

Ready-Now → Future-Ready

# The U.S. Postal Service Five-Year Strategic Plan

FY2020-FY2024



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## Letter From the Postmaster General and the Chairman of the Board of Governors

Nearly every person in America experiences the Postal Service brand every day — by saying hello to their mail carrier; passing postal vehicles on the street; visiting a Post Office or usps.com; using a USPS mobile application; conducting mailing and shipping business; or just by the simple act of reading one's mail.

This daily brand experience — and the value the Postal Service delivers — continue to evolve for our residential and business customers as we provide more services and offerings that keep pace with their ever-changing needs. From fueling America's e-commerce economy with next-day and Sunday delivery, to delivering digital and mobile tools like Informed Delivery, or providing real-time mailing data that allows senders to improve the efficiency of their marketing, the organization is always on a transformative journey to better serve the nation.

This five-year strategic plan describes the next stage in our organizational journey. It provides Congress, the Administration, postal stakeholders, and the American public with a clear understanding of our mission, our business, our financial condition, and the strategies that will carry the organization forward over the next five years. The title “Ready-Now — Future-Ready” reflects a mindset that shapes postal decision-making: prepare relentlessly for today's opportunities and those ahead.

In this document, we discuss the core strategies necessary for the Postal Service to be a financially sustainable organization that delivers services the American public values in an increasingly digital economy. We also identify the initiatives we plan to implement to achieve the following goals:

- Goal 1. Deliver world-class services and customer experiences.
- Goal 2. Equip, connect, engage, and empower employees to serve our customers.
- Goal 3. Innovate faster to deliver value.


- Goal 4. Invest in future platforms.
- Goal 5. Pursue legislative and regulatory changes necessary to achieve financial sustainability.

You will also find a discussion of the current financial challenges facing the organization. The most significant issue facing the Postal Service today is that our business model is unsustainable. This is due to increasingly conflicting mandates to be self-funding, compete for customers, and meet universal service obligations under highly regulated and legislated constraints. Resolving these conflicting mandates requires a national public policy discourse that hinges on a basic question for the American public: What would you like the Postal Service to become and how would you like to pay for it?

Because the Postal Service is an independent entity of the executive branch, the Postal Service today operates like a large business, but with a public service mission. Our mission and our role in America's economy and society remain indispensable — but we can only continue to compete effectively and meet the high expectations of the public with an improved business model.

Surveys continue to find the Postal Service is America's most trusted and well-regarded government entity. The 633,000 men and women of the Postal Service — who live, work, and serve in every community in America — earn that trust every day through regular delivery services that are secure, reliable, affordable, and universal. We intend to continue to earn their trust and high regard over the next five years.

We hope you find this strategic plan informative and useful. The goals and strategic initiatives identified in this five-year plan are subject to change by the Board of Governors as changes in strategy become necessary or business conditions warrant. Thank you for your interest and engagement in the future of the Postal Service.



Megan Brennan  
Postmaster General and Chief Executive Officer  
United States Postal Service



Robert M. Duncan  
Chairman, Board of Governors  
United States Postal Service

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# Executive Summary

## Purpose of This Document

The Postal Service's Five-Year Strategic Plan, covering the fiscal years (FYs) 2020 to 2024, is intended to provide our stakeholders, including the President, Congress, the American people, our employees, business partners, and customers with the following:

- A comprehensive mission statement covering the major operations of the Postal Service.
- An identification of the key factors external to the Postal Service and beyond our control that could significantly affect the achievement of our overall goals and objectives.
- A description of the Postal Service's overall goals and objectives, aligned with National Performance Assessment (NPA) goals and annual performance targets.<sup>1</sup>
- A description of the program evaluations used in establishing or revising overall goals and NPA system objectives.

This document satisfies the reporting requirements articulated in 39 United States Code (USC) Section 2802. The goals and strategic initiatives identified in this five-year plan are subject to change by the Board of Governors (BOG) as changes in strategy become necessary or business conditions warrant.

## Postal Service Mission

The Postal Service is an essential part of the fabric of our great country and continues to serve a vital role in our society and in the economy. The Postal Service is a basic and fundamental service provided to the people by the government of the United States, with a mission to provide prompt, reliable, and efficient services to our customers in all areas and all communities. By providing universal mailing and shipping services to all Americans, regardless of where they live, we help to bind the nation together through the delivery of the personal, educational, literary, and business correspondence of the people, and we help to make the fruits of the American economy accessible to everyone through our package delivery offerings.

<sup>1</sup> The FY2020 Integrated Financial Plan (IFP) information contained in this document will be revised if needed upon approval by the Board of Governors.

We are also required to fulfill this universal service obligation (USO), and meet other statutory obligations, in a self-sufficient manner, by covering our costs through revenues generated from the sale of our products and services. To help ensure the funding needed to meet the USO, the law establishes the Private Express Statutes and the mailbox access rule, which together comprise the postal monopolies. Since any obligation must be matched by the capability to meet that obligation, the USO, the Private Express Statutes, and the mailbox access rule are inextricably linked.

## Vision for 2024

In 2024, we envision a financially sustainable Postal Service that enables all Americans to connect, businesses to grow, and communities to thrive in an increasingly digitally-connected world, including individuals in rural or urban communities that are digitally underserved. Specifically we envision a Postal Service grounded in its core public service mission of providing universal, affordable, high-quality mail and parcel delivery to all Americans, and expanding that public service mission to include the provision of essential e-government services. We envision a business model that enables the flexibility to best serve the changing needs of our customers and respond to marketplace trends, including continued and significant declines in mail volumes due to electronic diversion and continued, but lower growth, in parcel deliveries due to increased last-mile competition. We envision a Postal Service that is an employer of choice able to attract, retain, and develop high-quality, customer-focused employees. And finally, we envision that the Postal Service will maintain its position as the world's most efficient and affordable postal operator and the most trusted federal agency.

To realize this vision, we intend to make the following broad transformations over the next five years:

- Transform our services from only providing a physical delivery into a service that also enables a digital connection and provides other value-added services.
- Transform our last-mile operations from the most efficient last-mile mail delivery service provider into the most efficient local logistics and e-commerce delivery platform.

- Transform our middle-mile operations from a fixed processing and transportation network into an adaptive and resilient national and international logistics ecosystem.

One thing will remain the same: we will maintain the trust of the American people by delivering excellent services every day.

The Postal Service cannot realize this vision alone. Though this five-year plan lays out our efforts to make this vision a reality, creating a financially sustainable Postal Service requires changes to existing laws and regulations as well as new agreements with our labor unions. Ultimately, Congress determines the contours of the Postal Service's statutory business model and therefore has the unique authority to enable this vision or direct the Postal Service toward a different vision. We will continue to do all that we can within our current authorities to effectively manage the Postal Service while we work with the Administration, Congress, and the Postal Regulatory Commission (PRC) to identify options and implement the necessary changes that will enable financial sustainability and best meet the needs of the American public.

## Current Business Environment and Key Trends

To fulfill our USO in 2019, we provided access through 26,362 Postal Service-managed Post Offices; 4,960 stations, branches, and carrier annexes; and 55,000 other access points comprising a network of commercial outlets which sell stamps on our behalf. Many of our services can also be accessed through our website, usps.com. On an average day, our 633,000 employees processed and delivered 471 million mailpieces to nearly 160 million delivery points, utilizing approximately 204,000 delivery vehicles, 8,500 pieces of automated processing equipment, and a variety of transportation methods to move mail and packages through this large network, including contracted highway and air transportation.

Over the last decade, the Postal Service has deployed market-leading innovations in the mail and parcel delivery services and improved productivity. We pioneered Sunday package delivery and became a leader in providing last-mile package delivery services. These innovations and product expansions have enabled us to more than double package revenues

(to \$22.8 billion in FY2019) and more than triple the contribution provided by packages to institutional costs (to 24.7 percent in FY2019). Innovations, such as Informed Delivery, are enhancing the utility of mail as an advertising medium in the digital age and are used by more than 20 million Americans.

We are consistently rated the most favorable and trusted U.S. federal agency (a 2019 Pew Opinion Poll reported 90 percent of Americans have a favorable view of the Postal Service) and the most affordable and efficient postal operator across the world's 20 largest economies (G20 economies). Oxford Consulting reports in 2012 and 2017, *Delivering the Future: How the G20's Postal Services Are Meeting the Challenges of the 21st Century*, ranked us the highest overall rated postal provider and noted that we deliver more parcels and letters per full-time equivalent employee than any other G20 Post.

The Postal Service operates in a very dynamic and competitive mail and package delivery marketplace. Total volume of First-Class Mail and Marketing Mail has declined by 34 percent (approximately 66 billion pieces) since 2007 due to the proliferation of electronic bill presentment and payment, social media platforms, and e-mail. Package volumes, which have almost doubled since 2007 and have been the Postal Service's primary source of revenue growth, began to demonstrate slowing growth beginning in 2017, with growth ceasing entirely in the last two quarters of 2019, as commercial customers insourced more of their last-mile deliveries. These trends are projected to continue over the next five years.

The following statutory and regulatory constraints have limited our ability to respond to market forces:

- A Consumer Price Index-based price cap for mail products, representing 67 percent of revenues, results in prices that are insufficient to provide adequate revenue to pay for fixed universal service obligation costs and other legally mandated costs amid secular volume declines.
- The universal service obligation to maintain six-day-a-week mail delivery to all geographies and to keep unprofitable retail locations open results in a large proportion of costs being devoted to delivery and retail operations that deliver less mail to an ever-increasing number of delivery points.



- Federally-mandated retiree and employee benefit programs result in high benefit costs that are growing faster than the rate of inflation.

In combination, these factors have led to a large financial deficit. Since 2007, we have suffered 13 years of consecutive net losses, totaling \$77.8 billion. Our financial challenges reflect the simple dynamic that our largely fixed and mandated costs continue to rise at a faster rate than the revenues we are able to generate in the competitive marketplace. Though the lump-sum and amortization expenses for prefunding retiree health benefits (RHB) (excluding normal costs) account for approximately 74 percent of our cumulative net losses over the last 13 years, these losses were partially offset by revenue growth from growing package volumes, a temporary exigent price increase for mail, and cost reductions. As we look to the next five years with the prospect of continued price caps on mail, increased competition for package deliveries, and rising USO costs, resolving only the RHB funding issue will not fill our projected financial gap.

Our financial condition can be improved, and the Postal Service can continue to be self-reliant. The Postal Service's problems are readily identifiable, and their solutions are implementable. While it is incumbent upon Congress and the PRC to address structural and business model deficiencies before the deficit grows even larger and requires more drastic and politically difficult solutions, the Postal Service will continue to implement all cost-reduction and revenue-generation measures available under existing law.

### **Postal Service Ready-Now — Future-Ready Plan for FY2020-FY2024**

This strategic plan describes our mission, vision, and strategic goals, and how they are enabled by our strategic initiatives, NPA metrics, and related annual performance targets. This plan also describes in greater detail our current and projected challenges, defines how the Postal Service will respond to these challenges, and identifies where we will need support from Congress and the PRC.

While our financial challenges remain significant, we remain committed to building our vision of the Postal Service. Therefore, while we work with external stakeholders, Congress, the Administration and the PRC, we will continue to do everything within our authority to make our vision a reality and to continue to

deliver excellent and efficient services to every customer every day. That is why we titled our plan, Ready-Now — Future-Ready. Our ability to prepare for an uncertain tomorrow while delivering excellent services today requires that we focus on the following five strategic goals:

- Goal 1. Deliver world-class services and customer experiences.
- Goal 2. Equip, connect, engage, and empower employees to serve our customers.
- Goal 3. Innovate faster to deliver value.
- Goal 4. Invest in future platforms.
- Goal 5. Pursue legislative and regulatory changes necessary to achieve financial sustainability.

These five Ready-Now — Future-Ready goals will drive everything we do. We will measure our progress against them using our NPA performance measurement system and incent employee efforts through our pay-for-performance (PFP) system. A focus on the customer experience — delivered by an equipped, connected, engaged, and empowered workforce — enables us to innovate faster and invest strategically in our future to meet the needs of our customers and the communities we serve. We will publish our progress against the goals contained in this plan, describe lessons learned, and identify how we plan to improve every year in our “Annual Performance Plan” as part of the Postal Service's Annual Report to Congress. The strategic initiatives identified in the USPS Five-Year Strategic Plan for FY2020–FY2024 are subject to change by the Board of Governors if revisions in strategy become necessary or business conditions warrant.

# U.S. Postal Service’s Mission, Current Business Conditions, and Vision for the Future

## Mission — Bind the Nation Together

Title 39 Section 101(a) of the USC states that the United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, and created by an Act of Congress. The Postal Service shall have as its basic function the obligation to provide postal services to bind the nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people. The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where Post Offices are not self-sustaining.

The central tenet of this statutory public service mission is a universal service obligation (USO) to provide prompt, reliable, and efficient postal services to all Americans, regardless of where they live. The Postal Service is also required to fulfill its universal service mission, and meet its other statutory obligations, in a self-sufficient manner, by covering its costs through revenues generated from the sale of its products and services. To help ensure the funding needed to meet the USO, the law establishes the Private Express Statutes and the mailbox access rule, which together comprise the postal monopolies. Since any obligation must be matched by the capability to meet that obligation, the USO, the Private Express Statutes, and the mailbox access rule are inextricably linked.

## Governance

The U.S. Postal Service was established under the provisions of the Postal Reorganization Act (the Reorganization Act) of 1970, Public Law 91-375, 84 Stat. 719, as amended by the Postal Accountability and Enhancement Act of 2006 (PAEA), Public Law 109-435, 120 Stat. 3198, as an independent establishment of the executive branch of the Government of the United States, under the direction of a Board of Governors (BOG), with the Postmaster General (PMG) as its Chief

Executive Officer. The Board of Governors of the Postal Service (the Board) directs the exercise of its powers through management that is expected to be honest, efficient, economical, and mindful of the competitive business environment in which the Postal Service operates. The Board is authorized to consist of 11 members: nine Governors appointed by the President (with the advice and consent of the Senate, to represent the public interest generally), the Postmaster General, and the Deputy Postmaster General.

## Overview of the U.S. Postal Service Today

The Postal Service delivers a unique service to the American people and the economy alike by delivering mail and packages throughout the United States. In fulfilling its mandate, the Postal Service provides services across all regions and to all areas of the United States irrespective of population density or socioeconomics, including rural areas, small towns, and urban areas where Post Offices are not necessarily financially self-sustaining. USPS does not receive tax dollars and relies solely on the sale of postage, products and services to fund its operations.

To fulfill our USO in 2019, we provided access through 26,362 Postal Service-managed Post Offices; 4,960 stations, branches, and carrier annexes; and 55,000 other access points comprising a network of commercial outlets which sell stamps on our behalf. Many of our services can also be accessed through our website, usps.com. On an average day in 2019, our 633,000 employees processed and delivered 471 million mailpieces to nearly 160 million delivery points, utilizing approximately 204,000 delivery vehicles, 8,500 pieces of automated processing equipment, and a variety of transportation methods to move mail and packages through this large network, including contracted highway and air transportation.

The Postal Service is a powerful marketing and communications partner for businesses across diverse sectors in the United States, including retail, health care, real estate, and financial services. USPS fulfills the essential function of delivering bills, statements, correspondence, packages, catalogs, and a wide range of marketing materials on behalf

of these companies, thus facilitating millions of daily transactions for virtually every commercial entity in America, as well as providing the means for remitting payments for millions of consumers.

Additionally, through its shipping services, the Postal Service is a partner to consumers, and to both brick-and-mortar and online retailers in growing their businesses to meet rising consumer delivery expectations from e-commerce. The Postal Service's last-mile resources deliver to every address to satisfy the requirement of the USO, thus enabling all Americans, no matter how remote their location, to have access to parcel delivery, and to therefore participate fully in today's e-commerce economy.

The Postal Service is consistently rated the most favorable and trusted U.S. federal agency (a 2019 Pew Opinion Poll reported 90 percent of Americans have a favorable view of the Postal Service) and the most affordable and efficient postal operator across the G20 economies. In 2012 and 2017, the Oxford Consulting report, *Delivering the Future: How the G20's Postal Services Are Meeting the Challenges of the 21st Century*, ranked the Postal Service the highest overall rated postal provider and noted that it delivers more parcels and letters per full-time equivalent than any other G20 Post.

### **Postal Service Offerings, Classification, and Pricing**

The Postal Service generates revenues primarily by offering mail and parcel delivery services to domestic and international markets. It monitors and reports revenue by mail classes, products, and shapes. Appendix C contains a description of USPS current services and the historical mail volumes and revenues by category of service. Prices and fees are established by the Postal Service's Governors and are subject to a review process by the Postal Regulatory Commission (PRC). The Postal Service offers two categories of products, which are classified for regulatory purposes as Market-Dominant services and Competitive services. Each category is subject to different pricing requirements established by statute and PRC regulation.

Market-Dominant services account for approximately 67 percent of the Postal Service's annual operating revenues. Such services include, but are not limited to, First-Class Mail, Marketing Mail, Periodicals, and certain parcel services. Price increases for these services are

currently generally subject to a price cap based on the Consumer Price Index for All Urban Consumers (CPI-U), though the PRC has the authority to revise or eliminate the price cap and create an alternative regulatory structure for Market-Dominant services. Reclassification of services from Market-Dominant to Competitive requires PRC approval.

Competitive services, such as Priority Mail, Priority Mail Express, First-Class Package Services, Parcel Select, Parcel Return Service, and some types of International mail, have greater pricing flexibility and are not limited by a price cap. By law, prices for each Competitive service must be set so that each service covers its "attributable costs" (meaning the Postal Service's costs attributable to such service through reliably identified causal relationships), and Competitive services collectively must contribute an appropriate share to the institutional costs of the Postal Service (meaning the Postal Service's costs that cannot be attributed to specific products). The appropriate share is determined by a formula, and is currently 8.8 percent for FY2019, as determined by the PRC. In general, the Postal Service attempts to set its prices for Competitive services at rates that maximize contribution.

### **Current Business Conditions**

Over the last decade, the Postal Service has deployed market-leading innovations in the mail and parcel delivery services and improved productivity. We have been pioneers in Sunday package delivery and became a leader in providing last-mile package delivery services. These innovations and product expansions have enabled us to more than double package revenues (to \$22.8 billion in FY2019) and more than triple the contribution that packages provide to cover institutional costs (to 24.7 percent in FY2018). Innovations, such as Informed Delivery, are enhancing the utility of mail as an advertising medium in the digital age and are used by more than 20 million Americans.

Over the same period, we have implemented aggressive cost controls that have resulted in significant cost savings even as delivery points grew by over 9 million. We have reduced the total number of career employees by more than 84,000 by restructuring delivery routes, reducing lobby hours at 13,000 underutilized retail offices, and consolidating mail processing at more than 360 facilities. In addition, we negotiated labor agreements which allowed us to increase our non-career workforce and to

introduce a lower-tier wage schedule for new career employees, which we have maintained through subsequent contracts. We have negotiated health benefits contributions with our unions that bring many of our employees to parity with the rest of the federal government. Through the dedication and hard work of our employees, we have accomplished all of this while consistently being rated the most favorable and trusted federal agency and the most efficient and affordable postal operator in the industrialized world.

However, the combination of unfavorable market dynamics, legal restrictions on price increases and cost reductions, an expanding universal service requirement, and growing employee pension and health benefit funding requirements have put the Postal Service in an unsustainable financial condition.

Since 2007, we have suffered 13 years of consecutive net losses totaling \$77.8 billion, with an \$8.8 billion net loss in 2019 alone. Of those losses, \$54.8 billion were directly attributable to Postal Service Retiree Health Benefits Fund (PSRHBF) lump sum payments that were due between 2007 and 2016. An additional \$8.7 billion was attributable to PSRHBF normal cost and amortization payments due between 2017 and 2019, and \$8.2 billion due to amortization expenses for the Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS). Altogether, these retirement-related lump sum payment requirements totaled \$76.3 billion from 2007-2019, or roughly 98 percent of losses. Even when PSRHBF normal costs are excluded, PSRHBF lump-sum payments, plus FERS, CSRS, and PSRHBF amortization expenses total \$65.5 billion, or 84 percent of 2007–2019 losses.

Although the vast majority of the recent net losses are attributable to the retirement benefit-related lump sum payments, structural changes in the marketplace have had a significant impact on our financial results. These include declines in high-contribution mail volume, a rigid rate structure on Market-Dominant products which limits our ability to raise prices, limited product freedom which inhibits our ability to introduce new products, and high legislatively-mandated costs.

Unfortunately, growth in the packages business and significant cost reductions have not been enough to forestall 13 consecutive years of net losses. As a result, we have been forced to default on PSRHBF prefunding payments, PSRHBF normal cost, and PSRHBF,

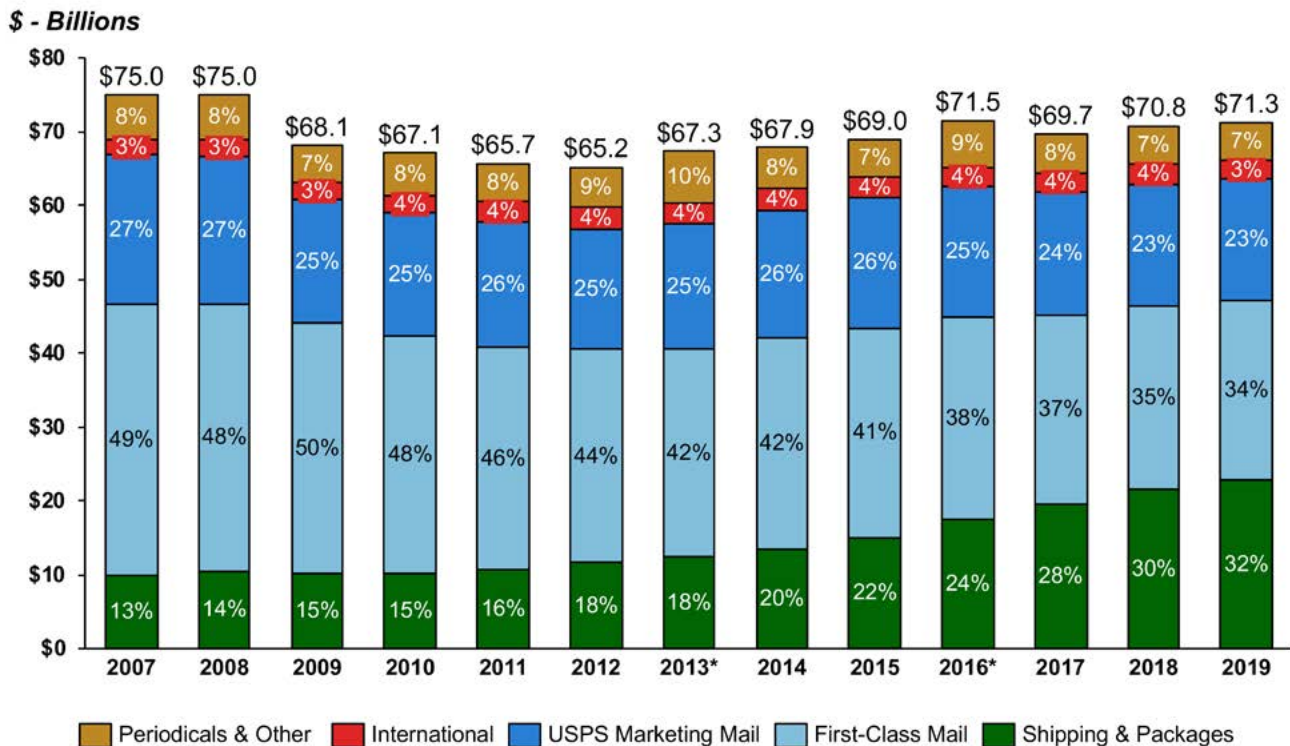
CSRS, and FERS amortization payments. We have an underfunded balance sheet, significant debt, and insufficient cash to weather unforeseen cyclicalities or changes in business conditions.

### **Growing Package Revenues and Cost Reductions Are Insufficient to Offset Growing Mandated Costs**

Our revenues have declined almost 5 percent over the last 13 years, with a growing proportion coming from Package Services (from 13 to 32 percent) as shown in Exhibit 1. Since the low point in 2012, our total revenues have grown almost 9 percent, when revenue gains from Package Services began offsetting the declines in mail revenues. Package revenue growth was driven primarily by volume growth due to the affordability and scope of our last-mile delivery services.

Mail revenue losses have been due to declines in mail volumes. The greatest volume decline has been experienced in First-Class Mail, our most profitable product, where volumes have declined by more than 40 billion pieces, or 43 percent, since 2007. Marketing Mail, which comprises the majority of our mail volumes, declined by more than 27 billion pieces (26 percent) from 2007 to 2018, mainly due to the increasing diversion of advertising spending from Marketing Mail to digital media (the internet, email, mobile, or social media).

Exhibit 1. Trend in Total USPS Revenue by Product



\*FY2013 and FY2016 includes Deferred Revenue Change in Estimate

Also between 2007 and 2019, the number of delivery points (excluding Post Office Boxes, or PO Boxes) increased by 10 percent, or 12.8 million. During this same time, pieces delivered per delivery point fell by 39 percent, and revenue per delivery point fell by 14 percent, but cost per delivery point fell only by 9 percent. In 2019, our large physical footprint required to serve the 160 million delivery points six days a week amounted to 31,000 Post Offices, stations, and branches with approximately 633,000 total employees. Additionally, approximately 36 percent of retail locations are retained (as required by law) despite being unprofitable. As a result of a combination of these factors and price caps on 67 percent of our revenues, we lost over \$62 per delivery point served in 2019. This is due to the fact that the significant and growing institutional costs driven by the USO and our large retirement-related liabilities are incurred regardless of the volume delivered.

**CPI Price Cap Has Resulted in Undersized Revenues for an Oversized Universal Mail Delivery Service**

The price cap on Market-Dominant products significantly disadvantages the Postal Service; relatively

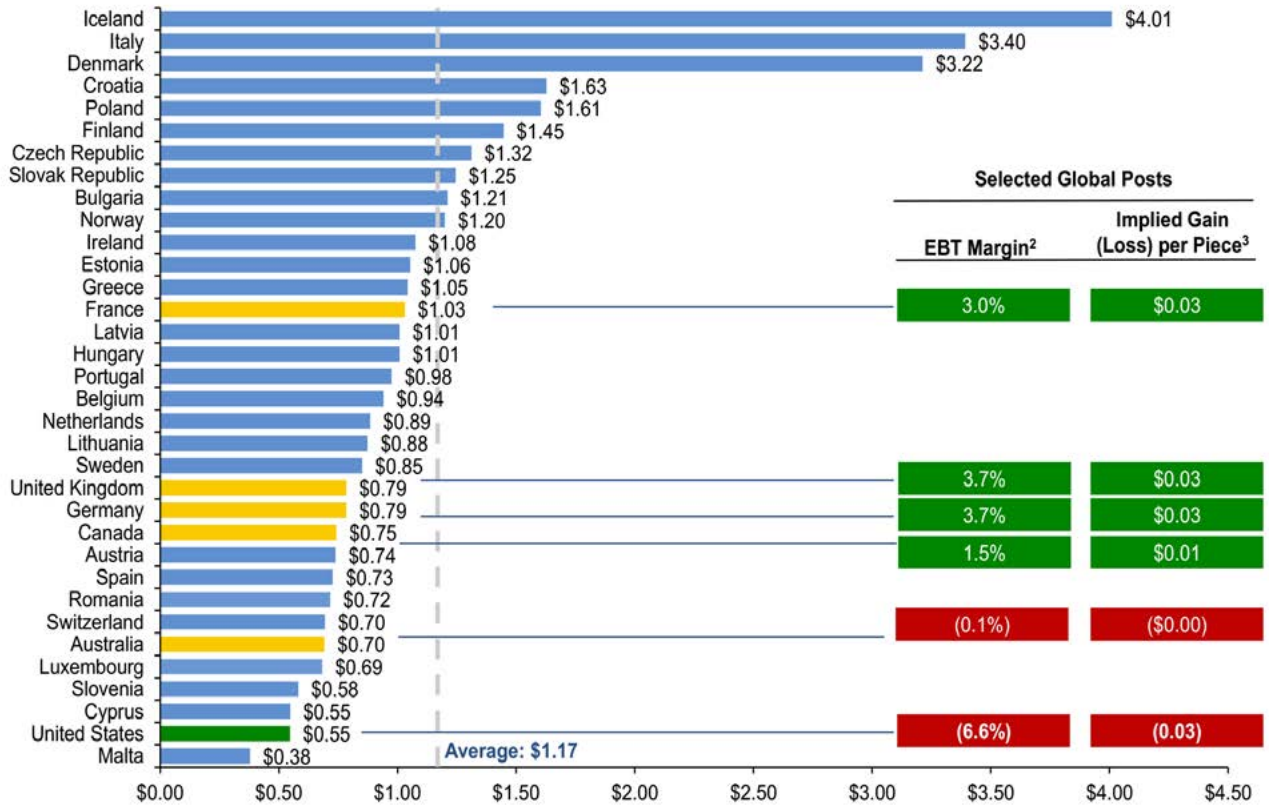
low postage rates and a lack of pricing flexibility are key contributors to our financial situation. As a result, in 2019 the Postal Service lost about 6.1 cents for every piece delivered and that gap will widen in the future, as costs will continue to grow, especially for mandated federal benefits programs, while revenue growth is constrained by the Consumer Price Index (CPI) price cap and competitive dynamics.

The Postal Service has the lowest price relative to comparable international posts. As shown in Exhibit 2, our First-Class Mail single-piece postage rates are dramatically below the average of other comparable global posts. Further evidence of the Postal Service's inadequate pricing can be seen by comparing margins of earnings before taxes (EBT) of the Postal Service to those of the most comparable global posts. The Postal Service's average EBT margin over the past five years was negative 7 percent, in sharp contrast to the break-even or positive EBT margins for our foreign post peers charging higher rates for products comparable to First-Class Mail.



Exhibit 2. Rate Comparison of the Postal Service to Other Global Posts

**Cost of Postage for a Domestic Standard Letter - Adjusted for Purchasing Power Parity (PPP) (\$USD)<sup>1</sup>**



Source: Deutsche Post March 2018 Report and International Monetary Fund (IMF)

<sup>1</sup> Exchange rates as of 5/10/19; PPP adjustment from IMF indexed to U.S. Dollar.

<sup>2</sup> EBT margin is presented on a 5-year trailing average basis.

<sup>3</sup> Implied contribution to pre-tax earnings per piece of mail, calculated as postage rate multiplied by 5-year average EBT margin.

**A Competitive Landscape Across all Services**

Notwithstanding the regulatory classification of Postal Service products as Market-Dominant and Competitive, we compete for business across all of our different market segments. A wide variety of communications media channels compete for the same types of transactions and communications that are conducted using our mail delivery services. These channels include, but are not limited to, newspapers, telecommunications, television, email, social networking, and electronic funds transfers.

The most significant competitor for First-Class Mail is digital communication, including electronic mail, and other digital technologies such as online bill payment and presentment. For Marketing Mail, digital forms of advertising, including email,

digital mobile advertising and social media, are the most significant forms of competition.

The package and express delivery business is highly competitive, with both national and local competitors. The primary competitors of our Shipping and Package services are FedEx and United Parcel Service, Inc. (UPS), as well as other national, regional, and local delivery companies and crowd-sourced carriers, many of which are also customers of the Postal Service for its last-mile services.

The Postal Service's Shipping and Package business competes on the basis of the breadth of our service network, convenience, reliability, and affordability of the service provided. Although the Postal Service competes with FedEx, UPS, Amazon, and others when shipping packages long distances, our existing door-to-door

delivery mandate has historically proven cost-effective for competitors to outsource many of their last-mile deliveries to the Postal Service. The growth in our Competitive products revenue over the past five years is largely attributable to our Parcel Select product, which provides last-mile delivery for parcels deposited deep into our network (typically at the delivery unit).

However, the Postal Service has more recently seen increased competition in last-mile delivery from both current customers and traditional competitors. The major Parcel Select customers are actively building out their own last-mile delivery capabilities to enable them to divert volume away from the Postal Service. This resulted in a decline in package growth over the last two quarters of FY2019.

As other customers insource last-mile delivery operations in the most profitable geographies, our unit costs increase thereby escalating competition and reducing reliance on the Postal Service's network. To the extent these programs expand, the Postal Service believes that it could see increasingly negative trends in package volumes.

### Key Forecasted Trends

The rapidly changing business conditions under which the Postal Service competes, coupled with the evolving needs of our customers, require us to adapt in order to maintain our relevance to the American consumer and to strengthen our business. The next five years are likely to usher in dramatic technological, social, and environmental changes that will fundamentally change the way we live, work, and relate to one another. We are seeing rapid technological advances across many areas that include artificial intelligence, advanced energy storage devices, next-generation broadband, autonomous machines, augmented reality, social networks, internet of things, and quantum computing.

Beyond the dramatic technology advancements, we are facing continued and significant environmental and demographic changes. Experts forecast that every year the United States will experience more extreme weather events. In addition, the Census Bureau estimates that the United States will continue to see population growth, but with more growth in citizens older than 65 than younger than 18 over the next five years. Beyond the trends that are established and significant, these technological, social, and environmental changes will drive changes in ways that we do not yet understand.

Over the next five years, the three trends described in the following paragraphs are expected to become more pronounced and will significantly impact our current business model.

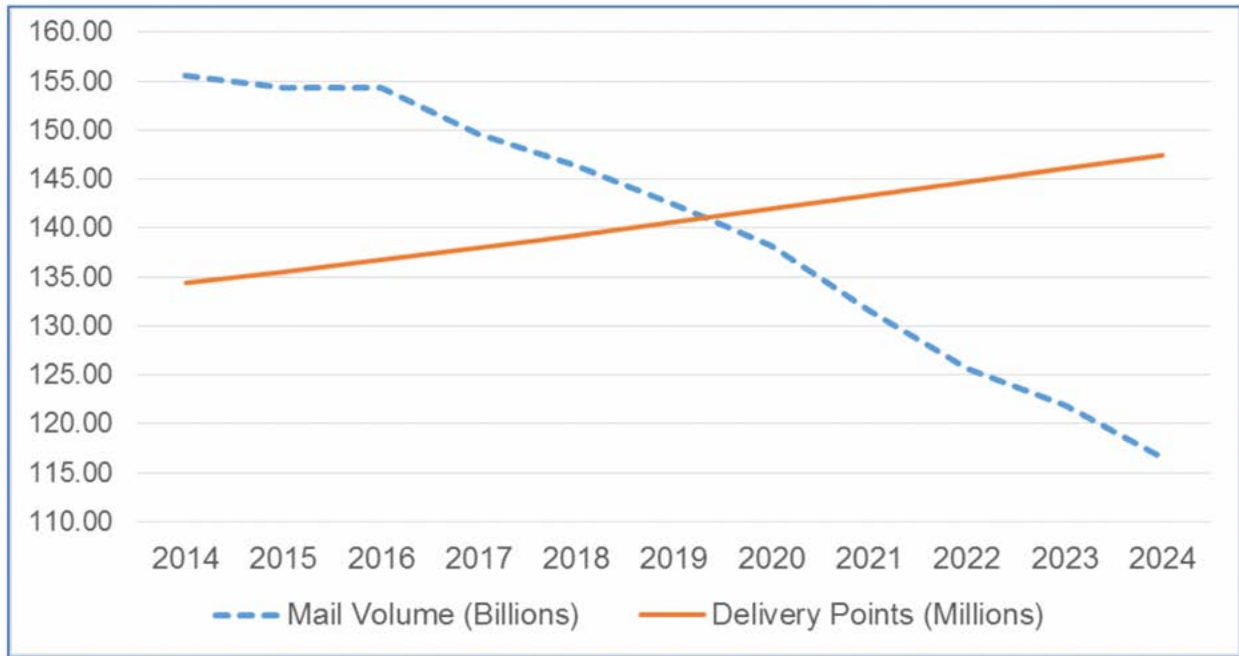
### Delivery Points Grow and Mail Volumes Decline

The transition from print to digital communications and business transactions will continue. Businesses will continue to conduct more transactions electronically with consumers, putting continued downward pressure on First-Class Mail volume, which currently provides the greatest contribution toward covering our institutional costs. Digital advertising currently captures more than 50 percent of advertiser spend and is forecast to continue to increase almost 10 percent each year, while the portion captured by direct mail (postage costs only) is expected to decline by almost 5 percent per year.

Our forecasts for delivery points (excluding PO Boxes) assume a growth of 5 percent, or 6.9 million delivery points by 2024, as shown in Exhibit 3. Meanwhile, our baseline forecast for total mail volume anticipates a decline of 18 percent over the same period, leading to a decrease in revenue per delivery point of 4 percent. This will continue to cause declines in daily pieces per delivery point, which has gone from 3.8 in 2014 to 3.3 in 2019, and is forecast to drop to 2.6 daily pieces per delivery point by 2024.

Although our baseline forecast shows continued decreases in the demand for mail delivery services, there will still be significant demand and the expectation that all United States residents will retain the ability to send and receive mail delivery services from their homes and businesses. We believe there is an opportunity to reposition the value of mail with businesses, retailers, and marketers by integrating digital features with the physical delivery experience to enhance their omni-channel communication and marketing campaigns. Successfully repositioning mail as a value-added feature to digital communication opens new opportunities to retain existing customers and reach new ones.

**Exhibit 3. Delivery Point (not including PO Boxes) and Mail Volume Forecasts**



	2014	2019	2024	Five Year % Change
<b>Daily Pieces per Delivery Point</b>	3.8	3.3	2.6	-22%
<b>Revenue per Delivery Point</b>	\$ 504.87	\$ 507.21	\$ 484.53	-4%

Source: USPS baseline mail volume forecast assumes CPI-U price cap and 6-day-a-week mail delivery.

Note: Daily pieces per delivery point = deliveries per day/delivery points (based on 302 delivery days per year). Delivery points exclude PO Boxes.

**Competition Increases for Last-Mile Package Delivery Services**

We believe that the growth in domestic mobile e-commerce sales will continue to outpace the growth in brick-and-mortar retail sales. Historically, the growth in domestic e-commerce sales has correlated well with the growth in the number of domestic parcel shipments. We see this relationship changing in the future as consumers buy more expensive items online and e-commerce companies combine more products within a single shipment.

In addition, we envision more downward pressure on the growth of parcel volumes shipped via the Postal Service due to continued growth in competition in first- and last-mile delivery services, especially from large retailers and other domestic carriers using part-time on-demand workers.

The following trends will continue to fundamentally transform the profile of the shipping market.

- Consumer demand for accelerated shipping and retailer investment in supply chains will lead to strong growth in the one-day and local shipping markets and increase demand for local entry.
- The two-day and regional markets will remain relevant for shippers with fewer distribution centers and stabilize demand for competitive network products.
- The distance that parcels travel for delivery will continue to decline and the 3-day+/national markets will shrink.
- Marketplaces will continue to rely on network products but will face increasing pressure for delivery in two days.



Package volumes, which have more than doubled since 2010 and have been the Postal Service's primary source of revenue growth, began to demonstrate slowing growth beginning in 2017, as customers began to insource more of their last-mile deliveries. Year-over-year growth declined from a high of 16.2 percent in the first quarter of 2016 to negative 2.4 percent in fourth quarter of 2019. As such, we forecast that package volumes delivered through the Postal Service network may decline slightly in 2020 and 2021 and grow modestly thereafter.

In response to these trends, the Postal Service has a parcel strategy that underpins our forecast. The strategy is to grow product value by both enhancing our offerings and keeping prices competitive. In summary, the core elements of our parcel strategies are to continue to leverage the strength of our last-mile delivery services by expanding Sunday deliveries, expanding same-day and next-day deliveries, enhancing return services for business and consumers, and enhancing our end-to-end network to meet the growing demand for low cost, reliable, ground shipping. Continuing to grow profitable parcel delivery operations is key to supporting the revenue forecast in the baseline.

### **Absent Legislative and Regulatory Changes, USPS Financial Losses will Continue**

Despite continued innovations across our existing service offerings, expanded digital offerings, and implementation of aggressive cost controls, we project continued annual losses over the next five years assuming no legislative or regulatory reform. Volume is expected to decline while revenues stay relatively flat due to a price cap and other marketplace trends.

Our financial challenges reflect the dynamic that our largely fixed and mandated costs continue to rise at a faster rate than the revenues we are able to generate in a highly competitive marketplace. Without more flexibility to respond to the changing market in an economically rational way, we expect to run out of liquidity by 2021 if we pay all our financial obligations — and by 2024 even if we continue to default on our year-end, lump sum retiree health-benefit and pension related payments.

## **Our Vision for 2024 — A Financially Sustainable Postal Service that Delivers Products and Services that Customers Value in a Digital Economy**

In 2024, we envision a Postal Service that enables all Americans to connect, businesses to grow, and communities to thrive in an increasingly digitally-connected world, including individuals in rural or urban communities that are digitally underserved.

Specifically we envision a Postal Service grounded in its core public service mission of providing universal, affordable, high-quality mail and parcel delivery to all residents of the United States, and expanding that public service mission to include the provision of essential e-government services. We envision a business model that enables the flexibility to best serve the changing needs of our customers and respond to marketplace trends, including continued and significant declines in mail volumes due to electronic diversion and continued but lower growth in parcel deliveries due to increased last-mile competition. We envision a Postal Service that is an employer of choice able to attract, retain, and develop high-quality, customer-focused employees. And finally, we envision that the Postal Service will maintain its position as the world's most efficient and affordable postal operator and the most trusted federal agency.

### **Broad Transformations Required to Achieve this Vision**

The following paragraphs summarize the broad transformations we intend to make over the next five years to realize this vision.

#### **Transform from Deriving Value Solely by Providing a Physical Delivery into an Organization that Launches New Products and Services that Add Value Through a Digital Connection**

We envision transforming from an organization that generates its revenues from the physical transport, processing, and delivery of letters, flats, periodicals, and parcels into one that also generates significant revenues from offering digital and other value-added features that enhance the value of our physical delivery services. Although our projections suggest continued decreases in the demand for mail delivery services, there will still be significant demand and the expectation

that all residents of the United States will retain the ability to send and receive mail delivery services from their homes and businesses. We believe there is an opportunity to reposition the value of mail with businesses, retailers, and marketers by integrating digital features with the physical delivery experience to enhance their omni-channel communication and marketing campaigns. Successfully positioning mail as a value-added feature to digital communication opens new opportunities to retain existing customers and reach new ones.

A key strategy for mitigating the volume decline of our mail delivery services is the enhancement of our Informed Delivery platform with features to attract a wider user base, enable it to operate on all major smart devices, and seamlessly connect to key e-commerce and social platforms. Another initiative will provide businesses that purchase mail and package delivery services with the ability to communicate with their customers via the Informed Delivery digital platform. This will allow businesses to combine key features of digital and social communication platforms with the visceral experience of a physical delivery.

We will also leverage our infrastructure, retail locations, vehicles, and information architecture to explore new digital products and services that help the American public to securely communicate, exchange goods, and connect to essential e-government services.

### **Transform from Being the Most Efficient Last-Mile Mail Delivery Service Provider into the Most Efficient Local Logistics and E-commerce Delivery Platform**

We envision transforming from operating the most efficient mail delivery service to operating the most efficient, frictionless, and secure local logistics platform that will provide all residents of the United States, every small and medium business, and every community with the maximum degree of access to participate in the ever-increasing e-commerce economy. A key to this vision is the enhancement of our local processing and delivery network to enable retailers and other logistics companies the capability to deliver e-commerce orders securely and affordably within 24 hours from local businesses and within two calendar days from businesses located within the contiguous United States. To enable this, we will build out our platform to enable flexible and frictionless returns from every home and expand seven-day-a-week parcel delivery service. This transformation will be enabled by our ability to

equip our employees with the latest technologies and predictive analytics tools, connect our employees to our customers, and empower our employees to deliver the best customer experience at every touchpoint.

### **Transform From Operating a Fixed Network to Managing a Faster, More Efficient and More Resilient Logistics Ecosystem**

Over the next five years, we envision embarking on a broad transformation from operating a fixed processing and transportation network to managing an adaptive domestic and international integrated processing and transportation logistics ecosystem that is faster, more visible, more efficient, more automated, digitally integrated, and supported by more public-private partnerships. This logistics ecosystem will enable our local delivery platforms to provide our customers with efficient and visible end-to-end transportation, sorting, and warehousing solutions across the country and across the world. Two key elements required to successfully achieve this transformation will be the ability to effectively deploy autonomous and big data technologies at scale and to form new and innovative partnerships that unleash the innovation capacity of private companies to meet the needs of our customers.

### **One Thing Will Remain the Same: We will Sustain the Trust of the American People**

No matter what the future holds, one thing will remain the same: we will sustain the trust of the American people by delivering excellent and secure services every day. We were the most trusted and favorably rated federal agency in 2019. We will continue to work very hard to sustain that position of trust over the next five years. We envision leveraging our services to enable people and companies to more securely interact within the digital economy.

### **Creating a Financially Sustainable Postal Service Requires Legislative and Regulatory Changes**

We cannot realize this vision alone. Most of our efforts to enable this vision over the long run require changes to existing laws and regulations and new agreements with our labor unions. Congress has the authority to enable this vision or to direct the Postal Service toward a different vision. Therefore, we will continue to do all that we can to effectively manage the Postal Service within our current authorities while we work with Congress, the Administration, and the PRC to identify and implement legislation and

regulations that enable financial sustainability while best meeting the needs of the American public. The following sections lay out our five Ready-Now — Future-Ready strategic goals and, for each, the key strategic initiatives we will undertake over the next five years. Our plan focuses on those initiatives that are within our control, but also identifies the areas we will work on to inform the public debate and decisions from Congress, the Administration, and the PRC.

# USPS Ready-Now – Future-Ready Goals and Key Strategies for FY2020-FY2024

No matter what the future holds, we believe we must deliver excellent services every day while we work with Congress, the PRC, and key stakeholders to make this vision a reality. We cannot expect to sustain the trust of the American public or win new business if we deliver poor customer service and experiences today. That is why we titled our Strategic Plan, Ready-Now – Future-Ready. The term Ready-Now reminds us that our ability to build new Future-Ready capabilities depends on our ability to continue to deliver excellent services today and every day.

To accomplish this vision, we have laid out the following Ready-Now – Future-Ready strategic goals and key initiatives to help focus all that we do.

## Goal 1: Deliver World-Class Customer Experiences

### Goal Description

We will endeavor to build a Postal Service culture that focuses on delivering services that provide excellent customer experiences in order to encourage loyal customers and sustain the trust of the American people. We believe that continued growth in e-commerce, customer demands for faster services, and advances in autonomous technologies will result in delivery services continuing to be more competitive and commoditized in the future. Although we will strive to be the low-cost leader for delivery of mail and parcels, we also see consumers more frequently choosing businesses based not only on price, but also based on the quality of the overall experience provided and the trust that the business has earned from previous customer interactions. Only by maintaining an obsessive focus on delivering services that provide excellent customer experiences and sustain the trust of the American people will the Postal Service continue to keep existing customers and earn new ones.

A critical part of our efforts will be to look beyond only delivering excellent experiences at different touchpoints to looking at the end-to-end customer journey with us from the perspective of each of our residential and commercial customer segments. By looking at the entire customer journey, we will be best able to develop

excellent customer experiences across all our services and channels.

The key initiatives described in the following paragraphs include the following:

- Improving the way we acquire new customers.
- Helping customers select the right products and services.
- Improving how we collect customer feedback.
- Improving how we resolve customers' issues.

### Key Strategies and Initiatives

#### Improve Visibility and Control of Mail and Package Delivery Services for Residential and Small Business Customers

We will continue to work to provide a seamless experience for sending and receiving mail and packages. Efforts related to this initiative include further enhancements of our Informed Delivery platform. Informed Delivery is a notification service that gives residential consumers and small business customers the ability to digitally preview their letter-sized mailpieces and manage packages that are scheduled to arrive soon. Informed Delivery makes mail more convenient by allowing users to view what is coming to their mailboxes whenever, wherever — even while traveling — on a computer, tablet, or mobile device. Informed Delivery benefits the entire household, ensuring that everyone has visibility into mail and package delivery each day. Informed Delivery allows users to take action before important items reach their mailboxes.

We will continue to enable users of the Informed Delivery smart phone application to do more, including providing carriers instructions on where to leave or pick up packages, notifying the Postal Service to hold mail, or scheduling redelivery of packages.

#### Improve the Commercial Mailer, Shipper Onboarding, and Payment Experience

Commercial mailers and shippers are the Postal Service's largest customer segment. We will continue our efforts to create a frictionless mailing and shipping entry and payment experience. The Postal Service continues to modernize the payment experience by

enabling a single, secure, self-service online account management and payment system. To encourage widespread adoption, we will do the following:

- Promote initiatives designed to streamline the acceptance, induction, and verification of commercial mailings.
- Enhance programs designed to streamline the acceptance and verification of commercial parcels to improve functionality and availability.
- Leverage electronic documentation, package barcodes, and digital visibility to simplify the process of accepting, verifying, and returning parcels to merchants.
- Optimize the network of Business Solutions Centers to provide world-class, one-stop, solution-oriented customer service by identifying the best mailing solutions for customers' commercial mailing needs through consultation, diagnostics, research, recommendations, and hands-on assistance.
- Expand our capability to expedite and streamline the returns payment process, charging mailers for returns only when the return packages are received and weighed by our automation equipment.

### **Improve Retail Customer Experiences Through Expanded Self-Service**

Though our customers prefer more and more to do business online, we will continue efforts to provide an excellent customer experience at our brick-and-mortar retail Post Offices. Efforts will include initiatives that effectively integrate our physical, digital, and alternative access retail channels and will make doing business with us simple and convenient for all our customers. We will make package mailing and delivery more convenient by expanding 24-hour access self-service kiosks and our network of parcel locker solutions. We will continue to invest in improving retail channel experiences for all customers with a special focus on small business customers, rural customers, online customers, and package customers.

### **Enable a Seamless Cross-Border Experience for Customers**

In support of the new Universal Postal Union agreement, the Postal Service will continue to assess and enhance the current International Systems architecture and develop an integrated and optimized ecosystem that drives business value and growth,

increases efficiency, and improves customer experience for international mail and packages.

### **Deliver a World-Class Customer Care and Issue Resolution Experience**

We will continue to improve the customer care center experience by the following:

- Reducing wait times for calls.
- Implementing new customer inquiry channels, such as live agent chat, and increasing first-call resolution by closing agent knowledge gaps.

We are working to improve the claims process by doing the following:

- Understanding the customer journey.
- Redesigning the customer interface.
- Improving backend systems.

We will continue to enhance and improve overall customer satisfaction for the issue resolution experience by doing the following:

- Using customer experience (CX) and operational data to target critical issues.
- Optimizing the case routing process to resolve customer issues more quickly.
- Better equipping our employees with skills for effective case management.

We are also enhancing customer self-service capabilities across our digital channels (such as usps.com, social media, mobile) to address customer issues and reduce the volume of calls to the Customer Care Centers.

We realize these initiatives are only part of the solution. Creating great customer experiences requires that we equip, connect, engage, and empower our employees to best serve our customers. This element is so important that it is the focus of our second Ready-Now —Future-Ready goals.



## Goal 2: Equip, Connect, Engage, and Empower Employees to Best Serve USPS Customers

### Goal Description

We will endeavor to enhance the Postal Service's role as a preferred U.S. employer, offering stable jobs with more flexible compensation and benefits packages to attract and retain highly qualified employees who are best equipped, connected, engaged, and empowered to serve our customers and to identify and implement new innovative products and services.

Our employees are our greatest asset and have a vested interest in a strong Postal Service. They are our most passionate and articulate advocates for our customers. The core value we deliver to the American people is and will continue to be enabled by our employees. Although we envision a smaller number of Postal Service employees, a workforce comprised of healthy, enthusiastic, engaged employees who are better connected to each other and to our customers will continue to be the foundation for bringing this vision to life.

### Key Strategies and Initiatives

Our efforts are aimed to enhance the Postal Service's status as an "employer of choice" that hires the most effective employees, and develops, equips, and empowers them to best serve our customers, and implements programs to keep them safe and healthy. Key initiatives include those described in the following paragraphs.

#### **Align Employee Leadership, Development, and Incentive Programs to Delivering Excellent Customer Experiences**

We will continue to implement a comprehensive process for developing our leadership and employee skills necessary to deliver great customer experiences in this competitive environment and increasingly digital world. This will include efforts to refine training requirements and career paths for employees. To better understand the changing training needs and demographics of our workforce, we will develop predictive models and data-driven approaches for assessing our talent pipeline. We will evolve our Human Resources (HR) services platform to be a single stop for all HR needs for employees while continuing to modernize and improve HR processes and technologies to drive employee access and

platform adoption. Finally, we will continue to refine and adapt our employee Pay-for-Performance (PFP) systems to ensure that we incent and reward the best performance. Altogether, these efforts will improve leadership and employee readiness to drive the culture changes necessary for long-term success.

#### **Equip, Connect, Engage, and Empower Employees to Better Serve USPS Customers**

Informed and connected employees are better able to serve our customers and drive better business results. USPS efforts to enable this initiative include the following:

- Involving our employees in designing new technologies and processes to help them do their jobs better.
- Deploying our Informed Mobility and Informed Facility tools to better inform and connect plant and Post Office employees.
- Leveraging those technologies to enable our employees to better communicate with each other and with our customers.

The Postal Service collects a great deal of information about our operations, transportation assets, equipment status, location of mail and packages, and customer feedback. We will continue to expand and enhance the sharing of the right information, at the right time, with the right frontline employees through our Informed Facility and Informed Mobility technology platforms.

**Informed Facility** — Informed Facility is our facility-based content delivery platform capable of rapidly providing information to frontline employees via facility-based interactive displays. These displays are located throughout our processing plants and Post Offices and provide a diverse selection of facility performance information, employee feedback, and real-time customer feedback.

**Informed Mobility** — Our Informed Mobility effort is designed to equip our plant and Post Office supervisors with mobile devices and smart applications that enable them to maintain visibility and control facility operations as they move about operations while interacting directly with employees and customers.

#### **Equip, Connect, Engage, and Empower Employees to Improve Employee Safety and Well-Being**

Over the next five years, we will continue to build upon

our current excellent safety programs to create the safest and healthiest environment possible for our employees. Postal Service efforts to enhance safety programs include the following:

- Refining training for new employees.
- Deploying new equipment with additional smart safety features.
- Equipping employees with smart devices.
- Empowering employees to identify, record, and report safety concerns in real time with the goal of reducing all accidents (motor vehicle and industrial).

By providing the tools and resources employees need, we will empower our employees to play a more active role in creating a safer work environment. Our efforts will improve employee availability, enhance customer service, create an overall more engaged employee base, and reduce our total operating expense.

### Goal 3: Innovate Faster to Deliver Value

#### Goal Description

For our business to grow, we must create new solutions that meet the rapidly changing needs of our customers. Customer needs, business conditions, and technologies are changing faster than ever. The Postal Service has been a leader in embracing new technologies for the last 245 years. The rate of change over the next five years will be more rapid than ever and we must keep pace. We must accelerate our testing of new approaches to better serve our customers' changing needs by integrating mail into their digital lives.

We will accelerate innovations to sustain mail volumes for delivery of domestic First-Class Mail, Marketing Mail, and Flats by improving in-home reliability, enhancing USPS digital value-add services, and leading the adoption of digital features across the mailing industry. We will test digital services to increase the loyalty of current customers while developing deeper relationships with digitally connected customers who may not fully appreciate the value of mail. We must anticipate the impact of digital technologies on how businesses interact with their customers domestically and abroad, with the growing expectation that any service, such as mailing and shipping, must seamlessly support and integrate digital technologies.

We will accelerate innovations to improve the parcel delivery and return experience and enhance

the Postal Service's parcel delivery digital and value-added services.

We will accelerate innovations to grow domestic digital service revenues from federal agencies by leveraging retail, delivery, network, and IT platforms with a focus on in-person digital identity verification services, address and geospatial data services, and digital or e-government services.

Building on our long and bold history of innovation, we will continue to explore advances in technology and adapt to the changing marketplace. The faster we move innovations from an idea to actually delivering a new service that customers value will be the key for us to enable stable and profitable revenue.

#### Key Strategies and Initiatives

##### Lead the Adoption of Digital Features Across the Mail Industry to Enhance the Value of Physical Mail

The Postal Service continues to drive innovations that give consumers more control over the mail they receive, make direct mail simple to send, enable multimedia touch points, and reinforce the resiliency of mail as a trusted, effective communications channel. Mail continues to be the primary revenue source for the Postal Service, so sustaining mail revenue by offering mail products and features our customers value is essential to our success.

We will ensure mail remains relevant and viable by merging physical mail with digital features. We will continue to expand the following initiatives:

- Increase the functionality of our Informed Delivery application.
- Promote new digitally enhanced mail solutions.
- Create solutions to help mail drive e-commerce.
- Develop digital promotions to accelerate adoption of digital features across the mailing industry.

For example, in mailing campaigns linked through our Informed Delivery platform, customers receive detailed mail campaign data (such as density and email statistics, email open rates, and click-through rates) to provide insights into campaign reach and results to help demonstrate the return on investment of their campaigns.

**Retargeted Direct Mail** — Retargeted Direct Mail helps mailers handle online shopping cart abandonment.

When e-commerce consumers find items they want, put them in the virtual shopping cart for purchase, and then leave the site without completing the transaction, Retargeted Direct mail helps e-commerce customers close the sale by providing additional incentives through the mail to drive purchase actions.

**Next Generation Campaign** — We are also leveraging our customers' best practices in the mail through our Next Generation campaign awards featured at the annual National Postal Forum where we showcase best-in-class mailing campaigns that incorporate digital features, such as Informed Delivery and branded QR codes, blended with many other innovations we have been talking about for a long time, such as data personalization and creative paper textures. Customers can learn from the best real-world examples that demonstrate the value that mail can provide when using the latest innovations. Another way that the Postal Service has been able to engage mailers in some of these new technologies is by offering pricing promotions to entice them to try new innovations.

**Academic Outreach Program** — To help maintain the relevance of mail for future commercial customers, we are actively recruiting colleges and universities to help get marketing mail back into the college curriculum through the Postal Service's Academic Outreach program. With a focus on marketing and communications, advertising, graphic design, entrepreneurship and business courses, more than 60 colleges and universities will be actively incorporating our curriculum and materials in the coming academic year helping to develop these future leaders.

### **Enhance the Value of the Informed Delivery Application for Mailers and Shippers**

In a world inundated by digital ads, businesses are challenged to reach their audiences effectively. To meet these customers' needs, the Postal Service will continue to integrate the physical features of direct mail with the digital features of digital advertising to help marketing messages make a greater impact.

With Informed Delivery, businesses are able to connect one direct mail campaign with potential customers three times: through email, digital ride-along content, and the mailpiece itself. We will continue to incent adoption across more customers by enhancing the Informed Delivery application for the end user and integrating it with more devices and platforms.

### **Enhance Parcel and Post Office Box Services**

The Postal Service will continue to look for innovative ways to leverage our retail stores, digital channels, and alternative retail network to best offer services to meet the growing and changing needs of our customers, including small business, e-commerce, and rural customers. In today's market, consumers are making shopping choices based, in part, on returns options. Our research shows that shoppers will complete their purchase if the returns process is an easy one and that a majority of customers will purchase again from a vendor if they are satisfied with that vendor's return process.

The Postal Service is moving to establish a prominent role in the returns industry. Innovative strategies and pilot programs allow shippers to dynamically route their returns to either the closest or most appropriate facility in order to expedite the return process and get the product back on the shelf. We are implementing self-service returns solutions to allow consumers to easily access printed labels when not provided with shipments. Consumers can visit a local Post Office and scan the QR code on a phone to receive a label or even notify the office that a return package is ready for pickup. These innovations remove the customer friction point of bringing the package to a store or shipper to return it. These strategies and pilots, along with Informed Delivery for packages, will provide shippers with opportunities to generate mail and additional packages.

We will continue to pilot efforts to lower costs for serving existing customers, attract new digital and mobile customers, and increase revenue from retail store and Post Office Box services. Every employee will have ownership over building the business by focusing on what customers value.

### **Leverage Postal Service Infrastructure and Services to Deliver Government and Digital Solutions**

The Postal Service has built an unparalleled physical and digital infrastructure over the past 245 years to enable the efficient universal delivery of mail, packages, and services to American businesses and consumers. The physical and digital infrastructure and the capabilities built upon it provide significant value to the Postal Service, its customers, and our country. There is inherent value to an infrastructure of this size, scale, and scope coupled with the capabilities the Postal Service has developed and matured. These capabilities can be harnessed by other organizations and agencies to promote the public good and create an independent revenue stream



for the Postal Service. Over the next five years, we will explore ways to leverage these assets to provide additional services that support the Postal Service's universal service obligation while developing revenue streams that enable investments in the Postal Service.

## Goal 4: Invest in Our Future Platforms

### Goal Description

Though we envision being capital constrained over the next five years, we believe it is critical that we strategically invest in the operations and infrastructure of the Postal Service to continuously improve and digitally integrate our business capabilities and adapt to emerging market opportunities.

We must make critical investments necessary to optimize cost efficiencies and service reliability in the short term and strategic investments in new platform capabilities that will enable us to meet changing customer needs over time and remain relevant in the digital economy.

We will continue our relentless pursuit of process improvements and automation to maximize operating efficiencies, optimize customer experiences and service reliability, increase security, increase employee safety, and improve environmental sustainability. In particular, we will continue management actions to maintain low USO delivery costs and improve service reliability by deploying advanced automation and data analytics and rationalizing infrastructure to match volume. We will also continue to engage our suppliers and industry partners to enhance public-private partnerships to keep costs affordable and add value over time.

We will build new capabilities to better serve the growing domestic and international e-commerce market, especially for parcels entered at delivery units for last-mile delivery, automation-compatible parcels shipped under 600 miles, and e-commerce parcel returns. We will be investing in automated processing equipment, process improvements, and public-private partnerships to build out a low-cost, highly reliable one-to-two-day ground service, seven-days-a-week delivery, and a frictionless returns platform.

We believe that excellent service and customer experiences are foundational for revenue growth. It is our strategic investments that will enable us to equip, connect, engage, and empower the workforce, innovate faster, and achieve world-class experiences for our customers over the next five years.

## Key Strategies and Initiatives

### Optimize the Network Transportation and Processing Platform to Improve Reliability, Speed, and Efficiency

**Optimize Network Platform Initiative** — The Optimize Network Platform initiative is responsible for evaluating, right-sizing, and equipping the mail processing infrastructure and transportation networks to increase operating efficiency, reduce costs, and improve reliability. We will continue to digitally integrate our transportation and processing operations to enable near real-time visibility into postal and partner network operations from the time mail and packages are accepted, throughout the mail stream, to the moment it is delivered — making every mailing effective and keeping every customer informed. We call this collection of sensors, data exchange protocols, data processing, and data display capabilities our Informed Visibility platform. Over the next five years, we will further amplify the power of Informed Visibility by enabling users to directly connect to their data through mobile devices and share it easily throughout their own businesses.

**Informed Mobility Platform** — Through our Informed Mobility frontline supervisor mobile device platform, we will continue to leverage the vast amount of data generated by our Informed Visibility platform to equip and empower our frontline employees with the right information at the right time to improve business decisions, increase efficiencies, develop new capabilities, and improve customer experiences.

The initiative has targeted activities to accomplish the following:

- Continuously optimize location of network processing operations and equipment as mail volumes decline and parcel volumes increase.
- Improve and expand surface transportation center hubs to enable longer and more reliable ground delivery services.
- Continue to deploy dynamic routing technologies and processes for plant-to-plant and plant-to-Post Office transportation.
- Deploy advanced equipment, such as automated guided vehicles for moving containers within our facilities, advanced delivery unit sorters, and high-tech parcel lockers.

- Expand partnerships where best aligned to improve service reliability, lower costs, and increase capabilities.
- Develop and deploy advanced sensors and information systems to enhance the Informed Visibility platform to enable real-time visibility of every product moving across the postal and partner networks.

Our employees will continue to play a key role in optimizing network performance. As such, we will continue to improve and expand our Informed Facility and Informed Mobility tools to equip, train, empower, and incent our network personal to create lean and standardized work processes, maximize service reliability, optimize customer visibility, minimize costs, and increase network flexibilities.

### **Optimize the Delivery and Retail Platform to Improve Reliability, Speed, and Efficiency**

Over the next five years, we expect the number of delivery points we serve to grow by 1 million every year while mail volume will continue to decline and package volume will grow modestly. Therefore, we will continue to improve work processes, route structures, and delivery hub locations; deploy advanced technologies; and increase public-private partnerships to augment the reliability, speed, and efficiency of our local delivery and retail operations.

We believe a digitally integrated delivery service enhances the value for our employees, businesses, and customers. We are deploying next generation applications to monitor the status and performance of mail and packages throughout the supply chain.

This initiative also aims to ensure the Postal Service maintains a financially viable retail network of physical stores, digital channels, and alternative access points that consistently provide simple, convenient, and friendly services in both urban and rural areas. Initiatives over the next five years include the following:

- Begin production and deployment of our next generation delivery vehicles.
- Pilot and deploy advanced technologies to help our carriers get out for delivery more quickly by reducing time spent manually sorting mail and packages to routes and delivery points and loading delivery vehicles.

- Increase visibility, optimize route travel, and connect carriers to their customers after carriers are out for delivery. We will be deploying the next generation Mobile Delivery Device (MDD) to provide an unprecedented level of visibility once mail is out on the street. Furthermore, these devices will help carriers improve route efficiencies, connect with other employees, and communicate with customers about their delivery preferences. These tools will enable our employees to better serve our customers and keep delivery costs low.
- Expand Post Office Box and parcel locker operations to better support the growing demand for packages, improve our customers' experiences when dropping off and picking up packages, and reduce the costs of redelivery of undelivered packages.
- Expand the deployment of self-service kiosks and lobby assistants equipped with mobile point-of-sale (mPOS) technologies to reduce wait time and improve the customer experience.
- Improve retail office environments and enhance employee training.

Our delivery and retail initiatives will aim to improve customer experience scores, increase revenue from retail transactions, and optimize the cost to serve our customers.

### **Build a World-Class Domestic Parcel Delivery Platform**

We are continuing to build out a cost-efficient parcel delivery platform that meets growing customer expectations for a low-cost, highly-reliable same-day and two-day ground service for shipping distances less than 600 miles, frictionless e-commerce returns, and seven-day-a-week home deliveries.

We are building our product portfolio and the supporting infrastructure needed to meet these expectations and grow the packages business of the future, increase efficiency while decreasing costs, and offer highly competitive service features. We are deploying advanced package sorting and transportation equipment solutions within the network, local delivery, and retail platforms. We are creating innovative digital solutions that enhance the value of the postal package delivery services.

Local delivery, or last-mile service, will continue to be a core service offering. As shipping and package volumes and revenues continue to grow, the Postal Service will

continue to simplify our products to offer customers more control over where, when, and how they receive packages. We will innovate with expanded seven-days-a-week parcel delivery services, enhanced same-day last-mile and regional next-day delivery services to expand features without sacrificing affordability to benefit both senders and receivers of packages. We continue to explore innovative public-private partnerships to leverage the Postal Service's first-mile parcel collection and last-mile parcel delivery services.

In today's market, consumers are often making online shopping choices based on the ease of returns options. Our research shows that shoppers will complete their purchases if the returns process is an easy one and that a majority of customers will purchase again from a vendor if they are satisfied with that vendor's return process. The Postal Service is moving to establish a prominent role in the returns industry. Innovative strategies and pilots allow shippers to dynamically route their return to either the closest, or most appropriate facility, in order to expedite the return process and get the product back on the shelf. We are implementing self-service returns solutions to allow consumers to easily access printed labels when not provided with their shipments. Consumers can visit local Post Offices and scan the QR code on a phone to receive a label or even notify the local office that a return package is ready for pickup. Other initiatives such as ship-from-store expansion, improved Parcel Select partnerships, predictive delivery, and package-less returns are examples of how the Postal Service continues to evolve with changing market conditions.

These innovations remove the customer friction point of bringing packages to a store or shipper to return them. These strategies and pilots, along with Informed Delivery for packages, will help meet the growing needs of retailers and shippers.

### **Maintain a Safe and Secure Network to Prevent Illicit Drug Distribution and Delivery**

The growth of e-commerce in the last 10 years has dramatically increased the volume of packages shipped to and within the United States. The nature and associated risks of drugs in the mail have evolved in recent years. Drug traffickers, particularly those who use the internet to run their businesses, are also increasingly using package shipping providers to transport their products. In 2017, in response to the significant increase in the sale, distribution, and delivery of illicit (primarily opioids) drugs,

President Donald Trump declared the opioid epidemic a Public Health Emergency, which was followed by the enactment of the Synthetics Trafficking and Overdose Prevention Act (STOP ACT) by Congress in 2018.

The Postal Service, in conjunction with our law enforcement arm, the Postal Inspection Service, is firmly committed to eliminating the distribution of illicit drugs through the mail and has worked for decades to combat the use of its network to facilitate illicit drug distribution. Through the increased use of technology, sharing of data between the Postal Service and foreign posts, improved interdiction processes and working closely with our partners, including the Department of Homeland Security, Customs and Border Protection, and other federal law enforcement agencies, we will continue to investigate criminal activity and fight the trafficking of illicit drugs.

### **Culture of Conservation**

As we invest in future initiatives, we will continue to improve sustainable and environmentally focused solutions that decrease our greenhouse gas emissions. We remain committed to being a sustainability leader by creating a culture of conservation throughout the Postal Service.

Initiatives to make these goals a reality include:

- Diverting over 58% of our waste from landfills.
- Alternative energy projects, including hydrogen fuel cell and solar projects.
- Sustainable packaging.
- USPS BlueEarth Federal Recycling and Carbon Accounting services.
- Lean Green Team employee engagement.
- Annual greenhouse gas inventory reporting.
- Annual sustainability reporting in accordance with Global Reporting Initiative standards.
- Proactive environmental management.

As the foundation for this vision, we strive to ensure compliance with environmental and energy regulatory requirements in all aspects of our operations. Learn more by visiting [usps.com/green](https://usps.com/green).

## Goal 5: Support the Legislative and Regulatory Changes to Enable This Vision

Finally, we cannot create this vision on our own. Since we rely on congressional and regulatory actions, in addition to the initiatives within our control outlined above, to enable financial stability necessary to create this vision, we will do all in our power to inform Congress, the Administration, the PRC and the public about the implications of different options to address our financial situation.

Ultimately, to enable the Postal Service to achieve financial stability in a self-sufficient manner, Congress and the PRC must enact legislative and regulatory changes that address the restrictions on our ability to lower our costs and to grow our revenue. If this does not occur, Congress will need to identify other means of financing our costs. The following list identifies the drivers of costs, and the legal constraints on revenue growth, that constitute the underlying reasons why our current business model does not enable the Postal Service to achieve financial stability in a marketplace characterized by secular declines in mail volume and an increasingly competitive environment for the delivery of packages:

- Federal benefits programs as currently structured impose liabilities that we cannot afford to fund. Retiree pension and employee health care and benefit costs mandated by the Federal Employee Health Benefits Program alone represent 35 percent of the Postal Service's direct personnel costs and have been rising faster than the rate of inflation as measured by the CPI-U.
- Our universal service mandate as currently structured imposes fixed and growing infrastructure and delivery costs, even as the mail volume being delivered to each address continues to decline.
- The current CPI-U price cap imposes strict limits on our ability to set prices for Market-Dominant products, which provide 67 percent of our revenues. Revenue growth is also limited due to legislative and regulatory limits on the products and services we can offer.

For 245 years, the Postal Service has delivered on its mission, and the next five years will be no different. We will continue to boldly transform our network, delivery, and retail operations while building new capabilities that will position the Postal Service to meet the rapidly

changing needs of our household and business customers for e-commerce and digital solutions. The goals and initiatives outlined above and described in our Ready-Now — Future-Ready Strategic Plan lay out a path to realize this vision and create a financially viable Postal Service.

## How We will Measure Success

To assess our efforts in achieving these goals and strategies, we have established detailed metrics and targets organized within the following corporate balanced scorecard performance categories:

- High-quality service metrics.
- Excellent customer experience metrics.
- Safe workplace and engaged workforce metrics.
- Financial health metrics.

For each of these performance categories, we have developed detailed metrics to assess our progress and targets to achieve continuous improvement, which are described in the following subsections. We track and report progress against these metrics monthly to internal stakeholders as part of our National Performance Assessment (NPA) system. These metrics and targets also form the basis of our employee PFP system. Every executive and administrative non-bargaining employee participates in the Postal Service's PFP system. This system compensates employees based on how well the Postal Service achieves its goals and targets as measured by the NPA system. Appendix A contains a detailed overview of the NPA PFP systems.

Every fiscal year, we establish a budget to achieve these corporate performance targets. We report the budgeted expenses and revenue plan in our Annual FY Integrated Financial Plan (IFP). We establish our corporate-wide targets to be achievable given the planned finances in the IFP. In addition, we produce an Annual Report to Congress that describes our performance against established targets for the previous fiscal year and our detailed targets for the next fiscal year.

Exhibit 4 shows our performance from FY2016-FY2019 and our targets for FY2020-FY2024 for each balanced scorecard performance metric.

#### Exhibit 4. FY2016-FY2019 Results and FY2020-FY2024 Targets for Corporate-wide Performance

Corporate Performance	Measure	Metric in PFP	FY2021-24 Target	FY2020 Target	FY2019 Actual	FY2018 Actual	FY2017 Actual	FY2016 Actual
High-Quality Service	First-Class Mail Letter and Flat Composite (FCLF)	Y	Improve	96.00	92.02	92.07	93.29	92.34
	Marketing Mail and Periodicals Composite	Y	Improve	91.80	89.25	89.26	91.44	90.01
	Composite Priority Mail Products	Y	Improve	NP	NP	NP	NP	NP
	Composite Parcel Select Products	Y	Improve	NP	NP	NP	NP	NP
	Composite First-Class Parcel Service Products	Y	Improve	NP	NP	NP	NP	NP
Excellent Customer Experiences	Customer Experience Composite Index	Y	Improve	75.73	69.04	67.47	88.30	87.62
	Business Service Network (BSN)	Y	Improve	96.73	96.68	95.90	96.25	95.13
	Point of Sale (POS)	Y	Improve	90.42	87.77	87.98	88.53	86.38
	Delivery	Y	Improve	86.33	80.40	80.47	83.22	76.26
	Customer Care Center (CCC)	Y	Improve	55.00	46.94	39.19	86.80	85.18
	Enterprise Customer Care (eCC)	Y	Improve	55.00	37.45	36.73	3.78	5.19
	USPS.com	Y	Improve	72.58	72.94	57.54	NA	NA
Safe Workplace and Engaged Workforce	Business Mail Entry Unit (BMEU)	Y	Improve	96.01	96.00	95.33	NA	NA
	Total Accident Rate	Y	Improve	15.00	14.19	15.09	15.43	16.09
	Engagement Survey Response Rate	N	Improve	0.51	0.38	0.42	0.46	0.30
Financial Health	Controllable Income (Loss) (\$ in billions)	Y	Improve	(4.00) <sup>1</sup>	(3.42)	(1.95)	(0.81)	0.61
	Deliveries per Total Work Hours, % Change	Y	Improve	1.50 <sup>1</sup>	(0.60)	(0.50)	(0.50)	0.10

Note: NP indicates that this target is not publically reported, but provided to the Postal Regulatory Commission under seal.

<sup>1</sup> The FY2020 IFP information contained in this document will be revised if needed upon approval by the Board of Governors.

### High-Quality Service Metrics

To measure our performance relative to service quality, we continuously sample random mailpieces and measure the time between when the mail is deposited in a postal facility and when a USPS employee delivers it at a home, business, or PO Box.

Below we describe the categories of mail standards that we use to gauge the quality operations to achieve our delivery service standards.

#### On-time Delivery Performance of Letters, Flats and Periodicals

- **Composite On-time Delivery Performance of First-Class Mail Letters and Flats.** The First-Class

Mail Letter and Flat (FCLF) Composite service metric is comprised of the weighted average of the on-time delivery performance of Single-Piece First-Class Mail and Presort First-Class Mail across all service standards, weighted by volume of pieces delivered in each category.

- **Composite On-time Delivery Performance of Marketing Mail and Periodicals.** The Marketing Mail and Periodicals Composite category is a composite indicator of the percent of all Marketing Mail and Periodicals that were delivered within the service standard established during the year. This metric includes on-time performance for Marketing Mail letters, Marketing Mail flats, and Periodicals.



Approximately two-thirds of mail volume in this composite is Marketing Mail letters, while the remainder is Marketing Mail flats and Periodicals.

### On-time Delivery Performance of Parcels

- **Composite On-time Delivery Performance of Priority Mail Products.** Priority Mail and Priority Mail Express performance is measured using a composite score of performance across our Priority Air, Priority Surface, and Priority Mail Express volumes. To calculate the service performance, on-time volumes for Priority Mail Air, Priority Mail Surface, and Priority Mail Express are combined and divided by the total volumes for the same to determine the composite on-time performance.
- **Composite On-time Delivery Performance of Parcel Select Products.** This indicator measures the on-time percentage of Parcel Select that is entered at the destinating delivery unit. On-time performance is based on capturing a stop-the-clock event on the expected delivery date.
- **Composite On-time Delivery of First-Class Parcel Service Products.** First-Class Parcels performance is measured using a composite score of Commercial and Retail 2-day and 3-5 day. To calculate the service performance, on-time volumes for 2-day and 3-5 day First-Class Parcels are combined and divided by the total volumes for the same to determine the composite on-time performance.

### Excellent Customer Experience Metrics

We will measure customer experiences using a composite measurement system to provide a comprehensive view of the customer experience across the most frequently used postal customer contact channels. The metric CX Composite Index is comprised of component surveys of the customer experience touchpoints. Each of the component surveys is described below.

- **Point of Sale (POS) Survey.** The POS survey measures customers' overall satisfaction with their experiences at retail locations.
- **Delivery Survey.** The Delivery survey measures the overall satisfaction of residential and small/medium business customers' delivery experience.
- **Business Service Network (BSN) Survey.** The BSN survey provides nationwide support to qualified

business customers on service issues, information, and requests. The BSN survey measures a business' overall satisfaction with its BSN account representative in resolving issues.

- **Business Mail and Entry Unit (BMEU) Survey.** The BMEU survey measures each commercial mailers' overall satisfaction and customer opinion of BMEU employees, the service received, and suggestions for areas of improvement.
- **Enterprise Customer Care (eCC) Survey.** The eCC survey measures resolution satisfaction of customers who file complaints through either a live agent or online.
- **Customer Care Center (CCC) Survey.** The CCC survey measures customer satisfaction with calls made to our customer care centers.
- **USPS.com Survey.** The usps.com survey measures customer satisfaction with the USPS website as well as solicits customer opinion of website elements.

### Safe Workplace and Engaged Workforce Metrics

We will measure our progress against this goal by tracking employee engagement and employee safety performance against targets for achieving continuous improvement and external benchmarks.

- **Total accident rate.** This metric is the total accident count for the year, multiplied by the approximate number of annual work hours per employee (2,000), multiplied by 100 and divided by the total yearly number of work hours. This yields, approximately, the annual accident frequency per 100 employees. This rate uses the same calculation developed by the Occupational Safety and Health Administration (OSHA) for OSHA Illness and Injury rates but expands it to include accidents that do not result in medical expenses, days away from work or restrictions from performing full duty. Using the total accident rate is an industry best practice that enables us to design targeted prevention strategies designed to eliminate accidents and reduce the severity of impact on both the employee and the organization. The safety performance metrics are included in the USPS NPA process (see Appendix A) and are reviewed every year when we assess performance and set targets to achieve a goal for continuous improvement and relative competitive benchmarks.

### ■ **Employee Engagement Survey Response Rate.**

We believe that an engaged workplace is one in which individuals and teams thrive, consistently perform at high levels, and achieve positive organizational outcomes. To measure the level of employee engagement within our organization, we administer the Postal Pulse survey, a 13-question instrument developed by Gallup, Inc., and have established the Engagement Survey Response Rate as the corporate measure of progress. The Engagement Survey Response Rate measures the level of participation of all potential respondents during each survey administration.

## **Financial Health Metrics**

We measure financial health using the metrics that cover revenue, expenses, net income (or loss), delivery efficiency, and total factor productivity. We develop an annual IFP to be consistent with our forecasted workload, planned work hours, and forecasted expenses. As noted earlier, we establish our annual IFP to enable business units to achieve corporate-wide non-financial targets.

### **Controllable Income (Loss)**

Controllable income (loss) is a non-GAAP (accounting principles generally accepted in the United States) measure defined as total revenue less controllable expenses and one-time accounting adjustments. Our financial results are significantly affected by expenses that are not reflective of our operational decisions and are subject to large fluctuations outside our control. We use controllable income (loss), rather than net income (loss), to assess our financial performance as net income includes the effect of non-controllable expenses such as interest rate changes that cannot be controlled or influenced by management.

### **Controllable Expenses**

Controllable expenses include the following categories of expenses:

- Compensation and benefits expenses include salaries, basic retirement, and employee health benefit expenses for our active employees and workers' compensation cash outlays.
- Postal Service Retiree Health Benefits Fund (PSRHBF) normal cost expense is the expense we incur to fund retirement health benefits for our active employees.

- Transportation expenses include the costs we incur to transport mail and other products between our facilities, including highway, air and international transportation contracts, plus contract delivery services. Transportation expenses do not include the compensation and benefits of employees responsible for transporting mail and other products between our facilities or to delivery points. The non-personnel costs of transportation to delivery points, excluding contract delivery services, are included in rent, utilities, and other expenses.
- Depreciation expense allocates the cost of long-lived assets to the periods in which they are used. These assets include items such as buildings, equipment, vehicles, leasehold improvements, and capitalized software.
- Supplies and services expenses include minor equipment, spare parts, furniture, services, cost of sales, and office supplies.
- Rent, utilities, and other expenses include the cost of leasing buildings, utilities, building repairs and alterations, vehicle fuel, information technology, interest expense, and all other miscellaneous items.

Controllable expenses exclude certain items that we consider non-controllable, discussed in the "Non-Controllable Expenses" section of this plan. Our ability to affect the amount of controllable expenses is limited by various legal requirements, including our universal service obligation, our collective bargaining obligations, and our obligation to participate in federal benefits programs.

### **Non-controllable Expenses**

Non-controllable expenses include revaluations of the PSRHBF normal cost by the Office of Personnel Management; the amortization of our unfunded PSRHBF liabilities; the amortization of our unfunded liabilities for our participation in FERS and CSRS; any changes in accounting estimate of Deferred revenue — prepaid postage liability for Forever stamps; and non-cash expenses related to the changes in our liability for participation in the federal workers' compensation program. We exclude these items from the calculation of controllable income (loss).

Fluctuations in these expenses are caused by changes in actuarial assumptions, such as interest and inflation rates, and employee and retiree demographics. We can

only influence these expenses over the long term by changing the number of employees or compensation rates, but this effect is very small and gradual compared to the effect of external factors.

The Postal Service PFP system includes overall corporate achievement of targets for Revenue to Plan and Controllable Income.

### **Deliveries per Workhour**

To measure changes in our overall delivery efficiency we use the metric Deliveries per Total Work Hours, Percent Change (DPTWH, % Change) relative to the previous fiscal year. This metric is calculated by multiplying the total possible deliveries by the number of delivery days and dividing that product by total work hours.

We establish targets for our percent improvement in DPTWH % Change from year to year. We adjust work hours to reflect changes in workload compared to the prior year. This adjustment accounts for changes in the network size (e.g., the addition of delivery points), changes in the number of non-Sunday delivery days, and changes in the mix of mail types (e.g., a package usually contributes much more to workload than a letter or flat). The adjustment ensures that DPTWH % Change is comparable from year to year. Finally, DPTWH % Change is calculated by comparing the current year DPTWH % Change (based on adjusted work hours) with prior year DPTWH % Change (based on unadjusted work hours).



## Conclusion: Delivering Excellent Service Today Is the Key to Future Success

The Postal Service remains committed to our fundamental mission to provide timely, reliable, secure, and affordable mail and package delivery to all businesses and households throughout the nation. With an eye to external factors beyond our control in current and future business environments, we are wholly focused on the expectations and experiences of our current and future customers, the American people. We will equip our employees with the knowledge, tools, and resources they need to be empowered in their day-to-day activities and customer interactions, enabling them to feel ownership over what they do through engagement.

We will continue to improve service through the application of innovative technologies, effective management of performance, and improvements in operational processes. We will innovate faster to deliver value to our customers and the communities we serve. Finally, we will be strategic in our investments, investing in the right people, processes, and technologies at the right time for maximized effectiveness.

Deeper partnerships with customers, suppliers, and the mailing industry will improve the quality of mail, package, and service delivery. In addition, the Postal Service will continue to develop pricing incentives and invest in platforms that reinforce efficiency and service improvement. Our mission is an important one — exemplified by more than 245 years of service to the American people. We strive to continue to transform the Postal Service to not merely adapt to ever-changing customer needs but to anticipate, prepare for, and implement solutions as a leader in the industry — Ready-Now and Future-Ready.

# Appendices

## Appendix A: USPS National Performance Assessment System

The USPS National Performance Assessment (NPA) system enables Postal Service employees to track and report progress against its strategic goals using a balanced scorecard of key performance indicators (KPIs) categorized by service quality, customer experience, employee well-being, and financial health. NPA is a system that collects KPI information from source systems across the organization. These metrics are translated into scorecards that are used to monitor the performance of both the entire enterprise and of individual units across the nation.

The NPA system also serves as the foundation of the employee Pay-for-Performance (PFP) program and Performance Evaluation System (PES). The PFP is the primary pay program for executives, professionals, supervisors, Postmasters, and non-bargaining technical and clerical employees. For most field employees, NPA corporate and unit indicators are the sole measure of performance. For headquarters employees, national NPA serves as the target performance level along with individual assessments on performance objectives and core performance dimensions.

To help ensure communications between PFP participants and their evaluators, PES is web-based and has been designed to assist in the fiscal year objective-setting process, a mid-year review process, and the end-of-year feedback and evaluation process. The final step in the PFP Program is the linkage of pay actions to performance ratings.

By instituting these standardized, objective measurements, the NPA system does as follows:

- Increases the objectivity of the USPS PFP Program.
- Provides employees access to their current performance data.
- Empowers employees to take a more active role in the tracking, improvement, and evaluation of their own unit performance.

To establish annual goals and targets for the KPIs within the NPA system, the Postal Service operates a multi-year USPS enterprise strategic planning process (see Exhibit 5). The enterprise strategic planning process begins with a review of USPS mission, vision, and goals by both the Postal Service's Executive Leadership Team (ELT) and the Board of Governors. This phase includes assessments

of the Postal Service's business environment and major enterprise risks. Every three years, we review and update our Five-Year Strategic Plan.

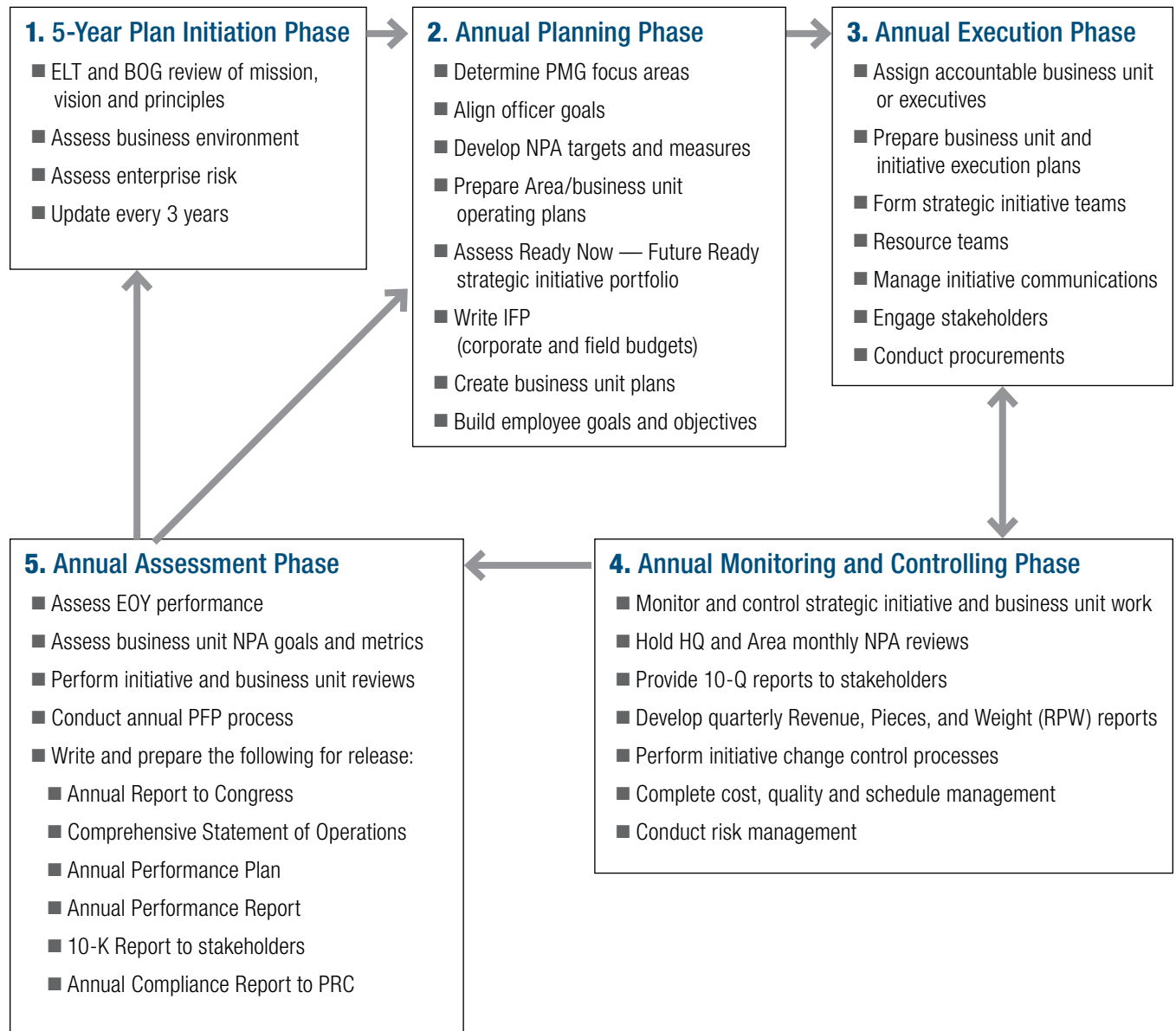
On an annual basis, the Postal Service conducts a complex set of enterprise-wide activities on the planning, executing, monitoring, and controlling phases of USPS strategic efforts, as well as an end-of-year assessment of our performance. These annual activities include the following:

- Evaluating progress against goals and refining NPA KPI measures and targets.
- Developing and aligning senior leadership performance and accountability goals.
- Preparing area and business unit operating plans to achieve goals and targets.
- Assessing and modifying the portfolio of strategic initiatives.
- Formulating a financial plan forecast for the following year.
- Developing goals and objectives by individual employees.

The Postal Service publically releases quarterly performance reports via our Form 10-Q and Revenue, Pieces, and Weight (RPW) reports to provide public insight into our progress throughout the year. Internally the organization conducts portfolio, program, and project-level reviews on a daily, weekly, and monthly bases.

At the end of each fiscal year, the Postal Service conducts annual assessments of our performance, reports this publicly through the Annual Performance Report required by USC 39 Section 2803 (describing the last fiscal year performance), and issues refined NPA metrics and numeric targets for each NPA metric in our Annual Performance Plan for the next fiscal year. These two reports are included in our Annual Report to Congress. In addition, we produce a detailed report of our annual financial performance via our annual Form 10-K report and submit to the PRC a comprehensive Annual Compliance Report.

**Exhibit 5. USPS Strategic Planning Process**

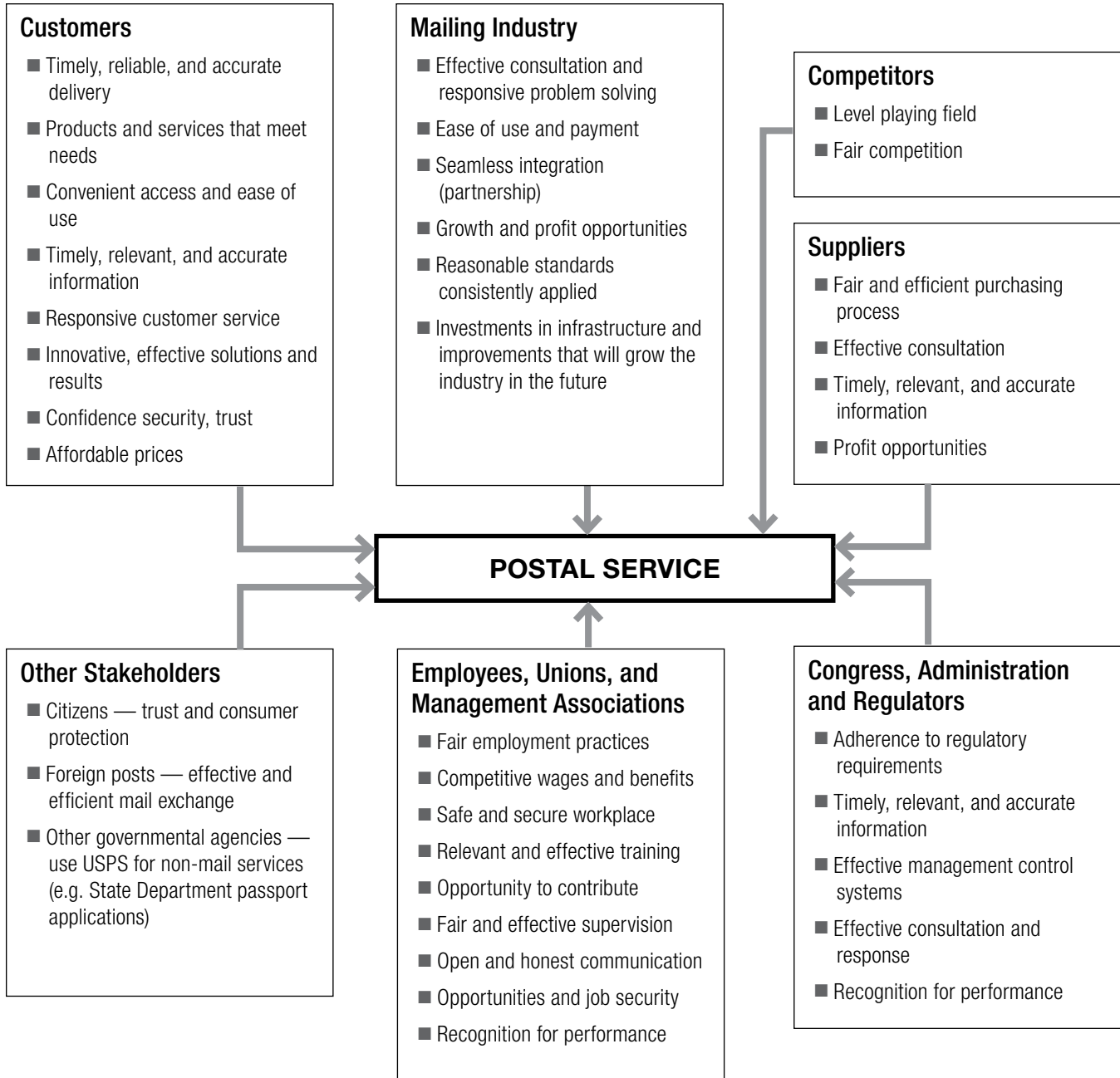


## Appendix B: Postal Service Strategic Planning Stakeholder Outreach Efforts

We develop our strategic plan and the associated goals, objectives, performance indicators, and targets in a process that relies heavily on participation by postal stakeholders. We attempt to balance

competing demands by effectively addressing the key requirements of stakeholders. To effectively reach the stakeholder community, we have developed an inclusive list of key stakeholders (see Exhibit 6).

**Exhibit 6. USPS Stakeholder Outreach Efforts**



We devote a significant amount of resources to determine the requirements of each stakeholder group, work out reasonable compromises among the various groups, and assess the effectiveness of postal programs. The methods employed include the following:

- Surveys.
- Focus groups.
- Market research studies.
- Consultant studies.
- Media tracking and analysis.
- Complaint analysis.
- Meetings with customers, employees, union and management associations, suppliers, and the public.
- Working groups and industry task forces.
- Participation in public policy and industry conferences.
- Oversight hearings and testimony.

#### **Collaborating and Communicating With Industry**

The input and feedback from our industry partners are essential as we introduce new products and services. We will continue working closely with our mailing industry partners because their success is also our success.

**National Postal Forum** — Since 1968, the National Postal Forum (NPF) has been the leading mailing industry conference, bringing together the Postal Service and our major customers. The goal of the NPF, a not-for-profit educational corporation, is to bring industry professionals together to interact with Postal Service management and learn about existing and future USPS products and services.

NPF annually showcases the latest in technology and innovation, providing a unique opportunity for mailers to network with each other as well as talk to potential vendors and suppliers. It also features educational workshops on topics ranging from marketing to operations through general sessions with senior postal leadership, certification courses, focus group sessions, and other activities. We will continue to leverage NPF to assist us to collaborate and help strengthen the relationship between us and the mailing and shipping industries.

**Mailers' Technical Advisory Committee** — The Postmaster General's Mailers' Technical Advisory Committee (MTAC) is another outlet for the Postal Service to share technical information with mailers and to receive advice and recommendations from them on matters about postal products and services. MTAC is comprised of nearly 175 executives and sponsors who represent more than 50 associations and is organized into four key focus areas: mailing preparation and entry; visibility/service performance; product development and payment; and acceptance.

**Postal Customer Councils** — Postal Customer Councils (PCCs) consist of Postal Service leaders and business mailers who work together at the local level to promote the value of mail, address mailing concerns, and exchange ideas. Through regular meetings, educational programs, and seminars, PCC members learn about the latest Postal Service products and services that will help them grow their businesses. There are more than 155 PCCs nationwide. Each year the importance of PCCs and their contributions to the success of the Postal Service are celebrated during National PCC Week.

## Appendix C: Postal Service Products and Services

Exhibit 7 contains a summary of the revenue and volume for the major categories of Postal Service products and services.

### First-Class Mail Delivery Services

This category of services includes the collection, sorting, transportation, and last-mile delivery of letters, cards, or any flat advertisement or merchandise destined for either domestic (up to 13 ounces) or international (up to 4.4 pounds) delivery. First-Class Mail letters include postcards, correspondence, bills or statements of account, and payments. Prices for First-Class Mail are the same regardless of the distance the mail travels. This service includes forwarding for change of address and return services for mail that is undeliverable as addressed.

### Marketing Mail Delivery Services

This category of services includes the collection, sorting, transportation, and last-mile delivery of advertisements and marketing packages, weighing less than 16 ounces that are not required to be sent using First-Class Mail. Marketing Mail is typically used for direct advertising to multiple delivery addresses. Every Door Direct Mail enables customers to prepare direct mailings without names and addresses for distribution to all business and residential customers on individual carrier routes.

### Shipping and Package Delivery Services

This category of services includes the collection, sorting, transportation, and last-mile parcel delivery to include the following:

- First-Class Parcel Service — Commercial, which is a shipping option for high-volume shippers of packages that weigh less than 16 ounces.
- First-Class Parcel Service — Retail for shipment of boxes, thick envelopes or tubes of 13 ounces or less.
- Parcel Services for merchandise or printed matter, such as library and media mail.
- Parcel Select last-mile delivery services.
- Parcel Return services.
- Priority Mail, which offers a 1-3 day specified (non-guaranteed) delivery.
- Priority Mail Express, which provides an overnight,

money-back guaranteed service which includes tracking, proof of delivery, and basic insurance up to \$100. Priority Mail Express delivery is offered to most U.S. destinations for delivery 365 days a year.

### International Mail and Shipping Services

This category offers international mail and shipping services, including through individual customer contracts and agreements with other postal administrations. Priority Mail Express International and Priority Mail International services compete in the e-commerce cross-border business, providing an option for Postal Service retail and business customers for much of their shipping needs to more than 180 countries. Global Express Guaranteed is the premier international shipping option that offers reliable, date-certain delivery in 1 to 3 business days to major markets, with a money-back guarantee.

### Periodical Delivery Services

This category encompasses newspaper, magazine, and newsletter distribution. Customers must receive prior authorization from the Postal Service to use this service.

### Post Office Box, Money Orders, and Other Services

In addition to domestic and international delivery of mail and parcels, the Postal Service offers the following other ancillary services:

- Post Office Box services, which provide customers an additional method for mail delivery that is private and convenient.
- Money Orders, which offer customers a safe, convenient and economical method for the remittance of payments. Money orders are available for amounts up to \$1,000, and can be purchased and cashed at most Post Offices or can be deposited or negotiated at financial institutions.
- USPS Extra Services, which offer a variety of service enhancements that provide security, proof of delivery or loss recovery. These services include: Certified Mail, Registered Mail, Signature Confirmation, Adult Signature, and insurance up to \$5,000 and are available online, at Post Offices or at self-service kiosks.

## Exhibit 7. Revenue and Volume (in Millions) by Mail Category

<i>(in millions)</i>	2017	2018	2019
<b>Operating revenue:</b>			
First Class Mail <sup>1</sup>	\$ 25,689	\$ 24,948	\$ 24,435
Marketing Mail <sup>2</sup>	16,626	16,512	16,359
Shipping and Packages <sup>3</sup>	19,529	21,467	22,787
International	2,614	2,630	2,466
Periodicals	1,375	1,277	1,194
Other <sup>4</sup>	3,760	3,949	4,065
<b>Total operating revenue</b>	<b>\$ 69,593</b>	<b>\$ 70,783</b>	<b>\$ 71,306</b>
<b>Volume:</b>			
First Class Mail <sup>1</sup>	58,834	56,712	54,943
Marketing Mail <sup>2</sup>	78,329	77,271	75,653
Shipping and Packages <sup>3</sup>	5,758	6,149	6,165
International	1,001	941	855
Periodicals	5,301	4,993	4,635
Other <sup>4</sup>	367	336	319
<b>Total volume</b>	<b>149,590</b>	<b>146,402</b>	<b>142,570</b>

*Note: The totals for certain mail categories for prior years have been reclassified to conform to classifications used in the current year. Non-operating revenue is no longer included in this schedule.*

*1 Excludes First-Class Package Service - Retail and First-Class Package Service - Commercial.*

*2 Excludes Marketing Mail Parcels.*

*3 Includes Priority Mail, USPS Retail Ground, Parcel Select Mail, Parcel Return Service Mail, Marketing Mail Parcels, Package Service Mail, First-Class Package Service - Retail, First-Class Package Service - Commercial and Priority Mail Express.*

*4 Revenue includes PO Box services, Certified Mail, Return Receipts, Insurance, Other Ancillary Services, Shipping and Mailing Supplies, Collect on Delivery, Registered Mail, Stamped Envelopes and Cards, money orders, and other services.*

*5 Volume includes Postal Service internal mail and free mail provided to certain congressionally-mandated groups*



## Appendix D: Selected Links to Learn More or Provide Feedback

1. United States Code Title 39, Chapter 28, [gpo.gov/fdsys/pkg/USCODE-2014-title39/pdf/USCODE-2014-title39-partIII-chap28-sec2802.pdf](https://www.gpo.gov/fdsys/pkg/USCODE-2014-title39/pdf/USCODE-2014-title39-partIII-chap28-sec2802.pdf) and [gpo.gov/fdsys/pkg/USCODE-2014-title39/pdf/USCODE-2014-title39-partIII-chap28-sec2805.pdf](https://www.gpo.gov/fdsys/pkg/USCODE-2014-title39/pdf/USCODE-2014-title39-partIII-chap28-sec2805.pdf). [sections about Strategic Planning and Performance Management]
2. United States Postal Service 2019 Annual Report to Congress, [about.usps.com/what/financials/annual-reports/fy2019.pdf](https://about.usps.com/what/financials/annual-reports/fy2019.pdf).
3. United States Postal Service Fiscal Year 2019 Integrated Financial Plan, [about.usps.com/what/financials/integrated-financial-plans/fy2019.pdf](https://about.usps.com/what/financials/integrated-financial-plans/fy2019.pdf).
4. United States Postal Service Final Revenue, Pieces, and Weight by Classes of Mail and Special Services Report (RPW) for Fiscal Year 2019, [about.usps.com/what/financials/revenue-pieces-weight-reports/fy2019.pdf](https://about.usps.com/what/financials/revenue-pieces-weight-reports/fy2019.pdf).
5. United States Postal Service Form 10-K, [about.usps.com/what/financials/10k-reports/fy2019.pdf](https://about.usps.com/what/financials/10k-reports/fy2019.pdf).

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# Additional Information

For more information on our services, products, programs, and policies, visit [usps.com](https://usps.com).

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## Year References

All references to a specific year or “the year” refer to the Postal Service fiscal year ending Sept. 30. However, specific month and year references pertain to the calendar dates.

