

POSTAL ISSUES UPDATE

WINTER 2008

PMG Announces Delay in Mandatory Use of Intelligent Mail Barcodes for Automation Discounts

In response to mailer comments regarding its Federal Register notice earlier this year, Postmaster General John E. Potter announced that the Postal Service is postponing the mandatory use of Intelligent Mail Barcodes (IMB) for automation discounts. Postnet barcodes remain valid for automation discounts until May 2010.

The Postal Service will also delay implementation of its proposed Basic and Full Service Options for using the IMB until May 2009. The implementation date will correspond with the 2009 price adjustment, and will include separate automation discount pricing for the various barcode options. Mr. Potter said the additional time will allow mailers and the Postal Service to address implementation issues raised by mailers in response to the original proposal.

The IMB encodes much more information than the Postnet. The IMB will include not only the delivery information that was in the Postnet, but also a code telling the Postal Service which services (Confirm, ACS, or just automation processing) are requested for the mailpiece, a Mailer ID (MID) connecting the mailpiece to the mail owner or preparer, and a serial number that uniquely identifies the mailpiece that will be used to support Confirm tracking and ACS address updates.

The Federal Register notice describes the two new IMB-based options mailers will have for receiving automation discounts: Basic and Full Service:

The Full Service option requires mailers to use the IMB on all mailpieces. The combination of the MID and the serial number in each IMB must remain unique for a 45-day period. The containers used to transport the mail (trays and pallets) must bear tray labels and pallet placards with the designated style of Intelligent Mail Barcode for that container. Each container is also uniquely identified, and that uniqueness must be maintained for 45-days as well.

In addition to the unique barcodes, all mailing documentation and postage statements must be presented to the Postal Service electronically. In exchange for the additional barcoding and documentation, the Postal Service will provide mailers with information on when the mailing was received at the postal facility where it entered their network. They will also provide mailers with feedback on address quality, particularly move update information.

In addition, mailers who participate in the Full Service option will have their mail included in the Service Performance Measurement system (see separate article below) that will be implemented in the coming year.

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USPS Announces First "Price Adjustment" Under CPI Price Cap

The Postal Service has announced the first "price adjustment" to take place under the new price cap system that was part of the Postal Accountability and Enhancement Act (PAEA) postal reform law passed in December 2006.

The cap, which is based on the Consumer Price Index for Urban areas (CPI-U), was 2.9%. The cap is applied at the class level, meaning the average price increase for that class of mail cannot exceed the cap. However, individual rates within a class may change by more or less than the average.

The new prices are scheduled to take effect May 12. Under the price cap system, the Postal Regulatory Commission (PRC) will review the prices to ensure they fall within the rules of the cap. The PRC will no longer hold hearings to review fairness of the prices or other issues. Under the new system, prices can only be challenged if a complaint is filed once the prices have gone into effect.

As expected, the Postal Service announced lower than average increases for flat-sized mail, with slightly larger than average increases for letter-sized mail. This is largely in response to the double-digit decline in the volume of flat-

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Strategic Planning

The Postal Service's current Transformation Plan calls for reinforcing the value of mail and using the new flexibility from the postal reform law to grow their business. Much of the plan to improve the value of mail relies on successful implementation of the Intelligent Mail program. The Postal Service will use passive scans of the Intelligent Mail barcodes to provide enhanced tracking information on mail within their networks. These scans will also be the basis of the measurement system being put in place to ensure that the newly established Service Standards for the different classes of mail are being met.

There is a strong focus on building efficiency through Lean/Six Sigma programs in their facilities. A large part of this effort entails establishing common processes and procedures across their facilities, taking best practices from the most efficient facilities and applying them to the less efficient facilities. The Postal Service is committed to more than \$1.8 billion in cost savings this fiscal year. The original financial plan for FY2008 called for \$1 billion in savings, but at a recent meeting of Postal Service executives the Postmaster General called for an additional \$800 million in cost savings to offset recent declines in mail volume.

The Postal Service is also placing stronger emphasis on building a "conservation culture" with a focus on communicating the environmental benefits of mail, in part to combat do-not-mail legislation. The Postal Service's commitment to the environment includes:

- Reducing fuel used to deliver and transport mail, while exploring alternative fuel technologies. The Postal Service has one of the largest fleets of hydrogen-powered vehicles in the country.
- Expanding postal use of recycled and recyclable products.
- Increasing efforts to recycle paper, plastic, and other materials, which already total one million tons each year. A pilot partnership with New York City is being used to evaluate new opportunities for recycling undeliverable Standard Mail, cardboard, shrink-wrap and other materials.

The Postal Service will be updating its five-year strategic plan in the fall, and will be looking for input from the mailing industry on such topics as growth opportunities for mail and where the Postal Service will need to be in five years.

USPS Sets Service Standards, Issues Performance Measurement Proposal

In December 2007 the Postal Service issued modern service standards for its market dominant products. These service standards define the time between when the Postal Service takes possession of mail and when it will be delivered to the recipient. Standards for First-Class Mail® are from one to three days, depending on how far the mail must travel. Standards for drop-shipped Standard Mail® originating and destinating in the contiguous United States are three days for mail entered at a Destination Sectional Center Facility (DSCF) and five days for mail entered at a Destination Bulk Mail Facility (DBMC).

The Postal Service also submitted a proposal to the Postal Regulatory Commission (PRC) for a system to measure its performance against these new standards. The proposals for presorted First-Class Mail and for Standard Mail rely largely on a "hybrid system" that depends primarily on passive scans of Intelligent Mail Barcodes on mailpieces, trays, and other containers (pallets) to track the mail as it moves through the postal network. This passive scanning is combined with third-party "reporters" who will scan mailpiece barcodes and report the final in-home arrival of the mail.

The PRC opened the Service Performance Measurement proposal for public comments. Those comments have been received and are being reviewed by both the Postal Service and the PRC.

At the January Mailers Technical Advisory Committee (MTAC) meeting, Tom Day, Postal Service SVP, Intelligent Mail and Address Quality, discussed the Postal Service's response to the comments received regarding the proposal. His comments indicated that the Postal Service heard what the industry had to say, and showed a willingness to cooperate with the industry.

Nonetheless, the Postal Service has not adopted all industry proposals. Day defended the use of third-party reporters as part of the measurement system as necessary and cost-effective in achieving statistical validity for the measurement system. He also said that since there will not be separate standards for processing different shapes (e.g., letters, flats, parcels) the Postal Service would not report service performance separately by shape.

Postal Notes

Implementing Postal Reform

Although the largest piece of the PAEA postal reform law, a CPI rate cap pricing system, is largely in place, the Postal Regulatory Commission, along with the Postal Service, still have many tasks ahead of them before the law is fully implemented. Among the tasks yet to complete are:

- The USPS in consultation with the PRC must submit a plan for meeting the newly established Service Standards and establish a system of Service Performance Measurement no later than June 20, 2008. This plan is to include “the long-term vision of the Postal Service for rationalizing its infrastructure and workforce, and how the Postal Service intends to implement that vision.”
The plan must also establish service performance goals and describe “any changes to the Postal Service’s processing, transportation, delivery, and retail networks necessary to allow the Postal Service to meet the performance goals.”
- The PRC must report to the President and Congress on universal service and the postal monopoly in the United States no later than December 20, 2008.
- The PRC also needs to issue regulations to establish a complaint process, and more detailed regulations governing review of the annual compliance report issued by the postal service.

Congress and the Postal Network

Rep. Stephen F. Lynch (D-MA) has introduced the Mail Network Protection Act (H.R. 4236) that would require the Postal Service to bargain with affected unions before entering into contracts involving mail processing, mail handling, or surface transportation of mail. The bill has been referred to the Subcommittee on Federal Workforce, Post Office, and the District of Columbia.

Also, provisions in recently-passed appropriations bills prevent the Postal Service from consolidating mail processing services until it meets certain requirements. The provisions have delayed planned consolidations of postal facilities in The Bronx, NY and in Sioux City, IA.

Move Update Changes

New requirements for move update (NCOA^{LINK}) take effect on November 23, 2008. At that time move update will be required for Standard Mail, not just First-Class Mail. Also, the window in which move update processing must have been performed on the mail file will be shortened to 95 days from the current 185 days.

Postal Workforce Continues to Shrink

Postal Service employment statistics for FY2007 show a continuing decline in its workforce. The USPS ended the year with 785,929 employees, down 1.3% from the previous year. The USPS’s two largest bargaining units, the American Postal Workers Union (APWU) and the National Association of Letter Carriers (NALC), saw their numbers decline by 4.6% and 1.0% respectively. The city delivery carriers represented by NALC remain the largest craft group within the Postal Service’s labor pool.

Postal Network Realignment

The Postal Service continues to look for ways to streamline its mail processing network. A Request for Information was issued in 2007 asking for proposals for a system of transportation hubs to replace the Bulk Mail Center (BMC) system for transporting Standard Mail and Parcels. The BMC network was established in the 1970s and is in need of revitalization.

The Postal Service is expected to make a public announcement about responses to the RFI, and to issue a more detailed Request for Proposal at approximately the same time. In January, the Postal Service held a “pre-decisional briefing” with American Postal Workers Union whose members would be affected by changes to the BMCs. The union says the Postal Service proposal will call for the outsourcing of some functions and the “in-sourcing” of others.

Tabbing Rules

The Postal Service is expected to issue an Advance Notice of Rulemaking in the Federal Register in the near future announcing enhanced tabbing (wafer seal) requirements for non-enveloped letter-size mail. These requirements will apply to mailpieces such as booklets, selfmailers, and double postcards. The notice is expected to call for additional tabs on mailpieces, depending on design. It may also set new standards for tab quality. IWCO Direct is monitoring the situation and will update our customers when the new proposal is released.

Board of Governors Elects New Leaders

At their January meeting the Board of Governors (BOG) of the Postal Service elected Alan Kessler as chairman, replacing James Miller III, and Carolyn Lewis Gallagher as vice-chairman. Since 2005, Kessler has served as vice chairman of the BOG.

Postal Service Shows Positive Net Income Despite Volume Drop

Bolstered by the rate increase in May 2007, the Postal Service ended the first quarter of FY 2008 (October – December) with net income of \$672 million. Revenues were up 3.5% over the same period in FY 2007, while expenses were flat.

The volume statistics were not as bright. Total mail volume for the quarter was down 3%; First-Class Mail was off 3.9%; and Standard Mail declined 2.6%. This is concerning for a number of reasons:

- Q1 is usually the Postal Service’s strongest quarter;
- this is the fourth consecutive quarter of declining overall volume;
- the decline in First-Class mail included presorted (business) mail, not just single-piece mail;
- this is the third consecutive quarter of decline in Standard Mail volume, which until recently had been showing solid growth.

	Q1 FY 2008	Change from FY 2007
Financials		
Total revenue	\$20.4 billion	3.5%
Operating expense	\$19.7 billion	0.0%
Net Income	\$672.0 million	
Volume		
Total mail volume	55.4 billion	(3.0%)
First-Class mail volume	24.4 billion	(3.9%)
Standard mail volume	27.7 billion	(2.6%)

The most dramatic declines in volume were for flat-sized mail, which was hammered with much larger than average increases last May. Depending on class, the declines in flat-sized mail were between 10% and 15%.

CFO Glen Walker and PMG Jack Potter attribute the declining volume to the struggling economy – especially the housing and financial services sectors, rising fuel costs and sagging consumer confidence. Walker noted that Q1 was predictive of a slow year (though perhaps it was over-predicting the extent of the slow-down). Potter commented that the Postal Service would “manage through” the slow period, and that they are trying to identify which volume losses are cyclical and can be recovered and which are more structural and may be gone forever.

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sized mail following the 20-40% increase imposed on flat-sized mail last year. The other item of note for Standard Mail users was the Postal Service left destination entry discounts for delivering mail to Sectional Center Facilities and Bulk Mail Centers unchanged from last year’s levels.

If you have questions about how the new postage rates will affect your mail programs, please contact your IWCO Direct account team for further details.

Standard Mail Regular Letters Rates effective May 12, 2008		
	Automation	NonAutomation Machinable
ECR Basic	N/A	\$0.234
5-digit	\$0.225	N/A
3-digit	\$0.241	N/A
AADC	\$0.244	\$0.258
Mixed AADC	\$0.257	\$0.271

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With the Basic option mailers need only place an IMB with their MID and the delivery information on the mailpiece. The serial number field can be a constant that a mailer could use to identify a test cell or a full mailing. The Basic option does not require use of barcoded tray labels or pallet placards, nor does it require that the mailer provide documentation or mailing statements electronically to the Postal Service.

The Postal Service will continue to review comments and issue a second Federal Register notice outlining the changes to their proposal in more detail. There will again be an opportunity for mailers to comment on the revised proposal.

