

Testimony of Mark Strong
Executive Vice President,
National League of Postmasters

Before the
Subcommittee on
Federal Workforce, Postal Service & the District of Columbia
Of the
Committee on Oversight and Government Reform

United States House of Representatives

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Chairman Lynch, Ranking Member Chaffetz, members of the Subcommittee, good morning. My name is Mark Strong and I am the Executive Vice President of the National League of Postmasters (LEAGUE). I would like to thank the Subcommittee for inviting the National League of Postmasters to testify. We are pleased to appear before you today.

As a preliminary matter, the LEAGUE would like to thank the Subcommittee and the full Committee for reporting H.R. 22 without amendment. That action has operated as a catalyst and started the legislative ball rolling at OMB and in the Senate.

I. Background

The National League of Postmasters, which was founded in 1887, is a management association representing the interests of tens of thousands of Postmasters throughout the United States. We represent Postmasters from post offices of all sizes—from the very smallest to the very largest post offices. The LEAGUE speaks for thousands of retired Postmasters as well.

I am a level 24 Postmaster of Sun City, Arizona, an unincorporated area in the northwest portion of the Phoenix, Arizona, metropolitan area. I have served in that capacity since 1992. My post office serves just shy of 110,000 homes and in addition to Sun City includes Sun City West, Dysart, and Surprise, Arizona.

Under my Post Office, I have no stations, two branches and one finance unit. A postal “station” is a postal facility that is not the main post office but is within the incorporated area of the town or city. A branch is the same thing, except that a branch is outside the incorporated area of the town or city. Since Sun City itself is not incorporated, I only have branches under my main post office.

The difference between a station, a branch, and a “finance unit” is that carriers are housed and operate out of both branches and stations, while finance units are simply retail facilities. Thus my finance unit has customer service retail windows and post office boxes, but no carriers are housed in this unit.

My testimony today focuses on the effort by the Postal Service to consolidate the operations of some retail stations and branches (and I assume finance units) into nearby facilities.

II. The Role of a Post Office.

A post office (and its stations and branches) has the primary responsibility, in a given geographic area, for:

- Collection activities.
- Carrier delivery activities.
- Certain final incoming and initial outgoing mail processing activities.

Much of this latter function has disappeared as delivery point sequencing has significantly reduced most manual sortation and mail processing activities done in Customer Service offices.

In addition, post offices (and their stations, branches and finance units) serve a vital function as:

- Primary network access entry points.

- Retail sales points.
- Final delivery points for post office box holders—a key element of our customer base.

Finally, in rural areas the local post office plays an additional and critical role. Rural post offices are key focal points for the community, and they create the glue that binds the rural community together and maintains its identity. This social and cultural role has little to do with the actual working of the Postal Service, but nevertheless is an absolutely vital function for maintaining social and cultural cohesion in rural America. When a rural post office is closed, the rural community often shrivels up and dies. This is not a key role for suburban and urban post offices. Since the Postal Service's current retail initiative is aimed only at level 24 post offices and above, it obviously does not encompass rural post offices, and I address them no further in this testimony.

III. Consolidation of Post Office Functions

Given the multifaceted nature of what a local post office does, I do not find it particularly helpful to discuss the matter in abstract terms of consolidating branches, stations, or finance units. Rather, I find it much more helpful to discuss consolidating local post office functions, and I will approach the issue this way.

A. Key Assumptions.

Before considering the consolidation of local post office functions, it is important to set forth two assumptions that are critical to the LEAGUE's view and position in this area.

1. Service levels must be maintained. First, putting aside for a moment the current economic conditions, Postmasters throughout the country understand that the Postal Service faces significant challenges as it turns itself into an institution that can thrive in the 21st century. Electronic diversion, internet buying and the way people use mail have changed a lot over the

last twenty years and will continue to do so. We understand this and we understand the need to continue to evolve and change with the times.

Key to our success in the future will be maintaining current levels of service. No matter what else happens, service must continue at today's level or better. Any degradation of service would be disastrous for the Postal Service and could easily lead to a death spiral from which our postal system would never recover. There are alternatives out there, for *all* of our products, and while we know that our products are strong enough to thrive in the future, that is true *only* if service is maintained.

2. The mail will come back. Second, there is the crucial question of what will happen to postal volumes after the economy recovers and businesses once again are thriving. The LEAGUE strongly believes, as we understand top postal officials do, that when the current recession is over, most of the mail will come back. Not all, but most. This, of course, assumes that service levels will be maintained.

There is another school of thought that believes today's levels of volume losses are permanent. We believe that this view suffers from a lack of vision and does not encompass a full understanding of the multifaceted mailing and shipping business. We also believe that view is, in part, the result of an overly panicked reaction to the very serious economic conditions of the day, and how they are affecting particular elements of the mailing industry.

An analysis of the main product lines of the Postal Service supports our view. Let us look at each product line—personal and business correspondence, bill payments, bill presentation, expedited mail and parcels, advertising mail (First Class, standard class, and nonprofit), and periodicals.

First, little personal and business correspondence has left the mail in the last year. This is because most of it left the mail a long time ago—years, if not decades ago. Second, bill payment mail is indeed leaving the system as online bill paying increasingly gains hold among the public. This is, however, but one segment of the mailstream. In very sharp contrast, bill presentment mail (sending bills through the mail) is not disappearing rapidly from the system as many had prophesied. Indeed, research has found that among those who are willing to receive bills electronically, almost 90% want to continue to receive their bills via the mail for filing and backup purposes, and as a check on the quality of electronic delivery.

Fourth, the expedited mail and parcel markets (which are more profitable per piece than the First Class market) are doing very well in the age of the internet, and both are prime channels to deliver items ordered online. While most people probably would not use the Postal Service to deliver a new computer that they bought online, most would use the Postal Service to deliver a new mouse or a new USB flash drive. The same thing holds true for a new DVD, a new book, and a new shirt or sweater. This business is not going to diminish, and our expedited services and parcel services have a very bright future.

Fifth, First Class, standard mail, nonprofit advertising and marketing mail has decreased noticeably in recent times. So, however, have all other advertising channels, some more than the mail. Despite this, advertising mail remains an extremely powerful channel, and there is absolutely no reason to think that it will not come back once the economy recovers, assuming the Postal Service doesn't do something foolish like price it out of the market. Admittedly, there have been issues with the cost/benefit ratio of First Class advertising mail, but that could (and should) easily be taken care of through price adjustments, market discounts, and future Negotiated Service Agreements.

Last but not least, there is the issue of whether periodical mail will come back as strong after the recession as before. I do not profess to have a great in-depth understanding of this aspect of the mail. My understanding is, however, that the Postal Service loses money on most pieces of periodical mail that are entered into the system, so to the degree that its recovery is weaker than the norm, the Postal Service stands to benefit financially.

With those assumptions in mind, let us turn to the matter of consolidating local post office functions.

B. Consolidation Of Collection, Carrier Delivery, And Local Mail Processing Activities.

The LEAGUE strongly supports consolidation of these functions where appropriate. The key to our view in this area is the term “where appropriate” and we are quite concerned that knee-jerk, panicked consolidations could lead to consolidating functions in ways that would cost rather than save the Postal Service money, or negatively affect service.

In examining the issue of consolidation, we must remember that there is often a good reason why carriers are dispersed throughout a community at stations and branches, and that this reason has little to do with mail volume. It has rather to do with traffic and maintaining service levels. It can take a long time to drive five or ten miles, much less twenty or thirty miles on urban and suburban streets in heavy urban traffic.

Looking at my communities—and they are on the list—if the carriers from one of my branches were consolidated to the other branch or my main post office, the heavy traffic in the Phoenix metro area would add almost an hour additional drive time per day to each carrier route. I would have to compensate for that, or have service suffer.

There are two ways to do so. Both cost more money. First, I could add an hour of overtime to each carrier. At almost a dollar per minute that is almost \$1200 more per month, per

route to sit idly in traffic, as the traffic gets on their nerves and burns up more gas. Alternatively, I could knock some deliveries points off of each route and then hire another carrier to make up the difference. That too is expensive.

Then there is the question of sufficient space in a given facility to take new carriers into that facility. In my case, I don't have any to spare, and I imagine that that is the case in a lot of other post offices. Indeed, in my post office, the main problem has been growth. I have been growing for years at an astounding rate, and my thoughts tend to wander back to the expansion that I will have to do in the future to handle the increasing number of delivery points, rather than worrying about how to consolidate for a year or so.

In terms of facts, I have been adding almost 800 delivery points to my post office per month for years. That number, however, has decreased significantly over the last year, and is now at about 80 new delivery points per month. Very recent indications are, however, that this is not going to last and that my area is going to return to rapid growth.

I keep in close contact with our local developers, just to stay on top of this issue, and my contacts have told me that new delivery points in my area are once again starting to grow rapidly. One way to measure this is by the number of building permits issued for new homes. Last month in my area there were more building permits issued than were issued in the prior twelve months put together. That is great news for my local economy, and I do anticipate that my 80 new delivery points per month will start to grow—perhaps quite rapidly—in the not-too-distant future. I have to start thinking about that now, which puts me back into an expansion mode, not a contraction mode.

A very important question concerning consolidation deals with timing. Many post offices are leased, not owned, by the Postal Service. Those leaseholds are for a set time and

include penalties for breaking the lease. If carrier functions and retail operations were appropriately consolidated in other facilities, the Postal Service would not be able to vacate the leased properties until the lease term ran out. This point alone suggests that while some gains might be made over the medium and long term, there might not be that much to be gained in the short term.

Thus, while consolidation of carrier functions is a great idea, in theory, which the LEAGUE wholeheartedly supports, it is not clear that there is much to actually be gained from widespread, clear-headed, intelligent consolidation of the carrier function in post offices. That does not mean that it shouldn't be considered, but it does mean that one should not set one's expectations too high, and expect significant cost savings to come out of the process.

C. Consolidation Of Access Points, Retail Sales Points, And PO Box Delivery Points.

While the LEAGUE strongly supports the notion of consolidating carrier functions, so long as service is not hurt, it has more fundamental concerns about consolidating retail functions. Service has to be our prime consideration in looking to the future. Without good service, we have nothing to offer. A good number of retail outlets in the community allows us to provide better service. Conversely, closing any significant number of retail facilities inevitably results in a reduction of service to our community, which is counterproductive to the long term future of the Postal Service.

Times have definitely changed; just a few years ago we were matching locations and hours of operation with our main competitors. If they were open until seven o'clock in the evening, we were open. If the customer was to have a choice, we wanted it to be us. That clearly

is no longer the case. When the economy turns the corner, how much business will we have given away by cutting hours and reducing locations?

Let me add here that when I say a “*reduction of service*,” I am not talking about selling stamps or not selling stamps. The Postal Service is quite correct when it suggests that the variety of new ways for the public to buy stamps has led to a decrease in the importance of post offices in regard to this function. Much more important is the function of the post office as an access and entry point to the network as well as the function of the post office as a final delivery point for PO boxes.

In terms of access and entry to the network, for some years now the Postal Service has tried to increase access and entry to the network through non-post office means. Services such as Click and Ship™, Carrier Pickup™, and Pick Up On Demand® are all targeted to achieve that goal. While great strides have been made in this area, I truly believe that the public still depends disproportionately on post offices for access to the network and that these new alternatives have by no means reached a point of acceptance where they can adequately substitute for post offices as access and entry points. Consequently, consolidation of retail windows at this point in time would, I believe, greatly affect access to the network in a negative way and should be avoided; unless a given retail facility is truly not required.

Finally, the strongest argument for caution in consolidating retail facilities lies in the area of post office boxes. Today, the reality of carrier delivery is that businesses tend to get their mail very late in the day, far too late to process and deposit checks the day they are received. That poses problems for many businesses—particularly small businesses—in terms of cash flow.

As businesses have complained about this for years, we have for years told businesses that the answer to this problem is to use a post office box, where mail is always available no later

than 11 a.m. By renting a post office box, small businesses can pop over at 11, pick up their mail, walk back to the office and process their checks to deposit them the same day at their local bank with a minimum of hassle. This is a very widespread practice, and the quick access to checks that post office boxes provide plays a central role in the financial health of hundreds of thousands of small businesses across the country. Post Office boxes are in almost every retail facility in the country; they provide quick access to checks; and they are very convenient.

Consolidating post office boxes—even if it means that a small business has to drive only twenty minutes further—is a burden we should not place on our customers. Time means money for our customers, and it is up to us to serve them, not have them serve us.

Moreover, there is a fundamental question of how we can consolidate one set of boxes from one post office into another. Generally, there simply isn't sufficient room in the second post office to accept the boxes from the first, unless more boxes are built in the second office. This in turn creates a problem as most of these post offices were constructed with a formula for parking that took into account the number of boxes and deliveries serviced. Consolidation could easily skew that formula. Transferring a significant number of boxes to a post office could easily overcrowd the parking at the second post office, and add much—too much—to the lines and pedestrian traffic inside the post office.

Moreover, in many urban and suburban communities, local businesses walk to their local station or branch to pick up their checks. Any significant consolidation would turn many of these walking trips into driving trips, with all the attendant added expense and inconvenience to the businesses that this would entail. Moreover, given that for years we have been pitching PO boxes very hard to businesses, it would be hypocritical for the Postal Service to suddenly pull out from under them the convenience that has made PO boxes such a success.

Finally, for a variety of reasons, carriers leave notices for pickup every day up at many residences where no one is home. These pickup notices require a resident to come to the local post office (or branch, station, or finance unit) to get their mail. If customers are required to pick up articles at a consolidated facility, mileage, traffic, congestion and parking has to be very closely examined. We are the Postal *Service* and *service* does not mean forcing a customer to drive seven to ten miles in urban traffic to pick up one piece of mail, only to encounter a five-minute wait to park, and a then a twenty-minute wait inside.

In conclusion, I do not want to suggest that no consolidation could occur. Intelligent consolidation is always a good idea. However, the needs of the local small business and our customers must come first. They are a critical part of our customer base, and it is they we need to serve, not have them serve us.

We should go very slowly in consolidating retail and box functions at branches, stations, and finance units. One way to assure this is to clearly provide local public notice and a local public hearing if the Postal Service determines that the retail functions of any branch, station, or finance unit should be consolidated. Setting a survey card out in the lobby is not enough.

In these proceedings, the Postal Service should remember the maxim of a good business, and that is that the customer is always right. If resistance develops to the consolidation of any of these facilities, then the Postal service should accede to the wishes of the community, for it is that community that the government-owned Postal Service is meant to serve.

In making these determinations, the Postal Service should emphasize local decision-making for local conditions and realize that this process will require local oversight and local examination rather than regional or national review. As this committee well knows, centralized

decision making tends to be the norm in the Postal Service, and that norm could be very counterproductive in this instance.

CONCLUSION

The LEAGUE does not oppose considered, intelligent consolidation of post office functions. The exercise is fraught with peril, however, as regional managers who are not sensitive to local service concerns could end up destroying much of the base of the Postal Service, and alienating many of our communities. We easily could lose the “service” in Postal Service and destroy our brand. That would be disastrous. Careful analysis and very cautious implementation needs to be the operating mode here.

Thank you for considering our views, and I would be pleased to answer any questions that you might have.