(CONTINUED) Transformation-Not your Daddys Postal Service anymore

1. Expand Standardized Processes

Breakthrough Productivity

Launched in 2001, the Breakthrough Productivity Initiative (BPI) helped focus and structure efforts to use process improvement to drive productivity gains throughout the organization. BPI uses comparative monitoring and performance ranking in operating units across the country. Higher performing units are used as models and are studied to identify best practices. Standard procedures are established based on best practices and training is developed to share performance expectations. Targets are set to drive performance toward the highest levels. When BPI targets are achieved, responsible teams and employees are recognized and rewarded.

BPI will continue to be one of the major tools driving performance to the highest levels in all operations. The Postal Service's experience with BPI is an excellent base for targeting new cost savings from opportunities that remain in many areas. During 2006–2010, the Postal Service will significantly expand standardization activities. Quality control methods such as Six Sigma and Lean Management will be used to reduce variation and improve critical processes.

Delivery

The Postal Service has had success controlling rising delivery expenses through automation efforts such as delivery point sequencing for letters. However, delivery remains the largest cost center, accounting for 43 percent of all expenses. Each year up to 2 million new deliveries are added to the network. Over 3,500 new routes would have to be added every year if the delivery infrastructure were to grow by the same rate.

Controlling growth in costs from new deliveries is a key challenge. Combined with slower revenue growth, increasing costs would create a gap in cost coverage that will impair postal finances. Aggressive management has minimized delivery infrastructure expansion, as the following charts illustrate. Although 5.5 million new deliveries were added since 2002, the number of city delivery routes declined over that period. The number of rural routes increased, but at a rate slower than the growth in new deliveries.

[Another chart illustrates a decline in city routes from 2002-2006 of approximately 5000 routes while rural delivery has increased about 2000 routes over the same period. The popint of the chart was also to illustrate that in the same time period city delivery points increased by about 2500 while rural delivery points increased by 5000.

Automation has reduced the time that carriers spend sorting mail, resulting in a 15 percent reduction in the time that carriers spend in the office. To ensure that automation savings are fully captured, near-term plans call for rigorous standardization of existing delivery operations to reduce variability and leverage investments in technology.

To further capture the benefits of automated sortation, targets will be established to increase the percentage of letters sorted to delivery point sequence from 77 percent currently to 95 percent by 2010. The Postal Service's vision for delivery also includes automating flats sequencing for carriers, which will remove much of the remaining office time now spent sorting flats. Flats are larger mail pieces such as magazines and catalogs.

[The plan includes a chart which illustrates the changes in percentage of street and office time for city carriers in 2000, 2004 and projected 2010 percentages as follows:

Year.......Office.......Street

2000..........40%..........60%

2004..........34%..........66%

2010..........21%..........79%

Increased delivery point sequencing for letters, new sequencing for flats, and expanded standardization are projected to further reduce the time used to prepare mail in the office.

Prototype equipment will be tested in 2006 for possible deployment starting in 2008. The Postal Service expects more rapid deployment of flats sequencing than it achieved for letter sequencing given the experience gained from that earlier effort.

Industry participation is critical as this technology evolves. Postal and industry efforts will focus on ensuring that the lowest combined processing costs are realized as flats sequencing may require some changes to mail make-up and entry at high-volume locations. The Postal Service will work with customers to maximize the number flats barcoded to delivery point. Concurrently, the Postal Service will study standardized work methods related to flat sorting because the equipment will significantly alter delivery operations.

The Postal Service will create route structures that reduce office time and capture savings from improvements in street productivity, automation, and the handling of undeliverable-as-addressed mail. The current standardization of morning delivery operations will be expanded by standardizing operations on the street and when carriers return to the office. The goal is to decrease variance in office time and help reduce the number of routes. An alternative approach to delivery, where office work is de-coupled from street work, will be explored. The Postal Service also intends to consider new delivery strategies to redefine how mail is delivered. New approaches to street delivery are essential to control the overall cost of delivery and ensure t he continued affordability of mail.

The Carrier Optimal Routing (COR) system introduced in 2004 will help design more efficient routes to minimize street time, reduce vehicle-related expenses, and establish safer lines of travel. COR will be used to make initial route adjustments that can result in immediate savings. It will also be beneficial to prepare for future route restructuring required by implementation of flats sequencing.

The Postal Service must address the need to replace or retrofit the current fleet of 180,000 delivery vehicles over time. The fleet includes 142,000 long life vehicles (LLVs) that are an average of 14 years old, with some as old as 18 years. The Postal Service is examining options to extend the LLV's 24-year service life. However, it must address other factors as well, including the need to reduce life-cycle costs and improve safety, fuel consumption, and maintenance requirements. The Postal Service is working with the automotive industry to evaluate prototype and off-the-shelf replacement vehicles. Significant capital investments are planned to replace or retrofit the aging delivery fleet. The Vehicle Operations Information System will be implemented in 2006, providing actionable maintenance and management data for improved control of vehicle cost per delivery. The Postal Service will strive to further expand adoption of alternative fuel vehicles.

Mail Processing

Integrated operating plans will improve mail processing performance and reduce process variability between tours and among plants and Post Offices. These plans, to be implemented nationally in 2006, will set critical entry and clearance times by operation to ensure service targets are met consistently. The Postal Service will further standardize equipment and floor layouts at plants and Post Offices to reduce mail flow inefficiencies. To further capture the benefits of automation, the Postal Service has set a target to reduce manual letter distribution volume to 10 percent and manual flat distribution volume to 45 percent in 2007. Mail processing activities will continually be reviewed and refined in all plants and operations in conjunctio n with the introduction of new technologies and equipment. BPI will also be employed to replicate successes from the top-performing plants to those plants that are performing at a lower level.

Retail

The Postal Service will continue to focus on standardization to ensure consistency in retail locations. A retail standardization initiative introduced in 2005 will improve employee product knowledge and management of merchandising and promotion. Workload standards developed from the Retail Data Mart Window Operations Survey (WOS) will improve productivity and staffing efficiency. WOS uses retail transaction data to calculate required staffing in half-hour increments. This allows managers to schedule the right number of counter personnel and optimize cost per retail revenue dollar. In 2006 WOS workload standards will be applied to all 15,000 offices equipped with Point of Service terminals. The Postal Service will also expand its Customer S ervice model office concept in 2006. This model applies workload standards to manual distribution, dispatch, and other backroom activities in Post Offices.

Maintenance and Mail Handling

Reliability Centered Maintenance (RCM) is a new predictive approach to maintenance on equipment deployments. RCM reduces operational downtime and the cost of maintenance by matching the amount of necessary maintenance with the level of equipment usage. Over the next 2 years, RCM will be introduced for existing Automated Flat Sorting Machines 100, Delivery Barcode Sorters, and Advanced Facer Canceller Systems. At selected facilities, remote video maintenance support will also be evaluated to shorten repair cycle times, reduce maintenance costs, and improve operational readiness.

The Postal Service will also explore further standardization of Mail Transport Equipment (MTE), the sacks, trays, and containers used to transport unit loads of mail. MTE standardization can increase utilization and reduce the cost of maintaining a large and complex inventory of equipment types. Ultimately, there could be many fewer types of sacks, trays, and rolling stock.

2. Continue Equipment, Technology, and Facility Investments

The Postal Service will continue to invest in equipment, technology, and facilities to support service and productivity improvements.

Letter Equipment

Letter distribution efficiencies have been achieved by improving read rates on existing equipment through better software, deploying equipment enhancements and scanners, and increasing the volume of letters sorted in delivery point sequence. The most recent major investments in letter automation were for the Postal Automated Redirection System (PARS), which reduces costs associated with handling mail that must be forwarded or returned to sender. Phase II of PARS will complete deployment during 2007. Scheduled investments include upgrading cancellation/postmarking equipment by 2006. Other programs will reduce piece handlings and sorting errors. These include the addition of automated "doubles detectors," which will reduce errors that result when two or more letters become stuck together in production or processing. By 2007 state-of-the-art Delivery Input/Output Subsystem (DIOSS) equipment will replace aging Multiline Optical Characte r Reader machines and either reduce or eliminate Mail Processing Barcode Sorters. With up to 302 separations, DIOSS sorts mail to up to three times as many separations than the machines it will replace.

Flats Equipment

Much of the successful application of automation to letters has been duplicated for flats. In 2002 the Postal Service completed deployment of the Automated Flat Sorting Machines (AFSM) 100. Featuring high-speed automated processing and online video encoding, the AFSM 100 produced dramatic improvements. Flats productivity almost doubled in processing facilities, with about 80 percent of flats now processed on the AFSM 100. New investments to enhance the equipment include automatic induction and sweeping, which began deployment in 2005. Flats sequencing technology will also be examined. Similar to letter sequencing, flats would be automatically arranged in the order of delivery for carriers. If practical and cost effective, automated flats sequencing holds great promise to reduce remaining manual mail sortation. Initial deployment could begin in 2008 .

Packages, Bundles, and Material Handling Equipment

Automation of package and bundle sorting is being addressed by the current deployment of 74 Automated Package Processing Systems (APPS), which is expected to be completed in 2006. APPS uses optical character and barcode readers to improve distribution productivity. APPS is replacing many of the older technology Small Parcel Bundle Sorters and is driving the need for 100 percent readable and accurate package barcodes. Bulk Mail Center secondary parcel sort systems will also be upgraded to improve read rates and productivity. Universal sorters will be deployed at select processing centers to improve package, bundle, and tray sorting.

Retail and delivery facility requirements will be reviewed and national priority lists for new facilities will continue to be maintained and updated on a consistent basis. This will ensure that the Postal Service is spending wisely on its highest need projects. The Postal Service will reduce construction costs by 25 percent at large facilities and 10 percent at small facilities.

The Postal Service will also explore consolidation of repair and alteration administration at the Facilities Services Office level. A renewed emphasis will be placed on reducing repair costs through more focused routine building assessments and better planning to fix small problems as soon as possible.

Implementation of the Integrated Dispatch and Receipt (IDR) system, coupled with off-the-shelf mechanical systems and high-speed robotics, will assure better workflow and material handling. IDR systems automate mail dispatch and receipt at processing facilities. Each IDR system is a site-specific combination of different equipment and includes seven previously deployed equipment types and three new systems. Deployment is expected to be complete in 2006. Additional material handling improvements will replace outdated sack sorting equipment with high speed tray sorters where applicable.

Facilities

In the 2002 *Transformation Plan*, the Postal Service developed and implemented strategies to improve management of its real estate assets including the sale and leasing of unneeded postal properties. Since then, revenue from disposal and leasing of postal properties has averaged about $65 million annually. The Postal Service will continue to identify and dispose of excess facilities and eliminate redundant floor space. In 2006 the Postal Service will benchmark its Building Design Standards against comparable industry practices. Cost effective best practices will be adopted, including flexible standards that accommodate changing operational requirements and future disposal potential. Reductions are targeted for both facility delivery time (site selection, community process, project approval, design, and construction) and total construction costs.

4. Rationalize Facility Networks

Throughout its history the Postal Service has continually adjusted its mail processing networks as customer needs changed and new technologies became available. Efforts to create a flexible network to increase productivity and effectiveness — formerly called Network Integration and Alignment — will continue as an evolutionary process. Now more accurately called Evolutionary Network Development, this effort encompasses opportunities to improve both distribution and transportation.

The mail distribution system has evolved over time as a series of overlapping, single-product networks. Generally plants process all classes of mail. However, some plants also have specialized network responsibilities, linking transportation and distribution for specific classes or types of mail. Examples include facilities that serve as distribution centers for Periodicals, bulk mail centers for Standard Mail and parcels, and automated distribution centers for automated letters. These networks often have separate transportation.

The Postal Service is transitioning from these single-product networks to a more efficient network designed to handle multiple products. Regional Distribution Centers (RDCs) will be created from existing facilities and will support local processing centers. In addition to other responsibilities, RDCs will consolidate parcel and bundle distribution to take advantage of shape-based efficiencies. Currently, packages are often processed on separate networks based on their class (i.e., Standard Mail parcels in one location and Priority Mail packages in another). In the future, RDCs will serve as mailer entry points and consolidation centers to enable shared product transportation. Shape-based processing has already produced substantial efficiency gains for letters. The transition to RDCs will extend shape-based efficiencies to other types of mail as well.

Redesigning network responsibilities in conjunction with reviews of distribution and transportation capacities has permitted the closing of 50 annexes over the past few years and consolidation of their operations. In the past year the Marina mail processing plant in southern California was closed and its operations consolidated into Los Angeles and Long Beach. Since 2002 ongoing capacity reviews, process improvements, and technological changes have permitted ten remote encoding centers (RECs) and five district offices to be closed and their operations consolidated. The Postal Service will continue to close RECs in line with improvements in recognition technology.

Local offices will continue to review operations for area mail processing (AMP) opportunities. AMP is the consolidation of selected processing functions, typically from several facilities into one centralized facility. It eliminates excess capacity and makes better use of space, staffing, equipment, and transportation. AMP will result in some consolidation of mail cancellation and outgoing distribution. Consolidation among existing facilities will also be identified for processing of First-Class Mail 2- and 3-day service areas. Consolidating mail from multiple plants improves productivity, increases mail density in containers, and achieves better utilization of transportation capacity. The role of airport mail centers will also be re-examined, case by case, to determine if high-cost on-airport facilities can be reduced and better coordinated using third-party facilities.

For its retail network, the Postal Service will continue to ensure that customers obtain quick, easy, and convenient access. Criteria for locating retail services will be customer need and cost effectiveness. The current policy for Post Office closings will be maintained.

An important opportunity to increase value exists in the Postal Service's continuing efforts to optimize logistics. Since 2002 it developed several systems to scan, transport and effectively route mail, and support longer-term plans to streamline the transportation network. Significant efforts have been made to assess utilization and performance of contracted transportation. The Transportation Optimization Planning and Scheduling (TOPS) system is being further developed to plan and manage transportation resources. TOPS analyzes alternative scenarios to determine the lowest cost transportation network given service commitments. Changes in capacity requirements will be rapid and responsive to customer and marketplace demands.

Through 2010 the Postal Service will reduce the volume of mail transported via air by as much as 25 percent by reconfiguring the surface transportation network. The transportation network will be streamlined by establishing national surface transfer centers and using data from TOPS and surface visibility applications. Surface transfer centers will consolidate containers from multiple facilities to maximize transportation utilization. This will permit a large portion of mail currently transported by air to be carried on less expensive surface vehicles. The surface transportation network will be expanded concurrently with the evolution of existing facilities into RDCs. Surface transfer centers, with standardized operations, will be established in six new cities. The existing 14 surface hubs will be brought into conformity with this distribution concept.

Today's air transportation network must satisfy national security requirements as well as customer service commitments. Efforts to reduce domestic and international air costs include the prospect of increased use of shared cargo aircraft and commercial aircraft as well as consideration of postal owned point-to-point cargo aircraft.

6. Optimize Business Processes

Beyond mail processing, delivery, and related mail operations, a number of critical business processes in support areas will also benefit from expanded standardization and process improvements. Over the next 5 years, the Postal Service will optimize its business processes to reduce cycle times and provide greater quality performance. The goal is to maximize the value created by all processes, both internally and with partners, suppliers, and mail consolidators. Specifically, the Postal Service will:

- Optimize information technology infrastructure.
- Establish a single shared services organization.
- Broaden supply chain management.
- Dedicate teams to identify major process improvement opportunities.
- Enhance corporate financial responsibility.
- Evaluate opportunities for outsourcing and insourcing.

Optimize Information Technology Infrastructure

Information Technology (IT) is an essential component of all Postal Service business and administrative processes. Under Transformation the Postal Service implemented the Advanced Computing Environment (ACE) initiative, a comprehensive effort to modernize, simplify, and secure its computer infrastructure. Standardizing the IT environment with ACE allows the organization to streamline application management procedures and future system integrations.

The Postal Service will take a number of actions to ensure that the IT infrastructure continues to meet performance and productivity demands. By 2007 it will implement computing connectivity and deploy computers to additional sites, eliminating paper and manual processing wherever cost effective. This will be achieved by replacing 14,000 dial-up locations with DSL or cable connectivity. Centralization of technology functions within the IT organization will be accelerated and field IT support functions will be realigned to better meet demand and reduce costs. Use of high-cost IT contractors will be greatly reduced as the Postal Service transitions IT knowledge to career employees to improve service and reduce costs. By 2008 the capabilities of the existing Enterprise Data Warehouse will be broadened to allow full cross-functional analysis and decision-making. The Postal Service will standardize printers, scanners, photocopying, and o ther equipment to reduce costs by 2009.

Establish a Single Shared Services Organization

Shared Services centralizes transactional, non-core business services within a separate internal entity. Centralizing transactions previously performed by multiple units achieves economies of scale. In 2003 Shared Services was successfully implemented for the Accounting function. The Postal Service reengineered and automated accounting processes and consolidated residual transactions, eliminating transactional processing in the field and enabling 80 district accounting offices to close.

Applying lessons learned from that initiative, the Postal Service currently is developing a Human Resources (HR) Shared Services initiative that will centralize certain transactional HR services. The *PostalPEOPLE* system will standardize and automate these processes by replacing multiple existing processes with one, fully integrated HR system by 2007. The Postal Service will consider centralizing other non-core support services in Shared Services applications that can yield gains in enhanced customer service, reduced cost, improved service quality, and improved control. Examples of transactional services with potential for centralization include IT services, facility services, insurance support services, legal, and purchasing.

Broaden Supply Chain Management

Great strides have been made in managing the postal supply chain, with a total of $1.7 billion in cost reduction and cost avoidance from mid-2000 through mid-2005. Most was achieved through over 200 initiatives focused on the roughly $12 billion spent annually with suppliers for goods and services. The Postal Service will continue to build on this success through broader penetration of supply chain practices. It will benchmark successful industry applications, identify opportunities to integrate supplier capabilities, and seek new opportunities to involve suppliers in product design and enhancements. Teams with the right mix of knowledge, skills, and expertise will implement specific initiatives designed to improve processes and reduce costs. Integrated supply chain management activities will continue to contribute to the $1 billion annual cost reduction commitment.

The Postal Service will use external benchmarking, increased spend analysis capability, and a second round of strategic sourcing to reduce costs in office products, utilities, vehicles, equipment, telecommunications, and information technology. It will target cost reductions for a variety of services essential to day-to-day operations, including janitorial and maintenance, travel, advertising, printing, and environmental and emergency preparedness services. The Postal Service has established an efficient framework for managing environmental responsibilities. In particular, it developed the Environmental Management System (EMS) to identify high-priority areas for improvement, and used it to implement several cost-saving recycling and energy programs.

For mail equipment and facilities, the Postal Service will use strategic sourcing, lean manufacturing, and total cost of ownership techniques to better align supplier capabilities and improve life cycle costs. The Postal Service will increase inventory visibility, improve parts availability, and reduce inventory investment by implementing a best-in-class service parts management system and efficient logistics. Costs for mail processing equipment spare parts will be reduced through inventory pooling at strategic locations.

The Postal Service will continue to develop and maintain a strong, competitive supplier base that reflects the diversity of the American supplier community. Small, minority-owned, and woman-owned businesses are integral to the supplier base. They are agile, responsive, and effective, continuously providing a valued source of innovation.

Dedicate Teams to Identify Major Process Improvement Opportunities

The Postal Service will accelerate the integration of business processes across functions (e.g., operations, finance, marketing), for complex initiatives that require significant effort. Dedicated cross-functional teams will be established to determine where the greatest value can be added through process integration. Teams will identify both non-value and new value-added processes, increase standardization, and improve essential processes and cycle times. Examples under consideration where dedicated teams will be used to concentrate attention are insurance claims procedures, distribution of materials and supplies to Post Offices, and the stamp production process, including printing, distribution, and inventory management.

[These are excerpts from the plan which can be accessed at USPS.com click About USPS and News and then click Strategic Transformation Plan 2006-2010]. The plan is available in PDF file or as text file and runs about 87 pages. There is also a 2006 Annual progress report of 43 pages. Many of the programs that USPS is quietly implementing are spelled out in the 2006-2010 Strategic Transformation Plan.

See Part 4: Report of pilot site for FSS deployment and how it affected carriers.

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