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MAILERS COUNCIL

WHITE PAPER: BOLD STEPS NEEDED TO PREVENT POSTAL SERVICE INSOLVENCY

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TABLE OF CONTENTS

Executive Summary	1
1. A Call to Action	2
2. Temporary Relief.....	3
Figure 1: USPS Faces Cash Shortage.....	3
Figure 2: USPS Operating Revenue (Dollars in Billions)	4
Figure 3: PAEA Costs Related to Retiree Health Benefits (Dollars in Billions).....	5
An Important Institution.....	5
Figure 4: MAILING INDUSTRY JOB BY TYPE	6
Figure 5: Change in Employment for Key Segments of Mailing Industry	7
Figure 6: Price Changes Since July 2008 For Certain Industries	8
3. Not an Entirely New Situation.....	9
Figure 8: Decline in Single-Piece First-Class Mail	10
Figure 9: Total Mail Volume 2000-2009	10
Figure 10: USPS Work hours.....	12
Figure 11: USPS Labor Productivity Compared to Private Sector Non-Farm Labor Productivity.	13
4. All Options on the Table	14
5. Realigning the Network.....	14
6. Worksharing Reduces Costs	15
7. Conclusion.....	16
8. Endnotes	18

EXECUTIVE SUMMARY

The United States Postal Service (USPS) is the one government entity that touches every American every day. It is also the engine that drives a \$1.2 trillion mailing industry, which is responsible for 8.3 million jobs.

The Mailers Council, whose members account for more than 70 percent of all mail, is calling on Congress and the administration to take bold steps to secure the future of the Postal Service, which is on the brink of insolvency:

- Ended fiscal year 2009 with a net loss of \$3 billion.
- Volume declined by approximately 26 billion pieces in one year.
- The net loss would have been \$7 billion had Congress not passed legislation that reduced the Postal Service's payment to its retiree health fund by \$4 billion.
- USPS expects a \$7 billion deficit in 2010.
- Perilously close to its statutory borrowing limit of \$15 billion.

The Mailers Council calls for action from Congress and the administration.

1. The Postal Service needs to be allowed to reduce its head count.
2. It must be allowed to close unneeded facilities and consolidate its retail network.
3. The Postal Service needs greater control over compensation.
4. It should be allowed to adjust its pre-funding schedule for retiree health benefits when economic conditions dictate.
5. An arbitrator should consider the financial health of the Postal Service when making a decision in the collective bargaining process.
6. The Postal Service should complete its study of five-day-a-week delivery and fully present its findings for further discussion.

Without immediate and thoughtful action, the country will witness the death of one of its most important institutions.

1. A CALL TO ACTION

The United States Postal Service (USPS) is on the brink of insolvency. Mail volume is in decline and expenses are outpacing revenue because the Postal Service must support a mail processing network with more facilities and employees than it needs. Soon the Postal Service will be unable to pay its employees, its retirees or its business partners.

Bold, immediate action is needed. Congress must give the Postal Service a complete set of tools to realign its network, shed inefficiencies and right-size its workforce. For too long, Congress has been reluctant to let the Postal Service make necessary changes to its processing and delivery network. The Postal Service and its customers can no longer afford to prop up an over-sized network in an era of declining volume and revenue. Mail volume has sunk to historic lows and the Postal Service's prices are now capped at inflation, putting further pressure on the USPS to cut costs. Congress and the administration must allow it to make cuts where the majority of those costs reside -- in labor. Nearly 80 percent of the Postal Service's costs are labor-related, yet the Postal Service is often restrained in its efforts to cut those costs.

Businesses, including those in the mailing industry, have ridden out these tough economic times by making difficult choices: cutting staff, reducing compensation, lowering prices to remain competitive and furloughing or laying off employees. According to industry data, the printing industry, a major player in the mailing industry, has reduced employment by more than 12% in the past year alone. In addition, the commercial printing industry has lowered prices by 1.2% over the past year. (See Figures 5 and 6 on page 6 for more details.)

The Postal Service does not have the same tools as private industry, which would allow it to reduce staff or streamline operations to better match its resources to its workload. A combination of the law that governs the Postal Service, work rules with its unionized employees and the political fallout that comes with facility closures hamper the Postal Service's ability to adjust to the marketplace. Although the Postal Accountability and Enhancement Act of 2006 (PAEA) gave the USPS innovative pricing tools, it did not give the organization full control over its costs.

The Mailers Council, whose members account for more than 70 percent of all mail, represents a mailing industry with more than 8 million jobs. It is calling on Congress and the administration to take the steps necessary to secure the future of the Postal Service. While the Mailers Council appreciates the quick action that Congress took to reduce the Postal Service's payment into its Retiree Health Benefits Fund this past fiscal year, it was only a band-aid. Structural reform of the Postal Service is needed. The Mailers Council calls on Congress and the administration to overhaul the architecture of the Postal Service.

This paper outlines the source of the Postal Service's problems, explains the changes needed, and offers a list of recommendations for ensuring a future for this essential government agency. Without immediate and thoughtful action, the country will witness the

death of one of its most important institutions. The history of the Postal Service is very much the history of this country. It not only touches the lives of every American every day, it is the foundation of a \$1.2 trillion mailing industry, which supports 8.3 million jobs. Watchful waiting is no longer an option: eight million jobs are at risk.

2. TEMPORARY RELIEF

Congress provided the Postal Service much-needed financial relief in the final days of September when it passed legislation reducing the Postal Service’s payment to its retiree health fund by \$4 billion. This helped the Postal Service to end FY 2009 with a net loss of \$3 billion, rather than the \$7 billion it was on track to lose. The \$3 billion loss still ranks as the second highest loss in Postal Service history. Mailers are hopeful that by staying within its borrowing authority, the USPS will not seek an exigent rate increase, which would prove deadly to businesses and nonprofits still reeling from the recession.

The recession has hammered the Postal Service as well. Until Congress passed legislation in late September, the USPS expected a record net loss in fiscal year 2009 of \$7 billion and a volume decline of close to 26 billion pieces of mail. The recession has especially hurt advertising mail, particularly regarding credit card, mortgage, and home equity solicitations. But all segments of industry have cut back on mailing. “While the trouble in the financial services sector is routinely making headlines, we have also experienced noteworthy declines from mail order catalogue retailers, printing and publishing businesses, and the services sector,” the Postal Service said in its FY 2008 Annual Report.¹

This 2009 net loss of \$3 billion comes despite the fact that the Postal Service has shed a remarkable \$6 billion more costs than it originally planned this year, only some of which is related to reduced volume. The net loss in 2009 follows a sizable loss from last year of \$2.8 billion, the second- and third-largest annual losses respectively since the Postal Service was reorganized in 1971. Financial expectations for next year are not any better. The USPS says it expects to see similar deficits in 2010 and it could bump up against the statutory limit on total borrowing of \$15 billion by the end of 2010. (See Figure 1.)

FIGURE 1: USPS FACES CASH SHORTAGE

	FY 2008 Actual (Billions)	FY 2009 Projected (Billions)	FY 2010 Plan (Billions)
Net Income	(\$2.8)	(\$3.1)	(\$7.4)
Maximum Debt	\$7.2	\$10.2	\$13.2
Cash Surplus (Shortage)	\$1.4	\$1.9	(\$4.6)

Source: Chart Compiled by Mailers Council based on USPS Data.

One does not need to be an accountant to understand that the situation is dire. A perfect storm of changing communications and a damaging recession have driven postal volumes below 200 billion pieces for the first time since 1998 and to its lowest volume level since 1992. Because the Postal Service earns its revenues from the sale of postage, declining mail volume hurts revenues. Operating revenue remained essentially flat from 2007 to 2008 and will drop by more than \$6 billion this year, despite postage rate increases in both May 2007 and May 2008 (Figure 2).

First Class Mail makes up more than half of the Postal Service’s revenues, but Standard Mail, which is half of the Postal Service’s volume, had been where the USPS had targeted its growth opportunities. Those opportunities no longer appear evident. Many postal observers expect volume will bottom out at about 165 billion pieces, and then mail use should see a slight rebound. But no one expects volumes to return to their glory days of more than 200 billion pieces.

FIGURE 2: USPS OPERATING REVENUE (DOLLARS IN BILLIONS)

Year	2009*	2008	2007	2006
Operating Revenue	\$68.2	\$74.9	\$74.8	\$72.7

* Estimated

Source: US Postal Service FY 2008 Annual Report; 2009 figure based on industry estimate.

The situation is so serious that the Government Accountability Office (GAO) placed the Postal Service back on its high-risk list in late July. GAO’s high-risk list includes those federal programs that are vulnerable to fraud, waste, or mismanagement, or are in need of major transformation. This is not the Postal Service’s first appearance on the list; GAO first placed the Postal Service’s transformation efforts on its list in April of 2001.

Exacerbating the Postal Service’s current financial problems is the statutory requirement that it must pay \$5.4 billion into the Postal Service Retiree Health Benefits Fund (RHBF) on September 30 to cover future retiree’s health benefit costs. When Congress passed legislation reforming the Postal Service in 2006, it included a provision requiring the Postal Service to begin funding its long-term, future retiree healthcare costs. The Postal Service has already made two payments into the fund, \$5.4 billion and \$5.6 billion in 2007 and 2008 respectively. Congress cut the payment for 2009 from \$5.4 billion to \$1.4 billion, but the USPS also spent an additional \$2 billion this year to pay the premium on its current retirees’ health care payments. See schedule in Figure 3.

FIGURE 3: PAEA COSTS RELATED TO RETIREE HEALTH BENEFITS (DOLLARS IN BILLIONS)

Year	Scheduled Payments to RHBF	Premium Payments	Total
2009*	\$5.4	\$2.0	\$7.4
2010	\$5.5	\$2.3	\$7.5
2011	\$5.5	\$2.6	\$8.1
2012	\$5.6	\$2.9	\$8.5
2013	\$5.6	\$3.2	\$8.8
2014	\$5.7	\$3.5	\$9.2
2015	\$5.7	\$3.9	\$9.6
2016	\$5.8	\$4.2	\$10.0
Total	\$44.8	\$24.6	\$69.4

Source: US Postal Service (Columns may not add due to rounding.)

**Congress revised the payment for 2009 with legislation included in the Continuing Resolution.*

This payment schedule, which accounts for nearly 10 percent of the Postal Service’s total expenses, has proved too aggressive in a worsening economy. While Congress was able to provide relief in 2009, it is only a band-aid. It will not fix the long-term problems the USPS faces. In short, without a major restructuring, the Postal Service cannot survive.

The possible collapse of such a large and important institution should not be dismissed, especially in light of the number of venerable institutions that have failed or folded these past few years. The nation’s postal system is no less important and, in many ways, its impact on the economy and American households is even greater than any of the industries or businesses that recently have received government assistance.

AN IMPORTANT INSTITUTION

The United States Postal Service is the one government entity that touches every American every day. American households and businesses received about 203 billion pieces of mail in 2008. Letter carriers made their rounds six days a week, stopping at 149 million addresses each day.²

Although email and the Internet have changed the way people communicate, Americans still expect—and receive—exceptional and secure mail service at affordable prices. The price of a First-Class postage stamp (currently at 44 cents) is one of the lowest among industrialized nations, and the Postal Service continues to enjoy strong brand recognition. It is regularly named the most trusted government agency by the Ponemon Institute survey.³ Americans have a secure postal system that delivers mail on time and without interruption.

Just as important as the Postal Service’s connection to consumers is its role in the larger economy. The Postal Service is an essential business tool. It is the engine that drives a

\$1.2 trillion mailing industry, which is responsible for about 8.3 million jobs in this country.⁴ The mailing industry includes those organizations that communicate by mail, such as catalog companies, publishers, charities, advertisers and billers, as well as those that support these companies, including printers, paper companies and other service providers. See Figure 4 below.

FIGURE 4: MAILING INDUSTRY JOB BY TYPE

Job Category	Total Jobs
Mail Production and Distribution	
Mail Identified Industries	
Private Sector (direct mail advertising, courier, paper, printing etc.)	2,092,047
Postal Service	
Postal Contractors	
Mail Related Occupations in other industries	2,451,923
Mail Users	
Catalog based sales	624,800
Non-catalog based direct mail sales	2,496,800
Direct Response magazine ad sales	418,600
Insert Advertisement Sales	51,600
Publishing jobs not counted elsewhere	196,793
TOTAL JOBS	8,332,563

Source: EMA Foundation Institute for Postal Studies, 2008 Economic Job Study

These businesses and organizations rely on affordable universal service to communicate with customers and promote commerce. Households rely on the mail to communicate and to receive goods that are fulfilled through the postal system. For 230 years, “the national post office has bound the country together and advanced commerce by enabling the exchange of goods, ideas and information,” according to the President’s Commission on the US Postal Service 2003 report.⁵

Size and Scope

If the Postal Service were a private-sector company, it would have ranked twenty-sixth in 2008 on the Fortune 500 list, with revenues of \$75 billion. It is the nation’s second largest employer, with 656,000 career employees, and it operates the nation’s biggest retail network and the world’s largest civilian fleet of vehicles. It has nearly 37,000 facilities around the country.⁶ It underpins the larger mailing industry, which supports nearly 8.3 million jobs in this country.

The Postal Service pays for its operations through revenues raised on the sale of postage and services. It is not supported by taxpayers and has not taken a congressional subsidy to

pay for its operations since 1982. But the health of the US Postal Service is threatened and tough choices are now required to maintain its solvency. The Postal Service is facing its largest yearly volume loss in history and a balance sheet that is bleeding red ink.

As former Deputy Postmaster General Michael Coughlin explained in a recent editorial:

“For most of its existence, the USPS has operated on a business model (how they make money and fulfill their mission) that relied on ever-increasing volumes of First-Class and Standard mail, and the associated revenues, to offset the costs of an ever-increasing network of delivery stops across the country (now at 149 million delivery points six days a week). It was those volume increases, coupled with the periodic price changes that have financed the universal mail system in this country over the last 40 years. Today, that model is in big trouble.”⁷

Any other business or organization facing this situation would make immediate and significant changes to its operations or business plan to weather the storm. During this current recession, many major industries, including those that rely on the mail, reduced staff, cut benefits, and slashed prices. According to an August report by the Bureau of Labor Statistics, manufacturing firms reported mass layoff events involving more than 166,000 workers in the second quarter of 2009, the highest number by industry in the quarter.⁸ Included in the manufacturing segment are the paper industry, printing and related industries and transportation equipment companies.

A snapshot of employment data for key segments of the mailing industry reveals that businesses made significant employment cuts from June 2008 to June 2009. In addition, a number of businesses slashed prices to stay competitive and retain customers. As figure 5 shows, for some industries, the cuts amounted to a double-digit percentage decline from the previous year.

FIGURE 5: CHANGE IN EMPLOYMENT FOR KEY SEGMENTS OF MAILING INDUSTRY

Industry	Percentage Employment Change from June 2008 to June 2009
Printing	-12.1%
Publishing	-9.6%
Advertising and Design Firms	-7.9%
Direct Mail Advertising	-14.7%

Source: What They Think

FIGURE 6: PRICE CHANGES SINCE JULY 2008 FOR CERTAIN INDUSTRIES

Paper	0.2%
Commercial Printing	-1.2%
Computers	-6.2%
Cellular	-2.6%
Internet Service Providers	-0.7%

Source: What They Think Based on BLS Data

But the Postal Service does not have the same tools as other businesses, which would allow it to reduce staff or streamline operations to better match its resources to its workload. GAO noted the limitations on the Postal Service’s ability to cut costs in July testimony before the House Subcommittee on Federal Workforce, Postal Service and the District of Columbia. Phillip Herr, GAO’s director of physical infrastructure, said the USPS’ cost structure has not been cut fast enough to offset accelerated decline in mail volume and revenue. To offset this decline, the USPS must optimize its retail, mail processing and delivery networks, and reduce the size of its workforce. But, Herr noted, when the Postal Service tries to realign and consolidate, it meets resistance.

“We recognize that USPS would face formidable resistance to restructuring with many facility closures and consolidations because of concerns that these actions would impact service, employees, and local communities,” Herr said.⁹

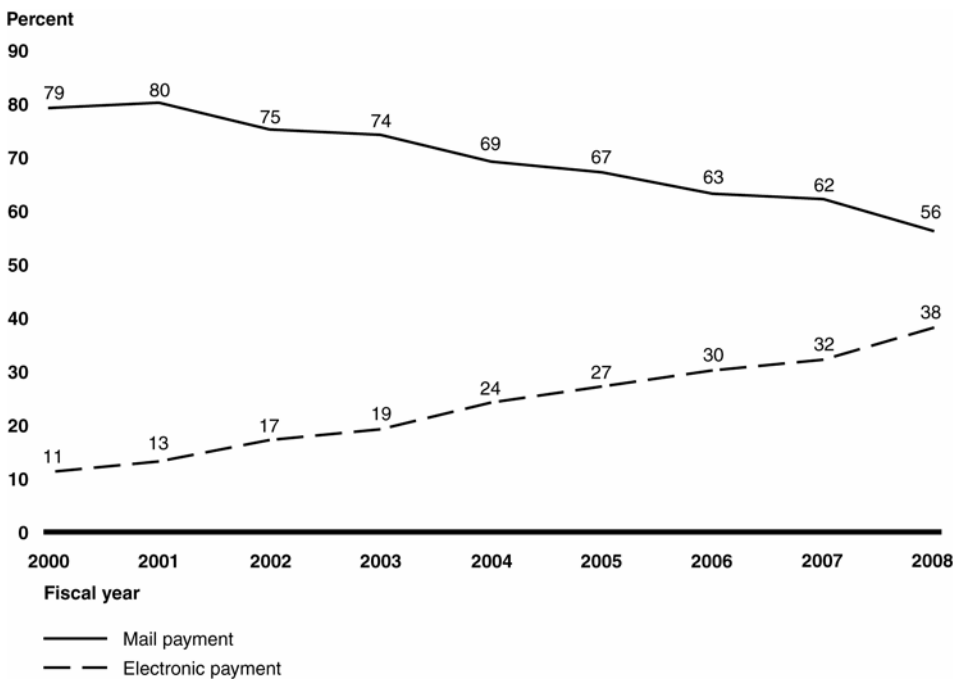
Still, GAO insists that “rightsizing” the Postal Service’s network and its workforce are key to its survival. Herr summed up the major challenges facing the Postal Service in his July testimony:

“The Postal Service projects cash shortfalls because cost-cutting and rate increases will not fully offset the impact of mail volume declines and other factors that increase costs—notably semiannual cost-of-living allowances (COLA) for employees covered by union contracts. Compensation and benefits constitute close to 80 percent of its costs—a percentage that has remained similar over the years despite major advances in technology and automating postal operations. Also, USPS continues to pay a higher share of employee health benefit premiums than other federal agencies. Further, it has high overhead (institutional) costs that are hard to change in the short term, such as providing universal service that includes six-day delivery and maintaining a network of 37,000 post offices and retail facilities, as well as a delivery network of more than 149 million addresses.”¹⁰

3. NOT AN ENTIRELY NEW SITUATION

While the severity of the Postal Service's financial situation is unprecedented, some of the underlying problems it faces are not new. Single-piece First-Class Mail has been in decline for years, as more and more households shift to online communication and bill paying. Figure 7 shows the trend toward electronic bill payment over the past decade.

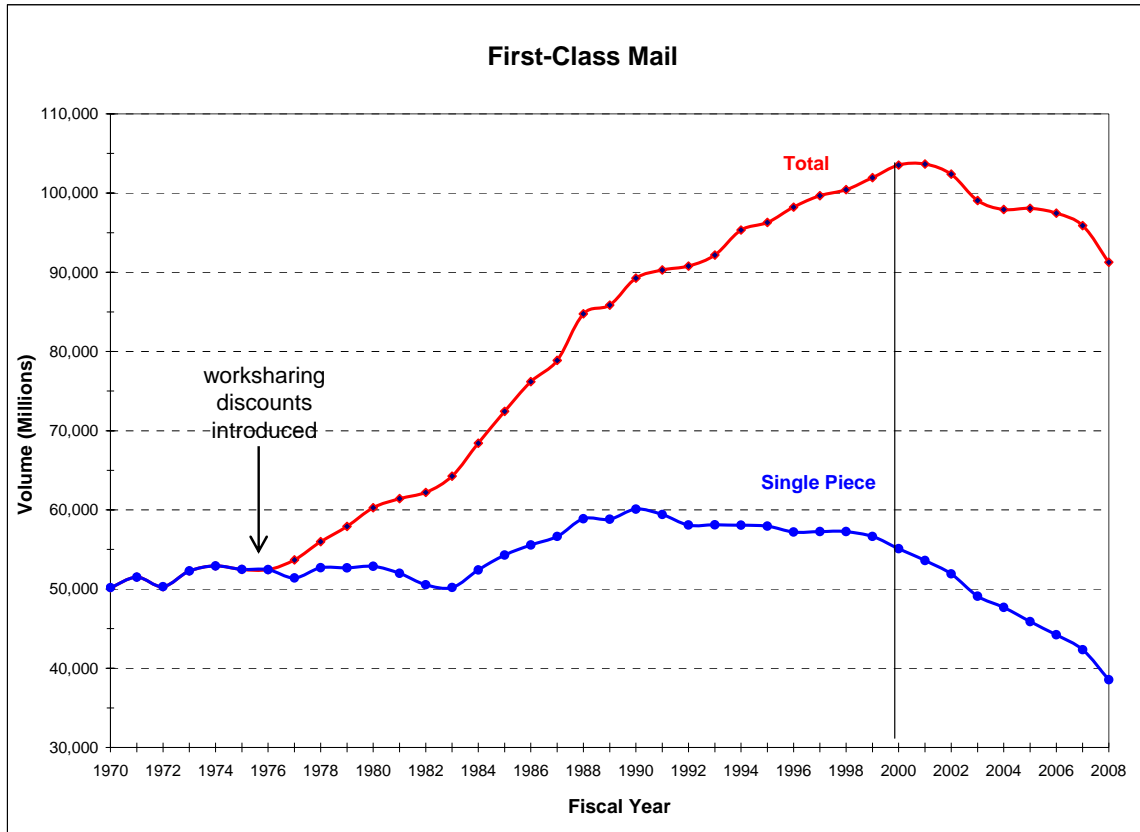
Figure 7: Percent of Household Bill Payments Made by Mail and Electronically, Fiscal Years 2000 through 2008



Source: USPS.

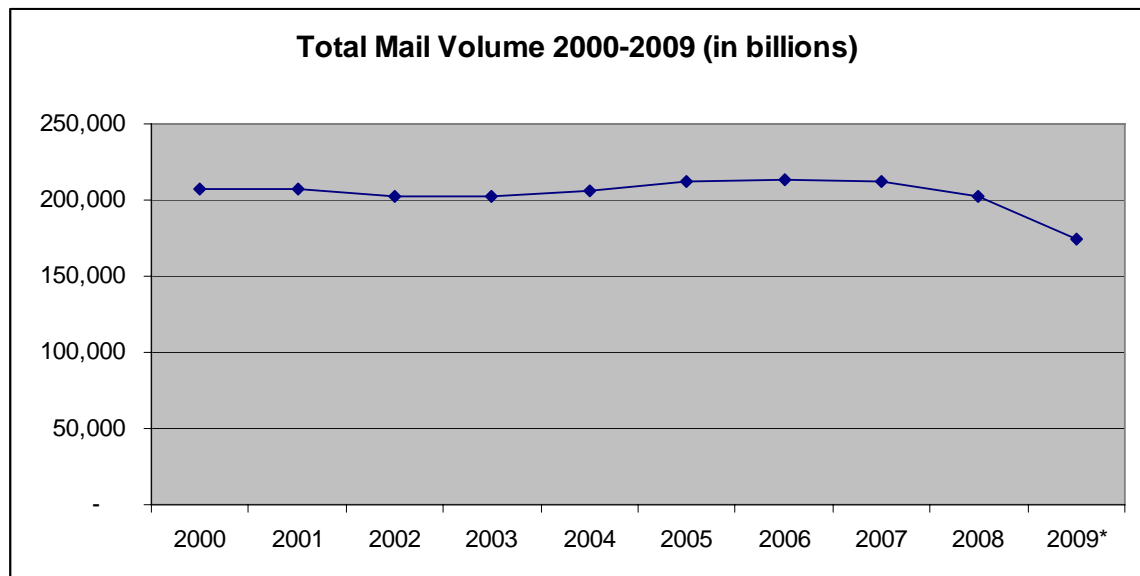
The Postal Service had been able to offset that decline by steady growth in commercial mail in the 1990s, in particular bulk business First Class Mail. (See Figure 8). In the 2000s, however, the trend line started changing. The Postal Service began experiencing year-over-year declines in total mail volume unlike any it had seen. (See Figure 9.) In fact, from 2000-2009, the Postal Service has had annual volume declines in six of those nine years. In the entire 20th century (for 100 years), the Postal Service had year-over-year mail volume declines only seven times.

FIGURE 8: DECLINE IN SINGLE-PIECE FIRST-CLASS MAIL



Source: Postal Regulatory Commission

FIGURE 9: TOTAL MAIL VOLUME 2000-2009



Source: Data from U.S. Postal Service annual reports.

* Estimate

GAO noticed the coming storm at the start of this century. The changing nature of communications, mounting labor and delivery costs, and a deteriorating financial condition prompted GAO to put the Postal Service's transformational efforts and long-term outlook on its high-risk list in April 2001. The USPS stayed on that initial high-risk list until 2007 when GAO removed it, which has proved a very brief respite.

GAO's alarm bell, sounded in conjunction with a growing chorus of industry concern, prompted President George W. Bush to appoint a commission in December of 2002 to study the Postal Service and provide recommendations for long-term viability. The President's Commission on the United States Postal Service spent seven months listening to stakeholders and studying the full range of challenges facing the Postal Service. Its report, released on July 31, 2003, listed a series of recommendations to enhance the value of mail and keep the USPS viable.

The Commission's report provided a foundation upon which Congress would build the postal reform legislation it had been debating for nearly 10 years (at that point). The Postal Accountability and Enhancement Act of 2006 included many of the presidential Commission's recommendations around modernizing the rate-setting process and strengthening the regulatory body. However, some of the Commission's key recommendations about operations and the postal workforce were not fully realized and, as such, remain relevant today. Indeed, they are not just relevant, but necessary.

In its chapter on a modern workforce, the Commission said: "The level of success achieved by the Postal Service will hinge on its ability to successfully deploy and motivate a talented, capable, nimble workforce of a size appropriate to the future postal needs of the nation and to give employees a personal stake in the success of the institution's ambitious goals."¹¹

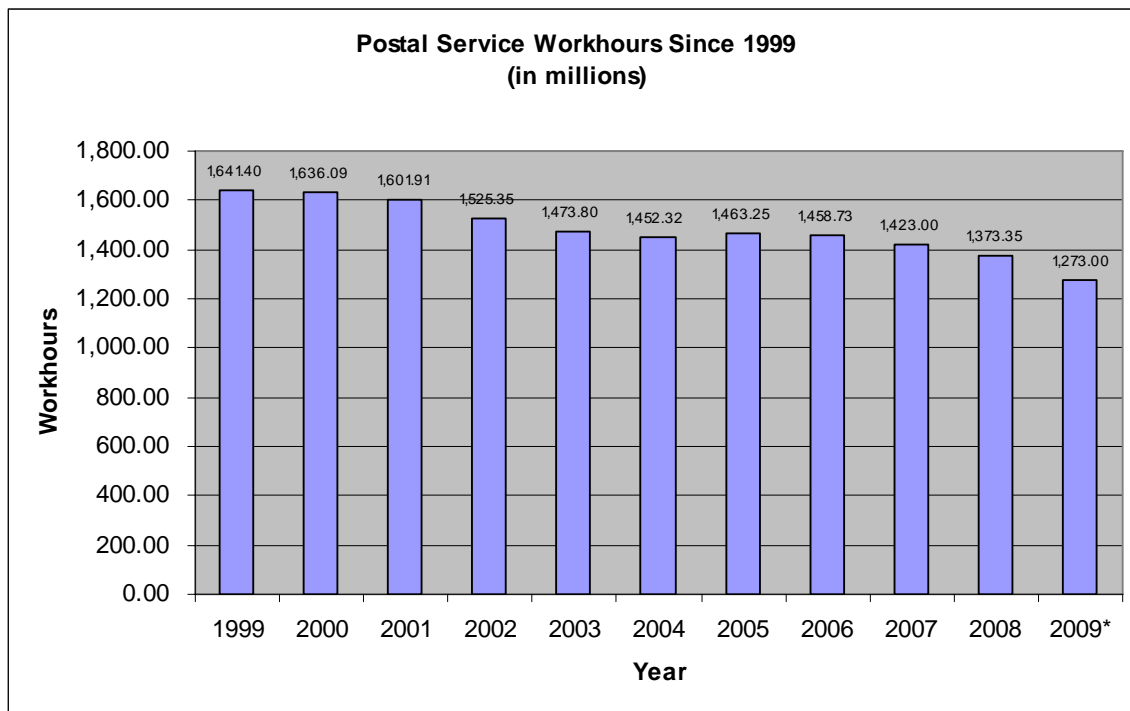
In explaining that Postal Service management and its governing board must build and maintain a world-class workforce, the Commission said: "Essential to this process is the ability of management and labor to work constructively together to determine the right size of the postal workforce and to ensure appropriate flexibilities in its deployment. This is *the* critical issue when it comes to controlling future costs and capabilities of the workforce."¹²

The Commission's chapter on workforce remains a valuable resource for addressing the Postal Service's current challenges. Although the USPS has almost 90,000 fewer workers today than it did in 2003 when the report came out, it handled 202 billion pieces of mail in 2003, about 26 billion more pieces than it handled this year. Further, despite billions of dollars of capital investment in mail handling equipment and increased worksharing activities by mailers, labor costs still make up about 80% of the Postal Service's total costs. *The Wall Street Journal* reported in an August 21, 2009 article, "About 80 cents of every postal dollar pays for employee salaries and benefits (compared to less than 50 cents for Fed Ex and UPS). What that means is that if you want to cut costs at the post office, you have to slash labor expenses. Mr. Potter has reduced Postal Service employment to 650,000 from 800,000 over the past four years, largely through attrition. But he still em-

employs 650,000 workers who have among the best wages and benefits in all of American life.”¹³

Postal Service management has worked vigorously to contain labor costs, most notably through its ongoing effort to reduce work hours. The Postal Service has cut \$6 billion more in costs this year than originally planned due primarily to its reduction in work hours of 100 million hours. As Figure 10 indicates, the Postal Service has shaved 260 million work hours over the past 10 years, which is the equivalent of eliminating 150,000 workers. The Postal Service instituted a hiring freeze and offered early retirement at the start of FY 2009, which contributed to the reduction. Further, it recently announced a financial incentive of \$15,000 to thousands of employees who opt for early retirement. This is likely to help it achieve work hour reductions of another 80 million hours in 2010.

FIGURE 10: USPS WORK HOURS



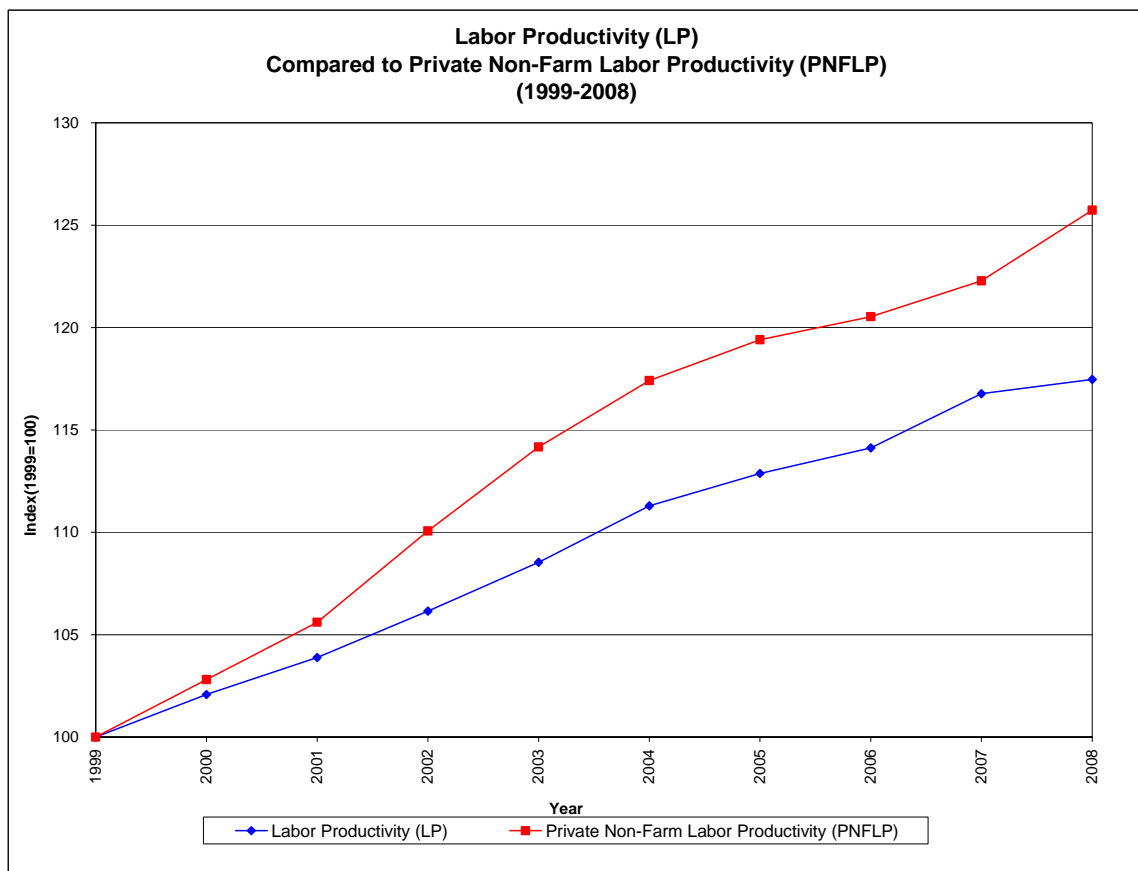
*2009 estimated

Source: Data from Postal Regulatory Commission; chart prepared by Mailers Council

This steady decline in work hours also has helped the Postal Service to improve its productivity. The Postal Service uses a single indicator called total factor productivity (TFP) to measure productivity, which measures the change in the relationship between outputs (workload processed) and inputs (resource usage). Workload consists of weighted mail volume, miscellaneous output, and the delivery network. Resources consist of labor, materials (including transportation), and deployed capital assets. Workload minus resources used equals TFP.

The Postal Service's TFP growth in the 2000s closely tracked that of the private sector, as measured by the Bureau of Labor Statistics' multi-factor productivity index for non-farm industry. However, when labor factor productivity is isolated, the Postal Service lags behind the private sector, as figure 11 shows. This is not an indictment of postal management or employees. It simply means the USPS does not have the tools it needs to fully match its resources to its workload. For example, when volume falls dramatically, as it has done these past two years, the Postal Service cannot adjust its work hours quickly enough to offset such a precipitous decline in workload.

FIGURE 11: USPS LABOR PRODUCTIVITY COMPARED TO PRIVATE SECTOR NON-FARM LABOR PRODUCTIVITY.



Source: Postal Regulatory Commission. (Note: USPS data is fiscal year, private non-farm data is calendar year.)

4. ALL OPTIONS ON THE TABLE

Despite this significant reduction in work hours, and other major cost-cutting initiatives, including an executive salary freeze, suspension of capital expenditures and delivery route adjustments, the Postal Service still faces insolvency. Chipping at the edges is no longer sufficient. Congress needs to take bold steps and make the structural changes necessary to keep the Postal Service viable. All options need to be on the table, including:

- The Postal Service needs greater control over how much it pays employees and all elements of compensation, such as health and retiree benefits.
- It needs the ability adjust its pre-funding schedule for retiree health benefits when economic conditions dictate.
- An arbitrator should consider the financial health of the Postal Service when making a decision in the collective bargaining process.
- The Postal Service also needs the authority to furlough or lay off employees when it needs to match resources to its workload.
- It must be free to rationalize its facilities and network.
- Congress should carefully review the Postal Service's study of five-day-a-week delivery.

5. REALIGNING THE NETWORK

The Postal Service has to be allowed to adjust and downsize its network to meet today's volume and service requirements. It should be allowed to close or consolidate post offices and mail processing facilities, which would help it contain costs by better aligning resources with its workload.

Acting Comptroller General Gene Dodaro said in announcing the Postal Service's return to GAO's high-risk list:

“To remove its financial condition from the high-risk list the Postal Service needs to undertake a number of major structural changes. In the short term, a key challenge is to cut expenses quickly enough to offset mail volume and revenue declines to avoid running out of cash to pay expenses. In the long term, USPS should consider consolidating operations, closing unneeded facilities and reducing its workforce to reflect new trends in mail use.”¹⁴

This is a theme that GAO has hit upon in numerous pieces of testimony and reports. It also was a major recommendation of the 2003 Presidential Commission report. In the report, the Commission urged the Postal Service “to push the envelope of innovation.” The USPS must acknowledge that “the postal network as it exists today is far too sprawling and cumbersome for the nation's needs ... through the strategic deployment of new technologies, partnerships with the private sector and appropriate cost-reduction strategies, it can grow smaller *and* stronger—keeping the Postal Service's commitment to universal service without overburdening ratepayers.”¹⁵ The Commission insisted that this realignment proceed without “undue external intervention.”

The need for network rationalization is even greater now, as the new postal pricing regime limits postage increases to an annual inflation-based cap. For industry, this price cap is a welcome relief from the past system of large and unpredictable price increases. But industry also realizes that a price-cap system puts even greater pressure on the Postal Service to cut costs. Current revenues cannot support today's infrastructure. Postmaster General John Potter told a media gathering after the National Postal Forum trade show in May: "We have an infrastructure we cannot afford based on the revenues we are receiving."¹⁶

This untenable situation has prompted one key lawmaker to acknowledge that changes are needed in the Postal Service's network. Senator Tom Carper (D-DE) and one of the architects of the Postal Accountability and Enhancement Act, said at an August oversight hearing that Congress needs to reconsider its position on facility closures.

"The Postal Service currently maintains more than 35,000 retail outlets and more than 400 processing plants around the country. This network was developed for a time before email, before electronic bill pay, before any number of communications revolutions in our society. We simply don't need all of those facilities in this day and age. But, all too often, Congress puts up roadblocks whenever the Postal Service even mentions that it might be time to close or consolidate some facilities. We just can't afford to do that anymore."¹⁷

The current mail processing network was built to handle a different type and amount of mail. Many of the Postal Service's large mail processing centers were built in the 1970s when customers dropped mail in collection boxes and the Postal Service sorted the mail and then transported and delivered it to final destination. With the introduction of worksharing discounts in 1976, customers began sorting the mail by ZIP Codes before entering them in the postal system. In 1991, when postage rates reflected the cost savings for entering mail closer to its final destination, many customers began depositing their mail at "destination" postal facilities. This is known as "dropshipping" and it, along with other worksharing programs, has helped the Postal Service achieve remarkable efficiencies and cost savings. But they have also helped to make some facilities redundant.

6. WORKSHARING REDUCES COSTS

Worksharing involves activities that mailers perform in substitution for work that the Postal Service performs, such as preparing, sorting or transporting mail.¹⁸ Worksharing discounts in the Postal Service's price structure are set to the costs the Postal Service avoids as a result of someone else doing the work. So, if mailers can do the work for less than the Postal Service, then they do the work. The Postal Service does the work if it can do it for less than mailers. For example, mailers can sort their First-Class letters to the five-digit ZIP Code and save 10.5 cents per piece off the full First Class letter price of 44 cents. This is a worksharing discount that is available to any mailer willing and able to sort its mail in ZIP Code order and meet other preparation requirements. For those mailers that choose not to do the sorting, or for whom it does not make economic sense, the Postal Service performs this service.

By setting the prices at avoided costs, the Postal Service allows the party that can do the work less expensively to do the work. This approach minimizes costs in the postal sector, or what is often referred to as lowest combined costs. GAO said in its 2003 report on worksharing that both the Postal Service and the Postal Regulatory Commission credit worksharing with benefiting USPS, in part because it enables USPS to improve its operations and thereby minimize its workforce and infrastructure.

“In addition, they said worksharing benefits USPS because it stimulates volume growth, which helps USPS achieve economies of scale,” GAO said.¹⁹

A 2004 paper by respected postal economists supported this conclusion. The paper showed that worksharing saved the Postal Service more than \$14 billion in 2001, and it stimulates volume growth. (See Figure 8.) Since 1978 when worksharing discounts were introduced for advertising mail, ad mail had grown 230 percent through 2004.²⁰

Worksharing is a concept that the President’s Commission on the Postal Service wholeheartedly supported. It stated in its report:

“Those who can do it best and for the best price should have the job, regardless of whether the ‘best execution’ provider is the Postal Service and its existing workforce or a private-sector company. This greater integration of the public and private postal networks will add value to both. It also holds the possibility of allowing the Postal Service to focus on its true core competency: delivery of the mail, the first and last mile reach that makes the Postal Service unique.”²¹

7. CONCLUSION

Without fundamental change, the Postal Service will not be able to survive and meet its obligations in the near term. Unlike other businesses, the Postal Service does not have all the tools it needs to adjust to a changing economy or marketplace.

The Mailers Council strongly opposes privatization of the Postal Service, but it can no longer support the status quo. Real change is needed and tough decisions must be made to keep the Postal Service solvent. The mailing industry does not make these recommendations lightly. Some considerations, such as the possible elimination of Saturday delivery, would have an enormous impact on the entire mailing industry. Many organizations have business plans that depend on mail delivery six days a week. Still, the industry recognizes that given the dire financial condition of the Postal Service, all issues have to be on the table.

Congress must give the Postal Service the tools it needs to contain costs and to right-size its network. It must allow the Postal Service to operate more like a business, as envisioned in the Postal Accountability and Enhancement Act. Absent such congressional action and restraint, the failure of the Postal Service is virtually assured.

The Mailers Council recommends the following:

1. The Postal Service needs to be allowed to reduce its head count.
2. It must be allowed to close unneeded facilities and consolidate its retail network.
3. The Postal Service needs greater control over compensation.
4. It should be allowed to adjust its pre-funding schedule for retiree health benefits when economic conditions dictate.
5. An arbitrator should consider the financial health of the Postal Service when making a decision in the collective bargaining process.
6. The Postal Service should complete its study of five-day-a-week delivery and fully present its findings for further discussion.

If Congress can provide these essential management tools to the Postal Service, the Mailers Council believes that the USPS will weather the current crisis and continue to serve the American public for many years to come without taxpayer support.

8. ENDNOTES

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3. U.S. Postal Service, press release September 16, 2009, accessed at <http://www.usps.com/communications/newsroom/welcome.htm>.
4. EMA Foundation Institute for Postal Studies, “2008 Economic Job Study Final Report,” accessed at http://www.emafoundation.org/file_depot/0-10000000/0-10000/2518/conman/IPS+2008+Jobs+Study+Final_Report1.pdf.
5. Report of the President’s Commission on the United States Postal Service, “Embracing the Future: Making Tough Choices to Preserve Universal Mail Service,” July 31, 2003, p. 1, accessed at <http://www.treas.gov/offices/domestic-finance/usps/pdf/freport.pdf>.
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8. Bureau of Labor Statistics, BLS Economic News Release, “Extended Mass Lay-offs in the Second Quarter of 2009,” August 12, 2009, accessed at <http://www.bls.gov/news.release/pdf/mslo.pdf>.
9. Phillip Herr, Director, Physical Infrastructure Issues, Government Accountability Office, “Broad Restructuring Needed to Address Deteriorating Finances,” GAO-09-790T, July 30, 2009, p. 4, testimony before the Subcommittee on Federal Workforce, Postal Service and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives.
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11. Report of the President’s Commission on the United States Postal Service, p. 107.
12. *Ibid*.
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14. GAO Press Release, “GAO Adds Postal Service's Financial Condition to ‘High-Risk’ List,” July 28, 2009, accessed at http://www.gao.gov/press/postal_service_pr.html.
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16. *PostCom Bulletin* 22-09, May 22, 2009.
17. Senator Tom Carper, Chairman, Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, Committee on Homeland Security and Governmental Affairs, opening statement for hearing of “The U.S. Postal Service in Crisis,” August 6, 2009, accessed at <http://hsgac.senate.gov/public/index.cfm?FuseAction=Subcommittees.FederalFinancialManagement>.
18. Government Accountability Office, “U.S. Postal Service: A Primer on Postal Worksharing,” July 2003, p. 3.
19. *Ibid*, p. 19.

20. Robert H. Cohen, Matthew Robinson, Renee Sheehy, John Waller and Spyros Xenakis, "Postal Regulation and Worksharing in the United States," December 2004, p. 10, available at <http://www.prc.gov/prc-pages/newsroom/TechnicalPapers.aspx?name=prcstaff>.
21. Report of the President's Commission on the United States Postal Service, p. 8.