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**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON D.C. 20268-0001**

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

Supplemental Testimony of

**Dennis R. Unger
On Behalf of the
United States Postal Service**

**In Response
To Order No. 1289**

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1 SUPPLEMENTAL TESTIMONY
2 OF
3 DENNIS R. UNGER

4 **i. Autobiographical Sketch**

5 My name is Dennis R. Unger. I have a Bachelor of Science Degree in Marketing
6 from Southern Illinois University, and an M.B.A. from Illinois State University. I have
7 been employed by the United States Postal Service for 28 years; and I have held
8 positions that include MSC Manager/Postmaster at Knoxville TN, General Manager
9 of the Birmingham AL Division, General Manager of Networks in the Southern
10 Region. My current position is Manager, Operations Support for the Southeast Area.
11 In this position, I am responsible for processing, network, and delivery operations in
12 the states of Florida, Georgia, Alabama, Mississippi, and Tennessee.

13
14 **1. Purpose and Focus of Testimony**

15 The purpose of my testimony is to provide information from a field operational
16 perspective to address issues raised by the Postal Rate Commission in Order No.
17 1289. My testimony supplements the testimony of Walter O'Tormey, which
18 discusses these matters from a broader, policy perspective. My testimony addresses
19 three specific issues: (1) the trend in costs for Periodicals since 1993; (2) the trend
20 in flats mail costs in FY 1998; and (3) the trend in flats productivity from 1995 to
21 1999.

22 The Postal Service does not intend this testimony to be an indictment of any one
23 class of mail or group of mailers within it as the principal cause of the cost trends
24 recognized in Order No. 1289. I have tried to be objective in assessing major
25 reasons why some mail creates particular problems. I believe that Mr. O'Tormey's
26 testimony provides a solid blueprint that will drive costs from Periodical operations by
27 FY 2001.

28 I am not presenting any workpapers or Library References in this case.
29

1 **II. Factors Affecting Periodicals Mail Processing Costs**

2
3 **A. Factors Pertaining to the Physical Characteristics of the Mailpiece**

4 As noted in Mr. O'Tormey's testimony, the physical characteristics of flat mail has an
5 important influence on processing costs. Mr. O'Tormey describes a number of these
6 characteristics that affect automated processing costs of flats generally, such as
7 shape and edge characteristics that tend to require rotation of the mailpiece when
8 feeding into automated equipment. In contrasting the processing of Periodicals mail
9 with other types of flats, furthermore, there are two issues relating to mailpiece
10 characteristics shared by a significant amount of Periodicals flats that are particularly
11 relevant: newspaper dimensions and poly-wrap. The presence of these
12 characteristics tends to result in higher processing costs for Periodicals.

13 First, in my experience, magazines are not materially different in handling from
14 similar size Standard A or First Class mailpieces. Newspapers, however, are among
15 the most difficult mail pieces to handle, because of their size and shape, thickness
16 and tendency to bend when handled.

17 Second, from a field operations perspective, poly-wrap has been a difficult
18 experience. When it was introduced, operators and supervisors who worked it on
19 FSM 881 flat sorters discovered it to be a source of machine jams. Since then, poly
20 has been refined, but there are still problems. Given a choice of what kind of mail to
21 work on a FSM 881, a supervisor will work non-poly mail that he or she considers to
22 be more suitable for the FSM 881 machine. A supervisor may also work the poly-
23 wrap on a FSM 1000, but again if there is non-poly mail available, processing
24 personnel will tend to run that mail on the machines, and work the poly manually.

25
26 **B. Mailer Preparation**

27 When mail arrives at the entry processing facility, the preparation of the mail often
28 dictates whether it will be worked within the plant or in a delivery unit, on automated
29 equipment or manually, and what actions are required to prepare it for distribution.

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1. Line-of-Travel

One relevant issue is how the mail is prepared. Some mailings in other classes arrive in a line-of-travel sequence, but this is not a requirement with Periodicals. A bundle that is not line-of-travel sequenced requires the carrier to sort to compartments all over the routing case. If the mail for a route is prepared in a line-of-travel sequence, however, the carrier can route the mail faster. This is due to the fact that the next piece to be sorted is usually very close in the line of travel to the compartment for the piece just sorted.

2. Bundle (Package) Characteristics

How well Periodicals mail is bundled can also affect costs. Frequently, I see broken bundles that have to either be re-strapped at an additional cost or that have lost their internal integrity entirely and must be worked as individual pieces at a significantly higher cost. In this regard, the weight of the piece contributes to the problem, because, while we maintain a limit of twenty pounds on a bundle, there are many overweight bundles. The weight of the pieces and the weight of the bundles stacked upon one another can cause bundles tied with string, a thin plastic strap, or a rubber band to snap. Postal processes that dump containers or that permit heavy bundles to drop can also break bundles. While these opportunities for breakage have been a factor in the past, I understand that recently measures have been initiated to minimize mail processing bundle breakage.

Whether the bundle is broken before or during processing, broken bundles are a significant cost. I know that there is a report by a joint USPS-Periodicals Industry Operations Review Team that identified bundle breakage as a cost factor, and I have been told that a team sponsored by MTAC is following up on the work of the first group.

3. Container Characteristics

Mail of all classes frequently arrives in pallets and sacks. Pallets are generally the easier to handle, because the mail pieces are brick-stacked on the pallets, easy

1 to dump and easy to process. Because the mail pieces have been brick-stacked,
2 they tend to maintain their shape and bundle integrity more than would identical mail
3 placed in other containers. There is a transportation cost that somewhat offsets the
4 value realized in pallets, because pallets take up more space on trucks.

5 Sacks are more difficult to handle, often containing relatively small amounts of
6 mail. In addition to being difficult to handle when compared to a pallet, sacks also
7 contribute to broken bundles. Mail bundles in sacks incur an even higher probability
8 of broken bundles and a lower probability that the mail in the sack will be machinable
9 (because the pieces inside are bent, etc.) than do similar mailpieces on pallets. To
10 the extent that Periodicals use sacks, that class will more likely also experience
11 increased cost from broken bundles and from mailpieces that can't be processed on
12 automation.

13 The term "skin sack" is used to refer to sacks containing only a few pieces of mail.
14 Periodicals mailers or printers sometimes use "skin sacks" for small volumes of
15 Periodicals mail going to isolated 5-digit areas. Based on my observations and
16 knowledge of mail processing, handling such sacks tends to increase processing
17 costs for Periodicals.

18

19 C. Service Considerations

20 Periodicals occupy a unique position in Postal processing hierarchy. Periodicals
21 only represent a small percentage of the total operations volume, but they represent
22 a majority of customer feedback on service. The customer feedback comes from all
23 types of customers — the publishers and the printers who are mailers and the
24 subscribers who are recipients. Service standards and the expectations of
25 customers significantly influence mail processing decisions and thereby affect mail
26 processing costs.

27

28 1. Time Sensitive Nature of Periodicals Mail

29 Periodicals are time-sensitive, and there is an infrastructure in place to reinforce
30 the importance of service. Mailers regularly (and entirely appropriately) send Postal

1 Service managers reports that score the on-time performance for some newspapers
2 and magazines.

3

4 2. Flexibility of Acceptance to Accommodate Mailers & Printers

5 This service sensitivity also leads postal plants and delivery units to
6 accommodate the occasional printing and transportation disruptions that can occur in
7 mailer and printer plants. If we receive a call about a printing or transportation delay
8 that will require the postal plant to change processing plans, that plant will sometimes
9 make special arrangements to get the periodical to delivery units. This time
10 sensitivity is not as frequently a factor for Standard A mailings.

11

12 3. Relationship of Periodicals Arrivals and Urgency of Dispatch of Value

13 In my home city of Memphis, the last dispatch from the Memphis plant for many
14 communities served by the Memphis P&DC leaves at 1:00 a.m. One major national
15 daily newspaper is scheduled to arrive at the plant at 12:45 a.m. This leaves only
16 fifteen minutes to make the dock transfer of bundles of papers to the outbound trucks
17 that are waiting to go more than 100 miles into Tennessee, Mississippi, and Arkansas
18 for delivery of today's paper. There is no time to set up a SPBS machine for the
19 transfer of the bundles. It is a dock transfer from tailgate to tailgate, hand delivered
20 by mailhandlers walking from one truck to another with one or two bundles.

21

22 4. "Hot Pubs" handling in Plants and Delivery Units

23 Time-sensitive publications are known as "HOT PUBS." Many facilities that I visit
24 post notices about how to handle newspapers and magazines, and these "HOT
25 PUBS" postings are frequent in distribution and opening areas. There are no similar
26 postings for Standard Mail, or even for First Class. This is a physical reminder of the
27 efforts that distribution and delivery will undertake to ensure that even if there is an
28 upstream problem with the arrival of the periodical from another postal facility or from
29 the printer, on-time delivery can be maintained.

30

1 **5. Supplemental Periodical Transportation to Meet Service Needs**

2 In the testimony provided thusfar, I have attempted to explain how service
3 requirements and tight arrival-departure schedules can contribute to increased labor
4 costs such as dock transfers, hand-offs, and other labor-intensive actions are
5 required to meet truck schedules. Cost can also be created for transportation itself.
6 If a tight connection is actually missed, plants sometimes have to run additional truck
7 trips to get the Periodical mail to the downstream offices, particularly in the case of
8 missed Periodicals connections.

9
10 Service tends to be a dominant factor in the Postal Service's approach to
11 Periodicals, and it substantially affects Periodicals processing costs. The experience
12 of the last two years is most indicative of that service commitment. In 1997, USPS
13 headquarters initiated a joint MTAC-USPS service task force that worked to identify
14 causes of service problems and remedy those problems. Now in its third year of
15 operation, the service task force has identified and initiated several remedies to fix
16 service.

17
18 **D. Budgets, Staffing, and Other Operational Considerations**

19 Within the framework of the Postal Service's commitment to service, a variety of
20 factors related to staffing and financial objectives can affect mail processing
21 decisions and thus, mail processing costs.

22
23 **1. Financial and Budgetary Focus**

24 At the facility level, there is a significant focus on bottom-line financials — not
25 product-based costs (data that are not available at the facility or area level). This
26 focus is intense and operating managers are held strictly accountable for financial
27 performance. Each plant manager and postmaster has an annual budget that is
28 modified annually to recognize, among other things, increased efficiencies expected
29 when new equipment is provided to the facility.

30 In Southeast Area Operations, I meet regularly with each performance cluster in a
31 business review that includes financial and productivity performance. Each

1 performance cluster and operations executive is expected to provide a detailed self-
2 assessment of recent performance and to provide detailed plans on what steps will
3 be taken to improve in the future periods. In addition, budgets are based on
4 *expected workload and mail volumes.*

5 I am accountable for both budgetary performance and for utilization of our
6 automation assets in the Southeast Area. If I don't use the automation, it will be
7 relocated to sites that will, so we regularly focus on utilization statistics in our
8 discussions with plant managers. We have to use it, or we could lose it.

9 Not only is our equipment availability at risk based on performance—so is part of
10 our pay. The achievement of the national bottom line net income is a condition
11 precedent to any executive, manager or supervisor receiving any performance
12 bonus. It is not enough to achieve our individual goals – the organization must
13 achieve the bottom line financially. There is both an organizational and personal
14 stake in achieving financial targets.

15

16 2. Complement and Staffing Focus

17 In each facility, staffing is budgeted at least as stringently as dollars. Each plant
18 and post office has an authorized complement of clerks, mailhandlers, carriers,
19 supervisors, and others to do the work. Like dollars, complement is reduced when
20 new equipment is brought into an operation. When the new AFSM 100 is deployed
21 to a plant in the Southeast Area, that plant will lose authorization for both a certain
22 amount of dollars annually and a certain amount of complement, and that loss will
23 *continue forward indefinitely.*

24 We operate with a 'complement ceiling' that is set for each facility and rolled up to
25 each performance cluster. Each four-week accounting period, the actual staffing is
26 compared to the authorized staffing, and performance clusters are not allowed to hire
27 until they get below their complement ceiling. Our complement plans already take
28 into consideration the anticipated arrival of the AFSM 100. Performance clusters will
29 be held to the new, leaner complements from the day the machine starts running.

30

31

3. Operational Considerations Specific to Periodicals Mail

Within this environment, there are several factors that combine to reduce the likelihood that a Periodicals mailing will be processed on lower-cost automated machinery.

Run time for Flat Sorter Machines (FSM 881s and 1000s) is a significant cost driver, and supervisors in mail processing plants look for mail that will allow a long uninterrupted run. If I have a choice of running 40,000 Standard A flat pieces, or 4,000 Periodicals pieces, the decision is easy. I'll select the larger mailing, so that I can run for a longer time without having to shut down, dispatch, and re-set the operation for the next type of mail. A supervisor will work the class with the largest volume available on the machinery and will move the smaller-volume classes to the manual operations. This decision will enable the lowest bottom-line cost for all mail available to work on that shift.

Two other factors also contribute to less Periodicals mail processed on automation. First, in many instances, it arrives at the latest possible time before scheduled delivery – a “just-in-time” situation. Second, it is a class that has a very high service sensitivity. Either of these facts, or the run time factor, would be a reasonable basis for a supervisor not to select the mail for a machine operation when other mail is available. Low volume Periodicals mailings would not have the run time to warrant tying up a machine. Periodicals arriving with only a few hours time before the need to dispatch (like many dailies and weeklies) would not be suitable for a mechanized operation because of the set up and shut down times involved. Finally, even if a supervisor overcomes both the low volume and the short processing window issues, he or she would still have to face the problem that if the Periodicals mail is put on the FSM, the supervisor will either have to shut down the machine after only an hour or two, or mix it with other classes.

Mixing other classes on origin is very dangerous to service and to cost, but in a destination sortation process, commingling the Periodicals mail with either First Class or Standard A mail can be considered. It is feasible to commingle Periodicals with First Class if the facility will be able to maintain service performance on the First Class Mail when the Periodicals mail is mixed with it. Mixing with Standard A mail is

1 feasible on incoming operations if the Periodicals class mail can maintain its service
2 requirements while mixed. In each case, the consideration has to be for the higher
3 service priority mail in the mix.

4 All these considerations, taken together, point to why it is more likely that
5 Periodicals will not be worked on automation now. Comparatively low volumes mean
6 short run time. Just-in-time arrival precludes any process that has a set up and shut
7 down requirement of any consequence. Service precludes mixing of mail in many
8 instances. It is not absolutely prohibitive, but when faced with a large volume of
9 Standard A flats and a small volume of Periodicals, most mail processing supervisors
10 would make the same decision: that is, work the Standard A on an FSM with longer
11 run times. This allows the supervisor to protect the service on the Periodicals by
12 working it manually and dispatching it quickly. It should be noted that we encourage
13 our plants to commingle Periodicals and other classes in destinating operations when
14 service and operating conditions permit.

15 My analysis above is based on the current limited availability of automated flat
16 sortation equipment. As the AFSM 100 is deployed, there should be more
17 opportunity for flat mail of all classes to be processed on automation, with
18 corresponding cost benefits. I understand that early AFSM 100 performance results
19 are positive, suggesting that the impact of the AFSM may be greater than originally
20 planned.

21 It should also be noted that while my comments are focused on flat sortation
22 equipment, they can be applied to small parcel and bundle sorter equipment as well.
23 The same factors apply, for the same reasons.

24

25 4. Comparing Operational Practices and Costs

26 The above testimony considers operational dynamics that help explain why
27 Periodicals costs are rising while the costs for Standard A might be falling.

28 There are two general points that should be mentioned. First, the current
29 operational status for flat-shaped mail is not unlike that experienced in the early
30 stages of letter mail automation. Operations is moving along the learning curve,
31 selecting mail for automation equipment, knowing that there are not enough FSMs to

1 process all the mail that is available for it. Second, in operations we tend to process
2 all mail having similar shape and machineability attributes in the same way. We don't
3 make our decisions based on class — but on machinability, run time, service
4 obligation, and time until the mail has to be dispatched.

5 6 **III. Fall Mailing Operations, 1997 and 1998**

7 An analysis of flats costs in FY 1998 must begin with a review of Fall, 1997
8 operations and the major planning effort that went in to the Fall 1998 mailing season.

9 10 **A. 1997 Operations and the UPS Strike.**

11 The end of Fiscal year 1997 had been very difficult operationally, particularly for
12 Standard A and Periodicals mailers. During the late Summer of 1997, the UPS strike
13 occurred. This strike caused package shippers to shift their considerable volumes to
14 the Postal Service. As a result, both Priority and Parcel Post volumes rose
15 dramatically, and many USPS resources were diverted to handling the new workload.

16 When the UPS strike was resolved, mailers entered large volumes of Standard A
17 mail. Service suffered, and mailers let the Postal Service know that it was a problem.
18 The Postal Service responded, both with immediate efforts to relieve the problems,
19 and with a promise that the next year – Fall 1998 – would be better.

20 Damage had already been done to costs for FY 1998 (Sep 97-Sep 98), as the
21 stressed system began FY 1998 using all means, including expensive supplemental
22 processing measures, to try to keep up with the mail. That would not be the only
23 impact on FY 1998 costs, however.

24 25 **B. Planning for Fall 1998 Operations**

26 As the last quarter of 1998 began, plans had already been made to allow for
27 short-term additional hiring to be ready for the Fall volumes. These employees were
28 brought on during the final quarter of FY 1998. Other operational measures were
29 strengthened, and mailers were queried nationally and locally to determine when and
30 how heavy the mail would arrive. Facilities, equipment, and complement resources

1 were enhanced in the Summer of 1998 (in the FY 1998 budget year) to support the
2 Fall, 1998 mailing season.

3 Fiscal Year 1998 had opened in September 1997 with overloaded processing
4 systems, high use of overtime, and extra transportation. It closed with the impact of
5 more costs that were being incurred to ensure that a different fall mailing season
6 would occur in 1998.

7

8 C. Execution of Fall 1998 Operations

9 Mailers had said that volumes would rise beginning in July 1998. By the fall, it
10 was evident that there was less volume than predicted by the mailers. As planned,
11 service benefited from the extra complement, transportation, and processing
12 capacity; but additional expenses were incurred to ensure that service.

13 While we added staff during this period to process volumes that ultimately didn't
14 match our expectations, those resources were used effectively. Part of our
15 commitment to the mailers was that we would improve on the levels of service
16 experienced in the 1997 Fall mailing season. Accordingly, we employed these
17 additional resources to distribute volumes which exceeded the capacity available on
18 our flats sorting equipment. In this way, we significantly reduced the volume of
19 delayed mail from the levels experienced in the prior year.

20

21 D. Outcomes

22 The outcome of both Fall 1997 and Fall 1998 was immediate cost incurred for
23 early FY 1998 operations, and preliminary costs incurred in FY 1998 for anticipated
24 FY 1999 operations.

25

26 E. Cost Impacts in Fiscal Year 1998

27 In summary, I believe it is accurate to say that FY 1998 costs were impacted by
28 two factors:

- 29 (1) After-effects of the UPS strike, as the pent-up volume was introduced into a
30 system already in stress, and

1 (2) Expenses incurred in the preparation for the Fall, 1998 mailing season, so
2 that service levels would be acceptable.

3
4 I also believe this theory is consistent with the fact that costs for letter
5 operations during the same period didn't rise. That would occur because the letter
6 systems were not stressed in the same way as were the flat, manual, and material
7 handling operations.

8
9 **IV. Flat Sorter Productivity: 1995 to 1999.**

10 An analysis of flat sorter 881 productivity during the period 1995-1999 in the
11 Southeast Area follows, along with discussion of some possible drivers of that
12 performance.

13
14 **A. Southeast Area FSM 881 Productivity**

15 FSM 881 productivity in the Southeast Area for the past four years has followed
16 the national trend. The combined productivity (keying and BCR/OCR read) has
17 declined from 711 total pieces handled per workhour to 545 total pieces handled per
18 workhour. Analysis of this decline indicates that while some operational inefficiencies
19 have occurred, beneficial operational changes have had a very significant impact, but
20 have also contributed to the impression of a loss in productivity.

21 For example, sortation to carrier route has proven to be more efficient when
22 performed on FSM 881 equipment as compared to manual processing. However,
23 this activity does impact the throughput capability of FSM 881 equipment, because
24 processing time is lost whenever the equipment is changed from one set of five digit
25 zones to another. Since 1996, the ratio of incoming secondary volume to total FSM
26 881 volume in the Southeast Area has increased by 8.4 percent. In the Southeast
27 Area, we have also experienced a shift of volume to the relatively new FSM 1000s.
28 Since this machine is capable of processing a wider range of dimensions, weights,
29 and packing surfaces, many processing plants moved all volume for given operations
30 to this equipment. The most dramatic shift has been in SCF volume, which is
31 considered a simple and therefore highly productive operation.

1 Introduction of barcode and optical character readers to FSM 881 equipment
2 may also have contributed to the misimpression of a decline in efficiency. When
3 keying was the single mode of operation, the only separation of flat mail required was
4 by class and by machineability characteristics (machineable or not). This activity was
5 normally performed in separate opening or mail preparation operations. With the
6 advent of barcode readers, the complexity of mail preparation increased, as it
7 became necessary to further separate machineable mail – barcoded versus non-
8 barcoded – and then, with the advent of optical character readers, separate OCR-
9 readable from non-readable. Many processing plants incorporate the workhour
10 activity for machine preparation into their FSM 881 operation cost accounting.

11

12 B. Issues surrounding use of machine productivity as performance indicator.

13 This brief analysis demonstrates the limited utility of assessing performance
14 on the basis of throughput or productivity per worker hour or machine hour. Some
15 sortations are more valuable than others. Sortation to carrier route is more complex
16 than sortation to five-digit separation. However, our productivity measures only
17 recognize that, in each case, a sortation occurred.

18 This example also illustrates the artificial distinctions that are drawn between
19 so-called opening units and distribution units. In some instances, mail preparation is
20 incidental activity performed in an operation upstream, and the workhours don't count
21 against the flat sorter productivity. When the mail preparation becomes sufficiently
22 complex that it is a significant activity itself, it is sometimes more efficient to separate
23 the barcoded/non-barcoded and OCR-readable/non-OCR-readable at the machine
24 itself, and the workhours may be recorded with the machine operation. Recording
25 the workhours with the machine doesn't change the efficiency, just the accounting
26 between operations.

27 A final note should be made about increasing volumes where machine assets
28 are limited. If an operation is using machines fully, and the machines can handle half
29 the total volume, the other half must be worked manually. If there is workload added
30 beyond that point, all the incremental workload must be worked manually, so that the
31 percentage of total mail worked on automation actually drops.

1 For these reasons, evaluation of performance is a complex task. To assess
2 operating performance, it is necessary to consider: (1) the type of sortation
3 accomplished (5-digit or carrier route); (2) if automation assets are fully utilized within
4 the operating window available; (3) the extent to which related operations are costed
5 with the sortation operation, (4) the cost of the workhours involved; and (5) the impact
6 on downstream operations. All this comes together in the operating budget, and
7 using dollars as the common denominator is the most valid approach to assessing
8 performance. We have achieved our operating budget and our net income. That
9 integrates productivity, non-measured operations, changes in workload and revenue,
10 and cost per hour. When I assess the performance of operations in my area, I have
11 to consider all these things and not focus on one or another isolated operations. I
12 believe that caution is also appropriate here.

13 14 **V. Closing**

15 I have attempted to provide an explanation of why Periodicals costs have risen in
16 a manner different from other classes. The key question is: "Why did one class that
17 uses our postal systems experience rising costs while other classes using the same
18 systems did not exhibit the same pattern?"

19 I have offered three general explanations:

- 20 (1) increased costs resulting from characteristics of the Periodical mail itself, as
21 entered into our plants,
- 22 (2) certain measures leading to increased costs that have been taken to
23 improve Periodicals service, which were not undertaken for other classes,
24 and
- 25 (3) several operational considerations affecting Periodical mail cost, including
26 smaller volumes not equally suitable for long-run machine operations.

27
28 I have also attempted to provide an explanation for the increase in flats costs in
29 FY 1998, and I have reviewed and discussed the FSM 881 performance, as
30 measured by FSM 881 productivity, for the Southeast Area during the period 1995-
31 1999.

1 Again, I would conclude by observing that there is great potential for cost
2 reductions in the future. Both the Postal Service and the affected industries will work
3 toward those goals in the future.