



Association for Postal Commerce

1901 N. Fort Myer Dr., Ste. 401 • Arlington, VA 22209-1609 • Ph: +1 703 524 0096 • Fax: +1 703 997 2414 • Web: <http://postcom.org>

Testimony of

James O'Brien

Vice President, Distribution & Postal Affairs

Time, Inc.

On Behalf of the

Association for Postal Commerce

Before the

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Committee on Oversight and Government Reform

Subcommittee on Federal Workforce,

Postal Service, and the District of Columbia

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Mr. Chairman, Ranking Member Chaffetz, and members of the Subcommittee, The Association for Postal Commerce (PostCom) thanks you for this opportunity to provide testimony on the Postal Service's cost cutting efforts. Among PostCom's members are some of the largest users of the Postal Service, including banks, catalog companies, and publishers, as well as some of the smallest mailers, including independent store owners, professionals, and non-profits. Some of our members are equipment manufacturers, software developers, printers, mailing houses, lettershops, and logistics firms. All PostCom member companies need a healthy Postal Service to ensure the viability of our businesses. Unfortunately, the current health of the Postal Service is not very good.

The viability of the Postal Service's business model has been suspect since First-Class Mail began migrating to electronic bill presentment and payment over ten years ago. This was the initial warning sign that fundamental reform of the Postal Service was required. At that time, PostCom and the mailing industry lobbied both Congress and the White House to address this issue. In response to a GAO recommendation, a bi-partisan Presidential Commission on the Postal Service was created; its report was issued on July 31, 2003.

A significant number of the Commission's recommendations were incorporated into the 2006 Postal Accountability and Enhancement Act (PAEA). Unfortunately, many of the ills that faced the Postal Service in 2003 have continued to grow unchecked since then. The seriousness of the situation is suggested by the projection in the Commission's 2003 report that mail volume would decline to 181 billion pieces by 2017. The Postal Service now projects that mail volume will have declined to approximately 180 billion pieces in FY 2009—that is to say, over a period of six years rather than fourteen years, as predicted by the President's Commission. Clearly, volume decline has been much greater than anyone predicted in 2003. Yet the Postal Service continues to be required by law to serve an ever-expanding number of delivery points, and its ability to raise its prices by more than the general rate of inflation is constrained by both the PAEA and market forces.

The management and dedicated employees of the postal service are well aware of these difficulties. Thanks to the loyalty and tireless efforts of these individuals, the USPS reduced its costs by \$8 billion from 2002 – 2008 and is planning to reduce costs by an additional \$5.9 billion in 2009. In spite of these accomplishments, however, the Postal Service is projecting a loss of more than \$6 billion in FY 2009, and a cash shortfall of \$1.5 billion or more by the end of September 2009 – less than five months from now.

These sobering facts indicate that the Postal Service cannot remain financially self-sustaining for much longer under its current model unless it is given substantial freedoms to make changes in other areas. It must be allowed to take measures to

- (1) adjust its scope and scale to meet its volumes and revenues, including restructuring its logistics and its network of mail-processing facilities,
- (2) determine days for mail delivery,
- (3) maximize efficiency across the entire supply chain by expanding worksharing where mailers can perform a function more economically than the Postal Service
- (4) expand its use of automation where it can perform a function more economically, and
- (5) employ innovative pricing strategies where they promise to increase its competitiveness.

The Postal Service is much too important to the economy and the American public to be allowed to atrophy and fail.

So there is clearly much more work to be done. That work will require the commitment of USPS management, the Postal unions, the mailing industry, the Postal Regulatory Commission, and Congress. Some of the choices facing us will not be without pain. We are all going to have to make some sacrifices. To that end, PostCom has several recommendations concerning network adjustments, the frequency of mail delivery per week, worksharing, and automation.

Network Adjustments

Optimizing the current mail processing and logistics network will require difficult but necessary choices. This system was built in an environment of annual volume increases and a rate setting process that required significantly less emphasis on cost control. The Postal Service is now operating under a new set of parameters that include declining mail volume, expanding delivery points, and a CPI based rate cap.

Mailers feel very strongly that the Postal Service must adjust its network to match today's volume and service requirements. Such a network adjustment could have a negative impact on service, because the Postal Service will need to spend more time consolidating mail to build efficient loads and truck dispatches will be less frequent. PostCom members are willing to accept service adjustments if the net result is a commensurate reduction in overall Postal Service costs and an increased effort by the Postal Service to expand its use of private sector resources when they can be used to

improve cost-efficiency and consistency of mail service (more on this below). The key for those of us who make up a substantial part of the business mailing industry is consistency. As long as service remains predictable and reliable, businesses can adjust their printing and mailing dates to compensate for any adjustments.

In the past, difficulties with even modest network realignments have arisen because of local and what we believe to be purely short-sighted objections. Given the Postal Service's perilous financial condition, we hope that the Postal Service's current efforts to streamline the network and reduce costs will not be thwarted by the parochialism that has impeded similar efforts in the past.

Frequency of Mail Delivery

The frequency of mail delivery is another issue where the mailing industry is willing to put skin in the game. PostCom understands that the Postal Service does not have many opportunities that could result in a savings of \$3.5 billion. We also accept the fact that volume is declining and may never return to prior levels. Desperate times call for desperate measures and the time has come to match delivery days to the volume. PostCom members recommend this course of action even though many PostCom members have business plans that depend on six-day delivery. No matter which delivery day is eliminated, some company or industry's ox will be gored. However, the dire straits in which the Postal Service now finds itself require that mailers work with the Postal Service on developing a delivery day solution. The end result undoubtedly will inconvenience many in the industry, and be costly to some, but may be required to ensure the survival of the Postal Service. We also realize that reducing delivery by one day per week is a decision that cannot be made by the mailing industry and the Postal Service alone, but requires the acquiescence of Congress. We urge you to give the need for this measure serious consideration.

Worksharing

The Postal Service has another very important tool at its disposal for making appropriate adjustments to the scope and scale of its mail-processing system: worksharing. Worksharing enables mail services to be provided at the lowest combined cost of the mailers and the Postal Service. To achieve this result, rate differentials for functions that both the Postal Service and the private sector can perform must be set at a level that reflects the improved postal efficiencies permitted by worksharing and the marketplace realities of demand for worksharing services.

If the Postal Service can perform certain mail processing and/or transportation functions at the lowest cost, those functions should be performed by the Postal Service. If a mailer can perform those same functions at a lower cost, then the mailer should

perform them. Inducing mailers to perform worksharing functions allows the Postal Service to avoid performing work that others can perform at a lower cost. This type of sensible business-like behavior is needed now more than ever, and PostCom strongly recommends the continuation and expansion of worksharing incentives.

Automation

PostCom member companies have made significant investments in automating processes and improving productivity. The Postal Service is also pursuing an automation strategy and has had great success in improving the lettermail processing operation. Similar efforts are underway to improve the processing of flat shaped mail including magazines, catalogs, and large First Class envelopes. PostCom applauds these efforts, so long as they are aimed at achieving the lowest combined costs across the entire mail supply chain and are not merely shifting costs upstream in the supply chain to mailers and/or mail service providers.

Other

On May 7, 2009 the Postal Regulatory Commission granted the Postal Service permission to sell unutilized capacity on its trucks. The Commission has also opened a docket on "Summer Sale" prices that are designed to generate more mail volume in the summer, the Postal Service's lowest volume period. PostCom fully supports both concepts and notes that these creative ideas represent fresh thinking that has long been absent in the Postal Service's revenue generation efforts.

PostCom also appreciates the efforts of the Postal Regulatory Commission and their openness to new concepts. These efforts may not always be successful but their development and evaluation is a step in the right direction. The Postal Service must not be afraid to fail in these tests and the Postal Regulatory Commission, Congress, and the mailing industry must provide the latitude that allows either success or failure.

PostCom would be remiss if we did not mention the need for a restructuring of retiree health care cost funding. Each year, in addition to \$2 billion to cover current retirees, the Postal Service pays over \$5 billion to prefund future retiree health care costs. This \$7 billion annual obligation must be covered by current postage rates, and in the current economy this burden is oppressive. To address this issue, Congressman John McHugh has introduced HR 22 and 299 members have signed on as co-sponsors of this bill. HR 22 is not a bailout but rather an extension of the current payment schedule that will allow both the Postal Service and the mailing industry to recover from the effects of the recession. PostCom is fully aware of the mailing industry's responsibility to fund the retirement costs of the postal employees who have reliably delivered our products throughout their careers.

Summary

PostCom's members depend on a reliable and affordable Postal Service. Given the perilous state of the USPS finances, neither Congress, the Postal Service, postal unions, nor mailers can avoid these issues any longer. Substantive changes must happen very quickly or the Postal Service as we know it may not survive.

Once again, PostCom appreciates the opportunity to participate in this hearing and looks forward to working with Congress and the Postal Service on any reform efforts.