National Postal Policy Council

Statement of

Arthur B. Sackler

On Behalf of:

The National Postal Policy Council

Before the

Committee on Oversight and Government Reform

U.S. House of Representatives

At the

"Future of the Postal Service: A Postal Policy Forum

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Good morning. The National Postal Policy Council (NPPC) greatly appreciates the opportunity to participate in this Postal Policy Forum. Enormous challenges confront the Postal Service, and a forum such as this is well-suited to sparking some new or additional ideas to sustain its relevance and viability. We commend the Committee for convening it. My name is Art Sackler, and I am Executive Director of NPPC.

NPPC is a trade association composed of large business users of letter mail, primarily in First Class. Our members believe that the Postal Service remains critical to communications and commerce in the 21st Century, and is a key to both their business success and the smooth running of the economy generally. A full list of our members can be found on our website, www.postalcouncil.org .

A Brief Overview

No one underestimates the predicament in which the Postal Service finds itself. Diminished economic activity overlaid upon burgeoning accessibility to, and acceptance of, alternatives to the postal system, primarily online, has devastated its expected business. As the economy revives, USPS is unlikely to regain substantial volume: we anticipate some rebound in promotional and other Standard mail, and a continuing decline in its bedrock First Class Mail that contributes so much more heavily to its overhead than any other class.[1]

[1] Indeed, in its report on Postal Fiscal Quarter II for 2010 (January – March), in measuring year-over-year from PFQ II 2009, among the worst quarters ever experienced by the postal system, USPS showed year-over-year growth of an anemic 0.6% in Standard, and a *drop* in First Class of some 6.6%.

What is to be done? There is no magic bullet. Progress has to be made on several fronts at once, as the Postal Service recognized in its financial recovery plan released on March 2. While NPPC believes USPS deserves high marks for thinking broadly in its plan, and apparently attempting to spread the pain of dealing with its deficits broadly, that does not mean we support all aspects of that plan. We will briefly address some of our concerns near the end of this statement.

As all of you know, Congress stands to play a major role, as it always has, in ensuring that the American public has the high-quality, reliable, affordable, universal postal service it to which it has long been accustomed. To this end, while we know Members are well aware of the various options available, NPPC would take this opportunity to note the severity of USPS' plight, and strongly urge that the $75 billion overpayment identified by the Postal Service's Inspector General, and the schedule for prefunding postal retirees health benefits, receive serious consideration in this session for adjustment to help the system regain some financial stability.

Innovation and product development also will be indispensable contributors. The world has changed around the Postal Service. Even in its market dominant areas, it no longer has a captive audience. It now needs to sell, and sell aggressively, new products and the advantages of the ones it already has.[2]

So, NPPC is gratified that, as exemplified by this Forum, the Committee appears determined to encourage broader, more flexible thinking that reexamines old assumptions, searches outside the box, and optimally comes up with some new approaches. Below, we endeavor to contribute our thoughts in this direction.

[2] An apparently successful example that can be built upon is its seminar series, jointly sponsored with the Print Council, and featuring experts on the mail chain from the forests through delivery to the recipient, that demonstrates how sales can increase through targeted use of direct mail when integrated with online efforts.

USPS Can Remain Relevant and Should Vigorously Explore Partnering with the Private Sector

NPPC believes that the Postal Service, through the sheer weight of its residual volume, will remain essential for many years to come. Even if its volume drops by another third or more, to some 100 billion pieces, well below the most pessimistic projections at this time, that would nonetheless constitute a huge amount of paper-based communications that would have to be processed and delivered. It would still be roughly four times larger than today's next largest postal system.

But being essential does not necessarily equate to being relevant. The comfort of an already very large and growing proportion of the public and business with being online and using that medium not only for communications, but for commerce, poses the gravest longer-term existential threat to the postal system. Especially given the pervasive virtual attachment to the Internet by younger Americans, finding ways to keep the Postal Service in the conversation as ensuing generations mature, move into the commercial world and impact the economy will be key to its survival in recognizable form.

As its success with relatively new and high-profile customers from cutting-edge businesses identified with new technologies, such as Amazon, eBay and Netflix, shows, this is hardly an unreachable goal for USPS, even in this new communications era. It has leveraged its strengths in package delivery, reliability, security and affordability to earn their business. Moreover, USPS continues to expand services and accessibility on its heavily-used website; online postal services appear to be quite popular.

In order to capture more business from an increasingly electronically attuned potential customer base, USPS should create products that appeal to that electronic predilection. NPPC would encourage experimentation with hybrid mail, cited by the Committee as an example, and already discussed on this panel, to determine if a market of any real size would exist for it. Its reported success in Switzerland is well worth very serious study. Remote examination of mail online in order to determine whether to have it delivered should not only appeal to the electronically habituated, but can be cast as more environmentally sound: USPS could guarantee recycling and secure destruction.

Every other option at the juncture of electronics and paper should be given careful scrutiny. While stopping short of competing with the private sector, there may be possibilities in the distribution area broadly where USPS could offer products not currently available from any entity that would be attractive to current and prospective customers.

Overall, NPPC believes that USPS likely may have substantial possibilities as the handling of paper and electronic communications come closer together. We would encourage expansive thinking by experts in the field, coupled with a sober analysis of start-up and associated costs. Moreover, in-depth qualitative and quantitative assessments of younger Americans and whether there are postal products that, alone or in some combination with electronics, might appeal to them, seem indispensable. Ceding a steady and inexorable degradation of the distribution market should not be made without mounting a very strong effort to explore the possibilities.

Another area that USPS might well examine is partnering with businesses in the private sector. Under the Postal Accountability and Enhancement Act of 2006, Congress was quite circumspect in limiting USPS' ability to offer nonpostal services.[3] For good reason, Members did not want the Postal Service to diffuse its focus on its core mission, and unduly compete with the private sector.

However, competing with the private sector is not the only way to skin this cat and make some money for USPS. Partnering could earn it some badly needed dollars. For example, in Post Offices, stations and branches with the space for it, why not consider contracting with a coffee company, retailer or other business to provide their services in the postal facility? One could envision in appropriate postal outlets one's favorite coffee dispensing company in a wi-fi environment. Not only would that serve

[3] 39 U.S.C. 404(e)

postal customers, in the right locations they would attract other customers who might then also spend some attention, and maybe some money, on postal products they otherwise might not have.

Another possibility could be a retailer, say, looking to expand geographically. What could be more ready-made for a convenient string of outlets for at least some retail services, than postal facilities? USPS, in its strategic plan, intends to put its business offerings into many more stores and other private sector locations. NPPC applauds that initiative. But why not explore doing the converse, where appropriate? USPS has more-or-less started down that road in modest fashion with greeting cards. They should do more.

Contracts, of course, for any of these, could be let competitively where more than one company is interested to avoid sole-sourcing, or antitrust, problems. In any event, it would be well worth finding out whether a variety of businesses would pay for the option of providing their products within a Post Office.

While we are focusing on the private sector, perhaps we should examine a more sensitive, and perhaps controversial, topic: advertising. As a general matter, NPPC would share the view that government services generally, including those of quasi-government entities such as USPS, should not have advertising in their facilities, or on their vehicles or uniforms. But these are not days of business-as-usual. Is standing on principle self-defeating at this point? Perhaps the public could be surveyed concerning attitudes toward such advertising: if money could be earned to moderate rate increases and sustain service, would they accept it for the time being?

In any event, it's not immediately clear that there would be a market for such advertising, but it would be helpful to find out. Discreet advertisements in postal facilities, on vehicles, even selling naming rights to some buildings, could be explored. If there would be a market, why not take that found money until financial stability is reestablished?

Doing Business with the Postal Service Should be Made as Simple, Streamlined and Economic as Possible

The Postal Service, of course, has a very broad array of regulations and rules for preparing and entering the mail into the system. The Domestic Mail Manual is literally hundreds of pages long. Moreover, with its expanding footprint in electronic offering of services and preparation and verification of mailings, and more, the Postal Service's requirements from its customers on the information technology front have been rapidly accelerating.[4] The costs of, and operational adjustments to, electronic-based reporting have been dramatically higher than previous averages over the past few years. Company IT budgets, which are under call for such companies' primary businesses, and for which the needs of suppliers such as the Postal Service are subordinated, have therefore been under noticeable stress. This creates a bit of a paradox: ultimately, more electronic involvement will mean more efficiency, cost savings and, potentially, new postal products. But unfortunately, the pace of imposition of these requirements has been difficult to sustain.

There is no question that it would help to make it as easy as possible to do business with USPS. Perhaps there should be a top-to-bottom review of requirements, similar in approach to the Clinton-era regulatory reform effort, spearheaded by then-Vice President Gore, with a view toward simplifying or, optimally, reducing rules where possible, and easing the stress on customer IT requirements. This could be achieved internally, of course, but might better be done in concert or consultation with customers.

USPS Must Continue, and Accelerate, the Pace of Pricing and Product Innovations

In the past couple of years, USPS has come up with such new offerings as the one-rate Priority Mail box, and the various "sales." The box has been an unqualified success, and the sales have been successes or trending in that direction. NPPC commends USPS' mold-breaking approaches, and encourages more such efforts. One

[4] CASS Cycles, IMb, Move Update, and new rates, for example, all impose very significant costs on companies engaged in the mail to upgrade and expand IT.

example could be the establishment of hybrid classes offering a mixed set of features that could either outright attract new mail, slow the loss of volume, or improve the financial yield from the mail mix.

An obvious candidate would be a hybrid between First and Standard, that has been explored before but not in a number of years. Sealed against inspection, offering the cachet of First Class and with it the greater possibility of being opened and read, such a class could be opened to, or even targeted at, advertising. The price point would be lower than First, but higher than Standard. It would to some degree cannibalize Standard, but to advantage: there would be a higher price and contribution to overhead to the benefit of the Service. To avoid downshifting of regular First Class Mail, if that were undesirable, this hybrid class could include specific limitations of what matter could qualify for it.

More generically on pricing, still laboring under the overhang of fairly strict adherence to cost coverage, USPS appears to find it difficult to experiment with one of the strategies of necessity that is routinely used by private sector businesses confronted with the daunting financial challenges currently confronting the Postal Service: price reductions. For any business losing volume in the proportion USPS has been, and particularly in its most lucrative revenue stream (First Class), raising prices would not be on the table. *Cutting* prices would, to avoid further losses and attempt to recapture market share.

One example might be catalogs. They already are not covering their costs. But their volume has declined drastically, and they are key drivers of additional business for USPS. Why not, temporarily, reduce their prices in a bid to generate more catalog volume? In a sense, they would be a traditional loss leader, a stratagem that has a well-respected place in business. Another example is First Class. The days when it had no place else to go are over, as we all know. USPS should treat it as a fully competitive class, which is what it now is. Were its prices to be reduced, again temporarily, perhaps the outflow could be slowed. And, the attention such a move would attract might generate some second looks at the value of mail, and some additional volume. NPPC does not underestimate the seriousness of inevitable, hopefully modest, short-term additional revenue losses, but the potential mid- to longer-term benefits make this approach worth an in-depth look.

Congress might help in this area by making it clear to the postal agencies that price reductions can and should be subject to experimentation under current law.

Another possibility in pricing might be building on the growing track record of NSAs, particularly in competitive products, to create, in the market dominant area, something closer to actual contract rates. There have already been NSAs that permit, or at least approach, volume discounts, volume guarantees, and other rate innovations. That should be further explored with businesses in the market dominant categories. One way to introduce some more flexibility into "contracting," might be to place temporal limits on when other mailers are considered to be "similarly situated."[5] If the period of time is relatively short when others can jump in on substantially the same terms, the Postal Service could then be freer to tailor the contracts it would be willing to take to the specifics of each customer, making them more attractive. Each such contract should be examined by the Postal Regulatory Commission to ensure that revenues generated over the course of the contract would at least approximate – unless the Postal Service could provide substantial justification why there should be an exception -- what that customer's volumes would have earned through published rates.

<u>USPS Should Have Substantial Opportunities to Leverage its Services and Network</u>

There should be great opportunity to leverage both the services USPS offers and its unparalleled network. First, NPPC agrees with the many postal observers, including Members of Congress, who believe that as many governmental services, at every level of government, as possible should be offered at Post Offices or delivered through the postal

[5] The Federal Communications Commission does something similar with certain telecommunications tariff offerings.

system. Passport applications currently offered at postal facilities are an excellent example. Others could be drivers', hunting and fishing, and other licenses and permits where adequate space can be made available. Vote-by-mail, the census, and more could be conducted through the system, and should be encouraged.

The network truly deserves some focus. No one has the universal last-mile coverage that the Postal Service does, of course. This is a most valuable asset, as you know, that already is being exploited in arrangements, for example, with its package delivery competitors. Are there additional shared opportunities with utilities, telecommunications companies and others with universal coverage needs? While NPPC has no concrete suggestions here, surely consultations with expert business advisors could produce some possible options. We encourage that exploration.

One more item NPPC would like to touch on is restructuring of the system. There appears little question that with the drop in volume, the postal system is now substantially overbuilt. Rather than preparing for a volume approaching 300 billion pieces, USPS projections over the next few years are barely more than half that. Rationalizing its network to its expected volume may be unavoidable.

Nonetheless, NPPC recognizes that closures of postal facilities are very difficult undertakings. Citizens are concerned about damage to the identity of localities, or loss of convenience and support with the closing of Post Offices, or even stations or branches. The closure of processing facilities can involve the loss of jobs not only from the facility, but the loss of any "multiplier effect" business locally for postal contractors, restaurants, gas stations and more, with its own implications for additional jobs. So, none of this would be without some cost, and it is not a subject that we or anyone else would approach happily, or without the sense that, again, it very likely is unavoidable.

As a result, NPPC believes the only way to restructure in any major way is through an expert, even-handed, non-interested approach. Not surprisingly, it could involve a process similar to the Defense Department's old Base Realignment and Closure

Commission. The Presidential Commission on the Postal Service recommended such an approach in 2003, often styled a Postal Network Optimization Commission, or PNOC. Such a dispassionate, objective body would be essential to select closures and consolidations that would make financial and operational sense, and benefit the nation as a whole. The approval of Congress would be necessary, in order to mandate that existing restrictions upon, and appeals of, closures and consolidations be bypassed.[6] As with BRAC, if Congress desired, a schedule of such closures and consolidations could be made subject to an up-or-down vote in the House and Senate.

An Exigent Rate Increase and/or Broadening the Price Cap Would Be Counterproductive

Finally, we would like to briefly touch upon two of the proposals in the Postal Service's Strategic Plan with which we respectfully disagree: an exigent rate increase and broadening the price cap to be measured over all market dominant products. While we understand there may be some specific question of whether current circumstances qualify as "extraordinary or exceptional" under the PAEA definition of exigency, NPPC's concern here that a rate increase at this time will be counterproductive: certainly over the longer run, and possibly in the short-term. Raising rates when one's customers are at least as financially beleaguered[7] will not lead to increased business, but could lead to further reduced revenues and stress on the system.

Businesses, certainly including NPPC Members, understand that the Postal Service is in a very difficult position, and that a rate increase is one of a very few options over which it has some reasonable control. Even though recognizing that USPS believes it has little choice, and that it is attempting to spread the pain to all stakeholders evenhandedly, the business response will be a dispassionate evaluation of whether postal services are worth the increased cost. Unfortunately, based on the budgetary and

[6] 39 U.S.C. 404(d)

[7] During this recession, the mailing community – defined as mailers and their suppliers, such as paper, printing and technology companies – has collectively experienced hundreds of thousands of lay-offs, closures of many businesses or shutdowns of business lines, and others on life support. This has in part driven the dramatically escalated diversion of mail online. An increase at this time will exacerbate these conditions.

associated business challenges from the recession confronting mailers, in combination with the competition offered online, the rational response appears probable to be a faster withdrawal from the system. That is not good news for a system roughly 90% of whose volume is generated by businesses.

Similarly, we are concerned about broadening the scope of price cap measurement to the entirety of the market-dominant basket of products. The congressional approach to the indexed cap focused on having it attained within each class[8]; it was a carefully crafted compromise that NPPC supported during the development of PAEA. This afforded USPS some flexibility, but limited the possibilities of both cross-subsidization and outsized swings in rate increases or decreases for particular subclasses or categories. If measurement is broadened to all market dominant rates, both of those concerns return with a vengeance. While NPPC ascribes the best of intentions to USPS with this change – to give themselves more flexibility on rates – the impact could too easily be otherwise, now or under some future leadership of the institution. Thus, we believe the status quo on the cap should obtain.

Once again, we would like to thank the Committee for the opportunity to appear in this important Forum today, and I will be happy to respond to questions or otherwise participate in the discussion.

[8] 39 U.S.C. 3622(d)(2)(A)