

March 19, 2009

TO: FMA Board

FR: Rich Bobic

RE: MTAC Report – February 2009 Meetings

Following are the key highlights from the February MTAC meetings:

Welcome and Announcements – Steve Kearney, USPS Chair reported new staffing changes intended to focus on customer needs. An example of the improved communications for MTAC membership was Susan Plonkey's promotion to VP of Sales was announced to MTAC prior to announcing it to the public. Steve is taking over for Susan as USPS Chair of MTAC. Steve pointed out that the USPS has been listening to customer needs and cited the "slim-jim" positive response and IMb as examples of dialogue with customers and the USPS' efforts to come up with reasonable solutions for mutual problems.

Service Update – Pat Donahoe, Deputy Postmaster General and COO discussed Service Standards and Measurement. He indicated that beginning Oct 1, 2009, virtually all 3-digit ZIPs will be covered by EXFC (measurement system for First-Class) and that the results will be reported quarterly at the district level.

First-Class goals are:

- Overnight – 96.5%
- 2-Day – 94.0%
- ¾ Day 92.7%

Periodicals – the intent is to use two industry measurement systems – DelTrak and Red Tag on a quarterly basis at the Area level. The starting point is the FAST appointment in addition to the container scans. The delivery date will be reported by each monitor from the two systems. The USPS reported that only 69.8% of Periodicals were delivered on time but that percentage rose to 94.2% within 3 days of the target.

Standard Mail was 87.4% on-time for destination entry and 77.2% on-time end-to-end.

For remittance mail, measurement will begin in 2009.

Operations Update – Bill Galligan, SVP Operations reported that for the Flats Sequencing System (FSS), the USPS is revising timelines and expanding the geographic areas. The acceptance testing continues and support activities are on target.

Carrier Route Adjustments – During the Jan-Mar timeframe, 80,000 routes are being adjusted. 92,000 routes were evaluated, with 2,500 routes being eliminated.

Industry impact for these adjustments: 30,000 delivery points are impacted (implementation schedules are detailed on the RIBBS website).

Consolidation Activities

- Equipment runs will be remodeled
- Related manpower adjustments
- Plant Operations Consolidations (AMP's)
- AMC Consolidations
- Ground Network Re-engineering

Transformation of BMC's to Network Distribution Centers (NDC's)

- Three tiers of NDC's will exist
- This transformation will begin the the Northeast
- Combine BMC and Surface Transfer Centers (STC)
- Aligns induction of original products into one ground network
- Existing 21 BMC's will have 3 tiers
 - Tier 1 – 10 small BMC's will not handle originating mail.
 - Tier 2 - 7 facilities will handle originating and destinating mail
 - Tier 3 - 4 regional facilities will have the same responsibility as Tier 2 but will also have consolidation and cross-docking

USPS Financial Overview – Joe Corbett, CFO & EVP and Tony Morrow, Mgr. Budget & Financial Analysis

In January, the USPS lost \$750 million primarily due to a 16% volume decline from same period last year.

	<u>Actual</u>	<u>SPLY</u>	<u>VARIANCE</u>	<u>%SPLY</u>
Revenue	\$19,101	\$20,377	-\$1,276	-6.3%
Expenses	\$19,485	\$19,705	-\$ 220	-1.1%
Net Income	-\$ 384	\$ 672	-\$1,056	

Note: \$ in millions

Volumes for the Qtr and change from Same Period Last Year (SPLY) by mail class showed that all volumes are decreasing in parallel with the economic downturn:

	1st Qtr Volume	SPLY Change
First-Class	- 1.8B	-7.2%
Standard	- 3.0B	-11.0%
Periodicals	- 0.1B	-3.5%

All Mail - 5.2B -9.3%

The USPS is projecting no recovery this year with volume decreasing by 12-15 billion pieces this year. The USPS is also projecting \$5.9 billion in cost reductions over fiscal years 2009-2010.

Intelligent Mail Update and Timeline – Tom Day, SVP Intelligent Mail & Address Quality and Pritha Mehra, VP Business Mail Entry and Payment Technologies reported that the IMb project is progressing. There will be new IMb releases by the USPS in May and November only. Customer acceptance testing will begin May 18th.

Between now and May the USPS is focusing on:

- System Readiness – USPS concentrating on developing, designing and testing
- Resource Readiness – USPS will insure that their resources are ready for mail acceptance and verification procedures. They will prepare their support resources and be able to develop verification tolerances. IMb tolerances will take same approach as Move Update tolerances.
- Mailer Readiness - The USPS has developed a new guide called “Ready,Set,Go” that details the on-boarding process for being approved for IMb production. The migration to IMb services will depend on successful testing through PostalOne.

Receive and process eDocumentation will happen through either Postal Wizard or Mail.dat 09.1 version. The USPS will be able to support Customer Supplier Agreements, provision start-the-clock and Address Correction Service (ACS) for Mail.dat users, and support Mail.XML appointment scheduling, data distribution and miscellaneous messages.

Customer Supplier Agreements (CSA) testing is happening in March.

For May 2009 and forward, the USPS plan is to focus on:

- System Readiness - Identify and resolve system issues
- Resource Readiness – Establish tolerances per the “Move Update” approach
- Mailer Readiness – Test and approve customers for full IMb production

The communications plan details how mailers can participate. Newly revised guides for the “on-boarding” process are detailed in the Ready, Set, Go document. The eDocument rules have been updated in the Guide to Intelligent Mail for Letters and Flats. There is a new Business Customer Gateway, which is one portal for mailers to log on and get connected for IMb. Pritha Mehra encourages mailers to work with their local/regional MailPiece Design Analysts (MDAs) for IMb testing.

The development strategy/purpose of the Business Customer Gateway is:

- An integrated point of access for customers
- To test and submit eDocs

- Access for PostalOne users
- Password capture and retention
- Updated information will be posted via USPS.com/Postalone

Training and Communication plan:

- New Technical Integration Webinars are being scheduled, starting March 6th
- IMb Symposiums are scheduled in four locations
- Educational Sessions hosted by the Bulk Mail Entry Units where DVD's will be available
- Headquarters will supply people to give IMb training at Postal Customer Councils after the National Postal Forum

Move Update Status – Pritha Mehra & Bob Galaher, Mgr Business

Mail Acceptance – reported that the Move Update process will begin by May 11, 2009. The process incorporates the Performance Based Verification (PBV) system, involving Merlin and the NCOALink database. All sites that have a Merlin machine will be deployed by the end of March.

Mailers will be required to sign the postage statement, indicating which Move Update Process they used for the mailing. Mailers are also required to substantiate the method used.

The Performance Based Verification system will produce two reports, a Move Update Worksheet available during mail acceptance, and a Move Update Microstrategy Report that analyzes data each night and aggregates information across mailings.

The new tolerance threshold will be used beginning May 11 and will:

- Not count the first 5 errors
- Require a passing score of 70% of the Change of Address (COAs) records that must be updated
- Evaluate the threshold every 4 months
- Assess First-Class mailers a penalty of the Single Piece Rate
- Assess Standard Mail a penalty of 7 cents for each piece
- Allow the current appeal process

Also, if you can document that individual client(s) mail was causing the problem, then the penalty would be assessed to those clients. The mailer/preparer must provide a list of clients within the mailing. Payments can also be made against another permit. References to these policies are the Move Update Advisement Policy on the RIBBS website, Move Update Methods, Guide to Accessing Move Update Reports and Pub 363.

New Pricing – Steve Kearney, SVP Customer Relations & Maura Robinson, VP Pricing – provided a presentation on the May prices increases.

The industry voiced some key concerns about pricing and Steve responded as follows:

- There is a concern about the large increase in Standard Carrier Route mail. Steve indicated that Carrier Route mail does not provide the value to the USPS, therefore the price is out of line with the costs for this type of mail.
- Mailers with high density mail are getting a larger increase than average. The USPS understands this situation and are willing to work with this portion of the industry.
- The industry complained that the \$0.001 per piece discount for Standard Mail provides very little incentive for mailers to move to the IMb. Although the USPS recognizes the industry costs involved in developing their solutions, they don't want mailers to move to the IMb just to get discounts but to look at other benefits of moving in this direction.
- Confirm price for resellers is very high. The USPS is looking at this and would like to use the NCOAlink pricing model to reset pricing for resellers of Confirm.
- The Periodicals rates shifted a bigger percentage of pricing from the weight portion to the piece portion of the rate structure.

Maura Robinson, VP Pricing discussed the pricing strategy for Mailing Services. Challenges include of course the economic situation, volume declines in FY 2009, cost reductions of almost \$6 billion in FY 2009 and FY 2010. The USPS wants to focus on profitable growth by identifying opportunities, focusing on the best value in shipping, providing a better customer experience and focusing on the new IMb and FSS technologies.

Increases in May will be:

- First-Class will average 3.78%
- Standard Class will average 3.78%. NFM's and parcels will go up by 16.4%
- Periodicals will average 3.97%. The USPS is only covering 83% of their costs for this class of mail which will be an issue going forward.
- Package Services will go up by 3.8%
- Pricing for the IMb is "evolutionary" with longer term benefits of end-to-end visibility, actionable data and paperless documentation. Benefits beginning in May 2009 are free ACS and start-the-clock information. The price differentials begin in November 2009.

MTAC Work Group Activities –

Intelligent Mail Implementation (New Workgroup #122) – IMB Implementation – Steve Krejcik and Phil Thompson from industry and Karen Zachok and Bob Galaher from USPS –

Intelligent Mail Education – WG 124 – Laine Ropson and Richard Daigle – This group is supporting and expanding the USPS' plans of an IMB University by offering more courses the range from the basics to getting a "masters" in IMB.

Move Update PS 6014 Form Redesign (WG #127) – Steve Colella and Frank Montemayer – This group formed to revise the Postal Form 6014, however the USPS legal

department decided that the 6014 should not be an official USPS form/document therefore the form has been discontinued.

Growing First-Class Mail – WG 125 – Maynard Benjamin and Steve Monteith –

This group is focusing on defining First-Class mail growth opportunities and how to stimulate further growth. The group's timeline is 120 days. The group said the USPS should identify new sales channels, markets for products such as what is being done in other countries.

Australia's strategy is being reviewed. Some concepts are:

- First-Class drop shipping
- Discount for courtesy reply volumes and a weight allowance
- First-Class Mail Lite
- Certified Mail bulk acceptance
- Vote by mail for ballots
- Reply Card Scanning

Growing Marketing Mail – WG 126 – Joy Franckowiak and Rod DeVar – The goal of this group is to identify growth opportunities for marketing mail. They held brainstorming sessions and conducted surveys and held teleconferences to combine ideas. The outcome was they reviewed recommendations with Robert Bernstock and five concepts were agreed to:

1. Review of Peak and off peak pricing
2. Provide volume incentives
3. Reduce or minimize mail piece design restrictions.
4. Eliminate unnecessary rules for mail entry and make-up
5. Bundled media offers

Improving the ACS/OneCode System (New Workgroup #121) – Adam

Collinson/Lisa West – This group identified barriers and made recommendations to enhance the ACS and OneCode ACS processes. The group produced 20 enhancement requests and a 53 page report that included process charts and maps that was presented to MTAC. The workgroup has completed their tasks and is now concluded.

Association Presentation was made by Phil Thompson, Gravure Association of America.