

Restructuring the U.S. Postal Service

The Case for a Hybrid Public-Private Partnership

January 2013

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This paper—written by a group of thought leaders outside of the Academy’s Fellowship—proposes the development and implementation of a new model: a hybrid Public-Private Partnership. Under this proposal, the U.S. Postal Service would be responsible for the “last mile” of delivery and pickup, and the private sector would be responsible for handling all other aspects of the mail system. A Panel of the National Academy of Public Administration is currently conducting an independent assessment of this proposal and will publish its evaluation in spring 2013.

Foreword

As long time participants in and observers of the American postal system and mailing industry, we are concerned about the ability of the U.S. Postal Service to survive in the face of rapidly changing market and technological developments. Although we have very different backgrounds, we all believe that the starting point for reform must be to look closely at what the Postal Service does well today, what it needs to do to serve our country and our economy in the future, and also what might be done better.

We believe there is significant opportunity to achieve real reform and a sustainable, affordable postal delivery system for the United States. But it will require a new postal delivery model designed in large part to use the best of both the private sector and the traditional government service.

The concept we have described in this paper would create a USPS that would focus on its unmatched ability to travel the “last mile” to deliver to every home and business across the country on every delivery day with every other aspect of the U.S. postal system transitioning to commercial providers under the supervision of the Postal Service and postal regulators.

This white paper is offered as starting point for the “last mile” reform discussion. We invite others to review the approach we have outlined here and help build the model for the future of the USPS.

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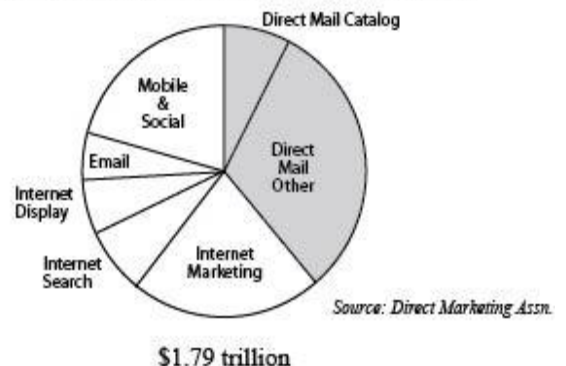
The “mail moment” experience is deeply etched into our national consciousness: the white truck, the blue uniform, the weather-beaten pouch, the friendly delivery and, finally, the casual flipping through of the day’s mail -- bills, magazines, catalogs, direct mail offers, and the occasional delight of a package, a personal card or an invitation. That the U.S. Postal Service delivers this experience to every address in America six days a week at rates among the lowest in the developed world is nothing short of miraculous.

But this experience is threatened. With the rapid conversion to digital communications, competition from the private sector, a high cost infrastructure, and the weight of onerous Congressional mandates, the USPS is struggling. Burdened by unsustainable retiree benefit funding mandates, last year, the Postal Service lost \$15.9 billion. The 112th Congress considered postal legislation and tried to address the retiree benefit funding crisis (legacy cost), but without success. In any event, none of the proposals for “reform” that were debated approached the comprehensive systemic revitalization needed to ensure the long term future health of the U.S. postal system – a system that provides the infrastructure for 8 million jobs and more than 7% of the nation’s GDP.

Fortunately, there is a tested, readily available, and politically feasible solution that will:

- Lead to a healthy and relatively nimble universal postal system capable of scaling up or down to address future market trends;
- Address USPS financial needs for the future;
- Save postal jobs and preserve the letter carrier as the Government’s agent throughout the nation;
- Expand access to and enhance the quality of the U.S. postal experience; and
- Revitalize private industry and the larger economy for growth.

Mail Supports the Economy and Jobs
Sales activity by direct marketing channel, 2011



The solution is to emulate the existing and successful USPS “final mile” package delivery strategy and create a new model for all mail using a hybrid public-private partnership. In the “final mile” package strategy, private sector consolidators compete to pickup, process, and transport hundreds of millions of packages. Shippers pay the consolidators to prepare and transport the mail for “last mile” delivery by USPS letter carriers. The consolidators pay USPS a delivery charge. Upstream competition among private sector providers promotes efficiencies that lead to better service and lower overall prices.

Under the new hybrid public-private partnership model today’s trusted USPS letter carriers will deliver mail, packages, and products the “final mile” to every address in the country while the

private sector fulfills virtually all upstream mail processing, transportation and logistics functions under the quality and security oversight of the USPS. Commercial mailers will pay private sector logistics companies to collect, process and transport their letters, magazines, catalogues, packages, and other products. Those companies similarly would pay the USPS a delivery charge. This model would preserve and leverage what is currently the Postal Service's key strategic asset – its unparalleled last-mile delivery network that touches every home and business six days each week. It would also preserve its nationwide presence through a slimmed down network of Government post offices while expanding access to postal services through private sector partners. Melding these assets with private sector innovation can support a sustainable enterprise. Implementing this solution will ensure the confidence businesses and consumers need for the postal system to thrive.

It is tempting but wrong to blame either the recent economic downturn, USPS management, or its employees, for the present crisis. The root cause of the postal crisis is the historic change in how we communicate. That rapidly changing environment also brings on uncertainty and risk for the Postal Service, risk it is not equipped to bear.

It's time for dramatic change. Without significant change the Postal Service cannot continue to maintain its nationwide presence, provide affordable high quality delivery service to every address in America, fit into the digital world, and be financially sustainable for the long term.

The Key Is To Focus the USPS on Final Mile Delivery

In light of the current budget crisis and our increasingly digitized communication platforms, the right questions to ask are “What do we need the government to do and what can the private sector do?” The answer to the first question is clear: we need the government to ensure frequent, universal delivery service – mail delivered to and picked up by government employees walking or driving their routes to every address in America five or six days a week. There is no current private sector entity that can replace or sustain this priceless and necessary service.

Private sector capabilities exist, however, that can fulfill others tasks in the postal network and do so at a lower cost and with greater efficiency and innovation and without political and regulatory interference. To meet the current and future needs of our country and to spur economic growth, the new postal model should integrate the private sector into postal operations as necessary.

Thus, the new Postal Service would oversee a largely privately-operated postal network and would supply the final mile ‘feet on the street’ for daily mail delivery. The trusted letter carrier would remain the public face of the U.S. Postal Service.

This integrated system will capture the best of what the Postal Service and the private sector each have to offer. The Postal Service will continue to provide its cherished army of letter carriers and set the standards for use of its invaluable trusted brand. USPS will prescribe standards to assure security, quality, and reliability. Its Inspection Service will continue to ensure the security of the mail. Behind the scenes, private sector partners will operate the sorting, transportation and logistics networks that move mail around the country at a lower cost and with the flexibility to

innovate and adapt rapidly to new technologies. Since its inception, the Postal Service has directly performed the vast majority of the actual physical work required to move mail around the country. The new Postal Service will operate on a fundamentally different hybrid premise, one whose concept they actually pioneered in the 1970’s with the introduction of worksharing.

Simply stated, despite being a world leader in “worksharing,” today the Postal Service still operates almost all of the basic functions of the system. In the future, the Postal Service could focus on the end delivery function. This new model incorporates the strengths of both the private sector and the Postal Service. Mail volumes and mail flows are constantly changing as communication habits and population patterns change. The public-private hybrid model can readily adapt to these changes. The one thing that remains constant is the need to touch every household, business, and institution every delivery day. The Postal Service itself is uniquely positioned to fulfill this role. The private sector is better positioned to innovate and adjust to “upstream” changes.

Activity	Collection	Long-Distance Transportation	Processing	Local Transportation	Delivery
Current Model	USPS	Private Sector	USPS & Private Sector	USPS	USPS
Future Model	USPS & Private Sector	Private Sector	Private Sector	Private Sector	USPS

In this new construct, the **Postal Service will remain a substantial organization with more than 200,000 letter carriers, and will continue its nationwide presence and play its historical role of binding the nation together.** These trusted government letter carriers will continue to make their rounds as the public face of the postal network, and will continue to collect mail from consumers and businesses along the way.

The new postal system will reinvent the concept of retail access for consumers. These services are now largely delivered over-the-counter through a national network of more than 30,000 post offices. In the new postal model, there will be an explosion of options for the public to conduct postal business. Again, the Postal Service has employed aspects of this strategy over the years. This simply takes it to the next level. The Postal Service will establish the standards, and any private company that agrees to meet these standards will be authorized to sell postal services. Retail stores, gas stations, schools, coffee shops, movie theaters, or any other location that is interested and meets USPS requirements will be allowed to set up shop to provide postal services. This, accompanied by kiosks and any other automated retail options, will insure greater retail access at more places and longer hours for the consumer.

For sparsely populated areas, the Postal Service will ensure there is a ‘safety net’ of access to the postal network, through continued home delivery and pickup. The Postal Service will also continue to operate a small number of retail centers, backfilling in those locations where no other postal options are available or where it is more beneficial to maintain the USPS offices. Through these centers, it will maintain its nationwide presence and commitment to universal service.

The new system will promote and benefit from greater distribution efficiency and innovation. Between the time a letter is prepared and the time it is delivered, it must be collected, sorted, and transported. Today, sorting work takes place in processing centers operated by the Postal Service around the country. While some mail bypasses these centers as a result of private sector work sharing companies, tens of billions of pieces of mail still must pass through one or more of these centers en route to final delivery.

Like today, but on a much larger scale in the new system, private companies on their own, or through partners, will sort and transport mail up to the point of handoff to the Postal Service for final delivery. Processing and transportation price incentives will be afforded for all types of mail in the form of a final mile delivery charge. **This hybrid partnership will foster greater private sector innovation and competition while driving down the cost of mail.** A network of privately-owned sites around the country, run by the private sector in accordance with standards prescribed by the Postal Service, will stage mail for 'last-mile' delivery and for dispatch to other parts of the nation. It is to these sites that private mail processors will transport their clients' mail and pay the delivery charges. In the end, a private sector network will be much more flexible and capable of accommodating seasonal spikes in volume and changes in population and mailing patterns.

The Postal Regulatory Commission (PRC) will be the final arbiter of postal pricing, ensuring that charges for last mile delivery are fair and sufficient to support the postal system. The PRC will also regulate equal and efficient access for private sector firms to the postal delivery network. It will supervise the integrity of the procurement processes, hearing and ruling on protests from contractors and other stakeholders. In addition, the PRC will have to define and monitor the jurisdictional boundaries of Postal Service activity.

For individual consumers who mail at most a few letters a day, the biggest change in the new system will be more opportunities to access the postal network. In addition to the customary mailbox pickup at individual homes, Americans will enjoy far more ways to access postal services through self-service kiosks, postal centers located at malls or supermarkets, or by applications delivered to an individual's desktop, laptop, tablet computer, or smart phone. The price for consumer mail-- a greeting card, thank you note or bill payment -- will continue to be controlled by a price cap tied to inflation and administered by the Postal Regulatory Commission, thus ensuring affordable access to the nation's postal system for the citizen mailer at a uniform price.

The New Model Results In a Financially Sustainable Postal System

The new postal model enables affordable universal service going forward. As a politically significant government entity, the Postal Service lacks adequate market-based incentives to offset the regulatory delays and political interference it encounters when it tries to reform. The result of this combination is predictable: huge postal deficits, a cash flow crisis, and politically hindered decision-making.

The new postal model is financially sustainable going forward because (1) it has much lower federal operating costs, and (2) these costs can be amply covered by postal revenues generated by the growing and incentivized private mailing industry.

The new system will reduce Postal Service costs substantially. **The new system accommodates the ongoing loss of tens of thousands of employees through retirement and separation incentives**, including nearly 50,000 mail handlers, more than 100,000 postal clerks, tens of thousands of managers and supervisors, and thousands of other support and overhead personnel. Approximately 15% of the current work force of about 530,000 career employees is expected to retire in the next three years. More than 25,000 postal clerks and 4000 postmasters opted for an early retirement program offered in 2012. The retirement eligibility of the current workforce, as well as the substantial transition from public to private sector employment, will enable the phase-in of this new model over time without adverse impacts on the postal workforce community or U.S. employment.

After shedding unnecessary responsibilities, assets and expenses, the government operation of the new Postal Service can operate on roughly \$30 billion per year, less than half of its current revenue. With a sharply-defined focus on oversight, enforcement and delivery, and with its costs covered by the established delivery charge, this new Postal Service will be on a path to long-term financial health.

The hybrid public-private model unleashes the power of market forces to create new ways to deliver value to businesses and consumers. Just as private companies innovate and share supply chains in high-tech, automobile, and other industries today, the market will drive efficiencies in the postal network, subject to quality and security oversight by the Postal Service. Postal Service partners will innovate to enhance the ways that mail can generate greater financial returns, thus enhancing the value of mail to business and consumer users.

It is important to point out that private sector innovation and competition has brought relevant efficiencies to public services outside of the United States. The evidence in these countries shows:

- Financial and operating performance improves when activities formerly undertaken by public entities are privatized;
- Private sector involvement in providing public services reduces public costs; and
- Private sector involvement reduces political interference in operational decisions.

Of course, a financially sustainable postal system is not possible unless the existing legacy cost issue is addressed. This includes accurate measurement of existing unfunded liabilities for retiree benefits and a manageable schedule to discharge. The inability of the most recent Congress to do so was disappointing.

Summary

The hybrid model described above will take advantage of the strengths of both the private sector and the Postal Service.

- USPS provides the final mile “feet on the street” for daily delivery of mail, packages, and products.
- USPS creates framework for increased private sector participation. .
- USPS continues its program of closing unnecessary facilities, ensuring that access to necessary services is available through alternative channels.
- USPS creates framework and establishes the standards required to offer USPS authorized alternative postal retail services and innovative applications to encourage the use of mail.
- USPS fulfills universal services obligation by maintaining frequent universal mail delivery and by authorizing approved retailers, kiosk locations, etc to ensure that postal services are universally accessible.
- USPS retains the Postal Inspection Service in its present form.
- The Postal Regulatory Commission (PRC) would continue provide regulatory oversight of the Postal Service and ensure fair and sufficient USPS delivery charges.
- Private sector companies can fulfill virtually every other task in the postal network and do so at a lower cost and with greater efficiency and innovation.
- Private sector can assume responsibility for transportation and logistics.
- Private sector can assume responsibility for mail processing operation.
- Private sector will help create an explosion in the availability of postal retail services through partnerships with existing bricks and mortar locations like grocery stores, big-box locations, gas stations, coffee shops and other easily accessible sites. Kiosk-based services can be significantly expanded to ensure universal access.
- Private sector will increase sorting, transportation and logistics services leading up to the last mile.
- Private sector innovation may create new uses for the universal delivery system, increasing its value to customers and the nation.

Next Steps

There are only two choices at this point: incremental change to the existing, outdated business model in the hopes that modest new efficiencies and a recovering economy will forestall the Postal Service’s rapid demise -- or -- building a new public-private hybrid postal model that will combine the unique and valuable last-mile delivery network and oversight capabilities of the Postal Service and tap into the vibrant private mailing industry to fulfill other postal functions and create innovative uses that add value to the last-mile delivery system. By choosing the latter, America will be on the path to a financially sustainable Postal Service that maintains a universal delivery service, promotes private sector innovation, and ensures an affordable and sustainable mail system.

What is left now is for the Postal Service’s key stakeholders to find the will; to understand that this moment in time is important; to recognize that action is preferable to inaction; and to begin the difficult but necessary work required to remake our postal system. While large-scale change is never easy, we have done this before during other times of economic change, and we can surely do so again. America needs and deserves the finest and most innovative postal system in the world. It is time to create that system, once again.