

MORE THAN STAMPS ADAPTING THE POSTAL SERVICE TO A CHANGING WORLD

HEARING

BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE,
POSTAL SERVICE, AND THE DISTRICT
OF COLUMBIA

OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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CONTENTS

	Page
Hearing held on November 5, 2009	1
Statement of:	
Bernstock, Robert, president, Mailing and Shipping Services, U.S. Postal Service; Ruth Goldway, chairman, U.S. Postal Regulatory Commission; Phillip Herr, Director, Physical Infrastructure, U.S. Government Accountability Office; Michael Coughlin, deputy postmaster general, U.S. Postal Service (ret.); and Robert Reisner, president and CEO, Transformation Strategies	15
Bernstock, Robert	15
Coughlin, Michael	41
Goldway, Ruth	27
Herr, Phillip	51
Reisner, Robert	68
Letters, statements, etc., submitted for the record by:	
Bernstock, Robert, president, Mailing and Shipping Services, U.S. Postal Service, prepared statement of	17
Chaffetz, Hon. Jason, a Representative in Congress from the State of Utah, prepared statement of	7
Connolly, Hon. Gerald E., a Representative in Congress from the State of Virginia, prepared statement of	9
Coughlin, Michael, deputy postmaster general, U.S. Postal Service (ret.), prepared statement of	44
Cummings, Hon. Elijah E., a Representative in Congress from the State of Maryland, prepared statement of	11
Goldway, Ruth, chairman, U.S. Postal Regulatory Commission, prepared statement of	30
Herr, Phillip, Director, Physical Infrastructure, U.S. Government Accountability Office, prepared statement of	53
Kucinich, Hon. Dennis J., a Representative in Congress from the State of Ohio, prepared statement of	100
Lynch, Hon. Stephen, a Representative in Congress from the State of Massachusetts, prepared statement of	4
Reisner, Robert, president and CEO, Transformation Strategies, prepared statement of	70

MORE THAN STAMPS ADAPTING THE POSTAL SERVICE TO A CHANGING WORLD

THURSDAY, NOVEMBER 5, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL
SERVICE, AND THE DISTRICT OF COLUMBIA,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen F. Lynch (chairman of the subcommittee) presiding.

Present: Representatives Lynch, Norton, Davis, Cummings, Kucinich, Clay, Connolly, Chaffetz, and Cao.

Staff present: Aisha Elkheshin, clerk/legislative assistant; Jill Crissman, professional staff; Margaret McDavid, detailee; Dan Zeidman, deputy clerk/legislative assistant; Adam Fromm, minority chief clerk and Member liaison; Howard Denis, minority senior counsel; and Alex Cooper, minority professional staff member.

Mr. LYNCH. Good morning and welcome. The Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia hearing will now come to order. I want to welcome my colleague and friend, Ranking Member Chaffetz, and members of the subcommittee, hearing witnesses, and all those in attendance.

The purpose of today's hearing is to examine what steps the Postal Service has taken and plans to take since Congress passed the Postal Accountability and Enhancement Act [PAEA]—I'll try to keep the acronyms to a minimum—to use its increased flexibility to grow revenue.

Furthermore, we are here to discuss barriers or limitations to the Postal Service's innovations and what lessons can be learned from foreign posts in this area. The Chair, ranking member and members of the subcommittee each will have 5 minutes to make an opening statement and all Members will have 3 days to submit statements for the record.

Ladies and gentlemen, I will yield myself 5 minutes for my opening statement. In the series of hearings the subcommittee has held on the Postal Service thus far this year, the discussion has tended to focus on the Postal Service's bottom line or its cost-cutting and consolidation efforts; and rightfully so, as the past 2 fiscal years have presented some significant financial challenges for the Nation's mail system.

However, today the subcommittee convenes not to discuss what the Postal Service has been doing to reduce expenditures, but more so to learn about what the organization is doing to grow revenue

and the overall value of mail as part of an ongoing effort to bring about fiscal turnaround.

Today, almost 3 years since the passage and enactment of the landmark Postal Accountability and Enhancement Act, we look forward to hearing what exactly has been done to grow the business under the new price flexibilities and product innovations afforded to the Postal Service in 2006.

First, however, I must briefly acknowledge the financial reality before us. The Postal Service expects a net loss of approximately \$7 billion for fiscal year 2009 prior to accounting for the recent legislation in the form of a \$4 billion deferred payment to the Retiree Health Benefit Fund.

I'm pleased Congress was able to grant the Postal Service authority to defer a share of its Retiree Health Benefits prepayment, which allowed the organization to meet its financial obligations and improve its cash position. However, as my friends from both sides of the aisle acknowledged last month, the relief measure was only a temporary solution to a host of long-term problems.

Moreover, I would like to note that this was not a bailout. Many Americans think the Postal Service is largely supported by Federal Government dollars. It is not. This is an important point I want to stress. The Postal Service is over 99 percent self-supporting with less than 1 percent of its funds provided by the Federal Government to support important things like mail for the blind and overseas voting. Again, that is less than 1 percent.

Additionally, up until postal reform, the Postal Service operated under the so-called break-even mandate preventing the organization from even making a profit. Post PAEA—I'm trying to stay away from these acronyms—the Postal Accountability and Enhancement Act, however, the Postal Service is now permitted to operate more like a business in terms of profit earning and product diversification.

To that end, I look forward to hearing from today's witnesses on the extent to which the Postal Service has attempted to grow its business from the novel summer sale to the offering of flat-rate boxes and holiday greeting cards. Today's hearing is intended to examine the steps that the Postal Service has taken and the results achieved so far in the area.

And looking to the future, Postmaster General Jack Potter recently described several initiatives the Postal Service is potentially interested in to diversify and grow revenue. He observed that the Postal Service has more retail outlets in the United States than McDonalds, Starbucks, and Wal-Mart combined.

Perhaps surprising to some, he proposed that the Postal Service should be permitted to offer its customers alternate services such as banking, insurance, and telecommunications. Given past experiences and the extreme caution required when enterprising a business, I'm interested in hearing the extent to which these newly proposed ideas have been vetted, as well as what risks have been evaluated.

Further, I have asked today's witnesses to address what lessons can be learned from foreign posts in the area of product and service development and diversification. I know there are some foreign posts such as those in Japan and France that offer banking serv-

ices and sell mobile phones, for example. However, I also know that several countries have privatized their Postal Services, while the U.S. Postal Service remains an independent Federal establishment of the U.S. Government.

In the coming months, our subcommittee will continue to provide close oversight of the Postal Service, including an in-depth examination of the Postal Service's business model to help determine which longer-term changes are necessary to help the Postal Service return to financial viability. The Postal Service undoubtedly needs to move forward with its efforts to grow its revenue and increase the value of mail, perhaps even more so than focusing on cutting costs or reducing its Retiree Health Benefit obligations.

I thank each of you for being with us this morning. I look forward to your participation and I yield for 5 minutes to the ranking member, Mr. Chaffetz.

[The prepared statement of Hon. Stephen Lynch follows:]

STATEMENT OF CHAIRMAN STEPHEN F. LYNCH
SUBCOMMITTEE ON FEDERAL WORKFORCE
AND POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA HEARING ON

“More than Stamps: Adapting the Postal Service to a Changing World.”
Thursday, November 5, 2009

Ladies and Gentlemen, in the series of hearings the Subcommittee has held on the Postal Service thus far this year, the discussion has tended to focus on the Postal Service's bottom line or its cost-cutting and consolidations efforts - and rightfully so, as the past two fiscal years have presented some significant financial challenges for the nation's mail system. However, today the Subcommittee convenes not to discuss what the Postal Service has been doing to reduce expenditures, but more so to learn about what the organization is doing to grow revenue and the overall value of mail as part of an effort to bring about a fiscal turnaround. Today, almost three years since the passage and enactment of the landmark Postal Accountability and Enhancement Act, we look forward to hearing what exactly has been done to “grow the business” under the new pricing flexibilities and product innovations afforded the Postal Service in 2006.

First, however, I must briefly acknowledge the financial reality before us. The Postal Service expects a net loss of approximately \$7 billion for fiscal year 2009, prior to accounting for recent legislation in the form of a \$4 billion deferred payment to the Retiree Health Benefits Fund. I am pleased Congress was able to grant the Postal Service authority to defer a share of its Retiree Health Benefits pre-payment, which allowed the organization to meet its financial obligations and improve its cash position. However, as my friends from both sides of the aisle acknowledged last month, the relief measure was only a temporary solution to a host of long-term problems. Moreover, I would like to note that this was not a bailout. Many Americans think the Postal Service is largely supported by federal government dollars. It is not. This is an important point I want to stress. The Postal Service is over ninety-nine percent self supporting, with less than one percent of its funds provided by the federal government, to support important things like mail for the blind and overseas voting. Again, that's less than one percent. Additionally, up until postal reform the Postal Service operated under the so-called “break-even mandate”, preventing the organization from even making a profit. Post-PAEA, however, the Postal Service is now permitted to operate more like a business, in terms of profit earnings and product diversification.

To that end, I look forward to hearing from today's witnesses on the extent to which the Postal Service has attempted to grow its business. From the novel Summer Sale, to the offering of flat rate boxes and holiday greeting cards; today's hearing is intended to examine the steps the Postal Service has taken and the results achieved so far in this area. In looking to the future, Postmaster General Jack Potter recently described several initiatives the Postal Service is potentially interested in pursuing to diversify and grow revenue. He observed that the Postal Service has more retail outlets in the United States than McDonalds, Starbucks, and Wal-Mart combined. Perhaps surprisingly to some, he proposed that the Postal Service should be permitted to offer its customers alternative services, such banking, insurance, and telecommunications. Given past experiences and the extreme caution required when enterprising a business, I am really interested in hearing the extent to which these newly proposed ideas have been vetted as well as what risks have been evaluated.

Further, I have asked today's witnesses to address what lessons can be learned from foreign Posts in the areas of product and service development and diversification. I know that some foreign Posts, such as those in Japan and France, offer banking services and sell mobile phones, for example. However, I also

know that several countries have privatized their postal services, while the U.S. Postal Service remains an independent federal establishment of the U.S. government.

In the coming months, our Subcommittee will continue to provide close oversight of the Postal Service, including an in-depth examination of the Postal Service's business model to help determine which longer-term changes are necessary to help the Postal Service return to financial viability. The Postal Service undoubtedly needs to move forward with its efforts to grow its revenue base and increase the value of the mail, perhaps even more so than the focus on cutting costs or reducing its retiree health benefits obligation.

I thank each of you for being with us this morning, and I look forward to your participation.

Mr. CHAFFETZ. Thank you, Mr. Chairman, and thanks for agreeing to hold this very important discussion. My comments will be brief because we came to listen and hear from this panel. But let me just concur and echo the sentiments the chairman articulated, as I think he has it exactly right.

We will obviously spend time and attention talking about cost-cutting measures, but at the end of the day we need to increase the relevancy of the U.S. Postal Service. In order for it to thrive and to serve the citizens of the United States of America, we need to increase its relevancy. At the same time, I think there needs to be caution in making sure that we are not tripping on top of the private sector and, maybe with good intentions, maybe some unintended consequences competing in a space that is probably best left to the private sector.

Yet the U.S. Postal Service, under our Constitution, has a unique place in this country. And I would like to see us do more. One of the things in particular that I think we should pay attention to: What is the cross functionality that we can take advantage of with other segments within government? One, for instance, that I would like to see us continue to pursue is the conducting of the U.S. census, something we do every 10 years, given \$14 billion in order to execute it. We have real estate, we have very able people. Again, something I think we should continue to pursue.

What are the things that we can do with FEMA, what are the things we can do with other government agencies that need the types of resources that are uniquely provided by the U.S. Postal Service?

So I look forward to your comments. I appreciate the chairman's approach on this as well. And I hope this is the start of a series of dialogs about the potential impact of the potential new openings and increased relevancy for the U.S. Postal Service. And with that, Mr. Chairman, I will yield back the balance of my time.

[The prepared statement of Hon. Jason Chaffetz follows:]

**Opening Statement of
Jason Chaffetz, Ranking Member
Hearing: *"More than Stamps: Adapting the
Postal Service to a Changing World"***

I thank the Chairman for calling this hearing today. This is the first hearing we've held on the Postal Service since the passage of H.R. 22, and while the Postal Service was able to survive through the previous fiscal year due to this stopgap legislation, serious underlying problems remain for the Postal Service's finances.

Mail volume is down significantly, and a great deal of that loss is not projected to return even with the recovery of this economy. While electronic technology and the internet continue to improve and become increasingly more feasible options for some major mailers, the Postal Service appears to be on a long, slow downward trajectory in volume. While cuts can continue to be made at the USPS, we must also explore other avenues for increasing revenue.

Recently, Postmaster General Potter spoke at the National Press Club about the circumstances surrounding the Postal Service, and what kinds of ideas he would like to explore moving forward to increase revenue. Among those ideas he mentioned were getting the USPS into financial, telecom, or insurance services. These are services which are commonly offered in foreign postal systems, and frequently make up a sizeable chunk of revenue for these countries. The USPS is currently unique among its peers, depending almost entirely on revenue generated from mail volume. While getting the Postal Service into these businesses poses a significant challenge, the discussion about the sorts of services and technologies they should and can explore is a necessary one.

The Postal Accountability and Enhancement Act provided the USPS with enhanced flexibility to "compete, innovate, and grow," which was essential for the survival of the Postal Service as a self-funded entity, and they have begun to take advantage of some of that flexibility. There is still significant progress to be made towards the use of these flexibilities, however, and I hope that today we can discuss some of these other options.

The use of technology at the USPS also has lagged behind where it needs to be. For example, "Track and Trace" technology has become a standard at major shipping companies, such as FedEx and UPS, and is of great interest to the major mailers. Yet while these other companies have invested billions in this significant technology, the USPS has been so far behind that it has been viewed by many as a "black hole." Hopefully this will change with the development of a "smart grid" of intelligent mail services, and I am eager to see what Mr. Bernstock has in store for us in the coming months. I understand this will be the first time he will be testifying in front of Congress, and we are glad to have him here before us today.

I know that there are many opportunities for the USPS to increase revenue while still maintaining their core Constitutional obligation, and I believe that these ideas will come not just from the Postal Service itself, but also through collaboration and partnership with the private enterprises that make up the near trillion dollar economy for which the USPS is the crux. I have no doubt that these enterprises which have invested billions of dollars into the Postal Service are highly motivated to see it flourish, and will be willing to offer any assistance within their means to help out. American citizens deserve to have a Postal Service which continues to self-fund without taxpayer dollars.

Mr. LYNCH. Thank you. I know the gentleman has recently arrived. I would like at this point to yield 5 minutes to the gentleman from northern Virginia, Mr. Connolly, for 5 minutes.

Mr. CONNOLLY. Thank you, Mr. Chairman, and thanks for holding this hearing on the long-term viability of the Postal Service. This is precisely the type of process we should be conducting in order to determine those changes that will enable the Postal Service to thrive in the future. In general, we should be wary of short-term cost-cutting measures that could reduce Postal Service market share and revenue in the future, such as a shift, for example, to 5-day mail delivery. Instead it would be preferable, from my point of view, to examine changes that enable the Postal Service to augment its existing sources of revenue.

I'm pleased the Postal Service is examining 15 new revenue sources that could complement mail service. These changes should not be limited to marginal changes. For example, perhaps it would be possible for the Postal Service to work in partnership with community banks to integrate banks and post offices in a manner that would help both existing community banks and the Postal Service itself.

The goal of exploring these new revenue options should be to preserve the outstanding services offered by the Postal Service. We all benefit from affordable and convenient mail delivery. The ability of the Postal Service to deliver mail quickly, 6 days of the week, not only protects our constituents' quality of life but also creates opportunity for businesses that rely on mail for advertising and product distribution. If the Postal Service did not exist, there is little doubt that the mailing market would have oligopolistic characteristics with negative implications for affordable and consumer choice.

The Postal Service continues to play an important role in limiting the prices of sending mail and packages, which helps all consumers. The Postal Service also makes an important contribution to our economy. Approximately 615,000 people work for the Postal Service, generally earning high union wages, or fairly high union wages. During the Bush administration, for the first time in history, median wages for American families actually fell during a full economic cycle of expansion, recession, and recovery. Protecting high-paying blue collar jobs such as those provided by the Postal Service must be part of our broader efforts to help the economy recover.

Thanks again, Chairman Lynch, for holding this important series of hearings on the long-term viability of the Postal Service, and I look forward to hearing from our witnesses.

Mr. LYNCH. Thank you.

[The prepared statement of Hon. Gerald E. Connolly follows:]

Opening Statement of Congressman Gerald E. Connolly

Subcommittee on Federal Workforce, Post Office, and District of Columbia

“More than Postage Stamps: Adapting the Postal Service to a Changing World”

November 5th, 2009

Thank you, Chairman Lynch for holding this hearing on the long term viability of the Postal Service (USPS). This is precisely the type of process that we should be conducting, in order to determine those changes that will enable the Postal Service to thrive in the future. In general, we should be wary of short term cost cutting measures that could reduce Postal Service market share and revenue in the future, such as a shift to five day mail delivery. Instead, it would be preferable to examine changes that enable the Postal Service to augment their existing sources of revenue.

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Thank you again, Chairman Lynch for holding this important series of hearings on the long term viability of the Postal Service. I look forward to future hearings on alternative revenue sources and other topics that may play an important role in preserving affordable, convenient mail and package delivery for our constituents.

Mr. LYNCH. The Chair now recognizes the gentleman from Maryland, Mr. Cummings, for 5 minutes.

Mr. CUMMINGS. Thank you very much, Mr. Chairman, and I too thank you for holding this critically important hearing on adapting the Postal Service to our changing world. The U.S. Postal Service is the second largest civilian employer, with approximately 623,000 career employees.

Although consumers rank the Post Office as one of the most trusted government agencies and it continues to excel, the Post Office has not been immune to the downward economic trends currently facing our Nation. While final numbers are not available yet, it is estimated that the Post Office will experience a \$6.2 billion loss, which is over two times more than last year's loss. This loss can be attributed largely to two factors: No. 1, the unprecedented decline in mail volume due to increased use of electronic communications and other factors; and No. 2, the economic recession that is affecting all sectors.

The Postal Service has been making a number of aggressive cost-cutting measures, but I'm interested in hearing about the new innovative ideas our panelists will present today. The Postal Accountability and Enhancement Act was signed into law in December 2006, allowing for flexibility in how services are designed, priced and marketed. Because of that flexibility, the Post Office has been able to create new innovative programs such as the standard mail volume incentive pricing program this past summer. The summer sale provided a 30 percent rebate to eligible mailers on letters, volume above a specific threshold. This program is estimated to have generated at least \$50 million in sales.

The Postal Service has also restructured its Web site and created mobile device functionality for its customers. This allows greater accessibility and added convenience for postal users. For 44 cents, we can send a letter anywhere in the United States. We now all would have to admit that's a pretty good bargain. The Post Office is and continues to be reliable and of great value.

I look forward to the discussion today about expanding services and nonpostal products directly or in partnership with private-sector entities, and what Congress can do to help the U.S. Postal Service.

And with that, Mr. Chairman, I yield back.

Mr. LYNCH. I thank you.

[The prepared statement of Hon. Elijah E. Cummings follows:]

**OPENING STATEMENT OF
CONGRESSMAN ELIJAH E. CUMMINGS**

**HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE AND
THE DISTRICT OF COLUMBIA**

**“MORE THAN STAMPS: ADAPTING THE POSTAL SERVICE TO A
CHANGING WORLD”**

NOVEMBER 5, 2009

Mr. Chairman,

Thank you for holding this critically important hearing on adapting the postal service to the changing world.

The United States Postal Service is the second largest civilian employer with approximately 623,000 career employees. Although consumers rank the USPS as one of the most trusted government agencies and it continues to excel, the USPS has not been immune to the downward economic trends currently facing America.

While final numbers are not available yet, it is estimated that the USPS will experience a \$6.2 billion loss which is over two times more than last year's loss.

This loss can be attributed largely to two factors:

- the unprecedented decline in mail volume, due to increased use of electronic communications and other factors,
- and the economic recession that is affecting all sectors.

The Postal Service has been making a number of aggressive cost cutting measures, but I am interested in hearing about the new innovative ideas our panelist will present today.

The Postal Accountability and Enhancement Act (PL 91-354) was signed in to law in December of 2006 allowing for flexibility in how services are designed, priced and marketed.

Because of that flexibility, the USPS has been able to create new innovative programs such as the Standard Mail Volume Incentive Pricing Program this past summer. This “Summer Sale” provided a 30% rebate to eligible mailers on letters volume above a specific threshold. This program is estimated to have generated at least \$50 million dollars in sales.

The Postal Service has also restructured its website and created mobile device functionality for its customers. This allows greater accessibility and added convenience for USPS users.

For 44 cents, we can send a letter anywhere in the United States. That's a pretty good deal. The USPS is and continues to be reliable and a great value.

I look forward to discussion today about expanding services and non-postal products directly or in partnership with private sector entities and what Congress can do to help the United States Postal Service.

Thank you, Mr. Chairman, I yield back.

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Mr. LYNCH. The Chair now recognizes the distinguished gentleman from Illinois, Mr. Davis, for 5 minutes.

Mr. DAVIS. Thank you very much Mr. Chairman. And let me just echo the sentiments that have already been expressed by my colleagues in thanking you for calling this hearing.

I think that the Postal Service is one of those critical elements of our communications system that must be seriously addressed. So I'm eager to hear an analysis of the impact of the efforts that have been put forth by Postmaster General Potter and his staff and the other entities associated with trying to make sure that we maintain the viability of our postal operation.

When I think of what we are facing with the impact of electronic communication and all of the other economic indicators that are upon us, we recognize that it is no easy task and that there are no simple solutions to very complex issues. But I want to commend you for your leadership as chairman of this subcommittee, how you have been moving things along to try and help assure that our postal operations will continue as viable instruments of our communication system.

So I want to thank you very much and look forward to hearing the witnesses.

Mr. LYNCH. I thank the gentleman for his kind words.

What I would like to do, it is the custom of this subcommittee to swear its witnesses before they provide testimony. And I invite you to stand and please raise your right hands.

[Witnesses sworn.]

Mr. LYNCH. Let the record show that all of the witnesses, each of the witnesses, has answered in the affirmative.

What I would like to do now is just offer brief introductions of our panel of witnesses.

Mr. Robert Bernstock was named President of Mailing and Shipping Services, a new division at the U.S. Postal Service, in June 2008. He is responsible for development and management of all retail and commercial products for the Postal Service, including commercial sales and services. Mr. Bernstock has extensive senior leadership experience with Campbell Soup Co., Scotts Miracle-Gro, and Vlasik foods among others.

The Honorable Ruth Goldway was designated chairman of the U.S. Postal Regulatory Commission by President Barack Obama on August 6, 2009, and has served with the agency since 1998. She is an experienced regulatory and public affairs professional with expertise in citizens' participation, consumer issues, urban planning issues, as well as the mailing industry.

Mr. Michael Coughlin is a recent retiree from Accenture, a global consulting technology and outsourcing firm where he helped to manage senior-level relationships with postal clients around the world. Mr. Coughlin also spent 32 years with the U.S. Postal Service serving as Deputy Postmaster General and a member of the Board of Governors from 1987 to 1999.

Mr. Phil Herr is Director of the Physical Infrastructure Team at the Government Accountability Office. Since joining GAO in 1989, he has managed reviews of a broad range of domestic and international concerns. His current portfolio focuses on programs at the Postal Service and the Department of Transportation.

Mr. Robert Reisner is president and CEO of Transformation Strategies and has been a management consultant for more than 20 years, specializing in strategic market transformation. He has previously served in the executive positions at the Postal Service, including vice president for strategic planning from 1996 to 2001.

We will now begin our witness testimony.

Mr. Bernstock, you are recognized for 5 minutes.

STATEMENTS OF ROBERT BERNSTOCK, PRESIDENT, MAILING AND SHIPPING SERVICES, U.S. POSTAL SERVICE; RUTH GOLDWAY, CHAIRMAN, U.S. POSTAL REGULATORY COMMISSION; PHILLIP HERR, DIRECTOR, PHYSICAL INFRASTRUCTURE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; MICHAEL COUGHLIN, DEPUTY POSTMASTER GENERAL, U.S. POSTAL SERVICE (RET.); AND ROBERT REISNER, PRESIDENT AND CEO, TRANSFORMATION STRATEGIES

STATEMENT OF ROBERT BERNSTOCK

Mr. BERNSTOCK. Good morning, Mr. Chairman, and members of the subcommittee. I appreciate your interest in the revenue generation activities of the Postal Service, as that is the primary focus of my work.

I would like to begin by recognizing Congress' active support of the Postal Service this year, especially your understanding of the urgency behind changing the retiree health benefit payment structure for fiscal year 2009.

The Postal Service continues to face severe financial challenges. Our auditors are currently reviewing our fiscal year 2009 financials, and while I cannot give you the precise figures, I can say that despite heroic cost reductions of over \$6 billion, we expect our mail volume to decline by approximately 26 billion pieces, with a net loss of over \$7 billion, prior to accounting for recent legislation.

There is no certainty that mail volume levels will recover or if they will continue to decline, to be replaced with other forms of communication. We are certain that without significant changes, the potential exists for similarly large financial losses in the foreseeable future.

We are actively engaged in a four-pronged effort to correct public service finances. The first and most obvious approach is to continue to aggressively bring down our costs. The Postal Service has set very aggressive cost-reduction targets. The change in delivery frequency from 6 days to 5 days and modification of retiree health benefit fund payments are both integral elements of the second strategy.

The third and fourth paths are the subject of today's hearings: to be equally aggressive in our efforts to grow revenue within the law and to change the law to provide greater product and pricing flexibility.

An example of how we utilize our pricing freedoms enabled by the Postal Act is the standard mail summer sale. Working with the PRC, we developed the summer sale, offering a 30 percent price discount on incremental volume on advertising mail for 3 months over this summer. We are still evaluating this program, but preliminary information suggests that over 400 of our largest cus-

tomers participated and mailed a significant number of incremental pieces of standard mail to help stimulate the economy.

I would like to give special thanks to the PRC for its quick and thorough review of this proposal.

The summer sale, along with other revenue-generating initiatives that I describe in some detail in my written testimony, like the priority mail advertising campaign, priority mail contract pricing, and consumer products at retail, including greeting cards, are all underway, already taking advantage of the flexibility afforded by the Postal Act. Some have already generated incremental revenue, and others are just hitting the marketplace.

There are additional initiatives described in my testimony that are still in the planning stages designed to extend or transform the business by expanding the core capabilities into new business areas.

Three examples are, first, renewed approaches to the distribution of product samples; second, the extension of passport processing and enrollment services to secure credentials; and third, the exploration of hybrid mail that is either sent, delivered, or both, in digital form.

One of the purposes of today's hearing is to examine the constraints that hold the Postal Service back. I outline specific requests for changes in the postal law in my written testimony, including the authority to provide services to State and local authorities in addition to Federal agencies, to provide explicit authority for purely electronic equivalence of the traditional physical services, and to provide more freedoms to leverage our existing assets, especially our retail assets.

While I'm excited about our revenue-generating projects and the potential for greater freedoms, I want to be clear that revenue alone is not sufficient to close the earnings gap. Even at a 15 percent pretax profit margin, it would take profit generated by almost \$45 billion in new revenue to fill that earnings gap. The four prongs together are necessary to provide a framework for the Postal Service to be self-sustaining while fulfilling our universal service obligation at service levels the country has come to expect.

We are very proud of our accomplishments in meeting the communication and commerce needs of the country. But we recognize that without the help of Congress, we cannot close our significant profitability gap and adequately meet our universal service obligation.

I would like to thank the subcommittee for holding this hearing and to reaffirm my personal commitment to working with you to ensure a Postal Service that meets the mailing and shipping needs of the American public. I would be pleased to respond to any questions you may have.

Mr. LYNCH. Thank you.

[The prepared statement of Mr. Bernstock follows:]



STATEMENT OF
ROBERT F. BERNSTOCK,
BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE AND THE DISTRICT OF
COLUMBIA OF THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

NOVEMBER 5, 2009

Good morning, Mr. Chairman and members of the Subcommittee. I appreciate your interest in the revenue generation activities of the Postal Service as that has been the primary focus of my work since joining the Postal Service. Before I begin discussing the topic at hand, I would like to recognize Congress' active support of the Postal Service this past year, especially your understanding of the urgency behind changing the retiree health benefits payment structure for fiscal year 2009. Your active leadership allowed the Postal Service to meet its financial obligations, as well as meet the retiree health benefit needs of its current and future retirees for 2009. On behalf of the Postal Service, thank you all for your support and your commitment to the Postal Service.

Today, I will share strategies employed by the Postal Service to generate revenue. Our strategies have expanded with the enactment of the Postal Accountability and Enhancement Act of 2006, which provided additional management flexibility through a new regulatory structure, and product and pricing freedoms. In addition, I will discuss some of the initiatives and ideas that the service has planned for the future. Finally, as requested, I will address the barriers or limitations imposed by this Act on the Postal Service. I welcome this opportunity to continue to discuss additional steps needed to ensure the Postal Services' ability to finance universal service for today and into the future.

I would like to begin by providing some context for our current situation. For almost four decades, the United States Postal Service (USPS), an independent establishment of the executive branch of the U.S. government, has relied on the sale of its products and services, not taxpayer dollars, to generate revenue and cover the costs of providing universal service to the increasing number of addresses in the United States.

The USPS is at the heart of the domestic mailing industry. The mailing industry employs 8 million Americans, represents nearly 7.5 percent of the gross domestic product and is the conduit for roughly \$1 trillion in commerce annually. If the USPS were ranked in the Fortune 500, its revenue would rank among the top 25 companies. On average, eight to ten million people visit a Post Office each day and over one million visitors view the USPS website daily. In short, the mail drives American commerce and, in turn, America's commerce drives the mail.

The Postal Service is a very successful organization. Consumers rank the Postal Service as the most trusted government agency and one of the top three most trusted businesses in the United States. We deliver over 40 percent of the world's mail. Even with our sharply reduced resources, our service performance reached an all-time high level last year. Considering that we are talking about delivering to 150 million addresses six days a week, one can understand why our employees are proud to say they work for the Postal Service.

Our employees are one of the key reasons the Postal Service is so successful. The USPS is the second largest civilian employer with approximately 623,000 career employees. Not only are these employees proud of their work but they are also dedicated to serving the postal needs of the American people. One of the first things that impressed me when I joined the Postal Service

was the universal commitment of its employees to provide extraordinary customer service. Whether satisfying the needs of an individual customer or helping a small business or a large mailing partner, postal employees strive to meet their customers' mailing needs.

Postal employees have continually innovated and adjusted to take advantage of the technologies and resources available to efficiently and effectively deliver the mail. This reliance on innovation has enabled the Postal Service to continue to improve the speed and efficiency of mail and package delivery. The flexibility of the Postal Service to adapt to the changing times is a key component of our success throughout our 234-year-history. We are depending on continued flexibility and our ability to innovate to continue to finance universal service for the next 200 plus years.

We are all aware that the past year has been particularly challenging due primarily to the economy. As this Subcommittee and its Members well know, the state of the economy and the Postal Service are intertwined. The Postal Service, like all businesses in America, has developed mitigating strategies to survive the most severe economic downturn this nation has witnessed in more than half a century. Advertising mail, which accounts for more than half our volume and almost a third of our revenue, declined in double digits for fiscal year 2009. In response to the severe economic conditions, companies cut spending and one of the first things cut was advertising spend. Despite the decline in revenue, industry analysts are predicting a growth in share of advertising dollars for USPS advertising mail. While we believe some volume will return as the economy improves, we do not expect volume to rebound to previous levels.

Like our competition, we plan to change prices for our shipping services products in January 2010. These changes were announced just yesterday. However, as we announced in October, we do not plan to increase mail service prices in 2010 and expect that this will stimulate some level of growth for those products.

A second challenge having a direct negative effect on postal volume is the continued diversion of hard copy communications to electronic alternatives. We feel the effect today, predominantly in the steady loss of First-Class transaction mail, most notably in bill payments. We are keenly aware that some of our largest customers are encouraging faster diversion of payments to electronic form in an effort to save on their administrative costs in this severe economic environment. In addition, bill presentment has recently begun to move online. Beyond bills, fewer Americans send personal letters, as the use of mobile phones, text messaging and email has increased. Some long-running popular magazines are losing circulation as more and more Americans are reading their news online. However, the package delivery market has grown and will continue to grow providing an opportunity for revenue growth.

Our auditors are currently reviewing our fiscal year 2009 financials with a final annual report expected later this month. While I cannot give you the precise figures, I can say that we expect our mail volume decline to be approximately 26 billion pieces of mail and, despite 2009 cost reductions of over \$6 billion, we expect our net loss to be over \$7 billion prior to accounting for recent legislation. The Postal Service will suffer this loss and be unprofitable despite heroic cost reduction initiatives by our operations team that eliminated approximately 114 million work hours this year. To the best of our knowledge, this is the single largest cost-cutting initiative undertaken by any company in our country this year. While we are proud of these cost-cutting results, we recognize that even more needs to be done to close the financial gap resulting from the steep decline in 2009 volumes.

As this hearing takes place, postal stakeholders are engaged in a rigorous debate regarding potential future mail volumes as the country's economy rebounds. There is no certainty whether mail volume levels will recover from 2009 levels or whether they will continue to decline, being replaced with other forms of communication. Without significant changes, the potential exists for similarly large losses in the foreseeable future. What we can say with certainty is that we are actively engaged in a four pronged effort to correct USPS finances.

The first and most obvious approach is to continue to aggressively bring down our costs. The USPS has set very aggressive 2010 cost reduction targets. A change in delivery frequency and modification of retiree health benefits fund payments are both integral elements of our second strategy. The third and fourth paths are the subjects of today's hearing, to be equally aggressive in our efforts to grow revenue within the law and to change the law to provide greater product and pricing flexibility.

Since the enactment of the Postal Act of 2006, the Postal Service has worked to put in place a strong revenue generation organizational structure. I joined the Postal Service in June 2008 and, at that time, we furthered that effort by creating a customer facing organization that aligns with operations and supports partnerships with affiliates, to attract new and retain existing customers (See chart 1 below).

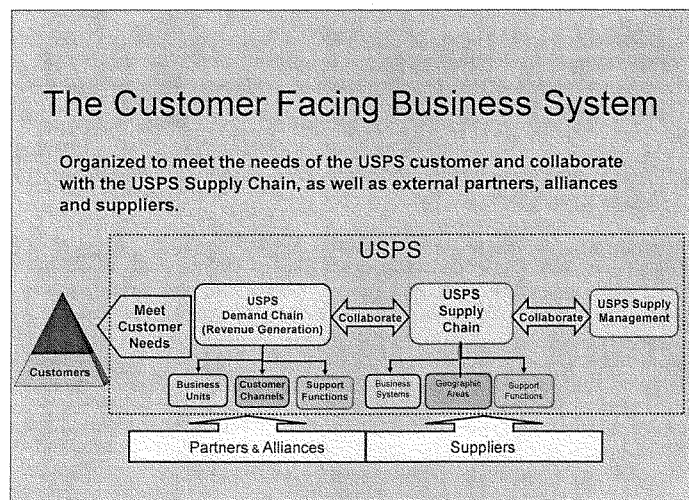


Chart 1

Some of the changes to the organization that will support ongoing revenue generation are:

1. The addition of Business Units to focus on products and services.
2. The reorganization of channel specific groups to focus on sales and customer service.
3. The refocusing of support functions as shared services.

We are in the process of reorganizing one of the support functions – the Sales Organization – to better serve customers and grow revenue. The USPS has two very different customer groups with vastly different needs, large customers and small customers. On average, our large business customers generate 8,000 times more revenue than our average small customer. Large businesses that rely on the mail have staffs who study postal rules and regulations. Their needs are generally operational in nature, scheduling mail entry and fulfillment of their equipment needs. We meet these needs through the use of customer service experts. In addition, our sales people will visit these businesses when an opportunity exists to help the business grow or take advantage of a workshare opportunity. The USPS has millions of small customers who use the mail on a less frequent basis. Our efforts to support this group occur in our over 30,000 retail outlets, online, via a call center or through our letter carriers while they are on their routes. An important segment of this group is small businesses. Since small businesses rarely have dedicated mailing and shipping staff, these channels are designed to answer their questions and encourage their use of the mail.

Priority Mail is an excellent example of how we have employed the full range of strategies available to us to successfully compete and generate revenue. We have managed to avoid the double-digit revenue declines in the expedited market by being aggressive. We attribute this to the pricing freedoms provided to us under the Postal Act of 2006, proven advertising and outstanding customer service.

A positive aspect of the Postal Act of 2006 was that it gave us the ability to offer contract pricing to commercial customers. Before the act, everyone paid the same price whether they shipped one package or one million. Private sector businesses don't price their services that way, and in today's world, it didn't make sense for us either. With contract pricing, we can now compete somewhat more effectively with private carriers on price, which has allowed us to grow our profitable package business. So, contract pricing has become a key strategy for us to grow our commercial business with large and medium sized customers.

These pricing freedoms have had a positive effect on our organization. The ability to offer contracts means that we are now able to pursue the shipping dollars of the largest businesses in the country. The new package volume we've won through contract pricing involves the largest commercial and retail entities in the U.S. It's a real contribution to our bottom line, and the successes we have seen with these contracts, despite a challenging economy, tells us that customized pricing agreements should bring even more revenue from our competitive products as the economy starts to turn around.

But these pricing freedoms fall short of the freedoms our competitors enjoy in the private sector and matching the private sector freedoms would be appropriate. In the private sector, while contracts are carefully crafted and negotiated, each contract is not scrutinized by a regulator, which is what is required for each postal contract before it can be signed. For the Postal Service, every contract is considered a new product and must be approved by our regulator in advance of implementation. While the Postal Regulatory Commission (PRC) is very diligent about meeting a 15 day turnaround on these contracts, those 15 days can give our competition sufficient time to match or beat our offer and seize on a potentially lucrative contract that was initially ours. Short of full pricing freedom comparable to the private sector, there are other alternatives that would improve the contract pricing process and provide effective oversight. These include after-the-fact review of each contract by the regulator, pre-approved thresholds or limits to protect against substantial pricing risks, and broader definitions of a product so that each individual contract for the same or similar product does not require a before the fact review. We believe that these enhanced freedoms would enable us to capture more revenue opportunities with sufficient oversight to limit risk.

To have an equally impactful program for our small business and individual consumers, we turned to research. We discovered the difference between those who used the USPS for their expedited services and those who did not was the knowledge and understanding of our products and services. So we set out to build product awareness and usage.

Our popular Priority Mail Flat Rate Box promotional campaign was introduced in May 2009, and will be extended through this year's Holiday season. The campaign offers customers a simple, economic way to ship goods using our Priority Mail Flat Rate Boxes. We funded the campaign by using already existing marketing dollars and redirected them to a highly integrated media plan incorporating TV, direct mail, print and digital advertising. In addition, the integration extends across channels so that retail clerks, letter carriers and others also actively participate in and support the Priority Mail Flat Rate Box Campaign.

To optimize our chances of success with this campaign, we have done extensive consumer and customer testing to ensure the clarity, appeal and persuasiveness of our message. This advertising campaign is perhaps our best ever, attaining the highest commercial scores ever tested for any company offering shipping products and services. To date, our website directing customers for fulfillment or more information has received more than two million hits, and a

couple of award nominations for our use of innovative online tools. The sales results are above expectations.

Other examples of how we utilized our pricing freedoms enabled by the Postal Act are evident in the work of our Business Units. Business units focus their energies on optimizing products and services to generate revenue. Our Marketing Mail Business Unit was searching for ways to respond to the needs of Standard Mail users who were particularly affected by this economic downturn.

Working with the PRC, we developed the Summer Sale concept with a 30 percent price discount on incremental volume of advertising mail for three months this summer. We are still evaluating this program but preliminary information suggests that customers mailed a significant number of incremental pieces of Standard Mail to help stimulate the economy. Over 400 of our largest customers participated in a program that would not have been possible without the pricing flexibility of the Postal Act. I would like to give a special note of thanks to the Postal Regulatory Commission for its quick and thorough review of this proposal. Without this expeditious review, we could have missed our window of opportunity.

Our customers continue to face economic challenges in their businesses. We saw initial interest with the Standard Mail Summer Sale, and we wanted to continue the momentum started by this program as our customers' sales remain sluggish with no appreciable increases in marketing spending anticipated for calendar year 2009. At the Postal Service, we believe we can and should continue to find ways to help our customers increase their use of advertising mail for brand-building, customer acquisition, and customer retention. The success of the Summer Sale led to the additional stimulus program, the First-Class Fall Incentive. We want to ensure customers know that they matter to us and we want their business.

Our customer focus is also the reason we established channel groups in our organization. Our Retail, Internet and Call Center groups each focus on how we interact with customers and consumers, and what forms of our products and services to offer to meet the particular needs of the channel user while optimizing utilization of our assets.

The Retail Channel has benefited from flexibility of the Postal Act while also realizing some of its limitations. With the largest retail network in the U.S. and probably the world, the Postal Service sees an average of 9 million visitors a day at our retail outlets. Yet, despite these impressive statistics, the Postal Service has a surprisingly small revenue base in non-postage products, averaging less than \$15 in sales per location per day. While we offered a broad range of products in a wide selection of categories, only a few products represented the bulk of the sales.

We took on the task of defining a retail strategy and focused on offering only those products that facilitate our customers' mailing and shipping activities while promoting our brands. As a result, we streamlined the product selection and reduced the product offering from about 4,000 items to about 300 items, maintaining only those products that were preferred by our customers. Today, in limited pilot locations, customers can see the new product selection including an assortment of seasonal and everyday greeting cards for sale. We would like to publicly acknowledge the participation of the Greeting Card Association in this endeavor.

We know by featuring top-selling mailing and shipping supplies, philatelic products and mail-related tools such as scales and stamp coil holders, that our retail associates will be able to better assist customers with their mailing needs. To further enhance sales, we have coordinated our retail merchandising with our advertising to prominently feature the Priority Mail Flat Rate Boxes and our "Simpler Way to Ship" message.

We worked within the interpretation of the Postal Act, guided by the PRC, for a product selection that is consistent with our strategy, in this case, as we were already selling USPS branded items, mailing and shipping supplies, and greeting cards. While still employing a "Fewer, Bigger, Better"

strategy, we see an opportunity to expand our retail offerings with the addition of other consumer products, such as stored value gift cards, which the PRC did not approve as a "grandfathered" service. We could offer a wider variety of office supplies, vending and printing services with expanded freedoms as well. We plan to carefully research and evaluate other product and service options appropriate for consumer product sales before recommending them for retail sales.

One challenge facing us is how to optimize the strength of our retail network. If we don't expand the products and services sold at retail, we may be forced to close underutilized facilities. The policy choice for our country may come down to "use it or lose it."

This year, the Postal Service also initiated a multichannel integration project to update and improve the system architecture supporting our channels. With this project, a customer will be able to buy postal products in the way they prefer – at retail, online, or by phone. This will bring a virtual Postal Office to any home or office.

Today, about 29 percent of retail revenue is generated through alternate postal product and service access channels. We will continue to work on "bringing the Post Office to your fingertips" which is one of the strategic guiding points offered by Congress in the Postal Act of 2006. Our near term goal is to move up to 50 percent of sales to alternate access sources such as the internet, phone, automated postal centers and alternate access channels. As more customers embrace alternate access channels for small, simple transactions, such as stamp purchases, the Postal Service can optimize its retail assets with the sale of more complex transactions.

As part of this multichannel integration project, we have introduced the three most requested postal service functions on mobile devices. Beginning last month, customers can now track and confirm packages, locate a Post Office, and find ZIP Codes on their mobile phones. In the near future, unique applications will be available on smart phones such as the iPhone and Blackberry.

Currently, our website is one of the busiest in the nation with some 30 million visitors each month, and we know from customer feedback that they are delighted with the ease and convenience of buying stamps, printing shipping labels or locating ZIP Codes online. Our multichannel integration project, which includes an update of our *usps.com* website, will provide customers with one postal account, a complete transaction history and new payment methods, bringing our e-commerce capabilities in-line with, and even slightly ahead of other major online retailers. More and more, customers will be able to manage their postal transactions online or via phone as well as at our retail outlets. In the future we will have the potential to offer new services that had not been contemplated at the time the current law was enacted.

The U.S. Postal Service, like the rest of American industry, has come a long way since the dot.com era in providing online access and offering ecommerce options. With Postal Service employees working hand-in-hand with global partners recognized for their expertise and experience in these areas, the Postal Service's capabilities are growing by leaps and bounds. Our Multichannel Integration project will result in a cutting edge system which represents the best practices of today. Progress is already evident in the introduction of the mobile access channel, the innovative augmented reality tools for Priority Mail, and continued nominations and awards recognizing the leadership qualities of the Postal Service's websites.

These new programs, the Summer Sale, Priority Mail Campaign and Contracts, Consumer Products at retail and the Multichannel Integration project are all underway, already taking advantage of the flexibility afforded by the Postal Act. As noted, some have already generated incremental revenue and others are just hitting the marketplace. All of these projects are designed to retain or extend our core business and all are happening now.

What I would like to address next are three other initiatives that are still in the planning stages and are designed to extend the core business or transform the business by expanding core

capabilities into new business areas. These are just a few of the many initiatives under evaluation currently by Postal Service business unit and channel managers and its partners and affiliates.

One of these planned activities is product samples that generated significant revenue for the Postal Service in the past but as previously offered became cost prohibitive. This project is a renewed approach to product samples using different business models. With our shipping service capabilities and our ability to reach every household in America, we are properly positioned to partner with the private sector and provide marketers and advertisers with more ways to create demand for new products in an efficient and effective way. An initiative like this, to grow product samples, is part of the Postal Service legacy of contributing to the growth of commerce and innovation in our country.

I also want to talk about potential transformational ideas or ideas that could take the Postal Service into new businesses that may offer revenue generation opportunities by combining the core competencies of the Postal Service with new technologies. We are exploring these ideas to determine whether they will generate new revenue. The first initiative that falls under this umbrella is a pilot program to determine what type of secure enrollment or credentialing could be done on behalf of other government entities at postal facilities. This idea follows along the successful business partnership we have with the Department of State.

Since 1975, the Postal Service has accepted passport applications at postal facilities. Today, 6,300 Post Offices accept passport applications nationwide. Our retail presence across the country and the high level of trust consumers have in the Postal Service, along with the increased significance of swearing an enrollment oath in front of a Federal employee, all have provided an effective customer access solution to the State Department for obtaining passports.

As the need for enhanced credentialing increases for Federal and State government agencies, the Postal Service is evaluating the development of a full range of enrollment services that will enable agencies to work with us as a trusted Federal partner. This would require expanded enrollment services, beyond today's passport enrollment including building a full web-based pre-enrollment capability, and capturing other important data in person.

Currently, our team is identifying and meeting with prospective Federal agencies in need of such secure credentialing processes and is examining the revenue potential of such an initiative. The geographic retail ubiquity, consumer trust, and binding nature of taking an oath in front of a Federal employee differentiates the Postal Service from any other potential enrollment services provider. Our team also is analyzing the type of training and infrastructure requirements that would be necessary for the Postal Service to provide enrollment services either on-site or via mobile facilities.

The second transformational project underway is the exploration of hybrid mail, or mail that is either sent, delivered, or both in digital format. This is not a new idea. Many forms of hybrid mail exist today. An example is sending an electronic file to a printer to be printed, addressed, sorted and mailed as an advertisement or direct mail piece for that business. Hybrid mail is a fast-growing marketplace and unlike a purely physical distribution model, the geographic boundaries are easily crossed. Many posts around the globe are already involved in hybrid mail solutions that bridge the digital and physical mailing options.

Today we are exploring options to utilize the assets and intellectual property of the Postal Service, in partnership with affiliates in the private sector, to continue to provide trusted mail service to our customers in a more electronic world. We feel this is critical to our long term viability in an environment in which our young people grow up immersed in the digital world where electronic communication and commerce are the norm, not the add-on or exception that they have been in the past.

While we are working diligently to find new revenue generation opportunities, we are finding that there may be unintended consequences to the requirements of the Postal Act because the flexibility we need is either lacking or unclear. You have heard before that we have the largest retail network in the world. As the Postmaster General is fond of saying, our retail network has more locations than McDonalds, Starbucks and Wal-Mart combined. We truly are ubiquitous in our nation. Yet we do not have the flexibility we need to generate sufficient value from these retail assets. Everyone wants to keep his or her local Post Office, often despite our inability to generate a reasonable economic return from that site. Having the flexibility to offer more complementary services at our retail locations would significantly enhance our ability to optimize these retail assets. Some examples of the kinds of services we could offer are a wider variety of office supplies, gift cards, vending and printing services to name just a few.

Again, we do not believe that the Postal Act was passed to limit our growth, profitability or leadership in the role of commerce and communication. We have a proud history of postal leadership and innovation in the field related to the execution of our mission. Specifically addressing these possible unintended consequences would go a long way to not only opening the door for incremental revenue generation, but in stemming what is inevitably a precipitous decline in revenue with these limitations.

Since the time of Ben Franklin and throughout our 234-year history, the Postal Service has taken advantage of changes in technology to improve the delivery of communication and commerce. The Postal Service has been flexible in both creating new products and rapidly adapting to new innovations resulting from technology advances. As the steward of communication and commerce for the American people, the Postal Service provided mail subsidies and at times investments to further the development of transportation systems via stagecoaches, railroads, steamboats, ships, and most significantly the American aviation industry. The Postal Service was an early adopter of each of these transportation modes with the aim of moving mail more quickly, reliably, and securely throughout the country and to other nations.

In 1863 the Postal Service acted with Congress to offer free delivery of mail directly to the door instead of to a central Post Office in order to "greatly accelerate deliveries, and promote the public convenience." Our rural free delivery service brought rural America into full marketplace participation, extending and growing American commerce. From 1911 through 1967, our Postal Savings System provided secure, accessible depositories for small savers. Created in the early 1960s, ZIP Codes were designed to help speed mail, while over time they have become a marketing and demographic mainstay. In 1970, our expedited Express Mail service was a Postal Service innovation. In 2006 we worked with our customers to develop the latest innovation, Intelligent Mail with improved barcodes for tracking mail within the postal system. All of these are innovations by the Postal Service that used our flexibility to take advantage of new or emerging technologies and have been or are a benefit to the Postal Service customers.

We encourage you to remember the value of flexibility to the U.S. Postal Service. We have a mission of universal service to the American population that we take very seriously. Our ability to adapt in changing environments has enabled us to stay strong and viable for over 230 years while delivering on our mission.

One of the purposes of today's hearing is to examine the constraints that hold the Postal Service back from moving forward. I don't have all the answers to give to you today with respect to the additional product freedoms sought by the Postal Service. Instead, as many of you are aware, the Postal Service has begun a conversation on what functions the Postal Service should offer five, ten or fifteen years from now. This hearing is a part of that conversation.

One of the first rules of business is to keep costs in line with revenues. In the current economic recession, the Postal Service is projecting a loss despite significant cost cutting measures. We believe there are two real solutions to this issue and both are within your control. The first is restructuring the retiree health benefits funding requirement and the second is the five-day

delivery change. As discussed earlier, addressing these two issues would be the primary first step to putting the Postal Service back on a profitable footing. It is unrealistic to believe that revenue generation initiatives could close the gap independent of retiree health benefit prepayment relief and a five-day delivery option. To the best of our knowledge, no company in the history of our country has ever closed a \$6 billion earnings gap solely by revenue generation initiatives.

In recent weeks, the Postmaster General has stated that in order to better support its universal service obligation, the Postal Service will need additional statutory flexibility to pursue additional revenue generating activities. This is necessary because presently the existing statutory authority is either lacking or unclear. One specific change that we would like to suggest is an expansion of the authority granted to the Postal Service in Title 39 (section 411) United States Code which currently permits the provision of (and remuneration for) a wide variety of services to "Executive agencies with the meaning of section 105 of title 5, and the Government Printing Office."

The authority of the Postal Service to cooperate with and provide services to state and local authorities is not specifically set out in the current law. We would like to have clear authority to cooperate with all governmental authorities. This authority is what we are seeking for a program such as the enrollment services initiative described earlier, which could potentially be used to assist states with enrollment services for various benefits programs or for a wide variety of other initiatives where the ubiquity of the Postal Service's retail and other facilities would be of value.

Another area in which the Postal Act of 2006 could be modified is in its definition of services the Postal Service is allowed to provide. Currently, the law contains a definition of postal services that is limited to "the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto." While the Postal Service understands that this definition generally is descriptive of the core function that it has served in our country's history, the lack of explicit authority to provide purely electronic equivalents of the traditional physical services could place a cloud over the Postal Service's ability to bind the nation together in the electronic age. It also is inconsistent with the definition of postal services adopted by the former Postal Rate Commission prior to the passage of the Postal Act of 2006, which explicitly included electronic services. Although the Postal Regulatory Commission has indicated that under the Postal Act of 2006 certain purely electronic services, such as international electronic funds transfers are permissible extensions of existing hardcopy services, the authority to provide all such services should be set out explicitly in the law.

Further modification to the Postal Act would benefit the revenue generation capabilities of the Postal Service by providing more freedoms to leverage our existing assets, such as our retail outlets. We already sell money orders and international wire transfers. The Postal Service would like to explore whether it would be feasible to provide new non-postal products and services directly or in partnership with private sector entities. For example, if we were to lease out space to a private company for the sale of complementary products, such as flower bouquets, under current law our employees could not ring up the private company's customers' purchases without inviting a dispute as to the Postal Service's authority to do so. Therefore, the business economics simply would not work.

Beyond these specific suggestions, the Postal Service is interested in exploring whether, like other postal administrations around the globe, our core operations could be supported by revenue generating activities that dovetail with the Postal Service core competencies. For example, the Postal Service is interested in exploring whether the provision of logistical, financial, real estate management, and services to underserved rural and inner-city markets might be a sound means to secure revenues needed to support universal service.

If you look around the world today, you will find that international posts are facing the same mail volume declines as the Postal Service due to the economy and electronic diversion. Posts

worldwide are offering banking, insurance, and telecommunication services. While we are not advocating any of these services specifically, we are advocating the ability to explore new possibilities to position the Postal Service for the future, so that we can continue to provide outstanding universal service to the American people.

We cannot assume that mail volumes will return to their historic levels. We have to be positioned to use every asset available to us – be it our 36,000 retail outlets or our ability to reach 150 million household, business, and P.O. Box addresses. The communications evolution continues at a rapid pace and the world's markets remain in an extremely volatile state. In this rapidly changing world, this is not a good time to be standing still. In fact, standing still is the equivalent of moving backwards in this period of rapid progress in communication options.

In summary, I speak for the Postal Service leadership team when I say that we are very proud of our accomplishments in meeting the communication and commerce needs of the country. We have achieved record-level cost reductions, record-high service levels and early successes on new initiatives for incremental revenue generation. But we recognize that without the help of Congress we cannot close our significant profitability gap and adequately meet our universal service obligation.

As I identified, the effort to correct the Postal Service's finances is a four pronged effort. As the first prong, we are actively working to continue to reduce costs and we have a very aggressive target for fiscal year 2010.

The second prong encompasses the two most critical changes necessary to close the gap: a change to a five-day delivery schedule and a restructuring of the retiree health benefits prefunding schedule. These changes would enable the Postal Service to reestablish a firm foundation for strong and profitable growth. Without these two changes, we do not anticipate the possibility of closing the earnings gap even with aggressive revenue generation initiatives.

The third prong is an aggressive focus on those revenue generation initiatives allowed by law. We have already begun to see an effect from these efforts as I discussed with the Priority Mail and Summer Sale examples and have others in early implementation or planning stages. However, even at a 15 percent pre-tax margin, it would take the profit generated by almost \$45 billion in new revenue to fill the earnings gap if we employed this prong alone. This is clearly not realistic.

Fourth, we request changes to the Postal Law in areas of revenue generation as outlined earlier in my testimony. In combination, these four prongs provide a framework for the Postal Service to be self-sustaining while fulfilling our universal service obligation at service levels the country has come to expect.

In short, we are urging this Congress to join the Congresses of the past, that have enabled growth and innovation in commerce and communication for the citizens of the United States, by providing flexibility to the U.S. Postal Service to capitalize on emerging trends to the benefit of our country.

In closing, I would like to thank this Subcommittee for holding this hearing today. I would like to close by reaffirming my personal commitment to working with each of you to ensure a Postal Service that meets the mailing and shipping needs of the American public.

Thank you. I would be pleased to respond to any questions you may have.

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Mr. LYNCH. Ms. Goldway, welcome. You are now recognized for 5 minutes for an opening statement.

STATEMENT OF RUTH GOLDWAY

Ms. GOLDWAY. Thank you. Good morning, Chairman Lynch, Ranking Member Chaffetz, Congressmen Davis, Connolly, and Cummings. I'm pleased to be here today.

The subcommittee has a critical role to play in preserving a treasured American asset. The Postal Service is a government agency that connects together every American household, business and institution through its universal service network. It is a part of our daily life, taken for granted until taken away; part of the fabric of the Nation, supporting its educational, political, and charitable institutions.

Congress has played an ongoing role in revitalizing the postal system most recently through the PAEA. The law was designed to preserve the Service's historic attributes, while providing change for the 21st century. But it was enacted at a time when both the economy and the Postal Service appeared strong. Now the landscape has changed. I think the PAE is working, but it is hard to see how well, given the recession.

There have been clear successes. First, the Commission and the Postal Service who work together to take advantage of competitive flexibilities in the law. Through our rate process, the Postal Service has used its pricing power to significantly increase the rate of return on its overall competitive product line. Mr. Bernstock provided the details.

Second, this year the Commission approved the Postal Service's first-ever request to test seasonal price incentive programs for standard and first-class mail, as well as the first and only experimental product submitted under the PAEA.

Third, the Postal Service NSA proposals have accelerated under the new law, rising 900 percent in less than 3 years. Preliminary data on revenue-generation activities indicate that overall results have been positive but modest.

Since the majority of these efforts involve price discounts, they result in limited additional revenue and provide significantly less contribution to overhead. So while the Commission would like to see more progress being made, particularly in the experimental area, there has been a reasonable effort expended to use the new law.

The truth is that the powerful downturn in the economy which has caused a sharp contraction in key mailing industries like housing, finance, and automobiles would have overwhelmed even the most ambitious of these efforts. There is a tremendous difference between a gradual annual decline of 1 or 2 percent in first-class mail, which was the trend addressed by the PAEA, and a 13 percent drop in volume experienced this year.

As a result, the Postal Service could not make its payment to the Retiree Health Care Benefit Fund [RHBF], and received \$4 billion in relief this year from Congress. And for the immediate future and perhaps some time to come, the situation appears likely to continue.

The Postal Service has suggested that it needs additional freedoms modeled on the examples of foreign posts. The Commission is open to considering new perspectives; however, we believe they need to reflect American experience and tradition.

My written testimony includes several examples from foreign posts. There may be some activities that fit the American model, but there is no magic bullet. Any new business activities should meet a set of reasonable but specific criteria, based on the core mission of the Postal Service, the needs of society, and the expectation of a positive outcome for both. The rationales that others are doing it does not satisfy the criteria.

Honestly, the Postal Service has directed most of its management resources toward reducing its cost this year by more than \$6 billion. Cuts continue—from adjusting mail routes and renegotiating purchase agreements to removing collection boxes, consolidating plants, and closing post offices. Now the Postmaster agenda has asked to lift the statutory language requiring 6-day delivery.

The Commission views proposals to reduce service with caution. Service cuts made to address near-term financial difficulties may have harmful long-term consequences for universal service. And from a market perspective, the Postal Service could harm its greatest strategic advantage, its ubiquity.

I suggest a better alternative that Congress may wish to amend the provisions of the PAA that set the RHBF's payments. The annual average payment of \$5.5 billion is an enormous burden. The Commission study of alternate RHBF values found that significantly lower payments by the Postal Service could still meet the original funding objectives of the law. Recalculation would be timely, as it would capture the Postal Service's sizable work force reduction. Further, it would provide breathing room, resources for new initiatives, and some capital investment to enable better long-term planning for the Service's future.

Looking forward, the Postal Service currently provides a number of nonpostal services that could generate new revenue. For example, the Postal Service now processes passports for the State Department. Other Federal and State agencies that issue licenses and permits or have retail initiatives could partner with the Service as well. The "America the Beautiful access" passes sold by the National Park Service is a partnership I have been advocating in particular.

Considering our Nation's energy efficiency priorities, the Postal Service has the Nation's largest civilian vehicle fleet, which could provide the critical mass needed to develop the transformational technologies and infrastructure to be in our national energy goals. Research indicates that postal delivery routes are especially well-suited to electric vehicles. A national investment and a new fleet for the Postal Service would speed transformation, add green jobs, and reduce the Postal Service's operational overhead for the foreseeable future.

Those of us in the mailing community have confidence in the value of the mail, and it is important to our economy and society. We believe that mail, letter carriers, and post offices serve a vital role in our community. How well the mail comes back, however, may well depend on how deeply service is cut now.

That concludes my statement, and I would be happy to answer any questions you may have.

Mr. LYNCH. Thank you.

[The prepared statement of Ms. Goldway follows:]



**Testimony of Chairman Ruth Y. Goldway
Postal Regulatory Commission
Before the U.S. House of Representatives Committee on Oversight
And Government Reform Subcommittee on Federal Workforce,
Postal Service and the District of Columbia
10 a.m., November 5, 2009**

Chairman Lynch, Ranking Member Chaffetz and members of the Subcommittee, thank you for the opportunity to testify. I am pleased to represent the Commission to discuss the Postal Service's progress in implementing new flexibilities provided to it under the Postal Accountability and Enhancement Act (PAEA) of 2006.

As the Committee suggests in the title to this hearing, the Postal Service is "more than stamps." It is a government agency that connects together every American household, business and institution through its universal service network. It is an economic engine for a several hundred billion dollar industry that employs nearly 8 million people. The Postal Service is literally part of the fabric of the nation, supporting its educational, political and charitable traditions.

To individual Americans, the Postal Service is a part of daily life taken for granted until taken away. The regular visit of a letter carrier and the convenience of a local post office are of tremendous value to the customers and communities they serve. The Postal Service represents to a disparate nation that its government is always there, able to assist and interact with citizens each day.

The Congress reaffirmed these historic functions in enacting the PAEA while it established a new framework for a self-sustaining Postal Service that was capable of competing in the 21st century marketplace. The focus of this hearing is on whether the current Postal Service revenue generation efforts enabled by the PAEA can add enough value in a changing economy to fund its widely acknowledged mission. To the extent that other revenue generation schemes employed by postal administrations around the

world may have applicability in the United States, they must also conform to this core mission.

Although the PAEA allows the Postal Service to make a profit, it imposes clear obligations. The Postal Service must provide universal service to bind the Nation together, compete fairly and legally, afford preferential price treatment to some mailers, operate with transparency and accountability, and refrain from abusing its monopoly power. The Postal Service is also expected to pay its own way. And the Regulatory Commission was given expanded powers. In all our deliberations, the Commission regularly reviews the progress of the Postal Service in the context of those obligations as well as in the context of the market environment in which it operates.

Although the topics are inherently interrelated, today I will discuss the Postal Service's revenue efforts in terms of three basic challenges:

- 1) The intent and expectations of the PAEA
- 2) The ongoing financial crisis facing the Postal Service, and
- 3) The Postal Service's mission to provide universal service to bind the Nation together

Postal reform and the PAEA

It has been nearly three years since the PAEA became law, following more than a decade of work and debate by the Congress and all members of the Postal community. Throughout that time, a consistent view developed that the Postal Service faced a fundamental long-term problem due to the gradual erosion of its First-Class Mail franchise by the Internet and other emerging technologies. In effect, the Postal Service's monopoly was being circumvented, particularly by the use of online bill payment systems.

The Commission examined these effects in conducting its Annual Compliance Determination of the Postal Service for 2008. The Commission found that between 2000 and 2007, the volume of single-piece First-Class Mail fell by an average of 3.6 percent a year. This is the mail, bearing a single First-Class stamp, by which U.S. households have typically paid their bills. As a result, the Postal Service was being squeezed to fund a growing universal delivery network with a declining revenue base. It is this

persistent, gradual decline in high-margin First-Class Mail that was at the heart of the postal reform movement.

The PAEA addressed this problem by allowing the Postal Service to seek new revenue and volume by engaging more freely in competitive “postal” growth markets, primarily domestic express and parcel services and international services. At the same time, the PAEA sought to reduce red tape with monopoly products by establishing a rate cap, simplifying rate making and encouraging innovation. The Postal Service was also encouraged to make a profit instead of just break even.

The Postal Service and the Commission have worked cooperatively and successfully to implement new revenue measures as envisioned by the PAEA. Within the first 18 months following enactment of the PAEA, the Commission led a successful transition to the new operating framework including the division of the Postal Service into competitive and market-dominant products with appropriate financial firewalls, establishment of new accounting rules and reporting requirements, creation of new rate setting mechanisms and the development of modern service standards, targets and measurement systems. While work to fine tune and expand these accomplishments continues, the modern regulatory model envisioned by the PAEA is in full operation.

PAEA flexibilities to increase mail volume and revenue

One of the goals of the PAEA was to promote the use of competitive business practices by the Postal Service such as contract rates with individual mailers, often called Negotiated Service Agreements (NSAs). These agreements with major customers are viewed by the Postal Service as a key strategic tool to protect existing mail volume and to promote new volume growth, usually through volume-based pricing incentives. In 2002, the Postal Service filed its first NSA with the Commission. Through December of 2006 when the PAEA was signed into law, the Postal Service filed a total of 10 NSAs, including one that was later withdrawn. All were approved.

In the first full fiscal year following enactment of the PAEA and the new flexibilities that accelerated the NSA process, the Postal Service filed 21 NSAs. That figure tripled in FY 2009 with the filing of an additional 63 NSAs. To date, the Postal Service has filed a total of 90 NSAs under the PAEA. This performance represents a nine-fold increase in NSA contracts under the PAEA in less than three years. The PAEA

flexibilities are clearly having a positive effect on the use of this competitive tool. It is not yet clear, however, how much the NSAs may be driving increased volume and revenue. The contracts run from one to three years. Early returns involving several contracts indicate that the net effects are generally positive but not relatively large. These results, like all revenue and volume efforts, will have to be further evaluated in light of the overall downturn in mail volume resulting from the weak economy.

The PAEA also authorized the Postal Service to take advantage of its pricing power in the competitive parcel and express side of its business, which accounts for 10 percent of overall revenue, although only one percent of mail volume. Commission analysis of revenue and volume figures indicate that the Postal Service has effectively leveraged its competitive pricing flexibility to improve its margins and revenue performance.

On the market-dominant side of the business, year to date volumes through quarter 3 of FY 2009 were down by 12.6 percent and revenues were down by 9.8 percent from the same period last year. The better revenue performance roughly approximates the effects of increases in market-dominant rates that took place during the year. On the competitive side, the Postal Service's financial performance for the same period is markedly better. Although shipping volumes declined by 13.7 percent, revenue fell by just 3.8 percent. These results indicate that the Postal Service was able to use its competitive pricing flexibilities to offset the effect of the volume losses on the corresponding revenue. To put it in a different context, in a better economic environment where the overall package delivery market is growing, these results suggest that the pricing flexibilities may produce higher margins and increased profitability in the Postal Service's competitive business, as envisioned in the PAEA.

The PAEA also sought to promote product innovation by the Postal Service. On May 7 of this year, the Commission approved the first and only experimental product proposed by the Postal Service under the law. "Collaborative Logistics," as the Postal Service calls it, is a less-than-truck-load (LTL) pallet service that seeks to monetize under-utilized space on the Postal Service's national truck transportation fleet. This is a decidedly different enterprise for the Postal Service; however, the Commission found that it is complementary to its core function of collecting, transporting and delivering the mail. It is too early to assess whether this experiment will be successful.

With only a single experimental product introduced in nearly three years, it appears that the Postal Service may not have taken sufficient advantage of this flexibility. Recent news reports have used the term "experiment" to describe a Postal Service test of a new approach to selling greeting cards; however, this a product they have offered prior to enactment of the PAEA. The Commission found greeting cards to be a postal product during its review of postal and nonpostal services and currently we are considering a Postal Service request to add the product to the Competitive Products list

The Commission has encouraged the Postal Service to make further experimental filings. At the same time, we are aware that meaningful product innovations are not something that can be produced on an assembly line. As the GAO has pointed out, a number of postal experiments in past years have not performed well in the crucible of the marketplace. And the U.S. delivery market is certainly not an easy place to stake a new claim. In recent years, a large, competent and well-financed shipping company, known popularly as DHL, attempted to enter the highly competitive U.S. domestic express delivery market. After several years and the loss of billions of dollars, DHL concluded its experiment and largely exited the market. Expectations that experimental products can result in large revenue growth must be tempered by reality.

On the market-dominant side of the business, after more than two years, the Commission received two filings from the Postal Service seeking to use its flexibility to implement seasonal discount pricing programs to incent increased mail volume. Much like current competitive NSAs, these programs allow mailers who meet certain thresholds to earn discounts on incremental mail volume above what would otherwise be expected. On June 4, the Commission approved the first filing, for a summer sale in Standard Mail, which ran from July 1 through September 30 of this year. The Postal Service has indicated in various public pronouncements that the sale appears to have been successful. The Commission looks forward to reviewing the data once the Postal Service closes out its books, pays the rebates and provides the Commission with the needed documentation. The second filing, for discount pricing of First-Class Mail, was approved by the Commission on September 16. It starts on October 1 and will run through December 31.

The Postal Service clearly is beginning to make use of the new flexibilities in the law. It is too early to assess whether most of these activities will produce and sustain the hoped for results. It is possible, though not certain, that these and future efforts currently allowed by law may be capable of providing the Postal Service with some of the revenue needed to ameliorate the structural erosion of the mail that precipitated postal reform and the PAEA. The flexibilities enacted under the PAEA, however, may not prove to be as effective as had been envisioned in meeting the challenges that they were designed to meet.

Financial crisis and RHBF funding

For the immediate future, and perhaps for some time to come, the effectiveness of the PAEA flexibilities has been rendered moot by the financial crisis now facing the Postal Service. There is an enormous difference between a gradual annual volume decline of 2 or 3 percent in single piece First-Class Mail and a 13 percent drop across the entire spectrum of the mail. In fact, single piece First-Class letter volume, which was down 8.5 percent through the third quarter, is a relative bright spot compared to the rate of overall volume decline and a nearly 16 percent drop in standard mail volume. The downdrafts of the economy have overwhelmed the effects of diversion. The competitive flexibilities of the PAEA were not designed to deal with the current financial crisis.

In the face of declining revenue, the Postal Service directed most of its management resources and creativity toward reducing its costs in FY 2009 by more than \$6 billion. Despite these reductions, the Postal Service required emergency action by the Congress to avoid running out of cash at year's end. The situation may remain critical until there is sustained recovery from the recession because the Postal Service cannot raise overall prices under the PAEA CPI price cap for market-dominant products. The Postal Service must continue to pay approximately \$5.5 billion per year to the retiree health benefit fund (RHBF) through 2017.

Prefunding retiree health care benefits

When the PAEA was enacted in 2006, the economy was strong and the Postal Service was concluding one of the most prolific four-year periods in its history. Driven by booming financial and housing sectors, overall mail volume increased by nearly 11 billion pieces from 2003-2006, reaching a record volume of 213 billion pieces. During

that period, the Postal Service was exceedingly profitable, earning more than \$9 billion in net income. A substantial portion of this profit was due to a change in the law that reduced Postal Service funding for retiree pensions, which OPM had found to be overfunded. Nevertheless, at the close of FY 2006, the Postal Service and the mail appeared in good financial health.

It was in this climate that Congress mandated the Postal Service to make an ambitious 10-year series of payments averaging about \$5.5 billion per year to address a growing unfunded liability for future postal retiree health benefits. At the time, the Postal Service viewed the payment schedule as demanding but achievable. To date, through a variety of mechanisms dictated in the law, the Postal Service has contributed approximately \$34 billion to the RHFB fund. This is substantial improvement from 2006 before enactment of the PAEA, and it is a signal achievement of the law.

In the current economic climate and with the severe decline in mail volume, the annual payment has proven to be out of reach for the Postal Service. In view of this, Congress may wish to amend and accelerate the provision in the PAEA that calls for a recalculation of the RHFB liability and payment schedules in 2017. At the request of the Subcommittee, the Commission conducted a study earlier this year of alternate RHFB valuations. Our findings suggested an alternative calculation that could result in significantly lower payments by the Postal Service than current law allows while still meeting the original funding objectives of the PAEA. This outcome also would give the Postal Service the financial stability to implement new long-range plans and related capital investments, and to expand efforts to use the flexibility of the PAEA. Such a Congressional review would be particularly timely as it would capture the impact of the sizeable workforce reductions that have been made by the Postal Service.

Preserving the Postal Service mission and universal service

Even if the RHFB payment schedule is adjusted, the Postal Service remains under pressure to address mounting financial shortfalls. The Postal Service has suggested that one option to address this challenge is to revisit the PAEA to allow the Postal Service to pursue currently proscribed commercial activities that some foreign postal administrations now provide. While the Commission is open to considering new perspectives and solutions to the problems that confront the U.S. Postal Service, we

also believe that American experience and tradition should not be dismissed. We believe that any new business activity should meet a set of reasonable but specific criteria based on the core mission of the Postal Service, the needs of society and the expectation of a positive outcome for both. The rationale that others are doing it or that others may make money doing it, does not, by itself, satisfy the criteria.

Nonpostal products

Among various non-postal activities conducted by foreign posts, the Postmaster General has expressed a strong interest in banking. The old Post Office Department did provide a rudimentary banking service in the first half of the 20th century. The Department effectively served as a government storefront for private banks not easily accessible in many communities, by accepting deposits from customers, issuing savings certificates and depositing the funds into local banks. The Department earned a small float on the difference between the interest it guaranteed to depositors and the interest it received on the deposits. In the 1940's the Department also issued savings stamps. The Postal Savings System ended in 1967 and subsequent postal reforms in 1971 and 2006 did not identify banking as a needed core function or mission of the Postal Service.

The international record on postal banking is mixed. In Germany, for example, where the government provided banking, telecommunications and mail services prior to privatizing all three in the late 1990s, the privatized post subsequently went through a series of moves entering and exiting banking, finally deciding to sell off their bank stock holdings to focus on the core businesses of mail and logistics. In Japan, the new government declared that banking should remain in the postal sphere as part of their campaign platform. Their victory was due in part to the national unease over the previous administration's planned privatization of the post and its banking services. Poste Italiane Group derives approximately one-third of its revenue from financial services, one-third from the sale of insurance and one-third from postal services. Further study would be needed to determine the synergies of these arrangements and how they fit into the landscape of Italian society and the Italian marketplace.

Although the recent financial crisis has raised alarms, the lack of varied and accessible banking services does not appear to be a problem in the American marketplace. In addition, the Postal Service's relatively high wage and benefit structure would not appear to be advantageous in either the banking or insurance industries, or in

expanded retail trade. Although banking does not appear to satisfy the criteria for a non-traditional product, if banking or any other non-postal activity is accepted by the Congress for possible provision by the Postal Service, it should be required to operate under a robust regulatory review from both a business and a societal perspective.

A common avenue for commercial expansion by foreign posts is the acquisition of private companies, often in related fields of express delivery or logistics services. Deutsche Post and Australia Post have completed dozens of acquisitions. Canada Post has acquired the overnight delivery company Purolator Courier and a logistics provider known as SCI Group. Current law does not provide this flexibility to the U.S. Postal Service, and it is not clear from the experience of foreign posts that such acquisitions would make sense for the United States. In Germany and the Netherlands, for example, it is the mail that provides the better financial returns, and not the acquired companies. In fact, over the last two years, Deutsche Post has seen billions of dollars of profits in its mail division offset by billion-dollar losses in the express division.

Expanded government related services

The Postal Service currently provides a number of non-postal services that suggest possible avenues for new revenue producing initiatives. For example, the Postal Service now processes two out of every three passport applications for the State Department. Other Federal and state agencies that issue licenses, permits, and passes or have retail initiatives of general interest might benefit from a similar partnership that increases service to American citizens while also earning incremental revenue for both themselves and the Postal Service. The "America the Beautiful" passes sold to the public by the National Park Service is an idea I have suggested to the Postal Service. The Postal Service might seek the assistance of the Administration, which has expressed interest in improving citizen access to government services.

The Administration also has set a priority to make the United States more energy efficient and independent. The Postal Service could help to achieve this goal while also addressing its own vulnerability to volatile fuel prices. The Postal Service has the nation's largest civilian vehicle fleet, which could provide the critical mass needed to test and develop the technologies and infrastructure to transform transportation and meet our national energy goals. Research indicates, for example, that postal delivery routes are especially well-suited to the characteristics of electric vehicles. Postal vehicles are on

average 18 years old and get 8-10 miles per gallon, but only travel 25 miles per day. A national investment in a new fleet for the Postal Service would speed transformation, add green jobs, and reduce the Postal Service's operational overhead for the foreseeable future.

Also, the Postal Service yet may find the spark of innovation to create viable new classes of mail and other products that are consistent with its mission as envisioned by the PAEA. The Commission looks forward to reviewing additional proposals from the Postal Service for experimental products or pricing initiatives that may provide new, sustainable sources of revenue for the future.

Finally, it should be emphasized that the most important catalyst for postal mail volume and revenue growth is a healthy economy. Twice in this decade we have seen mail volume plunge with recession. After the shock of 9/11, it recovered rapidly when the economy rebounded. The key questions now are: When will recovery occur? And will the mail prove to be as resilient this time around?

As we have seen, the Postal Service has responded to the downturn by emphasizing, not flexibility or innovation, but almost exclusively by finding ways to make significant cost reductions throughout its entire operation -- from adjusting mail routes and renegotiating purchasing agreements to removing collection boxes, consolidating plants and closing post offices. The Postmaster General also has asked Congress to lift statutory restrictions that currently prevent the Postal Service from reducing the frequency of mail delivery service from six to five days per week.

Caution must be exercised with regard to these initiatives. Cuts made to address near-term financial difficulties may have harmful long-term consequences for universal service and the vitality of the mail system. From a market perspective, the Postal Service could lose its greatest strategic advantage -- ubiquity. Reducing service is detrimental to mail growth and to public perception of the value of the mail system. Importantly, it may also undermine the justification for the postal monopolies.

Those of us in the mailing community have confidence in the value of the mail as an important channel of communications and commerce, and believe that mail, letter carriers and post offices serve a vital role in our communities. The mail will come back. How far it comes back, however, may well depend on how deeply service is cut while

40

mail is down. Cutting service should be considered only as a last resort with full awareness of the consequences.

Thank you. That concludes my prepared remarks. I would be pleased to answer any questions you may have.

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Mr. LYNCH. Mr. Coughlin, welcome. You're now recognized for 5 minutes.

STATEMENT OF MICHAEL COUGHLIN

Mr. COUGHLIN. Thank you, Mr. Chairman, and members of the subcommittee. The chairman did earlier just introduce me. I am Michael Coughlin. I want to make clear I am here not representing any particular organization or group, but I have spent over 40 years in the postal industry. I did spend 32 years with USPS, and for the last 10 years I have been working in a consulting role primarily focused on foreign posts.

I have been asked here today to share my perspective on the revenue-generation efforts of the foreign posts and the lessons we might take from those here in the United States.

My written statement touches on the range of initiatives undertaken by foreign posts and summarizes the very levels of success that some of them have had. I'm not going to rehash those here. But let me get right to what I think are the common success factors that some of these posts have had in raising alternative revenues and some of the lessons we might glean from them.

When I look at something like 15 different postal organizations around the world and their revenue-generation efforts, I see four kinds of common management characteristics among the more successful of those, at least in the revenue-raising efforts.

Those four characteristics include real clarity around strategic direction and a narrow focus on markets and segments that they want to target. They know what they want to do and they do it.

There is a strong innovation agenda in these organizations and a forward-looking culture that embraces change. In those organizations, innovation is an expectation.

These posts generally have the ability to recruit top talent. Many of the key players, particularly on the revenue-generation side, come from outside the traditional postal experience. And one other common factor among them is they tend to focus when they undertake those initiatives on the customer experience and making that as positive as possible. Whatever the successful posts set out to do, they strive to do it better than the competition.

Now, these are the four kind of common characteristics, and these are largely created by the management themselves, and for the most part—there are some exceptions—but for the most part I think these are generally within the current capability of USPS. But every bit as important to their success is the set of conditions that the governments of these posts have put in place as they have looked at their posts and their futures.

There are three critically important conditions that they tend to have in common. The legal framework within which they operate provides complete commercial freedom of action to operate in a competitive market. They operate very much like private entities do in their country and in this country as well.

The regulator in these countries usually has a light and a supporting hand, and their primary focus is generally on universal service issues, the reserved areas, and the generation of competition in their local postal markets.

Third, there is little political interference in the basic business decisions that these posts make, provided the post operates within the legal framework they have been given.

In my judgment, these are the fundamental success factors for those posts in virtually all aspects of their operations. And, of course, they generally have very solid leadership and a very effective governance structure at those posts.

So what does this mean for USPS? Mr. Chairman, and members of the subcommittee, I think there are two other important factors to keep in mind in a discussion of revenue initiatives and the authority and the flexibility that USPS has under the law.

The first of these issues is scale. I do not want to discourage anyone, but the problem USPS faces today is measured in billions of dollars. Finding new sources of revenue for USPS is important. But think about it: 1,000 projects, worth \$1 million each, will generate \$1 billion; or make it 10 projects, worth \$100 million. And that may not be enough.

While the recent reform law provided some additional flexibility to the Postal Service, I frankly have not heard of any initiatives approaching anything like that, and I don't say that to denigrate in any way what the Postal Service and its colleagues have tried to do. But to have a real impact in this area, it's going to take some different and some very big thinking.

The second issue is every bit as challenging. Unlike most of the posts I have discussed today, here in the United States there is a very strong philosophical aversion to a government entity competing in private markets with goods and services that are already available from private sources. In the past, when USPS has attempted to offer such services, there has been very strong and noisy resistance, and eventually USPS hears from some of you. I have personally experienced that. I do not see that situation changing simply because the postal revenue problem is bigger today.

Now, given this latter challenge, whatever revenue initiatives the USPS undertakes outside the traditional postal arena will probably have to involve partnerships and alliances with private entities where both parties can leverage the strengths of the other. In the case of USPS, it has enormous geographic reach in its retail network, and they touch virtually every home in the country throughout their delivery network. Some of the opportunities might include expanded financial services availability, expanded delivery options, government and agency services, or a link between the physical presence of the USPS and emerging communications technologies and services.

After hearing the Postmaster General's October 8th speech at the National Press Club, I can imagine that some of the bankers in this country were bristling when the Postmaster General answered a hypothetical question at his National Press Club speech about what new business he would like to be in, by saying he would like to be a bank. Well, instead of immediately thinking—

Mr. LYNCH. Mr. Coughlin, you need to wrap up. We are way over on your time.

Mr. COUGHLIN. Instead of thinking defensively, perhaps the bankers ought to put their innovative hats on and try to imagine how they can capitalize on what USPS has to offer. The same goes

for other organizations looking for really new ways of engaging their customers.

So what have we learned from foreign posts? Frankly, I think we have learned that what they are doing is interesting but it's not terribly applicable to the USPS.

Thank you, Mr. Chairman.

Mr. LYNCH. Thank you sir.

[The prepared statement of Mr. Coughlin follows:]

44

Testimony of

Michael S. Coughlin

Before the

House Subcommittee On

Federal Workforce, Postal Service,

And the District of Columbia

November 5, 2009

Good morning, Mr. Chairman and members of the Subcommittee. Thank you for the opportunity to testify on the revenue generation efforts of foreign posts.

Introduction

The US Postal Service today faces perhaps the greatest financial challenge in its history. Mail volume and associated revenue is in decline, impacted by the economic downturn, dramatic changes in communications technology and demographic and generational shifts. I personally do not believe that that volume will come back as the economy improves, certainly not to the levels necessary to support the costs of an ever-growing delivery network.

That situation will eventually prompt another look at Universal Postal Service in this country and how it will be funded. The Postmaster General, in his October 8 speech to the National Press Club outlined the problem and called for a national discussion on the future of mail. During that session he also discussed the need for new flexibility in the area of revenue generation. This hearing is, at least in part, a response to that call.

Within the confines of the authority they currently have, the Postal Service team has done a heroic job of attacking and bringing down costs as volume and revenues have fallen. At the same, time they have launched a number of revenue initiatives, including a "summer sale", flat rate parcel services, and greeting card alliance with Hallmark. I understand there is now a push for a "winter sale" as well. At the same time, the Postal Regulatory Commission seems to have applied a "light hand" in its efforts to support what USPS is trying to do. This initiative and cooperation is both commendable and important as USPS goes forward.

The question at hand is, what can the USPS do on the revenue side, and how might the Congress help? I have been asked to comment on the efforts of foreign posts to generate revenues from non-postal sources and what lessons we might take from those experiences. Let me get on with that.

What Are The Foreign Post Revenue Initiatives?

Most Posts in the industrialized, developed world have made significant efforts over the last 20 years to expand their revenue bases beyond traditional mail services. Those Posts have been “corporatized”, a few have been “privatized”, most of their postal markets either have been or shortly will be “liberalized” and virtually all have very substantial commercial freedom. The efforts to generate new revenues, particularly from non-postal sources, have been driven by the threat of lost volumes from looming competition and technology substitution. What they have done specifically, can be lumped into a few common areas. They include:

- *Logistics services – Shipping, warehousing, fulfillment, supply chain services, etc.*
- *Financial services – retail and consumer banking, mortgages, savings and insurance.*
- *Express and parcels – most posts previously offered some form of these services, but a number have dramatically expanded their efforts through acquisition, alliances, cross-border and global expansion.*
- *Electronic services – Hybrid mail, epost, ISP, broadband, certification services, etc.*
- *Retail services – virtually all posts, including USPS, have very large brick-and-mortar retail networks, and most have been a huge cost drain on the post. Foreign posts have tried to leverage the breadth and ubiquity of these networks by offering retail postal products, government and agency services, a variety of telecom products and services, as well as a host of other products to offset the cost burden.*
- *IT services – at least two posts have created IT service companies, to provide their internal IT requirements and to offer those services in the commercial market.*
- *Postal “value chain” expansion – a number of posts have moved beyond the traditional collection, transport and delivery of mail to offer ad mail*

support services, traditional “letter shop” services”, printing services, document management and in-house mail management.

The Results

The “results” vary from post to post, but there are some real success stories. Here is a sampling of posts and their estimated share of total revenues from sources other than traditional mail services. Some had preexisting businesses, like financial services, before the recent drive for new revenue.

<i>Australia</i>	<i>43%</i>	<i>Italy</i>	<i>72%</i>
<i>Austria</i>	<i>24%</i>	<i>Japan</i>	<i>93%</i>
<i>Belgium</i>	<i>21%</i>	<i>Netherlands</i>	<i>60%</i>
<i>Canada</i>	<i>20%</i>	<i>New Zealand</i>	<i>16%</i>
<i>Finland</i>	<i>47%</i>	<i>Spain</i>	<i>6%</i>
<i>France</i>	<i>44%</i>	<i>Sweden</i>	<i>11%</i>
<i>Germany</i>	<i>76%</i>	<i>Britain</i>	<i>17%</i>

United States 17%

The more successful posts, in terms of year to year total revenue growth, profitability, consistency, and revenue and cost per employee, are those that have adopted a more aggressive Strategic competitive position. These include in their general order of success:

The Global Players – Germany and the Netherlands, as well as the major non-postal competitors, UPS and FedEx.

The Regional Diversifiers – Austria, Finland, Sweden and France.

The Special Service Providers – Australia, New Zealand, Italy.

The National Optimizers – Belgium, Canada, Spain, Japan, Britain and the US.

Lessons Learned/Success Factors

So what might we learn from the experiences of these foreign posts? From observation of the international postal market place over the last 10 years, as well as a number of conversations with the leadership of these posts, there are some common characteristics among the more successful of the “revenue generators”:

- *There is real clarity around strategic direction and a narrow focus on the specific markets and segments they want to target. They know what they want to do and they do it.*
- *There is a strong innovation agenda within the post and a forward looking culture that embraces change. Innovation is an expectation within the organization.*
- *A positive customer experience is a real differentiator from the competition.*
- *The posts have the ability to recruit top talent and many of the key players and innovators have come from outside the traditional postal experience.*

These are conditions that are created largely by the management of the post and, for the most part, within the current capability of the USPS management.

Equally important, however, is the set of conditions put in place by the government and/or the regulatory authority.

- *The legal framework within which the public postal operator conducts business, at least among the more successful foreign posts, provides the commercial freedom of action necessary in a competitive market. Usually that includes the freedom to enter and exit markets and to operate as any*

private entity would, provided that the Universal Service Obligation is met.

- *The Regulator usually has a light and supporting hand, with its focus being on Universal Service issues, the “reserved” area and competition. There are exceptions, however.*
- *There is little political interference in basic business decisions of the post as long as they are made within the legal framework provided.*

Final Thoughts on the US Situation

Mr. Chairman, members of the Subcommittee, there are two other important factors to keep in mind in a discussion of revenue initiatives and the authority or flexibility that USPS has under the law. The first of these is the challenge of “scale”. The problem USPS faces today is measured in Billions of dollars. Finding new sources of revenue for USPS is important, but a thousand revenue projects worth \$1 million each, will generate \$1 billion. Or make it 10 projects worth \$100 million! Under the current statute, I don’t think I have heard of initiatives approaching anything like that. To have a real impact, we will have to “think big”.

The second issue is even more challenging. Unlike most of the posts I have talked about here today, there is a very strong philosophical aversion in this country to a government entity competing in private markets, with goods and services that are already available from private sources. In the past, when USPS has attempted to offer such services, there has been very strong and noisy resistance from those who see themselves in competition with the postal offering and eventually USPS will hear from some of you on the issue. I do not see that condition changing, simply because the postal problem is bigger today.

Given these two challenges, whatever revenue efforts USPS undertakes outside the traditional postal arena, will probably have to involve partnerships and alliances with private entities, where both parties can leverage the strengths of the other. In the case of the Postal Service, they have geographic reach with their retail network and they touch virtually every home in the country through

their delivery network. Opportunities might include governmental and agency services, expanded and partnered delivery options, expanded financial services availability, some role in emergency services, and a link between the ubiquitous physical presence of the USPS and emerging communications technologies and services. In any event, this will require a major effort on the part of the postal service to bring the advantages of a partnership with the postal service to the attention of potential partners.

Finally, having followed the 10-year discussion and debate that led to the passage of the Postal Accountability and Enhancement Act of 2006, I am not optimistic about the governmental conditions described previously for foreign posts, coming about anytime soon in this country. Therefore, a lot of what I have described about revenue generation by foreign posts is interesting, but unlikely in this country.

Again, thank you, Mr. Chairman, for the opportunity to testify. I will be happy to answer any questions.

Mr. LYNCH. Mr. Herr, welcome back. You are now recognized for 5 minutes. Thank you.

STATEMENT OF PHILLIP HERR

Mr. HERR. Chairman Lynch, Ranking Member Chaffetz, and members of the subcommittee, I'm pleased to appear again before this subcommittee today to discuss the Postal Service's revenue-generation initiatives. First, I will provide an update on the Postal Service's financial condition; second, discuss revenue-related changes made by the Postal Accountability and Enhancement Act of 2006 [PAEA]; third, outline actions the Postal Service has taken to increase revenue since 2006; and fourth, discuss issues related to generating new postal revenues.

Turning first to the Postal Service's preliminary financial results in fiscal year 2009 and going forward, mail volume declined about 28 billion pieces, and revenue declined from about \$75 billion to \$68 billion. Congressional action was required to reduce the Postal Service's mandated retiree health payment by \$4 billion. Outstanding debt increased by \$3 billion to \$10.2 billion. At this pace, the Postal Service will reach its \$15 billion statutory debt limit in fiscal year 2011. Further, deficits over \$7 billion are predicted in fiscal years 2010 and 2011.

With regard to revenue generation and key postal products, PAEA gave the Service greater pricing flexibility, including for market-dominant products to generate 88 percent of its revenues. Market-dominant mail is generally subject to an inflationary price cap. Competitive products are not subject to a price cap, but each competitive product must have cover its costs.

PAEA prohibited the Postal Service from offering new nonpostal products and services.

Turning to actions that the Postal Service has taken since PAEA was enacted, the Service increased average rates for market-dominant mail in 2008 and 2009 at virtually the maximum allowable under the price cap. This year, three targeted rate incentives were provided to stimulate mail volume. A summer sale was introduced for standard mail, and there is an ongoing fall sale for first-class mail and an incentive program for saturation mail.

For competitive products, there are annual rate increases for priority and express mail in 2008 and 2009, and the Service introduced volume discounts for these types of mail as well as a priority flat-rate box.

The Postal Service has entered into about 90 contracts with large mailers for other competitive products that are generally volume-based, with provisions intended to lower its costs. With regard to generating increased revenues, the Postal Service has asked Congress to change the PAEA restriction on offering new postal products so that it could move into areas such as banking, insurance, and nonpostal retail services.

We previously analyzed past Postal Service forays in the non-postal area, reporting a loss of nearly \$85 million in the mid-nineties on 19 new products, including electronic commerce services and a remittance processing business.

In 2001, we reported that none of its electronic commerce initiatives were profitable, and the management of these efforts was fragmented.

The Postal Service's interest in moving into new business lines raises several fundamental questions. Should the Postal Service compete in areas where there are already private sector providers? Should antitrust and consumer protection laws apply equally to the Postal Service and its competitors? If the Postal Service were to compete in banking, insurance, and retail services, should it be subject to the same regulatory entities as its competitors? If the Postal Service used its 37,000 retail facilities to offer new nonpostal services, would this provide an unfair competitive advantage? And how would nonpostal activities be financed, given the Service's current debt levels? Would it be allowed to borrow at Treasury rates?

In conclusion, we added the Postal Service to our high-risk list this past July, noting that it urgently needs to restructure to remain financially viable. Although it has used its pricing and product flexibility, results to date have been limited, in part linked to the economy. At this point, the Postal Service has no business plan that clearly details its proposals for entering new nonpostal markets and what specific legislative changes would be needed.

Generating new revenues from Postal Service products and services appears more promising than venturing into potentially risky nonpostal areas. At the same time, much work remains to reduce postal operational costs.

Mr. Chairman, this concludes my statement, and I'm pleased to answer any questions. Thank you.

Mr. LYNCH. Thank you sir.

[The prepared statement of Mr. Herr follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Federal
Workforce, Postal Service, and the District of
Columbia, Committee on Oversight and
Government Reform, House of Representatives

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U.S. POSTAL SERVICE

**Financial Challenges
Continue, with Relatively
Limited Results from
Recent Revenue-Generation
Efforts**

Statement of Phillip Herr, Director
Physical Infrastructure Issues



November 5, 2009

G A O
Accountability-Integrity-Reliability

Highlights

Highlights of GAO-10-191T, a testimony to the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

The U.S. Postal Service's (USPS) financial condition and outlook deteriorated significantly during fiscal year 2009. USPS was not able to cut costs fast enough to offset declining mail volume and revenues resulting from the economic downturn and changing mail use. Facing an unprecedented cash shortfall, USPS stated that it would have insufficient cash on hand to make its mandated \$5.4 billion payment to prefund postal retiree health benefits that was due by the end of the fiscal year.

In July, 2009, GAO added USPS's financial condition to the list of high-risk areas needing attention by Congress and the executive branch to achieve broad-based transformation. GAO stated that USPS urgently needs to restructure to address its current and long-term financial viability. GAO also stated that USPS needs to use its flexibility to generate revenue through new or enhanced products.

This testimony will (1) update USPS's financial condition and outlook, (2) describe changes made by the Postal Accountability and Enhancement Act (PAEA) of 2006 that provided USPS with greater flexibility to generate revenues, (3) outline USPS's revenue-generation actions and results using this flexibility, and (4) discuss options for USPS to generate increased revenues in the future. This testimony is based on GAO's past and ongoing work.

View GAO-10-191T or key components. For more information, contact Phillip Herr, (202) 512-2834 or herrp@gao.gov.

U.S. POSTAL SERVICE

Financial Challenges Continue, with Relatively Limited Results from Recent Revenue-Generation Efforts

What GAO Found

USPS's financial condition for fiscal year 2009 and its financial outlook continue to be challenging:

- In fiscal year 2009, mail volume declined about 28 billion pieces, or about 14 percent, from the prior fiscal year, when volume was about 203 billion pieces; revenue declined from about \$75 billion to about \$68 billion.
- A looming cash shortfall necessitated last-minute congressional action to reduce USPS's mandated payments to prefund retiree health benefits by \$4 billion. In the absence of congressional action, USPS was on track to lose about \$7 billion.
- USPS debt increased at the end of fiscal year 2009 by the annual statutory limit of \$3 billion, bringing outstanding debt to \$10.2 billion. At this rate, USPS will reach its total \$15 billion statutory debt limit in fiscal year 2011.
- USPS projects annual deficits over \$7 billion in fiscal years 2010 and 2011, and continuing large cash shortfalls.

PAEA and implementing regulations gave USPS more flexibility to set prices, test new postal products, and retain earnings. USPS has broad latitude to set rates that take effect unless the Postal Regulatory Commission finds the rates would violate legal requirements, such as a price cap that generally limits rate increases for most mail to the rate of inflation.

Except for annual rate increases, USPS revenue-generation actions since PAEA was enacted have generally achieved limited results compared to USPS's deficits. To its credit, USPS has taken actions to use its pricing flexibility to address the pressing need for additional revenue. These actions generated some revenues, although their positive impacts were overwhelmed by the recession—with its cutbacks in consumer spending and corporate advertising—and ongoing diversion of mail to electronic alternatives.

Looking forward, USPS has opportunities to continue pursuing the flexibilities provided by PAEA to help generate additional revenue from postal products and services. However, results will continue to be constrained by the economic climate and by changing use of the mail. Mail volume has typically returned after past recessions, but much of the recent volume decline may not return. Increasing postal rates may provide a short-term revenue boost but would risk depressing mail volume and revenues in the long-term, in part by accelerating diversion of mail to electronic alternatives. USPS has asked Congress to change the restrictions established by PAEA so that it could offer new nonpostal products and services such as banking and insurance. Allowing USPS to compete more broadly with the private sector could lose money, and fair competition issues would need to be considered. Thus, in addition to its revenue-generation initiatives, USPS will need to continue making significant reductions in its workforce and network costs. When we recently added USPS's financial condition to our high-risk list, we said that restructuring will require USPS to align its costs with revenues, generate sufficient earnings to finance capital investment, and manage its debt.

Chairman Lynch, Ranking Member Chaffetz, and Members of the Subcommittee:

I am pleased to be here today to participate in this oversight hearing on the U.S. Postal Service's (USPS) revenue-generation initiatives and opportunities. My statement will (1) provide an update on USPS's financial condition and outlook, (2) describe the changes made by the Postal Accountability and Enhancement Act (PAEA) of 2006¹ that provided USPS with greater flexibility to generate revenues, (3) outline the actions that USPS took and results from using this flexibility since 2006, and (4) discuss options for USPS to generate increased revenues in the future.

My statement is based upon our past and ongoing work, including our work on postal reform issues and opportunities created by PAEA,² our continuing oversight of the financial condition, challenges, and opportunities facing USPS,³ and our past reports on USPS's efforts to generate revenue. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹Pub. L. No. 109-435, 120 Stat. 3198, enacted Dec. 20, 2006.

²GAO, *U.S. Postal Service: Postal Reform Law Provides Opportunities to Address Postal Challenges*, GAO-07-685T (Washington, D.C.: Apr. 19, 2007); *U.S. Postal Service: Key Elements of Comprehensive Postal Reform*, GAO-04-397T (Washington, D.C.: Jan. 28, 2004); *U.S. Postal Service: Bold Action Needed to Continue Progress on Postal Transformation*, GAO-04-108T (Washington: D.C.: Nov. 5, 2003).

³GAO, *U.S. Postal Service: Restructuring Urgently Needed to Achieve Financial Viability*, GAO-09-958T (Washington, D.C.: Aug. 6, 2009); *U.S. Postal Service: Broad Restructuring Needed to Address Deteriorating Finances*, GAO-09-790T (Washington, D.C.: July 30, 2009).

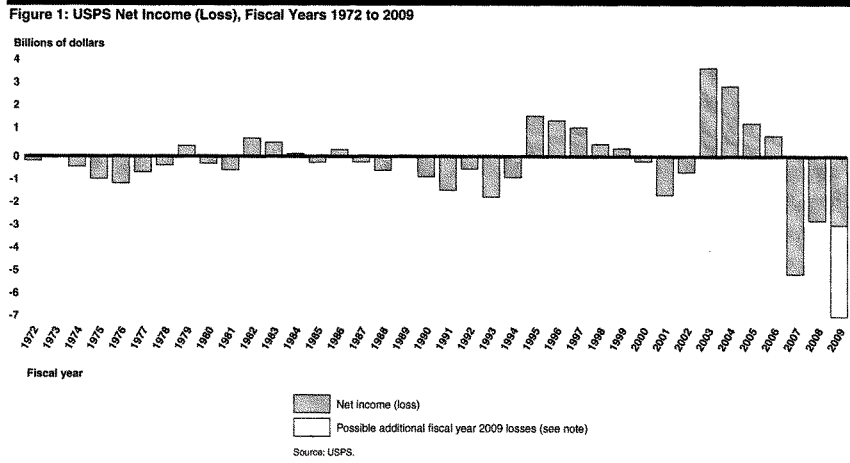
USPS's Financial Condition and Outlook Remain Challenging

USPS's financial condition and outlook continue to be challenging despite recent congressional action that relieved USPS of \$4 billion in mandated payments to prefund postal retiree health benefits by September 30, 2009.⁴ Preliminary results from the end of fiscal year 2009 and USPS's outlook include:

- In fiscal year 2009, mail volume declined about 28 billion pieces, or about 14 percent, from the prior fiscal year, when volume was about 203 billion pieces; revenue declined from about \$75 billion to about \$68 billion.
- A looming cash shortfall necessitated last-minute congressional action to reduce USPS's mandated payments to prefund retiree health benefits from \$5.4 billion to \$1.4 billion. In the absence of this congressional action, USPS was on track to lose about \$7 billion. USPS and its auditors are currently considering whether the \$4 billion in relief will be booked in fiscal year 2009 or fiscal year 2010. Regardless of the outcome, USPS will have a large net loss for the third consecutive fiscal year and one of its largest losses in decades (see fig. 1).
- USPS debt at the end of fiscal year 2009 increased by the annual statutory limit of \$3 billion, bringing outstanding debt to \$10.2 billion. If debt continues to increase by \$3 billion annually, USPS will reach its total statutory debt limit of \$15 billion in fiscal year 2011.
- Looking forward, USPS has projected annual deficits exceeding \$7 billion in fiscal years 2010 and 2011, and continuing large cash shortfalls.⁵

⁴The change in prefunding payments does not change USPS's responsibility to eventually pay for its unfunded retiree health care obligation, which was about \$53 billion according to USPS's fiscal year 2008 annual report.

⁵These projections were provided to GAO in August 2009 and are the most recent USPS has made available.

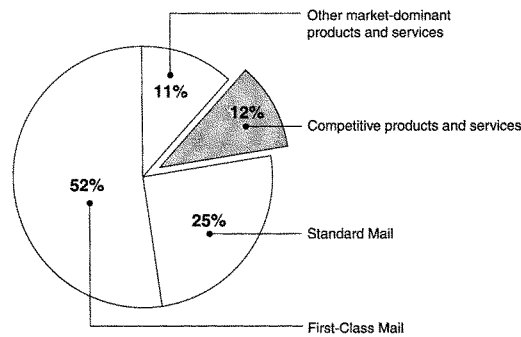


Note: A looming cash shortfall necessitated last-minute congressional action to reduce USPS's mandated payments to prefund retiree health benefits from \$5.4 billion to \$1.4 billion. In the absence of this congressional action, USPS was on track to lose about \$7 billion. USPS and its auditors are currently considering whether the \$4 billion in relief will be booked in fiscal year 2009 or fiscal year 2010.

As we previously reported, USPS's cost-cutting efforts and rate increases have not fully offset the impact of huge declines in mail volume (a decline of about 28 billion pieces in fiscal year 2009) and other factors—notably semi-annual cost-of-living allowances (COLA) for employees covered by union contracts. Compensation and benefits constitute close to 80 percent of USPS costs—a percentage that has remained similar over the years despite major advances in technology and automating postal operations. These costs declined by 1.3 percent in the first 11 months of fiscal year 2009 (the most recent data available) as compared to the same time period in fiscal year 2008, in contrast to other costs such as transportation, supplies and services, and depreciation, which together declined 8.2 percent.

Over this same period, total revenue declined by 8.6 percent, including declines of 9.1 percent for market-dominant products⁶ and about 4.0 percent for competitive products.⁷ (See app. 1 for a summary of market-dominant and competitive products.) About 88 percent of USPS revenue was generated from market-dominant products and services, with competitive products and services generating about 12 percent of revenues (see fig. 2).

Figure 2: USPS Revenue by Type of Mail and Service, Fiscal Year 2009



Source: USPS.

Note: Data are based on preliminary results for the first 11 months of the fiscal year.

⁶Market-dominant products primarily include First-Class Mail (e.g., correspondence, bills, payments, statements, and advertising), Standard Mail (mainly bulk advertising and direct mail solicitations), periodicals (mainly magazines and local newspapers), and some types of package services (primarily single-piece Parcel Post, Media Mail, library mail, and bound printed matter).

⁷Competitive products primarily include Express Mail, Priority Mail, bulk Parcel Post (which USPS calls Parcel Select), and bulk international mail.

Legal Changes Provided USPS with Greater Flexibility to Generate Revenues

PAEA and implementing Postal Regulatory Commission (PRC) regulations provided USPS with greater flexibility to set prices, test new postal products, and retain earnings so that it can finance needed capital investments and repay its debt. PAEA abolished the former ratemaking structure that involved a lengthy, costly, and litigious process. Under the new structure, USPS has broad latitude to announce rate changes that are implemented in a streamlined process unless PRC determines these rates would violate legal requirements. Key requirements and flexibilities provided in the law include:

- A price cap based on the Consumer Price Index generally applies to market-dominant classes of mail, such as First-Class Mail and Standard Mail. This means that in general, USPS has the flexibility to increase some individual rates either above or below the rate of inflation as long as the average rate increase for each class of mail does not exceed the cap.
- USPS can request that PRC approve a rate increase that exceeds the price cap on the basis of extraordinary or unexpected circumstances (postal stakeholders refer to this as an "exigent" rate increase). PRC must determine whether such an increase would be reasonable, equitable, and necessary "to maintain and continue developing postal services of the kind and quality adapted to the needs of the United States."⁸
- Worksharing discounts for market-dominant products are generally limited to the costs avoided by USPS as a result of specified mailer activities.⁹
- Each competitive product must generate sufficient revenues to cover its costs. In addition, competitive products must collectively cover what PRC determines to be an appropriate share of USPS's overhead costs. PRC has determined this share to be 5.5 percent of USPS's overhead costs. Within these constraints, USPS was given broad pricing flexibility for its competitive products, which are not subject to a price cap. USPS can also establish volume discounts for competitive products as well as enter into contract rates with individual mailers.
- PAEA generally restricted USPS to offering postal products and services by prohibiting it from initiating new nonpostal products and services.

⁸39 U.S.C. § 3622(d)(1)(E).

⁹Worksharing discounts are defined by law as rate discounts provided to mailers for the presorting, prebarcoding, handling, or transportation of mail. 39 U.S.C. § 3622(e).

USPS was required to discontinue existing nonpostal products—such as passport photo services and photocopying services—except for those that PRC determined should be continued.¹⁰ Subsequently, PRC determined that most existing USPS nonpostal products should be continued.

USPS Actions to Generate Revenue since PAEA Have Generally Achieved Limited Results

In the short time since PAEA was enacted, with the exception of annual rate increases, revenue-generation actions have generally achieved limited results compared to USPS's deficits. We commend USPS for taking action to use its pricing flexibility to address the pressing need for additional revenue. Although these actions generated some revenues, their positive impacts were overwhelmed by the recession—with its cutbacks in consumer spending and corporate advertising—and ongoing diversion of mail to electronic alternatives. Further, the potential of some actions was limited because they applied to types of mail that generate only a small fraction of USPS revenues. Other actions, such as targeted sales for some types of mail, were implemented this year with little advance notice, which may have limited mailer response. Key USPS revenue-generation actions since PAEA was enacted are summarized below.

- *Rate Increases for Market-Dominant Mail:* Under the ratemaking system established by PAEA, USPS annually increased rates in 2008 and 2009 for market-dominant classes of mail at virtually the maximum allowable amount under the price cap. To put this into context, historically, rate increases have been a key action that USPS has taken to remain financially viable.
- *Volume-Based Incentives for Specific Types of Market-Dominant Mail:* USPS has recently implemented three targeted rate incentives to stimulate additional mail volume and take advantage of its excess operational capacity.¹¹
 - First, a 2009 “summer sale” for Standard Mail offered lower rates for volumes that exceeded specific thresholds, with the goal of increasing mail volume during a typically slow period.
 - Second, an ongoing “fall sale” for First-Class Mail aimed at commercial mailers is providing lower rates for volume over specific thresholds.

¹⁰39 U.S.C. §404(c).

¹¹Results are not yet available for these recent initiatives.

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- Third, an ongoing Saturation Mail¹² incentive program also is providing lower rates for volume over specific thresholds.
 - *Negotiated Service Agreements (NSA)*¹³ for Market-Dominant Products: According to USPS data, its seven NSAs for market-dominant products collectively did not generate any net revenue in fiscal years 2007 and 2008 combined. These NSAs generally offered mailers lower rates for volumes that exceeded specific thresholds. Mailers also agreed to actions to reduce some USPS costs, such as the substitution of electronic notices in lieu of USPS returning undeliverable advertising mail.
 - *Rate Changes and Contract Rates for Competitive Products*: Under the ratemaking system established by PAEA, USPS annually increased rates in 2008 and 2009 for competitive products such as Priority Mail and Express Mail. USPS also made product and pricing changes to enhance their competitiveness, such as a new small flat-rate box for Priority Mail and the introduction of zone-based rates for Express Mail. USPS has introduced volume discounts for Express Mail, Priority Mail, and bulk Parcel Post. USPS has also introduced lower rates for electronic postage used for some competitive products such as Express Mail and Priority Mail. In addition, USPS has entered into close to 90 contracts with mailers of competitive products that included Priority Mail, Express Mail, bulk Parcel Post, Parcel Return Service, and various types of bulk international mail. These contracts are generally volume based and have provisions intended to lower USPS's mail handling costs. USPS does not publicly report results for its individual contracts because it considers this information to be proprietary.

¹²Saturation Mail is Standard Mail that is sent to all or most addresses on selected carrier routes and meets presorting and mail preparation requirements.

¹³NSAs generally specify mutual agreements between USPS and mailers involving the preparation, presentation, acceptance, processing, transportation and delivery of mailings under particular rate, classification and service conditions, and restrictions that go beyond those required of other mailers.

**USPS Revenue-
Generation Options
Involving Postal
Products and Services
Appear More
Promising than
Venturing into New
Risky Areas**

Looking forward, USPS has opportunities to continue pursuing the flexibilities provided by PAEA to help generate additional revenue from postal products and services. For example, USPS is continuing to pursue its "Click-N-Ship" initiative that allows customers to print out mailing labels with postage, as well as flexible pricing for Express Mail, Priority Mail, and bulk Parcel Post. USPS is also promoting voting by mail to stimulate additional First-Class Mail volume. However, results from USPS revenue-generation efforts will continue to be constrained by the economic climate and by changing use of the mail. USPS has asked Congress to change the restrictions established by PAEA so that it could offer new nonpostal products and services such as banking and insurance. However, USPS has not presented a business plan which details what markets it might enter, its prospects for profitability, and what specific legislative changes would be needed. Allowing USPS to compete more broadly with the private sector would raise risks and concerns. As with USPS's nonpostal ventures before PAEA was enacted, new nonpostal ventures could lose money; and even if they were to make money, issues related to unfair competition would need to be considered.

On the other hand, increasing postal rates may provide a short-term revenue boost but would risk depressing mail volume and revenues in the long term, in part by accelerating diversion of payments, communications, and advertising to electronic alternatives. Recognizing this, the Postmaster General recently announced that there will not be an "exigent" price increase in 2010 for market-dominant products such as First-Class Mail and Standard Mail.¹⁴ He explained: "While increasing prices might have generated revenue for the Postal Service in the short term, the long-term effect could drive additional mail out of the system." Similarly, increasing rates for competitive products such as Express Mail and Priority Mail may provide a short-term revenue boost but risk long-term losses in mail volume, revenues, and USPS competitiveness. Further, the short-term impact of increasing competitive rates would likely be limited because competitive products and services generate about 12 percent of USPS revenue. USPS has not announced whether it will increase rates for competitive products in 2010.

¹⁴The price cap is expected to be zero for 2010 because of recent declines in the Consumer Price Index, so an "exigent" rate increase would be needed to raise average rates for market-dominant products.

Whether USPS should be allowed to engage in nonpostal activities should be carefully considered, including its poor past performance in this area, as should the risks and fair competition issues. We have previously reported that:

- USPS lost nearly \$85 million in fiscal years 1995, 1996, and 1997 on 19 new products, including electronic commerce services, electronic money transfers, and a remittance processing business, among others.¹⁵
- In 2001, we reported that none of USPS's electronic commerce initiatives were profitable and that USPS's management of these initiatives—such as an electronic bill payment service that was eventually discontinued—was fragmented, with inconsistent implementation and incomplete financial information.¹⁶

We testified during the debate on postal reform on some longstanding questions about whether USPS should enter into nonpostal initiatives and the appropriate role of a federal entity competing with private firms, particularly since USPS has a statutory monopoly on letter mail and other disparities in legal status vis-à-vis its potential competitors, such as exemptions from taxes.¹⁷ Questions include:

- Should USPS be allowed to compete in areas where there are already private-sector providers, and if so, on what terms?
- What laws should be applied equally to USPS and its competitors, such as anti-trust and consumer protection laws?
- What transparency and accountability mechanisms would be needed for any new nonpostal products and services to prevent unfair competition and inappropriate cross-subsidization from postal products and services?

¹⁵GAO, *U.S. Postal Service: Development and Inventory of New Products*, GAO/GGD-99-15 (Washington, D.C.: Nov. 24, 1998)

¹⁶GAO, *U.S. Postal Service: Update on E-Commerce Activities and Privacy Protections*, GAO-02-79 (Washington, D.C.: Dec. 21, 2001). Also see GAO, *U.S. Postal Service: Postal Activities and Laws Related to Electronic Commerce*, GAO/GGD-00-188 (Washington, D.C.: Sept. 7, 2000).

¹⁷GAO, *U.S. Postal Service: Bold Action Needed to Continue Progress on Postal Transformation*, GAO-04-108T (Washington, D.C.: Nov. 5, 2003).

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- Should USPS be subject to the same regulatory entities and regulations as its competitors if it could compete in banking, insurance, and retail services? Would the PRC have an oversight role for any new nonpostal activities?
 - If USPS used existing retail presence of 37,000 facilities to offer new nonpostal products and services—such as leasing or subleasing excess capacity in its facilities—would this be an unfair competitive advantage?
 - How would USPS finance its nonpostal activities, considering its difficult financial condition? Would USPS be allowed to borrow at Treasury rates more favorable than those available to other businesses?

In conclusion, when we recently added USPS's financial condition to our high-risk list, we stated that USPS urgently needs to restructure to achieve short-term and long-term financial viability.¹⁸ USPS has not been able to cut costs fast enough or generate sufficient revenue to offset the accelerated decline in mail volume and revenue. USPS restructuring will require aligning its costs with revenues, generating sufficient earnings to finance capital investment, and managing its debt. Although USPS has taken some action to use its pricing and product flexibility under PAEA, results to date have been limited and will be constrained by the economic climate and changing use of the mail. Mail volume has typically returned after past recessions, but much of the recent volume decline may not return. Nevertheless, USPS has opportunities to generate new revenues from postal products and services that appear more promising than venturing into new risky nonpostal areas, while also making significant reductions in its workforce and network costs.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other Members of the Subcommittee may have.

¹⁸GAO, *High-Risk Series: Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-937SP (Washington, D.C.: July 28, 2009).

**GAO Contact and
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Acknowledgments**

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Appendix I: Highlights of Market-Dominant and Competitive Products

Market-dominant products	Summary description
First-Class Mail	Domestic and international single-piece mail (e.g., bill payments and letters) and domestic bulk mail (e.g., bills and advertising)
Standard Mail	Mainly bulk advertising and direct mail solicitations
Periodicals	Mainly magazines and local newspapers
Package Services	Mainly the following: <ul style="list-style-type: none"> • Single-piece Parcel Post (e.g., packages and thick envelopes with gifts and merchandise) • Media Mail (e.g., books, CDs, and DVDs) • Library mail (e.g., items on loan from or mailed between academic institutions, public libraries, and museums) • Bound printed matter (e.g., permanently-bound sheets of advertising, or directories such as catalogs and phone books)
Market-dominant special services	A variety of services, such as <ul style="list-style-type: none"> • Post office box service • Money orders • Insurance • Delivery receipt services (e.g., Delivery Confirmation, Signature Confirmation) • Certified Mail and Registered Mail • Address list services (e.g., services to update and correct business mailing lists) • Caller service (business mail pickup at a USPS facility)
Competitive products	Summary description
Express Mail	Guaranteed overnight delivery to most locations for time-sensitive letters, documents or merchandise
Priority Mail	2-3 day service to most domestic locations that is often used to expedite delivery
Parcel Select	Bulk Parcel Post parcel mailings entered at USPS facilities that are generally close to the destination of the mail
International Express Mail	Expedited delivery of items to foreign countries, with guaranteed date-certain service to some locations
International Priority Mail	Delivery of items to foreign countries that generally has faster service standards than International First-Class Mail
Bulk international mail	Bulk mailings sent to other countries (e.g., bills, statements, advertising, and magazines)
Parcel Return Service	Business retrieval of returned parcels from USPS facilities
Competitive special services	A variety of services, such as <ul style="list-style-type: none"> • Premium Forwarding Service (reshipping mail from a primary residential address and some P.O. boxes to a temporary address using Priority Mail) • International delivery receipt services, such as Registered Mail, return receipt, and restricted delivery

Source: USPS.

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Mr. LYNCH. Mr. Reisner, welcome. You are now recognized for 5 minutes.

STATEMENT OF ROBERT REISNER

Mr. REISNER. Good morning, Mr. Chairman, Ranking Member Chaffetz, and members of the subcommittee. In my statement I explain why I believe the Postal Service and the mailing community can become a source of innovation and new postal revenue through public-private partnerships that were encouraged by Congress in section 1004 of the Postal Accountability and Enhancement Act.

Today there is a broad consensus that bold action must be taken to reinvigorate the Postal Service, and fortunately there are some real and tangible opportunities to create new value for postal customers.

To be clear, let me offer a few examples that might be called Enabling the Last Mile, Extending Democracy's Reach, and Promoting Green Routes.

By enabling the last mile, I refer to the many opportunities that exist for putting technology in the hands of the letter carrier; in other words, on the doorstep of the postal consumer. One of the areas of greatest interest to mailers has been wanting to know where their mail is while it's en route to its destination. The USPS was seen as a black hole compared with FedEx and UPS, who have invested billions to enable their higher-end services to track and trace mail products. This is going to change imminently because the Postal Service is on the verge of creating a smart grid of intelligent mail services. Now we can go beyond the bar code and offer tracking technologies that have exciting possibilities for adding new value for customers. What's more, we can download applications to the scanner technology that is finally, within the last 6 months, in the hands of the letter carriers. Customers can realize new, tangible benefits, and new postal revenue can be created. But to make this happen, we need to collectively create an innovative enterprise of tests and trials and partnerships.

A second broad theme that Chairman Ruth Goldway, in particular, has championed has been Vote by Mail. The Postal Service can do this and can provide many other government services as well. To be practical and secure, it will require connecting hard-copy services to Internet services, and that will necessitate partnerships. But the opportunity to expand the capacity of the Postal Service to continue to serve as democracy's agent is here.

And third, there are opportunities for the Postal Service to again serve the Nation by carrying parcels that today cause three and four trucks to travel the same route. We can reduce carbon emissions by creating green postal routes. This will take some re-engineering and perhaps some recognition under cap-and-trade, but there are new opportunities here if we seize them.

In conclusion, I didn't invent these ideas, they came from the community, from the mailing community, from letter carriers, who have said, why not? They come from creative mailers who have said, why can't we have a smart envelope? And from suppliers who have shown how to do it. To tap this creativity, mindsets that were established when the Internet was still a future vision have to be

changed. To homegrown governmental Internet services, it's time to say, That was then, this is now.

In the future, innovation is going to come through collaboration and partnership where the Postal Service does what it does best and where the private sector, through partnerships, provides Internet services and makes mail relevant to the consumer of the future.

If we make the modern Postal Services relevant by connecting them to this multichannel Internet marketplace, they will generate more mail. This is the real revenue opportunity entailed in what we are talking about here today.

The coming years could be an exciting time of transformation, or they could be a train wreck. The difference will be whether there is clear public policy guidance that can define the difference between the creative balance of what should be public and postal, and what the private sector can do best.

Thank you very much Mr. Chairman. I look forward to answering any questions.

Mr. LYNCH. Thank you.

[The prepared statement of Mr. Reisner follows:]

70

**Testimony
of
Robert A. F. Reisner
President
Transformation Strategy Inc.
Before the
Committee on Oversight and Government Reform**

**Subcommittee on the Federal Workforce,
Postal Service and the District of Columbia
U.S. House of Representatives**

November 5, 2009

Good morning Mr. Chairman and members of the Committee. Thank you for giving me the opportunity to appear before you this morning to discuss new revenue generation initiatives and the future of the Postal Service.

BRIEF SUMMARY

I would like to submit my testimony for the record, Mr. Chairman, and briefly summarize it here.

In my testimony I explain that I have been working on these issues since I was recruited to be Vice President for Technology Applications of the Postal Service more than a decade ago when the Internet was first becoming a global force. I explain why I believe the Postal Service and the mailing community can become a source of innovation that is an engine for creating new postal revenue through the **public private partnerships that were encouraged by Congress in Section 1004 of the Postal Accountability and Enhancement Act (PAEA.)**

Today there is broad consensus that bold action must be taken to reinvigorate the postal system. And fortunately ***there are real and tangible opportunities to create new value for postal customers.***

To be clear, let me offer a few examples that might be called “enabling the last mile”, “extending democracy’s reach” and “promoting green routes.”

1. Enabling the Last Mile

By enabling the last mile I refer to the many opportunities that exist for putting technology in the hands of the Letter Carrier, in other words, on the doorstep of the mailing consumer. One of the areas of greatest interest to mailers has been wanting to know where their mail is while its on route to its destination. The USPS has been seen as a black hole compared with FedEx and UPS who have invested billions of dollars to enable their higher end services to “track and trace” and much more.

This will change because the Postal Service is on the verge of creating a “smart grid” of intelligent mail services. Now we can go *beyond the barcode* with tracking technologies that offer exciting possibilities for adding new value for customers. What’s more, we can download applications to scanner technology that is finally, in the last six months, in the hands of the Letter Carriers. Customers can

realize new tangible benefits and create new postal revenue. To make this happen we need to collectively create an innovative enterprise of tests and trials and partnerships and stop shooting the messengers from the future.

2. Extending Democracy's Reach

A second broad theme that Chairman Ruth Goldway in particular has championed has been Vote by Mail. The Postal Service can do this and provide many other government services as well. To be practical and secure it will require connecting hard copy services to Internet Services and *that* will necessitate new partnerships. But the opportunity to expand the capacity of the Postal Service to continue to serve as our democracy's agent is here.

3. Promoting Green Routes

Third, there are opportunities for the Postal Service to again serve the nation by carrying parcels that today cause three and four trucks to travel the same route. We can reduce carbon emissions by creating Green Postal Routes. This will take some reengineering and perhaps recognition under Cap and Trade. But there are new opportunities here if we seize them.

In conclusion I didn't invent these ideas. They came from the community, from Letter Carriers who say "why not?" They come from creative mailers who have said, "Why can't we have a smart envelope?" and suppliers who have shown how.

To tap this creativity, mindsets that were established when the Internet was still a future vision have to be changed. To home grown *governmental* Internet services its time to say, "that was then, and this is now."

In the future, innovation is going to come through collaboration and partnership where the Postal Service does what it does best, and private companies provide the Internet services. But if we make *modern Postal Services relevant to a multichannel Internet marketplace, they will generate more mail. This is the real revenue opportunity.*

The coming years could be an exciting time of transformation or they could be a train wreck. The difference will be whether there is clear public policy guidance that can define the creative balance between what should be public and postal and what should be a public private partnership. Thank you Mr. Chairman.

TESTIMONY
of
Robert A. F. Reisner, President
Transformation Strategy

Introduction

My Experience

I am a management consultant and I have had the privilege in recent years of working with clients who bring many different perspectives to these issues: large global consulting firms and small shops of experts, for the Postal Service, for the President's Commission on the USPS, for major suppliers, for unions and for mailers.

I have been working on the revenue generation issues of interest to the Committee this morning since 1993 when Postmaster General Marvin Runyon and Bill Henderson, then the Chief Marketing Officer¹, recruited me to become the first USPS Vice President for Technology Applications.

The Internet was barely a vision in the future, a dream of creating an Information Superhighway. Marvin Runyon thought that the USPS should make that happen to benefit all Americans at a time that many were still worried about the Internet creating a "digital divide." He asked me to lead the initial effort. In the mid-nineties we demonstrated some services that are still delivering value to postal customers today.

For example, we tested CONFIRM bar codes in the summer of 1995 and created First Class Phone Cards (partnered with American Express) as a stepping stone to smart cards. We tested services that were not sustained but are beginning to look interesting once again today such as self-service kiosks and a Web Interactive Network of Government Services. And we created some service pilots such as a

¹ William J. Henderson went on to become Chief Operating Officer and served as Postmaster General from 1998-2001.

postal “electronic postmark” with public key infrastructure, remittance services, hybrid mail and other concepts that may or may not find a place in the future².

My enduring memory of that time was of the creativity and innovation that already existed in the minds of participants in the mailing industry from mid-level engineers, to postal workers to mailers and suppliers to average citizens. Ideas literally walked in my door. This was a good thing and it can happen again for USPS Mailing and Shipping Services President Robert Bernstock and others.

In 1996 I was given the opportunity to become V.P. for Strategic Planning working for Deputy Postmaster General, Michael Coughlin, and I was responsible for leading the development of the 1997 and 2000 Five-Year Strategic Plans. I was present at the creation of the Transformation Plan for the Postal Service.

I was a champion of the “Last Mile Strategy”, believing that the Postal Service had an opportunity to create unique customer value because of its mission, its history and its relationship with its customers.

The Outline of this Testimony

To reestablish the atmosphere of creativity and innovation that we experienced in the mid-nineties when the Internet was young will require three things:

- First, to recognize how important, indeed urgent it is to change long standing tradition,
- Second to recognize that the market is fundamentally different today than in the mid-nineties and
- Third, to create vehicles that can allow the Postal Service to generate new revenue through public private partnerships.

1. The Situation Today and The Imperative for Change

The current situation has been anticipated for a long time.

² This experience was described in Reisner, Robert, “When a Turnaround Stalls”, *Harvard Business Review*, and February 2002.

Volume Decline Predicted in the FY 2000 Strategic Plan

In 2000, I led the development of the second USPS Five Year Strategic Plan. My partners in the USPS Finance department and I concluded that it was impossible to see what was already happening to the mail stream and not conclude that there would be a severe volume decline in the future.

Figure 1 shows the scenarios that we drew at the time and the actual mail volume through September one year ago. What it shows is that we painted a grim picture in 2000 and actual mail volume was worse. There was recovery from 9-11, a decline and a rise that no one could have anticipated. But mail volume in recent years was tracking the rapid diversion case.

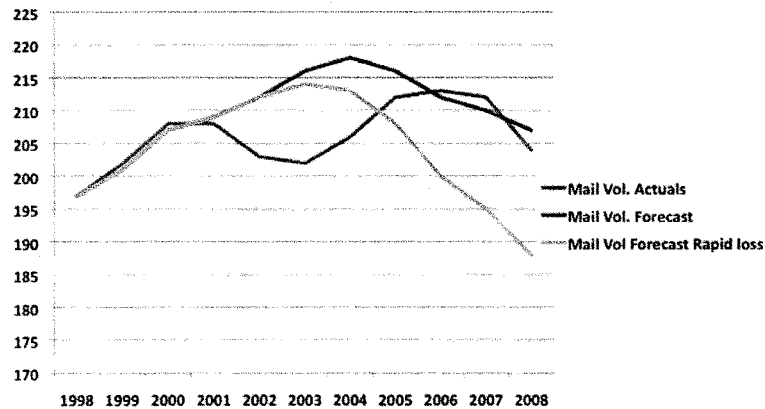


Figure 1
FY 2000 Five Year Strategic Plan
Mail Volume Forecast & Actual Trend (as of 2008)

Then in 2008 the financial crisis caused the mail volume trend to fall off the table. I will leave to the description of the current situation and projections for the future to the USPS experts who can take the story from 2008 to the present time.

Four Core Choices for the Future

This volume decline consigns the USPS to a difficult future. Either there must be new sources of revenue or there will have to be significant cost cutting, or both. The problem as everyone knows is that there are no easy cost cutting targets.

There are four broad choices for the future but three of them are poor ones. If Postmaster General Jack Potter and his team cannot cut costs to match mail volume and if its infeasible to contract out the postal system or to privatize it as the Europeans and Japanese have tried with grim results, and if taxpayer subsidy is a poor solution, then there is only one remaining choice, to create new sources of Postal Service revenue.

The Importance of New Postal Revenue

There should be no question that the leadership of the Postal Service has done a remarkable job. Postmaster General Jack Potter's team has cut costs and sustained service and customer satisfaction in creative ways that no postal observers would have thought possible in the days following 9-11 and the Anthrax crisis when the USPS wrote its initial Transformation Plan³.

But continued cost cutting will not solve the problems that face the USPS today. There is a need for the key stakeholders who support the Postal Service, with Congressional oversight and guidance, to establish a pathway that will permit the Postal Service to generate new revenue. This is an urgent priority with broad national implications for universal service and indeed our democracy⁴.

2. A New Market and New Products and Services

Fortunately, there are a number of significant opportunities to create new revenue for the Postal Service. The details will be filled in by the marketplace and by trial and error. But here we can describe three broad themes and you will have a sense for some of the concrete possibilities for the future.

³ USPS Transformation Plan, April 2005.

⁴ Such high phrases are no long an exaggeration in a time in which there is open discussion of the end of newspapers. (See for example, Rodriguez, Richard, "Final Edition, Twilight of the American Newspaper" Harpers, November 2009 and see John, Richard, *Spreading the News: American Postal System From Franklin to Morse*, Harvard University Press, 1998 on the role that the postal system played in early American history.)

Enabling the Last Mile, Beyond the Barcode

By enabling the last mile I am referring to the many opportunities that exist for putting technology in the hands of the Letter Carrier, in other words, on the doorstep of the mailing consumer. One of the areas of greatest interest to mailers has been wanting to know where their mail is while its on route to its destination. The USPS has been seen as a black hole compared with FedEx and UPS who have invested billions of dollars to enable their higher end services to “track and trace” and much more.

This will change because the Postal Service is on the verge of creating a “smart grid” of intelligent mail services. Now we can go *beyond the barcode* with tracking technologies that offer exciting possibilities for adding new value for customers. What’s more, we can download applications to scanner technology that is finally, in the last six months, in the hands of the Letter Carriers. Customers can realize new tangible benefits and create new postal revenue. To make this happen we need to collectively create an innovative enterprise of tests and trials and partnerships and stop shooting the messengers from the future.

The Intelligent Mail Barcode (IMB) implementation has been difficult for the Postal Service and for the mailing community. To imagine that we can implement new technology beyond the IMB without making changes in the way in which new technology tests are conducted would be naïve.

There are arrays of new technological opportunities that exist today and can be imagined on the horizon that would allow the postal system to go beyond its current capabilities. Radio Frequency devices and symbols that can be embedded in logos, payment indicia and even coding information in the fabric of the envelopes are all possible choices. Nano technology and future inventions may take these possibilities for adding intelligence to mail even further.

The opportunity for the optical scanning platform of the USPS to read and interact with envelopes moving at high speed has not begun to be exhausted. The intelligent mail system that is being created today is only the beginning of what could be a much larger venture.

I doubt that the experience of implementing the Intelligent Mail Barcode is one that either the mailers or the Postal Service would want to repeat. And, to be sure, there is certainly a balance that must be struck between the needs for network standards and simplicity and the many bells and whistles that customers and mailers would invent if they were given the chance. But recognizing this balance, the IMB should become a platform for invention of new services, a place where trials can take place and a laboratory for innovation that will allow customers to co-create new value between the Postal Service and private sector partners.

In a multichannel marketplace, intelligence about the location of individual mail pieces can be the centerpiece of a marketing program.

The Postal Service should be encouraged to create new revenue streams and should be allowed to participate in the revenue that this creates. Which part should be postal and which part should go to the private sector? How far should the Postal Service go in creating services that are not demonstrably “ancillary to” core postal services? These are policy choices for Congress, the regulator, the courts and the Postal Service to negotiate.

Agent for Democracy

A second broad theme where new services might be created is captured by Vote by Mail. The Postal Service can do this and provide many other government services as well. To be practical and secure it will require connecting hard copy services to Internet Services and *that* will necessitate new partnerships. But the opportunity to expand the capacity of the Service to continue to serve as our democracy’s agent is here.

Vote by mail may not be a huge revenue producing service by itself. But it may be the most important component of a family of government services that the Postal Service can and should provide. If the Postal Service is going to create new value with electronic services then the place where it should have the most leeway, it would seem, is where the service is a government to government. Security services, health care records, benefit delivery, tax matters, there are many government services where postal hard copy and electronic service could be facilitating the mission of other government agencies. The Postal Service has many

sophisticated IT suppliers with whom it could provide these services at a world-class standards and it should be encouraged to do so.

Green Routes

The basic premise behind a series of new green ideas comes from the fundamental notion that we as a nation have a concern that our trucks and automobiles are consuming carbon in a way that ultimately contributes to global warming and therefore, would it not be better to have one truck go down the street instead of 3 or 4? Today, UPS and the Postal Service have modestly used relationship called Parcel Select and FedEx has introduced a similar service.

In busy cities we are familiar with 3 or 4 trucks parked on the same street. But in areas with lighter parcel delivery, the financial incentive for UPS and FedEx has been to use postal delivery instead of their own.

Green routes would have the benefit of adding another incentive. The economics are not dramatic according to the specialists. An individual truck consumes approximately 21 lbs. of carbon per mile and carbon sells on the European exchange where they have a cap and trade law for \$20 per ton⁵. So there are only modest reasons that would add the carbon removal incremental incentive – perhaps \$10.50 per fifty-mile truck trips.

But even if the initial economics are modest they are all trending in the right direction for this idea. As gasoline prices go up (because of geopolitics, a carbon tax or a cap and trade law) FedEx and UPS and others will have additional incentives for finding alternatives to running their trucks down light routes. Further, there has been enough economic work done already to demonstrate that delivery of parcels is environmentally preferable to having consumer trips to the mall.

If offsets are granted through a new cap and trade law then gaining environmental benefits for improving society's environmental efficiency is an area that should be examined. Perhaps there should be a credit granted to FedEx, UPS,

⁵ Figures from SLS Consulting the economic analysis firm that has conducted many of the major postal energy economics studies for the USPS.

other shippers such as Newgistics and the USPS for consolidating their shipments⁶. Credits could be shared among those who are contributing to creating these environmental benefits.

The marketplace is already moving in this direction today. Firms are entering the market today to solve these kinds of transactions. Third parties are entering the market to provide carbon credit services at the level of individual shipments.

What We Should Expect

These three broad themes share two common concepts – they focus on the core Postal Service and they emphasize partnership. Each will require a postal system that is connected to and enhanced by Internet services. These services that are ancillary to the mail seek to leverage the last mile asset that is inextricably connected with the Postal Service universal service mission. They focus on technology. But the revenue that would come from a business case would be mail, not Internet service revenue.

The details of all three concepts will need to be filled in by customers and the market. But this is where the ideas will come if the Postal Service can create a platform that will accept new ideas, where customers say “**We Have An App For That**” and private services can plug and play with the public infrastructure.

3. Public Policy Considerations: Creating a Vehicle

We should not think that any of this change could happen easily. In a competitive marketplace there will always be someone who will argue that anything we name can be done better in the private sector. But if that were true, we wouldn't need a Postal Service.

Yet, as the Committee knows, Congress decided in 2006, and the President's Commission found in 2003, that there was a strong *public interest* in having a national postal system. Years of debate reaffirmed that the postal system is an

⁶ There may be a balance among environmental, economic and antitrust considerations here in implementing such an idea. But this is exactly why Congressional guidance will be useful.

inherent governmental service. Universal Service is a common good that must be protected in the interest of our democracy.

If the postal system is to be sustained as a public institution, the same debate confirmed that there is no realistic possibility that the Postal Service, or any government monopoly, will be permitted to become a competitive Internet services provider to compete with the private sector.

PAEA makes a distinction between “postal services” and other services. Unfortunately, the market’s demands are and consumer preferences are often more complicated. The marketplace isn’t bipolar. The multi-channel market often seeks services that are connected to the Internet.

So there is the dilemma. There is a strong public interest in universal postal service that will continue to require a postal system. To be relevant to the future marketplace, the Postal Service must take advantage of new technology and must be connected to Internet Services. If this happens, mailers will send more mail.

The 2006 Sense of Congress embodied in Section 1004 of PAEA offers a solution, a pathway from where we are today to an innovative Postal Service.

Recognizing and Clarifying the Goal

First, and most importantly, there is a need for your leadership in clarifying the goal. Postal leadership and the mailing community found the decade from 1995, when Postmaster General Marvin Runyon first called for postal reform and Congressman John McHugh responded, to 2006, when the PAEA version of postal reform was finally passed, to be exceptionally difficult. There is no greater contribution that the Committee and Congress could make to the future of the Postal Service than to provide clear, unwavering guidance that the goal is to sustain a vital postal system.

Creating new sources of revenue will be critical to having such a system. If customers want to have new services that join mail and electronic services on the scale that the postal network can achieve, then Congress should guide the creation of a public private framework for doing this. The framework needs to be both fair to small companies who have had such a vision and it should preserve the

entrepreneurial excitement of their initial achievements. But the goal should be to make mail relevant to the modern marketplace.

Second, Guiding the Creation of An Innovation Framework

One area where the Committee's leadership will be particularly important will be in framing the public policies that will make these public private partnerships possible. The Committee is familiar with Section 1004 of the Postal Enhancement and Accountability Act of 2006⁷ in which Congress stated that

"It is the sense of Congress that the Postal Service should ... implement commercial best practices in Postal Service purchasing policies to achieve greater efficiency and cost savings by taking full advantage of private-sector partnerships as recommended in July 2003 by the President's Commission on the United States Postal Service."

What the President's Commission said in 2003 was

"The Postal Service should continue to explore opportunities to utilize its core strengths in the first and last mile of the mail delivery stream through the development of mutually beneficial partnerships with the private sector."

"The Postal Service should develop additional private sector partnerships to better serve the consumer and expand access to postal products and service beyond the traditional post office⁸."

Does this mean contracting out the core of the Postal Service or privatizing key functions and losing experienced employees? No, it does not. My testimony does not concern traditional postal operations.

My focus here is on making the mail relevant to the marketplace by connecting to the Internet. Customers may want to have multichannel marketing services, online addressing services, secure email addresses connected to their physical addresses, new intelligent mail services and more. Creating partnerships to add technology that has been developed in the private sector to the core

⁷ Postal Accountability and Enhancement Act, Public Law 109-435 Section 1004

⁸ Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service, Report of the President's Commission on the USPS, 2003, page 103

strengths of the Postal Service is the only way that this can happen in the modern marketplace.

I point to these concepts since they provide a starting point for the Committee's work. Many objections to the Postal Service's past efforts – competence, mission-creep, inappropriate competition, cost escalation and so forth – can be resolved through public private partnership. This was the sense of Congress in Section 1004 of PAEA and by the President's Commission on the USPS in 2003.

And the magic of making this public-private connection is that we don't have to invent solutions here in Washington, D. C., the customers will shape the future.

Facilitating Collaboration Among the Stakeholders

I have discussed several broad themes and directions in which we can be certain that there are opportunities for the Postal Service to create new value for customers. We can know this because the competition to the Postal Service both the conventional express carries and new forms of electronic competition are inventing new forms of service every day.

There is no inherent reason why the postal infrastructure cannot be adapted too, especially if the changes were to allow these vital parts of the economy to "plug and play" with the postal network.

The broad themes of enabling the last mile services, encouraging delivery of new government services and creating new green services are all areas where Postmaster General Jack Potter and his team have an interest. But they need help. Congress needs to provide clear guidance and ensure that everyone has a clear understanding of what the postal services should be – not new non-postal services but service that is in the words of the law postal services and services "ancillary thereto".

When I worked to create new businesses for the Postal Service I learned through a partnership that we created with one of our best customers, American Express, just how difficult it is to make the creative balance work. But this mailer showed me that if the Postal Service provides the outreach and the scale that it does best, the creativity and the energy of the market will do the rest.

We live in a multichannel market today. Mailers will be drawn to a reinvigorated Postal Service. While my testimony focuses on technology and public policy, they are important because the message for the postal system is that the real revenue opportunity will come in reinventing mail.

Thank you, Mr. Chairman and Members of the Committee

Mr. LYNCH. I yield myself 5 minutes for questions.

Mr. Bernstock, I do appreciate your honesty in your statement that we are not going to solve this on the revenue side alone. I think that's apparent just by the numbers. In 2008, we saw mail volume go down 9.5 billion pieces, and then in the fiscal year ending October 1, 2009, we saw it drop 26 billion. There is no way in the near term that we can turn the system around and solve that problem by selling more greeting cards or any other service that we might be capable of doing right now.

And at the same time, we are a little bit disappointed up here with the consolidation effort and the cost-saving side. It does not appear that the original target of closing maybe 1,400 facilities is anywhere near probable. I think the Post Office has reduced its consolidation numbers to below 400 now, and it won't nearly capture the savings that we thought were possible.

As well, the early retirement incentives that—well, not great incentives—but the programs themselves have not gleaned the type of utilization on the part of the employees, so we still have a lot of people that are resisting an early buyout, we still have a large work force, understandably so. Those workers, their 401(k)'s are cut in half, most of them, so they don't want to retire in an environment like this.

Yet we face a situation where we need transformational leadership. We need a truly dynamic change at the Post Office with the way we do business. And there is a saying that says there's nothing more disruptive to the human condition than the pain of a new idea. And, unfortunately, that is what we are facing.

Look, I love my postal workers, and I will be the first one to admit it. I don't want to see layoffs. I don't want to see any of that. So I'm trying all these other measures to protect the employees because, quite frankly, when we grade the consumer satisfaction among the Federal agencies, the Post Office because of the work of their clerks, because of the work of their mail handlers, because of the work of their letter carriers that go to every home and business in America 6 days a week, by far they are the highest rated Federal agency that we have in America today. They do the best job. So I think it would be a mistargeting of our problems to look at the backs of our employees to try to solve this problem.

So we need to change our structure. And I was wondering, there have been a few things mentioned here today about allowing the Post Office through the Postal Accountability and Enhancement Act to branch out into these other areas. And I know that there is some apprehension in competing with the private sector.

But there are some areas—specifically, my colleague, Mr. Chaffetz, came up with an idea about the Postal Service taking over major responsibilities from the census. Now, the Post Office already, through the mail handlers and the letter carriers, they go into every home and business in America already. And that's basically what the census does; it tracks the population most effectively through those home visits.

Have you looked at any of that, so it would be government taking over government work, but just doing it more efficiently for the taxpayer? Have we looked at any of that or have we looked at—Ms. Goldway has mentioned the Vote by Mail—have we looked at any

of those? I know they are disruptive. I know bureaucracies are not going to be satisfied with that. But I think we have very limited choices. Have you looked at any of those type of initiatives that might really transform what we are doing at the Post Office?

Mr. BERNSTOCK. Mr. Chairman, we've looked at everything you have said. We've looked at the fact that we have \$6 billion in cost savings that came in this year, and we are looking to lose \$7 billion. We are looking at the fact that mail has declined. And we are looking at both huge transformational revenue issues—as I said, \$45 billion is what it would take to close the gap. We have some initiatives underway and we have also looked very specifically at the initiatives you have identified.

On the census piece, my understanding is through the mail 80 or 90 percent of census responses come in. And while it's not within my area of responsibility, I do understand that there was a report by our operations team, meeting with the Census Bureau, which said that for going back and knocking on doors six or seven or eight times to get that last 5 percent, we may not be the best-suited agency. But we are willing to relook at that.

Vote by Mail, we are very actively looking at a range of ways we can do that and have a series of initiatives underway.

Mr. LYNCH. I have exhausted my time, so I'm going to yield to the ranking member for 5 minutes.

Mr. CHAFFETZ. Thank you.

Mr. Herr, has there been any sort of analysis—or any of you actually can answer that—the one area we can point to where there is some cross-functionality within the government is passports. Is that a revenue generator? Is it just a break-even operations? Is there any sort of analysis that says, boy, that was a good idea?

Mr. HERR. We have not done that analysis. Mr. Bernstock perhaps, or Ms. Goldway.

Ms. GOLDWAY. The Commission has done the analysis and it not only breaks even, but it provides a contribution to overhead, so, in fact, it would make a profit for the Postal Service. It does. It is a successful revenue-generation tool.

Mr. CHAFFETZ. So I want to hear some ideas here. So I like the one about that you mentioned about the National Park passes and that sort of thing. That is not going to get us out of the financial hole that we are in. But what are the big ideas that are floating out there?

And I just want to express again the sincere reluctance to get into areas where the private sector is already competing, the financial services, the telecom stuff. I can't imagine being supportive of that. I'm just being as candid as I can, because they already have those services in the marketplace.

But if we look at State and local government, if we look at Federal Government, if we look at our constitutional duties, roles and responsibilities, it seems to me there are a number of agencies that would benefit by the sheer structure and magnitude of the work force, above and beyond what we have creatively thought of today.

Mr. BERNSTOCK. Congressman, I agree with that statement. And we do have the authority to provide credentialing and enrollment services to Federal agencies if we extended that authority to State and local agencies, I think we could do even more.

Mr. CHAFFETZ. How many are you doing at the Federal level? Give me a better sense of—

Mr. BERNSTOCK. Well, the passport, the enrollment process on the passport is one act of business we are engaged in. We feel we could partner with a whole range of Federal agencies, be it TSA or Social Security or Agriculture. There's a number of ways we can do credentialing and enrollment work.

Mr. CHAFFETZ. Is there a list of these out there?

Mr. BERNSTOCK. We are actually engaged with several Federal agencies.

Mr. CHAFFETZ. Can you give me more specifics about which ones you are pursuing?

Mr. Bernstock. I don't have that data.

Mr. CHAFFETZ. Did you want to add something to that, Ms. Goldway?

Ms. GOLDWAY. I'm very, very gratified that the Postal Service is now beginning to look at this area, because it is potentially a great resource and a great source of stability for the local post offices in the community.

One of the issues that came up in a hearing we had recently is that while the post office itself may not generate a lot of revenue, having a post office in a local community shopping center creates revenue and economic development activity for the rest of the community around it. So it's important, I think, for the well-being of the economy overall to continue to support post offices and these—

Mr. CHAFFETZ. I agree. We are just looking for real specifics here.

Ms. GOLDWAY. These abilities to connect with local government will provide at least enough revenue to continue to justify the service, if not solve the entire problem.

Mr. CHAFFETZ. Mr. Reisner, if you had to come up with a list of the best three or four ideas that you've seen or heard out there, what would be on that list?

Mr. REISNER. The biggest thing of all, and I think Mr. Bernstock just talked a minute ago about the credentialing services, the idea that government-to-government services are something that the Postal Service can do and is encouraged to do under the law, offers a platform for coming up with other creative ideas. I think the most important thing is that the marketplace bring the Postal Service the ideas, but that the Postal Service has, as Mr. Coughlin just talked about, become an innovative place where people have the sense that they can come and plug and play and try ideas and test their ideas in the marketplace to the benefit of postal customers.

Mr. CHAFFETZ. Mr. Chairman, I would definitely echo that. I would like us to put out a call to the private sector to say, please, come to our rescue here. We need the creative innovation that is going to come from the populace across this country with the creative, innovative ideas that are going to be those big ideas that the Postal Service can participate in, at the same time making sure we don't overly step into the private sector where, rightfully, the private sector should be leading the charge. But there are

credentialing services, and we need to continue to explore those ideas.

I tend to think that the private sector is going to help come up with these ideas, bigger and broader. So please, if you have those ideas, send them to us. We need them. And I see I'm out of time. I'm going to be under time this time, Mr. Chairman. I would just like to note that. Oh, shoot, I blew it.

Mr. LYNCH. Well done. OK, Mr. Davis is now recognized for 5 minutes.

Mr. DAVIS. Thank you, very much, Mr. Chairman. I try to be as optimistic as possible. And as I listened to the witnesses, I thought of the baseball game that I was watching last night, especially when the score got to be 7-1.

And I was wondering if there was any way that Philadelphia was going to get back. And I thought, you know, if you bunt, get a guy on first base, you bunt again, get another one on second base; that is, you come up with a number of different ideas, but they are all kind of small in terms of generating the big runs that you really needed.

And so when I think of changing prices for shipping services, bring down the cost, reorganize sales, become more competitive, I guess I'm thinking reorganize sales to sell what, other than stamps and shipping? Or if you got some of the other services, is there any way that you can really be competitive or as competitive as you need to be?

And so, Ms. Goldway, I'm thinking that eventually you get down to this last resort business. And I wanted to ask, what would you consider to be last resort in terms of being forced to cut services? When would last resort come?

Ms. GOLDWAY. The Commission has a process for making these decisions, and it involves hearing from the public and getting a whole range of information about costs and benefits before we would make such a decision.

Certainly, the Postal Service has brought forward to us an end case. We are looking at the possibility of closing some post offices. And they have suggested that they may bring another case about reducing service from 6- to 5-day delivery. There is not agreement yet on what the cost savings would be to close post offices. And there is certainly no agreement yet on what the cost savings would be to reduce service from 6 to 5 days.

And the tradeoff between reducing service and reduction in potential volume is something that needs to be looked at. If you cut service, do you reduce demand more than you would if you maintained service?

I think it's a very complicated matter. And what I think our Commission's responsibility to do is to focus on what the PAA tells us, which is to ensure an efficient and effective Postal Service that provides universal service. So, we would have to look at those tradeoffs.

I may be more of an optimist than you. I'm a Dodger—a Brooklyn Dodger fan, and I've survived.

I think that incremental support can make a difference and that there are many surprising things that develop in the postal service. Netflix, for instance, is one that, at least for a time, is bringing us

in a significant amount of revenue. And there may be about others that develop as well. I certainly hope so.

Mr. DAVIS. Thank you very much. I appreciate the efforts and the creative thinking that the Postal Service has put forth. I just don't want Casey at the bat.

Mr. Coughlin, let me ask you, because I listened closely to your testimony, do you have a prognosis under which we can really pull this out and pull it off?

Mr. COUGHLIN. Well, that's the \$68 billion question, I think. Let me just say I'm not quite perhaps as big an optimist as Chairman Goldway about the future of mail volume. I do think it is going to continue to slide.

I think the short term, relatively short-term, options the Postal Service have on the cost side are fairly evident. They've pretty much have been talked about.

I think they need to reduce the number of delivery days. I think we're one of the few countries in the world who still has 6-day delivery. I think they need to reduce the size of their processing network from around 300 processing facilities to perhaps half of that size. And I think they need to reduce the size of their retail network.

Those are, I think, some obvious moves; and I know they are difficult. They are not changes that are going to go down easily, and they have some costs associated as well as some savings.

I think the Postal Service itself needs to think in terms of what would a 400,000-person Postal Service look like and how would you operate and still deliver on the universal service obligation? Because I think, in my judgment, that's probably where it's going to go.

You need to continue to work on the revenue issues that have been discussed. The ranking member, Mr. Chaffetz, talked about the ideas that are generated from here.

What I would really encourage—I'd encourage, on the one hand, the Postal Service to get out there and sell the obvious benefits of the Postal Service in terms of its ubiquity and its geographic reach to potential partners out there. I see new bank branches going up constantly in growing neighborhoods out there, new brick and mortar. I would have to ask myself as a banker, is there a possibility to partner with an organization like the Postal Service to provide financial services, agency services. All kinds of opportunities are out there.

It gets complicated, I think, partly by the way that the Federal Government is organized and the way its funding processes work in terms of the subparts of agencies. So that makes it complicated to kind of get an overall view of how an agency delivers services and how it might tap into the Postal Service. But there are a lot of opportunities out there. I hope I'm wrong, but I think that's the direction it's going.

Mr. DAVIS. Thank you very much, Mr. Chairman.

Mr. LYNCH. The Chair now recognizes the gentleman from Ohio, Mr. Kucinich, for 5 minutes, who yields to the gentleman from Virginia, Mr. Connolly, for 5 minutes.

Mr. CONNOLLY. I thank my colleagues.

You know, listening to all the hearings we've had on this subject, we are clearly in search as we move forward in this century for a new, viable business model for the U.S. Postal Service. And, on the one hand, I think we in Congress maybe want to have it both ways.

On the one hand, we recognize the iconic value of the Post Office in a given community, its centrality in especially rural parts of our country; and we don't want that change. We don't want you closing offices. We don't want you changing routes. We don't want you cutting back on service or the numbers of days of service.

By the way, we don't want you unnecessarily competing with the private sector for anything.

On the other hand, why aren't you viable? Why are you losing money? Why aren't you making money? Why aren't you like your competitors?

And we in Congress can't have it both ways. We're going to have to work with you to recognize that, by statute—and, Mr. Herr, I'd be interested, listening to your testimony, I think one of the things we have to talk about, should the Post Office be subject to the same regulations as the private sector? Well, by statute, we put some requirements on the Postal Service, don't we, that we don't put on the private sector that I think significantly circumscribes the ability of the Post Office to sort of break out here and just be a rational actor in the private market?

Mr. HERR. I'd agree with that. I think part of it is we're just simply trying to pose some questions that folks in your situation should be considering as you take a look at this.

It is a large enterprise. It touches everyone's life 6 days a week. I mean, as Chairman Lynch mentioned at the opening, you know, no other institution does that 6-days a week. As you proceed thinking about this, some of those tradeoffs, those get raised; and I think it is important to put them on the table as folks consider them. Because if we don't raise them now, they'll come up later.

Mr. CONNOLLY. I would just add to your list, though. I think you have an obligation, GAO, to look at the statutory limitations or expectations we put on the Postal Service that make it different than an entity in the private sector.

Mr. HERR. And on that point we have ongoing work looking at the Postal Service business model, and as part of that we're factoring those kind of things into it as well. So thank you.

Mr. CONNOLLY. OK.

Mr. Reisner, how could the Postal Service incorporate, let's say, the banking idea that Ms. Goldway talked about without threatening community banks?

Mr. REISNER. Well, I think that Mr. Coughlin just really talked about it a second ago. I think that there has to be a process that creates some kind of partnership in which the private sector gets to do what it does best. This is the marketplace that we live in today.

Just one quick point that I'd make, too, that I think Jack Potter the other day in his speech at the National Press Club created this framework and embraced something that Ruth Goldway had endorsed, which was looking out to the future 10 years and trying to imagine what kind of a Postal Service should we have to serve the public purposes that we see 10 years from now. And I can't look

out 10 years and imagine that the Internet isn't a part of that, the marketplace, at that time.

Now is it appropriate for the Postal Service to provide those services? Probably not. And so finding partnerships where the public sector can be compensated for its retail presence and its ubiquity and the private sector can provide what it provides best it seems to me is part of that 10-year vision.

Mr. CONNOLLY. Ms. Goldway, and anyone else, what do we know about the elasticity of demand for the price of stamps? I mean, is the demand inelastic such that we can raise the price to whatever we need to raise or do we see significant followup in volume every time we, in fact, raise prices?

Ms. GOLDWAY. Well, we have about 40 years of following the prices.

Mr. CONNOLLY. Ms. Goldway, I'm sorry. I cannot hear you.

Ms. GOLDWAY. Oh. We have about 40—in the Commission, we have about 40 years of following what we call the elasticity of price of first-class mail. And for pretty much all that time we could say it was inelastic. You raise the price and sales might drop off a little, but they'd come back up. And that stamp usage followed the rate of population growth and, to some degree, the economy all through that time.

But things really seem to have changed in the last 4 to 5 years, and there was a slow but steady decrease in the first-class mail, and it has been greatly increased by this recession. And the dilemma for all of us is to see whether the recession was an unusual event—there was a great drop-off in mail after 9/11, but it picked right back up again—or is this a lasting phenomenon.

I think all of us feel that the growth of the Internet makes the role of mail very different from what it may have been in the past and that we're all trying to find ways to make mail relevant and valuable. So it may not be that we sell as many stamps but what we sell is more valuable, people are willing to pay more for it, or there is some other way in which the community supports it.

Some of the European posts have subsidies for their mail or specific subsidies for post offices. And in fact even those that have had great profit in the last few years are having real problems under this recession as well. So just assuming you can follow a European model where there is privatization will get you some ongoing independent Post Office is not assured either.

Mr. CONNOLLY. Mr. Chairman, my time has expired; and I thank you. I do think Ms. Goldway's answer underscores—and I thank you for it—underscores the fact that, moving forward, we can't just tinker at the edges. We've got to figure out a new business model that's going to work.

Thank you.

Mr. LYNCH. I thank the gentleman.

The Chair now recognizes the gentleman from Ohio, Mr. Kucinich, for 5 minutes.

Mr. KUCINICH. Thank you very much, Mr. Chairman. I'm grateful that, under your leadership, this committee continues to look at what we can do to secure universal service to the people of the United States.

My neighborhood in Cleveland, OH, I have seen over the last few years the post boxes disappear from neighborhoods; and I don't take that lightly because, to me, that has been an essential part of the infrastructure, the Postal Service.

Now the next part of the infrastructure of the Postal Service are the branches; and, of course, we know that the postal administration has been systemically targeting branches, particularly in areas which are economically disadvantaged. Think about universal service. And we know they are cutting hours. They keep trying to downsize this Postal Service.

Now, at the same time, there has been an expansion of dealings with the private sector. The private sector take over more and more. Now I think we need to look long and hard about this creeping privatization that's been going on in the Postal Service, because it's really at odds with universal service. If the Postal Service is a money loser, why does the private sector want to take it over? Think about that. If it loses money, why would anyone want to take it over, even turning it into a bank if it is such a money loser? This service belongs to the people of the United States.

And while certainly every business model needs to be updated, privatization is not updating the business model of the Postal Service. It's destroying the Postal Service.

I have a question for Chairman Goldway. Welcome to this committee, Mr. Chairman. Your testimony echoes my concern that, in diversifying the services the U.S. Postal Service provides, plans to move forward with providing non-postal-related services could lead to a reduction in essential services traditionally provided by the Postal Service and could subordinate the provision of these services to the pursuit of revenue. Much of the U.S. Postal Service airmail has been already outsourced to FedEx.

Can you please explain and can you expand on the Postal Regulatory Commission's concerns regarding cuts and essential services until revenue generation plans have been successfully implemented? And is the Commission concerned that moving away from traditional services could lead to the privatization of core services the Post Office is mandated to provide? If you could respond.

Ms. GOLDWAY. Thank you, Congressman Kucinich.

Both of us met each other 30 some odd years ago when we were mayors—

Mr. KUCINICH. If you could speak up.

Ms. GOLDWAY. Both of us first met each other when we were mayors of our respective cities about 30 years ago, so we share this focus on the local impact of the Postal Service, I think.

I don't think the Commission is opposed to the Postal Service providing non-postal services, and our litmus test is that we expect the services to be in support of the mail function. So greeting cards are fine. Money orders that the Postal Service has provided and even electronic money orders internationally are fine. Copying services are fine. But there are a range of services that are fine. And we are certainly open to the Postal Service coming up with any number of experimental products, should they have them, that are related to postal services that we can define as Postal Service. So we actively support and look forward to the Postal Service coming

forward with those new ideas, and I think our record is that we accept almost all of them.

The problem is, if you look at the Postal Service and its network, the retail clerks that are there are paid very high wages, and I think they should be. But look at the bank next door and the wages that are paid to the bank next door. It's not likely that a bank is going to want to partner with the Postal Service unless there is some real change in wage structure, which may result in problems as well.

So all of these proposals—

Mr. KUCINICH. If I may, my time is expiring; and I just would like to make this observation.

Mr. Chairman, concluding, if banks want to partner with post offices the only reason they'd want to do that is so that they could take over the post offices so that people then would have to do their postal businesses through banking. This is very easy to see. These things go either way.

We used to be able to go to banks and pay bills. Then they stopped doing that. It is easy for them to take up the function of mailing and then just take it over from the government. We already had enough experience with the workings of banks here to know that if we're looking for the private sector to provide solutions for government services, we're probably looking in the wrong place.

Mr. LYNCH. I thank the gentleman.

Just briefly, I want to yield myself 15 seconds.

I think what's happening here, though, is that now we see a model out there, a competitive model. When I go to the Stop and Shop or you go to the Piggly Wiggly to do your shopping, there is a bank there. There is all kinds of different things offered. So I think the Postal Service is under that similar pressure as well.

But I'll wait until I have 5 minutes to expound on that a little further. But I deeply appreciate the gentleman's comments, and I agree with the threat that he's identified.

At this point, I would like to also welcome former Representative William Clay. Thank you very much, sir. We appreciate your attendance, just in time to hear from your son, the gentleman from Missouri, Mr. Clay, for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman, and thank you for conducting this hearing today. Like all of us, I am deeply invested in the success of the Postal Service; and I'm happy we have continued to think critically about ensuring a positive future for the USPS.

Also, let me welcome our panel to these proceedings; and I thank you for being here to share your expertise.

Also, as the chairman mentioned, my older brother is in the front row, too. We welcome him, also.

Let me start off by saying much of your recent effort has gone toward innovation in new markets. Is there any value in expanding existing postal services to increase revenue and customer loyalty? And anybody can take a shot at it. Ms. Goldway.

Mr. BERNSTOCK. Sure. I think, Congressman Clay, that there's a balance between driving down costs and growing revenue. And I think the tension starts with the fact that, once again this year, we had \$6 billion in cost savings. And we did a little bit of re-

search. We think that's the single largest cost savings by any company in this country possibly ever. Yet we lost \$7 billion.

So all the revenue-generating initiatives that we're pursuing within the law clearly contribute. But when you have is a loss of that magnitude you can't get back to a stable Postal Service or Postal Service without some changes in the cost-saving initiatives that are not within the law at the current time.

Mr. CLAY. Has there been any effort to strengthen these services, such as first-class mail?

Mr. BERNSTOCK. At the current time, we're running a fall first-class incentive program; and the impact of that we estimate will be \$50 million, \$100 million in incremental revenue, in that ballpark. But, once again, in comparison to a \$7 billion loss, it is relatively modest in the impact.

So there are things we're doing. Elasticity, as Chairman Goldway pointed out, is increasing, both from consumers and commercial mailers. And so we're fighting a very, very difficult uphill battle.

Mr. CLAY. So I guess that begs the question then how can the USPS carve out their own niche in the postal market and continue to differentiate itself from other mail services?

Mr. BERNSTOCK. Well, as many of the panelists have said and as we've heard, we have an enormous number of strengths. Be it our infrastructure, our retail infrastructure, our delivery capabilities, or our logistics capability, the fact that we're No. 1 in trust, all of the strengths that we have should be leveraged. What we need to do is have freedom to expand our model as this country changes and build on the strengths that we have.

Mr. CLAY. You know, you cite examples in international markets as evidence that USPS should include other services for customers. How successful have these efforts been internationally? Do they turn a profit or do they break even? Perhaps Mr. Coughlin can answer.

Mr. COUGHLIN. I will comment on it. I do list in my written statement some of the results they've had. Some of these posts have generated as much as 75 percent of their total revenues from non-postal sources.

Deutsche Post in Germany is an example. The Dutch Postal Service, TNT, is generating 60 percent. But they have undertaken major, major diversification.

The Germans, for example, have bought heavily into the logistics business. They have made several multi-billion Euro acquisitions to get into that business. They have had, to be perfectly honest, although they show profits for the most part, they have, as Chairman Goldway said, they are having a little trouble right now with the fall in mail. And the interesting thing about the Germans is they are getting 75 percent of their revenues from non-postal sources, but they are getting 50 percent or more of their profits from mail. So mail is still a pretty good business for those people.

So to call them a success, yeah, there are some success stories, but some are not doing quite as well as they look like they are on their surface.

Mr. CLAY. Thank you, Mr. Chairman. I yield back.

Mr. LYNCH. I thank the gentleman.

One of the things that I worry about, and I yield myself 5 minutes, is that adage that, just like our military, we tend to fight the last war.

Now the things that we're looking at, as Mr. Connolly has described as being nibbling around the edges, I look out there and you look at some of these other countries—as Mr. Coughlin has noted, Sweden has a system where you actually click on and you see your mail. You can actually read some of it, you know, the pamphlets or brochures or whatever that come to your house. You can click on whether you want to have it delivered or not. And that's a great environmental benefit I think in the long run, but it will drop the volume of mail, but I think that's really the future.

So I don't want to get caught up in addressing the things that we see now, but I'd rather us try to anticipate, as a commercial business would, what's coming down the line. I also see some of even our domestic models like Earth Class Mail and Zmailbox, where it's a similar Internet-based or Internet-centered system. And I just think we have to really, really think long term here.

There is a book out—it's an older book—The World is Flat by Tom Friedman. And he has one chapter there on UPS—I know my friends from UPS are in the back here. But he gave the example of Toshiba computer company. They had a warranty on their laptop computers where, if anything happened, you just mail it back to Japan. They would fix it and send it back to you within a certain amount of days.

Well, UPS, as it describes in this story, turned that all around, to the fact where, instead of the user just sending their laptop to Atlanta and then off to Japan to be fixed, UPS put their own people to work repairing those computers. And that is totally outside of the delivery business. They now became computer fixers, and they would save the Toshiba company a ton of money and make their customers happier.

So, you know, it's that type of innovation and just the transformative change that we need in the Postal Service. And I know it is frightening, and I know that bureaucracies are even more resistant to change, but I just see, with the drop-off in volume, what we see coming down the line.

I see the number of retirees we have in our postal system. We have to have a business model that allows us to continue to provide those benefits to retirees. So we're going to fall off a cliff here if we don't get our business model matched up with the realities that we have here.

I know there may be some short-term disruption here, but we just encourage you to take that chance, to think big. This is a big problem, so the response here has to be, as I say, transformative. We have to look at this in a different way than just nibbling around the edges and trying to bring in a few more million in revenues.

So, again, you know, do you have anything like that, some big moves that would help us take a bite out of the deficit that we see?

Mr. BERNSTOCK. Chairman Lynch, I speak for the Postal Service; and we fully agree with what you're saying. We are 5 percent of the world's population and 40 percent of the world's mail. We have been the world's innovator in hard-copy mail, and what's frustrat-

ing is we believe we have the same kind of role to play within digital communications.

It is hard for us to look at Sweden leading the United States. We believe we should be out in front of the technology changes that are occurring, not for any other reason than to foster commerce and to be a market maker and to have the result be that the United States is a leader in this transformation to digital products and that we offer hybrid products.

So I think, with these kind of transformational moves in concert with the cost savings we've talked about, we can have a thriving, growing Postal Service.

Ms. GOLDWAY. I'd just like to add the Postal Service has presented hybrid mail products to us in the past, and we've approved them. Mailing online and post TCS were both approved by the Postal Regulatory Commission, Postal Rate Commission at the time. It was the Postal Service that found that they could not implement those programs. They weren't up to the task.

Now if there is some partnership that they can develop I think the Postal Regulatory Commission would certainly review that. I'm not sure that there is any need for any legislation. We'd be interested in looking at those issues.

Mr. LYNCH. Yeah, I'm just thinking of it this way. You see, what Wal-Mart and these Stop and Shop and Piggly Wiggly and Harris Teeter, these big box stores, have done is they didn't try to recreate their own bank. They didn't try to recreate their own mail facility. They brought the Post Office in. They brought the banks in.

When you think about our scale, as Mr. Coughlin has outlined, that's also an advantage if we use it the right way, use that as leverage. And we have 37,000 post offices out there, and so we own the footprint. And what we put in there—and it may be—I'm not suggesting go out there and start the U.S. postal bank, but can we bring in other services within the footprint of the postal facility to offer more than what we're offering right now and have that entity, that private entity, pay some of the freight there, since we already own a lot of the facilities? Although I'm surprised to see how much we're still leasing. I don't know. I'm trying to multiply our competitive advantage where we can.

Mr. Bernstock.

Mr. BERNSTOCK. Yeah, Chairman Lynch, the greeting card test we're running now is a very good indicator of what you're talking about. Before we went out and launched that, we went to consumers and the feedback was that, yes, they would be very pleased to have greeting cards offered in the Postal Service. They thought it was appropriate and would expect to purchase them there. So there is a whole range of other products that we could sell that we actually think would grow the market and our customers would want those.

In addition, beyond passports, we think there is a series of transactional activities we can be involved in. So I would agree there is a lot more we can do with the facilities that we have.

Mr. LYNCH. Yeah. I appreciate that. I know change is difficult—

Mr. BERNSTOCK. Some would require changes in the law. Some would not.

Mr. LYNCH. We're happy to work with you and with the postal employees as well to see what we can do.

The Chair recognizes the gentleman from Illinois, Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman; and I certainly agree that we've got to think big. I think part of the problem, though, is we don't think we'll like the answers that we get. It's kind of like everybody wants to go to heaven, but nobody wants to die.

We generate at one location, but then we spend at another one. I mean, we generate as people come in to purchase whatever it is that they are purchasing, but the output is as we maintain or try to maintain the concept of universal service.

I know it is difficult to receive a piece of first-class mail, for example, if you live out on P.O. Box, like I used to live, you know, where the carrier would go 5 miles before delivering another piece of mail. Well, I don't know how much you generate from the Post Office as you sell whatever product you are selling.

It seems to me that we've had some experiences and continue to have some experiences with bailouts. We've put resources into places. I think we have to do some serious thinking in relationship to what it is that we expect.

I rely don't want to have cancer and have somebody tell me I've got a sore. I don't want to have pneumonia and somebody have me believing or thinking that I've just got a cough, I've got a little cold.

So I agree that there are no shortcuts or easy routes or easy ways home. But I do think we're going to have to go for the big picture in terms of reevaluating our thinking relative to what it is that we want from our Postal Service.

I never will forget. A guy made a speech when I was in the eighth grade. He came to our school. He said, I want you to ask yourselves three questions: one, who am I; two, what do I want; and, three, how do I propose to get it. And I think we're going to have to ask ourselves those three questions about our Postal Service.

I'm a staunch union supporter, always have been, always will be. I believe that people should get the maximum of what can be received in terms of quality of life and expectation, but I also believe that there has to be realistic thinking in relationship to how do we manage a way to do that.

If anyone would respond, I would appreciate it. If not, Mr. Chairman, I thank you very much for the opportunity.

Mr. LYNCH. Have they just signaled votes? They have.

What I would like to do is recognize the gentleman from Virginia, Mr. Connolly, for 5 minutes.

Mr. CONNOLLY. I thank the Chair.

Mr. Coughlin, do you believe that the USPS has a culture of innovation? And, if not, why not?

Mr. COUGHLIN. I think it has pockets of innovation.

Mr. CONNOLLY. I'm going to ask every one please to speak into the microphone. I cannot hear you, believe it or not, up here.

Mr. COUGHLIN. I believe there are pockets of innovation within the Postal Service. I do believe that there are some conditions that exist. And I will say I don't think it's unique to the Postal Service. I think it's a characteristic of government generally that discourages risk taking and discourages innovation and it doesn't generate

an environment where innovation is expected on the part of employees.

Mr. CONNOLLY. Or rewarded.

Mr. COUGHLIN. I'm sorry?

Mr. CONNOLLY. Or rewarded, perhaps.

Mr. COUGHLIN. Well, that's a difficult issue as well.

I mean, I spent 32 years there. I think it is the greatest work force in the world. There are some enormously creative people there, and they are going to need all of that creativity as they go forward. I do believe that Jack Potter and his team have done a terrific job in terms of generating an environment that encourages people to come forward with new ideas, and the move of bringing in people like Bob Bernstock and some of his colleagues to help support the traditional postal thinking has to help in the long run.

And want I go back to the chairman's comments earlier about the future. I wish I had an answer to what that business model ought to be. I don't right now. I do think that these things evolve over time.

One of the things I mentioned in my testimony was I believe one of the possibilities for the Postal Service down the road is in this nexus between their geographic physical presence and the communications technologies that are out there. I think that's some of what, for example, the Swedish example you mentioned gets to. So, yes and no is the answer to your question about innovation in the Postal Service.

Mr. CONNOLLY. I thank you.

Ms. Goldway, you intriguingly noted that the Postal Service fleet is one of the largest in the country and that in some ways, given the route structure, it is tailor made for electrification and sort of talking about innovation, cutting-edge green technology being deployed. Could you expand a little bit on that? Have we done any studies to know how many CO₂ and noxious gases could be avoided, what the energy savings can be?

Ms. GOLDWAY. This is an issue I've entered into just in January of this year; and I've discovered that there is a whole range of expertise, far greater than mine. I do have many studies that I can forward to you about this.

It appears that the Postal Service is ideally suited for transition to an electric vehicle fleet. Its current vehicles get about 8 to 12 miles to the gallon, and they are all at least 18 years old.

Unfortunately, given the financial reality of the Postal Service, they don't have the capital to buy new vehicles; and I think it would be worthwhile to find funds in some of the other subsidies that are provided through the government and have those directed to the Postal Service so that they could invest in new vehicles, reduce some of their overhead, and lead the country in a national transformation.

Mr. CONNOLLY. Let me ask you, because I think we're on to something here, how many vehicles in the fleet?

Ms. GOLDWAY. 150,000. Although I think it may be 140,000 now. They've reduced them a bit.

Mr. CONNOLLY. Any idea what it would cost to replace them with electric vehicles?

Ms. GOLDWAY. What I think the thinking is—and I believe that Congressman Serrano is working on some legislation—is to develop a program so that you phase in over 3 to 5 years enough vehicles with enough testing so that you know exactly what to buy. But it is billions of dollars that are needed.

Mr. CONNOLLY. My time is about to expire, but I just want to pick up on your thought.

It seems to me, Mr. Chairman, again, both Mr. Coughlin, where he was pointing us to, we legislatively can look at how we can help foster a more innovative culture or we may be part of the problem.

Second, with respect to what Chairwoman Goldway is talking about, we were willing to put billions into Cash for Clunkers. Are we willing to invest into our own Postal Service to give it that cutting edge, innovative delivery of service to help make it more competitive, to give it the capital it lacks right now and do a good thing for the environment and the auto industry while we're at it?

Ms. GOLDWAY. I think all of us at the table would support that effort and work with you to make sure that happens.

Mr. CONNOLLY. Thank you so much.

Mr. LYNCH. I thank the gentleman.

I think this panel has suffered enough. We've actually got votes on the floor, but I did want to thank you for your willingness to come before the subcommittee and offer your thoughts and suggestions. We appreciate that. You're on the ground level where you can offer unique perspective.

I will hold the record open. I know there were several hearings going on this morning, so my Republican colleagues could not all attend, so I leave it open for their comments as well.

But I want to thank you for your willingness to come forward and to help the committee with its work. Thank you very much. I bid you good day.

[Whereupon, at 11:43 a.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Dennis J. Kucinich follows:]

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Changing World.”**
Subcommittee on Federal Workforce, Postal Service and the District of Columbia
November 5, 2009
Rep. Dennis J. Kucinich

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I am particularly hopeful that the Postal Service will implement successful revenue generation initiatives, some of which we will examine today. We must do everything possible to help them avoid post office consolidations and service cuts. A number of emergency resolutions expressing concern over the closing of local Post Offices have been passed in my Congressional District by the City Council as constituents communicated fear of losing their local post office.

I am also concerned that post office closings and a number of revenue generation proposals could lead to the privatization of essential services. I urge caution as we move forward to ensure that we are not led down a path of no return. When the economy recovers, we must ensure that local USPS offices are there to serve the community.

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