



## NETWORK OPTIMIZATION

Continued drastic declines in mail volume and the widening gap between revenues and expenses have caused a crisis for the United States Postal Service and for postal customers who depend upon it. The Postal Service is taking every action within its control to address this challenge. It is moving aggressively to right-size the mail processing network, including consolidating facilities and proposing the revision of service standards and entry times, in response to excess capacity and to the nation's changing use of mail.

From fiscal year 2001 through fiscal year 2010, single-piece First-Class Mail declined approximately 42 percent. At the same time, deployment of automated mail processing equipment allowed the Postal Service to sort mail more efficiently than ever. In many cases, larger mailers are entering mail closer to its final delivery point, bypassing many Postal Service processing and transportation operations. Considered together, these factors have created excess processing capacity at many postal facilities where mail is sorted.

### Urgent Financial Situation:

- The Postal Service continues to face tremendous financial challenges. Financial results for FY 2010 showed a loss of \$8.5 billion. Year-to-date losses are \$5.7 billion for the 9 months ending June 2011.
- The Postal Service will reach a critical point, when it hits its \$15 billion statutory borrowing limit and its required payment of \$5.5 billion to prefund retiree health benefits is due. As previously announced, the Postal Service will be forced to default on its obligation to prefund retiree health benefits.
- The Postal Service receives no tax dollars for operating expenses, and relies on the sale of postage, products and services to fund its operations.

### Support for Network Optimization:

The Postal Service has been streamlining its mail processing network by consolidating processing operations and facilities, optimizing transportation and workhours, and increasing machine utilization. These efforts to rationalize the network receive strong support both through law and by oversight agencies.

### Postal Accountability and Enhancement Act (PAEA)

“...the Postal Service has more facilities than it needs and the streamlining of this distribution network can pave the way for the potential consolidation of sorting facilities and the elimination of excess costs;” – PAEA Section 302

### Government Accountability Office (GAO)

“USPS urgently needs to restructure its networks and operations as its financial condition and outlook are reaching a crisis.” – Dire Financial Outlook and Changing Mail Use Require Network Restructuring, 6/15/11

### USPS Office of the Inspector General (USPS OIG)

“A vast and complex network of processing facilities and transportation links was created... This legacy network was built for a different time and different level of processing capabilities, mail mix, and volume growth.” – A Strategy for a Future Mail Processing & Transportation Network, 7/6/11

### **Proposed Network Optimization Concept:**

- The proposed network optimization concept is to revise First-Class Mail (FCM) service standards (the time it takes for mail to be delivered.) Under the proposal, FCM standards would be modified from 1-3 days to 2-3 days.
- This change allows for full facility consolidation opportunities through operating window changes. The current network of processing facilities is constrained by operating windows designed to meet FCM overnight service. Longer operating windows allow for less equipment, fewer facilities, and fewer employee workhours.
- The Postal Service would use its existing plant infrastructure to consolidate processing. Over 200 processing facilities will be studied using the Postal Service’s existing Area Mail Processing (AMP) study process.
- Most importantly, this change sets up an optimal network for the future, matching capacity to future First-Class Mail volume declines. The future network will require significantly less equipment, facilities, and employees.

### **Summary:**

The Postal Service must take every action to right-size the mail processing network in response to excess capacity and to the nation’s changing use of mail. Our commitment to providing excellent delivery service and connecting senders and receivers across the nation remains unchanged.

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## **Area Mail Processing (AMP) Overview**

In September 2011, the Postal Service announced an initiative designed to address the ongoing need to streamline the Postal Service's infrastructure. The Network Optimization concept calls for the use of Area Mail Processing (AMP) studies to consolidate mail processing operations within the existing structure.

In order to better match capacity and mail volume, the Postal Service plans to study more than 200 facilities and reduce the current number of 508 processing locations. To assist Congressional staffers with understanding AMP studies and to ensure they are able to respond to constituent questions, we are providing an overview of the AMP process.

### **What is an AMP study?**

An Area Mail Processing (AMP) study is conducted to carefully analyze the feasibility of relocating mail processing and distribution operations, and necessary support functions, from one location to another. It considers the effect on costs, service, and productivity, as well as impacts on employees, the community, and customers.

### **How is an AMP study conducted?**

An AMP study can be initiated at the local postal level or at the national level. For the studies announced on Sept. 15, 2011, the Postal Service used a national level approach to identify candidate sites for consolidation. The Postal Service began by using a model to identify excess capacity within the network, based on geographic mailing trends, facility space and operational needs.

The results of this modeling effort were sent to postal Districts and Areas, in order to obtain local knowledge regarding processing operations, facilities, and network infrastructure. Criteria used by local leadership to evaluate potential locations included: requirements to minimize excess capacity within the network, an analysis of distances between plants and subordinate ZIP Codes, and analyses of logistical networks.

### **What happens once a site is selected for an AMP study?**

Once a site for consolidation is identified, the Postal Service commences the AMP process. A combination of postal District, Area, Headquarters staffs notify employee organizations, employees, appropriate local, state and federal elected officials, media, community organizations, and major mailers of the intent to study the feasibility of consolidating the mail processing operations.

Local District staff evaluate the facility operating plan to look at factors such as the processing window for mail sent from the losing installation to the gaining installation, and the return of that processed mail for dispatch to surrounding Post Offices, Stations and Branches. Adjustments to transportation are reviewed to determine any increase or decrease in costs.

Both facility and processing equipment capacities are examined to determine if the gaining site can handle the additional workload. Delivery service standards (the established national standards for the transport and delivery of mail from the time it enters the mailstream until it is delivered at its intended destination) are examined to determine if the consolidation could result in any changes to service. The impact on overall costs and productivity is considered.

### **What about effects on employees?**

Potential impacts on the workforce are thoroughly reviewed. The AMP study looks at the numbers and types of positions at the losing installation and determines how many positions, if any, will remain at that site to perform the work. An assessment of the workload that will be transferred to the gaining installation is undertaken to determine how many positions will need to be transferred to that site.

All data collected is entered onto standardized worksheets. Worksheets include communication notifications, work hour savings/costs, employee impacts, service commitments, distribution changes, transportation savings/costs, annual associated and one-time costs, and equipment relocation.

### **What is the timeline for an AMP study?**

The local postal District has approximately one month to analyze this data. After analysis, a determination is made to advance the AMP proposal to the next higher level (the postal Area office) for consideration. Then, a public input meeting is scheduled and public comments are solicited. The study next undergoes a review by postal Headquarters. The review lasts approximately two months, after which the proposal is sent to the Area office and the Vice President, Network Operations for final approval.

### **How does the Postal Service save money with these AMP studies?**

There are several major categories of savings derived from an AMP facility consolidation, including mail processing work hour savings, maintenance parts and labor savings, and transportation savings. Savings are obtained by using fewer resources to process and transport mail in one site than in two separate sites.

Mail processing facilities are equipped and staffed to begin processing mail in the afternoon and throughout the night, in order to prepare mail for delivery the next day. Given mail volume declines, particularly Single-Piece First-Class Mail, there is less mail processed in these facilities and more idle time for both employees and equipment.

A site is a candidate for an AMP study when it is possible for transportation to be put in place to allow the gaining site to process mail in the target operating window, and when the gaining site has excess capacity. The result is a lower cost structure, due to fewer pieces of mail processing equipment, increased machine utilization rates, fewer work hours, lower maintenance costs, and fewer managers.

Transportation savings are often realized in a consolidation. The Postal Service has a vast transportation network, which includes surface and air trips between almost 500 mail processing facilities. Even though mail volumes have declined and less mail is being transported, the Postal Service must maintain a base level of transportation to and from each of these facilities.

When a facility is consolidated, it eliminates the transportation going to and from that facility. While some additional local transportation may be required, the total number of miles driven or flown in the network is reduced and the space utilization on transportation is increased.

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Additional information regarding the AMP process can be found at:  
<http://about.usps.com/streamlining-operations/area-mail-processing.htm>

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## **Postal Service Filing to Revise Service Standards**

Continued drastic declines in First-Class Mail volume and the resulting widening gap between revenues and expenses are significant contributors to the current financial crisis within the United States Postal Service. The effects of this crisis are felt by millions of postal customers who depend upon the service each and every day. The Postal Service has, for several years, continued to take actions within its control to address this challenge, and believes it can reduce costs considerably by modifying certain service standards in a way that enables a substantial consolidation of its mail processing and transportation networks.

A service standard is a stated goal for service achievement for a mail class. It represents the number of days it takes to deliver mail between specific ZIP Codes within the United States and its territories. Modifying service standards would allow the Postal Service to continue to meet the needs of mail senders and recipients while using and funding a much leaner infrastructure.

The Postal Service has set an aggressive, but achievable goal of reducing its operating costs by \$20 billion by 2015, in order to ensure a return to profitability. The proposed changes to service standards will allow for significant consolidation of the postal network in terms of facilities, processing equipment, vehicles and employee workforce and will save the Postal Service a projected annual net savings of \$2.1 billion.

### **Filing Process and Timeline:**

On December 5, 2011, the Postal Service will transmit to the Postal Regulatory Commission (PRC) a request for an advisory opinion regarding service standard revisions associated with a significant rationalization of its mail processing network. Shortly thereafter, the Postal Service will publish a notice in the *Federal Register* soliciting public comment on the proposed service standard changes.

If a change in service is substantially nationwide in scope, the Postal Service is required to request a nonbinding advisory opinion from the PRC. The Postal Service must then wait a minimum of 90 days before implementing any change.

The December 5 filing is a continuation of a process set in motion on September 15, 2011, when the Postal Service announced it would begin studying mail processing facilities for possible closure. At that time, the Postal Service announced it was considering changing service standards and an Advance Notice of Proposed Rulemaking was filed with the *Federal Register* that day. The Postal Service, in an effort to remain responsive to customer concerns, altered its original proposal, based on the public comments received from the Advance Notice.

### **The Need to Better Match Demand:**

Since 2006, First-Class Mail has declined by 27 percent. At the same time, deployment of automated mail processing equipment allowed the Postal Service to sort mail more efficiently than ever. In many cases, larger mailers are entering mail closer to its final delivery point, bypassing many Postal Service processing and transportation operations. The combined affect of each of these factors has resulted in excess processing capacity at many postal facilities where mail is sorted.

To address this excess capacity and to respond to continuing calls to rightsize its network, the Postal Service is proposing comprehensive changes to service standards that will allow for significant consolidation of the postal network in terms of facilities, processing equipment, vehicles and employee workforce.

### **Proposed Service Changes:**

Currently, the postal network is tied to the overnight transit time in existing service standards. The model being proposed through the rulemaking process is to move First-Class Mail from a 1-3 day standard to a 2-3 day standard for contiguous U.S. destinations. Periodicals would change from a 1-9 day standard to a 2-9 day standard. To address concerns expressed by some mailers and to provide a solution for customers who still wish to receive overnight service, the Postal Service's proposal allows for mailers who properly prepare and enter mail prior to the day's critical entry time to have their mail delivered the following delivery day.

This change means the average customer will likely no longer receive mail the day after it is mailed. Other products will remain the same. Express Mail will continue to provide overnight service and Priority Mail will continue to be a 1-3 day product. It is expected that the change will have minimal impact on the average postal customer.

### **Support for Change:**

The Postal Service has, for some time, been relentlessly focused on streamlining its mail processing network by consolidating processing operations and facilities, optimizing transportation and workhours, and increasing machine utilization. These efforts are a direct response to both existing law and recommendations from various oversight agencies.

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More information can be found at the following site:

<http://about.usps.com/news/electronic-press-kits/our-future-network/welcome.htm>

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# POSTAL NEWS

FOR IMMEDIATE RELEASE  
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## Postal Service Progresses With Operational Efficiencies Proposal to Change Service Standards Filed with PRC

WASHINGTON — The U.S. Postal Service today announced it will move forward with its proposal to change service standards. This action is being taken in response to on-going financial challenges caused by the dramatic and continual decline in First-Class Mail volume and the resulting revenue loss.

"The U.S. Postal Service must reduce its operating costs by \$20 billion by 2015 in order to return to profitability," said David Williams, vice president, Network Operations. "The proposed changes to service standards will allow for significant consolidation of the postal network in terms of facilities, processing equipment, vehicles and employee workforce and will generate projected net annual savings of approximately \$2.1 billion." This is part of the overall savings expected from the network optimization initiative, which is projected to save up to \$3 billion by 2015.

The size of the existing Postal Service network is dictated by the current overnight transit time in existing service standards. The Postal Service is proposing, through the rulemaking process, to move First-Class Mail to a 2-3 day standard for contiguous U.S. destinations; however, there would be an opportunity for mailers who properly prepare and enter mail at the destinating processing facility prior to the day's critical entry time to have their mail delivered the following delivery day.

On Sep. 15, the Postal Service announced it would begin studying 252 out of 487 mail processing facilities for possible closure. At that time, the Postal Service also announced it would be considering changes to service standards in an Advance Notice of Proposed Rulemaking published in the *Federal Register*. The Advance Notice filing was a formal effort to gather input from the public early in the process to ensure their views can be factored into the service change proposal.

The Postal Service will send to the Postal Regulatory Commission (PRC) a request for an advisory opinion regarding service standard changes associated with a significant rationalization of its mail processing network. Shortly thereafter, the Postal Service will publish a notice in the *Federal Register* soliciting public comment on the specific proposed changes.

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**Please Note:** For broadcast quality video and audio, photo stills and other media resources, visit the USPS Newsroom at <http://about.usps.com/news/welcome.htm>.

For reporters interested in speaking with a regional Postal Service public relations professional on this issue, please go to <http://about.usps.com/news/media-contacts/usps-local-media-contacts.pdf>.

A self-supporting government enterprise, the U.S. Postal Service is the only delivery service that reaches every address in the nation, 151 million residences, businesses and Post Office Boxes. The Postal Service receives no tax dollars for operating expenses, and relies on the sale of postage, products and services to fund its operations. With nearly 32,000 Postal Service-managed retail locations and the most frequently visited website in the federal government, *usps.com*, the Postal Service has annual revenue of more than \$65 billion and delivers nearly 40 percent of the world's mail. If it were a private sector company, the U.S. Postal Service would rank 35th in the 2011 Fortune 500. *Black Enterprise* and *Hispanic Business* magazines ranked the Postal Service as a leader in workforce diversity. The Postal Service has been named the Most Trusted Government Agency six consecutive years and the sixth Most Trusted Business in the nation by the Ponemon Institute.