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PSA Position on USPS Network Realignment

For almost two years, the Parcel Shippers Association (PSA) has been working with the United States Postal Service (USPS), through the Mailers Technical Advisory Committee (MTAC), to address industry concerns with respect to the USPS Evolutionary Network Development (END) initiative. This follows, and to some extent coincided with, PSA's participation in the USPS Network Integration and Alignment (NIA) effort, and participation before the Postal Regulatory Commission (PRC) in connection with Docket No. N2006-1, Evolutionary Network Development Service Changes, 2006.

In early 2006, PSA formed an END Committee, currently consisting of 12 members from throughout the parcel shipping industry, to provide input to MTAC and the Postal Service on this important issue. The efforts of that Committee led to the establishment of two END-related MTAC Workgroups – WG #107 “FAST/Surface Visibility for Parcels” and WG #109 “Optimizing Parcel Prep & Entry for Seamless Acceptance.” Numerous PSA members have been active on those workgroups.

The END process was encouraged and necessarily accelerated in December 2006 with the enactment of the Postal Accountability and Enhancement Act (Public Law 109-435). Among other things, that law requires the USPS to develop a “Facilities Plan” that must include “a strategy for how the Postal Service intends to rationalize the postal facilities network and remove excess processing capacity and space from the network.”

The Facilities Plan must provide a “process for engaging policy makers and the public in related decisions.” Similarly, the PRC's Opinion in Docket No. N2006-1 advised the Postal Service to solicit input from major mailers as it redesigns its network. PSA and its END Committee agree that the USPS END process and the eventual “Facilities Plan” can benefit substantially from suggestions as to what its customers find most important and how customers can benefit most from USPS services. This will result in better overall service.

The PSA END Committee has evaluated the needs and concerns of PSA members whose parcels represent the vast majority of Parcel Select and substantial volumes in other mail subclasses, particularly the Standard Mail Regular subclass. This paper briefly explains the principles that the Committee believes should guide the Postal Service as it realigns its network. These principles are organized as follows: (1) consistent delivery, (2) end-to-end cost and service, (3) worksharing discounts, (4) visibility, (5) containerization, and (6) automation.

Consistent Delivery

PSA members place a higher value on the Postal Service improving the predictability and consistency of delivery, than on reducing end-to-end delivery times, which in turn would result in a higher-cost network. Thus, the USPS should focus on eliminating the delivery tails – which for Parcel Select currently range from 4 to 7 days and sometimes more – experienced by shippers entering parcels at destination bulk mail centers (DBMCs), rather than on increasing the speed of delivery. Investments in facilities, automation, transportation and human resources should focus on improving compliance with the current Parcel Select 1- 2 day delivery standard and the MTAC Work Group #114 Service Standard recommendations for Standard, BPM, Media and Library mail parcels. Achievement of 98% on-time service performance (regardless of package size or ZIP Code) should be the goal. Further, given the importance of consistent, predictable delivery, the initial focus of the END initiative should be on improving service at poor performing facilities where the opportunities for improvement are substantial.

End-to-End Cost and Service

Parcel delivery by the Postal Service is best viewed as a partnership between parcel shippers, consolidators, and the Postal Service. In most instances, parcel shippers and consolidators sort and transport parcels to destination postal facilities where the Postal Service sorts and prepares them for final delivery. Given the extent of this partnership, the Postal Service's competitiveness in the parcel delivery marketplace is determined based upon *end-to-end* costs and transit times (including both Postal Service and private sector cost and transit times), not just USPS costs and service levels. A further consequence of this partnership is that changes to the postal network not only affect USPS costs and delivery times, but also private sector costs to prepare and enter parcels at USPS facilities and the associated transit times.

Given this, when evaluating the impact of END, USPS must take into account not just its internal impact, but also how it affects private sector costs and transit times. Focusing only on the USPS side of the equation would almost certainly lead to a less-than-optimal network. For example, holding service levels constant, adjusting the postal network in a manner that reduces USPS costs by \$1 billion, but increases private sector mail preparation and transportation costs by \$2 billion would be terribly inefficient.

Of particular relevance to the END initiative, requiring parcel shippers to enter parcels at a greater number of destination facilities to qualify for the END equivalent of DBMC rates will increase private sector costs (e.g., transportation costs, containerization costs, handling for additional sorts, expanded dock areas) and transit times (e.g., by requiring shippers to “hold” parcels longer to generate sufficient volume to fill a container for a particular destination facility). Thus, a network that requires parcel shippers to enter parcels at a larger number of destination facilities would have to substantially reduce USPS costs and improve USPS delivery times just to maintain existing end-to-end cost and service levels.

Worksharing Discounts

To garner industry support for realignment and encourage efficient parcel preparation and entry practices, the Postal Service should adjust the size of worksharing discounts that it offers *in unison* with changes to the postal network. Specifically, PSA understands that a likely realignment scenario is for the Postal Service to add “DBMC” entry points to the postal network. As discussed above, such a change would increase private sector transportation costs. Unless worksharing discounts are increased to reflect the USPS cost savings resulting from the additional private sector work, such realignment would increase the distribution costs faced by parcel shippers: postage rates would remain unchanged while private sector transportation costs would increase. Thus, shippers would not benefit even if the realignment increased overall efficiency. See PSA-T-1 in Docket No. R2006-1.

Second, adjusting discounts as the network is realigned to ensure that the discounts continue to be *cost-based* will encourage efficient preparation. As explained by Dr. John Panzar in Docket No. R2006-1, setting discounts equal to costs avoided “leads mailers to choose to perform worksharing if and only if doing so lowers total postal sector costs. The reason is quite intuitive. If the mailer’s cost is less than the discount offered, it is profitable for the mailer to do the work – and total postal sector costs decrease. If the discount is not sufficiently attractive, the Postal Service continues to provide the service component.”

Visibility

For USPS to be competitive in the package delivery market, it must provide both shippers and their customers with the ability to track their packages as they flow through the postal system. As USPS realigns, it must ensure that its equipment is sufficient for this task. In particular, the Postal Service must be able to provide shippers with “scan” data showing where containers and parcels are in the network. Further, to allow parcel shippers to effectively monitor USPS service and effectively plan their mailings, the Postal Service should provide all parcel shippers with service performance data similar to the existing Parcel Select Performance Reports.

Containerization

Containerization requirements have a significant effect on parcel shipping costs. Not only do they affect the direct costs to purchase and handle containers, they also influence shippers’ ability to efficiently utilize trailers, which is a critical driver of private sector transportation costs. For example, eliminating the option of bed loading parcels will likely reduce cubic utilization of trailers by approximately forty percent. Thus, the Postal Service should redesign its network with an eye towards retaining the maximum possible flexibility for containerizing parcels.

In particular, the Postal Service should retain bed loading as a containerization option wherever possible. Further, with the possible introduction of additional entry points, the Postal

Service should consider allowing shippers to use an “intermediate” container – such as the EO, EH, and E containers used by the Air Freight industry – that can hold more parcels than a sack, but less than a pallet. EO, EH, and E containers – which vary from approximately ¼ to ½ of the size of a pallet box – offer easy loading, stacking, cubic utilization, off-loads and facility movement for both USPS and parcel shippers.

Further, the Postal Service (in collaboration with the parcel shipping industry) should develop preparation and entry rules and procedures to ensure the efficient use of containers and trailers, including:

- Reviewing and, where appropriate, modifying rules related to the maximum height of and stacking limits for pallets;
- Establishing procedures to allow parcel shippers to reuse their containers, rather than using them just once;
- Revising preparation rules – e.g., allowing presort minimums to be met based upon combined parcel volume across all subclasses in a mailing, rather than on a subclass-by-subclass basis – to encourage the commingling of multiple subclasses of parcels in the same containers;
- Allowing all parcels – regardless of subclass and machinability – to be entered at the same facilities to qualify for destination entry discounts.

Automation

Increasing the use of automated equipment to process parcels is critical to controlling parcel processing costs and providing shippers with visibility to their parcels as they flow through the postal system. PSA thus applauds the Postal Service for broadening the machinability criteria to encompass lighter weight parcels. As the Postal Service realigns its network, it should attempt to maximize the automated processing of parcels. PSA specifically encourages the Postal Service to --

- Evaluate whether the machinability criteria can be broadened further to include a greater scope of parcel dimensions as well as a greater scope of packaging (e.g. paperboard envelopes and bags which can be run on Automated Package Processing Systems (APPS)).
- Broaden the array of equipment that can read parcel barcodes in an automated fashion, reducing the need for manual intervention to orient and key the zip codes on the packages.
- Work with mailers to develop a smaller Delivery Confirmation barcode that can be accommodated on smaller parcels – e.g., Standard Mail parcels – with limited real estate.

To enhance visibility, the Postal Service should also expand the collection of scan data on parcel processing equipment and continue to share such data with the industry.

Conclusion

PSA looks forward to continuing to work with the Postal Service and encourages it to communicate contemplated network changes at early stages in their consideration to achieve END results which benefit all. Adhering to the principles discussed above will make such a result much more likely.