



Postal Issues

Joe Schick
Director, Postal Affairs
Quad/Graphics, Inc.

What Are the Issues?

- Postal Rates (R2006-1)
- Managing and Mitigating Postal Rates
- Postal Reform
- Postal Initiatives
 - FSS (Flats Sequencing System)
 - OneCode/4-State Barcode
 - END (Evolutionary Network Development)

Postal Rates (R2006-1)

- Latest Expected Timeline
 - PRC (Postal Regulatory Commission) recommended decision by March 5th
 - 10 month statutory requirement
 - Could be earlier
 - USPS BOG (Board of Governors) decision to accept PRC recommendation 2-3 weeks later
 - New rates implemented by USPS on May 6



Postal Rates (R2006-1)

- Implementation of Rates
 - Concern over time needed to modify/change software and processes (mailing industry and USPS)
 - Will the USPS allow a transition period in complying with new mail prep and make-up rules?
 - Will the USPS grant exceptions?
 - Dropship mail
 - Verified & accepted prior to May 6 will pay current rates as long as mail is entered into the USPS at a dropship facility within 14 days (May 20)



Postal Rates (R2006-1)

- What Can We Expect?
 - Generalities
 - Shape-based rate structure
 - Better alignment with cost of processing and delivery
 - Letters, flats and parcels
 - Pound rates reduced
 - Pieces drive handling and processing costs
 - Heavier pieces realize lower percentage of increases
 - Automation-compatible mail will be rewarded



Managing Postal Costs

- Design for Automation and Barcode
 - Rate incentives
 - Consistency of delivery
 - Future ancillary services
- Comail, Comail, Comail Or Commingle, Commingle, Commingle!
 - Attain finest presort levels
 - Improved container efficiencies
 - Reduce the number of sacks and/or trays
 - Move sacked mail to pallets
 - Improved dropship efficiencies



Managing Postal Costs

- Copalletization
- Dropship
 - Move as much mail as possible to dropship
 - Reduce postage costs
 - Improve delivery consistency and predictability
 - Reduce/eliminate multi-stop loads
 - Strategy to optimize END and FSS



Postal Reform

- H.R.6407 or P.L. 109-435– The Postal Accountability and Enhancement Act
 - Signed into law on December 20, 2006
 - Not perfect....can be said for all legislation
 - Better than what we had? Only time will tell!



Postal Reform

- Key Elements of H.R. 6407
 - Relieve USPS of Military Pension obligation (\$27 billion) – return to the US Treasury
 - Eliminate CSRS (Civil Service Retirement System) escrow fund
 - \$3.5 billion (approximate) per year (January 2006 rate increase)
 - USPS not allowed to use to support operation
 - Congressional direction in use of funds
 - Redirect funds to prepay retiree health care (10 years)



Postal Reform

- Key Elements
 - Cap-based rate increases
 - Annual increases allowed without cumbersome and time-consuming PRC proceedings
 - Tied to CPI (no greater than)
 - Applied to class of mail (average)
 - Rates within class can be < or > than CPI
 - USPS allowed to bank unused CPI increases
 - Up to 5 years
 - Can't raise rates more than CPI + 2%



Postal Reform

- Key Elements
 - Exigency Clause
 - Unforeseen circumstances (Anthrax, Katrina, etc.)
 - USPS could increase rates more than CPI
 - Must meet standards of the law
 - Must go through a PRC hearing process
 - Allowance for 1 more rate case before CPI-based increases
 - Must be filed within 12 months of passage of H.R. 6407
 - PRC process same as before new law
 - Expect it later this year!



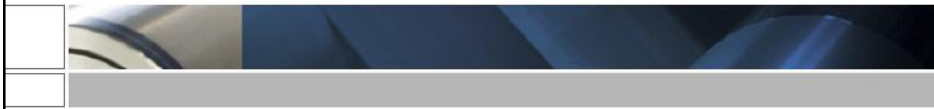
FSS (Flats Sequencing System)

- Impact To Mailers
 - Carrier Route eliminated
 - 75 - 80% of zip codes
 - Similar to letters (Delivery Point Sequencing)
 - What happens to rates?
 - Impact on delivery?
 - What about the value of comail?
 - 11-digit bar codes required
 - Need to improve address quality
 - Readability and deliverability (carrier knowledge nullified)



FSS (Flats Sequencing System)

- Impact To Mailers
 - Address Block Location
 - Required position (front & back cover options)
 - MTAC and USPS developed recommendations
 - Federal Register Notice in 4-6 weeks
 - Surveys were circulated to mailers
 - Mail Makeup & Preparation
 - Presort minimums
 - Pallet and sack levels
 - MTAC Work Group formed



FSS (Flats Sequencing System)

- Impact To Mailers
 - Realignment of Dropship Locations
 - Dropship dependent on machine location
 - Deployment will begin in mid-2008
 - 2-4 years for full deployment
 - Could result in multiple mail prep requirements



New Barcode Technology

- 4-State Barcode – REQUIRED IN 2009
 - 4 CB (Customer Barcode)
 - One CodeSolution
 - Multiple uses
 - USPS sortation
 - Mail tracking (Confirm – replaces Planet Code)
 - Address Change Service
 - Other ancillary services



New Barcode Technology

- Concerns with height of barcode
 - Letters tested and approved at lower height
 - Flats being tested – samples submitted by major mailers
 - Print capabilities with current inkjet systems
 - Additional print head needed = cost
- Readability issues for USPS (address construction)
 - Line spacing
 - Type font
 - Extraneous information in address block (pallet & package number)
 - Clear zone



New Barcode Technology

- Schedule for Implementation - Letters
 - September 1, 2006
 - Only letter mail
 - Customer ID must be imbedded in the code
 - All pieces in the mailing must be using a service, such as “OneCode” Confirm



New Barcode Technology

- Schedule for Implementation - Letters
 - September 1
 - “One Code” Electronic ACS
 - First Class Mail only at this time
 - Barcode must be above the address block
 - Available for Standard Mail – Fall 2007
 - Dependent on progress of PARS (Postal Automated Redirection System)
- March 1, 2007
 - Allowed on mail for sortation/automation purposes only – all letter mail



New Barcode Technology

- Schedule for Implementation – Flats
 - February 2007
 - Finalize technical issues and specifications
 - Spring 2007
 - Phase-in for automation mailings
 - Dependent on deployment of PARS and software upgrades
 - Includes “OneCode” electronic ACS and Confirm
 - Electronic ACS limited to First Class and Periodicals (AFSM100)
 - Fall 2007
 - “OneCode” ACS for Standard Mail



END (Evolutionary Network Development)

- Evolutionary Network Development – WHY?
 - Declining single-piece First-Class Mail volumes
 - Demographic / Population shifts
 - Equipment / Technology Advancements
 - Redundant Networks
 - Networks have been driven by classes of mail and their respective service standards
 - Need for operational flexibility
 - Customer behavior
 - Increase in workshare



END (Evolutionary Network Development)

- USPS Challenges
 - Union opposition and rhetoric
 - Delivery impact
 - Loss of postmark for local communities
 - Local, state and national politics
 - Similar to military base closings
- More thoughts from Tony Dobush

