

# POSTAL NEWS

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<b>1. Highlights of National Postal Forum</b>
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## **1. Highlights of National Postal Forum**

By Clint Bolte on April 18th, 2010

National Postal Forum 2010;

Few but Vital Options Viable to Smaller Printers Who Mail

The 235-year old United States Postal Service presented its future vision to the 4,000 mail aficionados gathered in Nashville's Opryland for its annual National Postal Forum. This vision, entitled "Ensuring a Viable Postal Service for America; An Action Plan for the Future," has been reported in the national press as well as the printing trade press in detail for the past two months. While highlights of this plan and its process will be discussed in this article, my opinion of the very limited but essential strategic options remaining for the small to medium-sized printer, who are inextricably dependent upon the USPS, will be detailed.

Lets review the basics.

1. The USPS will lose money for the third year in a row forcing Congress to bail them out. The old Congressional dog barks and growls but it is toothless. The \$5-8 billion range bail out is a pittance compared to the AIG and General Motors debacles. Plus the 44¢ stamp required to reach each household and business in our 50 states is perceived to be a world-class bargain by many. Warnings and reprisals will be issued, as in the past, but the relief motion will pass.

2. Despite USPS top management claiming to have excellent working relationships with their myriad Postal Unions, the facts reveal that the unions have come out of every single binding arbitration with increased benefits, higher compensation, and more rigid work rules than ever before.

The Federal law stipulates, "Arbitrators may not consider USPS' financial condition when making binding arbitration decisions." Losses create an urgency to find cost savings. Most every single significant cost saving option considered by USPS management will reduce jobs and its onerous labor cost burden, which are unbelievably 80% of total expenses. Congressmen do not want to be identified with a vote that will put more of their constituencies out of work. Hence, their willingness to change this arbitration clause is doubtful. The unions seem to have every reason to feel bullish.

3. As mail volume continues to collapse, the USPS must do everything it can to automate the processing of mail and remove as much labor content as possible. Hence, they have bet all their chips on the Intelligent Mail Barcode (IMb). Extremely sophisticated and complex software is required to be employed by every mailer to comply at the full IMb level. Since about 10% of their clients represent nearly 90% of their mail volume, this single strategic initiative is a fairly sure bet by the USPS as these big boys easily have the required million dollars and full time dedicated IT staff to invest to bring all of their addressing and electronic communications up to the IMb level.

Credible mailing consultants such as Mary Ann Bennett and printing trade publications like Printing Impressions have advised the rest of the printing and mailing industry, who are not in a position to marshal this level of resources, to take a wait-and-see attitude. The “basic IMb” compliance deadline is May 2011. An awful lot can happen in the meantime as the USPS continues to work out the glitches on their end and the multitude of industry software vendors are enhancing their IMb compliance solutions almost on a daily basis. Hopefully free enterprise will kick in and software prices for IMb modules will come down.

#### All Printers Near Term Strategic Imperative

I certainly concur with this more conservative approach of holding off on the no ROI IMb requirement. However, in the meantime every single local or regional printer must be doing the following:

- ◆ Recognize that your clients are looking to you as their technical consulting resource to manage all of their graphic information distribution needs.

If you have decided not to offer mailing services in house due to the IT complexities as well as the intimate knowledge required of USPS’ regulations (DMM), you must be confident in recommending a local mailer in which you have confidence. If you don’t know who to recommend, or recommend a mediocre one, your credibility as the distribution consultant is lost. And the door is now open to competitive printers with more first hand knowledge of credible mailing solutions.

- ◆ Printers offering mailing services must re-emphasize the importance and discipline of address hygiene (CASS, NCOA, DPV sortations and updates) on every list for every mailing. Track your undeliverables and their associated costs for the benefit of your clients. Don’t let MERLIN compliance (address print quality and placement) become slip shod and taken for granted. This is every bit as important as the most stringent disciplines, procedures, training, and resources that you dedicate to color management.

#### Forecasting Future Mail Volumes

The Boston Consulting Group was hired by the USPS to forecast mail volume through 2020. Through basic surveys to mailers and service bureaus followed up with personal conversations with the largest clients, BCG forecasts volume to fall to 150 billion pieces of mail by 2020 from its peak of 213 billion in 2006 or 30% drop. This assumes no extraordinary intervention elements. The worst-case scenario pushes the

2020 volume down to 120 billion. Additionally BCG expects a major shift in first to standard class mail dominance as bills continue their transition to e-presentment via the Internet. First class was 50% of the total in 2009 and it will be 38% in 2020. This product mix shift will erode the profit margin to cover fixed costs from 71% last year to 21% in 2020.

#### Diversification To Raise Revenues

Accenture Consultancy was hired to suggest how to raise revenues. Their job was pretty easy. The USPS does not have enough cash to invest in any type of significant diversification. The Postal Services' only option is to stick to their core business and get it turned around.

#### Deficits Escalate

McKinsey & Company was asked to take BCG's range of volume forecasts and apply the contracted financial models to determine profitability in another decade. They assumed postage prices would climb by the annual inflationary cap allowed by law. 2020 will have a \$33 billion loss while the next decade will accumulate a \$230 billion deficit.

The USPS operations group has been on an aggressive track to cut as much cost from the existing business as possible. It has squeezed more than \$10 billion from the operation in the last two years alone. This is the biggest in the country by any corporation. Two million man-hours and the equivalent of 115,000 full time employees were saved.

Even the most optimistic can't conceive of being able to save their way out of a \$33 billion dollar deficit when the 2009 level of labor productivity was only 2%. And this low level of productivity is tied to the continuing escalation of union wages, benefits, and totally outdated work rules. The printing industry's productivity exceeds four times that level.

#### More Productivity Improvements Need Legislative Approval

Of the 27 thousand post offices through out the nation twenty thousand are losing money. If these could be shut down and the service integrated into big box retailers, many billions could be saved. If this were allowed, service could actually be improved as several postal retail outlets could be set up in the same community.

The post office has huge excess capacity and rigid work rules around the fulltime work force. While the USPS would prefer a higher proportion of part time employees to give them more flexibility in matching hours needed to volume demand, more part timers will not save much money because the union contracts give these part timers full medical and retirement benefits.

The USPS would like another class of employee that is simply paid market rates and benefits. They would agree to grandfather the existing union labor since 50% or 300,000 of them are eligible for retirement in the next decade.

Nearly three dozen other practical, workable, proven (in the nonunion, private sector) ideas were discussed at length during the full year of regional meetings leading up to the Postal Accountability and Enhancement Act of 2006. While the Unions fought each of them tooth and nail, it was Federal legislators who disallowed any whisper of hope. And as you recall the economy was pumping along quite strongly at mid-decade.

#### New Products & Innovative Incentive Pricing

Senator Susan Collins has been reported in the newspapers as being insensitive to the Post Master General's annual pleas for fiscal relief from the \$5.5 billion annual Retiree Health Benefit payments. She feels that the management team should be putting that energy into creating new products and innovative incentive pricing programs that will increase mail volume.

Several such initiatives were announced at the National Postal Forum. For example, Hallmark cards announced a program by which one ounce first class postage will be paid by Hallmark beginning this year on their new greeting cards. A barcode and written explanation will be preprinted in the upper right hand corner of each envelope to that effect. The cards will, of course, be increased in price to reflect this additional cost. It will be interesting to see if this convenience will result in increasing Hallmark's market share on these postage paid greeting cards.

Wal-Mart negotiated an exclusive agreement with USPS to ship all of their telephone pharmacy orders "free" by priority mail to the respective consumer. There is obviously adequate margin in prescription drugs to absorb shipping costs. Wal-Mart has a reputation throughout its history of driving down each of their suppliers' prices. Wal-Mart surely put FedEx, UPS, and USPS up against one another to obtain the cheapest distribution price possible. USPS CFO Joe Corbett remarked that he sits on the seven person pricing committee and is personally confident that this Wal-Mart contract will be profitable to the Post Office.

The second summer seasonal pricing discount has been approved for standard mail projects which accumulative volumes exceed the July-September volumes of last year for larger retail mailers.

#### "Exigent" Rate Increases Over the Price Cap

For a number of market dominant products the USPS price is well below that offered by competition. The USPS would like regulatory relief to impose a one-time price hike (in excess of the legal inflationary cap) to recover some of this lost opportunity margin value. This is just about the only USPS issue, which the postal unions will endorse to support management. The two most obvious "market dominant products" are periodicals and standard flats like catalogs. Since the postal costs for periodicals typically exceeds the total printing costs for all periodicals whose run length exceeds 15,000, such a move could force additional bankruptcies or shutting down of marginally profitable titles.

It is truly amazing the extraordinarily effective World Class mailing service, which the United States enjoys. Particularly when the elected Federal legislature,

monopolistic unions, and huge mailers with deep pockets funding PACs have effectively hog-tied the USPS management.

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2 Responses to “Highlights of National Postal Forum”

By Walt Atkins on Apr 19, 2010 | Reply

Many functions of the federal government are services to the nation and not expected to make a profit. Our armed forces are not expected to make a profit, for example. All branches of the service are given duties and money is budgeted to cover their costs. USPS is charged with going by every address in America every day except Sunday and operating post offices nationally. Why can't it be treated seriously as a national service and Congress proudly support the finest mail system in the world?

Secondly, cutting postage rates would increase usage without increasing burden since USPS is so far below capacity now. This would also stimulate the national economy across the board.

Unless we change our outlook on the USPS to be a necessary national service and liberate it to perform its world-class service in today's marketplace, it should be abolished and the private sector will be performing its tasks just as well or better within six months.

I vote for liberation in conjunction with marketplace labor practices.

By Keith Alston on Apr 20, 2010 | Reply

Dear Sirs:

Your article makes it sound as though Congress is going to “bail out” the U.S. Postal Service, as though it has not been stealing from them. You really need to examine the history of the USPS's finances and the law, the Postal Accountability and Enhancement Act of 2006, which requires the Postal Service to pre-fund retiree's obligations to the point of surpassing requirements for any other federal agency. Parenthetically, none of the Fortune 500 companies has any such requirement. The Congress, essentially, is stealing money from the Postal Service by taking their monies and then placing them in a “trust account”, further draining said trust account into the general fund to make the national deficit seem not quite as bad as it actually is. Get a clue....Congress is using the Postal Service as a “cash cow”.

Your article sheds a negative light on the Postal Service when, in fact, the culprit is our Congress, which has the damnable and unforgivable habit of spending more money than it has available. Term limits for all members of Congress would solve this enigma, but Congress would never pass a law, which effectively fires themselves. Our government is leaving a legacy of debt and suffering for our children that is an unforgivable abomination. History, such as it is, will not treat this Congress favorably. May God have mercy on their souls for what they have done to this country.

Keith Alston

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