establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes
5. Provide a basis for comparing actual program results with the established performance goals
6. Describe the means to be used to verify and validate measured values The General Accounting Office (GAO) has provided additional guidelines as follows:
7. Provide detailed explanations when goals, indicators or targets are changed
8. Provide clear criteria, including baseline data, for measuring progress toward achieving targets
9. Include complete descriptions of strategies to accomplish stated goals
10. Update information to reflect known or anticipated changes

2. The Mission of the Postal Service

The mission of the United States Postal Service, as framed in the Postal Reorganization Act of 1970, states:²

TABLE 4.2 USPS MISSION STATEMENT

The Postal Service shall have 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.

The Postal Service has been successful in achieving the objectives of the Postal Reorganization Act. The public service subsidy, once amounting to about 25 percent of the postal budget, has not been requested since 1982, saving taxpayers billions of dollars since then. Average

postal prices generally have not increased faster than the overall rate of cost increases in the U.S. economy since 1970. Service performance and customer satisfaction have reached record levels, and the Postal Service is rated favorably even in comparison to private sector firms.

The Postal Service regularly delivers to every address in the nation – including 1.7 million new addresses last year – and maintains an extensive network of retail post offices, providing consumers access to postal services through over 38,000 post offices, stations, and branches in communities across the country.

The Postal Service is still perceived by American businesses, the public and their representatives in Congress as a vital and necessary part of the infrastructure of the nation.³

Despite the widespread availability of direct competitors and technological substitutes for traditional postal services over the last decade, mail volume generally has continued to grow – evidence of continued demand for postal services.

3. The Business Environment

The business and operating environment of the Postal Service changed dramatically in 2001.

Three major challenges – the declining economy, terrorism and growing competition - disrupted postal operations and planning for 2002.

a. Declining Economy

Mail volume has historically grown with the U.S. economy, and the Postal Service has been able to depend on growing revenues to support

¹ The most recent USPS Five – Year Plan, 2001 – 2005, was published in September 2000.

² [Title 39, U.S. Code, Sec. 101 (a)]

³ See *Seizing Opportunity: The Report of the Mailing Industry Task Force*, October 2001.

the increased cost of extending service to new businesses and households. However, the decline of the U.S. economy has reduced revenue from mail volume while the number of new deliveries continues to increase.

The Postal Service is limited in its ability to reduce costs in the short-term in response to the severe economic downturn. For example, the Postal Service is restricted from closing uneconomic post offices. Instead, the statutory requirement is for the Postal Service to raise rates to cover revenue shortfalls. However, in the current economy, raising prices is not necessarily an effective solution since business mailers may reduce their mailings or seek alternatives to the Postal Service instead of accepting higher costs.

On September 24, 2001, the Postal Service filed a request with the Postal Rate Commission for a Recommended Decision on general increases in rates and fees. The Postal Service proposed an average overall rate increase of 8.7 percent that would generate an additional \$4.3 billion dollars annually. First-Class Mail rates were proposed to increase by an average of 8.2 percent, including a 3-cent increase in the price of a First-Class stamp, to 37 cents.

The September 11 terrorist attacks and ensuing anthrax mailings occurred shortly after the Postal Service's proposals were approved for filing. These events combined with a slowing economy to substantially increase the Postal Service's need for future revenue. As a result, the Chairman of the Postal Rate Commission suggested that the Postal Service and the other participants attempt to settle the case. After protracted negotiations, 56 out of 62 parties, with only one party opposing, reached a settlement agreement that would enable the Postal Service to implement new rates three months sooner than if the case had been fully litigated. After limited further proceedings, the Commission must consider the settlement agreement and issue a Recommended Decision to the Postal Service's Board of Governors, who must approve it before the increases can be implemented. If approved, the increases could take effect June 30, 2002.

b. Terrorism and Anthrax

The Postal Service was severely affected by the costs of the terrorist attacks on the United States.

Mail volume and revenue growth, which were already weak due to the economy, plum-

meted after September 11 and have not shown signs of significant recovery.

In addition to the financial pressure resulting from lost revenue, the use of the mail for anthrax attacks resulted in unexpected and unavoidable new costs. The cost, including capital investments, of responding to these attacks is currently estimated at \$1 billion in FY 2002. The impact of the attacks will confirm to affect our finances throughout FY 2005 and beyond. The actual cost and timing of these costs will depend on the review and selection of technologies to detect, contain and sanitize biohazards in the mail.

The Postal Service has provided a separate detailed report on its Emergency Preparedness Plan to Congress. This plan will further define the near-term and long-term costs related to protecting our employees, customers and the mails from exposure to biohazardous material.

TABLE 4.3 EXTRAORDINARY EXPENSES

Description	Cost (\$Millions)
Medical Testing and Emergency Treatment	13.0
Protective Equipment	33.2
Environmental Testing and Facility Clean-up	80.0
Communications and Education	60.3
Purchase, Installation and Use of Equipment for Detection, Protection and Health Risk Reduction	541.5
Cost of Operations Disruptions	152.4
Security Initiatives	48.5
TOTAL ESTIMATED COSTS FOR FY 2002	928.9
Funding Received FY 2002:	
Presidential Transfer from the Emergency Response Fund	175
DOD Appropriations Act, 2002 P.L. No. 107-117	500
Funding Requested FY 2002:	
Supplemental Appropriations to be Requested	87

Our goal of providing a safe and secure workplace was affected. Two Postal Service employees died as a result of anthrax inhalation, and others were affected. Some postal employees also suffered from side effects of medication. Although the Postal Service, management associations and unions worked closely together, communication difficulties and conflicting expert opinion on this complex subject had an impact on the employee satisfaction index, one of the key performance measures.

Service performance also was affected. On September 11, all flights were grounded. It took some time before flight operations were resumed. Scheduled airlines, already troubled financially, significantly reduced flights and changed operating

schedules. As a result, mail service was disrupted, and the Postal Service had to seek extraordinary alternative transportation to restore service. In addition, FAA regulations prohibited mail pieces weighing over 16 ounces on most scheduled airlines as a security measure, further disrupting postal operating schedules. Furthermore, many areas have been affected by the closing of processing centers as a result of anthrax contamination, and facilities were disrupted by testing for anthrax. Despite these problems, service performance in most areas has returned to previous high levels.

c. Competition

The Postal Service provides services to customers in markets where the customers have competitive alternatives and technological substitutes to traditional mail services.⁴ While total mail volume has continued to grow over the last decade, the rate of growth – especially for the critical First-Class Mail category⁵ – has been declining.

Direct competitors in the package market include firms such as UPS and FedEx, as well as privatized foreign postal services such as TPG and Deutsche Post. Indirect technological substitutes for First-Class Mail include facsimile, e-mail, direct deposit/debit and electronic bill presentation and payment. Advertisers have a wide variety of choices, including direct mail. More than 90 percent of mail volume is subject to direct competition or indirect substitution.

4. Transformation Vision

The Postal Service Five-Year Strategic Plan, 2001–2005, outlined a record of significant improvements for the Postal Service. However, the plan indicated that continuous incremental improvements in performance would not be sufficient to maintain the capability of the Postal Service to continue to achieve its universal service mission.

The General Accounting Office (GAO) concurred and placed the Postal Service on its “High Risk” list. The GAO focused on the need for structural transformation, and Congress directed the Postal Service to develop a Comprehensive Transformation Plan.⁶

The Postal Service established a cross-functional Transformation Planning Team to conduct

an analysis of the issues facing the Postal Service and to describe potential solutions. The team was responsible for coordinating a significant effort to discuss the options with the multiple stakeholders of the Postal Service – major customers, the mailing industry, postal suppliers, employees and the public. The report to Congress is due April 4, 2002, and the subsequent policy discussion is expected to impact and perhaps change some of the goals, indicators and targets currently in this preliminary plan.

5. Preliminary FY2003 Goals, Indicators, and Targets

The Postal Service has developed a “balanced scorecard” approach to performance planning that includes customer requirements (Voice of the Customer), employee needs (Voice of the Employee) and financial requirements (Voice of the Business). These are based on the strategic plan, and usually do not change on an annual basis. The goals and objectives reflect corporate priorities and are supported by additional functional, departmental, operating unit and program goals.

Recent performance trends are provided in Chapter 5, *Annual Performance Report*.

For FY 2003, little change in most organization-wide indicators and targets is expected. The general economic decline and the associated reduction of mail volume have reduced the funds available for significant investments in future improvements. Furthermore, the necessity to divert resources to address the disruptions caused by threats to the mail system, its employees and customers also has reduced the resources available to fund improvements.

Review of FY 2003 Changes

For FY 2003, the Postal Service is focusing on improving its organizational results by identifying the most important measure of organizational success and providing clear accountability for performance.

Voice of the Customer

The FY 2002 indicators and targets for timely and consistent service performance remain unchanged for FY 2003. A scan rate target was added for Express Mail.

⁴The current regulatory structure of the Postal Service was designed for a protected environment with captive customers appropriate to 1970 that may not be appropriate for the current competitive environment.

⁵First-Class Mail accounts for about 56 percent of the revenue of the Postal Service, and, more importantly, about 70 percent of the contribution to covering the “institutional costs” of the organization.

⁶The Postal Service published an Outline for Discussion: Concepts for Postal Transformation on September 30, 2001 to support public discussion.

**TABLE 4.4 FY 2003 PERFORMANCE GOALS, INDICATORS AND TARGETS
THRESHOLD/PAY FOR PERFORMANCE (PFP) RECOMMENDATIONS AS OF JAN. 29, 2002**

	Goal	Sub-Goal	Indicator		FY 2003 Target	Long Range Goal (2005)
VOC	Growth	Timeliness and Consistency	First Class Overnight On Time (EXFC) (Originating and Destinating Composite)	Threshold	93.0% (PQ 1- 4)	Consistency of Performance Across Classes of Mail vs. Service Standards
			FCM 2/3 Day On Time (Orig & Destinating Composite)	PFP % Weight*	88.0% (PQ, 3 & 4)	
			Priority Mail On Time Within 2 Days (Originating and Destinating Composite) (FY2002 PETE Network)	PFP % Weight*	91% (PQ, 3 & 4)	
			Express Mail On Time (Orig & Destinating Composite) (PTS)	PFP % Weight*	88.0% (PQ, 3 & 4)	
			Delivery Confirmation Scan Rate (Priority Mail) and Express Mail Scan Rate**	PFP % Weight*	98% less than 5% manual/multiple scan, Composite (PQ 1- 4)	
VOE	Motivated, Productive and Inclusive Workforce	Minimize Impact from Accidents and Absences	OSHA Illness/injury Rate	Threshold	3% National improvement over EOY FY2002, allocated by opportunity***	"Available for Duty" Rate
		Employees Committed to USPS Success	VOE Survey	PFP	Better than EOY 2002	
VOB	Affordability	Improve Productivity to Control Costs and Improve Contribution Levels and Grow the Business	USPS Total Factor Productivity (TFP)	Threshold	Positive Improvement over FY2002 ****	Increased Contribution on Different Product Lines
		Targets based on Financial Plan	Workload Adjusted Total Operating Expense (Area)	PFP	Better or Equal to Plan	
			Workload Adjusted Total Operating Expense (PC)	PFP		

* - Deploy will recommend the weights for VOC Indicators.

** - Deploy will recommend a Manual Scan Percentage for Express Mail.

*** - OSHA Illness / Injury Rate Opportunity will be recommended by Deploy.

**** - Note: adjusted for "non-productive" investment or expenditure requirements relating to mail and employee safety (anthrax).

Voice of the Employee

The performance targets for the OSHA Illness/Injury rate and the VOE Survey were increased. In FY 2002, the target was a 2 percent national improvement in the OSHA Illness/Injury rate. The Postal Service is seeking a 3 percent improvement for FY 2003. In FY 2002, the VOE Survey target was "equal to or better than" the previous year. For FY 2003, the Postal Service is seeking "better than" the previous year.

Voice of the Business

The national Total Factor Productivity (TFP) goal for FY 2003 is to improve over the previous year. In FY 2002, the national TFP goal was a 1 percent improvement.

The performance of the Areas and their Performance Clusters (PCs) are a major driving factor that contributes significantly to the achievement of the national TFP goal. To supplement the TFP measure in FY 2002, additional productivity indicators known as Area and PC Productivity Improvements were utilized. This measure was calculated using multiple factors that were not easily recognized at all levels. Therefore, our plans for FY 2003 call for their contribution to be measured by achieving or beating their Total Operating Expense (TOE) plans, after workload adjustments. Since workhours and operating expenses are tracked virtually on a real-time basis, this change will provide a direct line-of-sight performance indicator at all levels.

Review of FY 2003 Executive Merit Performance Program Changes

The changes in the published FY 2002 Merit Performance indicators and targets are expected to be extensive for executives and key operating managers. The Postal Service is attempting to create a more detailed set of indicators that are more relevant to individual operating units and functions.



The purpose is to increase accountability and provide a clear “line of sight” between individual and unit targets to the strategic organizational targets. Such specificity would also enable managers to recognize significant improvements in performance over the previous year as well as achievement of basic targets.

Voice of the Customer (35 percent)

The following indicators are among the relevant unit specific and individual service performance under consideration:

- n EXFC Overnight Destinating
- n EXFC 2/3 Day Originating/Destinating Composite points to Same Period Last Year
- n EXFC 2 Day Originating/Destinating Composite
- n PETE Overnight Delivery
- n PETE Surface within 2 days
- n Express Mail Intra-district
- n BMC Intra-district
- n Advance (Ad Mail)
- n Customer Satisfaction Measurement
- n Delivery Confirmation Priority Mail Scanning Performance
- n Delivery Confirmation Priority Mail Service Performance
- n Effectiveness

Voice of the Employee (20 percent)

Relevant unit specific and individual indicators might include:

- n VOE Survey
- n OSHA Injury and Illness Rate
- n OSHA Injury and Illness percentage of same period last year
- n Motor Vehicle Accident Rate
- n Motor Vehicle Accident Rate compared to same period last year
- n Training in specified subjects
- n Skills Proficiency
- n Contribution to Affirmative Action and Equal Opportunity Programs

Voice of the Business (45 percent)

Relevant unit specific and individual indicators might include:

- n Budget (35 percent)
 - Total Adjusted Operating Expenses
 - Total Adjusted Workhours
- n Overtime (5 percent)
 - City Carrier Overtime
 - Customer Service Clerk/Mail Handler Overtime
 - Mail Processing Clerk/Mail Handler Overtime
 - Penalty Overtime
- n Attendance (5 percent)
 - Total Sick Leave
 - Total Sick Leave percentage compared to same period last year

The merit items are still under development and will include discussions during the Deploy phase of the planning cycle and negotiations with Postal Service management associations. The initial results will be published in the final Performance Plan in September, but the process of developing and implementing a complete set of interconnected goals, indicators and targets is expected to take several years to implement.

6. FY2003 Performance Improvement Strategies

Major postal programs for maintaining and improving postal performance have been described earlier in the *Comprehensive Statement on Postal Operations*.

7. Resources and Requirements

The following projections were prepared during the summer of 2001 and have been submitted to the Postal Rate Commission as part of the Postal Service’s request for a change in postage rates and fees. Subsequent to the preparation of this

TABLE 4.5 PRELIMINARY FY2003 REVENUE PROJECTIONS			
REVENUE CATEGORY	FY2001 ACTUAL (\$BIL)	FY2002 PROJECTED (\$BIL)	FY2003 PROJECTED (\$BIL)
First-Class Mail	35.9	36.4	39.0
Priority Mail	4.9	5.5	6.2
Express Mail	1.0	1.1	1.1
Periodicals	2.2	2.4	2.6
Standard	15.7	16.7	18.6
Package Services	2.0	2.1	2.2
International	1.7	1.8	1.9
Special Services	2.3	2.7	3.1
Other	0.1	0.1	0.1
TOTAL	65.8	68.8	74.8

Note: These projections reflect assumptions included in Postal Service Rate Case Docket No. R2001-1 and reflect pre-September 11th estimates.

Chapter V 2001 Performance Report

In this chapter, the Postal Service presents its review of its actual performance compared to the *2001 Annual Performance Plan*.

A. Introduction

The Postal Service developed the 2001 Annual Performance Plan through its structured management process¹ and in consultation with Congress. The plan sets objectives for achievement for the year, as defined by specific goals, subgoals, indicators and targets. Those 2001 goals and subgoals were approved by the Postal Service Board of Governors and were submitted to Congress in the United States Postal Service *2001 Annual Performance Plan*. Some of the goals were changed subsequent to the Plan's release based upon management's assessment of actual 2000 performance. These modifications were detailed in the *2000 Comprehensive Statement on Postal Operations, Chapter 5 - 2000 Performance Report*.

These performance measures go to the heart of the Postal Service's mission. They help evaluate the Postal Service's role as a government service providing universal postal service to the country. And they aim at the fulfillment of another element of our charter: that the Postal Service shall be self-sustaining, funding its operations through revenue generated by its products and services.

This report meets the requirements of the Government Performance and Results Act (GPRA), which mandates that the report:

- Review the success of achieving the performance goals of the fiscal year.
- Evaluate the performance plan for the current fiscal year (2002) relative to the performance achieved towards the performance goals in the fiscal year covered by the report (2001).
- Explain and describe, where a performance goal has not been met (including when a program activity's performance is determined not to have met the criteria of a successful program activity): why the goal was not met; those plans and schedules for achieving the established performance goal; and if the performance goal is impractical or infeasible, why that is the case and what action is recommended.
- Include the summary findings of those program evaluations completed during the year covered by the report.

This report includes a section highlighting the Postal Service's performance in 2001, a table itemizing our performance against each subgoal, a section detailing the performance for each goal, and, a table listing changes made to the 2002 Plan's goals and subgoals as a result of 2001 performance. A report on Evaluations of Programs, indicators and subgoals has been included in Chapter 4.

Table 5.1, which follows here, shows all goals, subgoals, indicators and targets for 2001 and reports our performance to each target. Detailed discussion of Postal Service performance to specific Indicators and Subgoals of the 2001 Plan follows this table.

B. Year in Review

The year 2001 proved even more challenging for the Postal Service than had been forecast in the *Annual Performance Plan*. The plan called for improving our service levels, our understanding of employee issues and our overall business performance. It anticipated a net loss of \$480 million and depended upon significant cost control initiatives to keep the loss to a minimum. This forecasted net loss was based on our expectation of a rate increase, slightly lower mail volume growth and rising labor expenses. Instead, the Postal Service was confronted with a softening economy and reduction in mail volumes, the Postal Rate Commission's decision to reduce and delay our rate request, unusually high inflationary pressure on our labor costs and, an increase in our fixed costs caused by the expansion of our delivery network to serve more than 1.7 million new addresses. Combined, these factors produced a loss far greater than planned, a loss that could have reached \$3 billion had it not been for the success of intensified cost management efforts. In response to these unforeseen revenue reductions and cost increases, management implemented even more aggressive productivity improvements, reduced personnel, and, at the Governors' request, called for a freeze on capital spending for new facilities. These focused efforts would have held the 2001 loss to just under \$1.4 billion had it not been for the events of September 11. Between September

¹ Our internal management system has four phases: Establish; Deploy; Implement; and Review. This organization-wide system was developed through the application of Malcolm Baldrige National Quality Award principles. It sets up an annual management cycle based on constant refining and revising of goals based on result-focused data. The first phase, Establish, assesses current strategic goals, strategies, indicators and subgoal and sets plans for the current year. The Deploy phase communicates these provisional subgoals throughout the organization and agreement is reached through the budget process on a set of funded programs aimed at achieving the subgoal. Implementation is the carrying out of these programs during the year. Review is senior management's responsibility. Throughout the year they review the progress of these programs.

² Details of the index used to measure this indicator appear in the detailed results portion of this chapter.

TABLE 5.1 PERFORMANCE 2001: GOALS AND RESULTS

Goal	Subgoal	Indicator
<p>VOC Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.</p>	Provide timely delivery.	First-Class Mail on time: EXFC overnight EXFC 2/3 day Delivery in standard+ 1 day Priority Mail on time Advertising on time Ground Parcels on time Periodical on time Express Mail on time
	Provide reliable service.	Accuracy of delivery index
	Improve customer satisfaction.	Overall satisfaction - residential (GSM survey results) Overall satisfaction - business (GSM survey results)
<p>VOE Foster an inclusive and welcoming workplace consistent with Postal Service values of fairness, opportunity, safety and security; where everyone is given the knowledge, tools, training and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers' and the Postal Service's success.</p>	Improve workplace relations by building leadership skills and behaviors.	REDRESS 100% available
	Ensure an inclusive and fair environment with opportunities for all employees.	Inclusive/fair environment indicators are part of merit process
		Representation of all groups in details and special assignments
		Representation of all groups in succession plans
	Ensure that each and every employee is given the knowledge, tools, training and encouragement to successfully meet the expectations of their positions.	Training in prescribed curriculum (including 4 hours of mandatory workplace environment interpersonal skills training)
	Improve employees' safety, security and well-being.	OSHA injury/illness rate
Improve understanding of employees' issues and concerns.	VOE Survey Index	
<p>VOB Generate financial performance that ensures commercial viability as a service provider in a changing, competitive marketplace and generate cash flow to finance high-yield investments for the future while providing competitively priced products and services.</p>	Improve overall VOB performance.	Area Productivity improvement PC Productivity improvement Capital Commitments
	Control costs by achieving productivity gains.	USPS Total Factor Productivity USPS Output per Workhour

Preliminary Target	Final Target	2001 Results
93 87 Develop performance baseline Proprietary information 1% improvement Develop new indicators Develop indicators and baseline Proprietary information	93 87 No change No change 98 No change Pilot testing of the Electronic Publication Watch System No change	94 84 Developed a performance baseline. Target achieved, information proprietary. 98 Developed new indicators. Developed new indicators and baseline. Did not meet the target, which is proprietary.
Develop performance baseline	No change	Developed a baseline for ADI
93% overall satisfaction through CSM-Residential Survey	No change	Did not meet the target.
91% overall satisfaction through CSM-Business Account Survey	No change	Did not meet the target.
100% available, 70% participation	No change	100% available, 76% participation
Included in PCES merits	No change	Accomplished, this item was included in PCES merit reviews.
Quarterly review of affirmative employment plan (Areas with COO, PC's with AVPs and HQ with Management Committee)	No change	This was accomplished through the coordination and involvement of VP, Diversity.
97% of EAS 15 and over: 20 hours	No change	Target achieved.
97% of EAS 14 and below: 8 hours	No change	Target achieved.
100% of craft work units: 8 hours	No change	Achieved this goal in 74 of 85 Performance Clusters.
7.96	No change	Did not achieve target, ended FY 2001 with 8.46.
Improvement over 2000 VOE Survey Index score of 57.5	No change	FY 2001 Survey Index of 58.1
Improvement over hurdle	No change	Achieved in all 11 Areas.
Improvement over threshold	No change	Achieved by 68 of 85 Performance Clusters.
\$2.6 billion	No change	Did not achieve target. Committed \$1.2 billion due to BOG-mandated capital freeze.
0.7%	No change	1.3%
2.0%	No change	1.7%

11 and our fiscal year end of September 30, we saw a further downturn in revenue of \$200 million and increased costs of approximately \$100 million. Thus, while we successfully reduced expenses and maintained consistently high service levels, we ended the year with a \$1.7 billion loss.

1. Business Performance

Because postage rates are set through a lengthy rate case process, productivity improvement programs are management's best avenue to address short term revenue variances. This is why four out of our five Voice of the Business goals are productivity goals. In 2001, as the economy softened and mail volumes and revenue declined, we effectively restrained resource usage and realized a gain of 1.3 percent in USPS Total Factor Productivity (TFP) that was equivalent to almost \$900 million in expense reductions. Our two-year cumulative TFP growth of 3.7 percent is equivalent to an expense reduction of \$2.5 billion. Not since 1993 have we achieved TFP growth of this magnitude. (Chapter 3 reports TFP performance in detail.)

Nonetheless, the cost efficiencies gained through these productivity programs were outstripped by structural and inflationary pressures on our revenue and costs. Although we reduced work hours by 2.3 percent, using 23.1 million fewer workhours than in 2000, our labor cost per work hour increased by 5.8 percent. That was more than double the Consumer Price Index increase of 2.5

percent in 2001 and exceeded the national Employment Cost Index increase of 3.7 percent.

To meet the challenges of declining revenue and increasing costs, the Postal Service enacted two separate modifications of our capital commitments goal. The first modification was made by Management after its review of 2000 results and first quarter 2001 financial indicators. The capital commitment target of \$3.6 billion was reduced to \$2.6 billion at that time and was so reported in the *2000 Comprehensive Statement* to Congress. As it became apparent that revenue and cash flow from operations would not support the amended plan, we continued the freeze exception process and the capital commitments goal was reduced further to \$1.6 billion.

2. Customer Service

Throughout 2001, the Postal Service maintained its primary focus on its mission of delivering outstanding customer service and value to the American people. The Postal Service exceeded the target for on-time performance for its flagship product, Overnight First-Class Mail™, achieving 94 percent on-time performance both for the period of measurement and for the year in total. The target was 93 percent on-time performance.

For EXFC two-and three-day mail, the Postal Service did not meet the on-time performance of 87 percent set for 2001, due to continued transportation problems resulting from scheduled airlines' inability to provide reliable flight service.

The Postal Service achieved two-and three-Day combined First-Class Mail on-time performance of 84 percent.

The Priority Mail on-time target, which is proprietary, was met.

The Postal Service met the target for Advertising Mail delivered on-time within a requested sales window with performance at 98 percent as measured by the ADVANCE system.

To further improve customer service, the Postal Service has worked with the mailing industry to implement an initial indicator, considered to be proprietary, for Parcel Select (ground parcels) performance

TABLE 5.2 USPS TOTAL FACTOR PRODUCTIVITY 1993-2001

	USPS Total Factor Productivity		USPS Output per Workhour		Multi Factor Productivity ¹	
	Annual ²	Cumulative From 1971	Annual	Cumulative From 1971	Annual ²	Cumulative From 1971
1993	3.8	11.0	4.6	19.4	0.5	13.0
1994	(0.2)	10.9	0.8	20.2	0.9	13.9
1995	(1.9)	8.9	(1.3)	18.9	0.5	14.4
1996	(1.3)	7.6	(0.1)	18.8	1.4	15.8
1997	1.3	8.9	1.7	20.5	1.0	16.8
1998	(1.0)	7.9	1.2	21.7	1.4	18.2
1999	(0.1)	7.9	0.9	22.6	0.6	18.8
2000	2.4	10.2	2.0	24.6	1.7	20.5
2001	1.3	11.5	1.7	26.3	(0.6)	19.9

¹ 2000 and 2001 MFP Data are estimates of DRI-WEFA. BLS Data for these years have not yet been released.

² Historical data are subject to revision as certain data used in calculating productivity are periodically revised. Price indexes released by the Bureau of Labor Statistics and the Bureau of Economic Analysis that are used to calculate resource usage are subject to regular historical revisions by these agencies. When historical revisions are released, they are incorporated into the TFP calculation, which can result in historical TFP revisions. TFP for the reporting year is also subject to revision when final Postal Service cost data for the reporting year is available. Generally, this revision occurs in April of the following year.

Note: Certain Annual/Cumulative amounts may not sum due to rounding.

in 2001 and has piloted an enhanced Electronic Publication Watch System.

3. Employees and the Workplace

In 2001, the Postal Service continued its vigorous commitment to an inclusive and welcoming workplace. Consistent with its values of fairness, opportunity, safety and security, the Postal Service pursued goals aimed at ensuring that all employees are given the knowledge and training to be successful and that all are recognized for and take pride in contributing to the success of customers and the Postal Service.

This year, the Office of Equal Employment Opportunity and the REDRESS® (Resolve Employment Disputes, Reach Equitable Solutions) program enjoyed its first full year as an integrated organization. A renewed effort by EEP professionals at the district level has focused attention on dispute resolution at the early stage of the conflict. For the third consecutive year, the number of EEO pre-complaint counselings in the Postal Service decreased, attributable in large measure to the REDRESS program. The target participation rate of 70% was exceeded as a 76.2% rate of participation was achieved. The Postal Service will continue to emphasize the REDRESS process as a means of bringing employees and managers face to face to learn to deal with conflict and misunderstanding in the workplace.

The subgoals set for the goal of ensuring an inclusive and fair workplace environment with opportunities for all employees were achieved. Managers were made accountable for the inclusive and fair workplace goal in their own merit evaluation process. And, the vice president for Diversity conducted targeted quarterly reviews of Affirmative Employment Plans to ensure that all groups were represented in details and assignments, succession plans and other activities supporting the affirmative employment plan.

Employee training programs, stipulated as goals, were offered in Workplace Environment Interpersonal Skills. The program target for interpersonal skills training of 97% of EAS employees was exceeded as 100% participation was achieved; the target of 100% craft work unit participation was not achieved, as 98.55% received training.

Progress was made in improving postal employees' safety, security and well-being. In 2001, the Postal Service implemented the OSHA Illness Injury Indicator as the universal workplace safety measure, pursuant to the requirements of the Postal Employees' Safety Enhancement Act of

1998. In this first 'learning' year of reporting this performance goal as a compensable target, the Postal Service did not achieve its target of 7.96 for this indicator. The performance result of 8.46 reflected our process of adjusting our previous system to conform to OSHA's complex reporting system.

In 2001, the Postal Service met the Employee Survey Index subgoal of improving the 2000 VOE Survey Index score of 57.5. In 2001, the Postal Service achieved a score of 58.1, a 0.6 improvement over 2000's baseline index.

C. The Planning Process

This Performance Plan was developed as part of the ongoing planning process that responds to the 1993 Government Performance and Results Act. The plan was communicated to Congress in four steps. First, the *Preliminary 2001 Annual Performance Plan* was submitted to Congress in February 2000. The 2001 Plan was amended thereafter to reflect the commentary of both the General Accounting Office (GAO) and the Office of Inspector General, and the *2001 Annual Performance Plan* was submitted to Congress and the American people in September 2000. Third, the plan was reviewed during the preparation of last year's *2000 Performance Report* included as Chapter 5 of the *2000 Comprehensive Statement*. Indicators and subgoals in the 2001 Plan were reevaluated at that time and adjusted to reflect actual 2000 results and the experience of the first half of the year. The *2000 Comprehensive Statement*, containing updated goals and subgoals for 2001, was submitted to Congress in March 2001. And last, if necessary, correspondence has been sent to Congress to provide information on any needed changes to the plan.

D. The Three-Voice Structure and Performance Goals

As stated in the 2001 Annual Performance Plan, the Postal Service organizes its corporate goals in a three-voice structure that addresses the fundamental areas of Postal Service performance:

The **Voice of the Customer** goal category centers on customer satisfaction, meeting customer requirements and the achievement of superior quality at competitive prices.

The **Voice of the Employee** goal category focuses on creating a workplace environment that fosters success and embraces the values of fairness, opportunity, safety and security.

The focus of the **Voice of the Business** goal category is on financial performance that assures commercial viability, bottom-line results and sufficient capital for future investments.

For each Voice, a goal statement focuses on the overall performance sought. For 2001, these were:

- n **Voice of the Customer** — Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.
- n **Voice of the Employee** — Foster an inclusive and welcoming workplace consistent with Postal Service values of fairness, opportunity, safety and security: where everyone is given the knowledge, tools, training and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers' and the Postal Service's success.
- n **Voice of the Business** — Generate financial performance that ensures the commercial viability of the Postal Service as a service provider in a changing, competitive marketplace; and, generate cash flow to finance investments for the future while providing competitively-priced products and services.

The following section assesses Postal Service performance in each of these categories as measured according to the specific goals, subgoals, indicators and targets set for each.

E. Voice of the Customer Performance Goals: Customer Satisfaction

Postal Service Annual Performance Plan Goal:

Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.

Performance Goal 1: Provide Timely Delivery

As stated in the plan, 2000 indicators and targets for this subgoal are:

- n Achieve overnight First-Class Mail on-time performance of at least 93 percent.
- n Achieve two-and three-day First-Class Mail on-time performance of at least 87 percent.
- n Develop an on-time performance indicator and baseline for consistent delivery (D+1 Overnight).
- n Develop an on-time performance indicator and baseline for consistent delivery (D+2 Two Day).
- n Develop an on-time performance indicator and baseline for consistent delivery ((D+3 Three Day).
- n Achieve targeted Priority Mail on-time performance, as measured by the Priority End-to-End (PETE) system.
- n Achieve on-time performance for Advertising Mail delivered within a requested sales window of at least 98percent on-time performance, using the ADVANCE measurement system.
- n Develop an on-time performance indicator and baseline for Ground Parcels.
- n Develop an on-time performance indicator and baseline for Periodicals.
- n Achieve targeted Express Mail on-time performance, as measured by Express Mail Reporting System (AM & PM).

With performance measured against each indicator and target for this subgoal, in 2001, the Postal Service:

- n Exceeded the performance target of 93 percent for on-time delivery of Overnight First-Class Mail with performance 94 percent on-time. The established target for this External First-Class (EXFC)³ measured target is the weighted destinating result of Postal Quarters I-IV. For 2001, in total, the Postal Service achieved Overnight First-Class Mail on-time performance of 94 percent, which exceeded the target for the period of external measurement.
- n Did not achieve the performance target for EXFC two and three-day mail of at least 87 percent on-time due to continued transportation problems resulting from scheduled airlines' inability to provide reliable flight service. The established target for this External First-Class (EXFC) meas-

³ First-Class Mail service performance results are measured with an index called External First-Class (EXFC). This index is generated by the Transit Time Measurement System (TTMS), which measures service performance from the time mail is entered into the system at an induction point until the time it is received in the home or small business. TTMS is independently administered by PricewaterhouseCoopers under a contract with the Vice President and Consumer Advocate. The system provides quarterly estimates of First-Class Mail destination service performance for 85 Performance Clusters from their overnight, two-day, and three-day service commitments in 463 3-digit ZIP Code Areas.

ured target is the weighted origin/destination combined result of PQ III and IV performance. The Postal Service achieved two- and three-day combined First-Class Mail on-time performance of 84 percent.

Met the target of completing a baseline for providing consistent delivery (D+1, D+2, and D+3) for Overnight, two,-and three- day mail.

Met the target for Priority Mail on-time performance. The established target for this Priority Mail (PETE) measured target is weighted origin/ destination combined result of PQ III and IV performance. The specific target and associated information is proprietary.

Met the target for Advertising Mail delivered within a requested sales window with performance at 98 percent on-time, as measured by the ADVANCE system.

Implemented an initial indicator for Parcel Select (ground parcels) performance in 2001. Working closely with the mailing industry to continue developing supporting systems and procedures, we anticipate implementing a more comprehensive indicator and establishing baseline measurements in 2002. The specific target and associated information is proprietary.

In response to mailers' requests, piloted an enhanced Electronic Publication Watch System that allowed publishers to: enter complaints into a centralized data base; request an electronic publication watch that will track delivery of individual mailings of specific publications; and request resolution of a systemic service related problem. Utilizing feedback collected during the pilot test, changes were made to the system and the enhanced Electronic Publication Watch System will be retested and implemented in 2002.

Did not achieve performance target for on-time delivery of Express Mail due to continued transportation problems resulting from scheduled airlines' inability to provide reliable flight service. The specific target and associated information is proprietary.

Performance Subgoal 2: Provide reliable services.

As stated in the plan, the 2001 Indicator and Target for this subgoal is:

- n Set a performance baseline for the accuracy of delivery of mail using the Accuracy of Delivery Indicator (ADI).

In 2001, the Postal Service:

- n Met the target of establishing a baseline for the accuracy of delivery of mail through the ADI system.

Performance Subgoal 3: Improve Customer Satisfaction.

As stated in the plan, the 2001 Indicators and Targets for this subgoal are:

- n Achieve the target of 93 percent Overall Satisfaction for Residential customers through the Customer Satisfaction Measurement - Residential survey.
- n Achieve the target of 91 percent Overall Satisfaction for Business Account customers through the Customer Satisfaction Measurement - Business Account survey.

In 2001, the Postal Service:

- n Did not achieve the target of 93 percent Overall Satisfaction for Residential customers through the Customer Satisfaction Measurement - Residential survey.
- n Did not achieve the target of 91 percent Overall Satisfaction for Business Account customers through the Customer Satisfaction Measurement Business Account survey.

In 2001, overall national customer satisfaction dropped as the economy declined. The American Customer Satisfaction Index (ACSI), a national economic indicator of customer satisfaction with the quality of goods and services available to household consumers in the United States, decreased by over 1 percent in 2001. The Postal Service's ACSI scores declined along with other industries, although the Postal Service still maintained extraordinary high levels, especially when compared to other industries, such as airlines).

Postal measures of customer satisfaction, our Customer Satisfaction Measurement (CSM) surveys, also showed declines in business customer satisfaction and no change in residential customer satisfaction since the previous year. The decrease

EXFC is an external mail measurement system of collection box to mailbox delivery performance. EXFC continuously tests a panel of 463 3-digit ZIP Code Areas selected on the basis of geographic and volume density from which 90 percent of the First-Class Mail volume originates and to which 80 percent destinates. EXFC is not a systemwide measurement of all First-Class mail performance.

in business customer satisfaction with the Postal Service is a likely a result of the declining economy. It may also be attributed to customer reactions to what was perceived as two back-to-back rate increases, compounded by public announcements of financial losses and the consideration of a reduction in delivery days.

Even though CSM targets were not met, several initiatives were implemented to assist postal managers in improving customer satisfaction. These include an expanded data reporting system with new analytic tools to pinpoint opportunities for improvement, a Best Practices website to assist in the sharing of successful ideas and a recognition program to promote outstanding customer service performance.

F. Voice of the Employee Performance Goals: Organizational Effectiveness

Postal Service Annual Performance

Plan Goal:

Foster an inclusive and welcoming workplace consistent with Postal Service values of fairness, opportunity, safety and security; where everyone is given the knowledge, tools, training and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers' and the Postal Service's success.

Performance Subgoal 1

- Improve workplace relations by building leadership skills and behaviors.

As stated in the plan, 2001 indicators and target for this subgoal are:

- Make REDRESS 100 percent available, with a 70 percent participation rate in all Performance Clusters.

In 2000, the Postal Service:

- Achieved the target of making the REDRESS process available to all employees and applicants for employment within the Postal Service and the Postal Inspection Service; and exceeded the target of 70 percent participation in all Performance Clusters. At the close of FY 2001, the program achieved a national participation rate of 76.2 percent.

Performance Subgoal 2

- Ensure an inclusive and fair environment with opportunities for all employees.

As stated in the plan, 2001 indicators and target for this subgoal were:

- Make an inclusive and fair environment with opportunities for all employees part of the merit process, with the target of including the indicator in PCES merit reviews.
- Representation of all groups in details and special assignments with the target of holding quarterly reviews of affirmative employment plan (Areas with COO, PC's with AVP's, and HQ with Management committee)
- Representation of all groups in succession plans and activities supporting the affirmative employment plan.

In 2001, the Postal Service:

- Accomplished the indicator of representing all groups in details and special assignments with the target of holding quarterly reviews of affirmative employment plan.
- Accomplished the indicator of representing all groups in succession plans and activities supporting the affirmative employment plan.

Performance Subgoal 3

- Ensure that each and every employee is given the knowledge, tools, training and encouragement to successfully meet the expectations for their positions.

As stated in the plan, 2001 indicators and target for this subgoal were:

- Training in prescribed curriculum, including: four hours mandatory workplace environment interpersonal skills training. The target rates were:
 - 20 hours for 97 percent of EAS employees levels 15 and above,
 - Eight hours for 97 percent EAS employees 14 and below and
 - Eight hours for 100 percent of craft work units.

In 2001, the Postal Service:

- Achieved this target for EAS employees, levels 15 and above.
- Achieved this target for EAS employees 14 and below.

- Did not achieve the target because eleven Clusters out of 85 did not give 100% of their craft units the full 8 hours of training in the prescribed curriculum. However, 98.55% of the craft units did receive at least 8 hours of training including the prescribed curriculum.

Performance Subgoal 4

- Improve understanding of employee issues and concerns.

As stated in the plan, the 2001 indicator and target for this subgoal was:

- Improving last year's 57.5 VOE Survey Index score.

In 2001, the Postal Service:

- Achieved this target with a VOE Survey Index of 58.1, which was a .6 improvement over last year's baseline index.

Performance Subgoal 5

- Improve employees' safety, security and well-being.

As stated in the plan, the 2001 indicator and target for this goal was:

- Achieving the OSHA injury/illness indicator target of 7.96.

In 2001, the Postal Service:

- Did not achieve this target. The year ended with an 8.46 OSHA Injury/Illness Rate. This was 0.50 above the target of 7.96. However, we believe the result to be a success because analysis during the year demonstrated that changes to the base were required. This, the first year in which this indicator was used, proved to be a learning year. Data validation and analysis included a 100% review of our record keeping at year end as well as random reviews throughout the year. In addition, as we gained experience in interpreting OSHA's complex reporting system, adjustments to our process were made. As a result, an accurate baseline is now in place and can be applied in FY 2002.

G. Voice of the Business Performance Goals: Financial Performance

Postal Service Annual Performance Plan Goal:

Generate financial performance that ensures commercial viability of the Postal Service as a service provider in a changing, competitive market place; and generate cash flow to finance high-yield investments for the future while providing competitively-priced products and services.

Performance Subgoal 1

- Improve overall business performance.

As stated in the plan, 2001 indicators and target for this subgoal were:

- Improve Area Productivity over a "hurdle" rate.
- Improve Performance Cluster Productivity above the Threshold.
- Achieve a capital commitment budget of \$2.6 billion.

In 2001, the Postal Service:

- Achieved Productivity at the Areas over the hurdle.
- Achieved Productivity at the Performance Cluster (PC) level in 68 of 85 PCs.
- Did not achieve the amended goal of \$2.6 billion in Capital Commitments. To control costs, we instituted a capital commitments freeze, resulting in a \$1.2 billion commitment for the year.

Performance Subgoal 2

- Control costs by achieving productivity gains.

As stated in the plan, the 2001 indicator and target for this subgoal was:

- Achieve a Total Factor Productivity (a measure of total resource usage efficiency, including capital) gain of 0.7 percent.

In 2001, the Postal Service:

- Exceeded the target for Total Factor Productivity (TFP) Growth, achieving TFP growth of 1.3 percent, nearly double the target of 0.7 percent. This achievement is equivalent to almost \$900 million in expense reductions and is the second highest TFP growth achieved by the Postal Service since 1993. The growth of TFP in 2001 was brought about by managed restraint on

resource usage. Work hours declined by 2.3%, materials use was reduced by 3.6 percent, and total resources use was reduced by 1.9 percent. The TFP target is an outgrowth of the productivity gain implicit in our budget and must be determined through calculations based on actual figures.

- n Did not achieve the USPS Output per Workhour goal of 2.7 percent. Actual Output per Workhour was 1.7 percent. When mail volumes were lower than anticipated in 2001, management reduced all resource usage, including the labor use component of TFP, as indicated above. This ameliorated the impact of lower volume growth rates on the Output per Workhour factor.

H. Evaluation of 2001 Performance and Changes to Goals and Subgoals in the 2002 Plan

In this section, the Postal Service evaluates the performance plan for 2002, relative to the performance achieved toward the performance goals of Fiscal Year 2001 covered by this report.

In complying with GPRA requirements to report this evaluation, the Postal Service submits four tables: Table 5.1, Table 5.3, Table 5.4 and Table 5.5.

Table 5.1, “Performance 2001: Goals and Results,” leads this chapter. It itemizes 2001 performance to each goal, subgoal, indicator and target of the *2001 Annual Performance Plan*.

Table 5.3, “FY 2002 Goals, Subgoals, Indicators and Targets,” follows here. This table lists all Fiscal Year 2002 goals, subgoals, indicators and targets of the latest *2002 Annual Performance Plan* for each of the three Voices of the Postal Service Management Process: the Voice of the Customer; the Voice of the Employee; and the Voice of the Business. There are no changes proposed to this table. It is the same as what was published in our *2002 Annual Performance Plan* issued at the end of September 2001.

Table 5.4, “FY 2002 Goals, Subgoals, Indicators and Targets - Individual Merit Process,” follows here. This table lists all Fiscal Year 2002 goals, subgoals, indicators and targets for each of the three Voices of the Postal Service Management Process: the Voice of the Customer; the Voice of the Employee; and the Voice of the Business. Performance on these indicators and targets is tied to individual merit evaluations for managers of work units, rather than overall organizational measures of success. There are no changes proposed to this table. It is the same as what was published in our *2002 Annual Performance Plan* issued at the end of September 2001.

Table 5.5, Area Productivity Baseline Information, is provided as requested by Congress and provides baseline information on Area productivity. Targets are based on projected levels of improvement as established in our budget and forecasting process. These targets will fluctuate from year to year and are not fixed percentage improvements.

TABLE 5.3 FY 2002 GOALS, SUBGOALS, INDICATORS AND TARGETS

Goal	Subgoal	Indicator	Weight	FY2002 Target	Strategic Goal (FY2005)
Voice of the Customer Growth	Timeliness and Consistency	First-Class Overnight on Time (EXFC) <i>Originating and Destinating Composite</i>	Threshold	93%	Consistency of Performance Across All Classes of Mail vs. Service Standards
		Express Mail on Time (Product Tracking System) <i>Originating and Destinating Composite</i>	30%	94% <i>PQ III and IV</i>	
		Priority Mail on Time within 2 days (PETE network) <i>Originating and Destinating Composite</i>	30%	91% <i>PQ III and IV</i>	
		First-Class Mail on Time, 2-3-days (EXFC) <i>Originating and Destinating Composite</i>	30%	88% <i>PQ III and IV</i>	
		Delivery Confirmation™ Scan Rate Priority Mail	10% (2.5% per Quarter)	98% <5% Manual/ Multiple Scan Composite (PQ I, II, III, IV)	
Voice of the Employee Motivated, Productive and Inclusive Workforce	Minimize Impact from Accidents and Injuries	OSHA Illness/Injury Rate	Threshold	2% National <i>allocated by opportunity</i>	"Available for Duty" Rate
	Employees Committed to USPS Success	Voice of the Employee Survey (VOE) Survey	PFP	Equal to or Better Than FY2001 EOY 1.1% Over FY2001	
Voice of the Business Affordability	Improve Productivity	USPS Total Factor Productivity (TFP)	Threshold	Improve Over Hurdle	Increased Contribution on Different Product Lines
		Area Productivity Improvement	PFP	Improve Over Hurdle	
		Performance Cluster Productivity Improvement	PFP		

Explanations

Items in parentheses describe the relevant measurement system.

Italics indicate clarifications of relevant goal for operational implementation.

Threshold items are basic requirements for maintenance; they must be achieved in order to qualify for consideration in other categories.

All targets are subject to change to adjust for external factors, such as economic conditions and workload changes.

TABLE 5.4 FY 2002 GOALS, SUBGOALS, INDICATORS AND TARGETS INDIVIDUAL MERIT PROCESS

Goal	Subgoal	Indicator	FY2002 Target	Strategic Goal (FY2005)
Voice of the Customer Growth	Timeliness and Consistency	Delivery Confirmation Scan Rate – Parcel Post	Baseline	Consistency of Performance Across All Classes of Mail vs. Service Standards
		Improve Parcel Select™	Baseline	
		Improve Standard <i>Carrier Route bundles within delivery window; All others within standard</i>	Baseline	
	Reliability	Accuracy of Delivery Index	98.5%	
	Customer Satisfaction	Overall Residential Customer Satisfaction (Customer Survey)	Maintain FY2001	
		Overall Business Customer Satisfaction (Customer Survey)	Maintain FY2001	
Voice of the Employee Motivated, Productive and Inclusive Workforce	Minimize the Impact from Accidents and Absences	"Available for Duty" Rate	Baseline	"Available for Duty" Rate
	Skilled Workforce	Training in Prescribed Curriculum 4 hours mandatory workplace environment n <i>EAS >15 (20 hours)</i> n <i>EAS <14 (8 hours)</i>	97% Employees	
			100% Work Units	
		SOUND DISPUTE RESOLUTION PROCESSES	100% availability 70% Participation	
	Inclusive Workforce	n <i>Representation of all groups in details and special assignments</i> n <i>Representatives of all groups in succession plans</i> n <i>Activities supporting affirmative action plan</i>	Quarterly Reviews for Officers	
Voice of the Business Affordability	Improve Productivity	<i>Flats and Parcels Contribution</i>	Developing Indicator	Increased Contribution on Different Product Lines
	Improve Financial Strength	Retail Revenue	Achieve Plan	
		Commercial Revenue	Achieve Plan	
		Expense Budget Total Operating Expense	Achieve Plan	

Explanations

Shaded areas represent goals where indicators were developed in FY2001, and baseline data is being developed for FY2002. Targets will be set, based on these baselines, in FY2003.

Items in italics are for clarification in operational implementation.

Revenue and expense plans are finalized at the end of the preceding year and are subject to change during the year, as economic conditions and workload changes.

**TABLE 5.5 AREA PRODUCTIVITY
BASELINE INFORMATION***

Area	2000 Performance	2001 Target	2001 Performance
Allegheny	1.42	0.64	0.98
Capitol Metro	1.86	0.29	1.52
Great Lakes	3.16	0.51	0.71
Mid-Atlantic	1.04	0.00	0.88
Midwest	2.32	0.33	0.65
Northeast	1.87	0.03	0.82
New York Metro	2.27	0.63	1.15
Pacific	1.78	0.79	0.81
Southeast	1.71	0.50	1.51
Southwest	2.56	0.64	0.87
Western	1.38	0.00	1.02

** Productivity targets are not set independently. They result from workload and budgetary requirements and vary with these.*

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