

FIRST-CLASS POSTAL REFORM

THE U.S. POSTAL SERVICE lost \$2.2 billion in the second quarter of its current fiscal year. Much of the loss — the equivalent of 5 billion 44-cent stamps — results from reluctance to right-size a huge organization and physical network established to support the communications needs of this country in the pre-electronic era.

Although the Postal Board of Governors and USPS management have identified numerous ways to increase revenue and reduce costs, the Postal Service is hampered by its decision to depend on direction from Congress instead of making decisions for itself.

The USPS could cut deeply into its losses with one simple step: dropping Saturday delivery. But it hasn't moved to a five-day week for fear it may violate its Universal Service Obligation, or USO. Our research shows the six-day delivery requirement is spelled out in the annual appropriations bill Congress uses to partially subsidize the USPS, not the USO in the Postal Service charter.

Congress only gives the USPS about \$68 million in annual funding. Therefore, the postal governors could authorize USPS management to cut delivery from six days to five, yielding annual savings of \$3.3 billion, and forgo about \$70 million in federal funding. That subsidy is insignificant, considering the Postal Service had \$67 billion in revenue in fiscal 2010.

Congressional legislation requiring six-day delivery fails to understand that in present times, the American public has much greater dependence on wireless communication service providers using their smart phones and cell phones than on the first-class mail envelopes found in the mail boxes.

Most of the public in urban and suburban geographic areas isn't aware that even under current

legislative requirements, the USPS doesn't deliver mail to residences or businesses in certain rural and even suburban areas. Hence, people living in these areas have to drive to the local post office to pick up mail.

Even the Postal Regulatory Commission, in its special report on this subject, acknowledged savings of \$2.3 billion. Although it might seem a small amount to people inside the Beltway, where government is used to working with hundreds of billions of dollars in spending bills, it represents a huge amount to the USPS and a difference between profit and loss for the year.

With so many people not receiving mail delivery even once a week, the USO mandate is subject to interpretation. Hence, the Postal Board of Governors should interpret the provision in a manner that helps the Postal Service reduce costs by cutting delivery to five days a week from six.

Primary research or survey of households isn't required to find that people will complain immediately if the e-mail and text message service were down for even a few minutes. In contrast, if mail delivery were to be suspended for a week, people might not complain for days.

If postal governors are convinced that eliminating Saturday delivery would reduce cost, they should direct management to "just do it!" Thereafter, the board can monitor the number of complaints and support letters it receives for such decisiveness and effort to reduce cost and hold down future increases in postage rates.

The change to a five-day delivery week wouldn't be material for either large or small customers. For first-class mail, the Postal Service is still the best value proposition, so there shouldn't be any additional

negative impact on already declining first-class and standard mail volumes. The recipients won't get mail on Saturdays, just as they don't on Sundays.

For the Postal Service's parcel shipping customers, recipients would receive that package on Monday instead of Saturday — no different than UPS and FedEx parcel delivery services. These shippers and their customers select USPS parcel service for lower price and not speed. For shippers requiring Saturday delivery, they can ship via FedEx Home Delivery.

If the demand for Saturday delivery is significant, regional parcel carriers and same-day courier companies will introduce Saturday delivery service. The resulting cost advantage would ensure the USPS retains and even gains more volume for its Parcel Select service.

Far from resisting, the labor unions representing postal workers instead should seek management cooperation in implementing the plan with work force reduction through attrition of career and temporary workers. While this may result in a slower pace of cost elimination for the USPS, it still would be faster than waiting for Congress to act. If the Postal Service had "just done it" when it first made public this initiative in March 2009, it would have been fully implemented by now and yielding cost savings of more than \$2 billion a year even by more conservative Postal Regulatory Commission estimates.

One way to ensure quick attention from Congress to getting legislative change in an annual appropriations bill is for the Postal Service to just do it: convert to five-day-a-week delivery. **joc**

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*Satish Jindel is president of SJ Consulting Group with offices in Pennsylvania and India.*



■ By Satish Jindel