

Our goal is to position the Postal Service as the low-cost, high-quality supplier for online purchases and returns, working on our own and with other partners in the shipping industry. A special focus is on product and service innovation with an added emphasis on small businesses, including the “at home” entrepreneur. We continue to work toward a 100 percent visibility network, providing information from acceptance to delivery as packages move through our network.

Examples of our success in the package category are already apparent with our Flat Rate Box campaign. We are building on that success to win new customers and drive revenue growth. In November 2010, the Postal Service marked the sixth year of the Priority Mail Flat Rate Box product. Since debuting in 2004, Priority Mail Flat Rate Boxes have shown an average year-over-year growth rate of 58 percent. Over 350 million of these convenient, simple and versatile boxes have shipped in the last six years, generating revenue in FY 2010 of \$1.2 billion. In January of this year, we introduced Priority Mail Regional Rate Boxes. Designed for commercial shippers, these boxes are an affordable solution for package shipments requiring fast delivery over shorter distances. To add to the value, these boxes can be used with Merchandise Return Service parcels to be returned at Priority Mail prices. The possibilities for growth are endless and we will continue to create new ways customers can utilize the Postal Service for their package business needs.

Finally, our fourth strategy is to continue our evolution toward becoming a leaner, faster and smarter organization. To accomplish this, we are redoubling our efforts to streamline the Postal network, in order to properly manage steadily declining mail volumes. We will not sacrifice excellence, however, and will continue to achieve record levels of service, even as we tighten our operational and management structure. The concept of Continuous Improvement drives our efforts to achieve this goal. Using sound management principles, such as Lean Six Sigma (LSS), we constantly evaluate our processes and procedures for mail processing, transportation, delivery, customer transactions, and virtually every aspect of our organization. By making improvements and removing layers of redundant tasks, we are making the Postal Service leaner.

One of the most well-known strategies is the proposal to move to a five-day delivery model. In the last three years, there has been a 20 percent decline in total mail volume. Even with all of the cost-cutting efforts put forward by the Postal Service, there is still more to be done in order to find additional savings. Our analysis shows that the move from the current six-day per week delivery model to a five-day per week schedule would save approximately \$3 billion per year. The Postal Service developed a comprehensive plan for a five-day delivery model; one which included consideration of extensive feedback from external stakeholders. If permitted to move to a five-day delivery schedule, the Postal Service would require approximately six months to implement the plan. Currently, six-day delivery language is included in the annual appropriations bill that directs funds to the Postal Service. Removal of existing language would permit the change to five-day delivery. We filed a formal request for an advisory opinion with the Postal Regulatory Commission (PRC) in March 2010. The PRC subsequently held numerous hearings and final briefs were filed by the Postal Service in October 2010. As of today, the PRC has not issued its opinion. Just last month, a new Rasmussen Reports poll found that 52 percent of Americans would rather see mail delivery trimmed back to five days a week than have an increase in the price of stamps. The reality is that there is no longer enough mail volume to support a six-day delivery model. We believe the five-day delivery schedule, as just one component of a comprehensive plan to manage costs and increase efficiencies, will strengthen the Postal Service’s future. As we continue to adapt to shifts in customer habits and to an increasingly digital world, five-day delivery is a sound financial and business decision.

We continue to utilize proven processes in order to optimize our network operations, with tools such as Area Mail Processing (AMP) studies and Post Office consolidations. Accelerating our efforts in this area is necessary to respond to changes in mail volume, the mix of mail and to changing customer behavior. Simply put, we must place our resources – employees, machinery, transportation, and facilities – to align with current needs. We know that, particularly in the area of AMPs and Post Office consolidations, your constituents have concerns and you have questions as well. The Postal Service does not take these concerns lightly. We have procedures in place to ensure that our customers receive appropriate information and that public input is received and becomes part of the decision-making process. We are working hard to make sure customers will always have access to postal

products and services, whether through their Post Office, via a Contract Postal Unit (CPU), or online at *usps.com*. Our careful, deliberate and thoughtful decisions in this area illustrate our commitment to our customers.

Becoming faster is part of our overall strategy and we will do that through improving efficiencies with cutting-edge technology. We continue to implement the Flats Sequencing System (FSS) at select sites throughout the nation. FSS gives us the ability to sort flat-sized mailpieces, such as large envelopes and catalogs, to the finest degree possible. This will then allow our carriers to spend the maximum amount of time out on the delivery routes, thus ensuring the mail is delivered promptly and accurately. The Postal Service continues to work closely with the National Association of Letter Carriers (NALC) to evaluate and configure delivery routes to achieve maximum efficiency. This joint effort is also used in our work with the National Rural Letter Carriers' Association (NRLCA) to capture savings and increase efficiencies in rural route delivery operations. The Postal Service and NRLCA have worked together on consolidation of routes and eliminated approximately 1,000 rural routes in the last two years. Since 2009, this collaborative effort between both letter carrier unions and management has resulted in the consolidation of over 12,000 carrier routes, helping drive a 20.1 million work hour reduction in City and Rural delivery operations.

Engaging our employees to find smarter ways to use energy and our natural resources is an integral part of our strategy. The Postal Service has begun to deploy Lean Green Teams throughout the country. More than 80 teams – consisting of postal employees who care about the organization and about the environment – helped the Postal Service reduce energy, water, solid landfill waste and petroleum use in 2010, resulting in savings of more than \$6 million. In addition to savings, Postal Service recycling efforts, with more than 222,000 tons of material recycled, generated \$13 million in revenue. We are truly at the leading edge of sustainability efforts and were among the first agencies to implement a “buy green” plan more than 12 years ago. By recognizing that we are stewards of the environment, we are constantly looking for ways to optimize the physical footprint of the organization, thus reducing energy use in our facilities and vehicles.

Realigning our workforce and improving workforce flexibility is another key part of our strategy to become a more streamlined and nimble organization. The efficiencies we are pursuing through network modifications have a direct correlation to proper placement of our workforce. We simply need to match where our workers are with where the mail is being processed. The Postal Service historically had enough mail volume to ensure employees had plenty of work. That is no longer the case. We have realized tremendous work hour savings over the last few years. In Quarter 1 of FY 2011 alone, we reduced work hours by 6.4 million hours. Efforts to properly align our workforce are seen in initiatives like Delivery Unit Optimization (DUO), which seeks to move carriers to locations where delivery can be affected in the most efficient way possible. These changes are largely transparent to customers, and mail delivery service is not affected. We follow all collective bargaining agreement requirements when making decisions about our employees and that commitment will not change. By placing our most valuable resources – our employees – where they are most needed, the Postal Service can advance its goal of becoming leaner, faster and smarter.

We began negotiations with two of our labor unions last year; the American Postal Workers Union, AFL-CIO (APWU) and the National Rural Letter Carriers' Association (NRLCA). Our negotiations are ongoing with APWU and, while impasse was declared with the NRLCA on November 20, we continue to have discussions with them. Later this year, we go to the bargaining table with our other two large unions, the National Association of Letter Carriers, AFL-CIO (NALC) and the National Postal Mail Handlers Union, AFL-CIO (NPMHU). In each of these negotiations, we look for a “win-win” situation; one where we can protect workers, but at the same time acknowledge the tough decisions that have to be made, given the current financial situation. We also remain committed to working with the three management associations that represent the interests of Postmasters, supervisors and managers – the National Association of Postmasters of the United States (NAPUS), the National Association of Postal Supervisors (NAPS), and the National League of Postmasters of the United States. Each of these groups is important and we value the input and the consultation we receive from the members and their representatives. Collectively, we are the Postal Service and we all want to achieve the same

result – to see our organization grow and thrive so that we can continue to finance universal service for future generations.

One of the messages we hear most often from various stakeholders is that the Postal Service must be innovative. We agree and we are doing just that, following a long tradition of new ideas and cutting-edge technology to move the mail. The Postal Service has a proven record of innovation. We tested our first electric delivery vehicle in 1899. Concepts like Rural Free Delivery, which became available in 1902, allowed citizens to receive mail delivery no matter where they lived. We used new methods for sorting mail by machine beginning in 1922. In 1963, the ZIP Code was invented to help speed mail delivery. One of our most popular innovations was the introduction of self-adhesive stamps in 1992. Using cutting-edge technology like the Optical Character Reader (OCR), today's mail processing machines sort 40,000 pieces of mail an hour. We have been innovative in developing ways to improve customer access to postal products and services. Use of Contract Postal Units (CPU), Automated Postal Centers (APC), Stamps By Mail, and Stamps on Consignment lets the American public purchase stamps and mail packages wherever and whenever they need to. Our *usps.com* website had 413 million visitors in 2010. Since launching in 2009, the Postal Service iPhone application has consistently been ranked in the top ten free business apps. Looking even further into the future, the Postal Service sees incredible opportunity for growth in areas such as collaborative logistics, electronic bill presentment and payment, and warehousing. We have a long history of finding innovative ways to use the mail and those efforts will never cease.

But one very crucial piece of the innovations puzzle – one the Postal Service cannot control - still needs to be solved. These innovative strategies will require changes in existing law. I discussed earlier how the incredibly onerous burden of RHB prefunding is crippling the Postal Service's finances. Forward-thinking individuals have to collaborate to find a long-term solution to this requirement. Innovative ideas are needed to address the problem of how to resolve overfunding of the CSRS and FERS obligations, and how to arrive at a fair and equitable solution. We need new ways of thinking, in order to remove constraints on a variety of areas, including delivery frequency, workforce flexibility, and facility alignment. These innovations must free the Postal Service to become more nimble and better able to quickly react to shifting customer habits and evolving trends. The innovation necessary to address these issues will not come from the Postal Service alone. We need help – especially from Congress. Fortunately, there has been recognition of the need for these types of solutions and we appreciate that.

Concerns about the health of the Postal Service extend to other branches of the government. In February, the President released his budget proposal for FY 2012 and recognized the importance of the Postal Service to the overall economy as well as steps needed to address our financial challenges. The President's budget contained several items that affect the Postal Service, including: a reduction of the current RHB payment due on September 30, 2011, by \$4 billion and adoption of a 40-year amortization schedule; amendments to current law that would allow the Office of Personnel Management (OPM) to assess the Postal Service's FERS obligation, determine if a surplus exists and, if so, transfer annually a portion of the surplus to the Postal Service Fund; and deleting provisions of the Revenue Forgone Reform Act of 1993, which authorizes the Postal Service to receive \$29 million annually through 2035 to reimburse the Postal Service for services provided from FY 1991 through FY 1998. The change to RHB prepayment requirements would address our looming insolvency problem, which will occur this September. However, it would not provide a solution for similar liquidity issues that persist for the next several years. We support the principles contained in the President's budget; realigning postal infrastructure, facilities, processing and delivery systems to continuously improve efficiency; promoting an adaptive 21st century postal workforce; and accelerating value creation and enhancing service to the public while respecting fair competition in the marketplace. We look forward to working with the Administration and Congress on these and other legislative initiatives to help put us on a more solid financial footing.

We also appreciate the hard work that is exemplified in the reports and the Congressional testimony of organizations such as the Government Accountability Office (GAO), the Postal Service Office of the Inspector General (OIG) and the Postal Regulatory Commission (PRC). In April 2010, the GAO issued a comprehensive report on strategies and options for ensuring the viability of the Postal

Service. The OIG continues to follow up on a variety of topics, including CSRS, FERS and RHB costs, working hard to prepare reports that explain these complicated topics and helping to facilitate solutions. The PRC put great effort into holding field hearings on five-day delivery and evaluating the proposal. They continually examine a number of Postal Service proposals and remain committed to ensuring the future of the organization. Each of these entities also routinely testifies before Congress and weighs in on crucial Postal issues. We thank them for their commitment to these issues and for providing their valuable input.

It is our plan to continue to simply control what is in our capacity to control. The four core strategies I described in detail here today are our roadmap to the future. We will continue to sustain our organization and the entire mailing industry, which includes millions of jobs, by continuing to make sure businesses know that mail is the highest impact return for the marketing dollar today. By further strengthening the business to consumer channel, we will make the mail work for everybody. We will continue to improve the customer experience by making every interaction a great one. We will continue to simplify the way customers do business with us to keep them coming back again and again. We will continue to compete for the package business segment of the shipping industry. Positioning ourselves for long-term growth, we will continue offering products with a proven track record, such as our Priority Mail Flat Rate Box, as well as creating new products to reinforce the message that we are the best deal in the package market. Finally, we will continue to combine all our efforts to become increasingly leaner, faster and smarter as an organization. Our record of weathering the storm of an ongoing recession, reducing work hours, shrinking the workforce, and streamlining our network, all while still providing levels of service that are second-to-none, speaks for itself and shows how much the Postal Service can accomplish.

We will continue to work with your staffs and with everyone who has a stake in the Postal Service to move forward, to embrace change and to find ways to succeed. This must consist of a combination of efforts; the Postal Service by controlling costs, managing its workforce effectively and finding new and innovative ways to attract customers; our employees by delivering the best service possible; our business partners, by remaining open to new ideas and suggestions; the PRC by continuing to find ways to streamline its oversight of the Postal Service; and Congress by helping the Postal Service solve the far-reaching issues of CSRS and FERS overfunding, RHB prefunding, delivery frequency and by providing the flexibility that the Postal Service needs in order to succeed.

The importance of maintaining a healthy and vibrant Postal Service is crucial to the American economy. This importance is not limited to the Postal Service alone; rather, it includes the thousands of related companies, businesses and organizations that use the mail to reach customers. The mailing industry is a major driver of the economy, employing millions of people and generating over \$1 trillion dollars in revenue each year. When we succeed, the nation succeeds. Our ultimate commitment is to our customers, which includes every person in the country. Our employees are the best in the world and I could not be prouder of them. The world is changing around us and we embrace those changes. I am energized by the challenges facing us and I welcome the chance to tackle those challenges together. I truly look on this as a time of great opportunity. I believe that we will look back on this time and say we helped create a stronger organization in a stronger mailing industry. That is not only my responsibility and the responsibility of all of us, but it is our obligation.

I look forward to working with each of you in the coming years as we address these issues head-on and find solutions that will keep the best postal system in the world growing, thriving and serving the public for a long time to come. I will be happy to answer any questions you may have.

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Patrick R. Donahoe
Postmaster General and Chief Operating Officer



Patrick R. Donahoe was named the 73rd Postmaster General of the United States of America on October 25, 2010. A 35-year postal veteran, he reports to the Postal Service Board of Governors.

Prior to being named Postmaster General, Donahoe served as the 19th deputy postmaster general, the second highest-ranking postal official, and chief operating officer. In his dual roles, Donahoe had responsibility for the day-to-day activities of 599,000 career employees working in more than 33,000 facilities supported by a fleet of nearly 219,000 vehicles. Additionally, he was responsible for mail processing, transportation, field operations, engineering, delivery, retail, facilities and network operations.

As chief operating officer, Donahoe was instrumental in the Postal Service achieving record levels of service and customer satisfaction, significant workplace improvements and a cumulative increase of productivity of over 8 percent since 2001, including seven straight years of productivity gains. The Postal Service has annual revenues of \$68 billion and delivers nearly half the world's mail.

Donahoe entered the Postal Service as a clerk in Pittsburgh, PA, and has had a long and distinguished career in postal operations. His previous officer positions include chief operating officer and executive vice president, senior vice president of Operations, senior vice president of Human Resources and vice president of Allegheny Area Operations.

Donahoe earned a Bachelor of Science degree in economics from the University of Pittsburgh and a Master of Science degree as a Sloan Fellow at the Massachusetts Institute of Technology.

A native of Pittsburgh, Donahoe and his wife have two children.