# UNITED STATES POSTAL SERVICE

Five-Year Strategic Plan
FY 1998-2002

**UNITED STATES POSTAL SERVICE**
We Deliver For You.

MARVIN RUNYON
POSTMASTER GENERAL, CEO
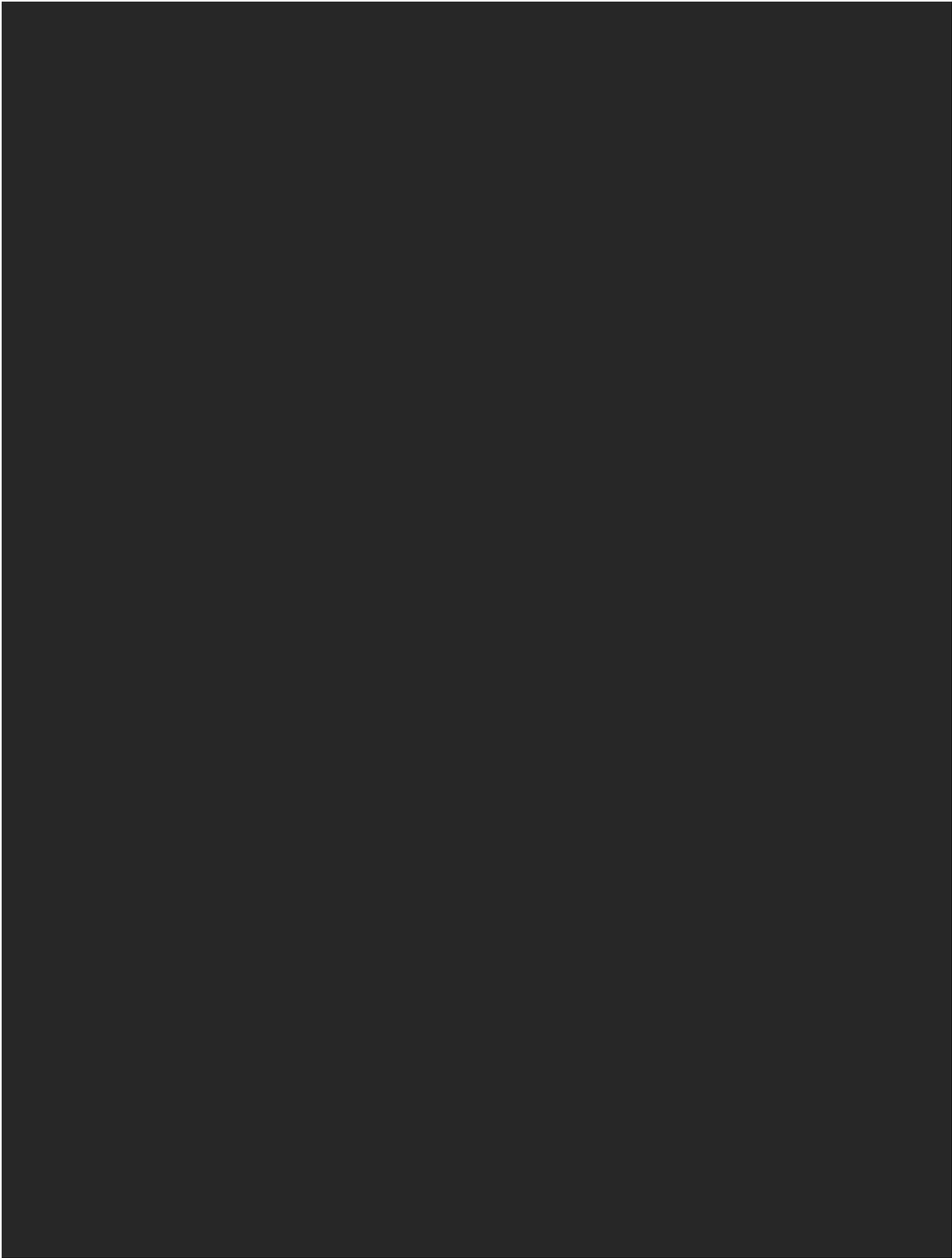
**UNITED STATES POSTAL SERVICE.**

To the President of the United States, the United States Congress, the Members of the Postal Community, and the American people:

For eight months, the Leadership Team of the United States Postal Service and its Board of Governors have worked to craft a plan that will take this organization into its fourth decade and the 21st century. The Governors have endorsed this strategic document, mandated by the Government Performance and Results Act. Now I am proud to share it with you.

The Postal Service's five-year strategic plan, which commences with the 1998 fiscal year, reflects a process of data-gathering, analysis, and decision-making that has taken place within the most challenging environment the United States Postal Service has experienced since its inception. Sophisticated competition, substitute technologies, globalization and heightened customer expectations have led us to direct the Postal Service onto a transformational path of process improvement, greater productivity and a commitment to product and service innovation. Only by traveling such a path — one that will take us to both revenue growth and cost containment — will the Postal Service's ability to achieve its historic mission of reliable, efficient universal postal delivery service be ensured.

As our plan indicates, this journey begins with the establishment of goals that delineate the progress we intend to make to satisfy our customers, to improve our organizational effectiveness and to strengthen our financial viability. Predicting the future is a role perhaps better played by soothsayers than Postmasters General, but I believe that hard-copy communications will be a mainstay of the American economy in the decade ahead, and, in partnership with new electronic technologies, can grow dramatically in support of global commerce. That's a future where we can find success.

Achieving these goals, and the new ones we set for ourselves over the next five years, is a prerequisite for that success. From now until 2002, the Postal Service will use a variety of metrics — percentage of on-time deliveries, revenue and market-share increases, labor costs, productivity analyses and customer surveys — to determine our progress towards these goals. We are confident that the data-driven results will showcase a transformation in the way we deliver and add customer value. The establishment of that value is the vision guiding our renewed sense of mission.

My confidence in our ability to realize these goals is due in no small part to our two-year-old Malcolm Baldrige Award criteria-based performance management system — *CustomerPerfect!* This system raises our performance targets each year and assures that we guide our planning by listening to customers who are telling us to improve current products and services and to introduce new ones. So, too, is this plan a result of listening — to our employees, our business partners and our stakeholders and customers, the American public. In the year ahead, we will keep listening, for this plan is not a static collection of words on paper. It is — and will be — a living document that delivers us into the 21st century.

Marvin Runyon
Postmaster General

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# EXECUTIVE SUMMARY

The reinvention of the United States Postal Service is well underway. Driven by the imperative to meet customer requirements, the Postal Service has stepped onto a path of continuous improvement that leads, over the next five years, to growth, greater productivity, effective cost management and unique customer value. Transformational as this journey will be, at its end the Postal Service will remain the two-century-old provider of universal postal service at uniform rates for the American people and their businesses and institutions.

Strategic planning is a critical part of this effort, and is a central component in the Postal Service's *CustomerPerfect!* performance management system. This system complements the Government Performance and Results Act of 1993 (GPRA) and supports the law's mandate to establish a set of measurable goals to uphold the Postal Service's mission and to define underlying strategies to achieve those goals. This five-year strategic plan describes the Postal Service mission, the goals the Postal Service expects to meet over that period, the strategies it will use to reach these goals, and the performance management system that will evaluate progress. In those strategies listed below, and described in detail in the plan itself, the core principle endorsed by the organization is that the customer value that the Postal Service's transformation creates will drive the growth that the organization requires to deliver reliable, secure, prompt and cost-effective universal service. Because the Postal Service has committed to continuous improvement, these goals and strategies will be under constant review. This strategic plan will be updated each year with the publication of an annual performance plan and an annual performance report, and every three years, or more often when needed, a new strategic plan will be published.

## THE MISSION

The mission of the United States Postal Service is set forth in the opening paragraph of the 1970 Postal Reorganization Act: "The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the per-

sonal, 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."

That fundamental mission has not changed, and today is supported by a vision statement that Postal Service products and services will be recognized as the best value in America; that the Postal Service will evolve into a premier provider of 21st century postal communications; and that the Postal Service will be the most effective and productive service in the Federal government and markets that it serves. The organization defines its guiding principles — or values — as "People, Customers, Excellence, Integrity and Community Responsibility."

## THE GOALS

The United States Postal Service's fundamental goals are to satisfy the customer, improve employee and organizational effectiveness, and improve financial performance. The Postal Service categorizes these goals as "voices" to emphasize that the Service is driven by and focused on data and input gathered from the marketplace and employees. The goal categories are Voice of the Customer, Voice of the Employee and Voice of the Business. The Voice of the Customer goal category centers on customer satisfaction and the achievement of superior customer value in targeted markets. The Voice of the Employee goal category focuses on organizational and individual effectiveness, or aligning human resources with business objectives by having the right people in the right place with the right tools at the right time. The Voice of the Business goal category focuses on financial performance to assure commercial viability and bottom-line results. Specific performance goals have also been established for each of the Voice goals. For each performance goal, indicators and performance targets have been set or are in development, and progress will be measured against them.

**Voice of the Customer Goals.** The corporate goal is to improve customer satisfaction by offering superior customer value in each market and targeted customer segment. Performance goals to achieve that broad goal are to provide timely delivery; to provide consistent service; to offer accurate service; to assure that service is affordable; and that the service is easy to use.

**Voice of the Employee Goals.** The corporate goal is to improve employees' and organizational effectiveness by having the right people in the right place with the right tools at the right time to provide superior customer value consistently and ensure commercial viability in a dynamic market. Performance goals to achieve that broad goal are to ensure that employees demonstrate the required proficiencies for their assigned work; to anticipate complement needs and deploy people to meet organizational requirements; to ensure a safe work environment; and to enhance the workplace environment to improve relationships with employees.

**Voice of the Business Goals.** The corporate goal is to improve financial performance to assure commercial viability as a service provider for the worldwide movement of messages, merchandise, and money. Performance goals to achieve that broad goal are to grow volume from existing or enhanced products and services; to grow net income from new products and services; to control costs through re-engineering, decreasing rework and cycle time, process management, and substituting capital for labor; to control costs by achieving

THE UNITED STATES POSTAL SERVICE'S FUNDAMENTAL GOALS ARE TO SATISFY THE CUSTOMER, IMPROVE EMPLOYEE AND ORGANIZATIONAL EFFECTIVENESS, AND IMPROVE FINANCIAL PERFORMANCE.

productivity gains; to use pricing as a competitive tool while keeping rate increases below the rate of inflation; and to restore equity.

## THE CHALLENGES

There are a number of challenges and external factors that could affect the success of the five-year plan. Federal regulations set forth in the Postal Reorganization Act of 1970 prevent the organization from offering products and services with prices and characteristics that compare favorably with competitive offerings. These regulations constrain the Postal Service's ability to respond to rapidly-changing market conditions and to control costs. New information technology — the Internet and its World Wide Web, e-mail, electronic commerce and electronic data exchange — has fundamentally altered consumers' choices and expectations. Thirty-eight billion pieces of First-Class Mail and $6 billion are directly at risk to electronic diversion. New competitors, such as those that foster connectivity, privacy and security, convenience, and money or banking capabilities, will gain market share. A more sophisticated consumer is emerging in the United States. Because of the growing diversity of customer interests served by the Postal Service, consensus on what constitutes success is difficult to achieve. Finally, legislative reform has been proposed. The outcome of that proposal could alter the fundamental legal structure of the organization.

## THE ORGANIZATIONAL STRATEGIES

To grow through the creation of unique value represents an explicit choice. It demands discipline, priorities and a focus on customer requirements. Four core strategies drive the growth principle — commit to customer service excellence; practice aggressive cost management; become a 21st century growth company; and create unique customer value. All must be implemented in a manner that fosters alignment with the Voice goals.

The Postal Service will implement these strategies by providing better operating performance and more effective management of customer contact operations. Employee effectiveness will be improved by focusing new resources on training, complement deployment and efforts to enhance the workplace. The organization will work aggressively to control costs through a combination of productivity gains, improvements to make best use of key human resources and unit cost management of all resources.

**Voice of the Customer Strategies.** The principal strategies are to establish service excellence and to create unique customer value.

The strategic efforts supporting this goal focus on improving operational performance. Specific strategies include a focus on improving transit time; redesign of customer contact and access through three major customer service channels — retail/residential, large mailers, and medium and small mailers; expanded use of information technology; consumer protection focus; and product and service innovation.

**Voice of the Employee Strategies.** The principal strategy is to establish a performance culture while improving the quality of the workplace environment.

The specific strategies include improving workplace safety; enhancing the workplace environment; leveraging diversity; enhancing employee skills; aligning human resources systems with organizational requirements; establishing an incentive compensation plan; performance management; and improvement of labor/management relations.

**Voice of the Business Strategies.** The principal strategies are to promote growth; to generate positive net income; and to manage costs aggressively to ensure commercial viability and establish financial integrity.

Specific revenue growth and positive net income strategies include organizational alignment and establishing "line of sight" to the customer; core business marketing; pricing; revitalization of retail and stamp services; expansion of parcel and expedited services; expansion of international mail; and new product and service innovation.

Specific cost management strategies include the reduction of labor intensity; the reduction of cost per work hour; the reduction of transportation costs; focus on delivery; increased productivity; and an aggressive five-year $14.3 billion capital investment plan.

The capital investment plan will concentrate resources in two broad categories: new technologies that produce labor savings or achieve cost avoidance, and customer service programs that generate revenue or enhance competitiveness in the marketplace. Under this plan, $5.6 billion would be spent on facilities; $4.8 billion on automation and mechanization; $431 million on vehicles; $933 million on retail equipment; and $2.5 billion will be spent on postal support equipment. Ensuring commercial viability and programs to protect revenue and restore equity will place the financial integrity of the postal system on a par with America's most respected business enterprises.

The strategies will be periodically reexamined as part of the planning process. Strategic refinements will be published in future editions of the plan.

## MEASUREMENT AND MANAGEMENT

*CustomerPerfect!* is the Postal Service's Malcolm Baldrige Award criteria-based management system. Its annual planning cycle establishes Voice goals, performance goals, business strategies and measures of performance — both indicators and targets.

*CustomerPerfect!* includes a number of features that are critical to balancing the multiple needs of senior management, line management, governance of the business and fair evaluation of performance. Outside professional research services are used to gather objective external service performance data on which to base evaluation. External measures of performance are used to provide a snapshot of the consumer's perspective on service, and internal process drivers are being developed to provide internal line managers with the ability to manage performance to improve against these measures. The Board of Governors receives periodic reports on the performance measures and reviews the match between the measures and the strategic direction of the organization. Finally, the performance measurement system provides a systematic ongoing process of goal setting, resource deployment and review so that there is an opportunity to make corrections and to improve over time.

Economic Value Added (EVA) calculations provide the basis for incentive management. The EVA system is intended to provide employees with a clear and powerful measure of their ability to improve bottom-line economic performance. Finally, process management is being introduced to provide a data-driven, proven methodology for making improvements in all parts of the business, from the shop floor to top management.

## CONSULTATION WITH STAKEHOLDERS

As required by GPRA, the Postal Service engaged in consultations with stakeholders, including customers who ranged from individuals to large mailers. In addition to the extensive customer contact processes that are employed by the Postal Service in the course of everyday business to provide ongoing information about customer priorities, the planning process used media ranging from letters, Customer Advisory Councils and trade publications to the Federal Register and the World Wide Web to gather comments. The inputs and data collected in those consultations and in consultations with Congress, the National Performance Review and other Federal agencies have been incorporated into this plan. This planning process, now formalized by GPRA, will be the start of an ongoing consultation process in the future.

*In sum, this GPRA-mandated plan provides a concise description of the strategic direction of the United States Postal Service, one of the central institutions in American society and commerce. Steered by a 200-year-old mission to provide a communications infrastructure that can bind the nation together, the modern Postal Service performs the vital task of providing communications access to all Americans in every community while sustaining its operations in an economically self-sufficient manner. For the next five years the Postal Service will follow a path leading to performance goals shaped by this historic mission, and by the organization's best understanding of how to fulfill it in a complex, changing environment. Strategies guiding this journey will focus on achieving growth by providing increasing value created by offering customers excellent service at increasingly affordable prices. Progress will be measured in an organization driven by and compensated for performance.*

*As certain and clear as this path is, the future is not. Ten years from now, this same environment may be transformed by technologies in their infancies today. Ten years from now, the United States Postal Service mission responsibilities may be met only by a new understanding of universal service, access, and how best to deliver them. A decade from today, the Postal Service may have embraced technologies and systems as dramatically different as jet airplanes and robotic package sorters would have seemed to the 19th-century letter carrier.*

*Because this five-year plan is a living document, conceived to be flexible and adaptive to such environmental shifts, these challenges and external factors will be examined, weighed and — where appropriate — addressed in the years ahead. Ultimately, the philosophy underlying this plan, these goals, and their strategies is to create unique customer value as the Postal Service grows, improves and strengthens its financial foundation. This is a philosophy that embraces change. Because, in change, there will be opportunity for the United States Postal Service to serve its customers better.*

# MISSION

"To provide every household and business across the United States with the ability to communicate and conduct business with each other and the world through prompt, reliable, secure and economical services for the collection, transmission and delivery of messages and merchandise."

— The United States Postal Service's Statement of Purpose.

# I. PROMPT, RELIABLE, EFFICIENT UNIVERSAL SERVICE

Two hundred and twenty-two years ago, before the thirteen colonies that became the United States of America had declared their independence, the Continental Congress created a postal system to help bind the emerging nation together, to support the growth of commerce and to ensure a free flow of ideas and information among its people. The Constitution of the United States stipulates that the Congress shall have the power to create a network, consisting of "Post Offices and Post Roads." That network has grown with the nation and fueled the country's expansion by providing universal communication services to a growing economy.

In 1970, recognizing that the Cabinet Department charged with carrying out the critical responsibility of mail delivery was not operating in a reliable manner, the U.S. Congress passed legislation to establish the United States Postal Service. This new entity would be a redesigned government service, functioning as a responsible employer and fulfilling its basic mission through businesslike operation. This basic mission of the Postal Service was stated in the opening paragraph of the 1970 Postal Reorganization Act:

> 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. [Title 39, U.S. Code, Sec. 101(a).]

In the quarter century since its creation, the Postal Service has expanded to serve the nation by incorporating advances in technology and human understanding that are

developing at an ever-increasing rate. Binding the nation with prompt, reliable and efficient service while remaining a viable self-financing entity continues to be the mission as the Postal Service evolves.

The historic role of the Postal Service has contributed to the modern perception of its mission. In many communities the post office is at the very heart of the town. Although retail activity may sometimes move to a mall out near the interstate, there is still great interest in keeping the post office open on Main Street as an anchor for the community. In addition to the post office's role as a vital part of community life, the letter carrier is a familiar presence in every neighborhood in America. The Postal Service has earned a trusted place at the heart of the nation and its economy, while financing its operations from its own revenue sources.[1]

Consistent with the statement in the Postal Reorganization Act, Postal Service management adopted a formal mission statement (included above as the "Statement of Purpose") and a statement of vision. This mission — articulated in law, the Constitution, Supreme Court decisions and 200 years of precedent — is a statement of the reason for serving the American people. The vision supporting this mission is to ensure that

- *Postal Service products and services will be recognized as the best value in America;*
- *The Postal Service will evolve into a premier provider of 21st century postal communications; and*
- *The Postal Service will be the most effective and productive service in the Federal government and markets that it serves.*

In addition, management has adopted guiding principles — or values — which define the character of the organization, committing it to "People, Customers, Excellence, Integrity and Community Responsibility."

In the quarter century since its creation, the Postal Service has expanded to serve the nation by partnering with customers and investing in technology to service new customer demands that are developing at an ever-increasing rate. Binding the nation with prompt, reliable and efficient service, the mission of the Postal Service continues to evolve in anticipation of a changing communications marketplace in the 21st century.

Once the Postal Service could offer a single network service that had virtually no competition, but today customers have many choices. The Postal Service — to fulfill its mission and remain a self-financing entity — must provide its customers with a competitively attractive alternative in addition to an increasingly productive one.

By law, the Postal Service is required to provide mail service to all communities at uniform and reasonable rates. While the definitions of service required to carry out this responsibility are a subject of important ongoing discussion with customers, the intent of Congress is clear in reserving to the Postal Service the task of providing the nation's infrastructure for the delivery of hard-copy mail, both messages and merchandise. The actions of Congress since the creation of the Postal Service, the Supreme Court's affirmation of the Private Express Statutes, and the law that only the Postal Service can deliver to a letter box

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**DEFINING MISSION ATTRIBUTES**

- Universal Service
  -Access
  -Service to all communities
- Self-Supporting
- Reasonable rates

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[1] The Postal Service does not depend on appropriations for its basic operations, but receives some funds for free and reduced-rate mail. In fiscal year 1996, the Postal Service reported $56.3 billion in operating revenues, and $93 million appropriated for free and reduced-rate mail.

have established a broad and enduring special mission that is protected in service of the public interest. As recently as 1991, the United States Supreme Court reaffirmed the Private Express Statutes *(Air Courier Conference of America vs. American Postal Workers Union, AFL-CIO, et al.)*, stating in its opinion that the Statutes "enable the Service to fulfill its responsibilities to provide service to all communities at a uniform rate by preventing private couriers from competing selectively on the Service's most profitable routes."

The Postal Service's mission to provide services to every household and business in America has become even more important just as it is being challenged by new technologies. The electronic age's e-mail, fax, electronic data interchange and video have not yet led to a replacement for mail, or an electronic infrastructure with that capability. While the speed and convenience of new services are clearly appealing to some consumers, there are drawbacks to the new technologies. Issues of personal privacy, the reliability of the service and access to new services, among others, remain to be resolved. Federal and state regulators are working to develop the policies that will govern electronic communications competition, pricing and service obligations. The future actions and investments of competitive providers of service cannot be predicted. Nor will mass-market consumer reaction to the new electronic information service choices be known in this decade.

Nevertheless, in the emerging electronic age in which some segments of the population are changing the way they communicate and do business, the Postal Service's infrastructure must continue to innovate and respond to new customer requirements to meet the mandate of its mission. Customers are seeking new postal services that will make the core businesses easier to use. New reservation systems for mail entry that use smart forms provide an example of such a service innovation. Research and development to create new customer service channels may yield a platform for offering new electronic services if there is customer demand for such service, and if acceptable arrangements are made with the technology companies that develop and supply such services to the market.

More certain is that the Postal Service's universal services are being offered in a communications market increasingly characterized by information "haves" and "have-nots." A small but growing segment of the American people has access to electronic services and shares the desire to use them. Another segment, much larger, either does not or cannot use these new forms of communications. The role of the trusted universal service provider will be increasingly important as the issue of access to information becomes more significant. The reach of the Postal Service is achieved by its broad extension through nearly 40,000 post offices, stations, branches and contract outlets, and 219,000 city and rural delivery routes into every community in America. The ability to provide access to all Americans is an essential characteristic of the Postal Service's presence in American life and the economy. In the electronic age, providing access to communications that are available to everyone at reasonable and uniform rates is a mission that will continue to be one of the most critical functions of democracy.

During the comment and consultation process employed to develop this strategic plan, customers, unions and management associations, and the public were asked to comment on the importance of the mission of the Postal Service. Numerous comments were received that were consistent with that of a customer on the Blue Ribbon Committee advising postal management who said "...frankly, there is no alternative to the Postal Service. We stand or fall together."

IN MANY COMMUNITIES THE POST OFFICE IS AT THE VERY HEART OF THE TOWN. ALTHOUGH RETAIL ACTIVITY MAY SOMETIMES MOVE TO A MALL OUT NEAR THE INTERSTATE, THERE IS STILL GREAT INTEREST IN KEEPING THE POST OFFICE OPEN ON MAIN STREET AS AN ANCHOR FOR THE COMMUNITY.

In the future, issues will continue to arise about the way in which the Postal Service should provide service, even if there is consensus that the service itself is critical. Beyond concerns for efficiency, some would like to be able to bid to serve commercially-attractive mail routes. Others would like to ensure that the Postal Service provides effective global service. The National Performance Review has suggested that the role of the Postal Service in an electronic age might include providing new trusted and secure services that offer citizens access to government. Others who seek to provide electronic marketing services have discussed the need to ensure that when orders are placed on the Internet, the Postal Service will offer a vehicle to deliver those goods. Whatever the outcome of such a debate, the fundamental mission of the Postal Service endures as it enters a new century and creates new ways to offer value to customers.
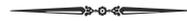
# THE
# ORGANIZATION
# TODAY

# II. THE POSTAL SERVICE AND ITS ENVIRONMENT

## INTRODUCTION

To frame the five-year strategic plan of the United States Postal Service properly, it is necessary to understand the organization's recent past and current business environment. The world's largest postal enterprise, and this country's biggest civilian employer, the Postal Service in the early nineties found itself facing stagnation and a mindset of entitlement, a situation common to many American businesses at the time. Declining service and customer dissatisfaction had led to mounting negative equity for its owners, the people of the United States of America.

Today, restructuring and other transformational efforts have reversed those negative trends. The Postal Service operates with 100,000 fewer employees than 1987 baseline metrics suggested would be required to service and deliver current mail volumes. Net income totaling $3.4 billion has been earned in the 1995-1996 period. Service measures are at all-time highs. Customers now say they're more satisfied.

This strategic transformation continues through the application of new quality management tools and the direction provided by organizational strategies aligned with customer needs, focused on creating customer value and driven by measured performance. In short, the Postal Service is well along on a path set forth by the Government Performance and Results Act (GPRA) — setting goals and measuring progress towards them.

## THE ORGANIZATION

The size and scope of this unique government enterprise, the United States Postal Service — which is required to provide mail delivery and postal services to every community, business and residence in the United States, its territories, and its servicemen and women stationed overseas — dwarfs that of other global postal organizations. In 1996, the Postal Service delivered 183 billion pieces of mail, seven times the volume of the world's next largest postal organization, and 43 percent of all worldwide volume. Japan, second in volume worldwide, moves but six percent of all global mail. Domestic operations for the Postal Service include the 50 states and all U.S. possessions. Within this domain, all distribution activities and service commitments are mapped to a grid of 931 areas defined by their three-digit ZIP Code prefix. Among them, 16 ZIPs designate entry/exit points to military liaison delivery routes (APO/FPO) and 30 more designate government agencies, very large firms, or very large post office box sections.

The workforce — 887,866 postal employees working in career and non-career, bargaining and non-bargaining, craft, supervisory, management and relief positions — operates and maintains a network whose backbone is 174 Processing and Distribution Centers, supported by 316 smaller Processing and Distribution Facilities and auxiliary networks for air and ground transportation. Thirty-four Airport Mail Centers, supported by 36 smaller Airport Mail Facilities and centered around the "Eagle Hub" in Indianapolis, Indiana, form the air sub-network. Through the Indianapolis facility, major markets coast-to-coast are provided service for Express and Priority Mail on the Postal Service's leased air fleet. Interconnection with the national railroad system is through a sub-network of 21 Bulk Mail Centers, supported by eight Auxiliary Service Facilities. In addition, the Postal Service and Emery Worldwide Airlines have completed a $1.7 billion (volume-variable) agreement to create a new transportation and sorting network for Priority Mail, serving the eastern seaboard from New England to Florida. Underpinning the mail processing network are nearly 40,000 local post offices, stations, branches and privately-operated retail units providing community access to the network and to delivery points. Approximately 126 million domestic deliveries of all types are served by the general and underlying local networks.

Moving the mail through this network is a transportation system that includes the operation of 29 aircraft out of the Postal Service's Eagle Hub; a fleet of 202,224 postal-owned vehicles and 6,555 leased vehicles; contracts with 74 airlines, 11 railroads and a variety of ship owners and boat operators; and about 15,500 highway contract routes. This network is supported by agreements with international postal organizations.

## MAIL VOLUME

Table 2-1 on the next page shows the growth rates of the major products over the five-year period FY 1991-96. For the previous five fiscal years, mail volume growth has been modest — 10 percent, or 2 percent annually. Consequently, the organization has held a declining share of a growing communications market. Between 1988 and 1996, Correspondence and Transactions (C/T) grew explosively; yet the Postal Service captured only one-third of that segment's growth. The total C/T market grew $22 billion or 85 percent, from $26 billion to $48 billion, but the Postal Service piece grew only $8 billion or 40 percent, from

## TABLE 2-1. MAIL VOLUME: FY 1991-96 (MILLIONS)

| Category | 1991 | 1996 | '91-'96 % Change. |
|---|---|---|---|
| First-Class Mail | 90,285 | 97,276 | 7.7% |
| Priority Mail | 530 | 959 | 80.9% |
| Express Mail | 58 | 58 | 0.0% |
| Periodicals | 10,399 | 10,126 | -2.6% |
| Standard A Mail | 62,430 | 71,859 | 15.1% |
| Standard B Mail | 695 | 960 | 38.1% |
| Other Domestic Mail | 669 | 424 | -36.6% |
| International Mail | 793 | 999 | 26.0% |
| Total Mail | 165,851 | 182,661 | 10.1% |

$20 billion to $28 billion. As a result, its share of the C/T market decreased from 77 percent to less than 59 percent.

The five-year growth rate for First-Class Mail is particularly sluggish in this context — about 8 percent, or 1.5 percent annually. Standard A mail (formerly third class) has been higher at 15 percent (3 percent annually). Priority Mail has been a very successful product, with a five-year increase of 81 percent, or about 13 percent annually. Standard B mail (formerly fourth class) and International mail have also experienced healthy annual growth rates in the 5-7 percent range. Other domestic mail includes Mailgrams, free-for-the-blind mail and Postal Service penalty mail, which has been declining steadily in volume in recent years.

Improved service and stable pricing resulted in only modest volume growth, as indicated in the above table. In 1996, the Postal Service achieved two successive record quarters of 91 percent on-time delivery of overnight First-Class Mail, a 15 percent improvement over three years. Since 1994, customer satisfaction improved by 15 percentage points. Classification Reform, the first major realignment of mail services since 1879, was implemented in 1996, and provides a market-based structure, offering increased economic incentives for mailers who prepare their mail for the most efficient, automation-compatible handling. Price increases have been below the level of inflation, including four years from 1991-1995 without a price change. In July 1997, a one-cent First-Class increase was proposed. An implementation plan will be developed by the Board of Governors after the Postal Rate Commission makes its recommendation. Through expanded delivery points, new products and services and better cost management,

**PRODUCT VOLUME SHARES**
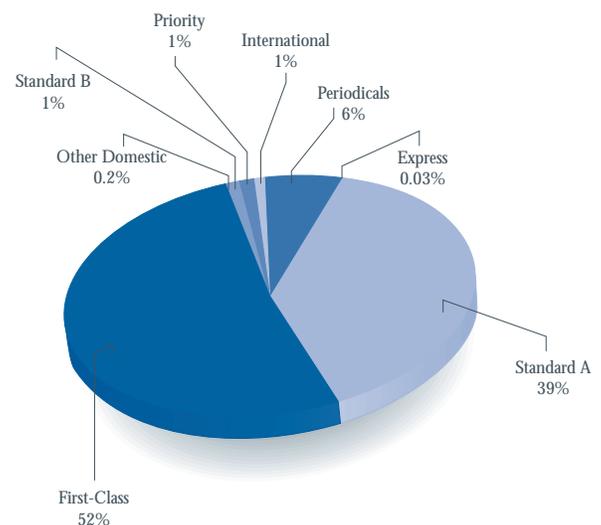


**VOLUME IN BILLIONS**
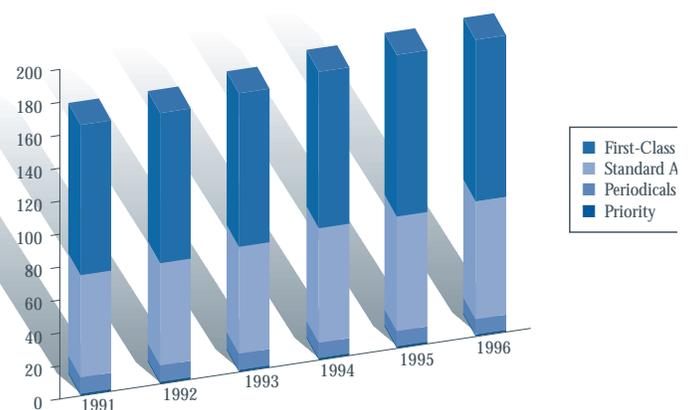
the Postal Service has overcome sluggish growth to generate a record net income of $3.4 billion in the 1995-96 period. That surplus restored the public's equity by more than half in the last two years — from negative $6 billion to negative $2.6 billion.

## PRODUCTS, MARKET SHARE, AND COMPETITION

While volume has grown, albeit slowly, the Postal Service's shares of several of the market segments of its businesses, in fact, are declining relative to its competition (see Table 2-2 below). These activities fall into six business categories: correspondence and transactions; advertising mail; package services; periodicals; international mail; and special services. Each represents a different business environment, so it is difficult to generalize about these trends and challenges.

**TABLE 2-2. 1996/97 POSTAL BUSINESS SUMMARY**

| Business Segment | Value to USPS (Billion $) | USPS Market Share (Revenue) | USPS Share Trend (1996/97) |
|---|---|---|---|
| Correspondence and Transactions | $33.0 | 59% | declining |
| Advertising Mail | $12.2 | 20% | stable |
| Package Services | $5.6 | 15% | declining |
|   Overnight (Express Mail) | $0.7 | 6% | declining |
|   Two Day (Priority) | $3.4 | 45% | declining |
|   Ground (Standard B) | $1.5 | 9% | growing |
| Periodicals | $2.0 | 84% | stable |
| International Mail | $1.6 | 30% | declining |
| Special Services | $1.8 | N. A. | N. A. |
| USPS TOTAL | $56.3 | | |

*Sources: USPS CRA Report, with segment estimates by A.D. Little, using Household Diary Study.*

What seems to be true for all categories, however, is that there is no market in which Postal Service growth is assured. Technological advances — the spread of the personal computer from large office environments to the home and home office; electronic commerce and electronic data interchange; rising customer expectations emerging from this new technology; pressure on the mailing industry to match the cost containment and pricing initiatives of its competitors — are all factors contributing to the strategic approaches of the Postal Service. The Postal Service today continues to provide a valued service, but in a market place that will clearly be transformed in coming years.

**Correspondence and transactions.** The value of the Correspondence and Transactions (C/T) market is estimated to be about $48 billion annually. First-Class Mail accounts for $33 billion, but First-Class Mail volume is barely growing at an annual rate of 1-2 percent. Rate increases have permitted postal C/T revenue growth of 5 percent annually, compared to an overall C/T market growth of 8 percent and 16 percent growth in competing electronic alternatives.

First-Class Mail is a mature product, and, in recent years, virtually all of the growth in this market has gone to competitors, including electronic mail, facsimile, electronic banking, electronic data interchange, electronic funds transfer, electronic file transfers and even the telephone. The low volume growth during the past several years reflects the cumulative effects of electronic communications, downsizing and productivity improvements in commerce, increasing mergers and acquisitions in key mail-producing industries such as banking and retailing, and decreasing use of personal correspondence.



**FY 1988 Total C/T Market**

**FY 1996 Total C/T Market**

The Postal Service captured only 36% of new C/T market revenue between 1988 and 1996.

*(In 1996, fully 39% of the total C/T market went to electronic alternatives, and 2% went to traditional competitors.)*

**Advertising mail.** The Postal Service has become an increasingly important channel for the distribution of advertising material, primarily using Standard A Mail (formerly third class). Ad Mail has many benefits, including its targetability, flexibility, measurability, and effectiveness in generating responses. The Postal Service share of this market has improved from 18 percent in 1988 to about 20 percent, or $12.2 billion in the most recent fiscal year. Further increases in market share will be strongly resisted by competitors of the Postal Service.

Until recently, the Postal Service and its partners in the direct mail industry have been increasing their market share through improvements in database management and other targeting tools. During the past five years, for example, Ad Mail revenues have grown at about 5 percent annually. This relatively moderate revenue growth reflects postage and paper price increases, the lack of product innovations, the complexity of using direct mail and aggressive competition. Furthermore, one key advertising mail segment, the catalog industry, has reached a mature stage and is no longer growing as rapidly as it did several years ago.

Major competition in the advertising market consists of traditional alternative media, such as newspapers, television and direct mail, with market shares of 22, 23, and 20 percent, respectively. World Wide Web advertising and cable television are entering this market with the ability to produce targeted advertising that provides visual impact and time-certain delivery. Today, newspapers and alternative delivery companies compete directly against mail for advertising dollars. One of the most dramatic strategy changes in recent years has been serious newspaper participation in alternative delivery in the early 1990s. Newspapers make up 70 percent of alternative delivery providers today. There are signs that this investment experiment to protect newspaper advertising revenue may not have been commercially successful, however, and that newspaper industry participation in alternative delivery may decline further in the future, unless new legislation changes the regulatory framework.
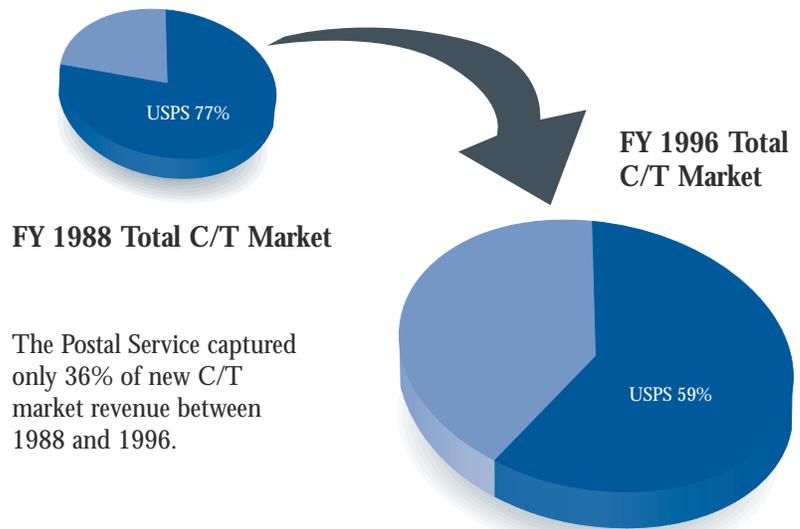
**Package services.** Although the majority of package volume, especially in Express Mail and Priority Mail, consists of documents, most of the packages delivered in the United States are merchandise. The Postal Service is a minor participant in the business-to-business merchandise delivery market, which includes most of the national package volume. Priority Mail, the most successful Postal Service package product, has maintained a steady revenue growth rate of almost 13 percent annually over the last five years. However, while the overnight market continues to grow at double-digit rates, Express Mail revenue has grown only 3 percent per year. The inability to offer volume discounts, poor coverage of ZIP Codes for next-day service (73 percent versus 95 percent for the competition), and noncompetitive service performance have contributed to this lackluster growth. Parcel post volume grew rapidly in the first few years of this decade, due in large part to the introduction of worksharing pricing initiatives; however, there has been virtually no growth over the past two years.

The major competitors in package services are continuing to make massive investments in marketing as well as in the aircraft, sorting terminals and technology needed to improve productivity and provide high-visibility, high-quality services. Competitors are also trying to garner more business from existing customers by offering them a broader menu of services, more rate options and value-added features. The development of information technology platforms has given the major package delivery competitors of the Postal Service the ability to offer information services and readily-accessible performance measures to their customers. As a result, current competition in this market is based as much on the availability of value-added features as on price. The Postal Service's inability to offer volume price discounts to large package shippers such as Land's End or L.L. Bean puts the organization at a competitive disadvantage.

**Periodicals.** While Periodicals are an important market, the Postal Service carries this mail at rates that reflect its public service value. The domestic market for delivery of newspapers and magazines (including newsstand magazines) is estimated at 37 billion publications, of which the Postal Service has approximately a 28 percent share. The Postal Service delivers virtually all of the subscription magazines and a significant portion of non-daily newspapers. It does not participate significantly in bulk delivery of publications to retail locations.

Alternative delivery remains a latent threat to Periodicals volume as well as Ad Mail. In 1996, there were about 370 firms delivering about 2 billion pieces of material through alternative delivery channels, of which 86 percent was advertising. There are signs, however, that alternative delivery is faltering. One of the two major national players, Publishers' Express, went out of business early in 1996. Alternate Postal Delivery (APD) is the only major intermediary firm remaining in the market. Newspaper delivery organizations could still represent a major threat, since they have the financial resources to sustain even a break-even delivery venture as a strategic investment.

**International mail.** The international mail market is served by one of the Postal Service's strategic business units. In 1996, the International Business Unit (IBU) share of the traditional world international postal market was 30 percent, and accounted for $1.6 billion in revenue. While this market has been growing, Postal Service market share has been declining due to aggressive, open competition and technological obsolescence. Recent success in pioneering a global package consignment service has challenged the competition and shown the Postal Service can provide high-quality service.

The structure of the international postal market has changed dramatically as a result of increased competition, which resulted from deregulation in transportation industries and suspension of the international postal monopoly. Deregulation allowed the entry of additional mailers into the market by reducing restrictions on transportation methods, which became more readily available and less costly. The suspension of the international postal monopoly on all classes of mail paved the way for increased competition in the Express Mail and parcel markets. Competition has also intensified due to the expansion of private delivery companies, re-mailers and even foreign postal administrations. The major express delivery companies are continuing to expand operations in Europe and Asia. Globalization of business communications has enhanced the value of electronic tracking and Internet services.

The international posts in many industrial countries have become revitalized competitors that are improving the quality of the services they offer. Several posts have been granted commercial freedoms that allow diversification. Foreign postal administrations, such as the United Kingdom's Royal Mail and the Dutch and Danish Posts, have expanded their operations across borders in order to target non-domestic customers, and some are even investing in private delivery companies to increase their international business. For example, Netherlands' PTT Post recently purchased TNT Ltd., a major international delivery company. As the United States accounts for a substantial amount of the world's mail, Postal Service customers are being increasingly targeted by these competitive service providers. Whether the foreign posts become partners or competitors will likely depend on the verdict of the customers of their international mail and special services.

**Special services and retail products.** The Postal Service offers more than 20 Special Services that can be purchased for a fee either separately or as an added feature to a core mail delivery service. Most of these services still conform to the original design and features that suited mailer needs in the much less competitive environment of 25 years ago. For more than 20 years, sales for some of the Special Services have thrived while others have diminished as long-term changes occurred in customers' mailing needs and expectations. For example, customers have increased use of Certified Mail at unprecedented rates to meet the legally-recognized delivery confirmation needs of an increasingly litigious society, while other services, such as Special Handling, have all but disappeared in a market with numerous speed and quality delivery options.

The retail function is both a business and a channel of distribution, supplying the Postal Service product and service needs of consumers and small firms. Full-service retail is provided through a network of approximately 40,000 postal facilities. Stamps-only sales are available at 30,000 supermarkets and drug stores, 40,000 postal-owned stamp vending machines, and 10,000 automated teller machines (ATMs). Stamps are also available by mail order.

Substantial competition from private mail and parcel franchises has emerged in recent years. Starting with a few hundred stores in 1980, this industry has grown to include about 7,800 commercial mail receiving agencies, such as Mailboxes, Etc. FedEx, United Parcel Service and other package delivery services have another 5,300 outlets that are focused primarily on business shippers. UPS also has contract arrangements with another 28,000 "agents." Together, these companies generate over $5 billion in revenues.

## The Workforce

The size of the Postal Service — by Fiscal Year 1997's twelfth accounting period, there were 887,866 postal employees working in career and non-career, bargaining and non-bargaining, relief, craft, supervisory and management positions — underlines the fact that labor costs are an enormous part of the postal budget, currently 77.6 percent of total expenditures. In fact, the percentage of salaries and benefits in proportion to total expenses has decreased in recent years. Nevertheless, the Postal Service faces a continuing challenge to use that labor force efficiently so that it provides the best possible service at minimal cost per work hour.

The vast majority of the workforce — 735,937 — are employed under the terms of 12 labor contracts. An October 1994 General Accounting Office (GAO) report on labor-management relations stimulated a high-level review of policy issues. That, in turn, has led to a "Summit" process under the auspices of the Director of the Federal Mediation and Conciliation Service (FMCS) that seeks a joint effort on their resolution. As part of the process, the Postmaster General will bring together postal executives and representatives from the four major unions and three management associations to discuss corporate issues and to develop a long-term (10-year) framework agreement to outline objectives and approaches consistent with the GAO report. Outstanding grievances remain a key workplace issue, and the Postal Service and major unions and management associations are working with mediators to improve that procedure.

While progress toward agreement has been slow, the Postal Service heard again and again during this GPRA-related strategic planning process that organizational productivity is a critical focus of its customers. The Postal Service continues to support initiatives designed to make delivery operations more effective and cost-efficient, and to ensure that the right people are in the right places at the right times. The ability to improve workplace relations will be critical to the accomplishment of future cost containment strategies.

## Regulation

The existing Postal Service ratemaking process is a form of cost-of-service regulation. Over the last 25 years, this regulatory framework has been characterized as stifling innovation, promoting inefficiency, and shifting the focus of management away from the customer. An alternative regulatory model, called incentive regulation, has been applied successfully in the railroad and telecommunications industries, both here and abroad. The experience with these industries strongly suggests that incentive regulation, if properly designed, can provide the framework for a more efficient and more innovative Postal Service. By allowing reasonable pricing changes to occur without extensive regulatory hearings, the Postal Service would be able to react more quickly to changing market conditions and focus more directly on the needs of its customers.

The Postal Reform Act of 1997 (H.R. 22), introduced by Congressman John McHugh, House Oversight Committee Chairman, in January 1997 (who introduced a similar bill in 1996), contains a significant overhaul of the pricing mechanisms developed under the Postal Reorganization Act of 1970. The concept contained in H.R. 22 is a constructive attempt to apply incentive regulation to the Postal Service. The Postal Service's objectives for reform — to protect affordable universal service, create a true incentive to control costs and rationalize a ratemaking process that is complex, costly,

time-consuming, and inflexible — will endure beyond any short-term policy debate. The need to assure that the authority and responsibility for the financial integrity of the Postal Service remain in the hands of the Postal Governors, and the need to retain the current Private Express protections as a mechanism to guarantee affordable universal service will also be enduring principles that will guide the effort to reform the regulatory process.

# WHERE THE POSTAL SERVICE IS GOING

# III. GOALS AND OBJECTIVES FOR 2002

## INTRODUCTION

The development of corporate and performance goals[2] by the United States Postal Service will be of critical importance not only to ensure that it achieves its mission, but that it remains viable into the 21st century by effectively managing its costs, by responding to customer needs and demands in ways that deliver unique value and by promoting organizational effectiveness. The goals fall into three broad categories: customer satisfaction, organizational effectiveness and financial viability. These goals all relate directly to the viability of the Postal Service and affect all stakeholders. They were developed during a planning process that began a year ago; that utilized the new Postal Service performance management system; and that received contributions from employees and other stakeholders and public comment delivered at meetings, by mail, and through surveys. These goals will enable the Postal Service to align and focus its activities, core processes and resources to support mission-related outcomes, in particular its ability to fulfill its mission to provide reliable universal service. These goals guide the development of quantifiable performance targets that the Postal Service is introducing this year.

These goals emerged from a process that was initiated as the Postal Service reversed the negative trends toward stagnation and service decline that seemed to characterize the organization only a few years ago. That process, whose development is ongoing, begins with an organizational review and evaluation of the prior year's performance. The evaluation identifies priorities for improvement and process owners set goals and targets for improvement based on this analysis. In the case of products and services for which no measures exist today, the ongoing strategic planning process will raise new priorities for consideration each year. Three successive years of record financial performance and improving service levels have reconfirmed the direction. While it is dangerous to predict the future, especially in dynamically changing markets such as those that characterize the communications industry, the goals described here seek to translate the organizational vision of growth and a reinvigorated Postal Service into concrete terms of performance.

Mission → Goals → Strategies

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[2] Performance goals are the "subgoals" of the *CustomerPerfect!* management system that frame the strategies discussed in Chapter V.

## CORPORATE GOAL CATEGORIES: THE THREE-VOICE STRUCTURE

Internally, the Postal Service refers to these three broad — or corporate — goal categories as "voices." This is to emphasize that they are driven by and focused on data and input — listening carefully to all elements of the organization — received through this strategic planning process. They are *Voice of the Customer*, *Voice of the Employee*, and *Voice of the Business*. The Voice of the Customer goal category centers on customer satisfaction and the achievement of superior customer value in targeted markets. The Voice of the Employee goal category focuses on organizational and individual effectiveness, aligning human resources with business objectives by having the right people in the right place with the right tools at the right time. The Voice of the Business goal category focuses on financial performance to assure commercial viability and bottom-line results.

Achieving these broad goals will allow the Postal Service to continuously improve service, the workplace environment, and financial performance. The service goals will target growth markets while sustaining the core mission of universal service. The human assets of the company will be the focus of investment to ensure that they are well-trained, deployed and equipped in a timely manner. At the same time, the costs of service and investment in human resources will be managed to assure successful financial performance.

These three goals support three critical elements of the Postal Service: service to the customer or the core mission, the employee on whom the quality of this service depends, and the financial base of the business that must match revenue and cost. The goals are illustrated in Table 3-1 below:

### TABLE 3-1. POSTAL SERVICE GOAL CATEGORIES

| Goal Category | Goal Statement |
|---|---|
| Voice of the Customer | Improve customer satisfaction by offering superior customer value in each market and customer segment that we target. |
| Voice of the Employee | Improve employee and organizational effectiveness by having the right people in the right place with the right tools at the right time to consistently provide superior customer value and ensure commercial viability in a dynamic market. |
| Voice of the Business | Improve financial performance to assure commercial viability as a service provider for the worldwide movement of messages, merchandise and money. |

These three goals, worded in this or similar form, have been the broad goals of the Postal Service since its inception. Concern for serving the customer, concern for the employee and concern for the bottom-line interest in the measures of business performance are the essential building blocks of the postal business. In an earlier day, when the forces of competition were not so apparent, the business goal might have been stated in terms of cost management. Today, however, whether or not the Postal Service is successful in offering customers services that are chosen over competitive alternatives, there must be a concern for matching revenues and costs. Therefore, this business goal is now expressed in terms of financial viability or net income.

Another change has been the recognition during this past year that goals should be stated more clearly, both to frame the target and to provide a basis for measuring performance. The three corporate goal categories are further clarified by identifying subgoals[3] or objectives. These frame the critical actions needed to achieve the goal.

## VOICE OF THE CUSTOMER: CUSTOMER SATISFACTION

The performance goals of the Voice of the Customer are shown in Table 3-2 below:

TABLE 3-2. VOICE OF THE CUSTOMER PERFORMANCE GOALS

| The Goal: Improve customer satisfaction by offering superior customer value in each market and customer segment that we target. |
| --- |
| Performance Goal 1: Provide timely delivery |
| Performance Goal 2: Provide consistent service |
| Performance Goal 3: Provide accurate service |
| Performance Goal 4: Assure that service is affordable |
| Performance Goal 5: Ensure that the service is easy to use |

**PERFORMANCE GOAL 1: Provide Timely Delivery.** Over the next five years, the Postal Service will:
- Increase or maintain overnight First-Class Mail on-time delivery to 92% in 1998 and 95% in 2002.
- Increase 2/3-day First-Class Mail on-time delivery to 85% in 1998 and 92% in 2002.
- Using the Priority-End-To-End service measurement system, develop targets for Priority Mail Overnight, Intra-area and Inter-area on-time delivery performance.

**PERFORMANCE GOAL 2: Provide Consistent Service.** Over the next five years, the Postal Service will:
- Develop and implement indicators and targets for consistency – e.g., carriers leaving and returning on time.

**PERFORMANCE GOAL 3: Provide Accurate Service.** Over the next five years, the Postal Service will:
- Using selected residential and business customer survey questions, for example, develop indicators and targets for accurate service.

**PERFORMANCE GOAL 4: Ensure that Service is Affordable.** Over the next five years, the Postal Service will:
- As an affordability target, keep a composite index of all postal prices below inflation through 2002 (see discussion in Voice of the Business section).

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[3] In Postal Service terminology, **goals** are broad statements of direction — for example, "Improve customer satisfaction by offering superior customer value in each market and customer segment that we target." **Subgoals** narrow the focus to specific performance areas within each goal — for instance, "Provide timely delivery." **Indicators** are measures of performance for the subgoals, such as "percent on-time, overnight delivery of First-Class Mail as measured by the External First-Class Measurement System, EXFC." **Targets** are the specific levels of performance to be achieved on the indicator — for example, "92 percent on time" — and are set each year after extensive consultation that takes place in the Deploy phase of the management cycle.

**PERFORMANCE GOAL 5: Ensure that the Service is Easy to Use.** Over the next five years, the Postal Service will:

- Improve performance against Ease-of-Use Indices, which use customer satisfaction surveys to measure how easy it is for customers to do business with the Postal Service. Ease-of-Use Index goals for four customer segments are shown below (based on a maximum index value of 1000):
- Increase Residential Ease-of-Use Index from 690 in 1998 to 800 in 2002.
- Increase Premier Accounts Ease-of-Use Index from 600 in 1998 to 800 in 2002.
- Increase Small/Large Business Ease-of-Use Index from 652 in 1998 to 800 in 2002.
- Increase National Accounts Ease-of-Use Index from 577 in 1998 to 800 in 2002.

The customer service goals and subgoals were derived from the customer satisfaction survey research that is conducted on behalf of the Postal Service by outside evaluation professionals. The five performance goals frame the core customer value strategy of the Postal Service. The strategy is designed to lead to value creation in each market served, through recognition of the customer's interest in both excellent and affordable service.

The critical elements of the customer value strategy are its focus on improving service levels while lowering the cost per work hour and the number of work hours that are purchased. Many of the same goals and strategies employed to reduce costs (such as investment in capital improvements and in redesign) also improve customer service. By focusing on creating value, Postal Service business will grow. Careful management of this growth will result in the generation of net income that will be reinvested in programs that will sustain the cycle that creates value.

The goals reflecting customer focus are the compass points by which employee and business goals will be aligned. Where achieving these goals requires it, human resources will be developed and financial resources invested to provide value. Recognizing the diversity of the markets and the needs that the Postal Service serves, the strategy will be to invest to develop the postal network in a manner that can be flexible and responsive to the demands of competitive markets.

## VOICE OF THE EMPLOYEE: ORGANIZATIONAL EFFECTIVENESS

The performance goals for the Voice of the Employee are presented in Table 3-3 below.

**TABLE 3-3. VOICE OF THE EMPLOYEE PERFORMANCE GOALS**

| |
|---|
| **Goal: Improve employee and organizational effectiveness by having the right people in the right place with the right tools at the right time to consistently provide superior customer value and ensure commercial viability in a dynamic market** |
| Performance Goal 1: Ensure that employees demonstrate in the workplace the required proficiencies for their assigned work. |
| Performance Goal 2: Anticipate complement needs and deploy people to meet organizational requirements. |
| Performance Goal 3: Ensure a safe work environment. |
| Performance Goal 4: Enhance workplace environment to improve relationships with employees. |

**PERFORMANCE GOAL 1: Ensure that employees demonstrate in the workplace the required proficiencies for their assigned work.** Over the next five years, the Postal Service will:

- Develop employee proficiency management indicators and targets by job category to improve from the baseline level to 90% by 2002.
- Improve employees' knowledge of business goals from the baseline value (to be determined) to 90% by 2002.

**PERFORMANCE GOAL 2: Anticipate complement needs and deploy people to meet organizational requirements.** Over the next five years, the Postal Service will:

- Develop complement planning proficiency indicators and targets to improve productivity through improved planning.

**PERFORMANCE GOAL 3: Ensure a safe work environment.** Over the next five years, the Postal Service will:

- Ensure a safe work environment by decreasing lost workdays due to injury per 200,000 work hours to 2.13 in 1998 and 1.80 in 2002.

**PERFORMANCE GOAL 4: Enhance workplace environment to improve relationships with employees.** Over the next five years, the Postal Service will:

- Develop indicators and targets for enhancing the workplace environment to improve relationships with employees while developing the capability to survey employee attitudes.[4]

The organizational effectiveness goals recognize that to put the right people in the right place, there will be a need to develop proficiencies that currently do not exist and to develop capabilities to do sophisticated complement planning.

The investments in human resources anticipated by the needs for proficiency measurement and complement planning are bottom-line business-oriented, but there must be balance in these investments. The Postal Service has a responsibility to create a workplace environment that is characterized by respect for employees, which is illustrated most clearly by the concern for safety. Improving safety performance is a high-priority workplace performance goal.

Another goal is to enhance the workplace environment through improvement of relationships with employees. As noted above, the Postal Reorganization Act created a management-labor dialogue that is framed by compulsory arbitration. The structure of the dialogue does not encourage mutual settlement of differences to achieve common goals because arbitration is guaranteed no matter how intransigent the demand. This is not to cast blame, for both management and labor face common challenges of growing competition and increasing customer demands, and both sides could better appreciate their mutual interests. In spite of substantial efforts to create a Summit meeting among postal management, unions and management associations, and in spite of much promising discussion, the benefits of day-to-day collaboration remain to be captured.

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[4] One serious impediment to measuring workplace relations has been the allegation of deliberate non-cooperation with the Employee Attitude Survey. New research techniques are being explored to mitigate this problem and to measure its impact.

# VOICE OF THE BUSINESS: FINANCIAL PERFORMANCE

The financial performance goals for the Voice of the Business are presented in Table 3-4 below:

TABLE 3-4. VOICE OF THE BUSINESS PERFORMANCE GOALS

| |
|---|
| **Goal: Improve financial performance to assure our commercial viability as a service provider for the worldwide movement of messages, merchandise and money.** |
| Performance Goal 1: Grow volume from existing or enhanced products and services |
| Performance Goal 2: Grow net income from new products and services |
| Performance Goal 3: Control costs through re-engineering, decreasing rework and cycle time, process management, and substituting capital for labor. |
| Performance Goal 4: Control costs by achieving productivity gains. |
| Performance Goal 5: Use pricing as a competitive tool while keeping rate increases below rate of inflation. |
| Performance Goal 6: Restore equity |

**PERFORMANCE GOAL 1: Grow volume from existing or enhanced products and services.** Over the next five years, the Postal Service will:
- Develop targets for volume growth from existing and enhanced products and services to increase net income.

**PERFORMANCE GOAL 2: Grow net income from new products and services.** Over the next five years, the Postal Service will:
- Develop targets to increase net income through growth in new products and services.

**PERFORMANCE GOAL 3: Control costs through re-engineering, decreasing rework and cycle time, process management, and substituting capital for labor.** Over the next five years, the Postal Service will:
- Develop targets for net income performance through cost control, utilizing investment strategies whose cost effectiveness will be determined.

**PERFORMANCE GOAL 4: Control costs by achieving productivity gains.** Over the next five years, the Postal Service will:
- Improve Total Factor Productivity (a measure of total resource usage efficiency, including capital) by an average of 0.5% each year from 1998 through 2002.
- Improve Labor Productivity (a measure of labor resource usage efficiency) by an average of 1.0% each year from 1998 through 2002.

**PERFORMANCE GOAL 5: Use pricing as a competitive tool while keeping rate increases below rate of inflation.** Over the next five years, the Postal Service will:
- Keep a composite index of postal prices below inflation through 2002.

**PERFORMANCE GOAL 6: Restore equity.** Over the next five years, the Postal Service will:
- Restore equity to the full extent of rate case prior years' losses recovery allowances from 1998 through 2002.

The Voice of the Business goals seek to drive performance to the bottom line. The essence of the customer value strategy described above is a focus on growth. During the next five years, most revenue is expected to come from core business lines that are recognizable today. To grow the business, the Postal Service intends to build business activities such as advertising mail, expedited and parcel delivery and international services. At the same time, the Postal Service will defend its threatened core business such as remittance mail, and also work to create new products and services that can respond to changing customer requirements.

The fundamental measure of these growth goals is net income. The focus on the core business is reflected in the first performance goal. In addition to building business in traditional business lines, there is also net income to be generated from new products and services.

While the initial focus of the financial goals is on generating net income through volume growth, this growth must be paralleled with a series of efforts to manage costs or there will be no net income improvement. Cost management strategies are discussed in Chapter V.

There is also a need to ensure that this net income is based on fundamentally sound and improving postal economics. To track gains in productivity, measures of "Total Factor Productivity" and a less complex labor productivity measure will be used. These measures track the relationship between Postal Service outputs – volume and delivery points – and resource inputs.

There are two other economic parameters that are tracked by the financial performance goals — the price of postage and the recovery of prior years' losses. Price increases will be kept below the rate of inflation. There may need to be small, periodic price increases even with exceptional cost reduction success and productivity gains, although this will be avoided if possible. Based on discussions with customers on postal legislative reform and in consultation on the strategic plan, small, predictable increases below the rate of inflation are clearly preferred.

The goal is not to raise prices at all, so that customers could come to expect declining real postal prices. The Board of Governors is committed to approving rate increases only when absolutely necessary. But as a planning assumption, following disposition of the rate case filed in July 1997, further price increases of one cent in the year 2000 and one cent in 2002 are used for forecasting purposes.[5] Economic uncertainties and the impact of future actions by Congress, the Postal Rate Commission and the Administration could affect the ability of the Postal Service to achieve this pricing goal. The goal is to offer customers the certainty that the highest prices they will face will still be below the rate of inflation.

The achievement of these performance goals is assessed in terms of specific performance measures that are defined in terms of indicators and targets. Chapter VI contains a description of the management system developed by the Postal Service to achieve continuous improvement through an annual cycle of setting performance goals, deploying resources against those goals, measuring and rewarding performance, and evaluating and reviewing targets and performance. The specific targets that will be managed in this way are summarized in Table 3-5.

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[5] Increases for other products and services would be proportional to this single-piece First-Class increase.

TABLE 3-5. *CUSTOMERPERFECT!* GOALS, SUBGOALS, AND FIVE-YEAR TARGETS

| Goal | Subgoal |
|---|---|
| Improve customer satisfaction by offering superior customer value in each market and customer segment that we target. | Provide Timely Delivery |
| | Consistency |
| | Accurate Service |
| | Affordability |
| | Ease of Use |
| Improve employees' and organizational effectiveness by having the right people in the right place with the right tools at the right time to consistently provide superior customer value and ensure commercial viability in a dynamic market. | Ensure that employees demonstrate in the workplace the required proficiencies for their assigned work. |
| | Anticipate complement needs and deploy people to meet organizational requirements |
| | Ensure a safe work environment |
| | Enhance workplace environment to improve relationships with employees. |
| Improve financial performance to assure our commercial viability as a service provider for the worldwide movement of messages, merchandise, and money. | |
| | Net income from existing or enhanced products and services |
| | Net income from new products and services |
| | Controlling costs through reengineering, decreasing rework and cycle time, process management, and substituting capital for labor. |
| | Controlling costs by achieving productivity gains |
| | Using pricing as a competitive tool while keeping rate increases below rate of inflation |
| | Achieving positive equity |

THE DEVELOPMENT OF CORPORATE AND PERFORMANCE GOALS BY THE UNITED STATES POSTAL SERVICE WILL BE OF CRITICAL IMPORTANCE TO ENSURE THAT IT ACHIEVES ITS MISSION AND THAT IT REMAINS VIABLE INTO THE 21ST CENTURY.

| Indicator | 1998 Targets | 1999 Targets | 2000 Targets | 2001 Targets | 2002 Targets |
|---|---|---|---|---|---|
| First-Class Mail on-time | | | | | |
|     EXFC overnight | 92% | 92% | 93% | 94% | 95% |
|     EXFC 2/3 day | 85% | 87% | 89% | 91% | 92% |
| Priority Mail on-time | Proprietary information | | | | |
| | | | | | |
| Selected customer survey (CSI/BCSI) questions | Improvement targets to be set for future years | | | | |
| Price change vs. Postal price index | Keep price changes below inflation | | | | |
| Composite Ease of Use Index | 630 | 670 | 710 | 750 | 800 |
|     Residential Ease of Use Index | 690 | 740 | 760 | 780 | 800 |
|     Premier Accounts Ease of Use Index | 600 | 650 | 700 | 750 | 800 |
|     Small/large business Ease of Use Index | 652 | 700 | 740 | 780 | 800 |
|     National Accounts Ease of Use Index | 577 | 630 | 685 | 740 | 800 |
| Training in prescribed curriculum | | | | | |
|     EAS 15 and over | 97% | Replace with proficiency targets | | | |
|     EAS 14 and below | 97% | | | | |
|     Craft | 100% | | | | |
| Proficiencies of automation maintenance and operations<br>Proficiencies of retail unit/process<br>Proficiencies of bulk mail acceptance unit/process<br>Supervisors of these operations and field PCES executives | Pilot in 1998 | Improve from base to 90% over five years | | | |
| Goal knowledge survey | 90% | 90% | 90% | 90% | 90% |
| | | | | | |
| Lost Workday Injuries/200,000 work hrs. | 2.13 | 2.04 | 1.96 | 1.88 | 1.80 |
| Indicator and employee survey in development for FY 1999 | Improvement targets to be set for future years | | | | |
| Economic Value Added | EVA targets to be determined | | | | |
| New net income indicators in development for FY 1999 | Gross income from targeted products<br><br>$284 million above base forecast | | | | |
| Expense reduction indicators in development for FY 1999 | Achieve target expense reductions in budget | Break-even plus $447 million prior years' losses recovery | | | |
| Total Factor Productivity | 0.3% | 0.5% | 0.5% | 0.5% | 0.5% |
| Labor Productivity | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |
| Price change vs. Postal price index | Keep price changes below inflation | | | | |
| | Restore lost equity through recovery of prior years' losses | | | | |

Also presented in Chapter VI is a description of how the Postal Service's incentive compensation system has come to embrace the concept of rewarding performance. The incentive system focuses on a smaller number of measures than presented in this chapter to provide clear incentives for achieving the performance goals. The most important of these measures is provided by the Economic Value Added (EVA) system. The EVA calculation determines net income and subtracts the cost of capital needed to achieve this financial performance. National EVA creates the funding from which performance incentives are paid. Performance against the measures of the goals discussed here makes it possible for an individual to receive a portion of the performance incentive funds. These financial incentives are clearly not the only form of recognition available, but they are central to creating a performance-based culture using pay for performance concepts.

## THE GROWTH GOAL IN PERSPECTIVE

Before describing the challenges that must be faced and the strategies for achieving the goals, it is important to note that what is at stake with the growth strategy is an effort to fundamentally alter historic relationships. For most of the century, there has been a consistent relationship between personal consumption expenditures and mail revenue. The chart below illustrates this pattern.

**TOTAL MAIL REVENUE TIMES 100 COMPARED TO PERSONAL CONSUMPTION EXPENDITURES**
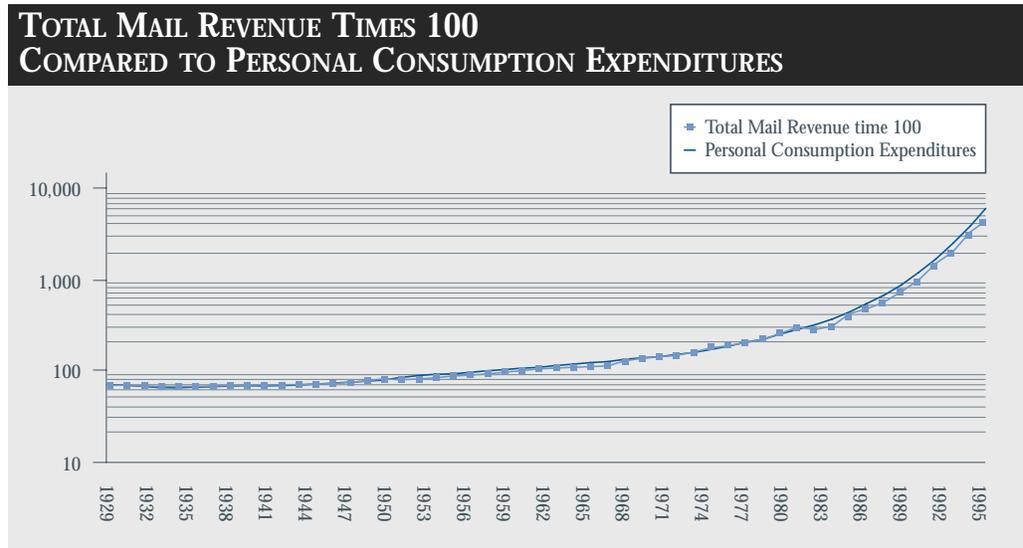


Some warn that this pattern is already being altered by new consumer expectations for speed, convenience and the availability of new alternative services that may substitute for mail service (see discussion in Chapter IV). In the future, mail volume may not grow as quickly or as predictably.

The Postal Service strategies that focus on driving mail volume growth even faster than the volume that would be "granted" by the economy are a bold challenge to the past. This growth strategy stems from both a decision to take a proactive approach to the uncertainties of a changing environment and from confidence that the value of the mail

has been under-appreciated in many key sectors of the economy. Early experience with target market strategies has confirmed market interest in key growth products as well as a warm customer reception for Postal Service competition with delivery companies enjoying larger market shares in the expedited and parcel markets.

To place the growth strategy in perspective, it is useful to review the current economic environment. Since the 1990-91 recession, the American economy has grown steadily but below the rates of previous decades. Based on the economic assumptions and forecasts from Data Resources, Inc. described in Appendix B, economic growth will continue to be modest through the year 2002, as it has been for the last five years.[6]

The assumptions and forecasts outlined in Appendix B were used to prepare a Postal Service volume forecast for the period FY 1997-2002. This forecast, shown in Table 3.6 below, assumes periodic price increases at the projected rate of inflation. It is included to provide a baseline for planning, but should not be considered an indicator of the frequency or amounts of future rate adjustments. Obviously, there are many inherent uncertainties in such a forecast, not the least of which are the potential for faster-than-expected diversion of mail transactions to electronic options and fundamental structural changes due to possible regulatory reforms.

**TABLE 3-6. FY 1997-2002 VOLUME FORECAST (MILLIONS)**

| Category | 1997 | 2002 | '97-'02 % Change. |
|---|---|---|---|
| First-Class Mail | 99,346 | 107,957 | 8.7% |
| Priority Mail | 1,059 | 1,222 | 15.4% |
| Express Mail | 61 | 67 | 9.8% |
| Periodicals | 10,326 | 10,410 | 0.8% |
| Standard A Mail | 76,531 | 87,576 | 14.4% |
| Standard B Mail | 988 | 1,187 | 20.1% |
| Other Domestic Mail | 397 | 282 | -29.0% |
| International Mail | 963 | 1,132 | 17.5% |
| Total Mail | 189,671 | 209,834 | 10.6% |

With this forecast, the Postal Service can expect only moderate growth in overall volume — about 2 percent per year. The five-year growth rates of First-Class Mail and Standard A Mail are expected to be about the same as for the FY 1991-96 period. However, the corresponding growth rate for Priority Mail is expected to be lower (15 percent versus the earlier 81 percent), although successful implementation of the Priority redesign and delivery confirmation initiatives may permit Priority Mail to grow more quickly in the future. Express Mail growth is expected to be higher in the future than for the past five years (10 percent versus no growth), while those of Standard B Mail (20 percent versus 38 percent) and International Mail (18 percent versus 26 percent) will be lower. The purpose of creating a growth strategy is to generate higher volumes than those provided by the economy alone.

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[6] Recent economic performance has exceeded this modest forecast and optimism about the near term has not been contradicted, even by the moderating voice of the Federal Reserve Board Chairman.

# CHALLENGES & EXTERNAL FACTORS

# IV. CHALLENGES AND EXTERNAL FACTORS

The GPRA legislation specifies that the Postal Service strategic plan include "…an identification of those key factors external to the Postal Service and beyond its control that could significantly affect the achievement of the general goals and objectives…" In this chapter, several major external challenges and factors are discussed — regulatory constraints, technology, competition, changing consumer expectations and management challenges.

## REGULATORY CONSTRAINTS

There is a fundamental need to change the basic Postal Service model created more than 25 years ago by the Postal Reorganization Act (PRA). At the heart of the problem is the multitude of regulations that prevent the organization from offering products and services with prices and characteristics that compare favorably to competitive offerings. These regulations constrain the Postal Service's ability to respond to rapidly-changing market conditions and to control costs. They include the following:

- The PRA requires financial break-even over time; in the law, there is no provision or incentive for achieving positive net income.
- Changing prices requires about 16-18 months, starting with preparing the necessary documentation for the Postal Rate Commission, continuing with the 10-month litigation process, and ending with implementation of new rates.
- Except for minor revisions, changing non-price product or service features typically requires about the same amount of time as pricing changes.
- The pricing and/or classification outputs of the regulatory process are often quite different from the original Postal Service proposal.
- Independent pricing proposals may be introduced by the legislative process. As an example, legislation was recently signed by the President authorizing a First-Class stamp that would sell for up to eight cents more than the current 32-cent stamp. The extra revenues would be earmarked for breast cancer research.

- Wages and work rules, the major cost drivers, are determined through a mandatory binding arbitration process.
- Congress determines Cost of Living Adjustments (COLAs) for Postal Service retirees.
- The purchasing system tends to be more costly than private sector equivalents because it is subject to several statutes that affect contracting and public sector practices.
- In addition to the regulatory framework established by the PRA, key elements of postal operations are also regulated by other Federal agencies, including the Merit Systems Protection Board (personnel decisions), the Department of Labor (workers' compensation), the Department of the Treasury (financing) and others.

The current regulatory framework undermines effective management. Uncertainties about the outcomes of the various regulatory processes create a situation in which goals are tentative and management is often second-guessed.

The legislative reform proposed by the Chairman of the House Oversight Committee, Congressman John McHugh, provides a basis for discussion of long-needed amendments to the basic model of 1970 and takes a significant step toward relaxing some of the above constraints. The Postal Service has responded to the Chairman's invitation for further discussion with mailer groups, unions and management associations and other stakeholders to craft reform legislation.

Three principles are touched upon by the reform legislation.

1. Preserve the Postal Service's historic mission of providing a fundamental, universal service to the American people at affordable rates.
2. Provide incentives for improved efficiency in the operation of the Postal Service.
3. Rationalize the ratemaking process by allowing small, below-inflation increases to go into effect without first resorting to protracted, adversarial, and expensive administrative hearings.

Within the framework of these principles, the Postal Service has expressed interest in developing other elements, including:

1. Provision for prices of postal products to be indexed objectively to inflation in the resources used to produce them.
2. Establishment of safeguards to avoid large swings in pricing from year to year.
3. Provision that postal productivity growth should be at least as great as productivity in the nonfarm economy at large.
4. Enabling the Postal Service to change its prices so long as the changes do not exceed the economy-wide inflation and productivity standards reflected in an appropriate pricing index.
5. Enabling the Postal Service to earn a profit and to use that profit to re-invest in the business and provide performance incentives for management and officers.
6. Retention by the Governors of the Postal Service of financial responsibility and authority.

Even if changes this extensive could be adopted, these principles and characteristics primarily relate to the ratemaking provisions of the reform discussion. By improving this process, the Postal Service can better control its prices and budget and align its operations, finances, and strategic planning. But there are other issues touched on by the proposed reform legislation that are important in creating a structure for the Postal Service that will help improve its management, which are discussed later in this chapter. These, for example, include the creation of a commission to address labor-management rela-

tions and the redefinition of Postal Service responsibilities to the Department of the Treasury in carrying out its banking functions.

## TECHNOLOGY

As described in Chapter III, the Postal Service's current five-year volume forecast anticipates modest growth much like the past five-year period. A major caveat with this forecast is that postal revenue growth is assumed to be closely linked to growth in the overall economy, as in the past. Implicit in this assumption is the view that neither the introduction of new technology nor the expansion of existing technology will invalidate this economy-driven model of postal demand.

Two practical considerations reinforce this assumption. First, although historic data show that significant electronic diversion of business-to-business mail has taken place in recent years and that noticeable diversion of household-generated mail has begun,[7] it appears that growth in other sectors (e.g., business-to-household) has more than compensated for these losses. Second, electronic technology is in a state of rapid change, making forecasts of its effects on mail usage highly speculative.[8]

Deployment of the electronic technology infrastructure is uncertain. Questions remain about which services will be made available to consumers (e.g., will e-mail be made available on a television set or a personal computer). The open questions concerning the nature of these choices may be less significant than those concerning the timing of the choices that will be available in the mass market. Uncertain, too, is whether the regulators and the courts will agree on the regulatory framework for the emerging electronic infrastructure. Finally, the major industry players have yet to reveal their competitive positioning strategies to implement telecommunications reform.



**RAPID GROWTH OF ELECTRONIC ALTERNATIVES**

Fax

E-Mail

Electronic Banking

Electronic Commerce

Start-up    Growth    Take-off    Saturation

Those who argue that mail service will continue to be critical to consumers during the next decade and that it will continue to be an essential element of universal service in the future make a compelling point. Even in the face of electronic competition, which is

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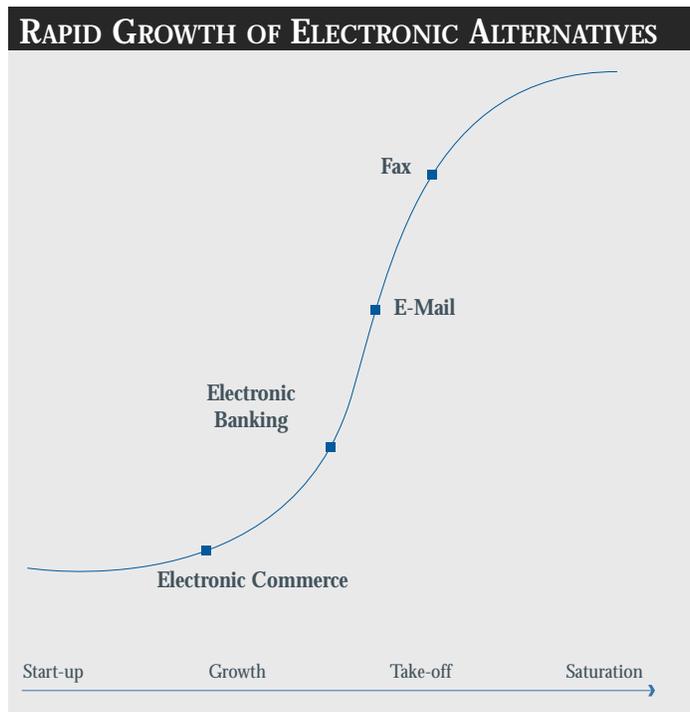
[7] See *Changes in the Household-Level Demand for Postal Delivery Services from 1986 to 1994*, Frank A. Wolak, Stanford University. In his paper, Prof. Wolak finds that aggregate household expenditures on postage have steadily declined from a high of $6.69 billion in 1989 to $5.05 billion in 1994, and that the percentage of total Postal Service revenue received from households has declined from 18.2% to 10.6% over the same period.

[8] There are indications that new electronic services can actually lead to increases in mail volume in some cases. For example, America Online has become a large and rapidly growing Postal Service advertising mail customer.

struggling to assemble a coherent "information superhighway," there is support for the argument that "there will always be mail." However, this optimistic view does ignore an important dimension of the emerging technology competition – consumer reactions. While it may not yet be possible for the mainstream consumer to reach the information superhighway conveniently from home, the new information technology has fundamentally altered consumers' choices and expectations. This new perception will place different demands on Postal Service products and services in coming years. If, as expected, technology shifts traditional mail services to new media, there will be a resulting impact on the organization. Even if the Postal Service develops into an agile service provider in this emerging marketplace by investing in technology, there will be implications for the structure and size of the organization. Technology-oriented companies have grown according to a different, smaller model than the Postal Service.

Technologies such as e-mail and the World Wide Web are changing the way that at least some influential segments of the population communicate and do business. They could challenge the Postal Service to put forth new products and services in order to be relevant to the Information Age. Research and development programs are underway to develop methods to improve postal services and to make it easier for postal customers to use postal services. Such methods could provide a pathway through which core postal service to traditional postal customers can migrate into new electronic channels if there is customer demand for such service. These development projects are currently focused on bulk mail entry, meters and service to small offices and home offices. While those are all central to the current postal mission, they also anticipate an emerging 21st century marketplace.

## COMPETITION

The growing strength of the competitors to the Postal Service has been noted often in the media. Consider where United Parcel Service and Federal Express were 20 years ago. At the time, UPS was just organizing its package delivery business on a national basis and FedEx was just starting its operations.

One immediate concern is that approximately 38 billion pieces of First-Class Mail worth $6 billion in revenues are at risk to electronic diversion. New competitors, such as those that foster connectivity, privacy and security, ease of use, and money or banking capabilities, will gain market share. Banks and utility companies are launching marketing campaigns to shift transactions traditionally carried by mail to electronic media. Electronic competition will be enhanced by the recent Federal government mandate that most of its payments will be made in the form of electronic fund transfers, which could reduce Postal Service revenues by about $500 million annually. Additionally, recent legislation allows other providers besides the Postal Service to provide legally valid times and dates for document delivery, such as tax returns sent to the Internal Revenue Service.

As discussed in detail in Chapter II, the Postal Service faces a great deal of competition in all its product lines. However, so do banks, airlines, and the media as digital communications open new pathways to customers. The most significant driver of change will be the manner in which new choices affect customer perceptions of the current products and services.

## Changing Customer Expectations

The potential impact of the "new consumer" on the demand for Postal Service products and services and the increasing difficulty in reaching stakeholder consensus on a definition of Postal Service success are two more challenges that must be faced by the organization before the five-year corporate goals can be realized.

### The New Consumer

There is growing evidence that a more sophisticated consumer is emerging in the United States.[9] These "new" consumers are better educated. The proportion of adults in the United States with at least one year of college has been rising by about 3 percent per year, and is expected to reach 55 percent by 2005. New consumers have more discretionary income. Households with more than $50,000 of real spending power have been growing at a rate of about 3.5 percent a year, more than twice the rate of overall household growth, and are expected to reach 50 percent of all households by 2005. New consumers tend to be more experienced with information technology. While 46 percent of all U.S. households are estimated to have PCs at home (in 1997), the number increases to 74 percent for households with incomes over $50,000. These new consumers have distinct patterns of purchasing behavior. They prefer to examine a wide range of choices before making purchasing decisions. They are more likely to interact actively in decisions, and they will demand more information before making a purchase.

This "new consumer" behavior pattern also applies to purchases of postal services. Today, consumers of delivery services increasingly expect delivery confirmation, even on postal products that are not priced to support such technology. Direct deposit of pay checks and direct debiting of mortgage payments are common. Technology has given the new consumers the opportunity to bypass the Postal Service network for certain applications. A more serious concern will be satisfying the new consumers' expectations for enhancements of existing Postal Service products and services.

### Defining Success

Another challenge posed by this environment is determining what will constitute success. Customer interests served by the Postal Service are growing more diverse. These differing views are particularly apparent in the context of conflicting business goals among customer groups. For example, First-Class mailers and Standard A (formerly third class) mailers have contested the proper allocation of institutional costs to the two classes of mail since postal reorganization created the forum that made such arguments possible – the Postal Rate Commission. As another example, large newspapers and saturation "marriage mail" advertisers (e.g., Advo and Harte-Hanks) both use the Standard A Enhanced Carrier Route product for distribution of local retail advertising. However, since newspapers compete vigorously with the saturation mailers for advertising customers, these two customer groups have different views on the role and mission of the Postal Service.

Conflicting demands may exist within a single company or industry. For example, banks are interested in preserving a healthy Postal Service because of their need to send and receive statements and deposits from their customers. But banks also operate in a

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[9] Material for this section was presented in *Making Sense of the New Consumer*, Institute for the Future, Future of Money, Volume 1, Number 2, 1997.

highly competitive environment, and in time, entrepreneurial financial institutions may choose to diversify their service offerings to compete with the Postal Service, and may view with alarm any new postal services that compete with their existing and future lines of business. The long-distance telephone companies offer another example. These companies are among the Postal Service's largest remittance mail customers and are major users of direct mail advertising products. On the one hand, they are interested in improved First-Class and Standard A mail service; on the other hand, they are leading-edge technology companies and will undoubtedly play a major role in electronic commerce in the future. These conflicting business goals complicate Postal Service attempts to define success.

## THE CHALLENGE OF PERFORMANCE MANAGEMENT

One final challenge is both an internal and external concern. The goal of improving the Postal Service's capability to carry out its mission is inextricably linked to the organization's legal structure. Many of the matters discussed in this plan involve the use of management tools, including the management system, the introduction of performance goals and measures, and the development of process management techniques. These methods for improving the way in which the current system operates cannot address those fundamental structural issues. To permit postal management to be effective, basic reform — as discussed earlier in this chapter — may be needed. Such reform will require, among other things, a revision of the basic statute under which the Postal Service operates.

Not even the reform legislation, however, may go far enough in addressing fundamental management challenges. There is a need to significantly improve labor-management relations. The current arrangement is not helped by provisions in the basic postal legislation that require management and unions to go to compulsory arbitration. With such a structure there is little incentive to settle disputes. The fundamental confrontation set up by this arrangement permeates all aspects of the labor-management relationship.

Following three years of successful financial performance, there may also be little apparent incentive to address fundamental issues that are difficult to resolve. But the competitive marketplace is moving quickly and the Postal Service is not able under current law to be a nimble competitor that can offer services to keep pace with the imperatives of increasing productivity and new service development.[10] To carry out the postal mission of universal service and financial self-sufficiency, such issues will have to be addressed, even in the absence of a crisis.

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[10] In fact, the H.R. 22 reform proposal is not the only proposed postal reform bill. Recently, specific proposals have been introduced to limit Postal Service entry into new markets, service to retail customers, and even expansion of current international service offerings in existing markets.

# HOW THE POSTAL SERVICE IS GOING TO GET THERE

# V. ORGANIZATIONAL STRATEGIES

## INTRODUCTION

Previous sections of this plan outlined the corporate and performance goals for the next five years. In this section, the Postal Service describes the strategies to reach its goals for customer service, organizational efficiency and workplace enhancement, and net income growth and cost management.

These strategies incorporate the following approaches. The Postal Service will improve service both by providing better operating performance and more effective management of customer contact operations. Employee effectiveness will be improved by focusing new resources on training, complement deployment and efforts to enhance the workplace. The organization will work to aggressively control costs through a combination of productivity improvements, efforts to make best use of key human resources and cost management of all resources.

These concepts are organized around a core vision of providing customer value. This approach seeks to develop a customer value strategy that targets growth. This strategy has as its premise the notion that growth is driven by creating value for customers. Value is created by continuous improvement of service and driving costs out of the system to achieve affordability. Creating

### FOUR CORE STRATEGIES:

- Commit to quality customer service
- Practice aggressive cost management
- Become a 21st century growth company
- Create unique customer value

value and individualizing it for each customer will provide the basis for sustained growth over time. This is the formula. Its principal components are:

- Achieving Service Excellence
- Aggressive Cost Management
- Creating 21st Century Growth, and
- Providing Unique Customer Value

A growth strategy represents an explicit choice. The Postal Service seeks growth to meet the expanding requirements and specialization demanded by customers today. Sustaining the Postal Service mission as the universal service provider — offering a uniform service at fair and reasonable rates — requires a proactive vision of improving service, not standing passively and taking what private providers of service leave behind.

A strategic component centered on *growing the growth businesses* will focus on the rapidly expanding Priority Mail and package businesses, the growing advertising mail businesses and international mail. A *defend the core business* component focuses on the threat of new competition, both from traditional competitors and from new electronic competitors that have been entering the market at an increasing rate, and the danger that threat poses to universal service. A *create new and enhanced products and services* component centers on the transformation of core products and services. New products and services will range from additional features for existing products, such as packing customers' packages or offering postage on-line, to innovations such as providing a secure way to transmit money orders electronically or new card-based services that use stored-value and smart-card technology.

Organizational strategies will be reviewed periodically as part of the planning process. Strategic refinements will be published in future editions of this plan.

IMPROVE CUSTOMER SATISFACTION BY OFFERING SUPERIOR CUSTOMER VALUE IN EACH MARKET AND CUSTOMER SEGMENT THAT THE POSTAL SERVICE TARGETS.

## VOICE OF THE CUSTOMER: ESTABLISH SERVICE EXCELLENCE AND CREATE UNIQUE VALUE FOR CUSTOMERS

The Voice of the Customer corporate goal is to *"Improve customer satisfaction by offering superior customer value in each market and customer segment that the Postal Service targets."*

The strategic efforts supporting this goal focus on improving operational performance. Significant resources are being devoted to the improvement of management practices throughout the network and are most visible in the process management investments being made in virtually every performance cluster. Because customer service and productivity are mutually reinforcing strategies, outcomes here affect the Voice of the Business goals and targets as well. The Postal Service strategy for this customer goal is to bring in new customers and revenue by demonstrating commitment to increased customer service. On-time delivery is the first and most powerful driver of customer satisfaction.

### TRANSIT TIME FOCUS

The most basic strategy of the Postal Service in 1996 and 1997 has been to drive overnight delivery performance from the high 70s to 92 percent on-time nationally.

92 percent is not a performance score for a high-value, highly profitable express product targeted at a limited number of addresses like that of postal competitors. This on-time performance score measures a universal service delivered in Manhattan neighborhoods, Alaskan villages and Gulf Coast rural areas six days a week. Improvement of this score has demonstrated the effectiveness of focus as a management tool. In 1998, the on-time performance goals are being broadened to focus on two- and three-day service and on Priority Mail. Major network investments are being made to make this expanded target feasible.

### REDESIGN OF CUSTOMER CONTACT AND ACCESS

Specific outreach and system improvement programs include the development of a tactical sales force using modern sales and marketing methods, a concept of sales partnering, new bulk mail acceptance processes and new payment systems. The Postal Service plans to increase customer satisfaction by improving customer contact through three major customer service channels - retail/residential, large mailers and medium and small mailers.

**Retail/residential.** The retail channel supplies the product and service needs of consumers and small firms. It serves as the principal method for these customers to buy and use Postal Service products and services and to deposit mail. The retail channel is also a major delivery point for the 14 million customers who receive their mail though post office boxes and caller service. Eight retail program strategies, ranging from human resource management to product development and technology deployment, will improve the delivery of value to retail customers. The strategies relate to networks and standards; staffing; products and merchandising; inventory and distribution; technology and information; and locally-based planning, partnering, and communication. Significant elements of these strategies include post office lobby redesigns, expanded hours of operation, counter technology improvements, clerk training, alternative access, new stamp programs and better career support.

**Large mailers.** Large mailers have built critical business processes around the use of the mail. They mail large volumes on a frequent, regular basis and have invested heavily in plant and equipment or third-party service relationships to support these functions. To provide a single point of contact, Postal Service account managers or representatives are assigned to these mailers. Excellent service is a key priority.

The Postal Service strategy for the large mailer channel is to be a trusted advisor and business partner, providing postal solutions and service that raise satisfaction levels and help customers achieve their business objectives. The organization will leverage business relationships to retain and develop future business by creating higher levels of customer satisfaction. Program strategies include development of managed accounts, new acceptance processes and creation of new customer contact networks, such as establishment of business customer service centers and support of technical advisory groups, such as the Mailers' Technical Advisory Committee. These strategies are designed to build improved relationships and to provide new technology-based systems that will make it easier for customers to do business with the Postal Service.

**Medium and small mailers.** Medium and small mailers represent the bulk of the customer base of the Postal Service. Most do not have a dedicated Postal Service account manager. Mail is an important part of their operations, but their mail volumes are much smaller than those of large mailers. While their mailing needs may be relatively less com-

plex than large mailers, their knowledge of postal programs and services, and their ability to use them, are also less sophisticated. Many of these mailers do not make significant use of the products that have been targeted for growth — Priority Mail, advertising mail and destination-entered parcel post.

The Postal Service strategy for this customer segment is to bring in new customers and revenue by demonstrating commitment to increased customer service. Specific outreach and system improvement programs include the development of a tactical sales force using modern sales and marketing methods, a concept of sales partnering, new bulk mail acceptance processes and new payment systems.

### INFORMATION TECHNOLOGY

Expectations from business and private citizen customers of the Postal Service will be increasingly shaped by what they see is available from competitors and service providers on the World Wide Web. They will expect complete tracking capabilities and a full set of business transactions that can be completed on their personal computer at the office or at home. The size and diversity of the postal customer base will present technical challenges and will demand that Postal Service solutions be not only easy to use but also as rich in function as those of its competitors. Recognizing that Postal Service product offerings are much more diverse than those of the competitors who are setting market standards, the Postal Service will make major investments to enhance traditional postal services.

These investments will take place throughout the network. The Postal Service recently announced a commitment to build a new integrated, managed network service. Other information technology program developments include a computer system that can more fully support retail and delivery activities, corporate call centers to create state-of-the-art call answering and customer response, a delivery confirmation system and a Web site to support both Internet and Intranet services.

**The Year 2000 problem.** The turn of the century, when 1999 becomes 2000, could have a major impact on computer hardware and software, including those that support Postal Service employees, vendors and customers. Any system that shares, manipulates or takes action on data based on a date has the potential for failure or inaccuracy. To ensure that all Postal Service systems will operate smoothly until and through the turn of the century, with every system giving correct results when processing dates in the year 2000 and beyond, the Postal Service has established a corporate-wide Year 2000 compliance program.

The objective of the program is to complete all Year 2000 compliance projects by September 13, 1998, the end of the 1998 fiscal year, with test and certification efforts completed by March 1999. A corporate-wide Year 2000 team has developed an inventory of application programs, supporting infrastructure and equipment that is being analyzed to determine which items are susceptible to known or potential Year 2000 date processing problems. For items with known or potential date processing problems, compliance projects will be planned and completed, including changes in infrastructure, where needed. Testing and certification will ensure that all application programs, infrastructure and equipment will be Year 2000 compliant.

**Computer security.** As technology evolves, so do the opportunities to misuse it. To protect customers and employees from unauthorized access or alteration of computer data

bases, the Postal Service has strengthened its computer security program. Over the next five years, the emphasis on computer security will continue. The recently-implemented Inspector General function in the Postal Service will add further visibility and focus.

The Postal Service has developed and implemented a comprehensive policy and technical strategy for Internet access. All Internet traffic must pass through a secure gateway that prohibits direct access to Postal Service data from external sources. All Postal Service computer applications that support external access must undergo an extensive audit and security review to assure there is protection from unauthorized outside intrusion. A security certification program for all Postal Service computer applications (internal or external) that deal with data deemed "sensitive" has been implemented to ensure the integrity and confidentiality of such data.

Computer security is a priority in developing the technical architectures and designs for major Postal Service-wide technology programs such as the new point-of-sale retail equipment (POS-1) and the implementation of delivery confirmation devices for carriers. A secure electronic payment process is being developed as a part of these efforts.

### CONSUMER PROTECTION

Maintaining the sanctity of the mail is a critical component of the core mission of the Postal Service and a key element of providing customer service. The Inspection Service and the Law Department work together to protect consumers and businesses from fraud schemes and lotteries conducted through the mail. In addition to providing obvious benefits to the public, the consumer protection activities of the Postal Service enhance the integrity of the mails for the benefit of legitimate mailers. In the next five years, continuing emphasis will be given to the more "traditional" fraud schemes, and the Postal Service will also address the growing problem of schemes advertised over the Internet that have a mail component.

### PRODUCT AND SERVICE INNOVATION

Product and service innovation strategies fall into four areas: the redesign of expedited mail with an immediate focus on the Priority Mail service; the development of financial services; the development of electronic services; and the establishment of strategic business units to provide a new customer focus. The development of new revenue will be discussed in more detail as part of the Voice of the Business strategies, but it is also an important component in executing the Voice of the Customer strategies, since such investments often improve operational performance of the postal network and make the mail easier to use.

## VOICE OF THE EMPLOYEE: ESTABLISH A PERFORMANCE CULTURE

The Voice of the Employee corporate goal is to *"Improve employee and organizational effectiveness by having the right people in the right place with the right tools at the right time to consistently provide superior customer value and ensure commercial viability in a dynamic market."* The strategies and programs described below are designed to achieve this goal. They fall into three broad strategic categories: Sustaining Core Commitments to Shared

IMPROVE EMPLOYEE AND ORGANIZATIONA[L] EFFECTIVENESS BY HAVING THE RIGHT PEOPLE IN THE RIGH[T] PLACE WITH THE RIGHT TOOLS AT THE RIGHT TIME TO CONSISTENTLY PROVIDE SUPERIOR CUSTOMER VALUE AN[D] ENSURE COMMERCIAL VIABILITY IN A DYNAMIC MARKET.

Values; Implementing the Performance Management Culture; and Improving the Workplace Environment.

## SUSTAINING CORE COMMITMENTS TO SHARED VALUES

**Improve workplace safety.** A comprehensive safety and health action plan has been developed and implemented to assist field units to achieve established targets and to meet or exceed legislative, regulatory and contractual requirements associated with occupational safety and health. This approach includes: inspections; accident investigation; reporting and analysis; training; promotional and recognition programs; joint labor/management committees; development of standards and policy guidance; occupational medical services; and effective claims management. The measures described in the discussion of goals and performance measures reflect the commitment to continuous improvement of the safety goal. But the commitment to safety is more than numbers and management of operations; it reflects a core value of commitment to employee well-being. This strategy has been effective in reducing and controlling losses and in making Postal Service safety performance compare favorably with private industry.

**Leverage diversity.** The face of America's workforce is changing dramatically. Issues of human diversity — topics that were once virtually absent from workplace considerations — have taken on prime importance. All employees differ from one another – even if they are the same race and gender. However, diversity encompasses much more than just race and gender; it is also culture, religion, socioeconomic status, age, sexual orientation, physical ability – the spectrum of human differences.

The business environment of the Postal Service has become increasingly competitive and diverse, reflecting rapidly changing demographics, attitudes and economics. Diversity represents both a challenge and an opportunity. Postal Service employees must build a team with the capacity to deliver services across an array of cultures.

Over the next five years, that strategy will be realized through the successful implementation of several initiatives: an effort to establish appropriate representation of all groups at all levels within the organization; implementation of a zero tolerance policy for discrimination and sexual harassment; training and skill-building; and research and development of additional workplace environment improvement measures.

## IMPLEMENTING THE PERFORMANCE MANAGEMENT CULTURE

**Align human resources systems with business requirements.** The power of these human resource programs will be limited if they are bureaucratic, complicated, contradictory and confusing. Human resource strategies must be aligned with corporate goals and business processes to convey a mutually-reinforcing message to individual employees. The structure of the organization and the method through which organizational change is approached and managed should reflect bottom-line business goals. These mutually-reinforcing systems of strategy formulation, structure and process development will include a compensation program that provides incentives to meet performance goals; a management system — using the *CustomerPerfect!* model — that measures progress toward those goals, clearly signals successful performance and reviews management results to identify the need for improvement; non-monetary recognition and reward programs to celebrate success and support the incentive compensation system; and a succession planning system to ensure that future postal leaders are identified and prepared for greater responsibilities.

Systems of workforce planning, competency assessment, recruitment, selection and evaluation will need to be congruent with the strategic business direction of the Postal Service.

Alignment of human resource systems with business objectives will have to extend into the design of job and work structures to ensure that some of the perverse incentives of the historical hierarchical structure are changed. For example, the structure of the letter carrier job is being examined in a series of tests in an effort to eliminate conflict in the workplace and to better serve the customer. This concern for work-life balance is at the heart of structuring a more collaborative working environment.

Further, the concept of providing flexibility for managers relative to organizational alternatives and staffing decisions that can reflect local needs is being explored. As new flexibility is being considered, these innovations would be introduced within a framework that seeks to ensure accountability for decisions through measurement of performance.

**Implementation of performance management.** Over the next five years, as a performance management system is implemented throughout the postal network to support the *CustomerPerfect!* goals and targets that are already in place, there will be an intensifying requirement for training and management education. In its essence, performance management defines processes in terms of customer requirements and develops measures that will permit managers to improve processes over time. Today, performance clusters and enabling functions are being trained in the use of the performance management tools and are designing and redesigning processes to better meet customer requirements by reducing cycle time, improving quality of customer services and reducing cost.

**Incentive compensation.** The incentive-based compensation program built around the principle of Economic Value Added (EVA) is uniquely powerful in creating and sustaining a performance-based culture. The EVA system creates the possibility for rewards that are granted in the form of pay for performance. During the first year of the program, there is a need to administer this pay-for-performance principle in a manner that is trusted and consistent. Beyond the development of a performance-based compensation framework, there is also an effort to develop and expand non-monetary recognition in a manner that will celebrate success and reward performance throughout the Postal Service. Management and the Board of Governors are working together to ensure that the system and its measure are on a sound footing.

Further, attention is being given to increasing benefit value to employees through expanding the range of employee choice in creating individual program configurations. The potential for such flexibility to match total compensation to local market areas has been recognized as another tool in recruitment and compensation in selected areas where staffing has been difficult because of challenging or competitive conditions.

**Enhance employee skills.** Over the next five years, the Postal Service will embark on a strategy to enhance employee skills through stepped-up training and communications initiatives. To target training resources and to adjust them to the needs of the business will require that the Postal Service develop measures of employee proficiency in a series of critical disciplines. These metrics will be tested in 1998, and the system of evaluating proficiency, targeting resources and measuring results will be used along with new tools that are being developed to conduct enhanced complement planning. In sum, these program strategies seek to match the right person with the right postal task. This will require that future business needs are the drivers for specific training, education and

development activities. Ultimately, the goal of this investment is to produce an organization that is committed to enhancing learning and human performance.

### Improving the Workplace Environment

**Improvement of employee-management relations.** Underlying and supporting these many human relations initiatives, labor relations efforts to improve the workplace environment will be continued, even during the coming labor negotiations. Mounting grievance cases are a symptom of a larger issue involving labor/management relations. There is consensus among the leaders of the Postal Service that the signs of workplace distress are present and the need to take aggressive steps to address issues of improving the workplace environment must accompany the emphasis on aligning human resources with business requirements.

Specific targeted efforts to lower the number of grievances will be undertaken. In parallel, there will be a sustained commitment to improve the workplace environment by achieving mutual understanding on a more fundamental level, even as management addresses the root causes of the grievances, including the structure of processes for handling this type of complaint. Among these more fundamental efforts that will be continued are benchmarking best practices from other comparable private sector corporations, training in this area, and a continuing "Summit" process between labor and management representatives. This Summit process seeks to create a shared understanding of the challenges that the craft unions and management associations and postal management together must face. This planned analysis will address issues of relationships in the context of understanding the character of competitive threats and market opportunities for the enterprise as a whole.

**Enhancing the workplace environment.** The safety and health program discussed above is buttressed by other human resource programs designed to enhance the workplace environment. An example of these efforts is the comprehensive Employee Assistance Program (EAP). The guiding purpose of the EAP is to "Optimize the health, well-being and performance of the Postal Service and all its employees by providing innovative and cost-effective individual and organizational services that strengthen employee/Postal Service effectiveness, enhance customer satisfaction and improve financial performance." In 1996, there were EAP contacts with over 50,000 individuals, with more than 32,000 receiving counseling, 7,500 obtaining critical incident response or grief group services, and 3,000 consultations with management.

**Improving employee communications.** The core strategy around which there is strongest consensus is the need to continue to improve communications with employees at all levels within the organization. There is a need to make the communications clearer and more consistent. There are requirements for sustaining and enhancing employee communication channels, improving the content of the communications, reinforcing the shared values of the organization and its commitment to service and permitting a two-way exchange between line and management, field and headquarters, customer and Postal Service.

In sum, in all three areas – sustaining core commitments, enhancing performance and improving the workplace environment – the human resources strategy development process will detail specific programs and strategies for improvement in the course of coming months. The Board of Governors is closely involved with postal management in

selecting measures for compensation and in crafting strategies that will be effective in improving performance over time.

## VOICE OF THE BUSINESS: GROWTH, POSITIVE NET INCOME, AND COST MANAGEMENT FOR COMMERCIAL VIABILITY

The Voice of the Business goal is to *"Improve financial performance to assure commercial viability as a service provider for the world-wide movement of messages, merchandise. and money."* Initiatives to satisfy the business goal fall broadly into three categories: seeking positive net income while also achieving growth from products and services; introducing smaller, more predictable pricing changes; and managing costs.

### REVENUE GROWTH AND POSITIVE NET INCOME

**Organizational alignment and line of sight.** During the course of 1997 a fundamentally new concept of deploying revenue targets was introduced to the field. Traditionally, revenue had been a focus primarily of Headquarters. Now field responsibility for revenue targets, the development of strategic business units and new revenue tracking systems are all elements of a larger vision to create line of sight between line management and the customer. These systems are in pilot stages and the organizational changes were recently introduced.

The fundamental strategy contends that there are three outcomes from the effort to drive revenue goals through line management. The value of service will be better understood by field managers. Discretionary effort and cost management will be linked. New revenue-producing opportunities will be a focus of the entire organization.

**Core business marketing.** A core business focus on growing the products that have growth potential and on defending products and services that are threatened by new competition will lead in 1998 to the development of business plans containing a variety of new initiatives. Exploration of a new product feature — guaranteeing selected services — has long been a discussion within the Postal Service. Advertising mail business planning will be a central point of focus in this area. In support of First-Class Mail services, an experiment with providing Postal Service remittance handling capabilities should speed bill payment for some customers. Such experiments will encourage a new review of the network itself to assess a list of potential delivery redesign options intended to increase the speed and quality of remittance service.

**Pricing.** The strategy of pricing products to encourage customer service and revenue growth is a central idea underlying the provisions of current and future rate case proposals. For example, new pricing proposals related to packages, special services and bill payment envelopes were submitted to the Postal Rate Commission in the omnibus rate filing of July 10, 1997. The bill payment option will need to be defined in terms of requirements for revenue protection, service and customer needs. But in theory, reducing the cost to the consumer for providing relatively "clean" mail transmitted as bill payments should be one of the most powerful strategic program initiatives to retain and build core product volume.

**Retail and stamp services.** Along with the effort to revitalize the stamp service program itself, the philatelic images and services are being marketed in an explicit program to generate greater revenue from retail services. A number of experiments have gone

beyond the customer service retail upgrades. Off-premise locations, experimentation with retail locations such as the Mall of America and Internet services have all signaled the commitment of the Postal Service to utilize its retail assets.

**Parcel and expedited services.** Four program strategies are being employed to support the development of the parcel business by the new independent business unit. First, to improve service, the Postal Service has initiated a large-scale outsourcing of the Priority Mail network to Emery Worldwide Airlines. Other network enhancements will be explored as the Emery service is put into place. Second, pricing reforms have been proposed in the recently-filed rate case. Third, customer service initiatives are being undertaken in conjunction with the tactical marketing unit that was created to expand the scope of the Postal Service's ability to respond to individual customer needs. And finally, advertising programs are being developed to raise and transform awareness of the Service's offerings in the aftermath of the highly-successful "What's your priority?" campaign.

**International mail.** The international business unit was created to establish a point of focus for customers with the Postal Service. In the past, the international mail organization was essentially a regulatory/liaison function that served a governmental purpose. In the modern competitive international marketplace, the focus has shifted away from diplomacy with the foreign posts to the customer. The Postal Service has developed individualized solutions for direct marketing customers, such as the global package consignment service and new products such as the Global Package Link. During a time when global trade is developing rapidly and many small- and medium-sized businesses are entering the international marketplace, the Postal Service is focusing on providing services to address these emerging needs. To this point, the Global Package Link product has received strong endorsement from customers in a highly competitive environment.

**New products and services.** In addition to new revenue that can be generated from the enhancement of traditional services as discussed throughout this section, there are a number of new product opportunities, particularly in providing postal services to customers through new electronic media. The development of the popular "Dinero Seguro" electronic money order service is an example of a new product designed to serve selected international markets. Another area of investment and potential future revenue has been providing on-line postal services. Offering Internet access to postal services in effect creates a desktop post office, a product of often-stated high appeal for the rapidly growing small office, home office market. Many of these initiatives should be considered research and development pilots at this time. But they could provide a powerful direction if they are successful in proving their merit, even on a small scale.

The distinction between new product development and enhancement of existing products and services related to the core mission of the Postal Service is sometimes ambiguous. Product development and customer service are often closely-related concepts. For example, customers seek easier ways to buy postage. New electronic meters provide on-line connections. In opening new service channels to customers, a new style of "interoperable" electronic interaction is made possible. Mailers make appointments to hand off mail to the Postal Service. Mail preparation is made easier and more efficient by electronic reservation systems. Security is increasingly effective. Tracking of mail is more efficient. In other words, as the Postal Service develops the technology platform on which today's business is conducted, a new platform that will make it possible to do electronic commerce as well as to move hard-copy mail and packages will emerge. If customers

demand new services and find innovative ways to use the Postal Service mail network, a new era of services will emerge. This pattern in which entrepreneurial customers enhance the uses of the infrastructure could parallel past transitions that the Postal Service has made when the train, the airplane, the telephone and television transformed the American economy, as long as the continuing process of innovation and reinvestment makes such a pathway of technology migration possible.

**Revenue protection.** The Postal Service is aggressively pursuing a variety of programs to improve the efficiency of its revenue assurance and internal control processes, both in terms of collecting all the revenues that should be paid and in reducing the costs of administering the payment systems. A major effort is the recently-completed Meter Accounting and Tracking System (MATS), which is designed to improve the efficiency of the licensing and meter-setting processes. MATS now covers all meter customers and post offices; it will allow on-line tracking of meter movement and financial transactions throughout the Postal Service network and will provide financial information for tracking future revenue-enhancing initiatives.

Another ongoing Postal Service revenue assurance program ensures compliance with both the Anti-Money Laundering and Anti-Terrorism laws through specialized training for retail clerks. Process improvements are also anticipated over the planning period in the areas of claims adjudication, electronic money order processing, short-paid mail and business reply mail. These efforts will highlight postage meters, eligibility for bulk mail discounts, Official Mail, inaccurate mail counts and uncancelled stamps as areas of potential revenue loss, and will also identify cost reduction opportunities.

**Environmental protection.** Taking leadership as a corporate citizen role model will lead to better business relationships, a concept recognized in the Baldrige Award criteria. The Postal Service is committed to preserving and improving the environment. In both 1995 and 1996, the White House presented the Postal Service with seven "Closing the Circle Awards." The 14 awards recognized the Postal Service's waste prevention accomplishments. In 1996, the Postal Service recycled about one million tons of wastepaper, cardboard, plastics, cans, and other material.

The Postal Service has the largest alternative fuel vehicle fleet in the nation, with more than 7,000 vehicles converted to cleaner burning fuels such as compressed natural gas. As part of its continuing commitment in this area, electric and ethanol-powered-vehicles are also being tested. The Postal Service is a leader in the use of re-refined oil and retreaded tires. More than 100,000 postal vehicles use re-refined oil, and more than 100,000 retreaded tires are purchased very year.

In 1995, the organization received an award from the National Recycling Coalition for its efforts to incorporate recycled products into our procurement programs. New hampers and mail containers contain 50 percent recycled material. Stamped envelopes, postal cards, stamp booklet covers, packaging materials and Express Mail and Priority Mail envelopes also contain recycled material.

## COST MANAGEMENT

The revenue initiatives will not in themselves achieve positive net income. Significant revenue growth must be matched by aggressive cost management to guarantee the success of the Postal Service in mitigating historic cost trends that drive price increases. Four core
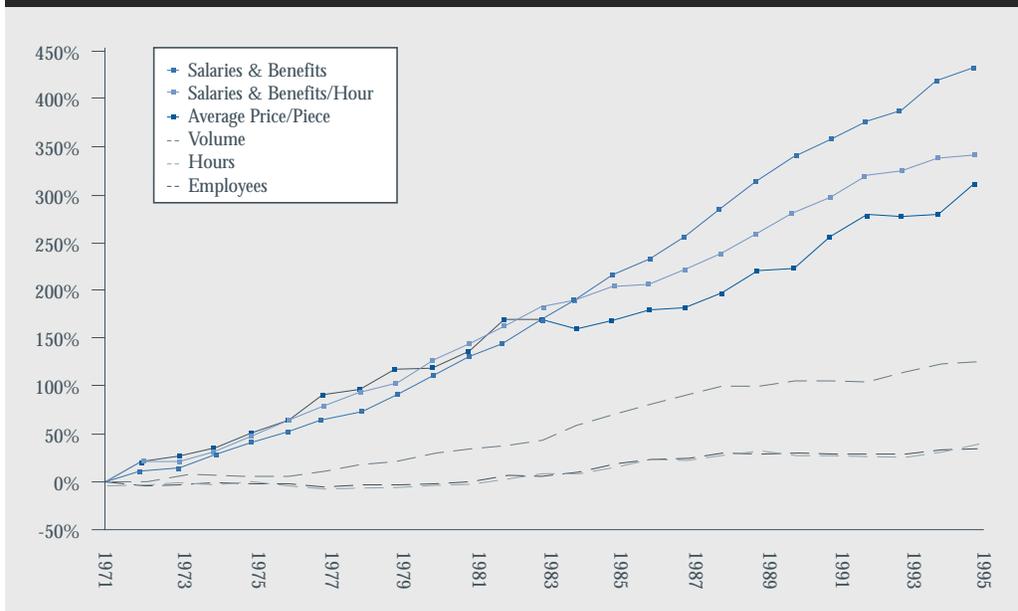
cost management strategies to control network costs will be implemented to complement the planned revenue initiatives. The strategies are to:

**Reduce labor intensity.** The first cost management program strategy focuses on reducing the labor intensity of distribution and delivery operations and has three components. First, the continued use of technology will improve labor productivity. Second, the reengineering and redesign of operations processes will enhance those that reduce operating costs and improve service. Third, process management will be deployed to all operating units.

**Reduce cost per work hour.** As shown in the above chart, the primary driver of Postal Service prices is the cost paid for labor resources. This initiative is designed to bring the cost paid for each work hour into line with comparable private sector companies. Supporting strategies and programs include new initiatives to manage the workforce in a more cost-effective manner and to obtain systems efficiencies and cost savings.

**Transportation costs.** Transportation is the largest non-personnel cost component and grew 68.3 percent between 1986 and 1996. Strategies to control these costs include contracting changes to reduce fuel costs, including bulk fuel purchase contracts; consolidation of trailer lease contracts; new arrangements for extra Christmas airlift; mode shifts, including expanding the network of hub-and-spoke plants and shifting candidate volumes from highway to air; improved utilization through reduced usage of Postal Vehicle Service (PVS); and increased use of the transportation information systems to identify additional opportunities for efficiencies and cost control.

**Focus on delivery.** The fourth cost control initiative is focused on using the most efficient processes and methods in delivery operations. The strategies include alternate processing methods, such as sequencing of flats, which will enable completion of all carrier route mail sortation/sequencing prior to presentation to the carrier and would further reduce costs and improve the level of service. Other strategies are the use of information technology to better manage the consistency and efficiency of street operations and alter-

native methods of compensation, including incentive systems with utilization of a more flexible and efficient workforce.

**Productivity.** Finally, despite the scope of these strategies, there is a need to measure improvement in productivity. Productivity is measured by Total Factor Productivity, which gauges the efficiency of utilization of all resources, including capital. The Postal Service also needs a simpler labor productivity measure that can provide a clear signal to the field on the effectiveness of labor resource usage over time. The organization is developing these measures to provide meaningful tracking data for deployment to the field units in Fiscal Year 1998.

CAPITAL INVESTMENT

The FY 1997-2001 $14.3 billion Capital Investment Plan is the most recent approved plan. A summary of the planned investments is shown in Table 5-1 below. The Postal Service will update the plan to include the year 2002 in the new FY 1998-2002 Capital Investment Plan, which is scheduled for review and approval by senior management and the Board of Governors in the fall of 1997.

TABLE 5-1. CAPITAL INVESTMENT PLAN, FY 1997-2001
COMMITMENTS BY PROGRAM CATEGORIES ($ MILLIONS)

| Category | 1997 | 1998 | 1999 | 2000 | 2001 | Total |
|---|---|---|---|---|---|---|
| Facilities | 1,759 | 1,376 | 963 | 720 | 783 | 5,601 |
| Automation/Mech. Eqpt. | 2,743 | 1,075 | 586 | 180 | 222 | 4,806 |
| Vehicles | 101 | 51 | 43 | 23 | 213 | 431 |
| Retail Equipment | 103 | 441 | 348 | 21 | 20 | 933 |
| Postal Support Equipment | 1,318 | 703 | 191 | 158 | 165 | 2,535 |
| Total Capital Commitments | 6,024 | 3,646 | 2,131 | 1,102 | 1,403 | 14,306 |

Significant capital investments are planned in two categories: new technologies that produce labor cost savings or achieve cost avoidance, and customer service programs that generate revenue or enhance Postal Service competitiveness in the marketplace. Concurrent infrastructure investments are necessary to accommodate workload growth, replace aging assets, and update the information technology network. Of the $4.8 billion increase over the $9.5 billion FY 1996-2000 Plan, almost 80 percent is for technology and customer service or revenue-enhancing investments.

**Facilities.** At $5.6 billion, facility investments represent the largest category of program commitments, or 39 percent of the total capital investment plan. Sixty percent of the facilities plan is for new or expanded facilities necessitated by the growth of population, mail volume and delivery points. The remainder is for building improvements to extend the useful life of facility assets and to support energy conservation and environmental compliance programs. A significant investment is planned for facility upgrades to target high-volume traffic in major retail markets.

**Automation and mechanization equipment.** $4.8 billion in high return-on-investment automation and mechanization projects is planned for the five-year period, representing 34 percent of the total plan. Such capital investments contribute to efficient and

accurate mail processing by increasing productivity, reducing costs, and improving service quality. The priorities for this category of investment are to drive the level of investment in material handling to the current barcoding automation level by accelerating deployment of a tray management system and developing robotic applications; to increase address recognition levels and decrease remote barcoding system keying; to develop next-generation sortation equipment, leading to highly-automated flats distribution and effectively-completed automated letter distribution; and to invest in more technology to support the delivery function. The shift to advanced material handling systems will reduce labor costs and injuries and provide the information-rich mailstream needed for high-quality process management and customer service.

**Vehicles.** Vehicle commitments of $431 million, while representing only 3 percent of the $14.3 billion plan, are of vital importance in replacing the mail transport and delivery fleet as it ages over time. New vehicles provide better driver safety, higher fuel efficiency, greater reliability and lower maintenance costs. For example, 2,000 trailers that are at least 12 years old will be replaced.

**Retail equipment.** Commitments of $933 million, 6.5 percent of the total plan, are planned for retail equipment to support the customer service and infrastructure improvement strategies. Capital investments for lobby, window, and self-service retail equipment enhance customer service by expanding the availability and convenience of Postal Service products and services. For example, over three-fourths of the retail equipment plan is attributable to the next phases of Point of Service One (POS 1), which began in FY 1996. These terminals will improve customer service, supply comprehensive marketing information and support new or enhanced products and services by enabling retail operations to better manage resources, control inventory and identify profit sources. By the end of 1999, there will be 73,000 terminals in service at 20,000 offices nationwide.

**Postal support equipment.** Commitments of $2.5 billion represent 18 percent of the total plan for Fiscal Years 1997-2001. Postal support investments provide the day-to-day equipment necessary to help employees work more efficiently; support information technology infrastructure to enhance management effectiveness; transmit voice, data, and images across the nationwide telecommunications network; and maintain facility and equipment assets. The next stages of funding for Corporate Call Management, Delivery Confirmation and Associate Office Infrastructure are included in these commitments.

BOTTOM-LINE MANAGEMENT

The objective of management's discussion of revenue and cost performance is to deliver a proven method for achieving positive net income year after year. Costs are growing. So must revenue. But the balance between these two must be maintained to sustain financial stability. This bottom-line result must be managed by the Postal Service to restore prior years' losses and comply with a Board of Governors resolution to eliminate the Postal Service's negative equity position.[11]

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[11] The Postal Service was created in 1971 with an equity of $1.7 billion. During 1972-1978, losses totaling $3.8 billion were experienced as the Postal Service made its transition from the old Post Office Department. During 1979-1986, a cumulative net income of $1.2 billion was earned which restored equity to a positive balance. From 1987 through 1994, losses totaling $6.3 billion were incurred, a large portion of which resulted from significant cost transfers from the U.S. government. Negative equity equaled $6.0 billion on September 30, 1994. The 1995 and 1996 cumulative surplus of $3.4 billion reduced this equity to $2.6 billion.

The bottom-line net income sufficient to repay prior years' losses will be managed as one of the two critical measures of performance for the next five years. The other key measure is the commitment by postal management that this performance goal will not be achieved through reliance on traditional cycles of significant rate increases. Here the commitment that rates will not rise faster than inflation will be sustained.

# HOW THE POSTAL SERVICE WILL MEASURE ITS PROGRESS

# VI.  THE PERFORMANCE MANAGEMENT SYSTEM

The goals and objectives described in Chapter III must be aligned with long-term strategic direction, and performance measures must be established to assess progress. The Postal Service's performance management system balances the multiple requirements of senior management, line management, governance of the business, and fair, objective evaluation of performance. One tool that has been used to highlight selected areas for improvement is the identification of subsets of targets to determine compensation and to define management improvement goals.

An outside professional research service gathers objective external service performance data on which to base evaluation. External measures of performance provide a snapshot of the consumer's perspective on service. Internal process drivers are being developed to give internal line managers the ability to drive performance to improve against these measures. The Board of Governors receives periodic reports on the performance measures and reviews the alignment between the measures and the strategic direction of the organization. The performance measurement system supports the ongoing process of goal-setting, resource deployment and review, allowing the organization to make mid-course corrections and improve over time.

There are a number of ways to learn from experience and continue to improve the system. Performance goals will be updated each year and new measures will be added. Selecting a manageable subset of performance measures while introducing enough measures to evaluate the business is an ongoing trade-off. These choices will be managed through the ongoing cycle of *CustomerPerfect!*

The following sections describe the *CustomerPerfect!* management system and two supporting processes — Economic Value Added and process management. The GPRA requirements for Annual Performance Plans are also discussed.

## THE *CUSTOMERPERFECT!* MANAGEMENT SYSTEM

*CustomerPerfect!* is the Postal Service's Malcolm Baldrige Award criteria-based management system. The *CustomerPerfect!* management cycle of planning, implementation, and review consists of four distinct phases of activities intended to give direction to the organization and to build and sustain improved performance against the goals that are set:

- *Establish* goals, subgoals, indicators, and targets at the national level.
- *Deploy* resources to achieve goals, subgoals, indicators, and targets.
- *Implement* improvement actions.
- *Review* performance and adjust actions accordingly.

The sections below describe each of these phases and the annual management cycle in more detail.

**Establish.** The first phase of the management cycle involves collecting and analyzing data from the three key aspects of the business — the Voice of the Customer, the Voice of the Employee, and the Voice of the Business. The data that guide this phase include current year performance results, trend analyses, and future forecasts. These data from the three Voice areas guide recommendations presented to senior management for the setting of long-term and next-year goals, performance goals, indicators and targets.

**Deploy.** In this phase of the management cycle, the Voice goals, performance goals, indicators and targets are communicated throughout the organization, and agreement is reached on a set of funded programs and activities aimed at achieving the targets. This phase incorporates the budget-setting process. The Deploy phase has two objectives. The first is to align all programs and activities with the strategic direction set by senior management, while eliminating those that do not contribute to the desired end. The second is to agree upon specific performance targets to be achieved by each organizational level.

As a result of the Fiscal Year 1998 management cycle, specific performance measures (indicators and targets) were established as shown in Table 3-5. Managing multiple measures will be one of the major challenges of the system described here.

**Implement.** At the beginning of each fiscal year — with funded programs, activities and unit-level targets already set — the organization implements those programs and activities aimed at achieving the targets. The Postal Service is implementing the "process management" methodology to improve its ability to capture the benefits of experience and to create trusted processes. Process management is a systematic approach to the design, management, and improvement of processes by using data, analysis and evaluation. Process management is currently being implemented, through extensive training and task teams, in 83 performance clusters and in ten enabling functions at all levels of the Postal Service. This investment in process management will improve the organization's ability to achieve its targets and to evaluate the potential effectiveness of programs

and activities selected during the Deploy phase, thus leading to better funding decisions in the future.

**Review.** Senior management's responsibility throughout the year is to review the progress of the programs and activities that are being implemented. The primary objective in this phase is to learn what happened and why, what worked well, what did not work well and to document learning that should be shared with others. Postal Service management recently began using a newly-designed, extensive review process aimed at reinforcing the objective of "continuous improvement." Review sessions are to take place at each level of the organization, with feedback from the lower levels ascending all the way to senior management. This process allows senior management to track progress against targets throughout the year and to take any additional steps needed to ensure the achievement of targets. When *CustomerPerfect!* is fully implemented, the "traditional" project review activities described below will become an integral part of the Review process, moving the Postal Service toward both establishment and fulfillment of goals, subgoals and targets that are aligned more closely with customers' needs and requirements. A national best practices replication process will encourage the sharing of ideas through the Postal Service Intranet.

Traditionally, the Postal Service has relied upon a number of related prospective and retrospective review processes, all of which are currently being brought under and aligned with the *CustomerPerfect!* management system. Prospective reviews and analyses are done primarily during the Deploy process, and include specialized processes such as capital investment and new product development review and approval. These review processes involve a comprehensive analysis of proposed projects and programs prior to their implementation, usually during or immediately after the research and development testing phase (if appropriate), and are conducted to ensure the most effective use of postal resources for achieving corporate goals. Retrospective reviews are normally performed during or after completion of a project or program, and are intended to ascertain whether, and to what degree, the planned objectives were achieved. These processes include the audits and reviews of new and ongoing activities performed by the Office of Inspector General and the Inspection Service (see Appendix C), as well as retrospective cost studies on major capital and expense projects.

**Management cycle.** The chart below summarizes the chronology of this management approach. The Postal Service is currently in the third year of operating using this cycle. As can be seen from the chart, the phases overlap, so that at any given point in a year, the Implement phase for the current year is ongoing, the Establish or Deploy phase for the coming year may be in progress, and simultaneously performance for the previous year and quarter may be under review. The phases are timed to ensure that Voice goals, performance goals, indicators and targets have been set and resources deployed throughout the organization before the beginning of the fiscal year. This approach focuses the usual Postal Service management cycle on performance measures — the systematic measurement and assessment of service to the customer.

## ANNUAL MANAGEMENT CYCLE

| | Oct.<br>95 | Jan.<br>96 | Apr.<br>96 | Jul.<br>96 | Oct.<br>96 | Jan.<br>97 | Apr.<br>97 | Jul.<br>97 | Oct.<br>97 | Jan.<br>98 | Apr.<br>98 | Jul.<br>98 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY 96 | | | | FY 97 | | | | FY 98 | | | |
| FY 96 | Implement | | | | | | | | | | | |
| | | | | Review | | | | | | | | |
| FY 97 | Establish | | | | | | | | | | | |
| | | Deploy | | | Implement | | | | | | | |
| | | | | | Review | | | | | | | |
| FY 98 | | | | Establish | | | | | | | | |
| | | | | | | Deploy | | | Implement | | | |
| | | | | | | | | | Review | | | |
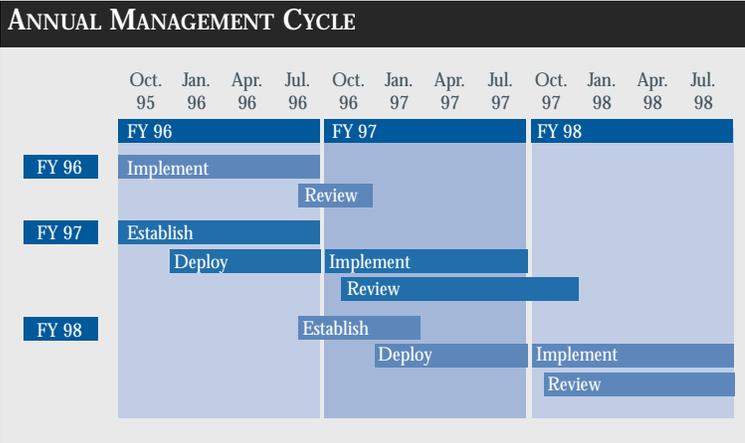
## THE ANNUAL PERFORMANCE PLAN

The performance management system described here is part of the *CustomerPerfect!* management cycle. The annual planning cycle proposes Voice goals, performance goals, business strategies and measures of performance — both indicators and targets. These proposals, first for the five-year horizon, then for the next and subsequent years, are analyzed and reviewed by line management and published as provisional targets. These targets are finalized during the deployment phase budget process, when the cost effectiveness of specific program strategies is considered.

The Voice goals, performance goals and targets (see Table 3-5) will be published annually in the Annual Performance Plan required by GPRA. An interim Performance Plan for Fiscal Year 1999 with provisional targets and intended strategic directions will be published with the Comprehensive Statement on Postal Operations in February 1998. The final draft of that Performance Plan will be published on September 30, 1998, after approval by the Board of Governors.

The results of program implementation and review are formally recorded in the tracking and measurement systems. Improvements will be introduced annually in the next year's planning cycle.

## ECONOMIC VALUE ADDED

As discussed above, the four phases of the *CustomerPerfect!* cycle are organized around goals that are categorized by the three Voices — Customer, Employee and Business. From the economic measures that are identified in the Voice of the Business, Economic Value Added (EVA) is calculated to provide the basis for an incentive management system. The EVA system is intended to provide employees with a clear and powerful measure of their ability to improve the bottom-line economic performance of the Postal Service and to reward successful performance. EVA translates performance results into financial incentives, recognizing that non-monetary awards are also important components of a system of incentives.

With respect to financial rewards, the Economic Value Added system creates an incentive pool.[12] The ability of any individual organizational unit or manager to receive rewards from the EVA system depends upon performance against a specific set of performance-related compensation measures. These measures are a subset of the complete set of performance measures for management improvement discussed above. The selection of

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[12] EVA is calculated by taking net operating income and subtracting a charge for the capital used to produce that income. Because EVA is a measure of operating results, it excludes financing costs such as interest and any non-recurring transactions that are not part of the normal course of business.

the specific measures for compensation and their weighting in the bonus formula is carefully structured by senior management and approved by the Board of Governors.

To communicate this list of measures effectively to the operating units, they are simplified by various means, including combining several measures into a composite measure. In future years, there will be a need to connect the simplified compensation measures to the more complex and numerous management improvement measures. Two parallel measurement systems can be managed, but it can be a source of confusion if the two become too distinctly differentiated or if decisions are made that do not take into account the large number of individuals who must become familiar with the new direction.

## PROCESS MANAGEMENT

The preceding discussion of the connection between management improvement targets and the compensation targets concerns the annual management cycle and the top-down direction of leadership. Process management, on the other hand, is bottom-up.

Process management is a data-based, proven methodology for making improvements in all parts of the business. The focus is on the cross-functional processes through which customer value is created, rather than the functional departments through which people report. A process focus reduces the bureaucracy that often characterizes a functional orientation. Process owners are designated to ensure desired outcomes and performance measurements are built to ensure customer satisfaction. Lead teams guide the selection of issues for improvement. Working teams map the flow of selected business processes, gather data, conduct analyses and develop decision diagrams of the most cost-effective investments that could be made to improve service.

To create a true learning culture that works from the bottom-up, investment in process management training is taking place in virtually all of the performance clusters. In the enabling functions that are not part of the core operations and marketing processes (such as labor relations and human relations), investments in the basics of process management are also being made. As process management is deployed throughout the organization, it will be used more and more in the implementation phase of the management cycle to ensure that Postal Service programs are meeting customers' needs, reducing cycle time and decreasing costs.
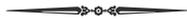
# CONSULTATION WITH STAKEHOLDERS

# VII. CONSULTATION WITH STAKEHOLDERS

As required by GPRA, a wide range of stakeholder input to the strategic plan was requested and obtained. This section describes that process and presents a summary of the comments received and explanation of how the comments were reflected in the final plan. Copies of two *Federal Register* notices that were used to solicit comments are included in Appendix A, along with a list of respondents and some representative quotations taken from the comments.

## OUTREACH PROCESSES

An element of the Postal Service's strategic plan is consultation with stakeholders. In its Report of June 16, 1993, the Senate Committee on Governmental Affairs wrote:

> In developing its strategic plan, the Postal Service . . . shall solicit and consider the views of other interested parties. The Committee recognizes that the Postal Service already provides substantial avenues for such input in regular meetings with groups of major mailers and other postal customers, and urges that there also be established and published a name and address for the receipt of suggestions and comments from the general public.

To comply in both spirit and intent with this requirement, the Postal Service went beyond its current interactions with customers and other stakeholders.

From the summer of 1996 through the summer of 1997, 12 meetings were held with Congressional and GAO staff members to inform them of progress in developing the strategic plan and to receive their feedback.

To solicit input from customers and other interested parties, a notice was published in the *Federal Register* on April 2, 1997 that: a) described the Postal Service mission, vision, goals, priorities, and strategic planning process; and b) requested that comments on these issues be sent to the Vice President of Strategic Planning. This *Federal Register* notice was also featured on the Postal Service World Wide Web home page. One party commented that the scope of this *Federal Register* notice was too narrow, so an amplifying

*Federal Register* notice was published on May 22, 1997 that expanded the scope of issues for comment. Both notices are included in Appendix A.

Letters containing the *Federal Register* notice were sent to about 100 major customers, suppliers, competitors, unions and management associations, bringing the notice to their attention and asking them to respond if they wished to comment. Additionally, stakeholder inputs were solicited using the following customer channels:

- A briefing on the GPRA requirements was presented at the March 1997 Mailers' Technical Advisory Committee meeting.
- At the May 1997 National Postal Forum, the Strategic Planning Office held six meetings with key executives from the postal industry, including several association directors and more than thirty of their members. Also, the Vice President of Strategic Planning and three key industry representatives discussed the Postal Service's mission, goals, objectives and priorities at an open panel discussion attended by about 60 people.
- Local Postal Customer Councils are an important link to business customers. The Strategic Planning staff presented the strategic planning process, mission, goals and priorities during May and June in Pittsburgh, PA; Akron/Canton, OH; Denver, CO; Austin/San Antonio, TX; Santa Ana, CA; and Portland, ME. These meetings had a combined attendance of over 300 participants.
- An article about the strategic plan was included in the June issue of *Memo to Mailers*, which has a circulation of about 145,000.

To reach out to citizens, the Postal Service went beyond the normal *Federal Register* and World Wide Web processes by sending letters inviting citizen comment to 40 Postal Customer Advisory Council leaders throughout the country. These men and women are volunteer consumer representatives.

To solicit employee input on the five-year plan, the following internal communication channels were used:

- The Vice President of Labor Relations communicated the essence of the *Federal Register* notice to the employee unions and management associations.
- A team of 40 senior managers from the field and Headquarters in April 1997 was briefed on the plan and their input to the Postal Service mission, goals, and priorities was received in May.
- A synopsis of the *Federal Register* notice appeared in *Postal Life*, a monthly Postal Service publication that is sent to most postal employees.
- The *Federal Register* notice was placed on the internal Postal Service Web home page.
- A spot announcement was placed on "Postal Vision," a television information system available to postal employees.
- A synopsis and reference to the Postal Service Web page was placed in *Postal Link*, a corporate-wide electronic mail medium.
- An article about the strategic planning process, mission, goals and strategies was published in *Straight Talk*, a publication sent to postal supervisors.
- An article about the strategic planning process, mission, goals and strategies was published in *Corporate Briefings*, a publication sent to all postmasters.
- An early draft of the 5-Year Plan was distributed to stakeholder groups in June and August of 1997.

The Postal Service has extensive day-to-day interaction with other Federal agencies. To enhance the degree of formal consultation with key Federal agencies such as the Department of Justice, the Census Bureau and the Bureau of Engraving and Printing, as well as the National Performance Review and the Internal Revenue Service, a copy of this plan was sent to agency heads as the first step in what are expected to be a series of collaborative strategic planning discussions.

Throughout the process of consultation, the Strategic Planning Committee of the Board of Governors has guided postal management in the collection and consideration of comments, in its meetings with GAO and Congressional representatives and in the organization's response to the requirements of GPRA dictating the preparation of this plan.

## STAKEHOLDER RESPONSES

Most of the stakeholder responses were received in the form of written comments. In addition, several mailer associations provided oral comments during scheduled National Postal Forum meetings, and Postal Customer Council members also provided oral comments during and after presentations of the five-year strategic plan. In sum, over 450 comments were received, including 117 letters.

In analyzing the stakeholder comments, the following categorization of respondents into seven groups was found to be useful. The numbers of respondents are shown in parentheses:

- Residential customers, including Customer Advisory Councils (22)
- Unions and management associations (6)
- Mailer associations (18)
- Employees (50)
- Business customers, including the Blue Ribbon Committee and Postal Customer Councils (23)
- Competitors (1)
- Suppliers (3)

A review of the stakeholder comments resulted in the identification of nine major categories of planning-related issues that stakeholders viewed as important, based on their frequency of occurrence. These nine issues are shown below, ordered by the number of comments received (shown in parentheses):

- New products and services (88)
- Businesslike operations (76)
- Rates and pricing (66)
- Universal service and public service (65)
- Labor relations (45)
- Improved core services (32)
- Mission and goals (31)
- Competition with industry (29)
- Productivity and automation (23)

## Summary of Stakeholder Issues

In this section, a separate summary of citizen inputs is provided to reflect the views of the ultimate customers of the Postal Service. In addition, comments from all stakeholder groups on each of the nine stakeholder issues are summarized. Specific quotations from respondents that deal with many of these planning issues are presented in Appendix A.

**Citizen input.** About one-third of the comments received through the citizen channels mentioned specific service problems, ranging from overcrowded post offices to inaccurate and/or untimely delivery and fraudulent offers in the mail. The desirability of maintaining universal service at reasonable rates was a common theme. Several citizens expressed the view that the Postal Service should be more businesslike; specific suggestions included introducing new products and services and keeping costs low through increased use of outsourcing and automation. Another group of respondents recommended that the Postal Service focus its efforts on developing its employee resources and expanding their role in serving customers.

**New products and services.** Of those who provided comments on this issue, the predominant opinion was the Postal Service should offer new products and services, although some respondents thought they should not be offered at all. Several stakeholders specifically expressed the idea that the Postal Service should offer such services as "Track and Trace" and "Pack and Send" as convenience services, even if these same services are also available from other providers in the industry. Postal Service employees proposed many new ideas for products and services as well as improvements to postal operations. While stakeholders often expressed the concern that the Postal Service faces challenges, particularly in the electronic diversion of hard-copy mail, most of these groups encouraged the Postal Service to participate in this communications medium, both to assure universal service and to maintain Postal Service protections of privacy and trust.

**Businesslike operations.** Most of the comments on this issue recommended that the Postal Service operate in a businesslike manner. For example, the Postal Service should consider more strategic outsourcing, create better measures for existing products and services, use outside measurement organizations, publish all the results, make better use of facilities, combine operations, provide better employee training and improve employee promotion criteria. On the other hand, some stakeholders felt strongly enough to comment that the Postal Service must remain a service first and foremost and that businesslike operations and efficiency should be secondary.

**Rates and pricing.** This topic generated a broad range of comments. Some stakeholders wanted to continue uniform rates for most postal products and services. At the other end of the spectrum, market-based rates and discounts for large-volume users were suggested by some respondents in all stakeholder groups. A frequent comment was that price increases should be smaller than in the past and more frequent than every three to four years. Any increase should be less than the increase in the Producer Price Index. There were also concerns about possible mail volume decreases in the future, which could require rate increases to make up for the lost revenue, thus creating a downward spiral. One stakeholder was emphatic that the Postal Service cannot be a businesslike operation when it has little control over two major elements of its business, setting prices and labor negotiations.

**Universal service and public service.** Universal service, combined with the Postal Service as a public service, received across-the-board endorsement from the various stake-

holder groups. Several respondents expressed concern that if the Postal Service were put on a more businesslike footing, some areas of the country might not have continued postal service. On the other hand, one stakeholder felt that six-day residential delivery was no longer essential.

**Labor relations.** Labor relations comments ranged from the observation that 85 percent of the Postal Service personnel are unionized, as opposed to 17 percent of the U.S. workforce, to the comment that about 80 percent of Postal Service costs are for salaries and benefits. Other comments were that the Postal Service was chartered to be a service provider rather than an employer and that labor costs are too high. Many stakeholders said the Postal Service needs to improve labor-management relations to remain a viable service provider as well as restructure work rules to provide incentives for improved productivity and performance.

**Improved core services.** Comments from all stakeholder groups emphasized consistency of service as a key element. Customers want same-time service each day as well as consistent information from Postal Service employees. Some comments were critical of employees' lack of knowledge about Postal Service products and services. While the Postal Service has made major gains in First-Class Mail overnight delivery, as represented by improved External First Class (EXFC) results, customers want these same improvements in two- and three-day First-Class Mail service.

**Mission and goals.** The comments about the Postal Service mission and goals from the April 1997 *Federal Register* notice, as well as the goals articulated in the *CustomerPerfect!* management system, were almost uniformly positive. That is, the goals are entirely appropriate, and the Postal Service should use them as guiding principles. Only one respondent expressed concern about the need for *CustomerPerfect!* The Blue Ribbon Committee endorsed fundamental changes in the underlying statute during its discussion of legislative reform at the May 1997 National Postal Forum.

**Competition with industry.** The general opinion was that the Postal Service should not compete with industry directly, although one stakeholder felt that the Postal Service was the only company providing needed competition for UPS. In some cases, the Postal Service could offer similar products and services to increase customer convenience. The Postal Service should concentrate on hard-copy delivery and not compete with industry, but outsourcing, alliances or partnering could be viable alternatives.

**Productivity and automation.** If properly coupled with businesslike operations and improved labor-management relations, productivity improvement and automation can be positive forces to improve Postal Service operations. Some respondents expressed concern that the recent classification reform increased worksharing with customers but also resulted in rate increases for some mail categories that did not properly reflect the worksharing savings. The Postal Service should continue to automate more processes, to increase productivity, to hold the line on prices and to improve services.

## INCORPORATING STAKEHOLDER COMMENTS

Although the stakeholder comments reflected differing views on virtually all of the planning issues, in many cases a clear majority opinion could be identified. This section describes how the most pervasive stakeholder recommendations on the strategic planning issues were addressed in the final strategic plan.

**Introduce new products and services.** The new product discussion in Chapter V describes the specific program strategies designed to use new technology to enhance current products and services and to develop new services. The Postal Service will continue to offer new products and services in its core competency areas that respond to customer needs for postal services.

**Emphasize businesslike operations.** As described in Chapter III, the Postal Service intends to continue using its *CustomerPerfect!* management process that sets outcome-based performance goals, measures, and targets based on benchmarking postal operations against best business practices from industry. The *CustomerPerfect!* goals are aimed at product and service improvements, more efficient use of resources and elimination of those elements that are not productive or conducive to good business.

**Smaller, more predictable price increases.** The July 1997 Postal Service omnibus rate filing is the first step in implementing this strategy. This pricing proposal included a one-cent increase for First-Class Mail and a two-cent decrease for certain categories of remittance mail.

**Pursue legislative reform.** Earlier this year, a major postal reform bill (H.R. 22) was introduced by Rep. John McHugh. The discussion of legislative reform in Chapter IV describes H.R. 22 as well as reforms that would preserve the Postal Service's ability to fulfill its universal service mission, provide incentives to control costs, rationalize the rate-setting process and ensure effective governance of the Postal Service.

**Improve labor-management relations.** As discussed in the Voice of the Employee section of Chapter V, this issue is a key strategic planning priority. Several initiatives are under way, including a labor-management Summit process mediated by the Federal Mediation and Conciliation Service.

**Expand performance-based incentives.** The Economic Value Added pay-for-performance program, including pay at risk, is designed to encourage performance-based management. Plans for expanding this system throughout the Postal Service are discussed in Chapter V.

**Improve core products.** Specific year-by-year targets for timeliness, consistency, accuracy, affordability, and ease of use are presented in Table 3-5. The specific program strategies for improving the core products are discussed in Chapter V.

**Increase productivity.** The year-by-year goals for improving total factor productivity and labor productivity are shown in Table 3-5. In addition, the program strategies for achieving productivity improvements are described in Chapter V.

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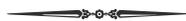
# APPENDICES

# APPENDIX A:
# STAKEHOLDER INVOLVEMENT

This appendix includes the text of the two *Federal Register* notices dealing with the five-year plan, a list of the respondents, and selected quotations taken from the written and oral comments.

## APRIL 2, 1997 FEDERAL REGISTER NOTICE

Request for comments on development of Strategic Plan for U.S. Postal Service, pursuant to the Government Performance and Results Act of 1993

**Agency:** Postal Service.

**Action:** Request for comments.

**Summary:** The Government Performance and Results Act of 1993 requires that the Postal Service and Federal agencies set strategic goals, measure performance, and report on results. It requires development, no later than by the end of fiscal year 1997, of a five-year strategic plan, to include the organization's mission statement, identify its long-term strategic goals, and describe how it intends to achieve its goals. The Act also requires that in developing its Strategic Plan, the Postal Service shall solicit and consider the ideas of those potentially affected by or interested in the Strategic Plan. This notice therefore asks for public comment concerning development of the Postal Service's Strategic Plan for the years 1998-2002.

**Dates:** Comments must be received by June 1, 1997.

**Address:** Written comments should be directed to Robert A. F. Reisner, Vice President, Strategic Planning, U.S. Postal Service, 475 L'Enfant Plaza, SW, Washington, DC 20260-1520.

**For Further Information Contact:** Jon L. Cook, (202) 268-4099.

# SUPPLEMENTARY INFORMATION

**STATUTORY BACKGROUND.**
The Government Performance and Results Act of 1993, P.L. 103-62, (GPRA) was enacted to make Federal programs more effective and publicly accountable by targeting results, service quality, and customer satisfaction. Other statutory goals were to improve Congressional decision making and to improve internal management of the Federal Government. P.L. 103-62, sec. 2(b), 107 Stat 285. Because of the Postal Service's role as an independent establishment of the Executive Branch of the Government of the United States, section 7 of the law establishes separate provisions which apply to the Postal Service (sections 2801-2805 of title 39, United States Code).

Section 2802 of title 39, United States Code, requires that the Postal Service submit to the President and the Congress a strategic plan for its program activities, no later than September 30, 1997. The plan is to contain:

(1) a comprehensive mission statement covering the major functions and operations of the Postal Service;

(2) general goals and objectives, including outcome-related goals and objectives, for the major functions and operations of the Postal Service;

(3) a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and technology, and the human, capital, information, and other resources required to meet those goals and objectives;

(4) a description of how the performance goals included in the plan required under section 2803 shall be related to the general goals and objectives in the strategic plan;

(5) an identification of those key factors external to the Postal Service and beyond its control that could significantly affect the achievement of the general goals and objectives; and

(6) a description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program evaluations. 39 U.S.C. 2802(a).

The GPRA also requires the preparation of annual performance plans covering each program activity set forth in the Postal Service budget. 39 U.S.C. 2803. These plans are to link the strategic goals in the Strategic Plan with ongoing operations. In addition, the law requires preparation of program performance reports, to review and compare performance with performance goals in the annual performance plan. 39 U.S.C. 2804.

In order to involve the public in the process, GPRA requires that, as it develops its strategic plan, the Postal Service "shall solicit and consider the views and suggestions of those entities potentially affected by or interested in such a plan, and shall advise the Congress of the contents of the plan." 39 U.S.C. 2802(d).

**DISCUSSION OF THE POSTAL SERVICE MISSION AND ITS STRATEGIC PLANNING PROCESS.**
In 1970, the Congress enacted the Postal Reorganization Act, recasting the former Post Office Department as the United States Postal Service. Its intent was that the former department evolve into a Federal entity that operates more like a business. While fulfilling its basic mission of providing universal service at a uniform price, the Postal Service would focus more clearly on the needs of all of its customers.

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

To carry out this mission of the United States Postal Service as described in section 101 of title 39, United States Code, the organic statute, a statement of mission was adopted in recent years:

To provide every household and business across the United States with the ability to communicate and conduct business with each other and the world through prompt, reliable, secure and economic services for the collection, transportation and delivery of messages and merchandise.

A statement of vision was also developed at the same time and reads as follows:

Our postal products will be recognized as the best value in America. We will evolve into a provider of 21st century postal communications. We will be the most effective and productive service in the Federal Government and markets that we serve.

The Postal Service seeks comment on this interpretation of mission and vision. In addition, the Postal Service seeks comment on the management goals discussed below.

With its mandate to operate in a business-like manner, the Postal Service developed a 5-year Strategic Planning Process in the 1980's. The Postal Service also has been systematically reviewing performance and reforming processes. Since 1994, when the Postal Service applied the Malcolm Baldrige National Quality Award criteria to create a management system that is called *CustomerPerfect!*, the Postal Service has invested in a systematic revision of its management system, that is currently using process management tools to reform processes throughout the Service.

The *CustomerPerfect!* process is designed to provide structure and discipline to achieve better results for postal customers. The *CustomerPerfect!* management cycle has four distinct phases which can be described as: Establish, Deploy, Implement and Review. The "Establish" phase involves setting organizational direction, determining long and near-term goals, and making decisions about how to measure progress. The output is a set of broad goals and subgoals for a five-year period, as well as a process prioritizing specific subgoals, targets, and indicators for the coming year.

The "Deploy" phase involves communicating goals to the organization, to seek individual unit contributions to the achievement of targets. The "Implementation" phase requires specific, measurable targets for improvement. The "Review" phase involves a periodic check on the system and its performance, whose primary value is learning what will help improve future results.

Therefore, to comply with the requirements of GPRA to solicit and consider the views and suggestions of those entities potentially affected by or interested in such a plan, and to benefit from such guidance in the preparation of its strategic direction, the Postal Service is hereby requesting public comment on development of its Strategic Plan for the years 1998-2002.

Comments are requested in particular concerning the Postal Service's priorities in sustaining and enhancing a viable twenty-first century Postal Service, as reflected in the following goals developed as part of the *CustomerPerfect!* process:

(1) Improve customer satisfaction by offering superior customer value in each market and customer segment that we target;

(2) Improve employee and organizational effectiveness by having the right people in the right place with the right tools at the right time to consistently provide superior customer value and ensure commercial viability in a dynamic environment;

(3) Improve financial performance to assure our commercial viability as a service provider for the worldwide movement of messages, merchandise, and money.

Any comments pertaining to how the Postal Service can best achieve these goals, or on other aspects of strategic planning, goals or performance measurement will be appreciated.

## MAY 22, 1997 FEDERAL REGISTER NOTICE

Request for Further Comments on Development of Strategic Plan for U.S. Postal Service, Pursuant to the Government Performance and Results Act of 1993; and Correction

**Agency:** Postal Service.

**Action:** Request for further comments and Correction.

**Summary:** This document clarifies the Postal Service's Request for Comments, published in the *Federal Register* on April 2, 1997, and requests further comments. The April 2, 1997, notice asked for public comments on the development of the Postal Service Strategic Plan for the years 1998-2002, pursuant to the Government Performance and Results Act of 1993. In addition to clarifying that Request for Comments, this document also adds text that was inadvertently omitted from that publication. The comment period is extended by two weeks.

**Dates:** Comments must be received by June 15, 1997.

**Address:** Written comments should be directed to Robert A. F. Reisner, Vice President, Strategic Planning, U.S. Postal Service, 475 L'Enfant Plaza, SW, Washington, DC 20260-1520.

**For Further Information Contact:** Jon L. Cook, (202) 268-4099.

### SUPPLEMENTARY INFORMATION

On April 2, 1997, the Postal Service published a *Federal Register* notice asking for public comment as part of the effort to develop a Five-Year Strategic Plan under the Government Performance and Results Act of 1993 (62 Fed.Reg. 15740-15741). Since that time, the Postal Service has received comments from several parties and has been actively consulting with the Congress and with key stakeholders.

### CLARIFICATION CONCERNING SCOPE OF COMMENTS.

One comment concerns the extent to which the April 2, 1997, Request for Comments could have been interpreted as constraining the scope of comments that are being sought. In fact, the Postal Service seeks comments on any matters that may be relevant to the development of a Five-Year Strategic Plan. Specifically, the Postal Service has asked key stakeholders:

1. Is universal postal service at uniform rates still an essential service to the public?
2. What is the best way to balance the dual role of the Postal Service as a public service provider and a business-like enterprise?
3. When do consumer and public benefits warrant that a public agency provide services that might be offered by private enterprise?
4. How should public services and private interest be balanced in providing existing and enhanced postal services?

The Postal Service would be interested in receiving comments on these issues or any other matters related to the development of its Five-Year Strategic Plan.

ERRATUM.

In addition, the April 2, 1997, notice omitted three words in a paragraph describing one of the Postal Service goals as a part of the *CustomerPerfect!* Process. This publication corrects the omission of those three words from this goal statement. The current wording of the *CustomerPerfect!* customer goal should read:

> (1) Improve customer satisfaction by offering superior customer value in each market and customer segment *that we target*; (Italics reflect omitted language, now added.)

> Because of this clarification and correction, the Postal Service extends the deadline for providing comments until June 15, 1997.

> Accordingly, the Request for Comments on April 2,1997, which was the subject of FR Doc. 97-8270, is corrected as set forth below.

> In the Postal Service publication of Wednesday, April 2, 1997, on p. 15741, in the second column, goal number 1 is corrected to read as follows:

> (1) Improve customer satisfaction by offering superior customer value in each market and customer segment that we target;

## LIST OF RESPONDENTS

The following groups and individuals provided comments on the strategic planning issues raised in the two *Federal Register* notices:

UNIONS AND MANAGEMENT ASSOCIATIONS
National Association of Letter Carriers
National Association of Postal Supervisors
National Association of Postmasters of the United States

National League of Postmasters of the United States
American Postal Workers Union (Chicago BMC local)
Fraternal Order of Police, National Labor Council, US Postal Service #2

MAILER ASSOCIATIONS
Parcel Shippers Association
Mail Order Association of America
Greeting Card Association
National Newspaper Association

Advertising Mail
   Marketing Association
Reader's Digest Association
National Federation of Non-Profits
American Bankers Association
American Businesses Press
American Quarter Horse Association
Magazine Publishers of America
Main Street Coalition for
   Postal Fairness
Newspaper Association of America
National Association of
   Presort Mailers
Direct Marketing Association
Envelope Manufacturers Association
National Postal Policy Council
Blue Ribbon Panel (presentation at
   April 1997 National Postal Forum)

### BUSINESS/GOVERNMENT CUSTOMERS
Cobblestone Software
U.S. Office of Consumer Affairs
Miles Kimball
Bell Paper Box Inc.
Dow Jones & Company
NY State Consumer Protection Board
Hallmark Cards
Time Inc.
J.C. Penney
Fingerhut
McGraw-Hill
Road Signs for Success
BMG Direct Marketing Inc.
IP KOKE
T.S. Jenkins & Associates Inc.
METROMAIL

### COMPETITOR
United Parcel Service

### SUPPLIERS
Doyle & Bachman (Kitty Hawk)
Pitney Bowes
Siemens ElectroCom L.P

### EMPLOYEES
Mary St. George, Rome, NY
Charles Powel, Albuquerque, NM
David Herrera, Aztec, NM
John Unekis, Prince Frederick, MD
Madeline Rivera, Dorado, PR
Joe Fleischman, Botkins, OH
Jose Diaz, San Juan, PR
Kevin Roberston, Lafayette, IN
Connie Ganger, Hollansburg, OH
Jackie Johnson, Hansen, ID
Charles Harper, Napa, CA
Roger Colbert, Tipton, IN
Barb Lesiak, Orlando, FL
Rosemarie Erby, Chicago, IL
Chip Clemmons, Dexter, NM
Bill Zerhusen, Cincinnati, OH
Helene Bayona, High Point, NC
Jim Caveman, Knoxville, TN
Helio Codilla, Los Angeles, CA
Jeffery Costello, Syracuse, NY
Malcolm Hunt, Memphis, TN
Michael Prato, Stockton, CA
John Duryea, Tucson, AZ
John Covell, San Francisco, CA
Douglas Roberts, Redford, MI
Joseph Accardi, Dayton, NJ
Gabriel Arce, Trenton, NJ
Pat Passa, Newfolden, MN
Jacqui Cotte', Long Beach, CA
John Johnson, Laguna Hills, CA
Mario Cordano, Manchester, NH
Angela Tischler, Pierson, FL
Patrice Shakelford, Dayton, TX
Michele Denny, Washington, DC
Leroy Brewer, Dallas, TX
Sidney Shulins, Washington, DC
Fred Dotson, Mesa, AZ
Rod Devar, Washington, DC
Rosina Maiers, Washington, DC
Herb Cantor, Washington, DC
Terry Hagel, Seattle, WA
Tyler Townsley, Lakeland, FL
Patricia Ruppel, Champaign, IL
Postmaster (Anonymous)
R. Grant Miller, Warrensburg, MO
Gary Hinson, Charlotte, NC

Larry Hodek, Westmont, IL
Al daCosta, Sapphire, NC
Simma Brickers, Trenton, NJ
QWL/EI, Albany GA

**Residential Customers**
Milton Brogley, Platteville, WI
Frank Hogan, Fremont, CA
Jesse Williamson, Woodbridge, VA
Stewart Levin, Carrollton, TX
Nancy Buchta, San Jose, CA
Douglas Carlson, Berkeley, CA
W.R. Kennedy, Birmingham, AL
Theodora Schmoll, Brook Park, MN
Christine Piotrowski,
    New Brunswick, NJ
Robin Higham, Manhattan, KS
Lora Pallatto, Foster City, CA
Frances Wines, Charleston, WV
Ted Dlugos, Pittsburgh, PA
David Popkin, Englewood, NJ

**Postal Customer Councils**
Portland, MA
Akron/ Canton, OH
Pittsburgh, PA
Denver/ Boulder, CO
Austin/ San Antonio, TX
Orange County, CA

**Customer Advisory Council Members**
Sunny Gauger, Wilmington, DE
Peggy Rawhieser, Wilmington, DE
Jacob Hoffman, Wilmington, DE
Romona Stites, Nixa, MO
Robert Williams, Nixa, MO
Concord, NH
Lori Clark, Nixa, MO
Jermain Bodine, Stratham, NH

# Selected Quotations

**New Products and Services**
**Seek new products:**
"You should continue to look for additional postal products for your customers. A pub-

lic agency such as the Postal Service should be able to provide services that might otherwise be offered by private enterprise. However, such services must be an integral part of the public agency's mission."
— *J.C. Penney*

**Expand all services to all offices:**
"The Postal Service should expand all retail services to every level office. Postmasters feel items such as cards and stationary would sell better in EAS-11 through 15 offices due to the shortage of malls and specialty stores in their communities."
— *NAPUS*

**Merchandise not equally successful:**
"I support the new concept of open merchandising and the relaxed tolerances that are necessary to accommodate this form of selling. I do not support the idea that all forms of merchandise will be equally successful in all areas of the country. For instance, here in our area where the economy is almost 100% agriculture, Bugs Bunny ties are not selling well. They don't look good with Levi's and they get caught in equipment! Bugs Bunny T-shirts might do extremely well."
— *H.B. "Chip" Clemmons, JR.,*
    *Postmaster, Dexter, NM*

**Businesslike Operations**
**USPS is a public service:**
"The Postal Service is not a business, it is a public service monopoly delivery system that can and should be managed as efficiently as possible. There is nothing improper — in fact just the opposite — with its adopting some of the techniques U.S. business has utilized in order to increase productivity, reduce costs and improve customer service."
— *Main Street Coalition for Postal Fairness*

**USPS should be run as a business:**
"Everyone is part of the public and often, the public is really treating and dealing

with the Postal Service as if it is their own private mail service. It is not. It should be run as a business first and have as its secondary, but no less important, goal — service of the public. You have to be strong to service the public. A strong business base is absolutely necessary first."
— *Nancy Buchta, Resident, San Jose, Ca*

RATES AND PRICING
**Adopt businesslike pricing:**
"The Postal Service should adopt pricing practices common to most businesses…high volume customers should receive preferred rates."
— *Dow Jones and Company*

**Uniform rates for all:**
"It follows from this mission of public service that uniform rates available to all on a nondiscriminatory basis must be an essential element of postal rate design and offerings. Neither contract rates, non-cost based volume discounts, nor individually tailored classifications should be a part of USPS rate offerings."
— *Newspaper Association of America*

UNIVERSAL SERVICE AND PUBLIC SERVICE
**What does universal service mean?**
"It means, to us, that every customer seeking an identifiable level of service for a piece of mail of a given type, and who presents that mail to the Postal Service, will be afforded the same rate — regardless of how many pieces of mail he or she have in their hands for presentation. Unless and until the Postal Service becomes a private enterprise reliant upon private capital, its forays into volume-based discounts are merely a reassignment of the burden of universal service from those who can most afford it to those who cannot."
— *National Newspaper Association*

**USPS has not met its universal service obligation:**
"Unfortunately, the Postal Service has admittedly not met its universal service obligation. In a recent Postal Rate Commission proceeding, the Postal Service acknowledged that it does not deliver the mail in many areas of the country. Instead, postal patrons in these areas must go to the post office to get their mail."
— *United Parcel Service*

**USPS always a public service:**
"The Postal Service is — first, last and always — a public service. The Postal Service occupies a unique place among American institutions. It is the only arm of the federal government that reaches out to every highway and byway of our country."
— *Newspaper Association of America*

**USPS is a fundamental service:**
"Postal service as defined by current law is a basic and fundamental service provided to the people by the government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. This is the charter of a govern-

ment enterprise whose prime duty is service, not competitive pursuit of bulk mail volumes. The citizen mailer and many small businesses are captive customers and should be protected from the market-driven goals that are prevalent in the Postal Service Five-Year Strategic Plan."
— *Greeting Card Association*

**Customer responsiveness:**
"The Postal Service should consider placing in each SCF or larger post office a person who would serve as a consumer advocate whose sole responsibility would be to receive, investigate, and pursue consumer complaints about service problems."
— *Douglas F. Carlson, Resident, Berkeley, CA*

**Eliminate Saturday delivery:**
"It is no longer essential for the USPS to deliver residential mail on a six days per week schedule. Either eliminate Saturday delivery to households or switch all residential deliveries to alternate days. Businesses should remain as five day deliveries to generate revenue."
— *Bill Zerhusen, Employee, Cincinnatti, OH*


LABOR RELATIONS
**The pulse of the Postal Service is its employees:**
"There is no way to justify that management has all the right ideas and moves to make the Postal Service better, especially when one looks at the service time that the employees at the Postal Service have. While some supervision is needed, in no way do all operations run by the (Post Office) have to have supervision over them to be done successfully. When we talk about empowering employees this can only be done when it is brought forth before, prior to the implementation of ideas."
— *APWU Chicago Bulk Mail Center Area Local*

**Labor relations will be critical for driving costs from the system:**
" Labor continues to represent 80% of Postal Service costs in spite of investing billions of dollars on automation and substantial increase in mailer worksharing programs which should have resulted in decreased dependence upon postal labor. To remain viable in the future, the Postal Service must identify a method for driving costs from the system and increasing productivity. Labor relations will be a critical component of this strategy and the USPS and its unions must find a solution to this unexplained costing phenomenon if the organization is to be successful."
— *Time Inc.*

**Accountability is a major concern:**
"The Postal Service holds it's managers accountable for the total office operation, even to the extent of areas they do not have control over. These same managers are forced to retain employees that are set on destroying the system. The discipline procedure is farce. The success of the Postal Service depends on a total commitment from all employees, craft and managers alike. We must strive to award the good employees and remove the bad ones."
— *NAPUS*

### IMPROVED CORE SERVICES
**USPS needs a working plan:**
"Our weakness is our inability to prepare a working plan. The "how to" to achieve goals and targets. The elusive EXFC goal of 95% must be backed up with a working plan to achieve that goal."
— *Helio Codilla, Employee, Los Angeles, CA*

**USPS must focus on vigorous improvements:**
"The USPS must be focused on constant, vigorous improvement (not just maintenance) of customer value to revitalize the status of mail as a viable communication tool, notwithstanding the evolution to electronic media. Rather than abandoning physical mail, the USPS must restore confidence in its core mail service and elevate the value of mail for all its key customers."
— *Pitney Bowes*

**USPS should concentrate on improving performance**
"The Postal Service should concentrate on improving performance in its core business, delivering mail, and should not expend significant resources on expanding into new endeavors until it has mastered this difficult function. This is particularly true of expansion into areas, such as remittance processing, where the Postal Service's entry is of doubtful wisdom, propriety, and legality."
— *American Bankers Association*

### MISSION AND GOALS
**USPS must redesign itself:**
"The Postal Service too must review and refocus on its mission and redesign itself to be more productive, innovative and customer-oriented."
— *The McGraw Hill Companies*

**Legislative reform is needed:**
"The health of the Postal Service is dependent on a substantial postal reform bill. If we let some shadow of postal reform be passed, it's going to be years before we can get Congress to look at it seriously again. Then all of the competitive cost and management challenges that the Postal Service faces will become bigger each year."
— *Christopher M. Little, Blue Ribbon Committee member and president of the Meredith Corporation Publishing Group*

**A fundamental redirection of the incentives that underlie the USPS is essential:**
"… we remain firmly convinced that the quarter century old charter that has provided the legislative and regulatory framework in which the Postal Service operates requires significant revision. Within the present legislative framework, we believe the Postal Service lacks the essential qualities of an enterprise that must function within a contested market. Unlike competitive private sector enterprises, the Postal Service is not driven by the twin incentives of minimizing costs and maximizing gains."
— *Advertising Mail Marketing Association*

**USPS needs to compare against the best in private industry:**
"The vision statement indicates that the Postal service will be the most productive service in the Federal Government. We believe that if the Postal Service wants to be truly com-

petitive, it will need to emphasize the comparison against the best in private industry and de-emphasize the comparison against other government agencies."
— *Fingerhut Companies*

**Mail will remain important in how we communicate:**
"The simple fact is that mail will remain an important part of the way we communicate and do business for quite some time to come. Consequently, the only reason for the Postal Service's continued existence is to ensure the fulfillment of its basic statutory mission."
— *Advertising Mail Marketing Association*

### COMPETITION WITH INDUSTRY
**Government should not compete in a free market:**
"Government should not participate in the competitive free market process unless there is a breakdown of that process. Government intervention should then be kept to the minimum necessary to remedy the breakdown or to restore a healthy competitive climate."
— *United Parcel Service*

**USPS only organization to provide competition in ground delivery:**
"Parcel Shippers believe, and work hard to help others realize, that the USPS is the only organization in our economy that has the infrastructure and ability to provide competition in the ground package delivery market. As it stands today, UPS has a near monopoly on package delivery. We believe the USPS is the only entity to have a real opportunity to become efficient to the point where this is truly a competitive market."
— *Parcel Shippers Association*

**USPS competition is unnecessary:**
"There is no similar consumer or public benefit inherent in the Postal Service's direct competition with private enterprise in the overnight and two-day mail business. This market is being well served by private industry (e.g., Federal Express, UPS, Airborne Express) and Postal Service competition is both unnecessary and a potential hindrance to private industry."
— *Kitty Hawk Aircargo Inc.*

**Limit services to core business:**
"The concept of the Postal Service providing services which might be offered by private enterprise should be limited to those which are related to its core business. Those items which are not philatelic items but are only utilizing the stamp design, such as shirts and jewelry, should not be provided. Telephone cards should not be provided.
— *David B. Popkin, Resident, Englewood, NJ*

### PRODUCTIVITY AND AUTOMATION
**USPS must plan to moderate labor expense:**
"We believe that the people goal – employee and organizational effectiveness – is central to the overall performance of the USPS. With 80 percent or more of your costs incurred by labor, it is imperative that you plan creatively and aggressively to moderate that expense."
— *Hallmark Cards*

**Automation burdens:**
"As it is now, automation only burdens the carrier more with no reward to him/her or to the delivery customers."
— *Michael C. Prato, Employee, Stockton, CA*

**USPS should expand focus to increase automation opportunities:**
"There are two additional key areas I think need to be emphasized in your strategic plan. Firstly, an expanded focus on further utilization of technology to increase automation opportunities, reduce time-in-process, improve productivity and reduce costs. Secondly, the USPS needs to establish a clear strategy as to how it will survive the ever increasing use of electronic mail which will severely impact letter mail volumes."
— *Reader's Digest*
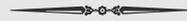
# APPENDIX B: ECONOMIC PLANNING ASSUMPTIONS

Since the aftermath of the 1990-91 recession, the American economy has grown steadily but below the rates of previous decades. As the chart below indicates, it is anticipated that economic growth will continue to be modest through the year 2002, as it has been for the last five years.

**SELECTED PROJECTED ECONOMIC DRIVERS (SOURCE: DRI)**

| Driver | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|
| Disposable Personal Income | 3.0% | 2.2% | 2.3% | 2.5% | 2.3% | 2.0% | 1.9% |
| Gross Domestic Product | 2.0% | 2.3% | 2.2% | 2.2% | 2.2% | 2.2% | 2.2% |
| Consumer Spending Price Index | 2.1% | 2.4% | 2.5% | 2.6% | 2.7% | 2.8% | 2.7% |
| Imports | 5.4% | 7.1% | 5.3% | 5.4% | 5.1% | 4.4% | 4.6% |
| Exports | 6.5% | 4.7% | 6.5% | 6.0% | 5.8% | 5.6% | 5.4% |
| Capacity Utilization | 82.1% | 82.0% | 82.0% | 82.1% | 82.3% | 82.8% | 83.3% |
| Unemployment Rate | 5.4% | 5.5% | 5.7% | 5.7% | 5.7% | 5.8% | 5.6% |

Over the next five years, projected gross domestic product (GDP) will grow 2.2 percent annually. Projected inflation will be in the 2.5-3 percent range, in line with current monetary policy and the general balance in the economy.

Mail volume growth will have a modest demographic underpinning. Annual population growth will average 0.8 percent over the next decade, boosted by 820,000 immigrants annually. Due to age distribution, the adult population will grow slightly more rapidly, gaining 0.9 percent per year, and the number of households will increase at the rate of 1.2 percent.

Economic growth will slowly increase productivity. Non-farm productivity is projected to grow at 1.1 percent per year. Real incomes will rise slowly as wages and labor costs trend upward. The employment cost index (ECI) will grow 3.9 percent per year. There is strong pressure in the business sector to reduce the labor content of production and employ technologies and communication strategies that are less labor-intensive.

When American consumers become more productive as workers, the economic value of their time increases. As time becomes an ever more valuable commodity, services and service features that economize on time will be increasingly attractive to consumers, particularly to higher-income households, who receive the largest residential destinating mail volumes.

The most mail-intensive portion of the economy is the financial services sector. Financial assets held by households will increase more rapidly than income or population. At the same time, we are likely to see a further reduction in the number of banks and reduced barriers to entry among types of financial institutions. The legal distinctions among commercial banks, thrifts, investment banks, insurance companies, investment companies and non-financial corporations are being dismantled by banking reform, raising the prospect of universal-service financial institutions. Considering past trends, some

portions of the financial services sector (e.g., mutual fund companies) will use the mail more intensively than others for marketing and customer relations. The restructuring of this sector itself will have major effects on future mail volumes, threatening to add the volume-depressing impact of account consolidations to those caused by modest economic growth and technology changes.
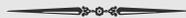
# APPENDIX C: POSTAL OFFICE OF INSPECTOR GENERAL AUDITS

Until enactment in 1996 of legislation creating a new Office of Inspector General (OIG) in the U. S. Postal Service, the Postal Inspection Service served as the OIG. The Inspection Service selected topics for audit attention through a formal risk assessment process conducted annually by Inspectors experienced in the area being examined. This process assessed internal controls, monetary risks, prior audit results, criticality to overall Postal Service goals, and potential exposure to negative or unintended consequences. All audits were conducted in compliance with generally accepted government auditing standards.

During Fiscal Year 1997, the transition process from the Inspection Service to the new Postal OIG began. While the Inspection Service will continue to be involved in audit work, the OIG now has primary responsibility for audit in the Postal Service. The OIG will use a risk assessment process to select programs and activities for audit attention. The results of the audits will provide management with an independent assessment of programs and activities. The OIG will provide audit coverage in the following areas:

**Contract Audits.** The primary function of the Contract Audit office is to minimize fraud, waste, and abuse by monitoring the approximately $5 billion in goods and services acquired by the Postal Service annually. These audits include pre-award and post-award management-requested audits, self-initiated audits, and systemic reviews of contracting processes. The Inspection Service will perform the management-requested pre-award and post-award audits under the program direction of the OIG.

**Developmental Audits.** The Developmental Audit office monitors and assesses the development of projects expected to have a major impact on the operations or finances of the Postal Service. This group monitors the developmental life-cycle of automation, technical, information-based, and business process projects. Specific areas of attention include equipment development, new products and services development, and information-based systems development. The goal is to provide an independent assessment and evaluation of new or redesigned systems.

**Facilities Program Audits.** The Facilities Program Audits will provide the Board of Governors and postal management with an independent appraisal of programs and activities that provide or maintain space for Postal Service operations. The audits are designed to assist management and the Board of Governors in minimizing financial and operational risks. Facility investments represent the largest category of program commitments at $5.6 billion during the FY 1997-2001 period. The Inspection Service will continue to conduct Facilities Program Audits of facilities costing less than $5 million.

**Financial Audits.** The OIG will have responsibility for the annual opinion audit of the financial statements of the Postal Service. The Financial Statements office will review financial activities and provide independent information regarding the financial activities and health of the organization. The audits conducted in support of "the opinion" fall into two areas: Opinion Audits and Financial Installation Audits. Financial Opinion Audits are conducted on an ongoing basis at the Information Service Center sites in Minneapolis, St. Louis, and San Mateo and are consistent with the requirements of the Chief Financial Officer Act. The audits attest to the accuracy of the financial statements of the Postal

Service. Financial Installation Audits are conducted annually at approximately 200 installations that account for about 20 percent of Postal Service revenue. These audits are conducted in support of the opinion audit and are used to attest to the accuracy of the financial statements. The Inspection Service will continue to conduct financial audits at the installation level with program oversight by the OIG.

**Performance Audits.** The OIG will conduct Performance Audits to provide assurance that national systems and programs are operated in an effective and efficient manner and are supporting the corporate goals of the Postal Service. The work performed in this area will ensure the reliability and integrity of information; safeguarding of assets; compliance with policies, plans, procedures, laws, and regulations; economical and efficient use of resources; and accomplishment of established objectives and goals for the operations and programs. The OIG Labor Management office will conduct systemic reviews of labor management issues. The OIG Consulting Services office will provide a resource to assist management in accomplishing corporate goals. The Inspection Service will continue to perform Performance Audits at the area and local level.