TESTIMONY OF

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ASSOCIATION FOR POSTAL COMMERCE

BEFORE THE

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INTRODUCTION

Mr. Chairman and members of the committee, thank you for the opportunity to speak with you today about postal-related issues facing the mailing industry. The postal industry consists of a vast array of stakeholders, ranging from privately held companies to publicly traded ones, government agencies, unions, individual households and even Congress itself.

MAILING INDUSTRY[1]

The mailing industry[2] provides over 7.5 million jobs[3] within the nation according to the 2015 EMA job study.[4] This equates to some six percent of the nation's jobs and approximately $1.4 trillion in sales revenue, which makes the mailing industry one of the largest in the United States.

While the mailing industry is a vital part of the nation's economy (and surpasses in size both the airline industry and the oil and natural gas industry), it is one that faces significant challenges. There are many factors that will need to be examined as the United States continues to contemplate the future of its postal system. Not only are there policy issues that must be considered, but also economic issues that balance the infrastructural needs of the American economy and the public welfare.

Mail is and will remain a vital part of the American economy and the manner in which the nation communicates and does business. Despite all that has transpired over the past

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[1] Appendix A lays out the number of postal-related jobs and postal revenues by congressional district for the full House Committee on Oversight and Government Affairs.
[2] Mailing industry is defined as mail owners, mail service providers, software providers, logistic and delivery companies, and any other companies within the supply chain.
[3] USPS has 491,863 career employees. USPS. "2015 Annual Report to Congress." Pg. 2.
[4] Envelope Manufacturers Association (EMA) Foundation's Institute of Postal Studies. "2015 U.S. EMA Mailing Industry Job Study." http://www.envelope.org/emaf

several years, market-dominant mail still consists of over 154 billions pieces[5], and the Postal Service continues to deliver to every address six days a week. While a great deal has been said about the Postal Service's recent growth in package volume, market-dominant mail still accounts for 97 percent of the Postal Service's business.

The American mail system is a *sender-paid service*[6] unlike any other in the world. As volumes continue to decline, however, the Postal Service is pressed to search for ways to help lessen its financial burden. Unfortunately for the customers of the Postal Service, the service has been shifting many of the costs associated with mail preparation and entry to businesses as part of various operational initiatives. More unfortunately, in addition to shifting costs, these initiatives have had adverse effects of their own on the quality of the service the Postal Service has been rendering to its customers. The result for mailers has been higher costs and poorer service, which has degraded for many businesses the value and utility of using mail as a key transactional medium.

In order for mail to fulfill its statutory role as an integral part of the nation's economic infrastructure, it is important that it be an affordable and reliable means for communicating and transacting business. From our perspective, there are several fundamental matters that need immediate attention. They concern matters regarding (1) non-disruptive, predictable, affordably-priced, and competitively attractive mail services, (2) complete, accurate, and transparent costing of products and services, and (3) the quality of mail service.

PRICING PREDICTABILITY

A decade has passed since the enactment of the Postal Accountability and Enhancement Act of 2006 (PAEA). As the PRC noted in its 2010 decision initially denying the Postal Service's request to break the cap with an exigent rate increase, "The centerpiece of

[5] USPS. "2015 Annual Report to Congress." Pg.2 .https://about.usps.com/who-we-are/financials/annual-reports/fy2015.pdf

[6] The revenue that funds this nation's postal system comes from the postage and fees paid by postal customers not from tax-payer dollars.

[PAEA's] reform is a price cap limiting increases to the rate of inflation which ensures rate stability and predictability for the nation's mail users, and provides incentives for the Postal Service to reduce costs and operate efficiently."

At the end of this calendar year, the Postal Regulatory Commission, as directed by PAEA, will be reviewing the current system of rate regulation. Although the Postal Service has expressed displeasure with the price cap, the CPI-based cap, in fact, has operated substantially as intended to the benefit of all postal customers, the Postal Service, and the general public.

Despite the imposition of a cap, the Postal Service has retained flexibility and discretion in setting prices for the services it offers. While a cap may restrain the average increase in rates provided to mail classes as a whole, the current cap still permits the Postal Service the freedom to set individual product prices within a class and to exceed the CPI limitation for certain products as long as such increases were offset by other lower product prices within the class. Congress designed this flexibility to allow the Postal Service to align costs with prices and adjust to market demand.

A price cap also has had the beneficial effect of encouraging the Postal Service to improve its cost efficiencies. Over the last several years, the USPS has implemented several cost reduction initiatives designed to realign its physical and human resources to better match actual workplace and service needs. Without such a price cap, these vital changes (such as Network Rationalization) most likely would never have been pursued under the previous cost-of-service rate regime.

For business customers, the cap provides postal customers the very considerable benefit associated with an assurance of postal rate stability and predictability -- an assurance that's key to a customer's decision as to whether to continue to invest in mail as a business communication and commercial vehicle.

Indeed, before enacting such a cap, Congress was well aware, on the basis of testimony presented by the Postal Service and others, that during the entire period between the Postal Reorganization Act of 1971 and the Postal Accountability and Enhancement Act of 2006 overall postal price increases were within the nation's general economic inflationary bounds.

For the years it has been in effect, this inflation-based price cap provided not only benefits associated with the stability and predictability of postal rates but also served as an effective restraint against any abuse of the Postal Service's monopoly power. The Postal Service was required to focus more closely on the elimination of postal waste and inefficiencies in a manner that would not have happened in the absence of a cap. It should be noted that it achieved these goals while still being permitted under the law to retain those revenues that exceeded costs.

Unfortunately, the current law also imposed obligations that have proven to be a challenge while operating under an inflation-based, market-dominant pricing regulatory regime, e.g., (1) the imposition of the congressionally mandated annual $5.5 billion prefunding payment for retiree health benefits, and (2) the non-participation of postal retirees in Medicare even though postal employees consistently have made Medicare contributions. It is vital to the Postal Service and the nation's overall economic well-being that Congress remove these barriers through effective and well-designed postal legislation. It would be unfair to direct the Postal Service to operate with private sector-like efficiencies while at the same time imposing on it the kind of obligations which no private sector business has to contend.

Even with these obligations, however, the Postal Service could have done more over the past 10 years to improve its efficiency, operate profitably under the price cap, and provide service that meets the needs of its customers. But it has been hampered by its inability or unwillingness to use all available informational tools that could enable postal managers to better understand how underlying postal costs can be affected by

management decisions. Improved and more transparent costing and modeling is necessary for the Postal Service to provide adequate service in a cost-effective manner.

COSTING TRANSPARENCY

The need for costing transparency has never been so apparent as it is today. A thorough reading the of the Postal Service's Annual Compliance Report along with the many subsequent questions posed by the Postal Regulatory Commission Chairman and customer representatives are illustrative of the lack of transparency that has plagued current postal cost reporting systems.

The mailing industry has highlighted the need for greater clarity and transparency in the gathering and reporting of postal costs for several years. This lack of postal costing transparency has resulted in other Postal Service decisions that have imposed additional costs on mailers without creating corresponding efficiencies in the postal network.

The Postal Service either has not collected or has not been able to provide return-on-investment (ROI) figures to the Commission or the industry on the 24-hour clock and Load Leveling initiatives. The mailing industry questions whether the Postal Service even has the tools to make such a decision. The cost of employee moves, retraining, and impacts on service make it difficult for anyone, including and most particularly the Postal Regulatory Commission, to calculate a positive ROI.

Accurate and transparent cost data also would provide the Postal Service with an even greater understanding of those matters that drive costs across its product offerings. Given the 48 different categories of letter and flat mail, the multiplicity of mail entry points, and the complexities of staffing and equipment availability within an actual operating facility, it is difficult to develop appropriate postal managerial models in the absence the kind of information that can be provided by a comprehensive, data-driven mailpiece tracking system.

A better understanding of its aggregate costs would enable USPS management to calculate reliable estimates of ROI for future investments and cost reduction initiatives. It would help provide a clearer understanding of the actual cost reductions forecasted, as well as provide a better method to track cost changes throughout the postal network to ensure that all projected savings are realized.

The Postal Service, the Postal Regulatory Commission, and the customers of the Postal Service would benefit greatly by an upgrading of postal cost and modeling systems. The Postal Service should move without dispatch to an Informed Visibility-based system. This would enable costs to be tracked in an automated fashion, moving away from random sampling methods and the human error that has affected them.

Modeling accuracy would improve from a more complete use of the scan data derived as mail pieces are processed across automated postal equipment. Such a system would make more apparent more quickly the kind of postal operational inefficiencies and "pain points" within the postal network that needlessly increase postal costs, and would help reduce subsequent manual mail handling and service-related issues. Corrective actions could be taken at a machine-, plant-, or even customer-level based on the data provided from these scans.

The Postal Service would benefit from having a much clearer understanding of which of its postal products are profitable and would enable it to send clearer, more efficient price signals to drive subsequent mailer behavior. The mailing industry depends on these sorts of postal pricing signals when determining whether, when, and where to mail. If prices are set incorrectly or in an inefficient manner, resources are wasted by both the Postal Service and those that it serves.

Maximizing productivities and reducing costs to the fullest extent possible, coupled with price signals that drive more efficient mailer behaviors would amplify further the benefits of operating under an inflation-based cap.

SERVICE

While the Postal Service describes its offerings as "products," what it really provides are services that are directed toward the transportation and delivery of items to every address in the United States. Its profitability, therefore, depends in large part on how well it provides this service and whether the service it provides meets the needs of its customers. The evidence of recent years suggests that the Postal Service increasingly is failing to achieve these goals.

For instance, in the 2015 Annual Compliance Determination (ACD) Report[7], the Postal Regulatory Commission said:

> "In the FY 2014 ACD, the Commission issued directives to the Postal Service for products composed of flats to improve service performance results during FY 2015 or otherwise provide an explanation as to why efforts to improve performance were ineffective and identify further planned changes to improve those results. The Commission finds that during FY 2015 service performance results for these products remain substantially below their targets, and in all but one case, the performance results declined."

The Commission's finding has been validated by postal customers throughout the nation, whether they are members of Congress, their constituents, or business mailers.

For business customers, the quality and reliability of mail delivery is a key component of the value of mail. Companies throughout the mail system create marketing campaigns predicated on when a sale will occur and when an advertisement regarding the sale will appear in the mailbox.

Quality of service is even more critical for those who use First-Class Mail to supply their customers with messages and information such as the official notifications that are required by various state and federal programs and regulations. Timeliness, consistency,

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[7] Postal Regulatory Commission. "Annual Compliance Determination Report, Fiscal Year 2015." Pg. 3. http://www.prc.gov/docs/95/95462/Final_2015_ACD.pdf

and reliability are extremely important to these users and recipients of the mail, and the Postal Service's inability to provide consistent and reliable service is causing many enterprises to look to other means as their preferred method for communicating and doing business.

Many of the service issues that have adversely affected the quality and value of mail have stemmed from the Postal Service's decision in January 2015 to change to a "24 hour clock" mail processing regimen. The Postal Service also has changed over the past two years service delivery standards that affect some 14 billion pieces of mail (i.e., nine percent of total mail volume) and up to 16 percent of First-Class Mail.[8] Unfortunately, the Postal Service did less than a sterling job communicating the need and objectives of these changes to its own employees and its customers before moving forward. The result was to render mail service more unpredictable. The members of our industry have reported quite consistently that the quality of First-Class Mail and Periodical mail service has suffered the most from these decisions.

Although these initiatives were intended to achieve significant cost savings, the Postal Service has failed to demonstrate that there has been any commensurate decrease in total operating expenses. Indeed, these initiatives appear to have significantly increased postal costs in light of other initiatives that ostensibly were designed to improve overall efficiency, such as the Postal Service's Network Rationalization plan.[9] According to the USPS[10], "[t]he first phase of [Network Rationalization] implementation has been

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[8] The affected volume presents primarily single-piece First-Class Mail. The majority of this mail is being delivered in two days instead of one. "USPS Delivery Standards and Statistics Fact Sheet." https://about.usps.com/news/electronic-press-kits/our-future-network/assets/pdf/ofn-usps-dss-fact-sheet.pdf

[9] Network Rationalization is USPS initiative. It is a two-phase approach of rationalizing the postal network. Phase I was completed in the summer of 2014. Phase II was to being in January 2015 and be completed by the fall mailing season. It is currently on hold. There were service standards changes that occurred in January 2015 to enable Phase II consolidations. https://about.usps.com/news/electronic-press-kits/our-future-network/ofn-customer-letter-063014.htm#p=1

[10] "Response of the United States Postal Service to Question 16 of Chairman's Information Request No. 7." http://www.prc.gov/docs/94/94968/CHIR_No_7.Second.Response.Set.Q16.pdf

completed with the Postal Service realizing annualized savings of $865M." Yet despite these "savings," total USPS expenses from FY13 to FY14 were noted to have grown by over $1 billion.[11] Either the 24-hour clock and other initiatives designed to improve efficiency did not actually result in cost savings, or their savings were offset by increases in other operationally-related costs. In any event, it is impossible to discern any positive impact these ostensibly cost-saving initiatives were supposed to have on overall postal costs.

"Load leveling" is another example of the Postal Service introducing an initiative meant to reduce costs by leveling out Standard Mail volumes throughout the week. Mailers typically insert their advertising mail late Thursday or early morning Friday to get Monday delivery. The Postal Service said it intended to discourage this practice and to induce the entry of mail volumes more evenly throughout the week. Unfortunately, the net result was to add an additional day to the time it took for Standard Mail to be delivered without any documented cost savings or increase in efficiency.[12] Fundamentally, the Postal Service did not understand and did not adapt to the actual marketplace needs of its business mailing customers. Their concern simply was to balance internal postal workloads and flows despite the effects such changes might have on business' intended purposes for using the mail. No rule change could change the economic realities faced by the mailers.

A careful reading of the Postal Regulatory Commission's FY2015 Annual Compliance Determination Report reveals that these changes also resulted in making mail service more inconsistent and unreliable. Here are just a few examples excerpted from the PRC's report:

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[11] USPS. "2015 Annual Report to Congress." https://about.usps.com/who-we-are/financials/annual-reports/fy2015.pdf

[12] USPS. "Balancing the load." https://about.usps.com/news/electronic-press-kits/usps-sets-the-record-straight/load-leveling.htm

- First-Class Mail Flats, Standard Mail Carrier Route, Standard Mail Flats, Periodicals, and Bound Printed Matter Flats have not met their service delivery targets and have failed to show any significant improvements over the years.

- Service performance for Market Dominant flats products across all mail classes (First-Class Mail, Standard Mail, Periodicals, and Package Services) have been substantially below targets since FY12.

- Standard Mail Carrier Route (which typically requires the least processing before delivery) was below service targets by 9.0 percentage points.

- The impacts of the USPS's Load Leveling Initiative has affected all classes of mail that are entered at a Destination Sectional Center Facility (DSCF) on Fridays and Saturdays. For the most part, the time-to-deliver this mail was extended by an additional day.

- For FY 2015, Standard Mail Flats was below service performance targets by 17.2 percentage points. According to the Postal Service, this degradation in performance was due to "disruption caused by realigning of staffing and educating employees in new jobs resulted in slippage of performance."

- The USPS failed to leverage its diagnostic tools to resolve issues at the district level. (Even though the USPS pointed to the development of these tools as a means to improve service in past Annual Compliance Reports.)

- Service performance for Periodicals was 13.4 percent below FY2015 targets. The list of actions the USPS detailed in its FY2014 Annual Compliance Report failed to achieve improved results in FY2015.

- Critical Entry Times (CETs) for some Periodicals were extended during the second quarter of FY2015 to give the USPS more time to process and deliver mail.

Despite this, overall service performance results for Periodicals remained below FY2014 levels.

- The USPS has not achieved on-time service performance for Periodicals since before the passage of the Postal Accountability and Enhancement Act.

- Service performance for Bound Printed Matter Flats was 44.8 percentage points below the target it had set for FY2015, a full 15 percentage points below the 2014 target.

As long as the Postal Service fails to meet the actual business needs of its customers, it will struggle to operate profitably. Any legislative solution to the Postal Service's woes must take this reality into account.

CONCLUSION

The matters we have laid out in our testimony illustrate the concerns of the mailing industry. Legislative reform is just one of many tools that will need to be leveraged in order for the Postal Service to become and remain fiscally viable. At the very least, mailers urge Congress to address those issues that are solely within its power to: (1) fix the mandated prefunding requirement; and (2) allow for fuller postal employee participation in Medicare.

With the pendency of the legislatively-mandated 10-year review of the current rate regulation system, mailers need an accurate accounting and understanding of the costs of the products and services they receive from the Postal Service. The Postal Regulatory Commission should not be required to judge the performance of the existing system on the basis of data that are inadequate for sound decision-making. It is imperative that the Postal Service be directed to use the many data-driven tools it has been able to create, such as the Intelligent Mail Barcode (IMb) and Informed Visibility, to supply the data the

Postal Regulatory Commission so sorely needs to make informed decisions about the current system of rate regulation and how to move forward in its review.

The Postal Service itself needs these very same data to understand underlying cost drivers and to make more informed decisions on rules, prices, operational changes, and service performance improvements. If America's postal system is to survive, let alone thrive, mailers need to have the confidence that the Postal Regulatory Commission has the ability to oversee and report accurately information and recommendations in a way that will be informative and transparent to all stakeholders.

At the end of the day, mailers need reliable, consistent mail service, and affordable, predictable prices in order to continue to investment in mail for business communication and commerce.

APPENDIX A: 2015 EMA Mailing Industry Job Study Facts – Member of House Committee

Member	State	District	# of Jobs	Revenue $ Millions
Blake Farenthold	TX	27	12,251	$1,158.00
Bonnie Watson Coleman	NJ	12	18,408	$763.00
Brenda Lawrence	MI	14	16,038	$2,728.00
Brendan F. Boyle	PA	13	23,869	$767.00
Buddy Carter	GA	1	13,759	$400.00
Carolyn Maloney	NY	12	97,215	$16,491.00
Cynthia Lummis	WY	0	13,013	$1,132.00
Eleanor Holmes Norton	DC	0	32,319	$965.00
Elijah Cummings	MD	7	13,558	$560.00
Gary Palmer	AL	6	14,583	$1,176.00
Gerald Connolly	VA	11	21,564	$66,904.00
Glenn Grothman	WI	6	21,249	$2,186.00
Jason Chaffetz	UT	3	13,801	$1,408.00
Jim Cooper	TN	5	23,112	$595.00
Jim Jordan	OH	4	13,287	$8,584.00
Jody Hice	GA	10	8,936	$807.00
John Duncan	TN	2	17,226	$14,691.00
John Mica	FL	7	16,536	$1,095.00
Justin Amash	MI	3	14,498	$1,489.00
Ken Buck	CO	4	15,169	$1,912.00
Mark Desaulnier	CA	11	16,585	$1,456.00
Mark Meadows	NC	11	13,400	$1,126.00
Mark Walker	NC	6	17,421	$2,616.00
Matt Cartwright	PA	17	17,026	$441.00
Michael Turner	OH	10	23,513	$1,289.00
Michelle Lujan Grisham	NM	1	15,309	$1,712.00
Mick Mulvaney	SC	5	9,663	$23,092.00
Paul Gosar	AZ	4	10,159	$409.00
Peter Welch	VT	0	17,617	$72,204.00
Robin Kelly	IL	2	10,327	$3,006.00
Rod Blum	IA	1	19,438	$458.00
Ron Desantis	FL	6	14,011	$1,287.00
Scott Desjarlais	TN	4	12,777	$11,275.00
Stacey E. Plaskett	VI	0	not provided	not provided
Stephen Lynch	MA	8	25,751	$1,384.00
Steve Russell	OK	5	20,254	$1,403.00
Tammy Duckworth	IL	8	29,407	$1,643.00
Ted Lieu	CA	33	27,134	$863.00

Thomas Massie	KY	4	15,211	$1,432.00
Tim Walberg	MI	7	12,704	$896.00
Trey Gowdy	SC	4	19,306	$1,244.00
William Hurd	TX	23	8,182	$4,363.00
William Lacy Clay	MO	1	25,862	$1,391.00
Total			**801,448**	**$260,801.00**

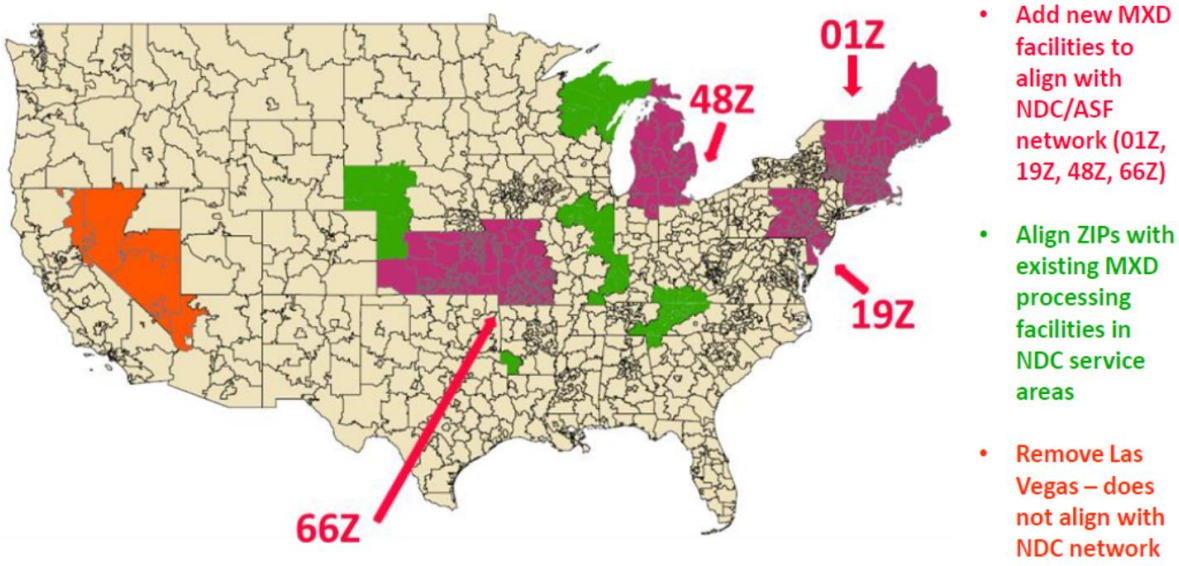
APPENDIX B: Misaligned USPS Network

The mailing industry had been reporting service performance concerns for years that were constantly occurring between Pittsburg and Detroit for Standard Mail letters. After working closely with the industry, the problem was identified to be outgoing Mixed Standard Mail Trays.

According to USPS requirements, remaining pieces to: 130-168, 260, 265, 434-436, 439-449, 465-468, 480-497 get placed into a Mixed Tray that is labeled: MXD PITTSBURGH PA 150

According to USPS requirements, when building pallets of these trays:

- Trays to 130-168, 260, 265, 439-449 go to NDC PITTSBURGH PA 15195
- Trays to 434-436, 465-468, 480-497 go to NDC DETROIT MI 48399

This misalignment between pieces going into trays and the trays going onto pallets resulted in mail that needs to go to NDC Detroit for processing would first be routed to NDC Pittsburgh causing significant service failures for years.

Once the USPS identified the mismatch between Processing and Distribution Centers (P&DC network) and their NDC network, they identified 211 different 3-digit mismatches between these two networks. This issue was fixed in the January 2016 label list update. The USPS shared with the industry the size and scope of the problem with this map.