

# Into the future

HOW FAR WILL TECHNOLOGY GO IN INFLUENCING THE FUTURE OF THE USPS AND WHAT IMPACT WILL IT HAVE ON COST SAVINGS?

**Much has been written** about the rise of electronic messaging and the possibility that it may render letters and postcards as obsolete as oil lamps and carbon copies in the USA and Europe. But news of the written letter's demise has been greatly exaggerated.

American households sent and received 15 billion pieces of written correspondence in 2006. And according to a 2008 report published by Pitney Bowes, at a time when email use is more popular than ever, per capita postal mail has held steady in recent years in both the USA and Europe.

However as any mailbox owner knows, the composition of mail has changed considerably in recent decades. US households receive seven times more mail than they send, while 85 percent of what they receive is sent by businesses.

A senior USPS decision maker observed in testimony given in the US Congress last year: "First-class mail, particularly single piece first-class mail, is no longer growing steadily. Standard mail, which contributes

considerably less than first-class mail to the postal service's institutional costs, now comprises the majority of its volume."

This is largely the result of a strategy by postal service executives to increase the success of the mail by introducing volume discounts to corporate mailers including advertisers, financial institutions and non-profit fundraisers. According to USPS management, the work-sharing system holds benefits not only for the service but also for mailers, the mailing industry and consumers. So while European countries pursue liberalisation of the postal sector, work sharing and new technology have become the main parts of the major reform strategy of US postal decision makers.

The advent of Intelligent Mail, for instance, is often described as the foremost innovation that embraces both strategies. Although intelligent barcodes were introduced in 2006, their use has advanced so that all mailers seeking automation discounts will be required to use them from January 2009.

Meanwhile the shifting composition of the mail, as well as other factors, dictates an evolving role for the USPS. As the agency's officials have noted in public statements, two economic sectors that have endured the sharpest downturns in the USA over the past year – housing and financial – are prime drivers of postal mail volume.

Throughout the changing postal landscape, Americans have expressed their preferences for preserving the USPS with its universal service obligation, largely in its present form. Although political realities have made the closure and consolidation of local post offices a near impossibility, these preferences also extend to daily mail delivery. A recent survey by the Pew Research Center asked how many Americans send or receive emails at least occasionally, and published the following results: American adults (75 percent), households with annual incomes under US\$30,000 (61 percent), African Americans (56 percent), and adults over 65 years old (37 percent). These consumers particularly depend on the postal service and the timely and reliable delivery of its market-dominant products.

So given the changing landscape how can the agency best adapt to meet the needs of consumers and its customers? And how will technology support that role in the future? USPS continues to invest in technology to expand automated mail processing to improve efficiency and service. The service's initial letter

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automation efforts date back three decades, when efforts began to sort mail to major destinations and post offices. In 1993 the postal service started using high-speed automated equipment to sort letters in delivery order. It currently uses 7,000 machines to sequence 120 billion letter pieces annually, generating savings of US\$5 billion. Enhancements continue with the recent addition of an automated forwarding system upgrade, which can intercept mail en route and forward it when mail recipients change address.

USPS's flat mail automation system began taking shape at the beginning of the decade, with the deployment of advanced flat sorting machines. Today 534 of these machines sort mail to carrier level throughout the USA.

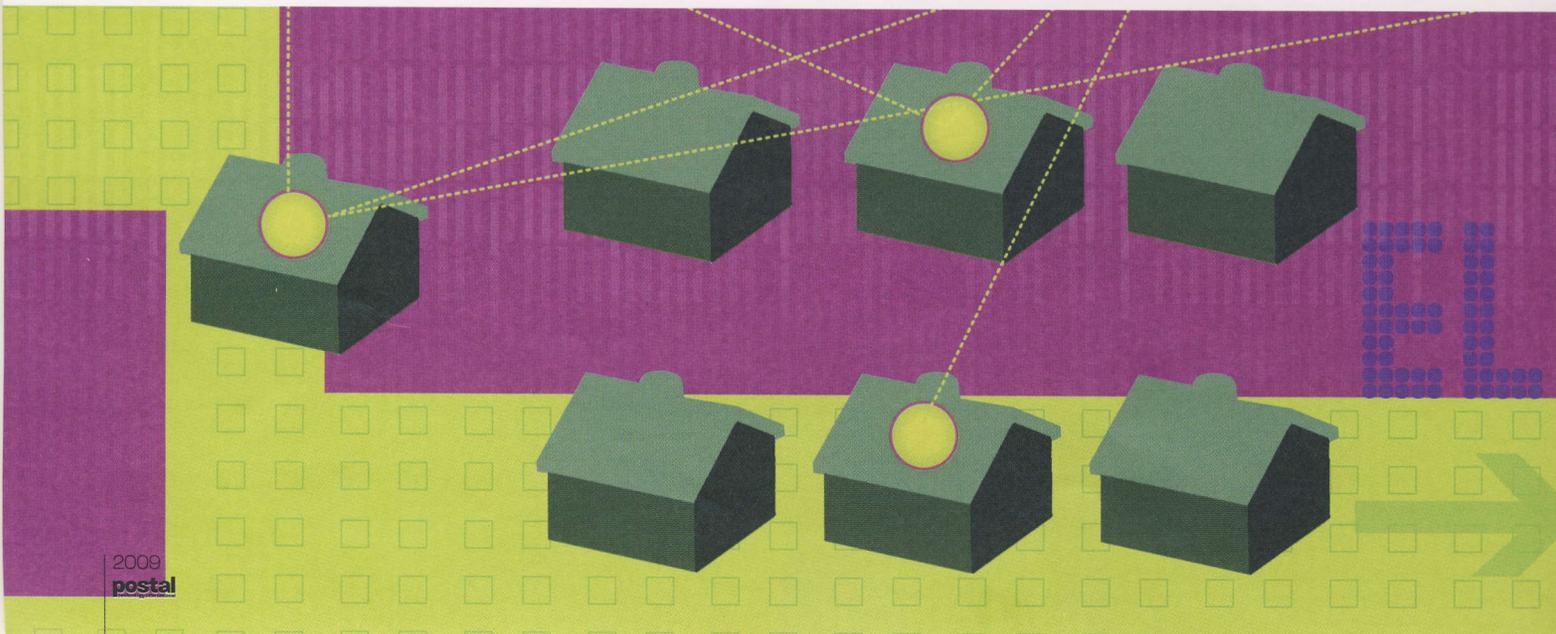
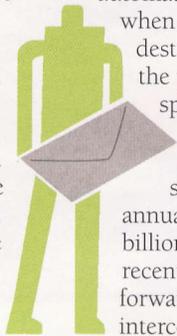
Perhaps even more impressive are recent efforts to use automation to place flat-shaped pieces into delivery order. The first of 100 flats sequencing systems has been deployed and can place mail in delivery sequence at a rate of 16,500 pieces per hour – about six pieces per second.

But to what extent will the postal service be permitted to make the necessary

structural changes to achieve meaningful savings due to lower labour costs – in effect making the technology investments commercially sound? The Postal Accountability and Enhancement Act (PAEA) signed by George W. Bush in 2006 – the first major congressional action to reform the postal service in three decades – has dictated some fundamental changes in strategy. Among its major provisions are a distinction between market-dominant and competitive product offerings and a hard rate cap for market-dominant products maintained at the rate of inflation.

According to the 2006 law, market-dominant products include single-piece international mail as well as first-class letters and sealed parcels, first-class cards, periodicals, standard mail, single-piece parcel post, media mail, bound printed matter and library mail. Competitive products include priority mail, bulk international mail, expedited mail, bulk parcel post and mailgrams, among others.

One major challenge for the postal service will be to maintain the steady increases in total factor productivity that it has achieved over the past eight years. Cost cutting has been a major element driving



these gains and must remain so for the trend to continue. As the nation's second-largest employer, with over 680,000 career employees in 2007, more than 80 percent of the USPS's operating costs are labour expenses. According to the Congressional Research Service, the size of the postal service's overall workforce has changed only slightly during the past two decades, decreasing from 799,800 employees in 1987 to 785,929 in 2007. Its ability to realise future productivity gains seems contingent on its ability to continue reducing its labour costs.

While other factors such as increasing fuel costs certainly affect the service's operating costs, their effect on its bottom line could be overstated. A 2007 report produced by the US Government



negotiated through collective bargaining agreements between its management and four major unions. These agreements often make it difficult for the service's management to realign or reduce its workforce beyond attrition and early retirement inducements. The system also seldom permits regional pay differences, which compensate for varied costs of living. Furthermore postal management is required by law to consult with the unions whenever it is considering outsourcing or subcontracting new functions.

One union leader describes the current state of affairs by proclaiming that we have entered "a new world in which management continually seeks to reduce costs through the use of non-union, non-career cheap labour". But in reality realising labour savings to offset investments in automating technology has become increasingly problematic for USPS

In a mandate filed with the US Congress earlier this year, the USPS expressed concern at what it described as unnecessary barriers that prevent it from cutting costs by streamlining its network operations. It cited rising energy costs, an aging infrastructure, declining network volume and the price cap regime in the PAEA as factors adding to the urgency of its need to continue consolidating its operations.

The report also discussed a proposal for outsourcing functions currently conducted in its national network of 21 bulk mail centres. These would provide the opportunity for USPS to deploy flats sequencing systems and bundle sortation equipment as part of a strategy that could result in cumulative annual savings of US\$14 million. According to the proposed plan, outsourcing the centres represents "the best opportunity to improve distribution and transportation efficiencies without major capital investments".

One option that is open to policy makers is the adoption of a panel process such as the Base Realignment and Closure Commission. Over four rounds, the BRAC process resulted in 100 base closings and 50 major realignments, resulting in billions of dollars of taxpayer savings. This option was recommended by the 2003 Presidential Commission on the postal service but was dropped from the 2006 legislation by law makers during negotiations.

Don Soifer is executive director of the US Consumer Postal Council, [www.postalconsumers.org](http://www.postalconsumers.org).

## "Efforts to realise lower operating costs as a result of increased automation are complicated by other factors"

Accountability Office found that fuel accounted for just 3.2 percent of the USPS's overall operating expenses.

Efforts to realise lower operating costs as a result of increased automation are complicated by other factors. One is that 90 percent of the service's career employees are paid according to contracts that are

executives. The leaders of postal labour unions have vowed to continue seeking congressional intervention to proposed outsourcing plans. Complicating matters further, members of the US Congress who represent both political parties intervene regularly when the postal service attempts to consolidate or close facilities.

