

**BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001**

**Service Standards and Performance
Measurement for Market-Dominant Products**

Docket No. PI2007-1

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COMMENTS ON SERVICE STANDARDS
AND PERFORMANCE MEASUREMENT**

July 16, 2007

I. INTRODUCTION

In response to Order No. 21, I hereby provide comments on service standards and a performance measurement system for First-Class Mail.

II. FIRST-CLASS MAIL SERVICE STANDARDS

The Postal Service and Commission will consider possible changes in First-Class Mail service standards against a backdrop of declining First-Class Mail volume. The following principle should guide decision-making: Changes in service standards that speed and improve service will be more likely to slow volume erosion than changes in service standards that slow or diminish service.

The current First-Class Mail service standards largely have served the public well. With two notable exceptions, the overnight delivery areas provide speedy delivery within local and nearby areas. In metropolitan areas, the major city and its adjacent suburbs enjoy a shared overnight delivery area. Overnight delivery areas should not be shrunken.

In the Chicago metropolitan area, however, the service standard is two days between Chicago (606 and 607) and the suburbs (600–605). In the New

York metropolitan area, the service standard is two days between New York City and their adjacent suburbs (Long Island and New Jersey). Two-day service between these cities and their adjacent suburbs is too slow. The Postal Service should explore these, and possibly other, opportunities to expand overnight delivery areas.

The Postal Service also should rectify situations in which the service standard between adjacent three-digit ZIP Code areas is three days (e.g., from SCF Medford OR 975 to SCF Redding CA 960).

As the Commission found in Docket No. C2001-3, serious problems exist with some two-day service standards, particularly in the Western states. The Postal Service should examine and implement the recommendations in the Commission's public report. Specifically, the Postal Service should:

1. Consider reinstating, where feasible, 2-day service standards for intrastate origin/destination pairs, and for pairs with established business relationships and/or volumes that meet long-recognized thresholds especially in nearby or adjoining states;

2. Initiate procedures to identify on a continuing basis regional and local situations (including those identified on this record and others that may come to its attention) where more expeditious First-Class Mail service is consistent with efficient and economic practices. Particular attention should be given to areas where disproportionate effects have been experienced as a result of the realignment.¹

Every city pair that does not have an overnight or two-day service standard currently defaults to three days. The three-day service standard should not be lengthened.

III. MEASURING SERVICE PERFORMANCE

Measuring service performance means more than measuring the number of days from collection to delivery. If mail is consistently delivered between city A and city B in one day from collection to delivery, the level of service provided to customers will differ significantly if the customer must deposit his outgoing mail

¹ Docket No. C2001-3, Public Report at 3, filed April 17, 2006.

by 10 AM or if the customer can deposit outgoing mail at 5 PM for a same-day collection. The Postal Service should adopt a holistic measure of service performance.

The Postal Service should use an external system, such as the existing External First-Class Measurement System (EXFC), to measure delivery performance for single-piece First-Class Mail. EXFC provides a realistic measure of the customer's experience because it measures the number of delivery days from the day of deposit to the day of delivery. If the Postal Service misses a collection and the mail is not postmarked until the next day, the EXFC system will detect this delay. If a post office does not deliver all the mail on hand on a particular day, the EXFC system will detect this delay.

Prior to EXFC, the Postal Service measured delivery times using an internal system known as the Origin-Destination Information System (ODIS). With ODIS, the clock started ticking based on the postmark date, and it stopped ticking when the mail arrived in the delivery office. If the mail sat in the collection box for an extra day or two, ODIS did not detect this service failure. Similarly, if mail sat in a post office undelivered, ODIS probably did not detect this service failure. A solely internal measurement system would be unacceptable for single-piece First-Class Mail, as the results would convey little meaning or credibility.

Unfortunately, the EXFC system does not measure all delivery areas.² The areas where EXFC does not measure performance tend to be rural, where distances and remote locations pose challenges for the Postal Service. For example, EXFC does not measure delivery performance in most three-digit ZIP Code areas in Colorado and Wyoming. The actual level of mail service that customers receive in non-EXFC areas is unknown. EXFC is a good model for

² According to the Postal Service, "EXFC continuously tests a panel of 463 ZIP Code areas selected on the basis of geographic and volume density from which 90% of First-Class volume originates and 80% destinates." *2006 Comprehensive Statement on Postal Operations*, Chapter 4.

measuring delivery times, but the Postal Service must expand EXFC or a similar measurement system to all areas.

EXFC will not, however, tell the entire story on service performance. All else equal, if customers must deposit their outgoing mail by 10 AM or 3 PM, many customers experience a lower level of service than if they can deposit their outgoing mail by 5 PM or 6 PM for a same-day collection.

EXFC was, in many ways, of the best developments in recent Postal Service history. Former Postmaster General Marvin Runyon implemented EXFC because he observed that the internal ODIS measurement system was an inadequate measurement of actual delivery time. When the Postal Service began EXFC testing, it discovered that missed, or early, collections were a serious problem. To address this problem, the Postal Service developed the Collection Box Management System. The CBMS and its successor system, the Collection Point Management System, feature a scanner-wand system to ensure that collections are made and that employees do not collect the boxes early.

For two reasons, EXFC led to a virtual elimination of missed collections. First, postal management installed an incentive system to reward employees financially for improving EXFC scores. Recognizing that missed collections lower EXFC scores, managers had a major incentive to eliminate missed collections. Second, the Postal Service emphasized to managers that missed collections were unacceptable, and performance in this area affected managers' careers.

The EXFC system also prompted managers to examine all aspects of postal operations to identify and eliminate sources of delay. This external measurement system unquestionably has led to better delivery times for First-Class Mail.

Examining service in non-EXFC areas also helps to underscore the benefit of EXFC and the management controls that it inspired. In January 2007, all the test mail that I deposited in collection boxes in St. Thomas, U.S. Virgin Islands,

for collections on two different days was postmarked one day late. EXFC does not measure delivery times in the U.S. Virgin Islands. The local postmaster, the district manager, and the area vice president all ignored my letters questioning this postmark delay. This problem would not have occurred in an area in which EXFC droppers were depositing test letters, and postal managers in an EXFC area would have cared about the problem, rather than ignoring it. Postal management's indifference to postmark delays in an area not under the watchful eye of EXFC further underscores the need for a comprehensive measurement system.

The future EXFC system must include all collection boxes. For example, lobby drops in post offices in New York City and San Juan, Puerto Rico, are not recorded in the electronic database. Therefore, no EXFC test mail is deposited in them, and EXFC scores do not report missed collections from lobby drops.

The EXFC system's effect on service performance has not been universally positive, however. When some postal managers realized that they could enlarge their paychecks by improving EXFC scores, they focused on raising EXFC scores — as opposed to the broader concept of improving service. Many postal officials believe that bringing the collection mail into the processing plant earlier in the day leads to improved delivery performance. Seeing dollar signs, some postal managers shifted collection times on collection boxes to an earlier hour. In many cases, the Postal Service also performs the collections earlier in the day. In some cases, however, the collection times are early for a secondary purpose: to ensure that EXFC droppers deposit their test mail before any collections actually occur. This tactic explains why Chicago has uniform 10 AM collection times for residential boxes throughout the city. The Postal Service does not actually collect mail from all the boxes at 10 AM; however, no test mail is dropped in these boxes after 10 AM, and the Postal Service is free to collect the mail anytime after 10 AM. The primary focus of the collection system in Chicago is EXFC, not service or convenience to customers.

Unfortunately, in its largest shortcoming, the EXFC system did not monitor collection times. Postal management has been largely remiss in ensuring that collection times continue to meet the Postal Service's own service standards for collections.³ Many postal managers have manipulated the incentive system for their own career advancement or monetary rewards.

In areas that EXFC monitors, EXFC unquestionably has led to earlier collection times than Americans enjoyed prior to the early 1990's. Measuring this change is difficult because data from the early 1990's do not exist, but the change is real. For example, many street collection boxes in Berkeley, California, that had 5 PM collections as recently as 2006 now have final weekday collections at 12:30 PM. Collection boxes in downtown San Francisco that had collection times at 5:15 PM, 5:30 PM, and 6 PM in 2006 now have final weekday collections at 5 PM. A recent decision by the Sierra-Coastal District manager cost customers in the Southern California cities of Ventura, Oxnard, and Santa Barbara their 5 PM collections around town earlier this year; the collection times are now 3 PM. The Sierra-Coastal District manager also changed collection times to 3 PM in the Pasadena and Glendale area (ZIP Codes 910, 911, and 912). In San Juan, Puerto Rico, the latest collection time at any collection box is 10:30 AM.

My recent Freedom of Information Act request to the district manager of the Sierra-Coastal District produced a document containing talking points in responding to customers or media representatives questioning earlier collection times in Bakersfield, California. The first point asserted that earlier collection times will "get[] the mail leaving the plants to Post Offices earlier for delivery to businesses and residences." Another point asserted that "mail volume has increased significantly each year for the past several years"; therefore, the Postal Service would "have to increase our work force considerably to meet our obligation to our customers." This point was curious given that single-piece First-

³ For example, collection boxes that receive an average weekday volume of 100 pieces of mail or more must have a weekday collection at 5 PM or later. POM § 322.

Class Mail volume is declining. The final point asserted that “this operational decision will both improve delivery service beyond its current record levels and help maintain reasonable postage rates.”

These talking points raise a fundamental question that a true service performance measurement system should answer: Is service performance increasing or decreasing? No question exists that EXFC led to some major initial improvements in service performance: Delivery times improved, and missed collections were reduced or eliminated. Now, however, EXFC test mail is delivered overnight nearly 95 percent of the time in almost every performance cluster in the country. Two-day scores are consistently above 90 percent, and three-day scores are consistently above 85 percent. Whether earlier collection times in Southern California will lead to a significant increase in EXFC scores is highly questionable. Earlier collection times are most likely to affect overnight delivery scores, when time is critical, but EXFC scores for the past several years suggest that these scores are unlikely to increase beyond 96 or 97 percent.

If earlier collection times lead to an increase in an EXFC score of one percentage point, has service improved, declined, or stayed the same? This question cannot be answered if the only measure of service performance is EXFC delivery time. Yet this question certainly cannot be ignored any longer, as it has been for nearly 15 years.

If the new motivation for curtailing collection times is to reduce costs, as one of the talking points suggests, the question is a different one: Which level of postal services does the public desire, and how much is the public willing to pay for it? To date, the Postal Service has answered this question for the public, without soliciting public input. The Postal Service has sought to lower costs, even at the expense of service. I am not convinced that some customers would not be willing to pay a little more money for better service, particularly since lower levels of service cost customers money in other ways, as they must pay for express delivery services or gas to drive mail to the post office for a later

collection. A holistic performance-measurement system would help to frame this type of necessary conversation.

A system to measure performance for First-Class Mail should consider both delivery times, as EXFC currently measures, and some type of index that considers collection times. One measure might be the average collection time in the performance cluster. Determining the weight to assign to the two measures will require further investigation and discussion; however, the concept merits consideration.

Finally, the Postal Service must provide the public access to the data from any performance measurement system so the public can make informed decisions when choosing among the various postal services and competitor delivery services. The performance of the nation's government mail monopoly should not be a secret.

Respectfully submitted,

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