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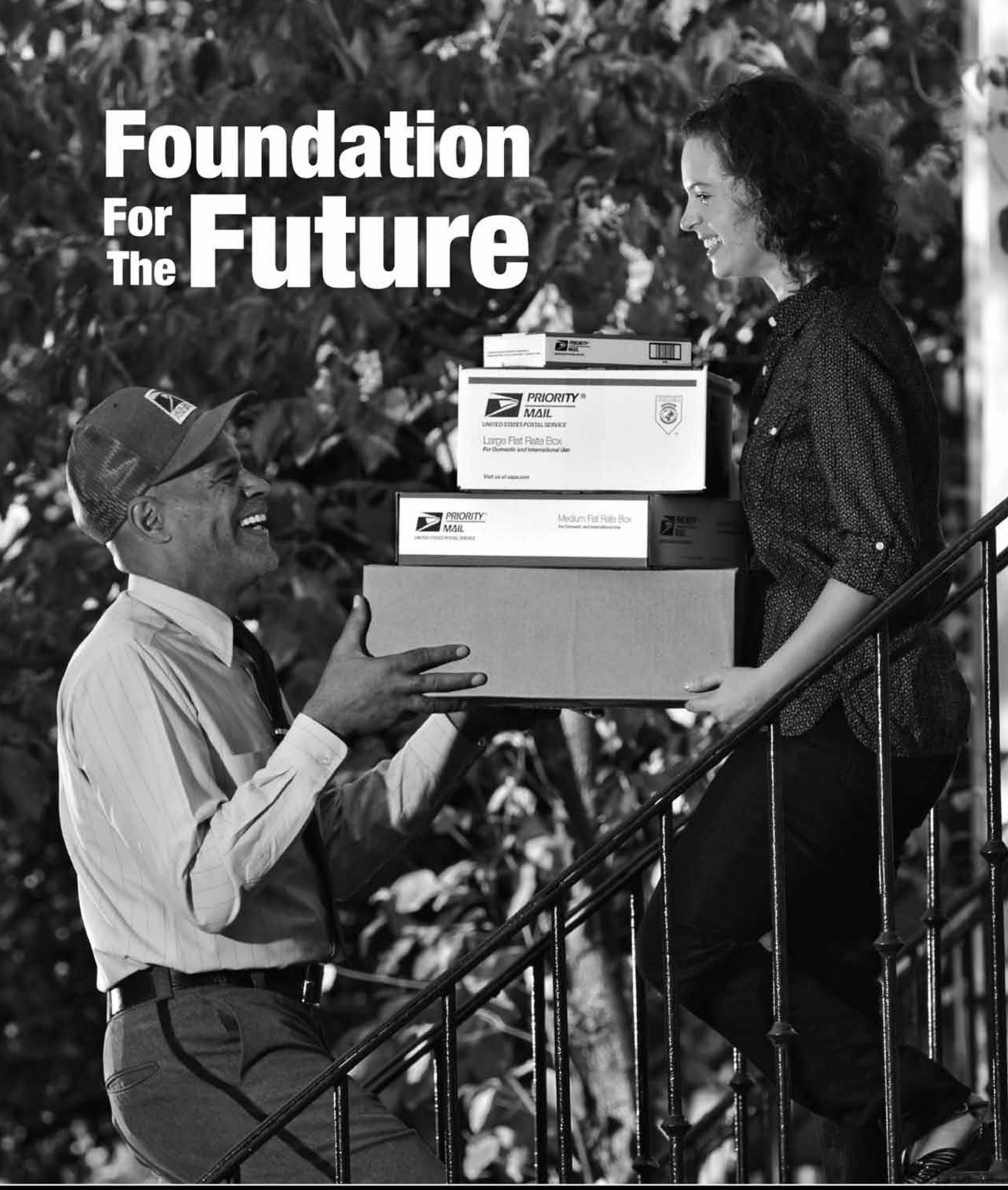

UNITED STATES POSTAL SERVICE®

2010 *Comprehensive Statement on Postal Operations*

2010 Performance Report and 2011 Performance Plan

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YEAR REFERENCES

All references to a specific year or "the year" refer to the Postal Service fiscal year ending September 30. However, specific month and year references pertain to the calendar date.

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Chapter 1: **Mission and Strategy**

The Postal Service's mission is to provide the nation with reliable, affordable, universal mail service. By law, its basic function is ". . . to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It [the Postal Service] shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities."[1]

The Postal Service delivers to 151 million addresses six days a week, and collects outgoing mail and packages at the time of delivery. It provides mailing and shipping services through tens of thousands of postal and non-postal retail outlets as well as *usps.com.*

Document Purpose and Structure

The annual *Comprehensive Statement on Postal Operations* and the *Annual Report* describe Postal Service activities and results. The *Comprehensive Statement* offers a summary of customer, employee, and operational developments, with more detailed reporting on key corporate goals and strategic initiatives. The *Annual Report* focuses on finances and financial results.

The Postal Service has filed a *Comprehensive Statement* since 1976, as required by law.[2] Chapter 1 addresses the Postal Service's mission. Chapter 2 focuses on products and services. Chapter 3 discusses operations. Chapter 4 describes customer programs. Chapter 5 covers the workforce and employee-related programs. This document also contains the Postal Service's 2010 *Annual Performance Report* and 2011 *Annual Performance Plan,* which are required by the Government Performance and Results Act.

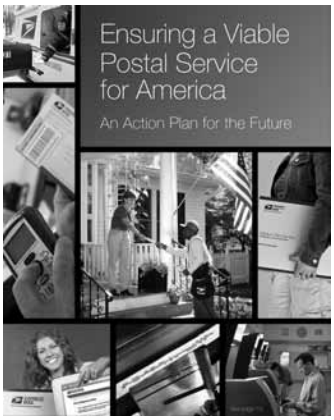
Action Plan Overview / Assessment

For 235 years, the Postal Service has fulfilled its mission to deliver trusted, affordable service to the nation. Its business model worked well because mail volume grew steadily with the nation, and postage provided sufficient revenue to cover all operating and overhead costs. Today, the Postal Service is by far the world's most efficient post. A U.S. First-Class Mail stamp costs 44 cents, while other major posts average 78 cents for their equivalent service. Service levels and customer satisfaction have reached the highest levels ever reported. And for six years in a row, the Postal Service has also been named the "Most Trusted Government Agency" for protecting customer privacy and rates in the Top 10 of all public and commercial entities.

Despite these accomplishments, the Postal Service's ability to remain financially self-sufficient is in jeopardy. Mail volume has fallen nearly 20 percent in just three years, the result of the worst recession since the 1930s, which has been particularly damaging to many of the Postal Service's largest customers, the housing, financial, and retail industries. New technologies continue to rapidly reshape how Americans communicate and transact business, further reducing volume.

The Postal Service responded with aggressive cost reductions, producing $6.0 billion savings in 2009 and another $3 billion this year. It used 75 million fewer work hours in 2010, 6.0 percent fewer than last year. However, the savings were insufficient to counter continuing declines in mail volume combined with the obligation to pay $5.5 billion to prefund future retiree health benefits and a $2.5 billion charge that resulted from discount rate and actuarial changes on the Postal Service's workers' compensation liability.

The Postal Service has communicated to Congress and all stakeholders that it expects current trends to continue. Without fundamental changes to its existing business model, cumulative losses could reach $238 billion by 2020. To help prevent this outcome, in March the Postal Service published *Ensuring a Viable Postal Service for America,* a 10-year plan that provides a conceptual framework to address its financial viability issues for the longer term. The plan was the product of more than a year of dialogue with members of Congress, the Administration, the business community, employee groups, and the general public. Supporting the effort were three consultants — Accenture, The Boston Consulting Group, and McKinsey & Company — whose analyses were incorporated in the action plan.



The plan proposes changes in two areas. First, it outlines a series of actions within management's control — in product and service initiatives, productivity, workforce improvements, and purchasing savings. These will reduce projected net losses by a cumulative $123 billion. To eliminate the remaining $115 billion in projected losses through 2020, the plan identifies seven areas where legal changes are needed — in retiree health benefits prefunding, delivery frequency, access, workforce flexibility, pricing, product offerings, and oversight.

Since the plan was introduced in March, Congress has held several hearings and the Government Accountability Office (GAO) issued a report containing recommendations on the postal business model. Progress has been made in several public policy areas outlined in the plan, most of which is included in draft legislation sponsored by Senator Thomas Carper. Descriptions and updates of necessary legislative and regulatory changes follow:

[1] 39 U.S.C. § 101(a)

[2] 39 U.S.C. § 2401(e)

Retiree Health Benefits Prefunding and Civil Service Retirement System Overfunding

The Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006) requires the Postal Service to make payments of more than $5 billion annually through 2016 to prefund future retiree health benefits (RHB). Without changes to this prefunding requirement, the Postal Service currently projects it will have insufficient funds to make the required payment in September 2011, or subsequent required payments. Additional details are contained in the *Annual Report.*

Given its current financial situation, the Postal Service proposes to discontinue prefunding retiree health benefits. In 2010, independent analysts found that pension payments to the Civil Service Retirement System (CSRS) Fund have resulted in overpayments of $50 billion to $75 billion, which could be applied to the RHB Fund. The Postal Service could begin paying current retiree premiums from the RHB Fund.

The next step would be for Congress to provide direction to the Office of Personnel Management (OPM) to revise the methodology used to calculate the Postal Service's share of CSRS overpayments. The Senate bill introduced in September by Senator Carper would modify the OPM methodology used to calculate CSRS obligations and transfer the surplus to the RHB fund.

Delivery Frequency

The Action Plan laid out the declining volumes and revenues per delivery point per day. Given the high fixed costs of delivery, reducing delivery frequency is an integral component of the plan. Less than a month after introducing the plan, the Postal Service filed a request with the Postal Regulatory Commission (PRC) for a non-binding advisory opinion on changing to five-day per week street delivery, with Post Offices remaining open on Saturday, the non-delivery day, which has the lowest mail volume and is when most businesses are closed. Savings associated with this change are expected to exceed $3 billion annually. The Postal Service plans to implement five-day delivery in 2011 if Congress makes the legislative adjustment required to modify delivery frequency. In the meantime, the Postal Service continues to prepare its six-month implementation plan.

Postmaster John E. Potter testifies before a House Subcommittee on legislative changes to ensure a viable Postal Service in the future.

Expand Access

As consumer behaviors and needs change, so must the Postal Service. Access must be expanded to serve customers where they already shop and at times convenient to them. The Postal Service is modernizing customer access while reducing costs by expanding access with world-class Web and mobile offerings and through its carriers so customers can access services without leaving their homes and workplaces. Additional automated and on-demand services such as kiosks and partnerships with retailers are also being created. As customers continue to shift to these new services, costs can be minimized by closing retail facilities that are no longer necessary to meet changing customer needs. Proposals to close facilities often lead to local protests, however, and political resistance often blocks changes. Since the Postal Service does not receive appropriated funds, postal customers are ultimately required to absorb the costs of political decisions that keep redundant facilities open. Legislation is needed to enable the Postal Service to minimize the cost of maintaining costly facilities when customer needs and preferences can be better served through other access points.

Workforce Flexibility

Wages and benefits account for 80 percent of Postal Service costs, and work hours will also become more costly due to rising benefits costs. In each of the next 10 years, workers' compensation costs are projected to rise by 2 to 4 percent, and health insurance premiums by 4.7 to 5.2 percent. While the Postal Service has collaborated with its unions to structure reasonable compensation options, and has been negotiating since September with two of the four largest postal employee unions—the American Postal Workers Union (APWU) and the National Rural Letter Carriers Association (NRLCA)—federal statutes hamper its ability to craft a market-based benefits package.[3] A proposed change in the law would require arbitrators to consider postal finances as part of their arbitration deliberations. In the meantime, as more than 300,000 employees become eligible to retire in the coming decade, there is a need to establish a more flexible workforce that is better-positioned to respond to changing customer demands.

Pricing

The Postal Service needs the authority to adjust its pricing to better reflect market dynamics and offset future volume and revenue declines. Current law does not provide the necessary flexibility. Instead, prices by class remain tied to inflation as measured by the Consumer Price Index (CPI), and not to the key drivers of postal inflation, such as increases in labor costs. In July, the Postal Service filed for an exigent price increase with the PRC. This was the first

[3] 20 CFR § 10.5; 39 USC § 1005(f)

time the Postal Service requested a price increase above the rate of inflation, an action allowed under the Postal Act if exceptional or extraordinary circumstances have made such an increase necessary. The proposed price change, which would have been effective in January 2011, would have improved the Postal Service's bottom line by about $2.3 billion in 2011.

However, the PRC denied the exigent price increase request on September 30. In response, on October 22 the Postal Service appealed the ruling to the United States Court of Appeals for the District of Columbia Circuit. The appeal seeks a review of the PRC's interpretation of the law that governs how prices can be set under extraordinary and exceptional circumstances. The Postal Service's position is that the PRC misread the statute and applied an incorrect standard in evaluating the request.

Products and Services

As technology and customer needs change, so will the definition of mail. The Postal Service seeks greater flexibility to innovate products and better meet changing customer demands, while tapping into new sources of revenue. The Postal Act split products and services into two categories, market dominant (including monopoly products) and competitive. In March, the Postal Service filed a request with the PRC to change the designation of some Post Office Boxes from market dominant to competitive to allow greater flexibility to meet the needs of customers. In August, the Postal Service filed with the PRC a request to transfer commercial Standard Mail Fulfillment Parcels from the market dominant product list to the competitive product list. The Postal Service is still restricted from nearly all of the revenue diversification strategies that most foreign posts have implemented. Greater flexibility to introduce more new products consistent with its mission would allow the Postal Service to respond better to changing customer needs and to compete more effectively.

Oversight

The world is rapidly changing, yet the current oversight model constrains the flexibility and speed required to adapt and respond. The Postal Service recognizes that the current financial crisis can provide an historic opportunity to make changes that will lay the foundation for a leaner, more market responsive Postal Service. It is seeking a balanced suite of solutions that does the greatest possible good for all stakeholders and the American public.

Future Business Model of the Postal Service

The Postal Act required the Government Accountability Office (GAO) to prepare and submit to the President and Congress a report providing in-depth evaluation of various options and strategies for long term structural and operational Postal Service reform. The Act required the GAO to consult during its preparation of the report with the Postal Service, the PRC, postal employee unions and associations, mailers, and others. The report, released in April, well in advance of the 2011 deadline specified in the Act, contained the GAO's recommendations regarding how the Postal Service's business model could be maintained or transformed to ensure the continuation of affordable, universal postal service to the American public.

To help inform the GAO during the consultation process, in November 2009, the Postal Service gave GAO a report — *Assessment of U.S. Postal Service Future Business Model* — which explained the challenges of the current model, identified alternatives, and offered recommendations for the future. Four papers by external authors assessing the challenges and options were also provided. In March the Postal Service provided it with the *Ensuring a Viable Postal Service for America* plan. All of these documents can be found at *usps.com/postallaw/futurebusinessmodel.htm.*

Governance and Oversight

Board of Governors

As the governing body of the Postal Service, the 11-member Board of Governors has responsibilities comparable to the board of directors of a publicly-held corporation. The Board includes nine Governors appointed by the President of the United States with the advice and consent of the Senate. The other two members are the Postmaster General and the Deputy Postmaster General. The Governors appoint the Postmaster General, who serves at the pleasure of the Board, without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General. The Chairman and Vice Chairman are elected each calendar year, and in November 2009, Louis J. Giuliano was elected Chairman, and Thurgood Marshall, Jr. was elected Vice Chairman.

The Board directs and establishes policies, basic objectives, and long-range goals for the Postal Service in accordance with Title 39 of the United States Code. Except for those powers specifically vested in the Governors, the Board may delegate the authority vested in it by statute to the Postmaster General under such terms, conditions, and limitations, including the power of re-delegation, as it deems desirable.

The full Board held 11 meetings during the year. Meetings consist of open and closed sessions in accordance with the provisions of the Government in the Sunshine Act. Meetings were held in Washington, DC, Potomac, MD, and Louisville, KY, and by teleconference. In addition to full Board meetings, committee meetings were held, some not coincident to the full Board meeting dates. The Board had four committees: Audit and Finance, Compensation and Management Resources, Governance and Strategic Planning, and Government Relations and Regulatory, and one subcommittee — Operations. The committees met to consider matters within their areas of responsibility and referred items to the full Board for consideration.

Pursuant to its Bylaws, the Board considered and approved items reserved for its decision. Key decisions included those approving the audited 2009 financial statements and *2009 Annual Report* (November); the 2010 *Integrated Financial Plan* (November); the

2009 Comprehensive Statement on Postal Operations including the Government Performance and Results Act reporting requirements (November), and the final 2011 appropriations request to Congress (December). In February, the Board authorized management to seek an advisory opinion from the PRC on five-day delivery.

The Governors exercised their authority under the Postal Act when making pricing and classification decisions. The Governors' decisions included approval of: a Move Update price and classification filing for assessments in First-Class Mail and Standard Mail (October); price incentives for market dominant products in terms of a Summer Sale (February); a classification change request for establishing a competitive Post Office Box service classification (March); the exigent rate increase proposal (July); a filing to transfer Standard Mail Fulfillment Parcels from market dominant to competitive (August), and pricing and classification changes for certain competitive products to be implemented in January 2011 (September). The Governors also approved contracts with individual customers for competitive products. These contracts were filed under seal with the PRC for its review.

SARBANES-OXLEY PROGRESS

The Postal Act requires compliance with Section 404 of the Sarbanes-Oxley Act (SOX). Section 404 pertains to establishing internal controls for financial reporting, and evaluating and monitoring their effectiveness.

Throughout 2010, the Postal Service tested the effectiveness of its internal controls over financial reporting and has met the requirement to be SOX compliant. Testing is an integral part of monitoring the effectiveness of financial controls. It helps achieve a level of assurance that controls are in place to prevent or detect a material misstatement within financial statements. The Postal Service received an unqualified opinion on the effectiveness of its internal controls over financial reporting from its external auditors as of September 30, 2010.

Postal Regulatory Commission Proceedings

Operating under its statutory authority, the Postal Service filed cases with the PRC that modified the pricing and classification of products and services, established mailing and shipping services contracts for domestic and international mail, and described market tests of experimental products. The Postal Service also participated in PRC rulemaking proceedings, rate or service complaint cases, and other dockets, and submitted required reports, documents, rulemakings and studies.

This section summarizes the most significant cases, which can be viewed in detail at *www.prc.gov.*

MAILING SERVICES

R2010-1, Notice of Price Adjustment and Classification Changes Related to Move Update Assessments. Established a Move Update assessment charge of 7 cents for First-Class Mail and Standard Mail pieces that are not updated for Change of Address orders, subject to a tolerance of 30 percent. Effective January 4, 2010.

R2010-2, Market Dominant Product Prices Canada Post-United States Postal Service Contractual Bilateral Agreement for Inbound Market Dominant Services (MC2010-12) Negotiated Service Agreement. Established prices for inbound letter post items tendered by Canada Post. Effective January 1, 2010.

R2010-3, Notice of Price Adjustment for Standard Mail Incentive Pricing Program ("Summer Sale 2010"). A temporary price reduction was implemented on incremental volume for Standard Mail letters and flats from July 1 through September 30, similar to the initial "Summer Sale." This initiative sought to promote new volume growth during the low-volume summer months while using excess processing capacity and decreasing the effects of the recession. The incentive gave eligible mailers a 30 percent rebate on Standard Mail volume above a predetermined threshold equal to 5 percent over the amount the mailer sent during the same period last year.

R2010-4, Rate Adjustment Due to Extraordinary or Exceptional Circumstances. Filed in accordance with 39 U.S.C. § 3622(d)(1)(E), this case sought price changes exceeding the Consumer Price Index cap. The PRC rejected the proposals based on its determination that while the recent recession was an extraordinary or exceptional circumstance, the Postal Service did not establish that the revenue shortfall to be recovered through the price increases was "due to" the economic recession. The Postal Service has appealed the PRC's order to the U.S. Court of Appeals.

R2010-5, Market Dominant Product Prices Strategic Bilateral Agreement Between United States Postal Service and Koninklijke TNT Post BV and TNT Post Pakketservice Benelux BV (MC2010-35) Negotiated Service Agreement. Established prices for inbound letters tendered by the Netherlands postal operator. Effective October 1, 2010.

R2010-6, Market Dominant Product Prices China Post Group - United States Postal Service Letter Post Bilateral Agreement (MC2010-35) Negotiated Service Agreement. Established prices for letters tendered by China Post Group. Effective October 1, 2010.

SHIPPING SERVICES

CP2010-10, et seq., Various Domestic and International Competitive Negotiated Service Agreements. The Postal Service sought to add numerous types of competitive negotiated service agreements (NSAs) to the list of competitive products, and filed the following with the PRC:

Product	Number of Contracts
Domestic	
Express Mail	4
Priority Mail	9
International	
Canada Post Bilateral - Competitive	1
Global Direct	3
Global Expedited Package Services	94
Global Plus 1 & 2	2
Global Reseller Expedited Package	1
Inbound Competitive Multiproduct Agreements with Foreign Posts	1
Inbound EMS	2
International Business Reply Service	2

CP2010-8, Competitive Products Price Changes. In November 2009, the Postal Service gave notice of changes in rates of general applicability and of classification changes for competitive products including Express Mail, Priority Mail, Parcel Select, Priority Mail International, GXG, and Express Mail International. Effective January 4, 2010.

CP2010-11, Establishment of Prices and Classifications for Inbound Air Parcel Post at UPU Rates. The Governors established inward land rates for competitive inbound air parcels tendered by foreign posts based on the outcome of the Universal Postal Union (UPU) rate-setting process. This decision, filed for PRC review, authorizes management to annually file with the PRC inward land rates resulting from UPU Rates formulas.

CP2010-72, Competitive Product Prices Global Expedited Package Service Contracts Non-Published Rates. This would establish minimum and maximum prices for Global Expedited Package Service agreements, and avert the need for separate filings of each NSA since the minimum and maximum prices by cell would be predetermined. At the end of FY 2010, this is pending before the PRC.

MARKET TESTS

MT2010-1, Experimental Product Samples Showcase. Consumer packaged goods companies (CPGs) often give consumers trial-size samples of their products as a way to build brand awareness. While sample distribution is a large and growing industry, the Postal Service's "shape and weight" pricing structure makes the mailing of samples expensive. Accordingly, CPGs tend to use less expensive sample distribution methods, such as grocery store distribution and bundling with newspapers. To gain information on operations, costs and potential market, the Postal Service conducted a market test in May 2010 of a parcel box containing an assortment of product samples from multiple CPGs mailed to the companies' target consumers; the CPGs shared the cost of postage rather than paying it individually.

MAIL CLASSIFICATION

MC2009-19, Modification of Mail Classification Schedule Product Lists in Response to Order No. 154. During 2010 the PRC added classification language to the Mail Classification Schedule (MCS) for Address Enhancement Services, Address Management Services, and Stamp Fulfillment Services.

MC2010-20, Transferring Selected Post Office Box Service Locations to the Competitive Product List. Transferred to the competitive product list. Post Office Box service for 49 Post Office locations within one-half mile of a private competitor. Effective June 17, 2010.

MC2010-22, Modification of Mail Classification Schedule Regarding Forever Stamps. Modified the MCS to allow more than one design for Forever stamps. Effective May 6, 2010.

MC2010-33, Minor Classification Changes Related to Canada Post–United States Postal Service Contractual Bilateral Agreement for Inbound Competitive Services. The Postal Service filed notice of a minor classification change concerning the Bilateral Agreement, proposing that inbound surface parcels tendered by Canada Post would be handled as Priority Mail and subject to the rates for Xpresspost merchandise established in this Agreement. Effective August 23, 2010.

RULEMAKINGS

RM2009-3, Consideration of Workshare Discount Rate Design. This rulemaking concerned a provision of the law — 39 U.S.C. § 3622(e) — that limits workshare discounts to the costs avoided by worksharing. The PRC's final rule, issued in September 2010, concluded, among other things, that this pricing constraint on workshare discounts: may apply within or across products, implements a substantial portion of the policies that underlie the Efficient Component Pricing rule, and requires the identification, within a market of mail that is distinguished from other mail predominantly by avoided costs due to worksharing activity. The PRC also concluded that the selection of an appropriate base or reference group from which to calculate the costs avoided by worksharing depends on which of the base group's components are likely to shift to the workshared group in response to changes in their relative prices. The PRC further concluded that there is a worksharing relationship between presort First-Class Mail and Single-Piece First-Class Mail that is metered or bears Information-Based Indicia, and that the worksharing provision does not apply to Standard Saturation Mail because it serves a unique market.

RM2009-11, Periodic Reporting of Service Performance Measurements and Customer Satisfaction. This concerned the PRC's rules for reporting service performance measurement and customer satisfaction survey results, which followed earlier proceedings aimed at developing modern service standards for market dominant products, as required by the Postal Act. The Postal Service was instrumental in helping craft feasible and transparent rules issued by the PRC in May 2010.

RM2009-12, Regulations Establishing Procedures for Obtaining Information from the Postal Service. This rulemaking concerned implementation of rules governing the PRC's subpoena authority. The Postal Service offered suggestions to clarify the proposed rules, the final version of which was issued by the PRC in April 2010.

RM2010-1, Request to Initiate a Proceeding to Consider a Proposed Change in Analytic Principles. The Postal Service requested in October 2009 that the PRC consider a proposal involving the use of updated density factors for the purpose of distributing certain transportation and vehicle service driver costs to products. The PRC accepted the proposal in January 2010.

RM2010-2, Order Revising Rule for Service of Complaints. The PRC adopted a direct final rule to change the email address that complainants must use to serve their complaints on the Postal Service: *prccomplaints@usps.gov.*

RM2010-3, Request for Authorization to Utilize Pro Forma Accounting Data in Periodic Reporting. In October 2009 the Postal Service sought the PRC's authorization to rely on pro forma portions of audited financial statements consistent with the retroactivity provision in the Postal Act, for the purpose of preparing 2009 and 2010 periodic reports, as well as preparing filings in other dockets in which reliance on those pro forma statements is necessary. A month later, the PRC dismissed the petition as moot after being informed by the Postal Service that the concern underlying the request was no longer pertinent.

RM2010-4, Request to Initiate a Proceeding to Consider a Proposed Change in Analytic Principles. In October 2009 the Postal Service asked the PRC to consider four proposals to improve analytic principles relating to periodic reports. Proposals sought to: remedy a previously undetected inconsistency in the treatment of window service costs with respect to international versus domestic money orders; streamline the presentation of the unit cost detail chart filed as part of USPS-FY08-30; adopt an estimation of the incremental costs of competitive products, and modify the Flats Costs Models previously presented in USPS-FY08-12. In January 2010, the PRC accepted all proposed changes with the exception of certain modifications described in the body of the Order that pertained to one of the proposals.

RM2010-5, Request to Initiate a Proceeding to Consider a Proposed Change in Analytic Principles. In December 2009, the Postal Service requested that the PRC to consider three proposals to improve analytic principles relating to the periodic reports. The proposals, all of which were accepted by the PRC in January 2010, included: a change in the methodology used by the Revenue, Pieces, and Weight (RPW) system to generate estimates for Alaska Bypass mail; a change to the methodology used for estimation of the CSBCS productivity, and an advance notification that the 2009 ACR would not include any Single-Piece Parcel Post models.

RM2010-6, Request to Initiate a Proceeding to Consider a Proposed Change in Analytic Principles; and RM2010-7, Request to Initiate a Proceeding to Consider a Proposed Change in Analytic Principles. In January 2010, the PRC accepted the proposals made by the Postal Service in December 2009 to initiate proceedings to consider a change in the Flats Costs Models for Periodicals and adjustment of 2009 Quarter 4 Parcel Select billing determinants used in cost models (RM 2010-7).

RM2010-8, Request to Initiate a Proceeding to Consider a Proposed Change in Analytic Principles. In February 2010, the Postal Service asked the PRC to authorize elimination of the rail portion of TRACS sampling and instead to distribute rail costs using the Inter-BMC highway distribution factors. The PRC accepted the proposal with modifications, and ordered the Postal Service to use the 2009 Freight Rail distribution key to distribute the costs of freight rail to products in 2010 and subsequent reporting years.

RM2010-9, Estimating Volume Changes from Pricing Incentive Programs. The Postal Service conducted three pricing incentive programs in the past year to generate new volume and additional revenue. Rebates were offered to mailers who mailed more pieces than they would have without rebates. Each pricing incentive program proposed or used various methodologies to estimate its profitability. In June 2010, the PRC initiated a proceeding to investigate these methodologies for estimating volume changes due to pricing incentive programs. Upon consideration of all the methodologies proposed, and if a change in analytical principles is warranted, the PRC may propose the adoption of a specific methodology. The case is active.

RM2010-10, Request to Initiate a Proceeding to Consider a Proposed Change in Analytic Principles. In June 2010, the Postal Service requested that the PRC initiate a proceeding to consider a proposal seeking a 20 percent reduction in the ODIS-RPW sample size and allocation of 10 percent of the ODIS-RPW sample size to a special study using an alternative sampling frame. The case is active.

RM2010-11, Semi-Permanent Exceptions from Periodic Reporting of Service Performance Measurement. This rulemaking concerned the Postal Service's request for semi-permanent exceptions from reporting the service performance of 32 market dominant products and product components. In September 2010, the PRC approved the request as to 27 products and product components, primarily covering market dominant ancillary services, and confirmed that separate measurement is not necessary for another two products.

RM2010-12, Request to Initiate a Proceeding to Consider a Proposed Change in Analytic Principles. The Postal Service requested in September 2010 that the PRC initiate a proceeding to consider six proposals to change analytic principles relating to periodic reports. The proposals included: assigning relevant costs for direct bundles to products that utilize them (related to City Carrier costs); assigning IOCS acceptance costs to the host mailpiece when a piece is accepted at the window, has non-retail indicia, and hosts an Extra Service (other than Registered Mail); utilizing more detailed information regarding collected prepaid parcels that the Rural Carrier Cost System is capturing; changing the calculation procedures (involving ICRA); introducing a mailflow-based model of processing costs for Standard Parcels and NFMs (Not Flat Machinables), and improving the distribution key for empty equipment. The case is active.

RM2010-13, Consideration of Technical Methods to Be Applied in Workshare Discount Design. The PRC initiated this rulemaking (related to RM2009-3) to solicit comments on the appropriate base group for measuring First-Class Mail workshare discounts, the specific cost characteristics that the base category selected should have, and technical proposals to revise or refine the manner in which avoided costs are modeled. The case is active.

RM2010-14, Semi-Permanent Exceptions From Periodic Reporting Of Service Performance Measurement. This rulemaking, pending before the PRC at the end of FY 2010, concerns the Postal Service's request for a semi-permanent exception from reporting on service performance for Applications and Mailing Permits.

COMPLAINTS

C2009-1, Complaint of GameFly, Inc. The mailer of two-ounce First-Class Mail flat shaped pieces who initiated this case in April 2009 claimed to face undue discrimination by the Postal Service compared to Netflix, a mailer of one-ounce First-Class Mail letters. This proceeding remained active.

C2010-1, Complaint of Personal Assistance Service Council. The Commission docketed in December 2009 the complaint of Personal Assistance Service Council (PASC, a public authority chartered by the Los Angeles County Board of Supervisors). The complaint alleged that the Postal Service improperly denied PASC's application to mail at Nonprofit Standard Mail rates on the basis that PASC is a government entity that receives taxpayer funds. The Postal Service filed an unopposed motion to dismiss PASC's complaint for failing to comply with the regulatory requirements of these proceedings. The PRC quickly granted the Postal Service's motion and dismissed PASC's complaint without prejudice.

C2010-2, Complaint of Lance McDermott. In May 2010, the PRC docketed the complaint of Lance P. McDermott, which alleged that the Postal Service was planning to close the Seattle-Queen Anne Station without following procedures in 39 USC 404(d). The Postal Service sought dismissal on grounds that no decision had been made concerning retail operations at the station. The PRC granted the motion to dismiss in June.

OTHER DOCKETS

N2010-1, Request for an Advisory Opinion on Six-Day to Five-Day Street Delivery and Related Service Changes. This request, filed on March 30, 2010, seeks a nonbinding advisory opinion regarding plans to eliminate the regular delivery of mail to street addresses on Saturdays and implement related service changes. Testimony of 11 witnesses, including 5 executive officers of the Postal Service, accompanied the filing. Hearings on the evidence submitted by the Postal Service were held in July 2010, following a series of field hearings in May and June during which the PRC heard from mail senders and recipients, postal union representatives, and members of the public, in eight locations. Additional evidentiary hearings were held in September and October 2010. The PRC's advisory opinion is expected in early FY 2011.

PI2010-1, Investigation of Suspended Post Offices. The PRC initiated this case to investigate allegations that the Postal Service was suspending operations in Post Offices instead of following the administrative procedures prescribed by law for closing or consolidating Post Offices. Apart from the filing of periodic reports, this docket has been dormant since April 2010.

PI2010-2, PAEA Section 802(c) Request. The Postal Service requested that the PRC invoke its authority to engage the services of an actuary to review a matter previously reviewed by the Office of Personnel Management (OPM) and the Postal Service's Office of the Inspector General (USPSOIG) regarding the Postal Service's overpayment of its Civil Service Retirement System liabilities. The PRC responded to the request. An actuary reviewed the overpayment and provided a report with recommendations.

PI2010-3, Public Inquiry Concerning Procedures for Rate Cases Under Part 3010, Subpart E. This proceeding (which preceded the exigent filing, R2010-4) provided all interested parties an opportunity to explore and discuss procedural considerations unique to exigent rate cases before the first such case was filed.

A2010-1 through A2010-6, Post Office Closing or Consolidation Appeals: The PRC docketed six Post Office closing or consolidation appeals, four of which are concluded. Of the four, one involving the suspension rather than discontinuance of operations was effectively swept into a related docket with a directive to file monthly progress reports on the subsequent discontinuance study. Two appeals were dismissed by the PRC because they involved stations or branches, not Post Offices. The fourth matter involved a Post Office that had been formally discontinued more than a year before an appeal was attempted, making it untimely; the PRC dismissed it.

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Chapter 2: **Products and Services**

Product Development

The Postal Act of 2006 divided postal products and services into two distinct categories — market dominant (also referred to as mailing services) and competitive (also referred to as shipping services). Different rules for each category allow the Postal Service to bring new products and services to market more quickly, with greater pricing flexibility.

Price changes on average for any class of mail within mailing services may not exceed the rate of inflation based on the Consumer Price Index (CPI) for the previous 12 months. Price changes for shipping services must produce sufficient revenue above a price floor that covers attributable costs and, for shipping services as a whole, an appropriate share of institutional costs.

Mailing Services

Mailing services represent roughly 87 percent of all revenue. It includes First-Class Mail, Periodicals, Standard Mail, Package Services (single-piece Parcel Post, Bound Printed Matter, Media Mail, and Library Mail), single-piece International Mail, and Special Services and Ancillary Services such as Delivery Confirmation, Certified Mail, and Post Office Box service.

In October 2009, the Postal Service announced that it would not increase prices for mailing services during calendar year 2010 to promote stability and continued use of mail in the face of severe economic challenges affecting the mailing industry.

FIRST-CLASS MAIL

First-Class Mail is a "flagship" product for a range of applications used by households and businesses. It may be used to send virtually anything up to 13 ounces that is eligible for mailing, such as cards, letters, large documents, or parcels. First-Class Mail is confidential and sealed against postal inspection except as authorized by law. Mail containing personal information — including all handwritten or typewritten material, bills, and statements — is required to be sent by First-Class Mail, Express Mail, or Priority Mail. Undeliverable-as-addressed First-Class Mail is forwarded or returned to sender without additional charge. The service standards for First-Class Mail are 1 to 3 days in the 48 contiguous states, depending on distance and level of presort.

First-Class Mail consists of six products with distinct prices and preparation requirements that meet an array of retail and commercial uses: single-piece letters/cards; presorted letters/cards; flats; parcels; international outbound single-piece; and international inbound single-piece. Single-piece (sometimes referred to as retail) requires no mailer sortation; and presort (sometimes referred to as commercial) requires mailer sortation. Prices do not vary by distance.

Single-piece is mostly used by households and small businesses for personal and business correspondence and transactions such as bill payments. No minimum number of pieces or sortation is required. Prices vary by ounce and shape (card, letter, flat, or parcel). Presorted First-Class Mail is used mostly by medium and large businesses for statements, bills, and advertising. Presort prices are lower than single-piece prices because mailings must meet certain requirements including a minimum number of pieces, accurate addressing preparation, and presorting by ZIP Code ranges to qualify for the lower prices. Prices vary by ounce, shape, and sortation level, and whether the pieces are prebarcoded and can be run on automation equipment and meet addressing standards.

First-Class Mail revenue was $34.0 billion, with a volume of 78.2 billion pieces. Revenue decreased 5.2 percent and volume fell 6.6 percent. The overall volume decline, largely in the single-piece category, continued a downward trend that started in 2002. Besides impacts from the recent economic downturn, the decline can be attributed to continued electronic diversion of bills and statements, alternate payment methods, and fewer new applications for this service.

Even with volume declines and efforts to eliminate costs, the Postal Service continued to maintain excellent First-Class Mail service. Bills and statements represent about half the volume of presorted First-Class Mail, and along with the single-piece volume of remittances for those bills, make up nearly half of total First-Class Mail volume. The Phoenix-Hecht Surveys in January and July showed an overall improvement of nearly an hour (0.8 hour) for the year in handling remittance mail. Technology, transportation, and processing improvements have reduced average processing times by more than 8 hours since 1999. The Phoenix-Hecht Survey measures in hours the time that remittance mail travels from 170 originating cities to 100 sites in 29 destination cities. Phoenix-Hecht is an independent research firm that has tracked remittance mail processing times for more than 10 years.

The Postal Service works closely with customers to simplify and streamline the preparation and barcoding of presorted mail. All sort levels for automation letters are optional, giving mailers more flexibility and encouraging lower-volume mailers to design mail for automation prices. A Full-Service Intelligent Mail barcode incentive of 0.3 cent per piece for automation letters and flats became available on November 29, 2009.

For commercial customers, the Postal Service ran a First-Class Mail Incentive program from October through December 2009. Eligible companies were offered a 20 percent postage rebate for specific qualifying presorted volumes of letters, cards, and flats mailed during that period. A qualifying volume needed to exceed a mailer's predetermined threshold. The short-term incentive program generated 212 million pieces and $75 million top-line revenue with a $19 million net contribution.

Thirty states and the District of Columbia allow "no excuse" absentee voting by mail. The Postal Service works with election officials nationwide to assist with their efforts to expand the adoption of voting by mail. Election Mail is promoted extensively through

outreach and updated support materials, including an action plan, handbooks, Web pages, and a special tag to flag containers carrying ballots.

To help simplify First-Class Mail for consumers, the concept of alternate postage payment is currently testing with Hallmark Cards, Inc. No postage stamps are necessary for customers who purchase Hallmark's Postage Paid Greetings product — postage is included. An Intelligent Mail barcode preprinted on each envelope allows postage to be automatically deducted from Hallmark's account as mailed cards are scanned in regular postal processing. Customers avoid the need to buy stamps, the Postal Service avoids the cost of selling them, and mailing a greeting card is easier than ever.

STANDARD MAIL

Standard Mail is a cost-effective bulk mail class with a large range of applications for businesses and nonprofit organizations, including advertising, fund-raising, product samples, newsletters, and catalogs. Any mailable matter weighing less than 16 ounces may be sent by Standard Mail except matter required to be sent as First-Class Mail such as bills and correspondence or publications authorized at Periodicals prices. Standard Mail may receive deferred handling and is not sealed against postal inspection. Service standards for delivery are 2 to 9 days in the 48 contiguous states, depending on distance and level of presort.

Standard Mail consists of six products. Each has a regular price and a lower nonprofit price for qualifying organizations as established under law. There are no retail single-piece prices for Standard Mail. Standard Mail prices vary by weight, shape (letter, flat, or parcel), and sortation level; whether the mail is prebarcoded and can be processed on automation equipment; and whether the mail is transported by the mailer to postal facilities closer to the final delivery addresses. Prices do not vary by distance. A Full-Service Intelligent Mail barcode incentive of 0.1 cent per piece for automation letters and flats and for basic and high-density carrier route flats became available November 29, 2009.

The pricing structure for Standard Mail is designed to meet the diverse needs and capabilities of mailers and to encourage mailers to perform additional mail preparation (workshare) that reduces Postal Service costs.

Standard Mail revenue was $17.3 billion, with 82.5 billion pieces. Standard Mail revenue decreased only 0.1 percent and volume increased 0.1 percent.

Standard Mail volume is a major contributor to overall revenue. However, the possible long-term volume shift from First-Class Mail to Standard Mail has serious financial implications because it takes roughly three Standard Mail letters to produce the same profit, or contribution, as one First-Class Mail letter.

The strategic pricing of Standard Mail has been a catalyst to the development of a robust and highly competitive direct mail industry. Direct mail enables marketers to target specific customers and measure their return on investment. Intelligent Mail has only increased the ability of marketers to capture valuable data for analysis and decision-making.

The Postal Service offered two Standard Mail incentive programs to increase volume and stimulate the use of advertising mail. The Saturation Mail Incentive Program ran from May 2009 through May 2010. Participating mailers of saturation letters and flats received a postage rebate on volumes that exceeded a predetermined threshold. The program attracted 540 applicants. The reprised Standard Mail Incentive Program ("Summer Sale") ran from July 1 to September 30. Eligible mailers received a 30 percent postage rebate on incremental volumes that exceeded predetermined thresholds. The program attracted about 1,700 online applicants.

PERIODICALS

Periodicals is a mail class that authorized publishers use to send newspapers, magazines, and trade and scholarly journals at preferred prices, if the publications meet Periodicals privileges criteria and Postal Service approval.

Prices vary by weight, shape (letter, flat, or parcel), by distance in some cases, and sortation level; the percentage of editorial and advertising content; the number of bundles and containers in a mailing; whether the pieces can be run on automation equipment; and whether the pieces are transported to postal facilities closer to the final delivery addresses. By law, certain prices are available for authorized nonprofit and classroom publications. Periodicals consists of two products: Outside County and Within County, with several price categories and discounts designed to meet the requirements of small and large publishers. Since November 29, 2009, Periodicals mailers who adopted the Full-Service Intelligent Mail option can receive a 0.1 cent per piece incentive and may qualify for no-fee Address Change Service (ACS). The service standards for Periodicals are 1 to 9 days in the 48 contiguous states, depending on distance and level of presort.

Periodicals revenue was $1.9 billion, with a volume of 7.3 billion pieces. Total Periodicals revenue decreased 7.8 percent and volume decreased 8.0 percent. The Periodicals volume decline closely matched that of last year as other media channels, such as the Internet, continued eroding public reliance on publications for news, information, entertainment, and advertising. Pricing strategies and product innovations focus on reducing the number of postal handlings, increasing the volumes that mailers deposit closer to destination addresses, and modifying preparation requirements as technologies change.

PACKAGE SERVICES

Package Services is an economical class for sending items up to 70 lbs. (except Bound Printed Matter, which has a 15-lb. limit) not required to be sent as First-Class Mail, prepared as Customized Market Mail, or entered as Periodicals. Package Services is primarily used to ship merchandise and mail catalogs and other bound items too heavy to be sent as Standard Mail. Package Services may receive deferred handling and is not sealed against postal inspection. The service standards for all Package Services products are 2 to 8 days in the 48 contiguous states, depending on distance and level of presort.

It consists of five products with distinct prices and preparation requirements that meet an array of retail and commercial uses: Single-Piece Parcel Post, Bound Printed Matter Flats, Bound Printed Matter Parcels, Media Mail/Library Mail, and Inbound Surface Parcel Post (international).

Single-Piece Parcel Post is generally the lowest priced general shipping service for retail parcels weighing one pound or more. Bound Printed Matter, Media Mail, and Library Mail, available with single-piece and presorted prices, are content-restricted products. Bound Printed Matter may be used only for permanently bound printed materials such as catalogs and books. Media Mail and Library Mail may be used only for books, sound and video recordings, certain films and film catalogs, printed music, manuscripts, media, and other eligible items. Only qualified schools, colleges, libraries, and similar organizations may use Library Mail.

Package Services revenue was $1.5 billion, on 658 million pieces. Revenue decreased 10.0 percent and volume decreased 10.0 percent. The volume decline reflects the impact of the overall economy on the package industry and the benefits of Priority Mail.

ADDITIONAL SERVICES

The Postal Service offers several additional services, generally designated as special services and ancillary services. They are purchased for a fee as a stand-alone service or as a feature that may be added to a mailing. Special services include Post Office Boxes and Postal Money Orders; ancillary services include those that provide added security (such as Registered Mail, Insured Mail, and Collect on Delivery), information about delivery (such as Certified Mail, Return Receipt, Delivery Confirmation, Signature Confirmation, and Confirm), forwarding and return of mail, and address information.

Post Office Box service is available as an alternative to free carrier delivery or general delivery. Fees vary by box size and facility location. The service served more than 14 million customers and generated $814 million.

Insurance covers loss or damage of a mailable article based on its actual value for domestic and international packages. All Insured Mail labels are barcoded and only items valued over $200 require the recipient's signature. Click-N-Ship customers who purchase shipping labels via *usps.com* can add domestic insurance to Express Mail and Priority Mail purchases; eBay customers can add insurance to Priority Mail, Express Mail, First-Class Mail, Parcel Post, and Media Mail purchases.

Merchandise Return Service (MRS) is a premier end-to-end returns solution using the Postal Service network to move packages to their destination. MRS permit holders pay the postage and any special service fees on parcels returned by the permit holder's customers. Mailers continued to use First-Class parcels with MRS as a low-cost solution for the return of items weighing 13 ounces or less. First-Class Mail parcels represent an unmatched price for delivery anywhere in the U.S. For time-sensitive returns weighing 1 pound or more, Priority Mail continued to be a strong offering with 2 to 3-day service and enhanced visibility in transit. Merchants pay full postage for each package returned based upon weight, destination, and the level of service they select or charges can be passed to a third-party permit holder upon delivery.

Shipping Services

Shipping services products include Express Mail, Priority Mail, Parcel Select, Parcel Return Service, Premium Forwarding Service, Global Express Guaranteed (GXG), Express Mail International, Priority Mail International, and M-bags, as well as negotiated service agreements and several other international services including international ancillary services. Shipping services, which represent 13 percent of revenue but less than 1 percent of volume, face considerable domestic and international market competition. As a group, shipping services revenue was $8.7 billion, with a volume of 1.4 billion pieces. Revenue increased 5.2 percent, while volume increased 2.8 percent.

Prices for shipping services are adjusted annually each January — consistent with industry practice — which encourages comparisons that show the affordable options offered by the Postal Service. Most shipping services product prices changed on January 4, with some related classification changes to meet new customer requirements.

EXPRESS MAIL

Express Mail, the fastest domestic postal product for time-sensitive items, is a guaranteed overnight or second-day delivery for urgent

letters, documents, and merchandise. Any mailable matter weighing up to 70 pounds may be sent as Express Mail, which is closed against postal inspection. The product includes tracking, proof of delivery, Sunday and holiday delivery where available for a fee, insurance up to $100, a flat-rate envelope, and standard boxes as well as custom-designed and co-branded boxes for commercial mailers. All postal-provided Express Mail shipping envelopes, boxes, and packaging are available at no additional cost and meet the high environmental standards of Cradle-to-Cradle certification. When properly prepared, boxes can also be used for Express Mail International service. Service performance and reliability for this product were at an all-time high.

Overall, Express Mail prices averaged a 4.5 percent increase that maintained a valued advantage in the market, especially for lightweight items. Other than the flat-rate envelope that is priced at a uniform price regardless of weight and domestic distance traveled, prices are based on weight and domestic distance (the number of zones through which an item is transported). Unlike most other shipping companies, the Postal Service does not impose surcharges for fuel price increases, residential delivery, forwarding, Saturday delivery, or for off-shore domestic addresses such as Alaska, Hawaii, and Puerto Rico.

Retail prices are available to any customer using permissible postage payment methods. Lower Commercial Base prices are available to customers who use alternate postage payment systems that capture more customer information such as the online Click-N-Ship, Express Mail Corporate Accounts, or approved information-based indicia (IBI) metering systems. Even lower Commercial Plus prices are available to customers who use authorized postage payment methods and mail a minimum number of packages.

Express Mail features continue to evolve and expand for retail and commercial customers. Many customer-requested enhancements and innovations have been introduced, including Hold For Pickup, Click-N-Ship modifications, expedited absentee ballots option for overseas military personnel, open and distribute containers and processes, a letter-size envelope, a waiver of signature at delivery, and use of permit imprints for postage payment under the Electronic Verification System.

Express Mail Hold For Pickup lets a sender have a shipment kept securely at a destinating Post Office to await convenient pickup by the recipient. The service includes an automated callback notification to senders about the arrival status of shipments. Hold For Pickup service is also available through *usps.com.*

To simplify the deposit of prepaid packages at Post Offices, customers who use Click-N-Ship or PC Postage can print a single Shipment Confirmation Acceptance Notice form for multiple packages mailed at the same time. The employee accepting the packages only has to scan the barcode on the form for all packages rather than scan each package separately.

An expedited option to return absentee ballots using Express Mail was established for personnel at Army Post Office, Fleet Post Office, or Diplomatic Post Office (APO/FPO/DPO) locations. Applied to the top of the ballot return envelope is a unique blue Express Mail Label 11-DOD, which includes the waiver of signature and guaranteed-by-end-of-day endorsements. Postage for this service is paid by the federal government.

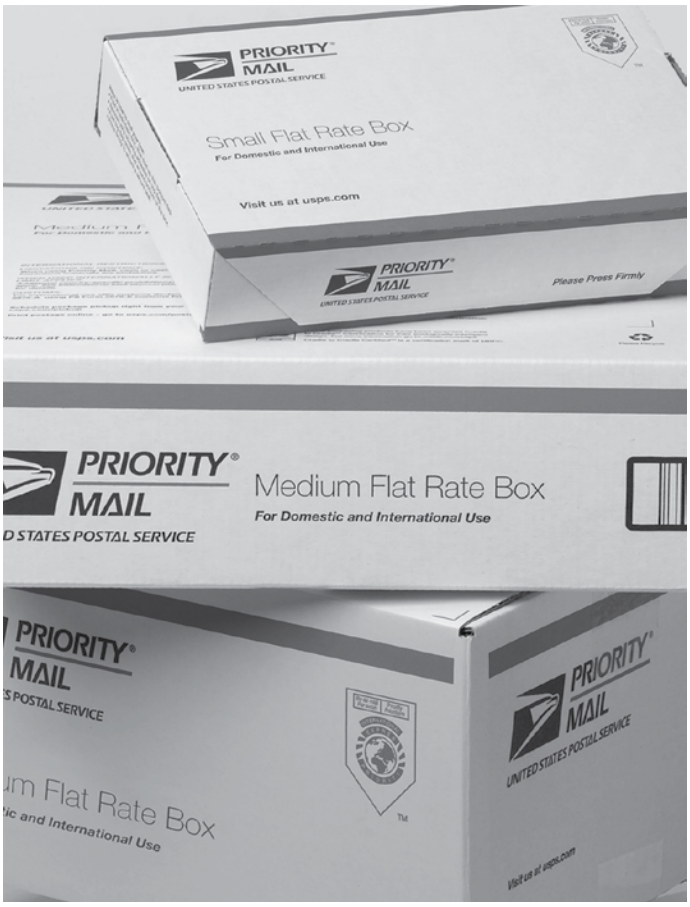
A valuable drop-ship service for commercial shippers is Express Mail Open and Distribute, which can be used to expedite mail in bulk, such as First-Class Mail bills or Standard Mail parcels containing medicine. Shippers enclose pieces all destined for the same ZIP Code or range of ZIP Codes in an Express Mail sack or distinctive Postal Service-provided tray box and address it to the destination postal facility. Several features and activities added this year to improve Open and Distribute and redirect services, included half and full tray boxes, documented acceptance and processing procedures, and a Lean Six Sigma project for improving scanning and service performance.

Simplified postage payment with a permit imprint is available with the Electronic Verification System that enables commercial mailers to manifest and track large mailings of Express Mail shipments. Mailers transmit electronic files to the Postal Service to support this system, which generates financial documents such as postage statements, deducts postage from a centralized account, and produces other mailing reports.

PRIORITY MAIL

Priority Mail is a fast, economical product, with targeted (but not guaranteed) delivery within 1 to 3 days that households and businesses generally use to send letters, documents, and merchandise. Any mailable matter weighing up to 70 pounds may be sent as Priority Mail, which is closed against postal inspection. The product provides security and preferential handling. Priority Mail includes free Delivery Confirmation for mailers submitting electronic manifest files. It also features convenient prepaid envelopes, and flat-rate envelopes and flat-rate boxes as well as custom-designed and co-branded boxes for commercial shippers. All postal-provided Priority Mail shipping envelopes, boxes, and packaging are available at no additional cost and meet high environmental standards as Cradle-to-Cradle certified. When properly prepared, envelopes and boxes can also be used for Priority Mail International service. Priority Mail service performance was at an all-time high.

Overall, Priority Mail prices averaged a 3.3 percent increase that maintained a value advantage in the market, especially for lightweight items. Except for the Priority Mail flat-rate products, prices are determined by weight, domestic distance (the number of zones through which an item is transported), and in some cases, dimension. Priority Mail flat-rate products, which are priced at a uniform price regardless of weight or distance traveled include two Flat Rate Envelopes, Regular and Padded; and three different sizes of Flat Rate Boxes. A special lower price for the Large Flat Rate



Box is offered to military addresses. Discounts are available for customers who use electronic postage and meet other requirements. Unlike most other shipping companies, the Postal Service does not impose surcharges for fuel, residential delivery, forwarding, Saturday delivery, or off-shore domestic addresses to destinations such as Alaska, Hawaii, and Puerto Rico.

Retail prices are available to any customer using permissible postage payment methods. Lower Commercial Base prices are available to customers who use alternate postage payment systems that capture more customer information such as the online Click-N-Ship service, approved information-based indicia (IBI) metering system, or specified permit imprint and barcode configurations. Even lower Commercial Plus prices are available to customers who use authorized postage payment methods and whose account volumes exceed 100,000 pieces in the previous calendar year or who have a customer commitment agreement.

Two innovations were added this year to Commercial Plus: a half-pound price and a flat-rate padded envelope. Commercial Plus Cubic prices in five tiers were also added this year for pieces that measure 0.50 cubic foot or less and weigh 20 pounds or less if the qualifying Priority Mail customer presents at least 250,000 such pieces annually or has a customer commitment agreement. Prices for the five tiers are based on size and distance rather than weight and distance. Commercial Plus Cubic is designed to encourage smaller, less wasteful packaging.

Additional promotion of flat-rate shipping included the distribution of Priority Mail Flat Rate Box kits to customers who responded to the advertising campaign through reply cards, the Internet, and telephone. Over 850,000 kits were fulfilled during the 2009 holiday period.

A valuable drop-ship service for commercial shippers is Priority Mail Open and Distribute, which can be used to expedite mail in bulk such as First-Class Mail bills or Standard Mail parcels containing medicine. Shippers enclose pieces all destined for the same ZIP Code or range of ZIP Codes in a Priority Mail sack or distinctive Postal Service-provided tray box and address it to the destination postal facility. Several features and activities added to improve Open and Distribute and redirect services included half and full tray boxes, a self-adhesive label for flat-rate boxes and envelopes, documented acceptance and processing procedures, and a Lean Six Sigma project for improving scanning and service performance.

Simplified postage payment with a permit imprint is available with the Electronic Verification System (eVS) that allows commercial mailers to manifest and track large mailings, including Priority Mail shipments. Mailers transmit electronic files which generate financial documents such as postage statements, deduct postage from a centralized account, and produce other mailing and sampling reports.

PARCEL SELECT

Parcel Select is an economical ground package-delivery product that medium and large volume shippers and consolidators use to ship packages. Any mailable matter may be mailed as Parcel Select except matter required to be mailed as First-Class Mail or Priority Mail, and publications required to be entered as Periodicals. Price is determined by weight, distance, entry facility, and in some cases, dimension. The best pricing is available for packages entered at destination facilities: destination delivery unit (DDU), destination sectional center facility (DSCF), or destination network distribution center (DNDC). Parcel Select also includes higher price options for parcels prepared and sorted by NDCs at Origin and NDC Presort, as well as barcoded machinable parcels.

Parcel Select combines parcel consolidator expertise and logistics with the vast delivery network of the Postal Service to provide highly competitive prices and excellent delivery service. The Postal Service has actively developed strategies to increase volume by optimizing pricing and developing new customer contracts based on flexible pricing; increasing partnerships and better leveraging the first- and last-mile pickup and delivery network; and by shortening start-up time for new customers. As a result, ground packages drop-shipped at DDUs and DNDCs represented more than 97.5 percent of Parcel Select volume as businesses continue to move packages closer to destination. Service performance was at an all-time high in 2010.

Overall, Parcel Select prices increased 4.7 percent in January, with a 3.9 percent increase for DDU, a 6.9 percent increase for DSCF, and a 6.9 percent increase for DNDC. There were no increases for Origin Network Distribution Center (ONDC), Presorted NDC, and Barcoded Nonpresorted Parcel Select. Parcel Select mailers who pay postage using approved PC Postage and request the barcoded nonpresorted price, no longer have to meet the 50-piece minimum per mailing. For destination entry and presorted prices, however, the 50-piece minimum volume requirement was not changed. Loyalty and Growth Rebates were eliminated in May.

A major development is the extension of FedEx SmartPost. All existing FedEx Ground customers, including FedEx Home Delivery customers, qualify for SmartPost. Customers can rate shop and select FedEx SmartPost if they use a FedEx shipping system or a corporate account. This arrangement opens up the FedEx Ground business to potentially shift volume to Parcel Select. In addition, ground shipping solutions are now offered to government agencies in the General Services Administration schedule 48, positioning the product lines for further revenue and volume growth.

Post Offices and delivery units now are using Enhanced Visibility Tracking Events (EVTE) for packages with Delivery Confirmation or Signature Confirmation services. With EVTE, track and confirm services are on the same playing field as competitors, enabling customers to track packages at their convenience from time of acceptance, to time of arrival at a delivery unit, to the final delivery point. Increasing product visibility maintains the high service performance for Parcel Select and contributes to its growth.

PARCEL RETURN SERVICE

Parcel Return Service (PRS) is an easy and convenient product that customers use to mail back items that were recalled or need to be returned, repaired, or recycled. Parcels may be mailed as PRS except matter required to be mailed as First-Class Mail or Priority Mail. Price is determined by weight, distance, entry facility, and, in some cases, dimension. PRS features free carrier pickup and two price categories: return delivery unit (RDU) and return network distribution center (RNDC). In January, overall prices increased 3 percent. RDU increased 2.1 percent, and RNDC increased 3.3 percent.

PRS customers use a preprinted label provided by the merchant or agent that does not require them to pay postage to return the parcel. Customers can take the parcel to a Post Office or request free carrier pickup at *usps.com/pickup.* The merchant or agent retrieves returned parcels from Post Offices (RDUs) or network distribution centers (RNDCs), and postage is deducted from an advance deposit account.

PRS provides full end-to-end product visibility through the logistics partner, who reverse manifests each shipment. This year the Postal Service expanded PRS partnerships begun in 2009 with both FedEx and UPS, in addition to continuing a long-standing relationship with Newgistics. The partnerships give customers other options to use the Postal Service's unparalleled first-mile capabilities.

PREMIUM FORWARDING SERVICE

Premium Forwarding Service (PFS) reships all mail from a household customer's primary address to a temporary address weekly via Priority Mail service, for a minimum of two weeks and up to one year. PFS was created to meet customer demand for an alternative to temporary forwarding service. The service remains popular with customers, and volume has been growing steadily.

SAMPLES CO-OP BOX

The Postal Service conducted a market test of a new product, Samples Co-op Box, which contained free samples of health, beauty and snack food products from multiple consumer packaged goods companies. The co-branded box, called Sample Showcase, weighs less than two pounds and includes the description that the contents inside are a selection of free product samples. Initial customer response was very positive. National rollout is expected pending final analysis of results.

International Products

The Postal Service continues to maintain a strong presence in the international shipping market with individual customer contracts, agreements with other postal administrations, and streamlined product offerings tailored to the needs of businesses and consumers.

GLOBAL EXPRESS GUARANTEED

Global Express Guaranteed (GXG) is the premium international shipping option that offers reliable date-certain delivery in 1 to 3 business days to over 190 countries, with a money-back guarantee. For almost all network destinations, liability insurance is provided for lost or damaged shipments. GXG customers receive a 10 percent discount for commercial base prices when postage is paid online at *usps.com* or through authorized PC Postage vendors. This year, GXG acceptance was expanded to Hawaii. GXG was also added to the USPS Shipping Assistant, a free desktop computer program that allows a customer to create various barcoded postal shipping labels. Overall, GXG prices increased 4.1 percent.

International transportation and delivery for GXG is provided by FedEx. Since the formation of the alliance with FedEx in 2004, GXG volume has almost doubled. The alliance was extended in 2009 for a 5-year term. It builds on accomplishments of the initial agreement, which combines the resources of both organizations to provide world-class quality and value.

EXPRESS MAIL INTERNATIONAL

Express Mail International (EMI) provides reliable delivery within 3 to 5 business days on average to over 190 countries. EMI features tracking and insurance up to $100 at no additional charge. Customers receive an 8 percent discount for commercial base prices when postage is paid online at *usps.com,* or through authorized PC Postage vendors. Customers who pay postage by permit imprint and use authorized mail preparation software receive an 8 percent published discount off retail prices. Discounts of 8, 10, or 12 percent are also available for high-volume customers using Express Mail Corporate Accounts and permit imprint manifest mailing system software from the Postal Service. Overall, EMI prices increased 2.9 percent.

The same postal-provided Express Mail packaging used domestically can also be used for international shipping, including the flat-rate envelope. Express Mail International With Guarantee service — which offers a date-certain, postage-refund guarantee — is available to Australia, China, Great Britain, France (excluding Corsica and Monaco), Northern Ireland, Hong Kong, Japan, the Republic of Korea (South Korea), Singapore, and Spain.

PRIORITY MAIL INTERNATIONAL

Priority Mail International (PMI) offers delivery within 6 to 10 business days on average to over 190 countries. Customers receive a 5 percent discount when postage is paid online at *usps.com,* or through authorized PC Postage vendors. Also, customers who pay postage by permit imprint and use authorized mail preparation software receive a 5 percent published discount off retail rates. Overall, PMI prices increased 3 percent.

The same Postal Service-provided Priority Mail packaging used domestically can also be used for international shipping, including the flat-rate envelopes and boxes. Tracking of PMI is available to major destinations. Limited indemnity is provided at no additional charge for parcel shipments and insurance is available for a fee. Online tools provide a combined address and customs mailing label, thus enabling discounts and convenience. Online shipping also allows the Postal Service to send electronic notification to U.S. Customs and Border protection — now a legal requirement.

FIRST-CLASS MAIL INTERNATIONAL

First-Class Mail International is a reliable and economical means of sending correspondence, documents, and lightweight merchandise weighing up to 4 pounds. There are separate prices for letters, large envelopes, and packages.

INTERNATIONAL PRIORITY AIRMAIL AND INTERNATIONAL SURFACE AIR LIFT

International Priority Airmail (IPA) and International Surface Air Lift (ISAL) products meet the requirements of international business mailers needing services that are reliable yet more economical than First-Class Mail International. The number of country price groups is 15 — including 10 “country-specific” groups, and 5 multiple-country price groups. Mailer IPA and ISAL presort and dropship requirements encourage greater consolidation.

INTERNATIONAL DIRECT SACKS (M-BAGS)

International Direct Sacks (M-bags) are sacks of printed matter and non-dutiable merchandise sent to one addressee with weight-based prices.

EXPEDITED PRICING CONTRACTS

In addition to the traditional Global Expedited Package Services (GEPS) contract, GEPS Metro and International Service Center (ISC) Drop Ship agreements offer discounts that reflect lower transportation costs than the traditional GEPS contract. GEPS Metro is for customers entering mail at an approved business mail entry unit within 200 miles of an ISC. ISC Drop Ship is for customers transporting expedited shipments directly to one of five ISCs. All three types of GEPS agreements were revised in response to the economic downturn by adjusting the discount qualification tiers.

GLOBAL RESELLER EXPEDITED PACKAGE SERVICE AGREEMENT

The Postal Service entered into Global Reseller Expedited Package Service agreements with three resellers. These resellers had preferred pricing agreements with DHL (until DHL withdrew from the U.S. domestic marketplace), reselling domestic and international express services to small and medium size enterprises. In order to appease their customer base and maintain a high level of service, the resellers formally agreed to sell EMI and PMI services to concerns located throughout the U.S.

GROWGLOBAL!

This effort continues to build business by focusing on relationship building and coordinated outreach. It uses cross-functional teams to reach new customers, especially Asian and Hispanic markets. GrowGlobal! was implemented in 10 more districts, for a total of 30. By raising awareness and capitalizing on mutual business opportunities with these diverse markets, revenue for international products increased 10 percent nationwide.

NEW MARKET EXPORTER INITIATIVE

The Postal Service and the U.S. Department of Commerce kicked off the New Market Exporter Initiative, a collaboration that offers exporter companies using postal products, expertise and tools for helping to expand their export businesses. Free trade information and customized support for customers who register can be found at *www.export.gov.*

Retail Products and Services

RETAIL PRODUCTS

The Postal Service offers retail products to meet a range of customer needs, from supporting mailing and shipping activities to leveraging the Postal Service brand. ReadyPost is the postal brand for a full line of shipping supplies offered as a convenient option for customers. This year the Postal Service also began selling greeting cards in 1,500 Post Offices, an initiative that has been very well received by customers.

PASSPORT APPLICATION ACCEPTANCE

The Postal Service has over 6,300 convenient locations where customers can apply for a passport book or card. Many of these locations also offer passport photo services. In March, the Postal Service partnered with the Department of State to host Passport Day in the USA 2010 at more than 1,300 locations. During this year's event, the Postal Service processed 50,468 applications and took 23,344 passport photos. over 6.7 million passport applications contributed over $218 million in revenue.

POST OFFICE BOX SERVICE

Over 20 million PO Boxes generated $910 million in revenue this year. A renewed focus on marketing PO Boxes resulted in an increase in revenue over forecast. This nationwide effort culminated in the September launch of a new advertising campaign in four major test markets. If successful, this campaign will be expanded in 2011.

The PRC has approved the transfer of approximately 32,000 PO Boxes from the market dominant to the competitive products category. The boxes are in 49 metro and suburban locations where competitive alternatives are readily available. The change, which allows for more flexible pricing, is an opportunity to test customer interest in PO Box enhancements and to respond more rapidly to changing market demands.

Stamps

The 2010 postage stamp program included several popular releases, continuing a long tradition of stamps that are unique, functional, educational, and entertaining.

Of the 25.5 billion stamps, stamped envelopes, and stamped cards produced this year, 6.3 percent were commemorative stamps. Commemorative subjects included tributes to Negro Leagues Baseball, the Boy Scouts of America, Mother Teresa, Animal Recue: Adopt a Shelter Pet, Katharine Hepburn, Winslow Homer, Kate Smith, and 10 new stamp designs in the Flags of Our Nation series, featuring the Stars and Stripes plus the states of Montana through North Dakota (in alphabetical order). Four special panes of stamps, Distinguished Sailors, Cowboys of the Silver Screen, the Sunday Funnies, and the final pane in the Nature of America series, Hawaiian Rain Forest, were also issued. In addition, a stamp featuring the Monarch butterfly was released, the first designed specifically for use on greeting cards that require additional postage.

Most ideas for the commemorative stamp program come from the American public. Each year, 50,000 people send in proposals for consideration by the Citizens' Stamp Advisory Committee, a cross section of designers, historians, and educators, who narrow the selection of stamp subjects to be issued. The Committee reviews the suggestions and makes recommendations to the Postmaster General for final approval. The time between submitting an idea and issuing the stamp can take several years of deliberate discussion and design. Information about the program can be found at *www.usps.com/communications/organization/csac.*

In addition to using stamps to commemorate people, events, and places, the Postal Service also issues stamps to help fund causes mandated by Congress. There currently is one 55-cent fundraising, or semipostal, stamp: the Breast Cancer Research stamp. Since its initial release in 1998, more than 894 million have been sold, raising more than $70.8 million for breast cancer research. The price of a semipostal stamp pays for the First-Class Mail single-piece postage in effect at the time of purchase, plus an amount to fund the cause. By law, 70 percent of the net amount raised by the Breast Cancer Research stamp is given to the National Institutes of Health and 30 percent to the Medical Research Program at the Department of Defense.

Market Research

To evaluate and respond to changing customer needs, the Postal Service conducted several major market research studies.

Five-Day Delivery: This study assessed the projected impact of five-day delivery on commercial organizations and consumers. It included qualitative research which revealed that customers would accept a change to five-day delivery if it were necessary to ensure the long-term viability of the Postal Service, and would be able to adapt to five-day delivery without major negative impact. The study also included quantitative research to estimate the impact on mail volume. Based on these data, the Postal Service estimated that volume would decline by 0.71 percent if five-day delivery were adopted.

Product Samples: This study was executed to assess the opportunity of introducing a new "sampling" product. The study showed that consumers would be interested in and would use a "sample box" delivered by the Postal Service, thus allowing the Postal Service to offer advertisers a new way to deliver samples to consumers.

Stamp Distribution Channels: This study evaluated the various means by which consumers buy stamps. Most consumers continue to purchase stamps at Post Offices. However, a substantial number also buy stamps at commercial retail outlets and on *usps.com.*

2009 Household Diary Study: This multi-year research study measures the mail sent and received by a representative sample of more than 5,200 U.S. households. It analyzes household mail trends in the context of changes in the wider markets for communications. One significant trend is the affect of the Internet on consumer use of mail for transactions and personal correspondence. The study is available at *www.usps.com/householddiary.*

Price Change Preparation and Implementation

On November 4, 2009, the Postal Service filed notice with the PRC, announcing that shipping services price changes would take effect January 4 to coincide with competitors' price changes. To help customers make a smooth transition to the new prices, *usps.com* featured the new prices and easy access to key shipping guidelines. Links to down-loadable price files, mailing requirements, and Federal Register notices were posted. Online services on *usps.com* and partner sites such as eBay were updated with the prices and enhancements. Webcasts were a part of outreach activities for the software vendor community, and presentations and briefing materials were posted for Postal Customer Councils to use at local meetings.

Postal Explorer *(pe.usps.com),* an online resource popular among commercial and small business mailers, provided quick access to all price change information and materials, including price calculators, quick service guides, and postage statements. The *Domestic Mail Manual, International Mail Manual,* and all related documents were revised and posted on Postal Explorer. The *DMM Advisory* electronic newsletter also provided customers with information.

Briefings were provided to postal price implementation coordinators, the Business Service Network, and other customer and mailing industry outreach groups. A comprehensive field information kit was published in the *Postal Bulletin* to ensure that employees were fully prepared to give customers consistent and accurate information.

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If it fits, it ships®* to over 190 countries for a low flat rate. • Four box sizes to choose from with international shipping starting at $10.95. • With our medium and large sizes, there's no need to weigh packages under 20 lbs.† • When you're ready to ship, we'll pick them up for free.**

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Standardization and Network Optimization

Lean Six Sigma

Standardization continues to play a major role in improving service and efficiency in all operations and support activities. Lean Six Sigma (LSS) tools such as value stream mapping are used to simplify and standardize processes. Best practices are documented and shared throughout the organization to create a culture of continuous improvement. Lean management efforts target process variability and help identify non-value activities. Over 800 continuous improvement initiatives have been identified in mail acceptance, operations, transportation, and service improvement.

New field operation industrial engineers are playing an important role in the expansion of continuous improvement. An additional 2,200 employees have completed LSS training, with 450 earning certification as LSS Executive, Green Belt, or Black Belt by leading key initiatives.

Earlier this year, the Postal Service received two awards at the International Quality and Productivity Center Lean Six Sigma Summit. As part of its commitment, the organization is providing training at all management levels to foster an environment where data-driven decisions lead to improved performance, positive financial gains, and improved teamwork and employee commitment.

Resource Optimization

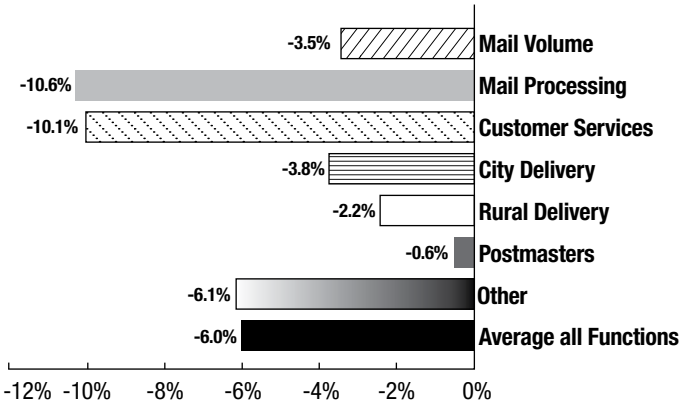
COMPLEMENT MANAGEMENT

Managers continue to improve their use of data to better align staffing with changing workload. There were 583,908 career employees at the end of 2010, which is 39,220 fewer than last year. There were also 87,779 noncareer employees. Reductions occurred in bargaining and nonbargaining categories and managers continue to plan for steady employee attrition by repositioning employees based on current and future resource requirements.

Approximately 75 million work hours were saved in 2010. This is in addition to 115 million hours reduced the previous year, 50 million hours in 2008, and 36 million hours in 2007. Over four years, the Postal Service achieved a total reduction of 276 million work hours, the equivalent of 157,000 full-time employees.

In customer service operations, scheduling improvements were the lead factor in saving 18 million work hours. In city delivery, 1,108 routes were eliminated, in addition to pivoting open routes and managing work hour variances, which contributed to savings of 16 million work hours. The number of delivery vehicles and related support costs were also reduced.

Mail Volume and Work Hour Reductions Change from 2009



NETWORK OPTIMIZATION

The Postal Service continuously monitors and adapts its processing and transportation networks to changing customer mailing patterns and mail volume fluctuations. For example, the volume of stamped Single-Piece First-Class Mail, which requires a high degree of processing, declined. In the same period, presorted First-Class Mail volumes decreased 3.8 percent. Ongoing adjustments to such changes are essential to maintaining optimal performance.

In December 2009, the Postal Service provided Congress with an annual update of the Network Plan, as required by the Postal Act. The plan highlighted three integrated elements of the optimization effort: closure of airport mail centers (AMCs), consolidation of redundant mail processing operation, and transformation of the bulk mail center (BMC) network. Two of the three efforts were completed in 2010 and the third — consolidation of redundant mail processing operations — is an ongoing effort.

The last AMC was closed in 2010, with operations relocated to other facilities. The other 12 AMC locations were reclassified as processing centers or customer/retail units. AMC closures reflect the shift of more mail from air to surface transportation, which can substantially reduce costs without compromising service performance.

Consolidation of outgoing and/or incoming processing operations is considered when service objectives can be met and operational efficiency improved. Following Area Mail Processing (AMP) guidelines, 37 new AMP feasibility studies were initiated this year, and 35 AMP consolidations were implemented for total savings of over $99 million.

Transformation of BMCs into network distribution centers (NDCs) was completed in 2010. The transition to the reconfigured NDCs is an excellent illustration of the potential of consolidating networks. NDCs process surface mail at fewer facilities and optimize ground transportation. In addition to producing service gains, especially for Periodicals, the changes reduce costs by improving mail preparation,

trailer loading, and dispatch. Key steps to prepare for the network change included implementation of new package handling processes at local Post Offices, changes in transportation routing and contracts, reorganized platform operations, revised distribution schemes, and revised staffing and schedules to match workload changes. Implementation of the NDC network conversion was completed in early March, seven months ahead of schedule. It is estimated to produce $135 million in annual transportation savings and $75 million in labor savings.

In other areas, improved addressing and recognition technology continues to reduce the need for remote encoding centers (RECs), specialized facilities where people key in address information for mail than cannot be "read" by automated equipment. In the last decade process improvements allowed reductions to the original 55 RECs. With the closure of one REC this year, only two remain in operation.

Mail transport equipment service centers, operated under contract, process and repackage equipment such as letter trays, flat tubs, sacks, and pallets. Eight of 23 centers were closed in 2010. This major optimization effort was accomplished without disruption and will save $75 million annually.

Visibility

Intelligent Mail

For more than 20 years, barcodes have been at the core of advances in postal quality and efficiency. Automated processing, driven by barcodes, has allowed the Postal Service to reduce costs and deliver more rapid, reliable, and consistent service. The Intelligent Mail barcode is the next step in letter and flat automation. Intelligent Mail (IM) integrates electronic mailing documentation, data-rich barcodes on mail and containers, and in-process scans to track mail from origin to destination. This expanded visibility creates new opportunities to improve service consistency, efficiency, and customer value.

PRIORITIES AND STRATEGIES

The following priorities, identified in 2003 and 2009, set the direction for achieving the Intelligent Mail vision:

(1) Uniquely identify mail with a code that enables end-to-end process visibility. Unique identification provides the ability to gain full visibility of mail including unique identification of pieces, handling units, and containers.

(2) Develop and deploy an enabling infrastructure. The systems to support Full-Service provide enhanced visibility into the mail supply chain and the infrastructure to facilitate the exchange of data between customers and the Postal Service.

(3) Improve address quality. The IM barcode provides a better understanding of undeliverable-as-addressed mail, resulting in new address correction options, an upgraded change-of-address process, and improvements to postal and customer address management systems.

(4) Establish robust measurement capabilities to assess commercial mail performance and enhance service by improving visibility into acceptance, delivery, and measurement.

(5) Drive innovation to enhance the value of mail with new products and services, data offerings, and dynamic pricing.

(6) Sharpen operational insight and gain a clearer understanding of cost drivers.

(7) Enrich the customer experience with in-process verification that limits the need for manual intervention, offers targeted verification based on past performance, and furnishes a better understanding of customer behavior.

INTELLIGENT MAIL SERVICE

Mailers have been able to use IM barcodes since 2006 and can choose between POSTNET and IM barcodes until May 2011 to qualify for automation prices. At that point,the IM barcode will be required for automation prices, Business Reply Mail, and Confirm.

Mailers can choose between two IM options — Basic and Full-Service. The IM barcode price structure, which took effect November 2009, includes separate pricing for each option. Full-Service includes an additional discount for the lowest automation-based prices. Under the Basic option, mailers need only use non-unique IM barcodes on their mailpieces. For Full-Service, mailers must use unique IM barcodes on each piece, submit postage statements and mailing documentation electronically if required, and use unique aggregate codes on IM tray and container labels. Data associated with the mailings is exchanged electronically between the customer and Postal Service.

MAILER PARTICIPATION

Intelligent Mail use grew rapidly this year. The number of mailers actively using Intelligent Mail increased from 153 to 586. Another 417 mailers were in various final stages of testing by year end. More than 43,000 mailers have been assigned one or more mailer IDs. The number of pieces with IM barcodes has grown from 300 million per week in October 2008 to approximately 1.4 billion per week at the end of September 2010.

The Postal Service continues to improve awareness of Intelligent Mail among mid-size and small mailers. Training and support materials

Intelligent Mail barcodes can be tracked throughout the mailstream, creating new opportunities to improve service consistency, efficiency, and customer value.

are available for employees directly involved with customers. The Mailers' Technical Advisory Committee joined in the awareness campaign, which included sessions at the National Postal Forum (NPF), Web site guidelines, and Q&As. The Postal Service and NPF co-sponsored national symposia, and Postal Customer Councils across the country conducted workshops to increase mailer awareness and participation.

2010 DECENNIAL CENSUS MAILINGS

The U.S. Census Bureau successfully used Full-Service Intelligent Mail for the 2010 Decennial Census, mailing 400 million pieces, the largest IMb mailing to date. Intelligent Mail allowed the Census Bureau to monitor delivery to every address, handle work flows efficiently, improve response rates, and save money. At the same time, the mailings demonstrated the power of Intelligent Mail and provided the Postal Service unprecedented visibility of mail as it moved through the system.

Because the Postal Service had total visibility and tracking throughout each phase of the process, it knew where every piece was at all times and could expediently handle service issues. Real-time data confirmed nearly 100 percent on-time delivery. Visibility also enabled a coordinated multichannel advertising campaign timed to the arrival of questionnaires in the customer's mailbox. The result was a customer response rate at least 5 percent better than projected. Visibility also let the Census Bureau know which households had responded by mail and could therefore avoid subsequent mailings or the need for a door-to-door enumerator.

By using the IMb to help manage program costs, the Census Bureau came in under budget, saving $1.6 billion. For the Postal Service, the mailings generated over $202 million in revenue and saved at least $7 million by avoiding the costs of returning undeliverable mail.

SCANNING AND SUPPORT SYSTEMS

The heart of visibility — the ability to track individual mailpieces through postal processing — is mailpiece and container barcode scanning. Barcode scans provide "start-the-clock" data at entry points and "stop-the-clock" data upon delivery. Barcode scans measure service performance and provide critical data to handle any service issues. During 2010, more than 157 billion IMb scans were processed. Most were "passive" in-process scans on automated equipment. The Intelligent Mail Visibility Service system, which combines passive scan data from processing with "active" scan data from other systems, transmitted over 372 billion scans to nearly a dozen corporate data systems.

The Postal Service established a new Product Visibility and Operational Performance office to drive continued improvement in the quality and amount of information principally for package operations. Improving scanning performance is a priority, and since formation of this office, national scan performance has improved 3.3 percent. On-time delivery and scanning performance are now equally weighted in the corporate goals for Express Mail, Priority Mail, and Parcel Select.

Surface Visibility is the term given to multiple integrated systems that track mailings as they are transported within the postal network. It provides real-time and diagnostic information for optimizing performance. Quality controls embedded at multiple points in the systems reduce misdirected and missent mail. The scanning of containers on loading docks provides accurate departure information for planning at downstream processing facilities and records how efficiently trailers are utilized as they are loaded.

The Postal Service's Surface Visibility scans verify actual deposit of mail by linking containers to electronic manifests. Among other benefits, this check improves accountability for contractors who print, prepare, and transport customer's mail. Two important

components are the Seamless Acceptance and Service Performance (SASP) system, which supports mailers participating in Full-Service Intelligent Mail, and the Facility Access and Shipment Tracking (FAST) system, which mailers use to provide advance notification of drop shipment mailings.

SASP is used to associate mailer manifest data (such as eDoc) with operational data (such as scheduled appointments and barcode scans) and reference data (such as Customer Registration ID, Mailer ID, facility, delivery points). The system captures and stores large volumes of mailing data and automates several acceptance activities as part of its integration with *PostalOne!* It determines start-the-clock, service standards, stop-the-clock, and service variance, and provides performance data for internal management and for external reporting.

In addition to supporting visibility, FAST provides customers with a means to schedule and manage destination entry of mail into postal plants. With the Postal Service's complementary Mailer Rating program, mailers who provide advance notification and arrive at the scheduled time with the amount of mail shown on their appointment will have improved access. Mailers can track their drop shipments,

receive advance notification of redirections, submit and manage recurring appointment requests online, and have joint scheduling capabilities. FAST added several customer-support features, including a new 24-hour help desk, customer/supplier agreement modifications for Full-Service IM, Web-based training, and online publication of FAST release notes for each system change.

Addressing

High-Quality Addressing

Optimal delivery performance depends in large part on current, correct, and complete mailing addresses. Mail that cannot be delivered as addressed must be forwarded, returned to the sender, or treated as waste, which squanders customers' investment in the mail and adds unnecessary Postal Service costs. The Postal Service continues to work with mailers to refine the national address database, enhance change-of-address processes, improve customers' mailing list quality, and provide mailers with more effective feedback on address quality.

Address Database Refinements

The Postal Service relies on a number of tools to improve the quality of its Address Management System (AMS) database. The Address Quality Reporting Tool (AQRT) identifies and prioritizes delivery routes with the best opportunity for improving mailing addresses. This year, 46,171 reviews were performed using AQRT, which corrected data on 2.35 million address records.

The Electronic Uncoded Address Resolution Service (eUARS), another critical addressing tool, corrects change-of-address records that do not match a delivery point in the AMS database. The computerized eUARS Address Element Correction (AEC) process corrected 9 million mailing addresses this year, and carriers helped correct an additional 3.3 million.

The Delivery Sortation Management Automation Research Tool (DSMART) identifies addresses that receive mail but are not in the AMS database and cannot be sorted into delivery point sequence. The DSMART Business Names module enables delivery personnel to link a business name with the appropriate suite address on incompletely addressed business mail. The number of business names captured through DSMART increased 13 percent. A commercial version of this Business Names database, called Suite^{Link}, adds secondary (suite) numbers to business delivery points and includes tables identifying vacant addresses and new addresses not yet receiving delivery.

The Growth Management Tool (GMT) uses new construction data to identify probable new deliveries before they begin to receive mail. This allows managers to plan for changes in route design, establish the appropriate mode of delivery, and ensure that address records are updated well in advance of mail being sent.

To further improve AMS database quality, local postal managers worked with local addressing authorities to identify incorrect or missing address information as well as incorrect county and congressional data. Known as the County Project, this undertaking, has so far compared (and updated, as needed) 3.4 million address records.

Change-of-Address Data

Customers submitted 41.2 million change-of-address (COA) requests, a small decrease from the previous year. More than 11 million changes were submitted through *usps.com,* a 20.8 percent increase. This year, the updated COA Web-site accepted requests to forward mail to college and military addresses. The Postal Service also introduced initiatives for employees to promote the customer benefits of submitting changes online. Online entry of COA requests speeds the processing of changes, improves address accuracy, and reduces postal costs.

Address List Quality

Working together, the Postal Service and mailing industry experts upgraded Coding Accuracy Support System (CASS) processing software to improve the accuracy of addressing and sorting data in mailing lists. The provision of Delivery Point Validation as a quality tool continued to improve address quality. Data compiled about the accuracy of mailer address information showed a 2.5 percent improvement over the past year. Customers can correct non-validated addresses using Address Element Correction (AEC) software or its enhancement, AEC II, which sends unresolved addresses to delivery offices for resolution.

NCOA^{Link} allows mailers to match their mailing lists against postal-maintained address change data. If a match is made during processing of a mailpiece and an outdated address is in the NCOA^{Link} file, the software provides the new address (or undeliverable status), allowing the mailer to update the mailing list. The 85 billion addresses processed by NCOA^{Link} this year represents a 13.9 percent increase.

The Postal Service completed piloting a new system to provide its address products to subscribers electronically. Besides allowing for more rapid address updates, full deployment of electronic fulfillment in 2011 will eliminate the cost of producing and mailing updates.

FASTforward is postal-licensed automated system that compares addresses on live mailpieces with change-of-address orders on file as the mail is processed. If a match occurs, the new address is sprayed on the piece so it can be sorted and delivered to the new address rather than forwarded from the old address. The number of pieces processed on FASTforward increased by 8.9 percent (507 million pieces). Because the FASTforward hardware is beyond end-of-life and replacement parts are no longer available, the system will be retired on June 30, 2012, using a phased approach

that began in 2009. Existing customers will continue to receive data until the specified retirement date or until they migrate to another system, whichever comes first. To assist customers, a list of certified software developers who provide an alternative solution for FASTforward is available on the RIBBS Web-site.

The Postal Service continued to increase the value of address correction services provided using the IMb. Address Change Service (ACS), consisting of traditional ACS, OneCode ACS, and Full-Service ACS, saw a 13 percent increase in records to customers. This includes new volume of 18.5 million records in Full-Service and an increase of 20 million records in OneCode ACS. Shipper Paid Forwarding (SPF) is an ACS service that allows shippers to pay forwarding charges if the recipient has moved. Until this year, the mailer was required to have parcels returned. Change Service Requested for SPF has been tested for release in 2011, allowing for the collection of forwarding postage for parcels. This minimizes the need to handle parcels being returned as "refused" or because of other addressing issues.

Under Move Update standards, address records used for all Standard Mail and commercial First-Class Mail mailings must incorporate address changes that occurred within 95 days prior to the mailing date. Customers have several options to meet the standards, including NCOA^{Link}, FASTforward (a commercial MLOCR software application), ACS and OneCode ACS, and ancillary service endorsements without ACS. This information is contained in the revised Guide to Move Update posted online at *http://ribbs.usps.gov.*

Commercial Mail Verification and Acceptance

Over the past several years, mail verification and acceptance have evolved from manual to largely automated functions. Standard processes are now established and deployed at all acceptance units. This transformation has been possible primarily because of mailers' increased adoption of electronic mailing documentation (eDoc) and conversion to Intelligent Mail barcodes. Throughout this change, the Postal Service continues to provide extensive support through webinars, publications, helpdesks, and a range of tools. New processes in place include performance-based verification, Move Update validation at MERLIN sites, and use of the Intelligent Mail Device handheld scanner.

The Postal Service streamlined the processing of postage statements in March to encourage mailers to electronically submit postage statements, view their mailing activities, and retrieve finalized postage statements. This change speeds service and reduces paper records generated and stored by mailers and the Postal Service.

FLAT-SIZE MAIL

New requirements developed with the mailing industry now standardize address placement on flat mail. Delivery addresses must now be positioned at the top of presorted and automation-priced flats.

LETTER-SIZE MAIL

The Postal Service tested and added more configurations for machinable letter-size booklets to give mailers additional production and creative design possibilities. Mailing standards issued last year ensure that letter-size booklets could be processed on high-speed automation equipment. The specifications prescribe the size, thickness, paper stock, and tabbing required. Letter-size booklets allow mailers to redesign larger flat-size pieces such as catalogs to benefit from lower letter prices.

SEAMLESS ACCEPTANCE

Seamless acceptance is the Postal Service's term for its vision to streamline all aspects of mail acceptance, verification, payment, and induction. An important part of this vision is automated verification of commercial mailings *during the processing of mail* rather than before processing can begin. This requires customers to submit mailing documentation electronically and to use IM barcodes on mail and containers. With implementation of Full-Service IM in November 2009, part of the vision became reality. Information from Full-Service mailings in-process helps determine address accuracy, verify mail preparation quality, and validate correct postage.

Several basic components of seamless acceptance were implemented in previous releases. With *PostalOne!* (Release 24), mailers began receiving Full-Service Mail Quality reports in March. More detailed and defined requirements are under development for future releases to enable true seamless acceptance.

The Business Customer Gateway is the new landing page for customers who want to conduct business with the Postal Service electronically. Customers can schedule appointments to deposit mail through the FAST system and order barcoded tray and sack labels through the Customer Label Distribution System. They can also use *PostalOne!* to access their mailing records and retrieve information about their Full-Service mailings, including change-of-address data as well as start-the-clock, and container visibility induction scan information.

Electronic Documentation (eDoc), an Internet-based component of *PostalOne!,* gives mailers a secure electronic means to submit postage statements and simplifies calculating postage, checking balances, and viewing reports and histories. The Postal Service has provided continued support for customer migration from hard copy to electronic methods. As the number of eDoc users increases, hard copy submissions continue to decrease.

Migration from Hardcopy to eDoc

	2009	2010	Change
Permits using eDoc	11,659	18,377	57.6%
Permits using hardcopy	297,148	270,032	(9.1%)
eDoc pieces (billions)	24.9	56.8	128.1%
eDoc revenue ($ billions)	6.8	15.7	130.9%
Hardcopy mailpieces (billions)	117.9	81.9	(30.5%)
Hardcopy revenue ($ billions)	33	23.2	(29.7%)

The Postal Service continues to encourage customers to use the Centralized Account Processing System (CAPS). CAPS lets mailers fund multiple mailing accounts through a single payment process, and links *PostalOne!* with the retail system used at postal retail counters. A total of $22.7 billion was processed through CAPS in 2010.

ELECTRONIC VERIFICATION SYSTEM

The Electronic Verification System (eVS) allows shippers to submit documentation and pay postage by transmitting electronic manifest files to the eVS database. eVS is part of the *PostalOne!* system. Since it integrates with other systems for data collection and performance measurement, eVS makes it easy for shippers to induct parcel mailings. It monitors postage and preparation accuracy by sampling mailings after parcels are deposited. Each month sampling data is reconciled against manifests received. Shippers can monitor sampling results and the quality of their mailings online via the eVS Web-site.

The Postal Service has 56 eVS and Parcel Return Service shippers, including 16 new ones. In total, these customers submitted 151,884 postage statements (0.6 percent increase) accounting for nearly 452 million packages (41.3 percent increase). The slight increase in postage statements is attributable to some eVS shippers using products such as First-Class Mail and Priority Mail for certain shipments, while relying on eVS-authorized consolidators for their remaining Parcel Select and Package Services volumes.

Acceptance

Consumer and Small Business Access

The Postal Service's retail network, already the nation's most extensive, is becoming more accessible and versatile to reflect changes in technology and customer preference. Consumers and small businesses are the principal users of postal retail, which generated $17.5 billion, or 26 percent of all revenue.

Like all service enterprises, the Postal Service is expanding self-service and online access as it makes ongoing adjustments to its existing retail network to maximize customer convenience while minimizing costs. There is a growing shift in customer transactions away from brick-and-mortar towards online and other forms of self-service, including Click-N-Ship and free Carrier Pickup.

Retail Revenue by Channel

Services	2010 Revenue ($ millions)	Share of Total Retail Revenue	Change from 2009
Post Offices	$12,133	69.3%	(4.6%)
PC Postage	$2,180	12.4%	17.3%
Stamps only sales by retail partners	$1,143	6.5%	(1.1%)
Automated Postal Centers (kiosks)	$579	3.3%	5.3%
Stamps by Mail/phone/fax	$509	2.9%	(0.7%)
Contract postal units	$454	2.6%	0.3%
usps.com/ Click-N-Ship	$423	2.4%	16.2%
Other	$94	0.5%	13.1%
Total	$17,515	100%	(1.3%)

ONLINE AND MOBILE

Click-N-Ship, the Postal Service's online shipping solution, continues to grow in customers and revenue, with Priority Mail Flat Rate shipping the fastest growing segment. Click-N-Ship represents roughly two-thirds of *usps.com* revenue.

Click-N-Ship features were streamlined to make it easier to use international services. Other changes included security and fraud protection improvements and incorporation of new legal restrictions on the mailing of cigarettes. The Postal Service has also been testing the availability, through Click-N-Ship, of up to $5,000 in optional domestic insurance for Express Mail and Priority Mail (the current limit is $500). The test will be completed this year, at which time the Postal Service will determine if the $5,000 limit will become permanent.

The Postal Store on *usps.com* is the primary online destination for buying stamps and philatelic products and for ordering free shipping supplies. Online orders comprise almost 72 percent of shipments from the Postal Service's stamp fulfillment services center in Kansas City, and 69 percent of all orders for expedited shipping supplies.

Customers may also use *usps.com* to search for available PO Boxes and may pay and manage their box accounts online.

620,469 customers completed PO Box transactions online this year, 44 percent more than last year. Besides being more convenient, the new online option minimizes late payments and unintended box closures.

The Postal Service is engaged in a comprehensive effort to upgrade the underlying technology that supports its online and mobile services and its customer contact centers. This multi-year project will greatly expand online and mobile functionality by making more online services available and by creating a more accessible and intuitive user interface. Improved integration across applications will improve ease of use and allow customer contact center agents to provide consistent personal service.

The first phase, completed this year, streamlined the most frequently used online services: *track and confirm* (49 percent of site visits); *ZIP Code lookup* (18 percent); *calculate postage* (10 percent); and *Post Office locator* (6 percent). The Postal Service also introduced its free mobile application, which allows customers to track shipments, look up ZIP Codes; and locate nearby Post Offices, Automated Postal Centers and collection boxes, and obtain driving, walking or public transit directions.

PC POSTAGE AND ONLINE PARTNERS

Digital postage meters and PC Postage offer convenient postage payment, particularly for customers who mail frequently or in larger volumes. These services make it even easier to print postage and shipping labels and some systems provide detailed postage usage reports for customers and the Postal Service. PC Postage accounted for $1.5 billion in revenue, a 21 percent increase over last year. The number of active users increased by 8 percent.

The postage meter market continued its transition to information-based indicia (IBI) postage. IBI postage meters produce a digital two-dimensional barcode that includes postage payment and other related service information, such as date of mailing, origin and destination ZIP Codes, IBI vendor, mail category, and register values. By year's end, IBI devices accounted for nearly 78 percent of all postage meters and produced almost 96 percent of postage meter revenue.

PC Postage vendors are participating in pilot trials of an enhanced payment option for package returns. Another pilot program launched this year focuses on PC Postage systems for qualifying federal government entities. These systems provide an alternative to agencies that use postage meters and competitive services for their expedited shipping needs.

PC Postage providers received authorization to allow end-users to generate a single combined shipping, postage, and customs declaration label that also bears an electronic round date. The change gives mailers, including large shippers, greater flexibility for mailing to military and diplomatic addresses, and to U.S. territories and possessions. The Postal Service also began discussions with authorized PC Postage vendors to offer Global Expedited Parcel Shipping discounts using their existing systems rather than requiring the Postal Service global shipping software. This collaborative offering extends postal-tier discounts to more customers.

Healthy growth in shipping services through *usps.com* is being mirrored with similar growth of PC Postage and eBay. Most notable has been the rapid increase in international services, as more U.S. businesses use the Internet — and postal shipping solutions — to extend their reach to overseas markets.

Customers can create professional direct mail pieces through *usps.com* to save time and money with addressing, collating, sorting, and posting. Four services available through partners include Premium Postcards, Click2Mail, CardStore, and Mover's Postcards. Customers choose a format — postcard, letter, self-mailer, or greeting card — and each mailpiece is personalized, printed, and in the mail the next business day. Customers can also unleash their creativity using Customized Postage, where they can convert their favorite photos into advertising and business logos into real postage.

POST OFFICE SERVICES

Postal retail offers convenient local access to mailing and shipping, serving an average of more than 9 million customers each day. Sales at postal retail centers were $12.1 billion, a 4.6 percent reduction from 2009. This year, 30.7 percent of retail revenue was generated by means other than at a postal retail counter, including the self-service Automated Postal Center, *usps.com,* and sales of stamp booklets by commercial retailers and ATMs. These convenient options supplement access to postal products and expand the times and places where services are available.

This year, 59.2 million fewer customers visited Post Offices (-5.4 percent), continuing a three-year trend in declining customer use. Managers continue to make good use of point of sale transaction data to reduce staff and adapt schedules to the lower customer traffic. In the last three years, retail-related work hours were reduced 19.3 percent while service has improved.

The fixed costs associated with the postal network are more difficult to reduce. Despite steep reductions in customer visits, the number of retail outlets has remained largely unchanged from the time when virtually all postal business was conducted across a counter. The Postal Service will accelerate efforts to modernize its retail network as customer use continues to change and use of *usps.com* and other self-service options expands.

RETAIL PARTNERS AND SELF-SERVICE

Partnerships allow the Postal Service to provide access at more convenient times and locations. Available services range from basic — stamp booklets sold at a retailer's checkout — to full-service mailing and shipping. Retailers who provide postal services gain additional customer traffic. The Postal Service benefits by providing services at relatively low cost with the flexibility to tailor options to local needs.

The Postal Service has sold stamp booklets at thousands of supermarkets, drug stores, and other commercial outlets since the 1980s. Stamps are available at 63,000 such locations. In 2010, this generated $1.2 billion with roughly 14 percent of all stamp booklets sold through this channel. Even so, many customers are unaware of this convenient alternative and make a special trip to the Post Office just to buy stamps. To address this, the Postal Service is working with participating retailers to improve customer awareness and visibility at the point of sale. It is also evaluating changes in the stamps and stamp formats.

Contract postal units (CPUs) provide a wider range of services beyond stamps. Most offer the same basic services available at Post Offices. CPUs are staffed by the host retailer, typically in supermarkets, card and gift shops, colleges, and similar locations. Contracts are specifically tailored to the scope of services offered and the amount of business generated. In 2010, there were 3,720 CPUs in operation. In recent years, the Postal Service has made several changes to improve CPU operations, appearance, financial performance. These efforts are ongoing.

In August, the Postal Service announced a partnership that makes stamps, Express Mail, Priority Mail, and other services available at 1,083 Office Depot stores. Customers pay no fees or surcharges for postal products. The Office Depot partnership is one more example of adapting services to customer needs while finding creative solutions to generate much needed revenue.

Many retailers, typically those offering packaging or private mailbox services, also sell stamps and postal services along with the services of postal competitors. These stores charge customers a service fee in addition to postage and shipping costs. They are not CPUs and receive no fee from the Postal Service. However, the Postal Service does provide limited support to ensure that its products and prices are accurately represented, and that store employees are trained in proper packaging, labeling, and declaration of hazardous materials. The retailer provides that assurance and in exchange is designated as an approved postal provider. The Postal Service also provides basic signage, free Express Mail and Priority Mail packaging, and other limited support.

The Automated Postal Center (APC) is a self-service kiosk that gives convenient access to common postal transactions. Most of the 2,500 APCs are available 24 hours a day, seven days a week in Post Offices. Locations are chosen to maximize customer access and use. APCs generated $577 million, a 5.5 percent increase from last year. The Postal Service continues to explore ways to expand self service, and is currently testing a commercial kiosk that features postage printing and package shipping in 12 commercial retail stores.

Processing

Automation

Service and efficiency have gained more from the automation of mail processing than any other factor. The most important current development is the deployment of the Flats Sequencing System, which automatically sorts larger mail pieces (e.g., magazines and catalogs) in the order they are delivered. A number of other automated processing systems are also being enhanced to improve performance, add new capability, and gain new efficiency.

FLATS SEQUENCING SYSTEM

Year end, FSS covered 4,879 routes with 279 delivery zones, with 65 percent of flats processed for these zones in delivery point sequence.[4] FSS Phase 1, to be completed in 2011, will deploy 100 systems to 47 sites. This highly complex process requires careful integration of facility modifications, site preparation, equipment relocation, process changes, staffing assignments, and training.

[4] See Appendix. The Postal Service has established a strategic initiative target to increase the percentage of flat mail in delivery point sequence for delivery zones on FSS in operation at least six months. The 2011 target is 72 percent.

FSS can sequence flat mail at a rate of up to 16,500 pieces per hour.

All major FSS preparation milestones are closely monitored to ensure successful implementation. Area and District coordinators have been established at all sites, and comprehensive hands-on training and seminars were provided to hundreds of key personnel. Online resources are also available for continuous field training and support. Maintenance training and support continues at two FSS units installed at the National Center for Employee Development in Norman, OK.

OTHER FLATS AUTOMATION

Address recognition rates for flats processed on the Automated Flat Sorting Machine 100 continue to improve under Phase 2 of Flat Recognition Improvement. Hardware and software upgrades this year saved $7.3 million by increasing address read rates and reducing sortation errors.

LETTER AUTOMATION

Letter processing equipment is being upgraded to take full advantage of the IM barcode and other technology developments. In 2010, the Postal Service began to deploy the Advanced Facer Canceller System (AFCS) 200 system to replace older letter cancellation equipment. AFCS 200 significantly improves performance by reducing handling in downstream operations. Deployment of 550 systems will be completed in 2011.

Phase 2 of Distribution Quality Improvement (DQI) is improving recognition of handwritten and machine-printed addresses on letters by incorporating information from commercial databases, an enhancement that will save $30 million annually by keeping more letters in the automated mailstream. Other new software releases for automated letter systems have dramatically reduced the amount of mail rejected because of missing data or unreadable images.

In June, the Postal Service began deploying 195 Low-Cost Reject Encoding Machines, which are being built from excess carrier sequence barcode sorters. The new equipment covers unreadable barcodes with a label, interprets the mailing address, and applies the correct barcode.

PARCEL AND BUNDLE AUTOMATION

Deployment of sort accuracy improvement program for the Automated Package Processing System (APPS) was completed in November 2009. This enhancement reduces distribution errors and improves system efficiency. A laser sensor/camera was also added to APPS to quickly detect and reduce errors.

A new effort is underway to extend the service life of aging Small Parcel and Bundle Sorters (SPBS) that will still be needed at sites without APPS. Plans are to replace SPBS control systems, add barcode and optical character reader technology, and improve induction stations. The upgraded equipment will be renamed the Automated Parcel and Bundle Sorter (APBS). Successful tests of the prototype were conducted in April in Louisville, KY. Early deployment of 10 APBS is planned by November 2010, followed by deployment of production systems starting in June 2011.

POSTAL AUTOMATED REDIRECTION SYSTEM

The Postal Automated Redirection System (PARS) redirects forwardable letter mail during processing, a significant advance over legacy systems that required transport of such mail to a centralized forwarding system (CFS) unit. Initial PARS deployment to 283 processing facilities was completed in 2007. As PARS technology has improved, additional CFS sites have been consolidated, including 26 in 2010. The volume of mail processed each year on PARS now stands at more than 3.4 billion pieces. Fewer than 40 million pieces are currently processed through CFS units.

New PARS software permits real-time updates to national change-of-address listings. Other enhancements allow printing of new address labels at delivery units rather than at CFS sites, an improvement projected to save $2 million annually. This effort is nearly completed nationwide, with full deployment expected by December 2010.

INTEGRATED DATA SYSTEM AND NATIONAL DIRECTORY SUPPORT SYSTEM

The Postal Service deployed Integrated Data System–National Directory Support System (IDS-NDSS) hardware this year to replace existing end-of-life hardware at NDCs and processing plants. IDS provides the critical infrastructure for managing distribution operations, equipment performance, and critical maintenance within a facility. It consolidates mail and container data from all automated equipment systems and distributes it for use by multiple applications. NDSS maintains the distribution sort programs and address directory files that underlie automated mail processing.

MAIL HISTORY TRACKING SYSTEM

The Mail History Tracking System (MHTS) is an application that uses barcode data to track mailpieces from origin (cancellation) to Delivery Point Sequencing processing. The application can assess if individual mailpieces are likely to meet on-time targets and helps identify

and correct the root causes that lead to service failures before mail goes out for delivery. MHTS is an important tool contributing to improvements in service performance.

MATERIAL HANDLING

The Powered Industrial Vehicle Management System (PIVMS) is an analytical tool for managing powered industrial vehicles use. Work hour, equipment, and maintenance costs have been reduced significantly since deployment. There are 113 plants now using PIVMS, with annual savings of $85 million expected. System enhancements are improving reporting and performance comparisons. Additional tools in development will integrate PIVMS information with other postal data sources to further improve efficiency.

Transportation

Contract Transportation

The Postal Service spent $5.9 billion for mail transportation, including domestic air, highway, rail, and other international expenses. This was a $148 million decrease from 2009.

Air Transportation

Domestic air expense of $2.0 billion declined 1.9 percent compared to 2009. This was primarily due to reduced mail volume shifts from higher cost air transportation to lower cost highway transportation created by the NDC implementation.

International air expense totaled $449 million, a decrease of $163 million, or 26.6 percent. This was due to lower mail volumes, decreases in foreign postal transaction fees, and negotiated air carrier rates.

Ground Transportation

The Postal Service spent $3.2 billion on highway transportation, an increase of 5.3 percent attributed to mail volume shifting from air to surface transportation. About 34.8 million additional miles of highway transportation were contracted. The price of diesel fuel, which comprises 93 percent of fuel purchased, rose almost 15 percent this year. Rail transportation costs were $39.3 million, a 55.2 percent decrease that resulted from volume shifting to other modes of transportation. The cost of transporting mail by water to domestic offshore and inland destinations was $29.9 million.

Terminal Dues, Transit Charges, and Other International Expenses

Under the Acts of the Universal Postal Union (UPU), each postal administration that receives mail has the right to collect payment from the originating post to compensate for costs incurred to deliver that mail. These charges are called “terminal dues” for letter mail and “inward land rates” for parcels. Express Mail International items also incur processing and delivery charges from foreign posts or commercial delivery companies.

Additionally, the UPU provides for transit charges for mail exchanged between administrations through a third country. Transit charges are paid by the originating country to the intermediary country for its forwarding of mail to the destination.

For the most part, settlements of terminal dues, inward land rates, and transit charges are contingent upon both the Postal Service and foreign posts accepting statistics on the mail exchanged. Final settlement and payment can occur a year or more after service is performed. The Postal Service accrues an estimate of these expenses based on available weight and piece data by country. This year the Postal Service incurred $423 million in terminal dues, Express Mail, transit charges, and other international expenses unrelated to the transportation of mail.

Postal-Owned Transportation

The postal-owned fleet is predominantly used for the transportation and delivery of mail. Postal vehicles are also used for law enforcement, maintenance support, mobile Post Offices, and other functions. During 2010, the active postal fleet was reduced by 3,059 vehicles. In addition, more than 3,000 vehicles were redeployed to rural delivery routes to replace higher cost rural Equipment Maintenance Allowance vehicles.

Postal Vehicle Inventory

Vehicle Type	
Delivery and collection (1/2–2 ton)	193,394
Mail transport (tractors and trailers)	6,268
Mail transport (3–11 ton)	2,178
Administrative and other	6,502
Service (maintenance)	4,702
Inspection Service and law enforcement	2,581
Total	215,625

The Postal Service has the world’s largest fleet of alternative-fuel vehicles.

The Postal Service continues to explore various alternative fuel technologies. Multiple vehicle prototypes are being tested to reduce petroleum fuel and increase the use of alternative fuels by 10 percent. Testing includes ethanol, all-electric, gas/electric hybrids, hydrogen, compressed natural gas and propane, and three-wheel electric vehicles. In December 2009, the Postal Service awarded contracts to five companies to evaluate the feasibility of converting existing long life vehicles to battery power. Each company developed its own prototype, which will be put into service for a one-year test period. These vehicles will be deployed to five offices in the Washington, DC, area in early 2011. They will be evaluated for operational performance, operating cost, and fuel economy.

MAIL TRANSPORT EQUIPMENT

Mail transport equipment (MTE) is the term given to sacks, trays, pallets, and wheeled containers that contain mail as it moves within or between facilities. Multiple efforts are underway to improve MTE performance and durability while reducing costs and negative environmental impacts. Efforts to recover MTE improperly used outside the postal network have been ongoing to reduce replacement costs. Customers are encouraged to contact (866) 330-3404 or *hqmte@usps.gov* to return equipment to local Post Offices and plants. The effort resulted in the recovery of $180,000 worth of equipment this year.

The Mail Transport Equipment Service Center (MTESC) is an integrated network of facilities that manage MTE inventory, oversee repairs, and distribute equipment to internal and external customers. The MTESC processes over 268,000 orders annually, serving 1,200 postal facilities and large-volume mailers. As part of a network redesign, 8 of 23 centers closed this year for an estimated annual savings of $75 million. The changes are part of a larger effort to enhance efficiency in MTE management.

Facilities

The Postal Service oversees 33,620 properties, totaling 288.6 million square feet. Approval for facility projects over $25 million rests with the Board of Governors. Design and construction of major processing plants are managed at headquarters. Approval for projects under $25 million is established by the postmaster general following review by the Capital Investment Committee. Most of the planning, leasing, purchasing, designing, and construction work associated with facilities is performed by field offices.

Realty Asset Management

The Postal Service is conducting ongoing reviews to identify facilities that can be sold and leases cancelled where the property is no longer required to meet operational needs. Most excess space is the result of network consolidation or changes in equipment, processes, or function. The Postal Service has strengthened its realty management processes to take full advantage of the income opportunity that these properties represent, which in 2010, amounted to $180 million. Early in the year, the sale of the former Chicago Main Post Office produced $23.8 million in net revenue. During the year, the Postal Service implemented the “restacking” of it headquarters campus, which consolidated offices into the main building from other sites. Scheduled for completion in December, this effort will save $87 million over 10 years.

Real Estate Inventory

Inventory	End of 2010
Owned properties	8,621
Owned interior square feet	198,081,325
Owned land in square feet	953,304,006
Leased properties	24,671
Leased interior square feet	88,247,231
GSA/other government properties	328
GSA/other government interior square feet	2,300,477

Facility Projects

Projects	Completed in 2010	Ongoing
New construction, major renovations, and expansions less than $25 million	42	97
New construction, major renovations, and expansions greater than $25 million	0	3
Building purchases	5	24
New lease construction	1	19
Other lease actions (alternate quarters, new leases, and lease renewals)	2,667	2,508
Repair and alteration projects (expense)	1,395	1,553
Repair and alteration projects (capital)	3,545	17,972

Delivery and Pickup

Delivery is the largest postal operation, accounting for approximately 47.4 percent of salary and benefit expenses. Despite an increase of 739,580 delivery points, there were 16.2 million fewer city delivery work hours used due to route adjustments and effective growth management. The use of modeling software and a corporate-wide focus on continuous improvement led to an 11.6 percent gain in city delivery office efficiency and a 1.7 percent improvement in city street efficiency.

Growth Management

Growth management standardizes planning for the addition of new delivery points. New growth was predominantly served through lower-cost means of delivery. The percentage of walking and "park-and-loop" deliveries declined, while more efficient curbline, cluster box, and centralized deliveries increased. Lower-cost rural delivery accounted for more than half of all new delivery points. The table below shows the number and growth of deliveries by type.

Delivery Points by Type of Delivery

Delivery Type	End of 2010	Change from 2009
City	87,988,731	317,765
Rural	40,091,572	387,360
Post Office Box	20,095,372	3,801
Highway Contract Route	2,679,786	30,654
Total	150,855,461	739,580

Delivery Productivity Improvement

Improved office and street delivery efficiency resulted from following standardized operating procedures, using automated equipment to prepare more mail for delivery, establishing more efficient lines of travel, adoption of less costly modes of delivery, and focused work hour management.

AM Standard Operating Procedures help delivery units comply with standards in efficient office management practices in the morning before carriers leave for the street. Data show significant performance gains in offices that pass certification audits. Processes have been updated due to operational changes, such as FSS. All sites must be recertified, and certifications will expire after three years.

Delivery Point Sequencing (DPS) reduces costs, improves accuracy and speed of delivery, and contributes to improved customer satisfaction. More than 99 percent of city routes and 89 percent of rural routes receive DPS letters. On average, these routes received 91.8 percent of letters in DPS. The 2011 goals are to continue to increase the number of routes receiving DPS letters and to raise the DPS percentage. Automated flats sequencing was initiated in Northern Virginia during 2008 and began expanding during 2009. At year end, six processing sites are sequencing flats for 4,879 routes in 279 zones at 142 delivery units. Currently 65 percent of flats are in DPS at these sites.

Carrier Optimal Routing (COR) is a computerized tool designed to produce safer and more efficient delivery routes. COR reduces work hours and vehicle costs by improving lines of travel, eliminating left turns, and removing park points. All city carrier zones that are adjusted in 2011 will use COR.

Route Adjustments

In April the Postal Service and NALC signed a route evaluation and adjustment agreement (the *Joint Alternate Route Adjustment Process,* or JARAP) that provides for evaluation and adjustment of any city route that either party determines should be evaluated. All route evaluation and adjustment decisions are made jointly by teams composed of NALC and postal representatives, following a review of selected data and input from the carrier assigned to the route. JARAP builds on previous agreements that were successful in helping adapt routes to rapid changes in workload. About 73,700 routes were identified for evaluation, resulting in the elimination of 1,108 city routes. By consolidating routes and absorbing growth in the number of new delivery points, the Postal Service was able to increase the average amount of deliveries on city and rural routes, from 554 to 571.[5]

Number of Routes by Type of Delivery

	End of 2010	Change from 2009
City	149,990	(909)
Rural	74,495	(837)
Highway Contract Route	7,800	(83)
Total	232,285	(1,829)

Carrier Pickup

This service allows customers to schedule a free pickup of certain prepaid packages such as Express Mail, Priority Mail, Merchandise Return Service, and Parcel Return Service at the same time their mail is delivered. When combined with services available on *usps.com,* Carrier Pickup lets customers purchase and use most postal services without ever leaving their home or office. Customers can shop online for the right shipping service by comparing features and prices, pay for postage, print out a label, and submit a free

[5] See Appendix. The Postal Service has established a strategic initiative target for 2011 to increase the average number of deliveries per route (city and rural routes combined) to 589.

pickup request. With the addition this year of new ZIP Codes served, free Carrier Pickup is now available to virtually all U.S. addresses. This convenient service continues to grow, with 6.5 percent more packages picked up this year.

The Postal Service also offers Pickup On Demand service in which the customer's prepaid packages are scheduled for pickup at particular time, for a fee, in contrast to Carrier Pickup, where outgoing mail and packages are picked up at the same time that mail is delivered. New this year is a no-fee Pickup On Demand service for customers who have an agreement and, on a recurring basis, have at least seven qualifying parcels for pickup.

Global Business

The Postal Service maintained a strong presence in the international shipping and mailing markets with dedicated operations, active participation in the Universal Postal Union (UPU), and ongoing support of overseas military mail operations and customs.

Operations

The Postal Services International Service Centers (ISCs) distribute and dispatch international mail to specific foreign countries or gateway exchange offices. ISCs are located in New York, Miami, Chicago, Los Angeles, and San Francisco, and each has been recognized with an International Post Corporation (IPC) Certificate of Excellence award for global leadership in mail processing. This award, based on a global standard for excellence, entails a months-long process that includes an operational survey and an extensive certification process. The IPC is an association of 24 postal operators in Europe, North America, and the Asia-Pacific region. IPC provides its members with systems and programs that ensure efficient and competitive delivery of international mail.

Universal Postal Union

The Postal Service continued its leadership role in activities during the Council of Administration (CA) and Postal Operations Council sessions in fall of 2009 and spring of 2010. At the fall session, the Postal Service participated in several groups to advance development of electronic tools, procedures, and standards to enhance the exchange of international mail and parcels, with particular focus on customs, tracking, and automated account settlement. The CA also considered a presentation by the Postal Service on the operational and accounting challenges posed by Extraterritorial Offices of Exchange.

In the spring session, the Postal Operations Council decided on several issues relevant to the Postal Service, including improved payment for open transit and missent items, a postal air waybill to be used by airlines to track postal shipments, and a Domain Management Policy for use of the *".post"* Internet domain name. As a follow up to discussions on the financial crisis held last year, the UPU hosted an international panel on postal strategies to respond to the crisis. The discussion featured a number of executives, including the postmaster general who participated by videoconference. The UPU Consultative Committee hosted the first Global Addressing Summit, featuring a diverse group of speakers who discussed developments in the addressing arena.

In late September 2010, the Postal Service participated in the UPU Strategy Conference in Nairobi, Kenya. This conference focused on the need for diversification in the postal sector and highlighted opportunities in e-commerce, e-government, and financial services.

Postal Service, eBay GC, and China Post Collaboration

The Postal Service entered into a collaborative service and marketing agreement with eBay Greater China & Southeast Asia (eBay GC) and China Post Express & Logistics Corporation. The agreement creates a simplified shipping platform for tracking lightweight goods that U.S. consumers order from eBay sellers in China. It features co-branded data-rich shipping labels that use barcode technology readable by both posts.

Military Mail

The Postal Service is committed to providing consistent, high quality service to American service men and women stationed overseas. In partnership with the Department of Defense, the Postal Service uses its international distribution and transportation services to provide service to APOs (Army Post Offices, for Army and Air Force personnel) and FPOs (Fleet Post Offices, for Navy and Marine Corps personnel). Military Mail is an extension of domestic service and

includes all mail addressed to or mailed from a military unit, or between two military units overseas.

Customs

Mail entering the United States from abroad first arrives at the Postal Service before any packages are sent to U.S. Customs for assessment of duties and taxes owed. Customs processing is required for all parcels, including those sent from overseas military postal facilities (APOs and FPOs). Work continues with the UPU, IPC, and U.S. Customs and Border Protection to streamline and improve these processes. The Postal Service is also supporting the introduction of advance manifesting requirements for mail shipments to improve security, deter criminal activity, and enhance the efficiency and speed of clearance operations.

Resources and Support

Supply Management

The Postal Service achieved over $877 million in cost benefits through supply chain management initiatives to improve contracting processes, integrate asset management, leverage supplier relationship, and expand supplier outreach and diversity.

ASSET MANAGEMENT INTEGRATION

The asset management function was restructured to improve integration of logistics policies, metrics, and asset management technology across the enterprise. Asset management is now organized in four functions: planning, retail fulfillment and logistics, operating asset management fulfillment, and performance and accountability.

By June, realignment of stamp distribution operations was finalized, consolidating two stamp service centers, 72 field stamp distribution offices, and accountable paper depositories into six stamp distribution centers. These consolidations will save $12.6 million annually. Postal Money Order fulfillment was also consolidated from 72 distribution points into one distribution center.

ORGANIZATIONAL CHANGES

Two significant organizational changes were completed in support of ongoing efforts to fully integrate supply chain management. Consolidation of 11 field transportation contracting offices into five Transportation Category Management Teams with one satellite branch was completed. This effort resulted in a 20 percent authorized staffing reduction, with estimated cost savings exceeding $12 million by 2013.

The consolidation of field purchasing specialists into two Purchasing Shared Services Centers (PSSCs) was also accomplished, with a 25 percent reduction in authorized staffing. The estimated cost savings will reach $12.8 million by 2013. The PSSCs offer sourcing guidance through phone, e-mail, tips of the week, and hosted online training sessions.

PROCESS STANDARDIZATION AND AUTOMATION

The Postal Service continues to strengthen the oversight and management approvals of noncompetitive purchases through new requirements for contracting officer evaluation and ethics-related certifications.

Online purchasing was improved with the deployment of eBuy2 to over 55,000 users. The system and process changes improve financial controls, reduce costs through side-by-side comparisons, provide better search and reporting capabilities, and expand use of Energy Star and other green indicators. eBuy2 processed over 800,000 requisitions between March to September.

New eSourcing technology provides both optimization and reverse auction sourcing capabilities, and a portal for centralized supplier registration. More than 3,200 suppliers were registered, 255 users trained, and 603 sourcing events were executed.

LEVERAGE SUPPLIER RELATIONSHIPS TO SUPPORT SUSTAINABILITY

Sourcing efforts continue to keep sustainability at the forefront, from commodity strategy planning to contract management. Collaborating with suppliers and other business partners is helping to reduce costs and identify opportunities to create new business, and promote sustainability.

One example is the enhanced recycling program, which has been expanded to 5,000 sites. With back-haul programs that leverage recycling tonnage from small pick-up sites, this program has grown to an estimated 15,000 pick-ups per month with more than 150,000 tons of material sent for recycling. This resulted in supply chain savings, cost reductions, and revenue generation in excess of $20 million.

To increase the number of eBuy2 environmentally preferred products (currently over 11,000 products), efforts were launched with the Postal Supplier Council (PSC) to address EPP improvement opportunities, and to implement standard supplier contract sustainability clauses and reporting.

IMPROVE SUPPLIER OUTREACH AND DIVERSITY

Continuing to act on a strong commitment to supplier diversity, annualized contract values with small businesses exceeded $3.1 billion; contracts with minority-owned businesses were nearly $375 million; and, contracts with women-owned businesses surpassed $589 million.

The Postal Service actively participates in supplier outreach events for small, minority and woman-owned businesses. These events

draw thousands of participants, and typically include one-on-one discussions with high-potential customers.

This year the Postal Service was recognized by the U.S. Hispanic Chamber of Commerce as a business leader that actively promotes the economic growth and development of Hispanic entrepreneurs and Hispanic business enterprises in the United States. An additional award, from the U.S. Pan Asian American Chamber of Commerce, was received for being a "stalwart supporter and partner."

Once again, the Postal Service was selected as one of "America's Top Organizations for Multicultural Business Opportunities for 2010" by *DiversityBusiness.com,* the nation's leading multicultural B2B Web-site. This recognition marks the 10th consecutive year the organization was named to this "top 10 list," which honors American enterprises that provide exceptional multicultural business opportunities. Over 600,000 women and minority owned businesses had the opportunity to vote in the online election. Fortune 500 companies and government agencies were selected for the awards based on business opportunities they provide to diversity owned businesses.

Information Technology

INFORMATION SECURITY

The Postal Service has the third largest information technology (IT) infrastructure in the world, and all functions depend on this infrastructure. Further, customers depend on numerous Web-based products, such as Click-N-Ship, change-of-address and hold mail services, as well as Post Office Box payments.

To protect its IT infrastructure from the thousands of network attacks it faces daily, significant controls have been implemented, including full disk encryption on end-user mobile devices and the installation of personal firewall capability on all systems. IT has also increased its data monitoring capability to ensure that proper controls exist over use and storage of sensitive data, and to limit access to an as-needed basis. Continuous security awareness activities and training were increased to enable all users to identify security risks and policy violations.

Enterprise Physical Access Control System (ePACS) is used to link all computerized access control systems through local area network. When actions are taken in one system, it reflects system-wide. Since deployment, ePACS has significantly enhanced the security of employees, facilities, and assets.

INFRASTRUCTURE UPGRADES

IT network upgrades have been completed so that more than 34,000 facilities have direct connections to the postal network. Network capacity is closely monitored and sites are upgraded or transitioned every four years based on need and cost. The wide area network is being leveraged for several new applications. Voice Over Internet Protocol (VOIP) is in early pilot stages, with plans for hardware migration scheduled for 2011. High-definition video conferencing has been deployed in several locations to enhance collaboration and reduces travel costs. Live and prerecorded video are also becoming a more common medium for communications, as the postal intranet allows the deployment of these new applications with a minimal increase in cost.

The Advanced Computing Environment (ACE) is a comprehensive lifecycle management system of standardized end-user hardware and software that allows for more efficient, centralized user support. The second generation upgrades are gradually replacing older ACE units with enhanced hardware and data restore features. At the end of 2010, over 140,000 ACE II workstations were installed. The aging CRT monitors that utilize more power will be replaced by 110,000 energy-efficient monitors.

The Smartphone Mobility program continues to provide remote communications capability to employees, including Continuity of Operations team members, when operations are without power or are shut down. In 2010, over 11,000 employees utilized smartphones for voice and data communications to improve efficiency, increase mobility, and reduce communication costs by leveraging pooled cell phone minutes.

The Enterprise Data Warehouse (EDW) is the integrated source of information, for business intelligence reporting, with data from more than 136 separate source systems. It provides access to a wide range of data, including retail, financial, logistics, facilities, and human resources. The EDW serves over 40,000 users who generate 12 million reports annually. As the EDW continues to evolve, the major focus will be on ensuring broad availability, maintaining data integrity, improving data presentation, and providing greater cross-functional capability.

The Postal Service's online translation tool helps retail associates bridge the language gap and communicate more effectively with non-English-speaking customers. Postal Products and Services Translators now support 12 languages through *usps.com.*

Postal Inspection Service

SECURITY

To mitigate risks to employees, customers, and assets, the Postal Inspection Service conducted reviews of critical postal facilities using the Vulnerability and Risk Assessment Tool. This new survey helps identify risks and security deficiencies inherent to a facility, including its IT infrastructure, systems, and physical characteristics.

The Postal Inspection Service also conducts background investigations for employees and contractors who are required to have some level of background investigation before gaining employment or access to mail or postal facilities. Its Security Investigations Service Center processed approximately 45,000 requests for background investigations in the past year.

ENSURING SECURITY FOR U.S. MAIL ABROAD

In January a team of Postal Inspectors with specific expertise in postal security was deployed to Haiti and the Dominican Republic to help restore service. Postal Inspectors conducted security assessments, delivered recommendations for a temporary mail delivery network and processing center, and helped coordinate security needs. The mission supported agreements forged by the Postal Service with the Universal Postal Union and the Postal Union of the Americas, Spain, and Portugal.

REVENUE PROTECTION

The Revenue Protection Program works to safeguard postal revenue from criminal attack and ensure the integrity of postal products and services. In 2010, it evaluated internal financial controls and risks at business mail entry units (BMEUs). The reviews tested key controls of the Sarbanes-Oxley Act (SOX) Compliance Group at 108 BMEUs nationwide, as well as controls identified as vulnerable by Postal Inspectors' revenue investigations.

New processes were put in place to prevent duplicate postage refunds for a single Express Mail shipment. Revised processes also improved the accuracy of handling postage refunds on shipments paid with accounts by matching specific data records.

FORENSIC LABORATORY ACCREDITATION

The Postal Inspection Service's National Forensic Laboratory in Dulles, VA, gained accreditation this past year from the American Society of Crime Laboratory Directors (ASCLD). Accreditation requires demonstration of 90 percent compliance with ASCLD standards. The National Forensic Laboratory, responsible for conducting scientific examinations of evidence collected in ongoing investigations, achieved 100 percent compliance.

FRAUD EDUCATION

Postal Inspectors investigate crimes that involve the mail, whether the crime originates in the mail, by telephone, or online. Using the mail in any way to conduct a fraudulent scheme constitutes mail fraud. The Postal Inspection Service sponsors fraud-awareness campaigns every year to educate customers about the latest schemes to protect themselves. A brochure with preventive information was mailed to every household in America, made possible by money collected in fines and damages from criminals convicted of running fraudulent schemes. In April, the Postal Inspection Service teamed with the Department of Justice and National Center for Victims of Crime to showcase National Crime Victims' Rights Week. Posters and information cards were distributed to 12,500 Post Offices for display and as handouts to customers.

Anyone who suspects they have been targeted by fraud that involves the mail should report it online at *postalinspectors.uspis.gov* or at 877-876-2455.

NATIONAL PREPAREDNESS

The National Preparedness function is responsible for developing and supporting preparedness policy and programs to ensure that critical functions in the postal services continue under any circumstance. This includes responding to emergencies and other incidents affecting postal operations; coordinating the deployment of emergency equipment and supplies, and assisting with preparation, damage assessments, and recovery efforts.

Sustainability

The Postal Service is a strong advocate of sustainable best practices and has long been recognized as an environmental innovator. With over 30,000 facilities and the nation's largest civilian vehicle fleet, postal sustainability efforts have a large impact on the environment. The Postal Service has received more than 75 major environmental awards, including 40 *White House Closing the Circle Awards* and a *Climate Action Champion* award from the California Climate Action Registry for reducing greenhouse gas emissions. In its 2009 *Sustainability Report,* published in June, the Postal Service described its continuing efforts to integrate sustainability into daily business practices. The report shows that in 2009 it cut energy use 9 percent, increased alternative fuel use 26 percent, reduced solid waste by 7 percent, and increased recycled or reused electronics by 73 percent. The Postal Service's annual and sustainability performance reports are available at *usps.com/green.*

Customers and Products

Most customers prefer their products to be environmentally and socially responsible, and the Postal Service delivers on that expectation, designing its mailing and shipping services to minimize environmental impacts and enable customers to green their shipping and mailing operations. Examples include Click-N-Ship and free Carrier Pickup, which allows customers to skip a trip to the Post Office by having packages picked up at their home or business, eliminating the need to use their own vehicles and gas.

The Postal Service is also the only shipping company to earn Cradle-to-Cradle certification for the environmentally friendly design and manufacture of its shipping products, including Priority Mail and Express Mail boxes and envelopes. This year, 27 billion stamps and stamped products gained Cradle-to-Cradle certification, which means they are 100 percent recyclable, don't contain harmful materials, and won't contribute to landfills.

Employees

Employee Lean Green teams are helping build a conservation culture by finding low-cost or no-cost ways to improve resource use and minimize impacts on the environment. To foster a zero-waste ethic,

all employees are encouraged to reduce, reuse and recycle. Ongoing waste reduction initiatives include eliminating paper personnel files, expanding Post Office lobby mail recycling, and using recyclable mail bags and fiberboard mail trays.

Greenhouse Gas Emissions

Last year, the Postal Service became the first federal agency and largest U.S. organization to publish its third-party verified Greenhouse Gas (GHG) emissions inventory. It also joined 19 other postal administrations to set a global carbon emissions target for the postal industry. The goal, announced in Copenhagen, is to collectively reduce emissions 20 percent by 2020. The Postal Service also participated in the first postal sector carbon footprint report, which included data for 21 of the world's leading posts.

Energy Management

The Postal Service continues its commitment to reduce its use of energy, fuel, water, and other resources. The organization is well on its way to comply with the Energy Independence Security Act of 2007, which mandates that federal agencies cut facility energy use by 30 percent and vehicle fuel consumption by 20 percent by 2015. The Postal Service's *National Energy Management Plan,* published in 2008, guides efforts in facility energy management, fleet management, fuel strategy, utilities management, and energy conservation and awareness. Postal energy expenses amounted to $2.3 billion in 2010. Transportation consumed 75 percent, with the balance in utilities.

Facilities

Energy costs for utilities were $605 million, a 5 percent decrease from last year. The Facilities Energy Management Program has been aggressive in meeting, and exceeding, goals to reduce total facility energy use, as well as in reducing facility energy intensity 30 percent by 2015. At the end of 2009, the Postal Service achieved a 21 percent reduction in facility energy intensity compared to a 2003 baseline. In 2010, energy conservation projects for lighting, HVAC and controls resulted in a reduction of more than 1 trillion BTUs, yielding $24 million in utility savings. In addition, energy audits of 36.9 million square feet were conducted this year, which identified potential future energy reductions. Since 2007, these energy audits have totaled 137.5 million square feet.

The Facilities Energy Program continues to research the viability of solar energy projects that would both reduce the use of fossil fuels and have a favorable return on investment. Other successful initiatives include operating facilities according to high-performance sustainable building and LEED (Leadership in Energy and Environmental Design) principles and guidance, where cost-effective. The expansion of the Greenville, SC, mail processing facility received LEED Gold certification by following Postal Service Building Design Standards for energy efficiency.

Vehicles

The Postal Service constantly looks for ways to reduce the environmental impact of its aging delivery fleet, which delivers to an average of a million more addresses every year. This year the fleet used 147.8 million gallons of gasoline equivalent (GGE), including 145.6 million GGE of petroleum fuel and 2.2 million GGE of non-petroleum fuel. This represents a 3 percent increase in GGE of petroleum used, but a 1 percent reduction in GGE of petroleum used per delivery point against a 2005 baseline.

The Postal Service operates more than 44,000 alternative fuel-capable vehicles, the world's largest fleet. These vehicles use ethanol, compressed natural gas, liquid propane, electricity and bio-diesel. The Postal Service is also testing hydrogen fuel cell vehicles. Since 2005, the use of alternative fuels has increased 133 percent. Among the many initiatives it is pursuing, the Postal Service is working with the Department of Energy on electric vehicle prototypes, biodiesel tractors and cargo vans, and fuel economy reporting for fuel cell vehicles.

Waste

For the 12th consecutive year, the Postal Service was recognized by the Environmental Protection Agency as its WasteWise Partner of the Year in 2010. All postal districts continued participation in the program by reducing or recycling municipal solid waste and selected industrial wastes. The Postal Service generates more than 400,000 tons of solid waste every year, much of which is sold to recycling companies, which generates revenue and lowers GHG emissions.

The Postal Service is working to reduce waste sent to landfills by 50 percent by 2015. Zero-waste practices have been expanded to a growing number of postal facilities. All paper, cardboard, plastic, and metals at those sites are either eliminated or re-used, not sent to landfills.

Information Technology

The Postal Service is reducing power consumption in its data centers with a technology that allows multiple applications to run on a single server. Called virtualization, this ongoing process increases the utilization of available server resources, and has eliminated the need to purchase 4,000 servers.

In 2010, over 34,000 Energy Star printers were deployed to support printing and image needs. Fewer printers and less paper are now used as part of this initiative, which reduced the number of stand-alone printers through networking and decreased pages printed by switching the default setting to two-sided printing. Printer paper used is at least 30 percent post-consumer recycled content and a recycling program is in place for ink and toner cartridges.

Materials

The Postal Service first developed a "buy green" policy more than a dozen years ago. The more comprehensive green purchasing plan was introduced in 2008, which outlines a long-term, proactive approach to preventing pollution, minimizing waste, and promoting best practices.

The Postal Service buys sustainable materials, and wherever possible, reduces consumables it purchases — office, custodial and maintenance supplies — to lessen its overall footprint. Consumable spending has decreased each year since 2008, with a 13 percent reduction in 2010. The goal is to lower spending on consumables 30 percent by 2020, using a 2008 baseline. The Postal Service also will work to increase the percentage of environmentally preferable products (EPP) available from its national catalogs by 50 percent by 2015, using a 2010 baseline.

Environmentally preferable products (EPP) are identified by whether they are chemical free, bio-based, recycled content, eco-labeled, renewable resource, energy efficient, or water efficient. Employees responsible for purchases are encouraged to buy EPP products when price and quality are the same as a comparable non-EPP product.

Suppliers

The Postal Service is committed to helping external stakeholders adopt and improve their sustainability business practices. It has three supplier-focused goals to expand sustainability through its extended supply chain. These are to reduce contract transportation petroleum fuel use 20 percent by 2020; to require suppliers with current contract commitments of more than $500,000 to provide sustainability data; and to include standard sustainability clauses in new contracts.

Nearly 57 percent of the Postal Service's petroleum fuel spend is associated with contract transportation providers.

Recycling

In 2010, the Postal Service generated more than $13 million in revenue through expanded recycling and waste prevention efforts. More than 20,000 postal facilities are now recycling and over 10,000 are participating in a backhaul program, which recycles more material and generates additional revenue. In addition, the Postal Service recycled almost 220,000 tons of materials in 2010, avoiding over 214,000 tons of carbon equivalent reductions in greenhouse gasses.

The Postal Service also expanded Post Office lobby mail recycling to include offices at 115 national parks, memorials, and historical sites. This program reduces waste disposal costs, increases recycling revenue, and helps meet customers' environmental expectations. Currently, more than 10,000 Post Offices feature secure lobby recycling containers that carry the message "Read, Respond, Recycle Your Mail."

The Postal Service, in partnership with businesses and governments, has made it easier for customers to dispose of unused or unwanted products that could be harmful to the environment by creating a mail-back program to ship the items to recyclers. Included are computer equipment, printer supplies, cell phones, rechargeable and alkaline batteries, compact fluorescent light bulbs, prescription drugs, and medical sharps.

The prescription mail-back initiative was expanded in 2010, enabling nearly 800,000 veterans in Baltimore, Washington, DC, and West Virginia to safely dispose of expired and unused prescriptions. Federally approved facilities destroy the medicine, ensuring that prescriptions do not end up in landfills or ground water.

Water Management

The Postal Service has had longstanding policies and procedures in place to ensure compliance with the Clean Water and Safe Drinking Water Acts and to standardize sound water management practices. While water use in recent years has been relatively flat, about 5.5 million gallons used annually, the Postal Service is working to fine-tune its tracking of water use to identify additional water conservation opportunities, and it plans to reduce water use 10 percent by 2015.

Customer Experience Measurement

The Postal Service implemented a new Customer Experience Measurement (CEM) system in 2010, providing an expanded view of customers' experiences sending and receiving mail, visiting Post Offices, requesting information, and reporting problems. CEM replaced the Customer Satisfaction Measurement (CSM) system, which had been in place since 1991.

Data on customer experiences is obtained independently through surveys conducted by Maritz Research. Survey questions are based on customer-defined aspects of their postal experience and results are used to improve and adapts service to changing customer needs. To meet requirements of the Postal Act, customers are also surveyed about their satisfaction with specific postal products.

About 359,000 residential and 345,000 business customers responded to the surveys in 2010. Of the residential customers who received a survey, 14.7 percent responded, while the response rate for businesses was 9.1 percent.

The Postal Service made a significant change with the transition to CEM: Instead of basing scores on the top *three* customer rating options, as it had with CSM, it bases CEM scores on the top two customer response ratings.[7] This more challenging approach aligns the Postal Service with the way that leaders in the private sector assess customer satisfaction.

Comparing the first and fourth quarters of 2010, Residential ratings improved for overall satisfaction, sending mail, receiving mail, and most recent Post Office visit, while the score for contact (requesting information or reporting problems) was down 1.7 percent.

Customer Experience Measurement Results

Residential Experience	Q1, 2010 (percent)	Q4, 2010 (percent)
Overall Satisfaction	86.2	86.8
Sending Mail	88.8	89.4
Receiving Mail	89.7	90.0
Post Office Visit	81.8	82.3
Contact	61.7	60.0

[7] The top three ratings that customer could give in CSM were "excellent", "very good," or "good," and scores combined the total of those three ratings. CEM uses different terminology. The top two CEM ratings are "very satisfied" and "mostly satisfied," and scores are based on the total of those two ratings).

All categories showed improvement for business customers.

Small/Medium Business Experience	Q1, 2010 (percent)	Q4, 2010 (percent)
Overall Satisfaction	81.3	82.0
Sending Mail	84.7	85.4
Receiving Mail	86.1	86.7
Post Office Visit	76.6	76.9
Contact	51.4	51.7

Customer Support

Business Service Network

The Business Service Network (BSN) provides customer support to the Postal Service's largest commercial customers, helping maintain a $50 billion revenue base by resolving service issues, maintaining account relationships, communicating new postal rules and regulations, and identifying sales opportunities. The BSN links mailers with postal operations at all levels in the organization. For example, specialized BSN sales professionals, known as strategic account managers, work directly with top business mailers to understand their needs and technical issues in order to help them overcome barriers with responsive solutions.

Business Customer Intelligence

Business Customer Intelligence (BCI), part of the sales organization, furnishes postal sales personnel with information about business mailers and their interactions with the Postal Service. BCI helps identify revenue opportunities and provides sales performance reports and other tools. BCI also develops customer specific data used to improve the design of product initiatives and advertising campaigns, and to ensure compliance with SOX requirements.

The BCI function also manages the Customer Registration process, an enterprise-wide effort to standardize customer data across multiple postal systems. Accurate and consistent customer information helps the Postal Service respond more quickly and appropriately to specific customer needs.

Corporate Customer Contact

Corporate Customer Contact (CCC) plays a key role in the customer experience responding to inquiries and resolving issues by telephone, email, online chat, and the customer service area on *usps.com.* In 2010, CCC handled 49 million contacts about delivery, hold mail and address change requests, package tracking, pricing, ZIP Codes, and orders for stamps and supplies. Internal systems ensure that agents provide accurate and consistent information, and if needed, document the issue and forward it to the appropriate Post Office for resolution. Over 60 percent of customer contacts are handled via self-service, which contributes to greater customer satisfaction while reducing postal costs.

CCC began two new support channels in 2010: online chat and a dedicated small business support group. The support group provides personalized assistance to small businesses interested in expanding their use of postal services. Chat provides real-time technical support to customers on *usps.com.* Customer satisfaction scores for various contact channels — interactive voice response, live agent phone calls, and emails — all increased this year.

Claims Management

Claims for all domestic services, except COD and Registered Mail, may now be filed online. Since 2009, the number of domestic insurance claims submitted online has grown 50 percent and it is now the most popular method for initiating domestic insurance claims with the Postal Service. This change has lowered costs, reduced resolution times, and improved the customer experience. The Postal Service also implemented a Lean Six Sigma approach to optimize the international insurance claims process and reduce resolution times by 25 percent.

Privacy

While overall trust in government declined this year, trust in the Postal Service remains at an all-time high, according to the nation's premiere Privacy Trust study conducted by the Ponemon Institute. For the sixth year in a row, consumers ranked the Postal Service as the most trusted of all 75 federal agencies. Since the first study of federal agencies in 2004, the Postal Service has consistently improved its score, from 78 percent to the current rating of 87 percent. The survey asks Americans their opinions about government organizations that collect and use information about the public. It also includes questions about whether Americans believe agencies take appropriate steps to safeguard personal information and about the government's commitment to protecting privacy.

Also in 2010, the Postal Service was ranked among the Top 10 Firms Most Trusted for Privacy, as it has been in every year since 2004, when the Ponemon Institute began conducting this equivalent survey of U.S. Businesses. The Postal Service is one of only six firms that have always earned a Top 10 ranking.

Outreach

Advertising

Multiple advertising tools are used to build awareness and use of postal products and services. This year, postal advertising again featured Priority Mail Flat Rate Boxes — "a simpler way to ship." The campaign carried the message, "If It Fits, It Ships," in a variety of entertaining, yet believable, scenarios.

During the holidays, the iconic carrier "Al" was featured in two commercials that urged residential customers to go to *usps.com/holiday,* to order Priority Mail Flat Rate Boxes to ship their gifts. More than 850,000 shipping kits were fulfilled as a result. After the holidays, the campaign focused on package returns. As the popular commercials continued throughout the year, customers were able to request free shipping kits by mail, by phone, or the dedicated Web site, *www.prioritymail.com.* In addition to three new product television commercials, one of the later ads featured characters from Disney Pixar's *Toy Story 3.*

This year the Postal Service expanded the audience for its successful *Deliver* magazine, which now includes marketing executives at small and medium-sized businesses. The magazine provides marketing executives with insights about mail and creative ways to use it to gain and keep customers. To engage small and mid-sized businesses, the magazine has added a new department that profiles successful small business mail campaigns. New tools and content for small businesses were also added to the magazine's Web-site, *delivermagazine.com.* A survey of *Deliver* readers confirmed that magazine improved their opinion of direct mail (74 percent), improved their opinion of the Postal Service (73 percent), and increased their intention to spend more on direct mail (53 percent). The magazine and Web site have won more than a dozen awards for design and editorial excellence.

The Postal Service also launched several initiatives to promote mail to targeted segments. Business and consumer audiences were introduced to Sample Showcase, an innovative new product offering, using advertising mail and a microsite. An integrated campaign aimed at increasing use of hardcopy catalogs by Internet retailers featured advertising mail, Web banners, webinars, and email. Eligible Standard Mail users received advertising mail communications announcing the 2010 Standard Mail Summer Sale.

For small businesses, the Postal Service developed promotional kits to help postmasters identify how to build new business by matching their customers' needs with available products. Support was also provided for city

carriers under the Customer Connect program, and for rural carriers under the Rural Reach program.

Customer Development

The Postal Service continues to achieve success with employee lead-generation programs. Employees participating in the Business Connect, Customer Connect, Rural Reach, and Submit-a-Lead programs have brought many new customers to the Postal Service.

Business Connect helps postmasters and local managers market postal services to local businesses. Postmasters have always been a vital part of the communities they serve. Business Connect builds on this role by providing tools and training to identify new revenue prospects, make professional product presentations, and establish themselves as a key local business resource.

Customer Connect engages city carriers to help identify small businesses that could benefit by increasing their use of postal services. Carrier referrals are provided to sales representatives, who then meet with customers to better understand their needs and recommend the right solutions. Customer Connect continues to increase revenue and participation.

Rural Reach is a lead-generation program for rural carriers, and follows the same approach as Customer Connect. Rural carriers identify potential businesses on their routes that can benefit from learning more about postal products.

The Submit-a-Lead program is for employees, including clerks, mail handlers, and administrative staff not participating in Customer Connect, Rural Reach, or Business Connect.

Sales Programs

The sales organization had a productive year, continuing its successful employee engagement programs and helping product development teams introduce new services to business customers. For example, Sales personnel engaged customers interested in participating in this year's Standard Mail Incentive Program ("Summer Sale") and the year-long Saturation Mail Incentive Program. Sales also helped service bureaus and campaign support organizations expand and enhance their use of mail in connection with this year's elections.

The national sales organization consists of support functions and sales personnel located throughout the country who work with all businesses, from the largest corporations to the newest eBay seller. There are sales personnel, for example, in every state and each major metropolitan area who specifically handle small and mid-size businesses interested in expanding their use of mail. There are sales personnel who develop customized solutions for commercial customers, regardless of the size of shipping or logistical operations. And there are sales personnel who concentrate on helping customers of all sizes incorporate effective advertising mail campaigns into marketing and sales plans.

The Postal Service also participated in 48 regional and national tradeshows for various industry segments. Tradeshow participation brought in nearly 3,000 sales leads, which yielded $18 million in new revenue.

Several teams also work primarily with the largest commercial customers. The Strategic Account Managers focus on mail owners. Business Alliances Managers focus on service providers. A third team assists civilian agencies and military commands in the federal sector. Finally, a dedicated group at headquarters provides sales support services to ensure that sales tools are available, processes are in place, and strategies are will coordinated among postal functions, and between customers and the Postal Service.

Mailing Industry Dialog

The Postal Service engages in multiple customer outreach efforts, including industry events, such as the annual National Postal Forum, and ongoing discussion venues, such as the Mailers' Technical Advisory Committee and Postal Customer Councils.

Innovation Outreach

An Innovation Symposium in October was the culmination of a series of idea-gathering initiatives during the year, including postmaster general meetings with industry CEOs, a symposium with MTAC members, and a national outreach to local PCCs. Four themes emerged from this effort: The Postal Service should strengthen its innovation process to include development of digital offerings, new payment services, improved use of information to benefit customers, and enhanced customer experiences. The Postal Service has established a process to evaluate the specific suggestions and will report on progress through MTAC communications and at the National Postal Forum.

National Postal Forum

The National Postal Forum (NPF) is the largest mailing industry tradeshow. NPF offers an opportunity to build relationships and showcase products in an ever-changing marketplace. Over 4,200 customers and exhibitors attended the April event in Nashville, which included 120 workshops, 16 business tracks, and

14 professional certificate programs; 117 companies exhibited the latest in mailing supplies, services, software, equipment, and systems.

The high attendance reflects the continued importance of mail and the industry's engagement on critical strategic issues. For the first time, the NPF offered management-led sessions covering key topics such as the 10-year *Action Plan* published in March and the proposal for five-day delivery. Peer-to-Peer Roundtables were continued for a second year, and once again received high ratings for attendees.

In his keynote address, the postmaster general pledged that the Postal Service would increase the value of mail through innovation, service quality, and information. Hel outlined steps needed to provide flexibility in the marketplace, including the ability to expand product offerings and respond more quickly to changing customer needs. He emphasized that the Postal Service would continue to deliver high levels of service while aggressively managing costs through network adjustments, improved visibility, and continued advances in automation.

Mailers' Technical Advisory Committee

The Mailers' Technical Advisory Committee (MTAC), composed of the major mailing associations and organizations working with the Postal Service to enhance the value of mail, achieved major progress this year with the completion of eight key work groups: Six Sigma Approach to IM Barcode Quality, Eliminating Obstacles to Mail Growth, Intelligent Mail Education, Communicating Network Distribution Center Origin Separation Requirements, Communicating Features and Benefits of Confirm Service, Intelligent Mail Implementation, Enhancing Address Change Service Data Distribution and Format, Implement Optional Flats Sequencing System Presort Parameters.

Eight work groups were started this year: Implement Optional Flats Sequencing System Presort Parameters (completed), Enhancing Address Change Service Data Distribution and Format (completed), Transportation Management, Systems Combined Data Limitations, Expanding and Enhancing Address Change Service Data, Full Service Feedback, eDropship; Start-the-Clock for All Business Mail, and Enterprise Payment.

Two new group categories — task team and user group — were created under the MTAC management. Three task teams were formed: Electronic Interchange, Streamline Business Mail Entry, and Mailing Industry Track at the 2011 NPF in San Diego.

Four user groups were formed: Confirm, Facility Access and Shipment Tracking, Electronic Verification System and / Product Tracking System, and *PostalOne!* / Seamless Acceptance and Service Performance / Intelligent Mail.

Although tactical and technological matters have historically been the focus of MTAC, a new strategic emphasis has been stressed — challenging members to work with the Postal Service on innovative ways to add customer value, expand use postal products, and identify and develop new growth opportunities.

Postal Customer Councils

Postal Customer Councils (PCCs) enhance working relationships with local businesses and keep business customers updated on the latest postal products and developments. More than 100,000 members belong to 200 local PCCs across the country. PCC Insider, a monthly electronic newsletter, provides the latest information on products, technology advances, and pricing and classification. Members are also provided information from MTAC general session presentations and workgroups through links to the MTAC and National PCC Web-sites.

PCCs find new ways to help new and existing customers use mail. The PCC Mail Service Provider (MSP) program database contains more than 250 national and local companies that offer assistance with mailpiece design, obtaining mailing lists, printing, mailing support, supplies, and equipment. Businesses can search for local MSPs by clicking on the Find Mail Service Providers link on *usps.com/pcc.* Other tools include "workshops-in-a-box" that provide materials and guidance about various programs, and PCC *Management Insights,* a bimonthly article highlighting commonly asked questions about PCC rules and guidelines.

This year's National PCC Day took place September 15 in Portland, OR. More than 9,500 members viewed the broadcast from 150 separate locations around the country. The event highlighted success stories on Intelligent Mail and recent incentive programs, and recognized successful PCCs with several awards. Also featured were two specially created workshops — *Best Kept Secrets of the National Customer Support Center* and *Business Customer Gateway.*

Chapter 5: **Workforce**

As a labor-intensive business, the Postal Service continually seeks to balance its human resources in order to provide consistent high-quality service to its customers as efficiently as possible. It achieves this through continuous workforce planning to optimize the mix of employees, by recruiting a highly-qualified workforce, by providing competitive compensation and benefits, and by offering effective job-based training and career development.

Complement Management

Maintaining efficient staffing levels and an optimal mix of career and non-career employees is essential to achieve reliable service and financial stability. 2010 saw a continued decline in mail volume due to the effects of a lingering recession and declines in customer use of mail due to technology. The Postal Service continued to take aggressive actions to reduce employee complement in line with the reduced workload. Actions included adjusting total complement, the employee category mix, and the locations to which employees are assigned.

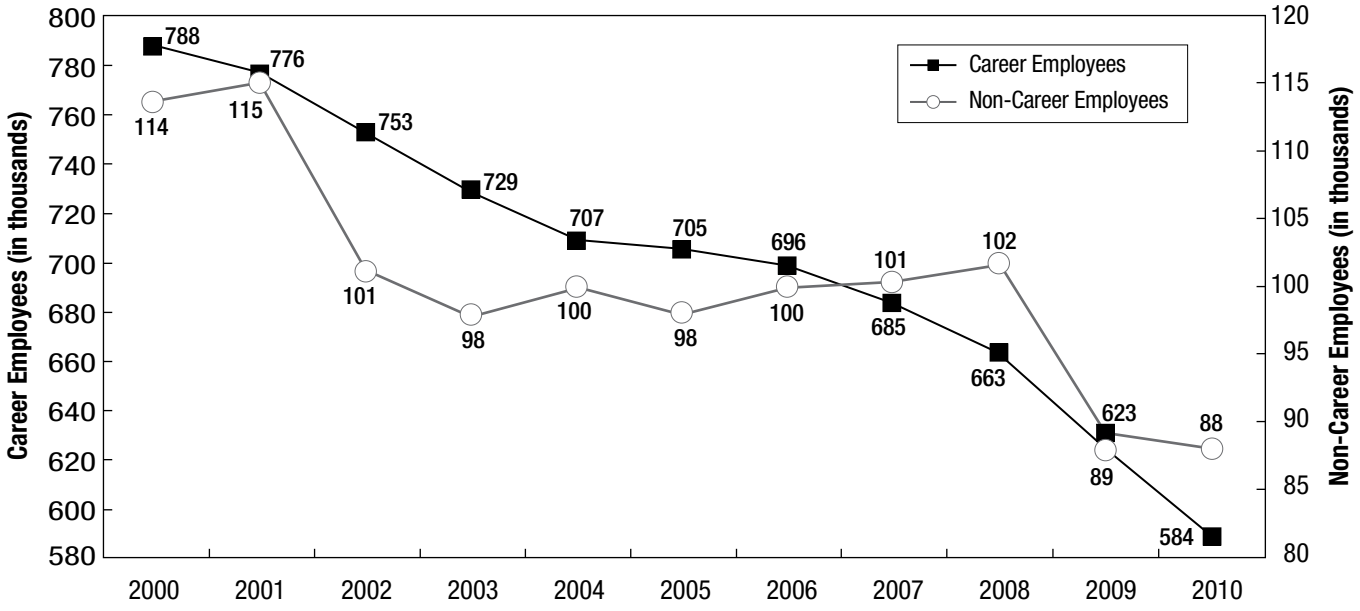
Employee Complement Statistics

In 2010, total complement decreased by 40,395 employees, with career complement decreasing by 39,220. At the end of the year there were 671,687 employees on the rolls, of whom 583,908 were career — the smallest career complement in 10 years. The Postal Service has eliminated over 200,000 positions through attrition or retirement in the last 10 years, half of those since 2007.

Realignments/Reductions in Force

Processes begun in 2009 to restructure the Sales organization and close the New York Metro area office were completed early in the year. Realignments and reduction in force (RIF) avoidance processes took place for Stamp Distribution and Material Management, District Purchasing, District Financial Control and Support, and Distribution Networks Operations Transportation Contracting. To minimize the impact to affected employees, RIF avoidance strategies, including limited area of consideration postings for available positions, salary protection, and voluntary early retirement, were implemented. Other localized realignments and RIFs took place throughout the country as a result of facility consolidations. Bargaining unit employees impacted by such changes were reassigned according to contractual agreements.

Postal Service Complement 2000-2010



Voluntary Early Retirement Offers

In August 2009, the Postal Service negotiated an agreement with the American Postal Workers Union and the National Postal Mail Handlers Union to offer a $15,000 financial incentive to employees who agreed to retire under regular or voluntary early retirement, or to resign if not eligible for retirement on or before November 30, 2009. The incentive was limited to employees represented by those unions. 20,843 employees agreed to retire or resign under this offer. The incentive is being paid out over a two-year period — the first payment of $10,000 was made this fiscal year within two pay periods after separation; the remaining $5,000 is to be paid on October 29, 2010. Other localized voluntary early retirement offers without incentives were made to employees affected by realignments and RIFs.

Administration

The Postal Service uses two systems to help manage complement. The Complement Information System (webCOINS) is the main source of complement data. It is a Web-based system that provides information such as work assignments and on-rolls versus authorized complement levels by unit. The Corporate Complement Management System (webCCM) provides contractually-correct assistance to managers when reassignment of bargaining unit employees is necessary. Managers enter employee data into webCCM which produces required notifications and assists with other processes required under bargaining agreements.

Employee Recruitment

Most hiring was curtailed because of mail volume and workload declines. In July, all hiring, promotion, and non-competitive placement of non-bargaining employees was suspended for headquarters, area, and district non-bargaining offices. The freeze affects approximately 12,900 positions.

The Postal Service is among the nation's largest employers of veterans and disabled veterans, and is a member of the Advisory Committee on Veterans' Employment and Training and Employer Outreach, which advises on veteran's employment and best practices. In 2010 over 22 percent of the career workforce (129,886 employees) was composed of preference eligible veterans, of whom 49,119 are categorized as disabled and 13,303 are rated as 30 percent or more disabled.

Competitive procedures are used to select individuals with disabilities for employment. People with severe disabilities receive noncompetitive employment consideration through referrals from state departments of vocational rehabilitation or the Department of Veterans Affairs. This year the career workforce included 33,063 employees with reported disabilities.

The Management Intern program provides recruitment and placement of talented university graduates with specialized training and skills. This year 23 interns were hired and began the program. Fifteen interns hired in prior years completed the two-year program and were placed in positions within their functional business unit.

Flexible work arrangements, including telecommuting and alternate work schedules, enhance Postal Service efforts to recruit and retain top talent. Arrangements are now in place for most headquarters and headquarters field units. This helps employees achieve work-life balance and eliminates commuting days which reduces energy use and CO_2 emissions. To date, flexible work arrangements have saved 225,000 gallons of gas and cut CO_2 emissions by 4 million pounds. Telecommuting also enables employees to work at home during emergency events, enhancing the Postal Service's ability to continue operations.

Learning and Development

The Postal Service is committed to providing job-related training opportunities for all employees who demonstrate an interest. It has developed and deployed a state-of-the-art electronic learning system that reduces cost, increases training availability, and delivers high-quality content relevant to employees' needs. Postal training helps drive performance improvement by providing essential skills and developmental opportunities. It is designed to retain the existing talent base and prepare for the replacement of existing leadership.

Learning Environment

The Postal Service believes its future success depends on investing in the development of its employees. Its comprehensive training addresses development at all levels, and delivers relevant, targeted learning solutions.

The Learning Management System (LMS) is one of the largest such systems in the nation. It blends classroom, technology-based delivery (including social networking), and on-the-job training, and it encompasses more than 3,000 classroom and 1,800 online courses. LMS allows employees to electronically request and

participate in training, giving them more control over their development. Managers can electronically approve training requests and assist in designing employee training plans. Documentation of completed training is automated.

The eLearning catalog within LMS features Web-based courses ranging from the basics of electrical safety, to updates on new products and services, to achieving results using Lean Six Sigma practices. Added this year were more than 1,000 Harvard and SkillSoft Web-based courses developed by practitioners, business leaders, and world-renowned experts on subjects such as general business, project management, communications, information technology, and personal development.

Nationwide implementation of LMS eliminated three legacy training applications. It reduced classroom training offerings 50 percent by replacing them with lower cost and equally effective technology-based training. The LMS self-service portals allow employees to enroll in training courses without administrative assistance 80 percent of the time. The LMS and related training process improvements will save $28 million annually.

Leadership Development and Talent Management

The Postal Service uses four leadership competency models which outline desired behaviors at the supervisor, manager, executive, and officer levels. Leadership development programs at each level use assessment tools to provide feedback on an individual's strengths and weaknesses on the applicable competencies. Training provides development against these competencies and is delivered using a blend of online self-study, classroom training, team projects, simulations, and coaching. This "learning continuum" is paired with formal succession planning and individual development planning processes to identify and prepare high-potential leadership talent.

Essential Foundations for Supervisors provides 90-day training for newly appointed supervisors. It incorporates classroom, eLearning, self study, and on-the-job experience. Training is tailored to the employee's experience and responsibilities. 1,249 new supervisors completed this training in 2010.

EAS Leadership Development (ELD) is the approach to identifying and developing future leaders for key managerial positions in each district. More than 2,900 field EAS employees applied for the program during open season. Field leaders serving on resource boards reviewed the applications through late summer and employees were notified if they were accepted in October. Those accepted into ELD receive development through virtual learning, on-the-job development, and coaching. Employees accepted into ELD also will be invited to participate in a pilot study of *Managerial Assessment of Excellence,* an online tool which measures an employee's skills against the managerial competency model.

The 2-week Managerial Leadership Program is designed to enhance the leadership skills and professional growth of high potential mid-level Executive and Administrative Schedule (EAS) managers. It is based on the Managerial Competency Model that identifies essential management skills relevant to the postal workplace.

The Postal Service continues to develop a highly motivated, competent group of managers to fill key Postal Career Executive Service (PCES) positions. There were 681 PCES in 2010, including 43 officers and 60 newly-appointed executives. Over one hundred executives participated in one or more of the executive course offerings.

Future PCES are identified through the Corporate Succession Planning (CSP) process. CSP generally operates on a 2-year cycle, during which EAS level 22 and higher employees request to be considered as potential successors. If selected, they develop and pursue personalized individual development plans to prepare for the additional responsibilities of an executive. CSP for headquarters executive positions took place this year.

The Advanced Leadership Program (ALP) is for non-PCES employees who have been identified as potential successors for PCES executive positions through CSP. ALP includes classroom, eLearning, and business simulation in a 3-week curriculum. The ongoing development of ALP graduates is customized by their executive sponsors using an individual development plan. Since the ALP program was redesigned in 2007, 38 graduates have been promoted to executive positions.

Employees who are not currently potential successors in CSP or EAS Leadership Development processes are encouraged to complete an electronic individual development plan (eIDP). This online system provides employees an assessment of their competencies by their manager and suggests on-the-job and course-work training to increase skills in competencies as indicated by the assessment.

The Executive Leadership program is for all PCES executives who have been in their positions for at least 18 months. It is designed to increase knowledge and skills for managing the human aspects of organizational change and for leading others through large scale transformation. The program includes classroom training, coaching, "360 degree" assessments, and participation in an organizational culture inventory.

New in 2010 is a formal development program for high potential executives who demonstrate the ability to move into senior management positions. Candidates are identified, accepted into the Performing at the Peak program, and provided with an assessment and individualized development.

Learning Assets

The William F. Bolger Center for Leadership Development in Potomac, MD, is the Postal Service's national executive management and leadership training center. Its mission is to provide a premier learning environment for managers to develop, plan, and grow. This year, over 67,300 people used the center, including

19,447 employees who attended courses and meetings. The Bolger Center generated more than $15.8 million in 2010 by leasing its facilities for use by external clients.

The National Center for Employee Development (NCED), in Norman, OK, is the primary facility for learning to maintain and operate postal systems, networks, equipment, and vehicles. In 2010, NCED delivered courses to 337,933 people, 15 percent more students than were trained in 2009. There were 28,956 employees who attended the NCED campus or instructor-led training in their home office, taking courses that ran from three days to six weeks. Another 308,977 employees completed courses in their home offices using eLearning, the Postal Satellite Training Network (PSTN), MeetingPlace Webinars, and DVDs.

Workforce Diversity and Inclusiveness

The Postal Service is one of the leading employers of minorities and women, with minorities comprising 39.7 percent of the workforce and women comprising 40.5 percent. 21 percent of employees are African-American; 8.9 percent are Hispanic; 8.6 percent are Asian-American/Pacific Islander; and 0.67 percent are American Indian or Alaska Native.

In July, *Black Enterprise* magazine highlighted the Postal Service as one of the "Top 40 Best Companies for Diversity." For the tenth consecutive year, the Postal Service was selected one of "America's Top Organizations for Multicultural Business Opportunities for 2010" by *Diversity Business.com.* And, for the fourth year in a row, the Postal Service was included in *Hispanic Business* magazine's annual "Diversity Elite 60" list of best companies for Hispanics.

The Postal Service participates in a number of events and conferences to reinforce the value of diversity. These events help make customers, suppliers, and employees aware of the Postal Service's deep roots in every American community. Participation in national events included the National Urban League (Washington, DC), NAACP National Convention (Kansas City, MO), National Council of La Raza Conference (San Antonio), US Hispanic Chamber of Commerce National Convention (Dallas), LULAC (Albuquerque), LatinaStyle Business Series (New York City, Miami, Seattle), Gay Lesbian Bisexual Transgender Expo (New York City), and the Organization of Chinese Americans National Convention (Houston).

The employee-focused *"I AM"* campaign, conducted throughout the year, raised awareness through various communication media of the value that diversity brings to the workplace. The campaign's first phase featured employee volunteers, donors, survivors, and heroes outside the workplace. The second phase highlighted employee responsibility for attendance, working "green," providing customer service, growing the business, and treating others with dignity and respect. The final phase addressed the right of employees to be treated with dignity and respect and reviewed remedies that employees may pursue if they believe they have not been treated correctly.

Compensation and Benefits

Compensation and benefits for current employees and retiree health benefits make up nearly 80 percent of operating expenses. Compensation plans are designed to attract, retain, and motivate employees while also meeting relevant statutory requirements. The sections below describe the Postal Service's statutory standard of pay comparability to the private sector, primary benefit plan features, and developments in compensation and benefits.

Pay Comparability

Federal law governing the Postal Service provides that compensation and benefits for its officers and employees shall be comparable to the rates and types of compensation paid in the private sector. To achieve this, negotiations between the Postal Service and unions continue to apply the principle of moderate restraint set forth in past interest arbitration awards. The compensation of most bargaining units meets or exceeds private sector levels. The average annual pay and benefits value for career bargaining unit employees was $72,099 this year, excluding corporate-wide expenses that cannot be attributed to individual employees.

Pay for supervisors, postmasters, and other nonbargaining employees provides an adequate and reasonable differential between first-line supervisors and bargaining-unit employees, and meets or exceeds comparability standards.

The law governing the Postal Service also provides that executives should be compensated at a level comparable to the private sector. However, the Postal Reorganization Act (1970) precludes the ability to achieve a comparable standard of compensation due to compensation caps. Within these statutory salary limitations, the Postal Service continues to provide performance-driven pay actions to promote a performance-based culture.

Pay for Performance

The Postal Service's Pay-for-Performance (PFP) program continued to drive organizational achievement. Unlike most government agencies that provide regular, across-the-board pay increases, PFP is the sole source of annual pay adjustments for non-bargaining unit employees.

PFP has been cited by several independent entities as a model for other agencies to emulate. The foundation of the system is a balanced scorecard of objective, independently-verifiable measures of service, employee engagement, and financial performance. Performance indicators are measured at national, area, district, business unit, and individual levels so that meaningful performance distinctions are made within the line-of-sight of all managers. Core

performance requirements and individual results are recorded in the Performance Evaluation System.

Pursuant to §39 U.S.C. 3686(d), the Postal Service hereby reports that during calendar year 2009 the following persons received compensation in the amounts listed in excess of the rate for level 1 of the Executive Schedule under section 5312 of Title 5:

Name	Amount in Excess of Level 1 of the Executive Schedule
Nicholas F. Barranca	$9,150
Robert F. Bernstock	$73,300
Joseph Corbett	$73,300
Michael J. Daley	$29,665
Patrick R. Donahoe	$57,671
Steven J. Forte	$30,946
Mary Ann Gibbons	$23,300
Timothy C. Healy	$13,939
Jerry D. Lane	$5,100
John E. Potter	$69,533
Anthony J. Vegliante	$34,923
David C. Williams	$8,568
George W. Wright	$16,866

Benefits

Postal career employees enjoy excellent benefits, including annual and sick leave that can be accumulated, the opportunity to donate leave, basic life insurance paid for by the Postal Service with additional options at the employee's cost, pretax health benefits with most of the cost paid by the Postal Service, pretax Flexible Spending Accounts for out-of-pocket dependent and health care expenses, the option to enroll in pretax dental and vision insurance, the opportunity to apply for long term-care insurance, and coverage under the Federal Employees Retirement System (FERS) or Civil Service Retirement System (CSRS) plans, which provide pension benefits and, for FERS employees, include Postal Service contributions to the Thrift Savings Plan. The *2010 Annual Report* contains employer costs and retirement program participation rates.

During 2007, agreements were achieved through the collective bargaining process and consultation with the management associations to reduce the Postal Service's share of contributions to the cost of employee health benefits premiums. Annual 1 percent reductions for the Federal Employees Health Benefits Program (FEHB) plan years 2008 through 2011 were agreed to for employees represented by the American Postal Workers Union, the National Postal Mail Handlers Union, and for EAS employees. Annual 1 percent reductions for FEHB plan years 2009 through 2012 were agreed to for employees represented by the National Association of Letter Carriers, the National Rural Letter Carriers' Association, and the Fraternal Order of Police.

Injury Compensation

The Postal Service continues to work closely with the Office of Workers' Compensation Programs (OWCP) to place injured employees who cannot be accommodated within the Postal Service into private sector employment. In 2010, these efforts resulted in private sector placements, retirements, or reductions in compensation payments for 319 former employees, which reduced compensation costs by more than $8 million. The Postal Service saw an increase of 2 percent in Workers' Compensation chargeback expenses from the OWCP this year, primarily because of medical cost inflation and increases to the number of claimants receiving wage loss benefits. The increase occurred despite continued decreases in illness and injuries. The Postal Service filed 47,897 new claims in 2009 and 44,805 in 2010, for a 6.5 percent decrease. The 2010 cash payout for compensation chargeback expenses totaled over $1.11 billion.

To help reduce Workers' Compensation medical costs, the Postal Service expanded the First Script Pharmacy Card Program, which discounts prescription prices for the Postal Service and helps employees avoid paying out-of-pocket expenses and waiting for reimbursement. In 2010, durable medical equipment and imaging costs were added to the system, resulting in a savings in excess of $10.5 million. Ongoing efforts with the program have attained $40 million in cumulative savings. Monetary gain from pursuit of third-party claims and overpayments are credited to the Postal Service by OWCP.

The National Reassessment Process is a key initiative for reviewing the status of employees in rehabilitation and limited-duty assignments at the end of each year. It ensures that every evaluated employee is placed in an appropriate and necessary work position. Currently, all sites are assessing limited duty and rehabilitation assignments to eliminate "make-work" assignments. The process is 90 percent complete. Through June 2010, the number of employees in rehabilitation and limited duty assignments had been reduced from 28,147 to 24,224, saving $255 million. The savings represent costs avoided by employees' retirement, resignation, or return to full duty. At the end of September, the Postal Service had 22,678 limited duty and rehabilitation employees nationwide.

Labor Relations

Collective Bargaining

The Postal Service has nine collective bargaining agreements with seven unions covering approximately 517,000 career employees and 67,000 non-career employees. Negotiations with unions cover wages, hours, and working conditions. The most recent agreement was established by the issuance of an interest arbitration award in

April 2009 covering postal nurses represented by the National Postal Professional Nurses, which is affiliated with the American Postal Workers Union, AFL-CIO (APWU). Collective bargaining negotiations with two of the four largest postal unions, the APWU and National Rural Letter Carriers' Association (NRLCA), began in September.

Postal Service management and the National Association of Letter Carriers (NALC) continued joint contract application training and dispute resolution process support by delivering training to 80 management and NALC representatives responsible for addressing and resolving disputes locally. Training has helped reduce disputes and improve working relationships. Also, a jointly developed intervention process identifies and resolves the root causes of disputes at the lowest level possible. The widely implemented process is helping build more cooperative and productive labor-management relationships.

As discussed in Chapter 3, postal management and the NALC negotiated a Joint Alternate Route Adjustment Process in April. The agreement provides a process for reevaluating and adjusting delivery routes that either party determines needs to be evaluated.

Quality of Work Life provides opportunities for mail handlers and supervisors to become fully involved in the identification and resolution of workplace inefficiencies. The Postal Service and the National Postal Mail Handlers Union (NPMHU) co-hosted the twelfth annual *Quality of Work Life Conference.* Approximately 18 quality circles shared their ideas and more than 21 displayed models of their solutions. Thirty-nine quality circles were recognized for their outstanding projects and performances.

Consultation With Management Associations

As prescribed by law, program consultation was conducted throughout the year with the national officers and representatives of the National League of Postmasters, the National Association of Postmasters of the United States, and the National Association of Postal Supervisors. This presented an opportunity for the associations to participate directly in the planning, development, and implementation of initiatives and policies affecting approximately 50,000 managerial employees.

Workplace Environment

Safety

INJURY AND ILLNESS

Deployment of the new Employee Health and Safety (EHS) management system was completed this year to automate reporting and management of accidents, injuries, and illnesses. EHS is integrated into the Human Capital Enterprise System. It is accessible to all managers and supervisors to enter information directly into a Web-based system and send the information electronically to safety personnel. Once accident information is received, EHS provides injury case management tools to health and resource management specialists for more efficient management of caseloads. The system's fast, efficient handling of claims replaces paper processes.

SAFETY FIRST

The Postal Service's safety record continues to improve annually. This year the OSHA injury and illness frequency rate of 5.49 per 100 employees is a 2.35 percent improvement over last year and equates to 2,876 fewer employee injuries and illnesses.

These outstanding results are due to employee and management commitment to safety through a variety of efforts that include risk analysis, training, and employee awareness efforts, including "Safety Depends on Me." Employee feedback is a vital component of these efforts, and is used to ensure that training content is relevant and effective. An example is this year's implementation of an electrical work plan for maintenance, which improves work methods and requires that employees be provided with the appropriate protective equipment to safely perform electrical work. Adoption of the plan included training of over 20,000 employees.

The Performance Evaluation Guide audit process is used to evaluate those safety programs that are required by OSHA to have a written set of rules and processes and to pursue any necessary corrective actions. Thorough risk analyses of accident and injury reports and claims information were performed using the centralized data in EHS.

The Postal Service's motor vehicle accident frequency rate was 9.10 per million miles — a slight (1.9 percent) increase over last year. To foster save driving, drivers are screened, trained and tested under the *Safe Driver Program.* The Postal Service also is a member of the National Safety Council and participates in the Safe Driver Award Program. Since 2005, when records were established, 5,858 postal professionals have driven more than a million miles without a single accident.

VOLUNTARY PROTECTION PROGRAMS

The Postal Service maintains 165 worksites in OSHA's Voluntary Protection Program (VPP), which recognizes facilities that have implemented the best safety programs and practices. Four additional sites were recommended for Star, the most prestigious level, and 12 were reevaluated and approved for continued participation. On average, VPP sites post OSHA injury and illness reductions that are 50 percent better than the industry average.

ERGONOMIC RISK REDUCTION PROCESS

The Ergonomic Risk Reduction Process (ERRP) reduces both the number and severity of musculoskeletal disorders, builds labor/management teams with ergonomic skills, and cultivates partnerships to identify and control ergonomic risk. These partnerships include OSHA, and the NPMHU and APWU. Since its inception in 2003, 176 plants and 9 districts have implemented ERRP. Approximately 159,454 employees have received training, and 11,560 have submitted solutions to reduce risk that were implemented. ERRP sites involved in the process for at least 12 months experienced a 19.3 percent reduction in musculoskeletal disorders in 2010.

Equal Employment Opportunity

In May, the Postal Service reissued its Equal Employment Opportunity (EEO) Policy Statement, reaffirming its commitment to equality of opportunity in every aspect of employment. The statement is posted in all postal facilities, EEO offices, and on *usps.com.*

To improve working relationships with deaf and hard of hearing employees, the training course, *Supervising Deaf and Hard of Hearing Employees,* was developed and completed by 3,606 employees. It gives supervisors a basic awareness of communication barriers, strategies for effective communication, actions to avoid, and best practices for use of interpreters. It also includes an overview of common phrases associated with work tasks, safety, and general conversation using American Sign Language.

The Postal Service provides high quality and timely complaint processing in accordance with EEOC regulations. This year 16,125 EEO informal complaints were filed, 99.2 percent of which were processed within regulatory timeframes. Letters of Acceptance or Dismissal met regulatory timeframes 97 percent of the time, Investigations of accepted formal complaints 99 percent of the time, Final Agency Decisions 97 percent of the time, and Notice of Final Actions 99 percent of the time. Contract investigators and final agency decision writers are used to help maintain the neutrality of the investigative and decision process. The Postal Service also has 16 interagency agreements to process EEO cases on a fee-for-service basis.

National Workplace Harassment Prevention

The Postal Service is committed to providing a safe, productive, and inclusive workplace; it will not tolerate harassment of any type and holds managers responsible for preventing it. Awareness is the key to ensure a workplace free of unlawful and inappropriate conduct. In March, Publication 552, *Manager's Guide to Understanding, Investigating, and Preventing Harassment,* was revised to be consistent with the policy to maintain a work environment free from all forms of harassment and to comply with case law and updated EEOC guidance. A one-page *Quick Step Guide* was added to give managers the basic information needed to quickly and effectively address a complaint.

Employee Assistance Program

The Employee Assistance Program (EAP) provides employees and family members with free, voluntary, and confidential counseling from licensed professionals. Counselors are available 24 hours a day, seven days a week in convenient locations to help with challenges that affect employees' lives at home and at work. Employees and eligible family members receive assistance that helps them to cope with a wide range of emotional, financial, legal, chemical dependency, marital, and family related issues. More than 24,957 employees and family members received counseling.

The EAP responded to 333 critical incidents that impacted employee work engagement to some degree. A critical incident is an event which causes disruption to the organization or creates significant danger or risk which may traumatically affect employees. Incidents may include the sudden death of a co-worker, a vehicle accident, suicide, homicide, or natural disaster. From these incidents, 22,220 employees received services in the form of individual sessions or grief groups. EAP also provides consultation to managers and supervisors on issues involving individual workers and the work environment. The EAP engaged 20,345 managers, supervisors, or union officials in individual consultations.

The EAP Internet site has experienced growing demand for information on financial planning and coping with stress, relationships, and anxiety. This year saw usage double for three months during the holiday season.

Violence Prevention and Crisis Management

Created in September 1998, the office of Workplace Environment Improvement (WEI) is committed to improving the work environment and bringing focus to "people issues." WEI performs violence prevention activities, identifies and measures trends of concern, and implements initiatives to improve the workplace environment. WEI assists field offices by ensuring that local threat assessment teams are trained and staffed. These teams respond to potential and actual threat situations to bring swift resolution and ensure employee safety.

The Workplace Environment Advisory Committee, composed of representatives of Human Resources, unions, and management associations, works closely with WEI and the Inspection Service. Using a standard protocol, the committee identifies and addresses undesirable behavior that results from both individual and systemic

problems. The *Threat Assessment Team Guide* was revised this year to update the composition of core team members and to clarify requirements. The *Achieving a Violence-Free Workplace Together* poster was distributed to every postal facility to inform employees about the violence-free workplace program and draw attention to the publication *Achieving a Violence-Free Workplace Together.*

The *Changes @ Home & Work* initiative provided information about the assistance available to help employees achieve a comfort level with life's changes. A new online reading room was provided that contains information on change management, development, and wellness. The reading room is also a resource for managers seeking to improve employee communication, particularly in times of great change.

Human Capital Enterprise System

The Human Capital Enterprise System (HCES) automates day-to-day personnel transactions related to hiring, promotion, job applications, retirements, and similar career-related functions. Implemented in 2008, HCES has eliminated paper transactions while increasing efficiency, saving approximately $150 million annually. It has greatly expanded self-service for employees, allowing them to perform personnel and HR activities online, 24-hours-a-day, 7-days-a-week. Several enhancements and additions to HCES were made in 2010.

The Job Bid Management (JBM) module, which offers carriers, clerks, and mail handlers the automated ability to view and bid for vacant positions, was enhanced to include rural carrier postings, biddings, and placement activities in 16,000 offices. The number of automated bid clusters increased 24 percent over 2009. In automated bid clusters, clerks, carriers, and mail handlers placed approximately 832,000 bids through employee automated self-service. These bids were accepted for over 78,000 positions offered through 8,853 postings. Over 2.8 million bids have been accepted in HCES since 2007.

The Employee Health and Safety (EHS) application was expanded to cover the entire nation. Integrated into HCES, the automated system's fast, efficient handling of case claims allows employees to receive appropriate care and return to work in a timely manner. EHS has over 66,000 potential users, and over 84,000 records were entered in 2010. It is the largest accident/injury reporting system in the world. The Postal Service estimates annual savings of $10 million by reducing paper, process time, and travel time, and by more timely submission of data.

eRetire was launched on September 27. This new employee self-service Web-based application allows eligible employees to initiate retirement planning activities online using *liteblue.* In the one-week period after launch, 160 retirement applications were initiated using the new application.

Conversion to Electronic Official Personnel Folders (eOPF) was completed. eOPFs provide instant, convenient, and secure access by employees to their personal and work information. All paper OPFs were destroyed and recycled. Fourteen truckloads representing 20,465 cubic feet (627,940 lbs) were destroyed. All employee personnel files are now available online via *liteblue.*

All HCES services are supported by the Human Resources Shared Service Center (HRSSC). Using Six Sigma methodology, the HRSSC has streamlined processes and increased productivity to deliver notable improved efficiencies. In 2010, the HRSSC handled on average 2,600 calls a day and processed over 145,000 employee transactions a month, including promotions, hires, and retirements. Unique to 2010, over 20,800 separations were processed within 60 days as part of the 2009 Early-Out Incentive.

Employee Communications and Outreach

Voice of the Employee

Every quarter, one-fourth of career employees receive the Voice of the Employee (VOE) survey at their work location. Participation is voluntary and employees are given time on the clock to complete the surveys. The surveys are returned to a contractor in sealed, postage-paid envelopes for analysis and reporting. The focus of the VOE survey changed last year from measuring employee perception to measuring engagement, a factor that directly affects service quality, customer satisfaction, employee retention, and financial results. The VOE index score is based on eight questions which are key indicators of employee engagement. Survey results are used to identify organizational issues and establish improvement strategies. See the *2010 Annual Performance Report* for current VOE response rates and index scores.

Employee Communications

Keeping employees informed about the state of the postal business is essential, especially with a volatile economy and rapid changes in the communications marketplace. The goal is a well-informed workforce fully engaged in meeting customer needs and growing the business. This year employee communications focused on the need

for structural business model changes and the 10-year action plan, *Ensuring a Viable Postal Service for America,* released in March.

Employees also had access to a growing number of video presentations from executives on operations *(Field Updates),* financial results *(Dollars and ¢hange),* information technology *(IT3),* retail *(Talkin' Retail),* and sustainability *(Going Green).*

To enhance overall employee communication efforts, two critical human resources Web sites were enhanced and launched via the intranet and extranet channels. Featuring improved access to critical life, career, health information and applications, these two Web sites are improving overall employee engagement by adding 24/7 online access.

Community Involvement

The Postal Service strives to be a responsible corporate citizen in communities across the nation. Employees also are committed to being good neighbors as shown by their countless heroic and humanitarian deeds performed every year, as well as participation in the following programs.

Have You Seen Me Program

This year marked the 25th anniversary of *Have You Seen Me?,* a joint effort of the Postal Service, the National Center for Missing and Exploited Children, and Valassis to reunite families with missing children through *America's Looking for Its Missing Children* program. Valassis publishes the weekly *RedPlum* circular that showcases color photos of missing children and their alleged abductors. As a result of leads generated by the program, 149 children have been safely recovered. Additional information is available at *www.missingkids.com.*

Combined Federal Campaign

Every year the Postal Service participates in the Combined Federal Campaign. In the 2009 campaign employees pledged $32.5 million to charities of their choice. The 2010 campaign runs through December 15, 2010. The actual pledge total will be known in early 2011.

Postal Employees Relief Fund

The Postal Employees Relief Fund (PERF) is a humanitarian effort administered jointly by the Postal Service and its unions and management associations. PERF is supported financially by employees mainly through payroll deductions from the Combined Federal Campaign. In calendar year 2009, PERF provided more than $1.4 million to 237 employees who experienced losses from fires, floods, hurricanes, and tornadoes. Since it began in 1990, PERF has provided more than 3,000 grants totaling nearly $16 million to active and retired employees impacted by natural disasters and house fires.

Marrow Donor Program

Since 1997, the Postal Service has collaborated with the Be The Match Foundation, formerly the Marrow Foundation, to build awareness of the National Marrow Donor Program, the world's largest and most diverse registry of potential marrow donors. Over the last 13 years, the Postal Service — through its Delivering the Gift of Life Campaign — has recruited more than 50,000 employees and family members to become registry donors.

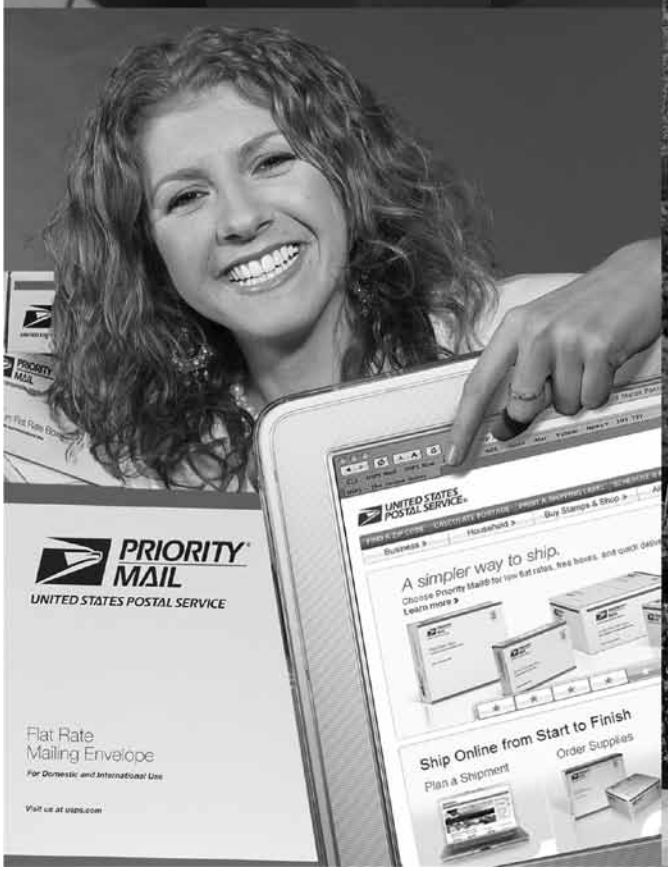
Annual Food Drive

On May 8, city and rural carriers collected food donations as they delivered mail on their routes in the annual Stamp Out Hunger Food Drive. Other employees helped process and deliver nonperishable food to pantries across the nation. More than 130 million postcards were mailed to publicize the event — the world's largest annual one-day food drive. Despite the tough economy, Americans boosted their donations to a record 77.1 million pounds, increasing the 18-year total to more than one 1 billion pounds. Other supporters of the drive include Campbell Soup Company, Valpak Direct Marketing Systems, Valassis, Feeding America (formerly known as America's Second Harvest), the United Way of America and local affiliates, the AFL-CIO, and cartoonist Bill Keane, who provides special *Family Circus* artwork for the promotion.

Carrier Alert

The Carrier Alert Program recognizes that carriers can help monitor the well-being of elderly and disabled customers. A local sponsoring agency notifies the Post Office of persons who want to participate in the service and a decal is placed in their mailbox. Carriers will then be alert to an accumulation of mail that might indicate an accident or illness, and notify appropriate officials.

USPS Working to Create a Greener Tomorrow



Appendix: **Strategic Initiatives**

Background. In its March 2010 Annual Compliance Determination, the PRC requested additions to the *Comprehensive Statement*, specifically to provide more information on the performance of individual programs and the connection between programs and the strategic goals. The three **Strategic Goals** continue to be:

- improve service,
- improve employee engagement, and
- improve financial performance.

Limited Corporate Objectives. Each year the Postal Service sets a limited number of corporate objectives to advance its three strategic goals.[8] This is consistent with industry best practice, the requirements of the Government Performance and Results Act,[9] and guidelines of the Office of Management and Budget (OMB). OMB directs agencies to establish a limited number of high priority objectives:

> "…usually three to eight, as representative of the agency's most pressing priorities. (They) must have high relevance to the public and reflect the achievement of key agency missions. They must further progress in achieving a strategic plan goal, and must contain near-term, measurable targets, the results of which are reviewed on a quarterly basis."[10]

Linking Strategic Goals and Corporate Objectives to Strategic Initiatives. Corporate objectives are not set for individual programs, which would dilute the organization's focus on its high-priority objectives. However, to help clarify the connection between strategic goals and objectives, and the actions necessary to achieve them, the Postal Service identified nine key strategic initiatives. These nine were chosen based on their strategic importance and the degree of attention they will require over the next few years. They are consistent with priorities identified in the Postal Service's *Action Plan for the Future* and the corporate objectives contained in the *2011 Annual Performance Plan*.

Success indicators were established and aggressive 2011 targets set for each. Results will be reported in next year's *Comprehensive Statement*. The relationships between the strategic initiatives and the three strategic goals are described below. The many actions underway to achieve the strategic initiatives are described in more detail in the *Comprehensive Statement*.

Intelligent Mail (IM). The purpose of the initiative is to use IM technologies to enhance performance and customer value. By improving visibility at all points in the process of creating, processing, and delivering mail, IM helps the Postal Service and customers improve service and efficiency. An effective measure of success is the amount of mail with Full-Service or Basic IM barcode. The 2011 target is for 90 percent of workshared mail to contain an IMb. In-county Periodicals are not included in the measure since they are mainly small newspapers that are dropped off close to or at delivery units.

Strategic goals supported by IM:

- *Service* is improved by increasing the amount of mail that can be measured and the information available to the Postal Service and to mailers to identify and correct any problems.
- *Employee Engagement.* Providing more detailed, actionable information about mail in process allows employees at all levels to identify opportunities and implement solutions to improve performance.
- *Financial Performance* is impacted on both the cost and revenue sides of the equation. Additional information about mail flow allows for improvements to both mailers' and the Postal Service's operations, thereby increasing the value of mail and mailers return on investment.

Flats Sequencing System (FSS). The focus of this initiative is to reduce carrier sortation and associated costs through automated processing of flat mail into delivery sequence. FSS will replicate for flats the benefits achieved by letter sequencing. The indicator is the percent of flat mail in delivery point sequence for delivery zones on FSS in operation at least six months. This allows for ramp-up by mailers and the Postal Service. The 2011 target is 72 percent.

Strategic goals supported by FSS:

- *Service* historically has improved as mail is automated. This includes on-time performance as well as more consistent delivery times for customers since carrier departure for the street is less impacted by daily variations in volume.
- *Financial Performance* is impacted mainly through significant work hour reductions. Less manual handling and fewer routes, vehicles, and support staff will reduce expenses. Improved service also drives revenue.

Expand Access. To provide access consistent with customer preferences, the Postal Service must ensure that appropriate alternatives are available when and where customers want them, often 24/7. The target is to expand the share of retail revenue generated by means other than at a postal retail counter to 35 percent by the end of 2011.

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[8] More information about the strategic goals and the process of setting annual corporate objectives may be found in the 2010 *Annual Performance Report* and 2011 *Annual Performance Plan* following this Appendix.

[9] The Government Performance and Results Act of 1993 (P.L. 103-62), or GPRA, established processes for federal agencies to set goals, measure progress, and report results.

[10] Office of Management and Budget, *Preparation and Submission of Strategic Plan, Performance Plans, and Annual Program Performance Reports.* July 2010.

Appendix: **Strategic Initiatives**

Strategic goals supported by Expanded Access:

- *Service* is improved by making postal products and services available where customers already are doing business, whether online or in person. These locations often have longer hours, better parking, and/or higher foot-traffic.
- *Financial Performance* is impacted on both the revenue and expense sides. Expanded access drives revenue growth by making postal products more accessible and easier to use. Alternative forms of retail access are also less expensive than the postal retail counter.

Optimize Network. Adapt physical networks to changes in mail volume, mail mix, and customer behavior. This allows the Postal Service to take advantage of technology and improved processes to reduce excess capacity in plants, Post Offices, and delivery units. The 2011 target is to reduce total interior facility space by 2.8 million square feet.

Strategic goals supported by an Optimized Network:

- *Service* is improved by gaining economies of scale and scope when operations are consolidated. Fewer trays, trips, and handlings are required, which expedites processing and delivery, and minimizes errors.
- *Financial Performance* improves by reducing the number of owned and leased buildings. Savings include fixed costs such as maintenance and administrative overhead. This also supports the Reduce Energy Use strategic initiative. There is also a revenue benefit when buildings are sold.

Flexible Workforce. Labor remains the largest cost component. In addition to reducing work hours, the strategy is to take full advantage of contractual flexibility to reduce the cost of work hours used. The indicator for this initiative is the average hourly rate for bargaining and casual employees, including existing contractual wage increases. It excludes payments for retiree health benefits (current and pre-funding amounts) which are not within management's control. The 2011 target is to beat the $41.69 average cost per work hour contained in the *Fiscal Year 2011 Integrated Financial Plan.*

Strategic goals supported by a more Flexible Workforce:

- *Service* is improved by having the right employee, at the right place, at the right time for all operations.
- *Employee Engagement.* Employees realize that workforce changes are necessary for future viability. Flexibility must increase as career attrition continues without compromising service.
- *Financial Performance* is improved by reducing the wage and benefit costs per work hour used.

Reduce Energy Use. Energy is a major component of cost, primarily transportation fuel and utilities. The target for 2011 is continued progress toward 2015 energy reduction goals as laid out in the Strategic Sustainability Performance Plan at *usps.com/green.*

Strategic goal supported by Reduced Energy Use:

- *Financial Performance* is improved by reducing expenses in energy sources that often have volatile prices. Customers and employees are often influenced in their purchases by the sustainable actions of an organization, which also improves revenue and employee engagement.

Reduce Delivery Fixed Costs. Delivery is the largest cost center and carries the greatest share of fixed costs. For example, a carrier must go down the street regardless of the number of customers who receive mail on a given day. There is also a fixed cost of going to the mailbox whether an address receives one piece of mail or 10. Reducing fixed delivery costs is critical given declining volume and revenue per delivery point. The indicator of success is the increase in the average number of deliveries per route for city and rural routes combined. The 2011 target is 589 by the end of the year.

Strategic goal supported by Reduce Delivery Fixed Costs:

- *Financial Performance* is improved by reducing the number of routes and vehicles used to meet service objectives. While Congressional approval to change to five-day delivery would obviously have a large impact, the focus here is on actions within management's control.

Expand Products, Services, and Features. Profitable revenue is key to the future of the Postal Service. The best approach is to provide customers with new mailing and shipping products, services, and features consistent with their changing needs. The indicator is to create 15 new products, services, and features this year.

Strategic goals supported by Expanded Products, Services, and Features:

- *Service* is improved by enhancing and expanding product offerings based on customer input. Many features will improve ease of use for customers, from households to large businesses.
- *Employee Engagement.* Adding features and services allows employees to respond more fully to the needs of their customers. By virtue of their daily interaction with customers, employees are often the source of ideas and insights that lead to product improvement and innovation.
- *Financial Performance* will be improved by being responsive to changing market needs. In most cases this is about increasing revenue, while in some cases it will reduce expenses for customers and the Postal Service.

Appendix: **Strategic Initiatives**

Address Overfunded Legacy Costs. As mentioned in the *Action Plan for the Future,* the Postal Service believes that the Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS) have been overpaid for postal employees. Outside review has confirmed this assessment. Ideally, the overfunded amounts would be applied to future Retiree Health Benefits obligations and the Postal Service would return to "pay-as-you-go." It is not certain whether the Postal Service will be financially able to pay the RHB obligation come September 2011 given it will likely meet the statutory $15 billion debt limit.

Strategic goals supported by Address Overfunded Legacy Costs:

- *Employee Engagement* would improve by resolving uncertainties created by this issue. Employees are concerned about the long-term viability of the organization and their inability to mitigate large, recurring losses caused largely by the legislated prefunding requirement.
- *Financial Performance* obviously would improve greatly. This would not solve the problems of the current postal business model. However, it would provide more flexibility and opportunity to invest in meeting the country's future needs.

The table below illustrates the relationships between each of the strategic initiatives and the three strategic goals.

Strategic Initiative	Corporate Goals Supported	Results Indicator	2011 Target
Intelligent Mail	Service Employee Engagement Financial Performance	Increase the percentage of workshared mail containing an IM barcode. *(Full-Service and Basic, excluding Periodicals in-county volumes)*	90% by end of year
Flats Sequencing System	Service Financial Performance	Increase the percentage of flat mail in delivery point sequence for delivery zones on FSS that have been in operation at least six months.	72%
Expand Access	Service Financial Performance	Expand share of retail revenue generated by means other than at a postal retail counter.	35%
Optimize Network	Service Financial Performance	Reduce total interior facility space.	Reduce 2.8 mil sq/ft
Flexible Workforce	Service Employee Engagement Financial Performance	Come in below the Integrated Financial Plan average work hour rate. *(Bargaining and casual employees, including wages, benefits and existing contractual wage increases. Excludes current and prefunding payments for retiree health benefits.)*	$41.69/hour
Reduce Energy Use	Financial Performance	Continue progress toward 2015 energy reduction goals.	On target
Reduce Delivery Fixed Costs	Financial Performance	Increase average number of deliveries per route. *(combination of city and rural delivery routes)*	589 by end of year
Expand Products, Services, and Features	Service Employee Engagement Financial Performance	Create new products, services, and features.	15 new
Address Overfunded Legacy Costs	Employee Engagement Financial Performance	Address legacy cost funding issues.	All three addressed

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The 2010 Annual Performance Report and 2011 Annual Performance Plan

Since 2004, the Postal Service has combined the *Comprehensive Statement on Postal Operations* with the *Annual Performance Report and Plan.* Combining documents responsive to different legislative requirements not only reduces duplication, it also provides a more consistent presentation about actions taken to achieve results for the proceeding year, and efforts underway to support the plan for the coming year. The following describes the process used to determine corporate objectives, and the results for 2010 and targets for 2011. Information is also provided on performance background indicators and objective measurement systems.

Performance Management

The Postal Service employs a disciplined, well-documented performance management process, based on Malcolm Baldrige National Quality Award requirements and incorporating industry best practices such as the balanced scorecard.

Since implementation of the Government Performance and Results Act (GPRA) in 1993, the Postal Service has maintained the same three corporate strategic goals: *improve service, employee engagement,* and *financial performance.* The goals balance the interests of customers, policy-makers, and employees. The stability of these goals has helped the Postal Service and its stakeholders develop a clear understanding of its mission over time, and drive significant results.

The Annual Planning Process

Establish: Each year the Postal Service selects a limited number of high-priority objectives to advance its goals and publishes them in its *Annual Performance Plan*. Setting annual targets allows management to focus on near-term priorities and current conditions, a practice consistent with the Government Performance and Results Act of 1993 (P.L. 103-62) and guidelines of the Office of Management and Budget. The *Annual Performance Plan* explains how results will be measured and describes any indicator or measurement changes from prior years.

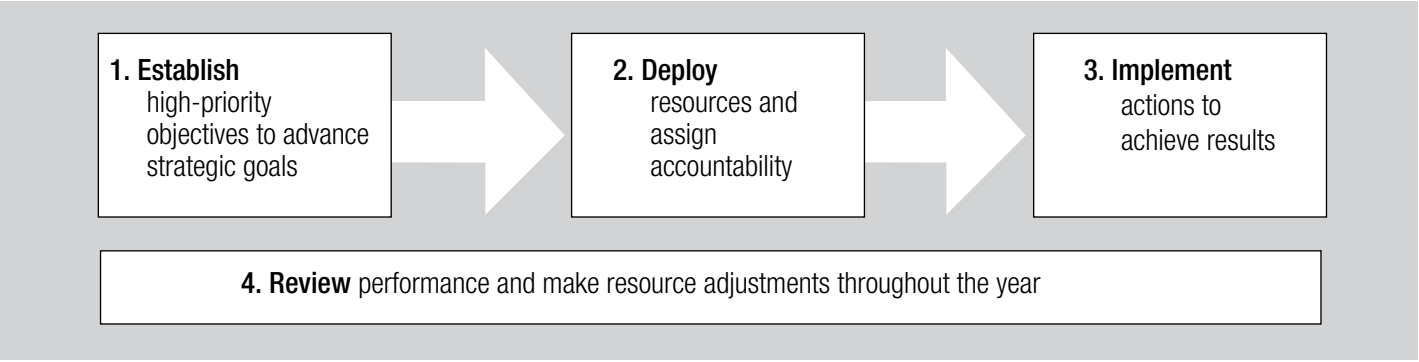
The Postal Service publishes its *Annual Performance Report* for the prior year at the same time as the *Annual Performance Plan* for the next year. The *Performance Report* provides results against the prior year's objectives and serves as a baseline for establishing new objectives. Setting objectives is the initial step of the performance management process.

Deploy: Once corporate objectives are established, the Postal Service sets goals and assigns accountability for achieving them down to the area, district, unit, and individual levels. Tailoring objectives to specific functions ensures that managers are accountable for results within their respective spans of control. Any adjustments to non-bargaining unit employees' salaries are based on a pay-for-performance system that recognizes how their specific performance contributed to objectives. Unlike most government agencies that provide automatic pay increases, cost-of-living adjustments, and locality pay, the Postal Service's pay-for-performance system is the sole source of pay adjustments for non-bargaining unit employees.

Implement: The various actions and strategic initiatives described throughout this *Comprehensive Statement* are designed to achieve the three strategic goals. With few exceptions, most achieve multiple goals and objectives. For example, the various initiatives to reduce energy use simultaneously improve efficiency by reducing cost, promote employee engagement, and help assure more sustainable operations.

Review: In the review phase, performance is monitored against objectives. Resources and processes are adjusted as needed to assure success. This is a continuous process. The Postal Service's record of progress against its strategic goals stems from its use of process management to define and replicate best processes, intensive data analysis to target improvement opportunities, and insights provided through continuous employee and customer outreach.

The Postal Service's Annual Performance Management Process
Based on Malcolm Baldrige National Quality Award Criteria



The 2010 Annual Performance Report and 2011 Annual Performance Plan

Measurement

The Postal Service sets a limited number of annual objectives to drive results and maintain focus based on the criteria and process discussed above. Rigorous measurement systems are used to track performance and report results to all stakeholders. The 2010 objectives and results, as well as the 2011 plans are provided in this table. Details on the measurement systems follow.

Strategic Goal	Performance Indicator	2008 Actual	2009 Actual	2010 Plan	2010 Actual	2011 Plan
Improve Service	Single-Piece First-Class Mail Overnight	96.5%	96.2%	96.6%	96.36%	96.65%
	Single-Piece First-Class Mail 2 Day	94.1%	93.7%	94.1%	93.71%	94.15%
	Single-Piece First-Class Mail 3–5 Day[1]	92.7%	92.2%	92.8%	92.44%	92.85%
	Express Mail	*Competitive product performance is not publicly reported*				
	Priority Mail					
	Parcel Select					
Improve Employee Engagement	OSHA Illness and Injury Rate[2, 3]	5.74	5.62	5.52	5.49	5.39
	Voice of the Employee Survey Rate	63.7	64.0[4]	63.8	62.3	64.5
Improve Financial Performance	Total National Revenue ($ billions)[5]	$74.9	$68.1	$65.9	$67.1	N/A
	Total Factor Productivity[5]	(0.5%)	(0.9%)	1.2%	2.2%	N/A
	Operating Income ($ billions)[6]	N/A				(0.9)
	Deliveries per Work Hour[6]	N/A				40.4

[1] Most Single-Piece First-Class Mail with a 3-, 4-, or 5-day service standard is delivered within 3 days. Only 0.24% of volume in this category has a 4-or 5-day service standard, and usually requires additional contracted transportation outside of the contiguous 48 states, such as to or from Hawaii, Puerto Rico, and Alaska.

[2] "Actual" data for years 2008-2010 is different from that in the *2009 Comprehensive Statement.* This is due to data continually being updated as medical information is received and new accident reports are accepted by the Department of Labor, some which may have occurred in a prior time period. "Actual" rates shown are a snapshot of the values on a specific day in early November 2010. The data also contains adjustments associated with this year's change to an automated reporting system.

[3] "Plan" is based on a percentage improvement over the previous year's actual data. As the "actual" data are updated, the "plan" target is correspondingly adjusted to maintain the planned percent improvement over "actual."

[4] 64.0 is the *actual score* for the 2009 survey. 63.3 is the *baseline index score* established for the new VOE surevy index used in 2010.

[5] Discontinued as an indicator in 2011; will continue to be measured.

[6] New indicator for 2011.

Strategic Goal: Improve Service

2010 Results and 2011 Goals

SINGLE-PIECE FIRST-CLASS MAIL

Service for all three categories of Single-Piece First-Class Mail was affected by unusually severe weather-related issues, including severe flooding in the Northeast and Midwest, and record-breaking snowfalls throughout the country. Successive snowstorms in the Northeast and Mid-Atlantic states were so severe that the federal government was shut down for an unprecedented 4-1/2 days. For all categories, performance recovered in the second half of 2010, resulting in record performance for Quarters 3 and 4. Details on the measurement system are below.

Improvements over 2009 were mainly due to an increase in process improvements and actionable data at all levels of operations including equipment performance, mail flows, and transportation. They include extensive process controls, strict adherence to dispatch and transportation schedules, and aggressive efforts to root out errors and reduce process variability.

Consistent with continuous improvement, the 2011 targets have been increased. The Postal Service has reached record levels of service performance and further improvements will be incremental, driven by more effective use of data about mail in process from Intelligent Mail and increased automation, such as the Flats Sequencing System. Managers will also continue to use Lean Six Sigma, value stream mapping, and other tools to uncover new opportunities to improve service predictability and reduce variability.

To better understand the implications of these results, the following table highlights that most Single-Piece First-Class Mail has an overnight service commitment, and only a small percent is beyond 3-Day:

Service Standard	2010 Volume (millions)	Share of total Single-Piece First-Class Mail
Overnight	11,830.4	56.71%
2-Day	4,647.1	22.28%
3-Day	4,333.3	20.77%
4-Day	49.5	0.24%
5-Day	1.2	0.01%

Single-Piece First-Class Mail / Overnight

2010 Plan	2010 Result	2011 Plan
96.6%	96.36%	96.65%

Overnight was delivered 96.36 percent on-time within the service standard. This is one-quarter of one percentage point below the target. Performance was superior to the score of 96.2 percent achieved in 2009. This level of service was maintained despite significant weather impacts and work hour reductions. Consistent with continuous improvement, the 2011 target increases to 96.65 percent.

Single-Piece First-Class Mail / 2-Day

2010 Plan	2010 Result	2011 Plan
94.1%	93.71	94.15%

2-Day was delivered 93.71 percent within the service standard in 2010, which is 0.4 percent below the target and slightly better than 2009 performance.

Because more transportation is required for 2-Day service, weather in the first two quarters had a more pronounced impact than it had with Overnight. The target for 2-Day increases to 94.15 percent for 2011.

Single-Piece First-Class Mail / 3-, 4-, and 5-Day

2010 Plan	2010 Result	2011 Plan
92.8%	92.44	92.85%

92.44 percent of 3-, 4-, and 5-Day was delivered within the service standards in 2010, roughly 0.4 percent below the target, while superior to 2009 performance.

The impact of the weather had a greater impact on 3–5 Day than on the other categories. The target for 2011 is 92.85 percent.

Express Mail, Priority Mail, and Parcel Select

On-time and scanning performance for these services are included in the corporate goals. Express Mail, Priority Mail, and Parcel Select are competitive products. Service objectives and performance for competitive products are not reported publicly.

Service Measurement System Details

Single-Piece First-Class Mail. Performance of Single-Piece First-Class Mail has long been the most visible signal of service proficiency for both consumers and commercial customers. Single-Piece First-Class Mail, generally used by consumers and small businesses, is entered into the mailstream in small quantities at Post Offices or collection boxes. All elements of postal operations influence the desired outcome of timely, reliable delivery. Address management programs, processing systems, transportation and distribution procedures, and many other factors affect results. Additional factors include distance, workload variability, and weather.

On-time performance for Single-Piece First-Class Mail is measured by combining data for letters and flats from the External First-Class Mail Measurement System (EXFC) and Single-Piece First-Class Mail parcel performance for the first time in 2010. Parcel performance

is measured using Delivery Confirmation scans that have both "start-the-clock" and "stop-the-clock" scans. All performance scores compare actual transit times against the service standard for the respective category — Overnight, 2-Day, or 3- to 5-Days. Most Single-Piece First-Class Mail (99.8%) has a service standard of between 1 and 3 days.

Since the 1980s, External First-Class Mail (EXFC) has been a rigorous sampling system performed by an external entity that records transit times between deposit and delivery. Single-Piece First-Class Mail International is not included in the national goal; however, it is measured and reported separately on *usps.com/serviceperformance* and used as a unit goal.

The consistent improvement of Single-Piece First-Class Mail performance over time is the result of sustained focus at all levels of postal management, in conjunction with multiple activities and initiatives designed to standardize best practices, improve efficiency, and eliminate the root causes of delay and process variability. These efforts, described throughout the *Comprehensive Statement*, include (but are not limited to) ongoing refinements in automation and address recognition; elimination of unnecessary handling and process steps; improvements in visibility and expansion of Intelligent Mail; and standard use of computerized workforce planning models.

Single-Piece First-Class Mail service standards factor in distance and transportation availability, the amount of processing required, and risk. Explanations for the service standards and other details on service measurement may be found at *www.prc.gov/Docs/60/60194/OrderNo.83Attachment.pdf.* All Single-Piece First-Class Mail categories require processing at an origin postal facility. Mail with 2-Day or 3–5-Day service standards require more processing and more extensive transportation, with associated risks.

Other Mailing Services. Additional categories of mailing services have been measured and reported using pilot or interim systems. These categories also have service standards and goals. They receive similar attention to continuous improvement and are also impacted by similar forces, such as weather.

For a goal to be included on the list of a limited number of corporate goals, it would have to go through the Annual Planning Process mentioned earlier. It must rely on stable systems where processes are in control and are statistically significant at the levels being measured (e.g., at the district level). As more reliable diagnostic data becomes available, it refines its measurement processes and may expand the services that are measured. New measurement systems for other mailing services are summarized below. These systems are in different stages of maturity and are not included in the corporate objectives for 2011. Service standards and on-time performance for mailing services are available at *usps.com/serviceperformance.*

Presort First-Class Mail and Standard Mail. Measurement for commercial letters and flats use similar processes, which determine performance using tracking from IMb scans with valid start- and stop-the-clock scans, in conjunction with external data from the EXFC system. In Quarter 4, the measurement moved from using a limited number of pilot Full-Service IMb mailers to using *all* IMb Full-Service mailings with valid start- and stop-the-clock scans, totaling over 1.5 billion pieces per week. This is measuring a census of mail with an IMb instead of being a sampling system like EXFC. Intelligent Mail includes many aspects such as electronic documentation (details in the *Comprehensive Statement*). Automation equipment passively reads the barcodes and sends the information back to a centralized database. As more mail stays on automation, such as FSS, there will be more robust information that will provide statistically reliable results throughout the country. As the system matures, it will help improve performance measurement by extending coverage to more mail categories and mail volume and by providing more detail for analysis and action.

Periodicals. Current tracking combines data from two external, independently-operated systems used by the publishing industry. Service is measured using mailer-reported entry times to start the clock and external reporter delivery dates. Since this process is not representative of all publications and is not statistically valid, a system that uses broad participation in IMb will replace it with a more robust system similar to commercial First-Class Mail and Standard Mail.

Package Services. Service is measured using transit time from deposit at a Post Office to delivery for parcels with Delivery Confirmation. The system measures service to and from virtually all 3-Digit ZIP Code areas. Systems are not yet fully in place to measure the on-time performance for Presort Package Services and at this point available data includes too little of the overall population to be a representative measure.

Special Services. There are a number of special services and performance is measured using a variety of systems. For all of these services, the measured result is compared with the respective service standard to determine performance. Results are included on *usps.com/serviceperformance.*

Customer Experience. The Postal Service maintains one of the nation's largest survey-based customer experience measurement programs, supplemented by mystery shopper visits. The survey examines a wide range of postal interactions with consumers, small businesses, and large commercial mailers. These include sending and receiving mail, contacts with service employees, and other issues important to customers. In addition, independent observers (mystery shoppers) visit Post Offices and use postal help-lines to assess performance. All this information is provided to managers to improve performance, which is one of the reasons the American Customer Satisfaction Index has listed postal services as the most improved of all services measured since 1994.

Strategic Goal: Improve Employee Engagement

2010 Results and 2011 Goals

SAFETY

Performance is tracked using methodology required by the Occupational Safety and Health Administration (OSHA). It measures the number of injuries and illnesses that occur per 100 employees.

OSHA Illness and Injury Rate

2010 Plan	2010 Result	2011 Plan
5.52	5.49	5.39

The 2010 safety record continues its trend of annual improvements. The frequency rate of 5.49 is a 2.35 percent improvement over last year, equating to 2,876 fewer employee injuries and illnesses. This performance is the result of a longstanding commitment to safety improvement, and variety of practical initiatives to increase awareness as detailed earlier in the *Comprehensive Statement*.

The 2011 goal is a rate of 5.39. It will be reached by using new and existing tools to focus on prevention, communication, and engagement jointly with employees, unions, and OSHA.

VOICE OF THE EMPLOYEE

The Postal Service tracks employee engagement using an index developed from its Voice of the Employee (VOE) survey, one of the largest employee surveys in the nation. Every employee receives an annual survey and is encouraged to participate. The VOE survey index questions changed this year to shift focus from conditions of the work place to employee engagement. The VOE survey incorporates best practices in employee engagement research and focuses on items that can be addressed at the local level.

VOE Survey Index

2010 Plan	2010 Result	2011 Plan
63.8	62.3	64.5

The 2010 score of 62.3 was short of the target and 1.3 points below the 2009 baseline of 63.6 for the new survey index. However, the score also indicates that most employees remain positive despite workplace changes, complement reductions, and reassignments necessitated by continuing mail volume declines. Improvements were seen in the critical area of an improved understanding of postal strategies. For 2011, the target has been increased to 64.5.

Employee Engagement Measurement System Details

Safety. Performance is tracked using methodology required by the Occupational Safety and Health Administration (OSHA). It measures the number of injuries and illnesses that occur per 200,000 hours, a standard basis for calculating incidence rates. Most employees transport, distribute, and handle mail, which involves physical labor and constant, often repetitive motion and lifting. Many are exposed to adverse weather in the normal course of their duties, as well as traffic and other hazards such as dog bites. Safety is a critical issue which also carries significant cost and service implications. Work-related injuries have been reduced by almost 50 percent in the last 10 years. This result is the product of continuous vigilance and a disciplined approach to identify and eliminate potential hazards and unsafe behavior.

Voice of the Employee (VOE). The survey is an important diagnostic of how well the Postal Service engages employees in the organization's mission. Each quarter, one-fourth of career employees receive a survey package at their work location. Participation is voluntary. Employees are given time on the clock to complete the surveys, which are mailed to an independent contractor for analysis and report preparation. The performance indicator is an index consisting of survey questions and statements relating to employee engagement. The index score is the average of favorable employee responses to the following questions/statements:

Strategic Direction	I am aware of current business conditions facing the Postal Service.
Trust	I am confident in the ability of senior management to make the decisions necessary to ensure the future success of the Postal Service.
Contribution to Growth	Rate the quality of the service provided by your office/facility to your customers.
Communication	Rate your immediate supervisor on communicating regularly to keep you informed.
Diversity and Respect	The Postal Service promotes diversity of backgrounds, talents, and perspectives.
Commitment	I feel personally responsible for helping the Postal Service succeed as a business.
Personal Safety	Rate the physical working conditions.*
Work Effort and Quality	I understand how the work I do impacts the service that the Postal Service provides.

* In 2011, this question will change to "I receive information to perform my job safely."

Strategic Goal: Improve Financial Performance

2010 Results and 2011 Goals

Both corporate financial performance goals for 2010 will be changed for 2011. The 2010 performance measures will continue to be measured for comparison and trend purposes with previous years. The replacement goals are more relevant and actionable below the national level as described in more detail below.

TOTAL NATIONAL REVENUE

This includes all postage, fees, and other funds obtained from the sale of products and services. It is being replaced as a corporate goal in 2011 by Operating Income.

2010 Plan	2010 Result	2011 Plan
$65.9 Billion	$67.1 Billion	N/A

Roughly 80 percent of revenue comes from commercial customers, and in 2010 these customers, especially those in the financial services and retail industries, were still dealing with impacts from the recession and persistent high rates of unemployment. As a consequence, mail volume and revenue continued to decline this year, though at a slower rate than in 2009.

The Postal Service accounted for these factors in its 2010 plan, and although revenue did decline this year, it exceeded the 2010 target. In addition to new price incentives and more targeted advertising, the result is based on consistently solid service performance in all categories, combined with stable prices, which helped reinforce the continued value of mail.

TOTAL FACTOR PRODUCTIVITY

Total Factor Productivity (TFP) compares outputs, such as deliveries made, with resources used, including capital, labor, and materials at the corporate level. It is being replaced in 2011 by Deliveries per Work Hour.

2010 Plan	2010 Result	2011 Plan
1.2%	2.2%	N/A

Despite a 3.5 percent decline in mail volume, significant efficiency gains were achieved in 2010, improving TFP 2.2 percent compared to 2009. This marks the ninth year of productivity growth since 2000. Productivity gains are a result of effective workforce management, efficient use of supplies and services, including transportation, and maximizing the return on automation investments.

Work hours were reduced by 75 million, or 6.0 percent, despite an increase of approximately 740,000 delivery points. Non-personnel expenses were reduced by 2 percent, even as service and customer satisfaction scores reached record levels. The greatest source of the work hour savings were the buy-outs offered to the clerk and mail handler craft employees in 2009. This incented more than 20,000 career employees to retire or take an early out at the beginning of the fiscal year, October and November. Overtime reductions, attrition, and reduced non-career employees also contributed to the reduction.

New Financial Performance Indicators for 2011

OPERATING INCOME

This measure is the net of total operating revenue minus total operating expenses. It replaces Total Revenue as a corporate objective. Operating revenue includes all postage, fees, and other funds obtained from the sale of products and services. Operating expenses include all expenses other than prefunding retiree health benefits and adjustments to Workers Compensation liabilities that result from changes in discount rates or actuarial assumptions. It is a measure of profitability within management's control.

2010 Plan	2010 Result	2011 Plan
N/A	($0.5 billion)	($0.9 billion)

The 2011 objective is based on numerous projections of the economy, mail volume, revenue growth, and planned cost reductions.

To achieve the plan, the Postal Service will continue to maintain excellent service in all products as the foundation for generating revenue. Advertising mail is beginning to rebound with the economy, and a number of initiatives are in place to take advantage of this, including improved outreach to small business customers and Internet marketers. Efforts will also continue to improve customer awareness of products, building on the successful Priority Mail advertising campaign in 2010. It will also expand and streamline customer access, and continue to pursue customer contracts to generate additional profitable volume.

To reduce costs, the organization will continue to focus on reducing work hours, as well as the cost of each work hour used by making full use of non-career resources and by minimize overtime usage. Network optimization will accelerate to capture savings by consolidating redundant facilities, and reducing lease and operating costs. Detailed efforts and opportunities to grow profitable revenue and improve efficiency in 2011 are included in the *Comprehensive Statement*.

DELIVERIES PER WORK HOUR

The total number of deliveries is the product of the number of delivery points (approximately 151 million) multiplied by the number of delivery days (303). The result is approximately 45,753 million deliveries. This is divided by the total number of work hours used in all employee categories, including managers and executives (1,134 million). The result is the number of annual deliveries completed per work hour used.

2010 Plan	2010 Result	2011 Plan
N/A	38.6 deliveries	40.4 deliveries

The 2011 plan of 40.4 deliveries per work hour is very aggressive. Since 2008, the number of deliveries per work hour has increased from 32.9 (2008) to 36.0 (2009) to 38.6 (2010). This performance is primarily the result of unprecedented work hour reductions and process improvements over this period.

The ability to meet this objective will depend on further automation, driving disciplined process improvement in all aspects of the business, and achieving more extensive consolidation of facilities. The Postal Service will continue to engage employees in all functions in the drive to improve processes, making them better, faster, and more efficient. Lean Six Sigma, a structured regimen for eliminating non-value activities, will continue to be the main framework of process improvement efforts. Ongoing work to adopt requirements of the Sarbanes-Oxley Act (SOX) is also uncovering opportunities to improve efficiency.

This Postal Service will also continue to capture opportunities through employee attrition. Up to 300,000 employees will be eligible to retire between now and 2020. As they leave, managers will reposition employees to make full use of existing resources and minimize new hires.

Opportunities to reduce work hours exist in all postal areas as opportunities are created by improved work methods, consolidation, and workload reduction. The Postal Service is also closely examining opportunities in administration, which includes more than six percent of total work hours.

Financial Measurement Details

Operating Income measures the net of total operating revenue minus operating expenses. Operating expenses excludes the prefunding of future retiree health benefits and non-cash changes to the Workers' Compensation liability that results from changes to interest rates or actuarial assumptions. The addition of Operating Income as a corporate indicator will focus attention on the importance of profitability and cash flow that is within management's control.

To measure income and all other aspects of financial performance, the Postal Service employs a disciplined process conforming to the rigorous requirements of SOX. Accounting systems and financial reports are independently audited. Financial and accounting programs are also subject to audit by the Office of Inspector General and the Government Accountability Office, and financial procedures are protected against abuse by the Postal Inspection Service.

The Postal Service's fundamental financial objective is to generate income sufficient to fully fund operations and expand the delivery network, while continuing to invest in improvements for the future. Since creation of the modern Postal Service in 1970, postage prices have increased at about the rate of inflation, despite large increases in costs such as fuel and health care. Postal Service prices are lower than most foreign posts, often dramatically so, even though the United States is larger and more geographically diverse than most.

Deliveries per Work Hour is an efficiency measure that compares the number of deliveries of all types (city, rural, highway contract route, Post Office Box, and Caller Service) with the total number of work hours used in all employee categories, including all field and headquarters managers, executives, and officers — even the postmaster general. This measure gets to the root of the challenges to the postal business model — the growing number of delivery points with declining mail volume.

This replaces TFP, which is solely an aggregate measure and not as useful for managing and motivating performance, which is a primary function of the *Annual Performance Plan*. Compared with TFP, *Deliveries per Work Hour* is a more basic measure of productivity while being a more versatile tool for managing productivity performance at functional and unit levels. TFP is a very technical measure that cannot easily be understood by non-specialists, and can also vary widely on an annual basis. It is best used for measuring trends over several years. The Postal Service will continue to measure and use TFP where it is appropriate.

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