

2011 Comprehensive Statement on Postal Operations

The 2011 Annual Performance Report and
2012 Annual Performance Plan



2011 Comprehensive Statement on Postal Operations

Compliance with legislative and regulatory reporting requirements

In order to reduce duplication of information and improve clarity, the Postal Service is this year combining its Annual Report to Congress and its Comprehensive Statement on Postal Operations into a single report.

Wherever possible, more detailed financial and operational data is provided online and in other more specialized reports, such as the *Annual Compliance Report to the Postal Regulatory Commission*, financial reports such as our 10-K and 10-Q, safety reporting to the Occupational Safety and Health Administration (OSHA), sustainability and energy reports to the Environmental Protection Agency, and other reports.

Legislative oversight

The mission of the Postal Service is set by legislation. Our broad framework, or business model, is established by the Postal Reorganization Act of 1970 and the Postal Accountability and Enhancement Act of 2006. The pace of change in the postal business environment has overtaken this framework, and USPS management has recommended a number of important changes.

They are described in the March 2, 2010, *Ensuring a Viable Postal Service for America: An Action Plan for the Future* report and in subsequent requests to Congress and the Postal Regulatory Commission. We are asking for greater operational and market flexibility, which would enable us to diversify and respond to the market.

Product management, development and pricing

USPS continues to offer reliable universal delivery service for all categories of mail. Each of these categories is designed to meet the needs of different customers. As we manage our products, we first focus on providing reliable, accurate and secure delivery at reasonable rates. Overall, our mailing services rates are generally kept at the rate of inflation. For a complete listing of FY2011 pricing activities, see www.prc.gov.

We also have added additional features and enhancements to a number of mail categories. Product development has focused primarily on innovative improvements to existing services, and a number of these improvements were offered during FY2011. Currently there are statutory restrictions which limit the offering of nonpostal products.

Operations

The goal of operations is to improve service while reducing costs.

Operations analysis

USPS has a robust and ongoing process of operational discipline, standardization and network optimization using techniques like Lean Six Sigma to identify and resolve problems. Best practices are documented and shared throughout our organization to support continuous improvement.

Information technology, data management and security

We have one of the largest information technology infrastructures in the world. Our network is constantly upgraded and closely monitored for capacity, use and stability. Our enterprise data warehouse is our integrated source of information for business intelligence and reporting. The Postal Service is nationally recognized for our data privacy and security programs.

Mail processing

As mail volume and mix change, our operating network is adjusted. Area Mail Processing centers and other facilities are being consolidated or repurposed. A disciplined top-down process is used to evaluate these consolidations.

To stay competitive, we also are continuing to improve our automation programs with equipment and software upgrades, new equipment and improved processes.

One of our most important programs is our Intelligent Mail barcodes. We continue to develop and implement this advanced barcode. It provides mailing information that supports operating efficiencies for both mailers and postal operations. In addition, it provides effective tracking of mailpieces and containers from start to delivery, and enables more creative use of the mail.

Efficient mail processing and accurate delivery also depends on accurate address management. The Postal Service provides value-added product and service offerings that enable our business customers to better manage the quality of their mailing lists while increasing our ability to efficiently deliver mail as it is addressed. We are now providing more electronic information, and improving the speed, accuracy and responsiveness of address management systems.

We're also improving commercial mail acceptance processes, and using automated verification to speed the mail, reduce paperwork and make payments more accurate.

Transportation

The Postal Service is one of the largest purchasers of contract air and ground transportation services, and we operate one of the largest civilian vehicle fleets in the world. During FY2011, USPS focused on responding to increases in fuel prices, and the need to shift from air to less expensive and more reliable ground transportation, and facility consolidations.

Delivery

Delivering the mail is the largest postal operation. And the number of points we deliver to continues to increase by about 700,000 annually, even as mail volume decreases. Delivery also tends to be labor and fuel intensive. To offset this, during FY2011, we adjusted routes, used effective growth management programs and route optimization tools, and took advantage of continuous improvement programs to keep cost growth to a minimum.

Retail access

USPS operates one of the nation's most extensive retail networks, supplemented by a full range of customer-convenient alternate access channels, including third-party retail partners, self-service and online products and services. Visits to postal retail offices and revenue generated there continued to decline in FY2011, while the percentage of revenue generated from alternate channels continued to grow. The Postal Service introduced a number of improvements for both retail and alternate channels this year.

As customer demographics and use change for retail organizations, it is standard practice for them to close underperforming units, shift operations and develop new products and services. The Postal Service, however, does not have sufficient flexibility to do that.

Facilities management

USPS maintains a large and diverse network of owned, rented and leased facilities. Our facilities management program ensures that all of our buildings are properly maintained, and that our facilities managers obtain new facilities or dispose of unneeded ones as necessary. As the pace of our area mail processing consolidations and related network changes has increased, so has the workload on our facilities managers.

Supply management

Our supply chain management programs have achieved significant cost savings through aggressive contract management and renegotiations, process standardization and the use of automated tools. We also have stepped up our outreach to suppliers, with a particular focus on small, minority-, and women-owned businesses. The Postal Service has been repeatedly recognized for our achievements in this area.

Sustainability and energy management

USPS continues our leadership in sustainability and energy management. We have received more than 75 major environmental awards in recent years (see usps.com/green). This includes programs for facilities and vehicles. We operate the world's largest alternative fuel-capable vehicle fleet.

We are the first federal agency and the largest U.S. organization to publish a greenhouse gas emissions inventory validated by an independent third-party. The Postal Service is complying with the Energy Independence Security Act (see usps.com/National Energy Management Plan) and the Clean Water and Safe Drinking Water Acts.

We also have been recognized by the Environmental Protection Agency for our waste management programs, and are working with suppliers to buy sustainable materials and environmentally preferable products. And we have worked with the mailing industry to support sustainable forest management, paper production and printing processes and recycling programs.

Postal products and services include:

First-Class Mail: This includes personal and business correspondence, bills, statements and payments.

Standard Mail: Advertising, catalogs and related commercial offers.

Periodicals Mail: Magazines and newspapers, journals and other published material. Separate special categories include Bound Printed Matter, Media Mail and Library Rate. Many of these categories receive lower rates by Congressional mandate.

Package Services: Postal packages include both non-competitive and competitive categories, as designated by legislation and regulation. Package services include expedited categories, such as Express Mail and Priority Mail, and ground services, such as Parcel Post and Parcel Select.

International Services: The Postal Service offers a full range of international mail and shipping services for consumers and businesses.

Special Services: Most of these services are related to mailing items, and include Registered Mail, insurance, Delivery Confirmation, Certified Mail and other services.

Money Transfer Services: The Postal Service provides money orders and other services.

Delivery Services: This includes Post Office Box service, premium forwarding and related services.

Retail Services: The Postal Service provides a range of mail-related products at retail, including boxes and supplies for mailing, greeting cards and gift cards.

Complement and work hour management

These operational changes have produced significant reductions in overall complement and improvements in staffing and scheduling. Complement decreased by more than 26,000 in FY2011, and about 7,500 management and administrative positions were targeted for elimination.

Customer programs, outreach and community involvement

Our Customer Experience Measurement (CEM) program identifies gaps in our service and customer expectations by collecting input from customers on how we can improve their experiences. CEM provides a detailed view of customers' experiences as they send and receive mail, visit our Post Offices and contact us to obtain information or to report a problem. Data from CEM is also used to meet the requirements of the Postal Accountability and Enhancement Act of 2006 to provide annually the degree of customer satisfaction with our market-dominant products.

We receive additional information through analysis of customer inquiries, complaints and claims, reviews of articles in the media and online comments. We also conduct market research on a number of topics. This data is validated through independent analysis conducted by firms such as the American Customer Satisfaction Index, which has rated USPS as the most improved service of all firms measured since their survey program began in 1994.

Customer support services and outreach programs

Our Business Service Network (BSN) provides additional support to our commercial customers, linking mailers with postal operations at all levels and locations. The BSN provides technical information, resolves services issues and arranges for supplies and equipment.

Our "business customer intelligence" program provides us with customer-specific data that we use to improve products and services. It also helps us manage an organization-wide effort to standardize customer data across multiple postal systems. The result: employees can respond more effectively to customer concerns with accurate, consistent and relevant information.

The Mailer's Technical Advisory Committee is another forum for customers, the mailing industry, suppliers and their associations to provide feedback to postal management. Participants identify issues, form workgroups, make recommendations and help develop programs to make mailing simple, efficient and effective.

At the local level, Postal Customer Councils provide similar opportunities for small businesses to interact with local postal management. We sponsor an annual National Postal Forum, where thousands of customers, suppliers and mailing industry partners gather to share information, learn of new developments and meet with postal officials.

Advertising, promotion and customer contact

Although the Postal Service and many of its products and services are familiar to most Americans, the constantly changing nature of our business requires us to exert every effort to improve customer awareness and understanding of our offerings. We have sales programs directed at large national mailers, as well as small- and medium-sized mailers. And we provide support for our employees at the local level to contact customers about relevant products and services.

Community involvement

USPS is a familiar and ubiquitous presence in communities across the nation. We have a long-standing and unique relationship with the American people. Our letter carriers have saved countless lives and homes through our carrier alert program. Postal employees donate millions of dollars every year to worthy causes through the Combined Federal Campaign, and provide support to other employees through leave exchange programs and the Postal Employees Relief Fund.

We support the annual letter carriers' Stamp Out Hunger food drive and the National Marrow Donor Program. We cooperate with Valassis, a major mailing industry partner, and the National Center for Missing and Exploited Children in a successful program to find missing children.

We also provide services for other government agencies, such as passports for the Department of State. We have supported successful "vote by mail" programs in several states. And our Postal Inspection Service supports fraud prevention programs with other agencies, and protects mail and postal customers from fraud and theft.

Workplace and work force management

Recruitment, training and development

Recently, recruitment of new employees has been limited by hiring freezes imposed as mail volume and workload has declined. However, we continue to selectively recruit employees for highly specialized technical and professional positions.

Carefully targeted training, development and succession planning programs also have continued despite our extreme financial restraints. The Postal Service maintains one of the largest learning management systems in the nation, blending classroom, online and on-the-job programs.

Diversity, inclusiveness and employee assistance

We also are one of the leading employers of minorities and women, and have consistently received recognition for our achievements in promoting diversity and inclusiveness. We provide our employees with a robust Employee Assistance Program, which supplies free, voluntary and confidential counseling from licensed professionals, who are available at all times in convenient locations nationwide and are supplemented by online assistance.

Our office of Workplace Environment Improvement also provides specialized assistance to work units where problems may be emerging. We also provide high-quality and timely complaint processing in line with U.S. Equal Employment Opportunity Commission requirements, including strong, prompt programs to prevent harassment of any kind.

Safety and injury compensation

Our continuous improvement in postal safety performance is due to employee and management collaboration on several efforts, including risk analysis, employee awareness, training and rigorous reporting and analysis. Employee participation and feedback on program effectiveness is a key component. The Postal Service focuses on specific issues such as lifting and related issues, driving skills, and dog-bite awareness. We maintain a number of worksites in the Voluntary Protection Program in cooperation with the Occupational Safety and Health Administration.

Pay for Performance

The Postal Service's Pay-for-Performance (PFP) program continued to drive organizational achievement during calendar year 2010. 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. For calendar years 2011 and 2012, salaries are frozen. For fiscal year 2011, no lumps sums are being paid due to the Postal Service's financial challenges.

Pay and benefits comparability

The law requires the Postal Service to provide compensation and benefits to employees at a level comparable to the private sector. The Postal Service continues to pursue comparability for employees represented by labor organizations and management associations, seeking reductions where compensation or benefits are above private sector levels. For postal executives, however, the law significantly limits the Postal Service's ability to achieve comparability with the private sector. The law does not provide the Postal Service with tools to compensate top postal executives at a level of top executives in similarly-sized companies.

Pursuant to Title 39 U.S.C. Section 3686(d), the Postal Service hereby reports that during calendar year 2010 the following persons received compensation in the amounts listed in excess of the rate for level 1 of Executive Schedule under section 5312 of title 5. The total compensation received by these individuals was well below comparable pay of executives in similarly-sized private sector companies.

| Name | Amount in Excess of Level 1 of the Executive Schedule |
|-----------------------------|--|
| Drew T. Aliperto | \$28,940 |
| Mitzi R. Betman | \$21,808 |
| Sylvester Black | \$21,237 |
| Megan J. Brennan | \$19,806 |
| Susan M. Brownell | \$8,785 |
| Ellis A. Burgoyne | \$19,960 |
| Joseph Corbett | \$67,208 |
| Guy J. Cottrell | \$608 |
| Thomas G. Day | \$8,537 |
| Vincent H. Devito Jr. | \$9,092 |
| Marie Therese Dominguez | \$5,708 |
| Patrick R. Donahoe | \$77,048 |
| John T. Edgar | \$523 |
| Jo Ann Feindt | \$20,537 |
| Steven J. Forte | \$44,644 |
| Deborah M. Giannoni-Jackson | \$8,061 |
| Mary A. Gibbons | \$50,931 |
| Dean J. Granholm | \$22,815 |
| Timothy C. Haney | \$29,419 |
| Stephen M. Kearney | \$29,984 |
| Delores J. Killete | \$4,531 |
| Linda A. Kingsley | \$21,322 |
| Susan M. LaChance | \$4,785 |
| Stephen J. Masse | \$14,646 |
| Pritha Mehra | \$24,291 |
| Julie S. Moore | \$3,612 |
| Susan M. Plonkey | \$20,438 |
| John E. Potter* | \$343,218 |
| Samuel M. Pulcrano | \$11,790 |
| Gary C. Reblin | \$12,638 |
| Maura Robinson | \$2,808 |
| Tom A. Samra | \$11,752 |
| Pranab M. Shah | \$11,722 |
| Jordan M. Small | \$29,575 |
| Douglas A. Tulino | \$5,861 |
| Anthony J. Vegliante | \$76,131 |
| Linda J. Welch | \$29,391 |
| David E. Williams Jr. | \$5,326 |

*Amount includes payments made upon separation from the Postal Service.

Labor relations and management association consultations

The Postal Service has nine collective bargaining agreements with seven different unions, representing more than 500,000 employees. Work on implementation and interpretation of these contracts is continuous, and processes have been developed to more efficiently manage contract disputes. We also continue to seek additional contract flexibility in staffing to meet operational needs more efficiently in a highly competitive delivery marketplace.

Throughout the year, senior management and key functional leaders consult with management organizations that represent our postmasters and supervisors. This allows association leaders to participate directly in the planning, development and implementation of major postal initiatives. It also provides a way for these leaders to provide feedback directly to USPS leadership, and provide informed, independent communications to their membership.

Employee communications and outreach

USPS is using sophisticated communication technology to provide services and information to employees. We have a Human Capital Enterprise System that has automated day-to-day personnel transactions, eliminated paperwork and expanded self-service access for employees. It is supported by a Human Resources Shared Services Center, which responds to thousands of employee calls daily.

Employees are informed of business conditions and changes through online sites (USPS has the world's largest intranet) and a growing number of video presentations from senior executives. Field management is supplied with material for employee talks, postings and direct distribution. Employee feedback is sought on a regular basis. Every quarter, one fourth of all career employees receive a survey at their work location. Participation is voluntary, confidential and on-the-clock. The survey is managed by an independent contractor, and results are analyzed and shared with employees as part of our workplace improvement programs.

High priority programs and initiatives

The Postal Service is a large and complex organization with many programs, activities, initiatives and functions. The purpose of this section is to highlight initiatives identified in 2011 as particularly important to the organization. These are long-term, cross-functional programs that support multiple goals and strategies.

Nine key initiatives were identified based on their contribution to strategic performance goals, the cross-functional collaboration required to accomplish them, the length of time it would take to implement them and the amount of resources they would require.

While achieving balance among the service, financial, and workplace goals remained important, our focus in 2011 was primarily on improving financial viability. Many of the key initiatives focused on achieving dramatic cost reductions.

| Initiative | Progress in FY2011 |
|---|--|
| 1. Intelligent Mail | We made substantial progress in improving our scanning infrastructure and processes. In addition, we improved collaboration with mailers and the mailing industry. In FY2011, the percentage of eligible workshared mail containing an Intelligent Mail barcode increased from 52% in quarter 1 to 72% in quarter 4. Mail using Postnet codes decreased from 44% to 25% for the same period. |
| 2. Flats Sequencing System | We also increased the percentage of flat mail sorted in delivery point sequence. As of Sept. 30, 100 flats sequencing machines had been deployed to cover nearly 1,400 zones and 43,000 routes. Twenty-three of the 46 sites have been operating six months or more. These sites cover more than 770 delivery zones and almost 20,000 routes. At these sites, 59% of flats on average are sorted in delivery point sequence with two sites scoring 79%. |
| 3. Expand Access | While retail revenue from customer visits to Post Offices declined by 10%, revenue from alternate channels increased by 12.1%. The effort to expand convenient customer access to postal services through these channels has successfully increased the share of revenue they generated to more than 35%. For example, PC Postage led the way with 28% revenue growth. Alternative access transactions have a lower per-dollar transaction rate than similar transactions at postal windows. |
| 4. Optimize Network | Network optimization is a complex and dynamic process that requires effective real estate asset management. In FY2011, interior space was reduced by over 4.4 million square feet from property disposals, lease terminations and leased space reductions. The annual rent paid to landlords was also reduced by over \$140 million compared to FY2010. |
| 5. Flexible Workforce | Our goal is to effectively manage complement and scheduling to reduce work hours and the cost of those hours. We have successfully reduced both in FY2011, and our agreement with the American Postal Workers Union will enable further improvements in flexibility and cost. In FY2011, the average work hour rate was \$41.60, which was below the FY2011 Integrated Financial Plan rate for bargaining unit and casual employee wages, benefits and contractual wage increases. |
| 6. Reduce Energy Use | From FY2008 through FY2010 the Postal Service reduced Scope 1, 2 and 3 greenhouse gas emissions by 8% — the equivalent of taking more than 204,000 passenger vehicles off the road. Since the baseline year of 2003, USPS has reduced facility energy use by 29.4% and energy intensity 28.3% for EPAct goal subject buildings. ¹ |
| 7. Reduce Delivery Costs | The Postal Service increased the average number of deliveries per route to 592 from 569 despite 636,530 more delivery points and the overall decline of mail volume. The implementation of our Flats Sequencing System resulted in a reduction of about 4,250 routes and 154,000 rural work hours. Non-FSS route evaluations identified about 2,100 more routes that were also eliminated. Sequencing performance of letter mail also improved, which saved even more time in the office for letter carriers. |
| 8. Expand Products, Services, and Features | In FY2011, the Postal Service unveiled 23 new products, services and features, exceeding our goal of 15. Renewed focus on responding to customer input, and to suggestions made at our innovations symposia, contributed to this achievement. Eleven of the changes we made were aimed at improving service to mailers by providing easy and convenient ways to develop direct mail online and manage customers' mail more efficiently. Twelve new products, including multiple new shipping services, were created to attract new mailers by making it easier for them to use mail to help grow their businesses. |
| 9. Address Legislative Requirements for Funding | The Postal Service has supported an extensive outreach program to Congress and stakeholders, along with the Postal Regulatory Commission, the Postal Service Office of the Inspector General and others. Legislation addressing several of the critical issues is under development or has been introduced (<i>HR2309, HR2967, HR3174, S1625 and S1688</i>). |

¹ The Annual Sustainability Report for FY2011 will be available in the spring of 2012. The data referenced is from the FY2010 report.

Managing strategic initiatives

During FY2011, management recognized that the scope, scale and pace of necessary organizational change required significant improvement in our management of strategic projects. Following a detailed review of industry best practices, and with advice from recognized private-sector experts, we began implementing a rigorous, disciplined process for developing, reviewing and tracking strategic initiatives.

In addition, we began to increase the development of project management skills throughout our organization and began establishing project management offices within functions.

During FY2011, mail volume decline, financial disruptions and significant structural change affected our priority programs. As a result of recently implemented changes in our strategic initiative management, our stakeholders can expect more details on more programs in FY2012.

Oversight

The Postal Service is an independent agency of the federal government. Since we are not funded by appropriations, we aren't directly subject to many of the requirements of the Office of Management and Budget (OMB) concerning budgetary submissions. However, we do follow OMB's guidelines to federal agencies. USPS also regularly testifies before congressional committees on a variety of issues, including our annual oversight hearings.

The Postal Regulatory Commission (PRC)

The Postal Service funds the independent PRC, which has broad authority to review postal pricing, service performance, product development and related issues. Postal filings, public comments and Commission actions can be accessed at www.prc.gov.

The Office of the Inspector General (OIG)

The Postal Service also funds the independent OIG, which conducts audits and reviews of postal programs. It conducts broad research on postal policy issues and makes recommendations. Recent audits, reviews and research reports can be accessed at www.oig.gov.

The Government Accountability Office (GAO)

The GAO also conducts audits and reviews of postal programs. Recent results are available at www.gao.gov.

The 2011 Annual Performance Report and 2012 Annual Performance Plan

TRANSPARENCY

The Postal Service publishes a number of reports that are responsive to different legislative requirements. They provide stakeholders with an accounting of our activities and results. To avoid duplication and improve consistency, our *Annual Report to Congress*, the *Comprehensive Statement on Postal Operations*, and our *Annual Performance Report and Plan* are combined in this single document.

Strategic Objectives

- Improve service
- Improve financial performance
- Improve safety and employee engagement

Performance management

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

Since implementation of the Government Performance and Results Act (GPRA) in 1993, we have maintained the same three corporate strategic goals: improve service, employee engagement and financial performance. These goals balance the interests of customers, policy-makers and employees. Relentless focus on these goals has helped the Postal Service and its stakeholders develop a clear understanding of what is important and has led to significant and consistent improvement in performance.

Planning

The Postal Service begins our planning process with a review of the business environment, focusing on recent performance trends and external events. In 2010, we highlighted serious issues requiring legislative action and published *Ensuring a Viable Postal Service for America: An Action Plan for the Future*. This report described the conditions driving our unfavorable financial position and outlined a plan to address key issues. Management established a set of high-priority actions within its control and committed to reducing costs and improving service.

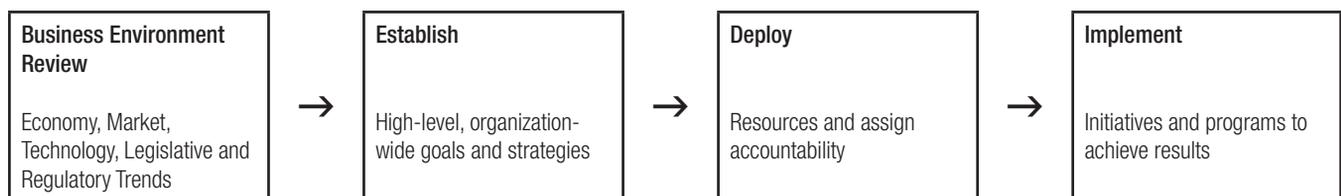
The planning process includes setting corporate-wide goals and relevant functional and unit goals, deploying resources to accomplish those goals, and developing strategies, initiatives, and programs to implement them to achieve our desired results. Performance is continuously reviewed at all levels of our organization.

Establish

Our high-level organization-wide goals and objectives are published in our Annual Performance Plan.

The plan explains how results will be measured and describes any indicator or measurement changes from prior years. Objectives are set based on a review of current business conditions and future operational and market requirements. Requirements are reviewed in the context of the resources expected to be available (see *Integrated Financial Plan*). For most organization-wide performance indicators, the Postal Service has reached a sufficiently high level of performance that maintenance and incremental improvement is expected.

The planning process



Review performance and make adjustments throughout the year

Deploy

Once corporate objectives are established, the Postal Service sets improvement goals and assigns accountability for achieving them down to the area, district, unit and individual levels. Budgets are developed based on the corporate-wide budget.

Tailoring objectives to specific functions ensures that managers are accountable for results within their 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. *(Note: due to our current financial condition, these adjustments have been suspended.)*

Implement

Strategies, initiatives and programs are developed to achieve objectives. During FY2011, it became clear that the scope, scale and pace of needed changes required additional management attention. A Strategic Management Office was created to assist our leadership team in developing a disciplined focus to identify high-priority initiatives, ensure cross-functional collaboration, maintain adherence to program schedules, achieve milestones and review results.

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 Annual Performance Report provides results against the prior year's high-level organization-wide performance targets. It provides a baseline of performance trends for the last several years to evaluate performance. It does not provide detailed data at the program level, but does describe the performance reporting tools and measurement systems used.

SERVICE PERFORMANCE

The Postal Service is committed to providing timely, reliable, accurate and secure universal delivery of mail and packages. It has developed and continues to enhance a comprehensive reporting system to measure the performance of all mail categories. *(Note: competitive service performance is not reported publicly.)*

The Postal Service has used single-piece First-Class Mail service performance as a model for service performance reporting and management. This category of mail is most familiar to our stakeholders. We also measure service performance for other categories of mail (Presort First-Class, Standard, Periodicals, Package Services, and Special Services). Measurement methods and quarterly service performance results are reported on the USPS website at <http://about.usps.com/what-we-are-doing/service-performance/welcome.htm>.

Detailed information on service performance standards and measurement systems is available in the *Annual Compliance Report (ACR)* to the Postal Regulatory Commission (see <http://www.prc.gov/prc-pages/dockets-search/default.aspx> and select ACR by year).

Organization-Wide Goals

| Goal | Performance Indicator | 2009 Actual | 2010 Actual | 2011 Plan | 2011 Actual | 2012 Plan |
|--|--------------------------------|-------------|-------------|-----------|-------------|------------------|
| Improve Service ¹ | FCM Overnight | 96.2% | 96.36% | 96.65% | 96.23% | 96.65% |
| | FCM 2-day | 93.7% | 93.71% | 94.15% | 93.34% | 94.15% |
| | FCM 3-day | 92.2% | 92.44% | 92.85% | 91.87% | 92.85% |
| Improve Financial Performance | Operating Income (\$ billions) | NA | NA | (0.9) | (2.2) | (3.0) |
| | Deliveries per Work Hour | NA | NA | 40.4 | 39.9 | 42.2 |
| Improve Safety and Employee Engagement | OSHA Injury and Illness Rate | 5.62 | 5.49 | 5.39 | 5.67 | 5.57 |
| | VOE Survey | 64.0 | 62.3 | 64.5 | 64.7 | TBD ² |

¹ Note: First-Class Mail (FCM) Performance Indicator scores reported for 2010 forward are based on National Performance Assessment (NPA) calculations.

² The VOE 2012 Plan is pending approval by the Postal Service Executive Leadership Team.

The last decade has seen a steady improvement in service performance and customer satisfaction results. This performance has remained consistent as volume has declined and substantial reductions have been made in the workforce since 2008. These results are due to:

- The dedication and hard work of postal employees at all levels of the organization.
- The availability of improved data and analytical techniques on performance that enable employees and mailers to take informed action.
- Close collaboration with partners and suppliers, including the use of competitors such as FedEx and UPS, to move the mail on the most efficient transportation network available.
- Continuing improvements to automation equipment and software, including the use of Intelligent Mail barcodes.
- The use of tools and techniques such as standardization, optimization and Lean Six Sigma to identify root causes of problems and relevant solutions at program and system-wide levels.
- Prompt action at the local level through customer support programs such as the Business Service Network and the Customer Experience Measurement program.
- Collaborative approaches to problem resolution with customers and the mailing industry through the Mailer's Technical Advisory Committee and other forums.

Service performance notes

- More than 55 percent of single-piece First-Class Mail receives overnight service. About 44 percent of this category currently receives two-to-three day service. Most single-piece First-Class Mail with a three-, four- or five-day service standard is actually delivered within three days. Only 0.27 percent of single-piece First-Class Mail volume has a four- or five-day service standard, and usually requires additional contract transportation outside the contiguous 48 states, such as mail to or from Hawaii, Alaska and Puerto Rico. This performance profile will be adjusted as service standards change.
- Natural disasters in different parts of the U.S. affected the ability of the Postal Service to move the mail as reflected in 2011 service scores that were slightly below Plan. The Postal Service has also been undergoing organizational realignment, which although nonquantifiable, did divert some attention from service performance.

Service performance measurement systems

- Since the 1990s, single-piece First-Class Mail has been measured by an independent third-party using a sampling system that records transit times between deposit and delivery of mailpieces. The sampling process has expanded and become more rigorous over time to include almost all originating and destinating ZIP Codes. Test pieces include both standard-size letters and large envelopes. In 2009, First-Class Mail parcels were included

in measurement through the use of tracking parcels having Delivery Confirmation. First-Class Mail International mail is not included in the national goal, but is measured and reported separately.

- Delivery service is a major component of our customers' experience. However, other factors are also important to customers. USPS maintains one of the nation's largest customer experience measurement programs, using surveys for consumers, small businesses and commercial customers. These surveys are supplemented by independent mystery shopper reports, and analysis of complaints and telephone calls to our customer contact centers and to our Business Service Network. We are also included in independent national customer satisfaction surveys, such as those conducted by the American Customer Satisfaction Center (www.theacsi.org). Results have been very favorable and showed our continuous improvement.

FINANCIAL PERFORMANCE

Our Annual Report on Form 10-K as filed with the Postal Regulatory Commission, supplemented by online filings, details the financial performance of the Postal Service. Our fundamental goal is to generate income sufficient to fully fund operations and invest in improvements for the future. The Postal Reorganization Act of 1970 created the Postal Service as an independent entity of the federal government, with the responsibility to become self-sufficient. At the time, about 20 percent of the postal budget was provided through appropriations. USPS succeeded in eliminating public subsidies by 1983. We since have operated as a break-even organization, with postage rates increasing at about the rate of inflation in the general economy. The Postal Accountability and Enhancement Act of 2006 allowed the Postal Service to generate profits, but at the same time imposed additional costs, including the requirement to pre-fund retiree healthcare benefits.

This requirement caused financial distortions that made total revenue less useful as an indicator of postal financial performance and obscured actual operating results. This was described in the March 2, 2010, *Ensuring A Viable Postal Service for America: An Action Plan for the Future*. Total revenue was replaced by operating income for FY2011.

In FY2011, a new indicator — deliveries per work hour — was established to focus on our largest operating cost. This measure gets to the root of one of the Postal Service's core challenges — the growing number of delivery points, which increase between .5 and 1.5 million each year, depending on the economy, while mail volume continues to decline.

Deliveries per Work Hour

| Performance Indicator | 2009 Actual | 2010 Actual | 2011 Plan | 2011 Actual |
|--------------------------|-------------|-------------|-----------|-------------|
| Deliveries per Work Hour | NA | NA | 40.4 | 39.9 |

The total number of deliveries is the number of delivery points multiplied by the number of delivery days. It includes all types of delivery. This is divided by the total number of work hours used in all employee categories, including managers and executives. The result is the number of annual deliveries completed per work hour used.

This measure replaced total factor productivity (TFP), which is an aggregate measure useful for measuring long-term organization-wide trends, but is less relevant as a functional and unit indicator and, as a technical measure, is less easily explained. The Postal Service will continue to measure and use TFP where it is appropriate.

Financial measurement systems

USPS employs a disciplined process that conforms to rigorous requirements of financial reporting and is required by the Postal Accountability and Enhancement Act of 2006 to follow certain rules and regulations of the Securities and Exchange Commission in filing Quarterly Reports on Form 10-Q and the Annual Report on Form 10-K. Accounting systems and financial reports are independently audited, and are subject to review by the Office of the Inspector General and the Government Accountability Office. Financial procedures are protected against abuse by investigations conducted by the Postal Inspection Service.

SAFETY AND EMPLOYEE ENGAGEMENT

The Postal Service has developed an excellent safety program and has achieved remarkable improvement over time. Work-related injury rates have been reduced by almost 50 percent over the last 10 years. However, safety is an issue that requires constant vigilance and continuous improvement. The Injury and Illness rate is calculated using an industry-wide formula required by the Occupational Safety and Health Administration (OSHA): Total number of OSHA injuries and illnesses (multiplied) by 200,000 hours (divided) by the number of exposure hours worked by all employees. The 200,000 hours represents 100 employees working 2,000 hours per year. It provides the standard base for calculating incidence rates. The Postal Service is also subject to audits and inspections.

As important as safety is, it is only a part of the total workplace environment. USPS tracks employee engagement and workplace concerns with one of the largest employee surveys in the nation. It is conducted by an independent third-party, and allows confidential, voluntary, on-the-clock responses to a series of relevant questions. We use best practices from current research and focus on issues that can be addressed at the local level. Every quarter, one fourth of all employees receive the survey. It is an important diagnostic tool, assessing a broad range of issues.

The performance indicator is an index consisting of employee responses to key questions. The score is the average of favorable responses.

Voice of the Employee Survey Index Questions

| Issue | Survey Question |
|-----------------------------|--|
| 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 USPS 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 values diversity of backgrounds, talents and perspectives.* |
| Commitment | I feel personally responsible for helping the Postal Service succeed as a business. |
| Personal Safety | I receive information to perform my job safely.** |
| Work Effort and Quality | I understand how the work I do impacts the service the Postal Service provides. |

Survey responses have remained remarkably positive despite the challenges faced by the Postal Service and its employees. A dramatic reduction in the number of employees over the past few years has altered the workplace, and the scope, scale and pace of change affects employee attitudes. As the Postal Service continues to make substantial operating changes in FY2012, the quarterly Voice of the Employee surveys will be a key means of monitoring employee attitudes about their work environment and engagement with the organization.

**In FY2011 the wording of this survey question was changed from "The Postal Service promotes diversity of backgrounds, talents and perspectives" to "The Postal Service values diversity of backgrounds, talents and perspectives."*

***In FY2011 this question replaced "Rate the physical working conditions in your work unit" which was used in FY2010.*

Trademarks

The following are among the trademarks owned by the United States Postal Service: ACS™, APC®, Automated Postal Center®, Carrier Pickup™, CASS™, CASS Certified™, Certified Mail™, Click-N-Ship®, Confirm®, Customized MarketMail®, Delivery Confirmation™, DMM®, EPM®, Express Mail®, FAST®, FASTforward®, First-Class™, First-Class Mail®, Full-Service ACS™, IM™, IMb™, Intelligent Mail®, LACSLink™, MASS™, MERLIN®, Mover's Guide®, NCOALink®, Netpost®, Netpost Mailing Online™, OneCode ACS®, OneCode Confirm®, OneCode Solution™, OneCode Vision®, Parcel Post®, Parcel Select®, PC Postage®, PLANET®, PLANET Code®, Post Office™, PostalOne!®, Postal Service™, POSTNET™, Priority Mail®, Quick, Easy, Convenient™, RDI™, ReadyPost®, REDRESS®, Registered Mail™, RIBBS®, Signature Confirmation™, Simple Formulas®, Stamps by Mail®, Standard Mail®, The Postal Store®, United States Postal Service®, U.S. Mail™, U.S. Postal Service®, USPS®, USPS Electronic Postmark®, USPS.COM®, www.usps.com®, ZIP+4®, and ZIP Code™. This is not a comprehensive list of all Postal Service trademarks.

Mail.dat®, Mail.XML® and IDEAlliance® are trademarks owned by the International Digital Enterprise Alliance.

Year references

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

Military mail photos

Inside front cover: Lance Cpl. Megan Sindelar. Back cover: Photographer's Mate 3rd Class Mark J. Rebilas.



The *2011 Annual Report to Congress and Comprehensive Statement on Postal Operations* is published by:

United States Postal Service
Corporate Communications
475 L'Enfant Plaza, SW
Washington, DC 20260-3100

Read this publication online at:
[http://about.usps.com/
publications/annual-report-
comprehensive-statement-2011/
welcome.htm](http://about.usps.com/publications/annual-report-comprehensive-statement-2011/welcome.htm).

© 2011 United States Postal
Service.
All rights reserved.

Production notes for the printed
version:

Paper stock: Rolland Enviro
100 Print 70lb text white; Rolland
Enviro 100 Print 80lb cover
white.

Paper stock is 100 post-con-
sumer paper, certified EcoLogo,
processed chlorine free, FSC
recycled and manufactured by
Cascade using biogas energy.
This report is printed using envi-
ronmentally safe inks.