

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268

RECEIVED

JUN 29 3 16 PM '00

Postal Rate and Fee Changes

Docket No. R2000-1  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

PRESIDING OFFICER'S INFORMATION REQUEST NO. 14

(June 29, 2000)

The Postal Service is requested to provide the information described below to assist in developing a record for the consideration of its request for changes in rates and fees. In order to facilitate inclusion of the required material in the evidentiary record, the Postal Service is to have a witness attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers at our hearings. The answers are to be provided on or before July 10, 2000.

Item 1 of POIR 13 and OCA/USPS-99 addressed cost reductions announced by the Postmaster General in a speech at the National Postal Forum in Memphis, TN on March 20, 2000. In that speech (copy attached) the PMG announced that the Postal Service intends to reduce expenses "...by at least \$4 billion by 2004." He also said that "Some of the savings will come from overhead reductions, about \$100 million a year. ...One hundred million dollars annually will come from more efficient paperwork and purchasing. Another \$100 million a year will come from reducing transportation costs." OCA/USPS-99 and POIR 13 both asked whether any of the cost reductions mentioned in the PMG's speech were included in interim year and/or test year cost reductions in this docket. OCA/USPS-99 also requested information about the completed comprehensive study of the activities and transactions noted in the speech. The response to Presiding Officer's Information Request (POIR) No. 13, item 1 did not adequately address the issues raised in that document. In reply to this POIR, please provide detailed responses to each specific question.

1. In the general response to OCA/USPS-99 the Postal Service referred to the proposed cost reductions as the "affordability challenge" addressed by the PMG in his speech. The Service also noted that the study, referred to as a 'Transactions Survey', is a work in progress and that the full survey "...including development of an implementation plan will not be completed until the December 2000/January 2001 time frame." Additionally, the response to part b of OCA/USPS-99 says, "...the specific overhead savings have not yet been identified. Accordingly, they are not incorporated in the interim years or the test year."

However, the Service noted that there are various cost reductions in FY 2000, such as "local management initiatives" and "absorb inflation", which would be part of the PMG's "affordability challenge". The cost reductions identified as "Local Management Initiatives" (LMIs) and "absorb inflation" are detailed in USPS LR-I-126. The library reference describes LMIs as "...the amount of expenses the organization needs to cut to achieve its targeted net income goals." The LMI cost reductions affect cost segment 2, supervisors, cost segment 3, clerks & mailhandlers, CAG A-J, cost segments 6 & 7, city delivery carriers, and cost segment 11, custodial maintenance. LR-I-126, Exhibit E. The absorb inflation costs reductions are described as "...management initiative to reduce costs in various supplies and services areas. These cost reductions affect cost segment 12, motor vehicle service, cost segment 16, supplies and services, and cost segment 18, administrative and regional operations. LR-I-126, Exhibit B. There are additional cost reductions for cost segment 14, transportation. LR-I-126, Exhibit E.

Please provide a definite response concerning whether or not the specific LMI and "absorb inflation" cost reductions above are included in the cost reductions referred to in the PMG's speech. If they are, please provide a table showing what portion of the "overhead reductions," "more efficient paperwork and purchasing," and "transportation costs" reductions are accounted for by the items specified above?

2. In response to POIR 13, Postal Service witness Tayman refers to the Postal Service response to OCA/USPS-99 and reiterates that the FY 2000 cost reductions noted above would be part of the "affordability challenge". He also said, "...some of the cost reductions reflected in the test year (FY 2001) are early estimates of "the affordability challenge" or breakthrough productivity savings." He goes on to say "... total test year savings for breakthrough productivity is about \$550 million, rather the \$1 billion specified in the question. The Postal Service's revenue requirement includes about \$181 million in the test year cost reductions that are considered breakthrough productivity."

The Postmaster General in his speech says "...some \$700 million a year—will come from dramatic, breakthrough productivity in our processing system. He defines breakthrough productivity to be "...reducing costs through everything from machine utilization, to standardized processes, to staffing and scheduling, and to resource management. ...Tracking mail throughout the system...benchmarking, measuring performance, and understanding the costs of every activity. ...Managing our capital investments in line with changes in our volume patterns, our need to create new products and channels, and investing in the next generation of automation for flats and parcels to offset the cost of labor."

a. Please provide the type of savings the \$550 million, referred to by witness Tayman, represents, the cost segments affected, and where in LR-I-126 the savings are reflected. If the savings are not reflected in LR-I-126 or the revenue requirement workpapers, LR-I-127, please specify where the savings can be found.

b. Is witness Tayman's identification of breakthrough productivity savings of \$550 million an indication that the Postmaster General overestimated cost reductions in mail processing by \$150 million? If not, please reconcile the \$700 million in breakthrough productivity cost reductions referred to in the PMG's speech with the \$550 million referred to in witness Tayman's answer to POIR 13, item 1.

c. Witness Tayman refers to cost reductions in the test year revenue requirement amounting to \$181 million that are considered to be breakthrough productivity savings. Please specify which cost reductions in the test year he is referring to.

d. Witness Tayman has reduced the breakthrough productivity savings from the \$700 million mentioned in the PMG's speech to \$550 million in the test year in his answer to POIR 13. He also says in that answer that there are \$181 million of breakthrough productivity savings in the test year revenue requirement. Does this mean that there are \$369 million (\$550 million less \$181 million) or \$519 million (\$700 million less \$181 million) in test year cost reductions that are not now reflected in the test year revenue requirement? If so, what cost segments will the additional cost reductions affect? Please provide as specific a description as possible of the types of cost reductions that are likely to make up the additional savings in a format similar to LR-I-126.

e. Can the Commission conclude that test year processing costs will be reduced by either \$369 or \$519 million?

  
Edward J. Gleiman  
Presiding Officer



[ZIP Codes](#) | [Track/Confirm](#) | [Rate Calc](#) | [Address Change](#) | [Post Offices](#) | [USPS™eBillPay](#) | [StampsOnline](#)

[SET HOMEPAGE VIEW](#)

## **March 20, 2000 - REMARKS BY POSTMASTER GENERAL AND CEO WILLIAM HENDERSON AT THE POSTAL FORUM - NASHVILLE, TN**

**FOR IMMEDIATE RELEASE**

**Breaking Through to a New Golden Age of Mail**  
Remarks by William J. Henderson,  
Postmaster General/CEO United States Postal Service  
at the National Postal Forum  
Nashville, Tennessee - March 20, 2000

At National Postal Forum in Chicago, I told you that my job is to make you successful. I also talked about the Postal Service's trusted presence as the Gateway to the Household. And we talked about what we call the mail moment - the time when the mail arrives and everybody stops what he or she is doing to read it.

I promised you that - even under the pressures of the digital age - we would do everything in our power to keep the mail relevant. I promised that we would focus on the quality and value of our core products. That we would reduce costs and manage efficiently. That we would ensure that the mail moment does not lose its power and value to our nation.

We have delivered. We delivered more than 200 billion pieces of mail to 130 million households and businesses over the past year, the most in our history. Our standard of service has never been higher. Everyone from America's established business community to its emerging dotcoms continues to rely on our ubiquitous presence and universal service to promote their images, improve their sales, and secure their revenues.

Mail is relevant in the digital age because it reaches every address. Michael Dell, the founder and chief executive of Dell Computer, recently told me that his catalog mailings account for the largest percentage of his sales of personal computers. He understands the power and value of our Gateway. So do many others.

Studies by Pitney Bowes say that two-thirds of the e-business companies they surveyed believe that mail is the best medium for developing long-term customer relationships. Seven out of 10 use direct mail to promote their web sites and to attract new customers.

K-Mart -- another of our partners represented in this Forum -- has rediscovered success by revitalizing its direct mail marketing programs to drive customers into their stores and traffic to their Website.

All of these companies - and you -- value our tradition, trust, reliability, reach, ability to meet needs, and affordability. Those are the pillars on which the Gateway rests and on which you in the mailing industry have built your businesses. They make the mail powerful. Significant. Relevant.

### **The Three Challenges: Affordability, Mail Industry Growth, and Reforming the Regulatory Environment**

But, as we look for ways to leverage the successes of the Postal Service and the mailing industry in the future, we have arrived at a crossroads.

Keeping the mail and our businesses relevant in the future is not guaranteed.

Our continued relevancy will require new ideas, new business models, and a commitment to the traditions that helped turn the 90s into a "Golden Age of Mail."

Together, we must master three critical challenges:

First, keep the mail affordable.  
Second, grow the mail industry.  
Finally, reform the regulatory environment.

Let me expand on these challenges - and more important - what the Postal Service is doing to meet them.

We have to continue our transformation of the Postal Service into the supplier of choice for high-quality, low-cost products and services. We have to be affordable.

We have to bring our internal cost structure down and restrain prices. That is the only way we will survive as key segments of our letter mail volume migrate to electronic messaging.

Of all the pillars supporting our Gateway, affordability is the one that threatens to bring the whole house down.

But, this is not just a Postal Service issue. It is not just about the price of postage. It is about your businesses, too. It is about the combined cost of conceiving, producing, preparing, collecting, and delivering that mail piece.

When the total investment in that moment costs AT&T \$1.75 a piece, or Safeway \$1 a piece, who can blame them for looking to the promise of e-business for lower transaction costs? We have to be concerned about that.

Cost cutting alone, however, will not secure our future. No company, no industry, will grow solely on its ability to cut costs. So, our second challenge is to create new business models, new products, and new streams of revenue to assure that the mailing industry grows. Opportunities for growth lie in the global embrace of e-commerce; there is no question about that. But don't write off hard copy mail just yet.

There is still tremendous value and visibility in First-Class Mail. People still want to touch and read their publications. Advertising mail, for the reasons we have already talked about, is a strong medium. E-business presents growth opportunities for Express Mail, Priority Mail, and packages. And, the worldwide economy is an invitation to greater use of international mail products.

The third challenge we face is regulatory reform. Regulation constrains us from fully realizing our potential to operate in a businesslike manner. Our ratemaking process supports a cost-based, rigid pricing system that keeps us from being able to reward customers for their loyalty, cooperation and confidence in the mail. It stimulates unrest and dissatisfaction within the mailing community.

Nearly five years of debate about postal reform - in the Congress, in the Postal Service, and in the mailing industry - has failed to get us the flexibility we need. We also need freedom to invest our income, and some way to bring the voice of the customer into labor arbitration. We needed reform five years ago; we need it today.

### **Breakthrough Productivity: The Key to Cost Control**

Saying that we face tough challenges is not the same as having a plan to address them. We have a plan, and we have been aggressively pursuing it for the past five years.

We will continue to take bold actions.

We are building a culture of operational excellence. We have been at it for several years, and we already have driven billions of dollars of costs out of the system. Looking forward, I have instructed my team to launch additional initiatives that will reduce our expenses by at least \$4 billion by 2004. This is above the billion dollars we cut in 1999, and it is a target for which we will all be accountable.

Some of the savings will come from overhead reductions, about \$100 million a year. We have completed a comprehensive study of activities and transactions, and over the next several months will be moving to centralize support functions, to eliminate duplication, and to achieve reductions in administrative staffing.

One hundred million dollars annually will come from more efficient paperwork and purchasing. Another \$100 million a year will come from reducing transportation costs. We will use more ground transportation, and better deploy the contract capacity we have. We also can reduce steps in the distribution and handling of mail.

But the lion's share of these reductions -- some \$700 million a year -- will come from dramatic, breakthrough productivity in our processing system.

Breakthrough productivity means reducing costs through everything from machine utilization, to standardized processes, to staffing and scheduling, and to resource management.

Breakthrough productivity means tracking mail throughout the system. It means benchmarking, measuring performance, and understanding the costs of every activity. Over the course of this year, you will see the introduction of more key features of our Information Platform, including Confirm/Planet Codes for letter mail and flats, Signature Confirmation to augment Delivery Confirmation, and other systems to allow both of us to manage the mail and reduce costs.

Breakthrough productivity also means managing our capital investments in line with changes in our volume patterns, our need to create new products and channels, and investing in the next generation of automation for flats and parcels to offset the cost of labor.

Our breakthrough has begun. Our present rate of total factor productivity improvement is ten times higher than the annual average we achieved for the past decade. Total factor productivity rose to 2.3 percent in the final quarter of 1999. It is 2.1 percent year to date, and 2.6 percent in the second quarter.

At the same time, over the past two years, we have slashed more than \$1.5 billion in expenses to compensate for lagging revenue. The hallmark of that effort has been carefully controlling the size of our workforce. Already, 11,000 career vacancies have been absorbed through attrition, and that number will reach at least 20,000 as we move forward.

To put that in perspective, we will eventually eliminate positions from our organization equal to the combined workforces of a Quad/Graphics and a Fingerhut. Or, to pose it another way, the jobs that will disappear are roughly equivalent to the total number of postal workers in the state of Tennessee, plus Rhode Island.

### **Growing the Mail Industry: The Source of New Revenue**

Even with productivity-boosting measures this extreme, we are barely keeping our heads above water. We are facing declining margins, and we have presented you with a rate case.

This was an agonizing decision for us, and it was traumatic for many of you. But perhaps more importantly, it is clear that cutting costs is not a stand-alone strategy for preventing rate increases in the future.

We must help you to grow your industry. Our efficiency and our productivity are volume-driven. We have to have volume and its associated revenue to thrive in the future. There simply isn't any other way. You have my commitment that we will continue to strengthen our core products. We will leverage what we have, and we will work to put the new technologies of e-commerce to work for you.

Already -- all day, every day -- our customers can use our on-line services to buy stamps and postage, confirm delivery and arrange for package returns, get ZIP Code information, locate post offices, and order Priority Mail and Express Mail supplies.

But, we also are confronted with the disruptive side of technology. Technology lowers the hurdle rate for competition to enter any market. It cannibalizes for-fee services, and offers them to consumers for nothing. It creates new business models. Its potential for global ease of access in our markets challenges our very understanding of universal service.

So, we intend to introduce Web-based services consistent with our mission and financial prudence. We are evaluating several now. We have talked about them before. Electronic postmarks, bill presentment and payment, and electronic mailboxes for those who want

them are all technically feasible. These are electronic services that enhance our core products, keeping mail – and the mailing industry – relevant, reliable, and vital.

### **Regulatory Reform: An Absolute Requirement**

For all of the promise that is there, we are going to wind up with an inferior Postal Service in the future if we do not change the regulatory environment. If you read current business literature – or a week's worth of the Wall Street Journal – you know that there are others who can move faster, can act more agilely and can better respond to changes in the marketplace.

We need commercial freedoms, including market-based pricing and the ability to generate income for investment.

Whether we call it deregulation, privatization, or liberalization – whatever label you choose – the lines between public and private providers of postal products and services are blurring. We must be able to compete fairly and to act in concert with the needs of our customers, or somebody else will.

Other posts are already realizing the potential of commercial freedoms. In Canada and Germany, in the Netherlands and Sweden, in New Zealand and Australia, commercial freedoms are allowing postal services to aggressively come to terms with our new business environment. They are free to invest, able to enter into forward-looking pacts with labor and encouraged to seek out partnerships, alliances and new markets.

Now, we cannot talk about costs and growth and reform and pretend that there's not an elephant in the room. H.R. 22 is a balanced approach to postal reform. We support it. But it does not address your voice in the labor process.

Under the law, your voice is represented in ratemaking by 14 members of the presidentially appointed Board of Governors and Postal Rate Commission. As a practical matter it is often an independent arbitrator, who is called on to make wage decisions that affect hundreds of millions of dollars in labor costs.

Let me be clear that I am not being critical of our unions. They, like we, are operating within the law – and frankly, sometimes things go labor's way, sometimes they go management's way.

How we resolve this problem is uncertain, but we remain open to a dialogue with our unions about this and other ways that we can create incentives for employee innovation and breakthrough productivity without breaking the bank. I think our union leadership understands the stakes. They know we cannot forge a new "Golden Age of Mail" if we kill the golden goose that is our core business.

### **Success Requires Commitment and Partnership**

To summarize, we have an aggressive plan for tackling the challenges we face. It recognizes that without affordability and growth, your businesses will suffer with ours. It recognizes the importance of commercial freedoms.

I don't want to be flippant about this, but you're either with us, or you're against yourselves.

Our futures, our successes are that entwined.

Obviously, some of the changes we seek will not come easily. But the stakes are high, and we must continue to put stakes in the ground as a Postal Service, as an industry, and as committed partners.

I say again, our job is to keep you successful, and keep the mail relevant. We will do our part. That is a commitment I make to you on behalf of our Management Committee, our Officers and our organization.

We will deliver.  
You have my word on it.

Last Modified:  
Wed, 22 Mar 2000 13:44:15 GMT  
[Privacy Policy](#) - [Terms of Use](#)

[text only](#) - [site index](#) - [contact USPS](#) - [help](#)

Copyright © 2000 USPS.  
All Rights Reserved.