

POSTAL HIGHLIGHTS

STRATEGIC VIEW

PRC Wants Postal Rates Up to 3 Percent Above CPI

The Postal Service could raise rates by up to 3 percent above the Consumer Price Index (CPI) annually under a Postal Regulatory Commission (PRC) plan aimed at addressing what it sees as flaws in the 10-year-old CPI-cap based system.

Under the plan, for the next 5 years the USPS could raise rates up to 2 percent above the CPI cap per mail class and the PRC would reassess the system after that. In addition, the USPS could raise rates another 1 percent per class each year if it met or exceeded an operational efficiency-based standard and service standards.

To address what it sees as inefficient pricing of workshare discounts, the PRC proposes two bands for workshare discount passthroughs: a band range of plus or minus 25 percent for Periodicals and a band range of plus or minus 15 percent for all other classes. Non-compliant passthroughs would be subject to a 3-year grace period. The plan would also require the USPS to raise the prices of underwater products by up to 2 percent above the rest of the mail class.

Comments on the plan are due March 1, 2018, with reply comments due March 30, 2018.

Idealliance Program Aims to Educate Postal Officials on Supply Chain

For years, participants in the supply chain have been frustrated that the Postal Service doesn't understand their essential role in the postal industry. A new Idealliance MailPro program aims to change all that with a Postal Supply Chain Education Program that will be offered to the Postal Service, the Postal Regulatory Commission, and the U.S. Postal Service Office of Inspector General.

"We need to show the USPS that even though we don't pay the postage, we are their customers in many ways," said Tom Glassman of South Florida-based Wilen Direct and chair of

the Idealliance Postal Education Workgroup.

Each presentation will teach how various companies contribute to the supply chain and how they interact with other members of the supply chain, including mail owners, software companies, fulfillment companies, service providers, and third-party service providers.

"The goal of this presentation is to educate and demonstrate the complexity of our industry," said Glassman, "and everything we do is touched by the rules and regulations of the Postal Service."

The sessions will only be open to the three postal government organizations because proprietary information will be presented. A number of companies have expressed willingness to participate, and to explain what they do and how they are affected by postal rules and regulations. They are: TCS, Snailworks, BCC Software, Data-Mail Inc., Midwest Direct, Fairington, Quad/Graphics, Wilen Direct, Arandell, and IWCO Direct.

Chair to President: One More Needed for BOG Quorum

At the same time that Idealliance and other postal groups were pushing the Senate Homeland Security and Government Affairs Committee to act quickly on three nominees to fill the empty Postal Service Board of Governors (BOG) members of that panel were encouraging the president to nominate a fourth individual to the board.

A letter signed by the chairman, ranking member, and eight other members of the committee indicated that four members of the BOG are needed so that it can act on all of its responsibilities under the law. The November 14 letter noted the backlog of actions at the USPS because there has been no sitting governor since last December. The letter stated that significant operational and financial challenges require action by the BOG while the U.S. Postal Service Office of Inspector General claims the USPS has failed to address recommendations from 97 audit reports, with a potential monetary impact of \$1.8 billion.

UPCOMING POSTAL EVENTS

January 25-26, 2018

G7 Expert/Professional training as part of the EFI Connect User's Conference. Las Vegas, NV. Learn more and register: <https://goo.gl/mthHxE>

February 8-9, 2018

Idealliance 2017 Postal Exchange. Clearwater, FL. Learn more and register: <https://goo.gl/UzS3yj>

February 27-March 1, 2018

Mailers Technical Advisory Committee. Washington, DC.

March 20-21, 2018

BrandQ Manager Training & Certification - Hanover Park, IL - hosted by Fujifilm. Learn more and register: <https://goo.gl/pbhc2w>

May 6-9, 2018

National Postal Forum. San Antonio, TX

June 6-8, 2018

Idealliance Annual 2018 Experience Conference. Renaissance Hotel. Dallas, TX. Learn more and register: <https://goo.gl/ZRPtP6>

July 18-19, 2018

Idealliance Postal Operations & Technologies Council - Sussex, WI. Hosted by Quad/Graphics.

For more information:

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Meanwhile, Idealliance and other organizations that are part of the Coalition for a 21st Century Postal Service urged the committee to act swiftly on the current nominees: David Williams, Calvin Tucker, and Robert Duncan. The letter, drafted by Coalition Manager Arthur Sackler, stated "As much as any huge (\$71 billion) company, the Postal Service vitally needs a Board to guide and challenge management in the development and execution of strategies."

Idealliance members are encouraged to write the leaders of the committee at the following address to encourage them to act quickly to move the nominations forward:

The Honorable Ron Johnson

Chairman
Senate Homeland Security and
Government Affairs Committee
United States Senate
Washington, D.C. 20510

The Honorable Clair McCaskill

Ranking Member
Senate Homeland Security and
Government Affairs Committee
United States Senate
Washington, D.C. 20510

OPERATIONAL VIEW

USPS Expects Modest \$0.5 Billion Growth in FY2018

The Postal Service expects to see a slight \$0.5 billion growth in revenues in fiscal year 2018, fueled largely by growth in package delivery and the price increases in Market Dominant (2 percent) and Competitive (4.7 percent) products, according to the 2018 Integrated Financial Plan (IFP) (<https://goo.gl/Uw3ts7>).

The 2018 IFP projects total mail volume of 144.9 billion pieces, a decline of 4.6 billion pieces, or 3.1 percent, from 2017. For First-Class Mail, the IFP projects a decline of about 2.5 billion pieces, or 4.2 percent, from 2017, due to the ongoing migration of communications and transactions out of First-Class Mail. The USPS said it looks like the resilience of First-Class bill and statement presentment in the mail is waning, as customers are becoming more comfortable using mobile devices to accept bills and statements, often in response to incen-

tives by companies for making the switch.

USPS Marketing Mail is expected to decline by 2.3 billion pieces, or 2.9 percent. The USPS said marketing mailers "have become more sophisticated, leveraging technology to better target customers, thereby improving the return on investment for digital advertising." Periodicals volume is expected to continue declining as readers move to online media. This will likely divert more advertising to electronic media, leading publishers to reduce print-ed publications.

The IFP states that Shipping and Packages volume will likely grow 7.2 percent to 6.1 billion pieces in 2018. On September 3, First-Class Mail Parcels were reclassified from Market Dominant to First-Class Package Service – Retail, a sub product of the competitive First-Class Package Service. Priority Mail, Parcel Select, and First-Class Package Service, the three largest Shipping and Packages categories, are all projected to continue to show growth. Volume for International Mail and Free Mail for the Blind and Handicapped is expected to remain close to 2017 levels.

The plan notes that the Postal Service continues to have insufficient liquidity to fully fund all legally required obligations, deal with contingencies such as a downturn in the economy, and make needed capital investments. The USPS said its controllable loss is estimated to be \$1.4 billion and its consolidated balance sheet reflects liabilities that exceed assets by about \$122 billion.

Idealliance, USPS Officials Discuss First-Mile, Seamless Migration and More

In a November 8-9 meeting that was heavy on discussion and light on formal presentations, the Idealliance Postal Operations and Technologies Council (POTC) and key postal officials shared ideas on nuts and bolts challenges for the USPS and various links in the supply chain.

While information about last-mile delivery is getting more and more sophisticated, Isaac Cronkhite, USPS Vice President, Enterprise Analytics, said the Postal Service would like more intelligence on the first mile. Specifically, Cronkhite said

it would be helpful for postal facilities to know ahead of time not just how many pallets were being delivered, and when, but the makeup of those pallets. Knowing in advance could help the Postal Service staff appropriately as certain types of mail take more time to handle than others. Rose Flanagan, Manager of Postal & Logistics Strategies at Data-Mail and Co-Chair of the POTC, said the group discussed ways for industry to communicate these specifics. She said this could benefit the Postal Service and mailers, but the communication would need to be done without adding a lot of costs. The key is whether it would be optional or required, she said.

Flanagan said she was excited about the POTC's conversation with Tom Foti, the new USPS Manager of Direct Mail & Periodicals, because he sees the postal industry associations as key points of contact as they can see gaps in products and point this out to management. Phil Thompson, Director of Postal Affairs at Quad/Graphics and also Co-Chair of the POTC, agreed that it is important to have someone in Foti's role and Thompson likes the team Foti is putting together – which includes Elke Reuning-Elliott and Jay Smith as Directors and Dale Kennedy as Manager. But Thompson is concerned that the purpose of the organization isn't clear. He said industry has an opportunity to help the group shape its goals.

Bob Dixon, USPS Director, Product Technology Innovation, outlined progress on Informed Delivery, the new service the Postal Service has been promoting in which individuals subscribe to have pictures in their emails or by phone app of mailpieces that will be delivered to their mailboxes. Dixon said the goal is 26 million subscribers. But, Thompson said it is clear the Postal Service has a way to go with the service. To reach that goal the USPS needs to make ID inexpensive to implement and valuable to marketers, he said.

Finally, Garrett Hoyt, USPS Manager, Mail Entry, asked for Idealliance's help in getting more migration to Seamless for mailers who drop mail at the Business Mail Entry Unit (BMEU). He said that primarily letter mail is transitioning right now. Hoyt is hoping Idealliance can help the Postal Service

understand the incentive mailers who utilize BMEUs need to make the leap to Seamless.

Move to Marketing Mail Delayed to 2019

Industry has a little breathing room to get settled into the use of the term USPS Marketing Mail rather than Standard Mail, with an industry-USPS workgroup announcing that USPS Marketing Mail indicia language will be optional with the official launch date for language delayed until January 2019.

The group, Mailers Technical Advisory Committee (MTAC) Workgroup 181, started working in February 2017 to ensure a smooth and successful transition to the new, controversial USPS Marketing Mail name, which was approved by the Postal Regulatory Commission.

The workgroup is encouraging all segments of the mailing industry supply chain to review software, labeling, and mailpiece postage markings to ensure all possible implications of this change are considered. Workgroup 181 has reached consensus on the following recommendations:

- USPS will continue the transition to USPS Marketing Mail.
- Indicia language will be optional; while the official launch date for language will be January 2019, customers wishing to use the language sooner may contact the Pricing and Classification Service Center (PCSC) for approval.
- All mail shapes may use either Marketing Mail or Standard Mail verbiage.
- Nonprofit mailers may also use Marketing Mail terminology if desired; if they do, the indicia should read "Nonprofit MKTG Mail."
- Verbiage will not change for pallet placards or tray and sack labels. These items will continue to be labeled Standard Mail.
- Existing stamps will keep the same marking – future print runs will be evaluated as needed.
- The *Domestic Mail Manual (DMM)* will be updated with proper markings.
- The USPS continues to welcome testing and research results. Results will be

shared if large numbers of companies from a variety of industries test and share their results.

Regarding next steps, specific information for optional indicia use along with pallet, tray, and sack marking will be provided as soon as possible. Further, The PCSC will acknowledge all requests to use the new Marketing Mail indicia.

Meanwhile, the workgroup is encouraging companies to test the indicia marking and to share their results. The Postal Service said it will continually evaluate the use of both Standard Mail and Marketing Mail marking and will follow up with a DMM Advisory and an Industry Alert on DMM updates when completed.

POSTAL ALERTS

USPS Revenue Down \$1.8 Billion for FY2017

The USPS reported revenue of \$69.6 billion for the fiscal year that ended September 30 – a \$1.8 billion decline from the prior year. Accelerated declines in First-Class and Marketing Mail volumes drove the declines.

In 2017, mail volume was down by about 5.0 billion pieces, or 3.6 percent, while package volume grew by 589 million pieces, or 11.4 percent, continuing a multi-year trend of declining mail volumes and increasing package volume. The Postal Service reported a net loss for the year of \$2.7 billion, a decrease in net loss of \$2.8 billion compared to 2016. Of this decline in net loss, \$2.4 billion was the result of changes in interest rates, outside of management's control, that reduced workers' compensation expense compared to last year. First-Class Mail revenue was \$25,637 million for the fiscal year compared with \$27,508 million for fiscal year 2016, while First-Class Mail volume was 58,747 million pieces compared with 61,240 million for fiscal year 2016. For Marketing Mail revenue was \$16,626 million, down from \$17,622 million in the previous fiscal year, and volume was 78,329 million pieces, compared with 80,885 million in fiscal year 2016.

"Our financial situation is serious, though solvable," said Postmaster General and CEO Megan Brennan. "There is a path to profitability and long-term financial stability. We are taking actions to control costs and compete

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effectively for revenues in addition to legislative and regulatory reform. We continue to optimize our network, enhance our products and services, and invest to better serve the American public.”

IMb Tracing to Retire December 1

On December 1 Informed Visibility (IV) officially took over from IMb Tracing as the industry’s source for mail tracking and reporting scan information.

To aid with this change, IMb Tracing won’t sunset until December 31; but, the USPS cautions that this transition does not mean IMb Tracing data will be available to users until the end of the year. Rather, as of December 11, the USPS is starting to shut down existing schedules and data feeds of IMb Tracing users. As part of the migration effort, the Postal Service, on November 22, stopped accepting new MID’s or Routing

Codes for addition to legacy IMb Tracing. All new MID’s or Routing Codes must now be added to IV.

For additional information about IV and the migration, contact the IV Help Desk at 1-800-238-3150, Option #2, or [Informed Visibility@usps.gov](mailto:InformedVisibility@usps.gov).

INDUSTRY ALERTS

USPS Picks Lockheed Martin

The USPS has selected Lockheed Martin to provide next generation package processing systems under an Indefinite Delivery Indefinite Quantity (IDIQ) contract, with a maximum potential value of \$215 million. Lockheed Martin will provide up to 10 Enhanced Package Processing Systems (EPPSs), which are capable of automatically separating mailpieces, reading printed and handwritten addresses, and sorting packages, priority mail, and bundled mail,

such as magazines and catalogs.

Lockheed Martin’s EPPS is a flexible system that offers a combination of modular components that can be assembled in a multitude of configurations to meet site specific processing requirements while accommodating building physical constraints. The technology can process up to 25,000 packages an hour to over 400 unique destinations. The first EPPS will be deployed to the USPS Processing and Distribution Center currently being built in Portland, OR. The system is scheduled to be fully tested, accepted, and on-line in October 2018 to support the peak mailing season. No stranger to mail sorting, Lockheed Martin said in a statement that over a quarter of the world’s letter mail is sorted by Lockheed Martin recognition systems and more than 500 mail and material handling systems have been successfully delivered worldwide.