



Postal Regulatory Commission

Postal Regulatory Commission
901 New York Avenue, NW
Suite 200
Washington, DC 20268-0001
www.prc.gov

Phone: 202-789-6829
Fax: 202-789-6891

Contact: Gail Adams
gail.adams@prc.gov

Press Release

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PRC Issues Advisory Opinion Analyzing USPS Plan to Change Service Standards

Washington, DC –The Postal Regulatory Commission today issued its analysis of the Postal Service’s Mail Processing Network Rationalization (MPNR) initiative, a plan to capture net savings of \$2.1 billion (later revised to \$1.6 billion) by closing and consolidating 229 of its 461 processing plants to better match declining mail volume. The Commission’s range of potential net savings estimates is lower than that projected by the Postal Service. The Commission’s Advisory Opinion concludes that the Postal Service could significantly reduce its network and realize substantial cost savings while preserving most current service levels.

The Postal Service plan would modify existing service standards for First-Class Mail, Standard Mail, Periodicals and Package Services. Overnight delivery service for single-piece First-Class Mail would be eliminated and much of current First-Class Mail 2-day delivery would be delayed to 3-day delivery. Eighty percent of all First Class Mail would be delayed by at least one day. In July 2012, the Postal Service proceeded with a phased implementation plan that included interim services standards until January 31, 2014, preserving overnight First-Class Mail service (with the exception of First-Class Mail that is handled by more than one processing facility) and consolidating 140 plants.

“The Commission believes that the phased implementation of MPNR provides an excellent opportunity for the Postal Service to study the effects of service standard changes; to inform its decisions on how to preserve as much of the current services as possible; and to make adjustments before full implementation,” says Ruth Y. Goldway, Chairman of the PRC.

The Commission’s analysis focuses on network modeling, cost savings estimates, and estimates of potential volume loss.

The Commission’s Opinion includes alternative rationalization options that would preserve most current service levels and result in significant savings.

- The Commission expands upon the Postal Service’s model and demonstrates the benefits of a more robust modeling effort. The Postal Service uses modeling to develop an initial list of facilities to be consolidated given the decision to reduce service levels. The Postal Service rejected much of the model results; more than half of the plants identified using modeling tools were replaced based on management insight before local studies were performed.
- The Commission recommends starting with a baseline model that is validated against known conditions, including actual plant productivities. The Postal Service’s model uses workhours per square foot as a measurement of productivity; however, productivity is best measured by comparing workhours to the

volume of mail processed. Empirical evidence demonstrates that it is generally more expensive to process mail in larger plants than smaller ones.

- The Commission concludes that in order to capture the anticipated cost savings upon full implementation of MPNR, the Postal Service would have to improve average system-wide productivity by over 20 percent. Improvements of this magnitude are ambitious and involve some risk.
- The Commission estimates that MPNR cost savings may be as low as \$46 million annually assuming mail processing productivities remain at current levels, or as high as \$2 billion annually if all proposed assumptions prove correct.
- These cost savings may be offset by volume losses and resulting contribution losses from mailers who believe the service levels no longer meet their postal needs. The Postal Service initially estimated lost contribution as \$500 million upon full implementation of MPNR. The Commission is unable to replicate the Postal Service's analysis, and the Postal Service now concedes that there are problems with the estimate. In order to balance the risk of achieving projected savings with the risk of possible volume and revenue loss, the Commission encourages the Postal Service to better measure potential volume losses associated with its multiple recent proposals for altering service.
- The Commission advises the Postal Service to develop a plan to better inform all customers of the service they can expect to receive.
- The Commission advises that a transportation hub plan be developed and made known to mailers.

"I want to give special recognition to the economists and statisticians in our Office of Accountability and Compliance for their rigorous analysis of the testimony presented in the case. I urge the Postal Service and the mailing community to study each chapter and the appendices so that we can work together to improve the Postal Service," Chairman Goldway concluded.

The following three tables are taken from the Commission's Advisory Opinion and demonstrate 1) the cost savings comparison; 2) the tradeoff of savings versus service changes; and 3) the effects of MPNR on mail service.

The Commission's complete Advisory Opinion may be found on the PRC website: www.prc.gov.

Table 1
MPNR Cost Savings Estimates

	USPS Initial Cost Savings (\$ millions)	USPS Revised Cost Savings (\$ millions)	Commission Savings (\$ millions)
Mail Processing and Workload Reduction Savings	1,466	1,417	(503) to 1,417
Maintenance and Facility Savings	910	585	585
Transportation Savings	270	58	(36)
*Total Cost Savings	2,648	2,061	45 to 1,966

*Total cost savings are gross before volume losses

Table 2
Savings/Service Trade-Off Using Alternative Cost Driver Assumptions

	Cost Driver Assumptions	Reduction in Mail Receiving Overnight Service	Reduction in Plants	Estimated Savings (\$ billions)	Estimated Revenue Loss (\$ billions)
Postal Service	Assumes Larger Plants are Less Expensive	Majority	238	2.1	(0.50)
Kacha *(APWU)	Assumes Larger Plants are Less Expensive	14%	191	1.6	Unknown
Raghavan (Public Rep.)	Assumes Larger Plants are Less Expensive	Minimal	203	1.7	Unknown
Productivity Based (PRC)	Uses Actual Productivities	Minimal	107	1.8	Minimal

*American Postal Workers Union

Table 3
Before and After MPNR
Percentage of Total Volume of Each First-Class Mail Domestic Product
Delivered Within 1-, 2- or 3-5-Days

First-Class Mail (Domestic Products)	Delivered Within 1 Delivery Day		Delivered Within 2 Delivery Days		Delivered Within 3-5 Delivery Days	
	Q4 FY 2011	MPNR Projected	Q4 FY 2011	MPNR Projected	Q4 FY 2011	MPNR Projected
	(%)	(%)	(%)	(%)	(%)	(%)
Single-Piece Letters/Postcards	58.0	0.0	26.6	63.8	15.1	36.2
Presorted Letters/Postcards	37.7	0.0	37.3	30.4	24.7	69.6
Flats	36.0	0.0	31.4	58.6	30.3	38.9
Parcels	13.1	0.0	49.1	10.5	35.7	89.5

The Postal Regulatory Commission is an independent federal agency that provides regulatory oversight over the U.S. Postal Service to ensure the transparency and accountability of the Postal Service and foster a vital and efficient universal mail system. The Commission is comprised of five Presidentially-appointed and Senate-confirmed Commissioners, each serving terms of six years. The Chairman is designated by the President. In addition to Chairman Goldway, the other Commissioners are Vice Chairman Nanci Langley, Mark Acton, Tony Hammond and Robert Taub.