

## Struggling Postal Service thinking outside the mailbox

Russ Wiles | August 24, 2012

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Rain, snow and dark of night aren't the issues for the U.S. Postal Service.

It's that Americans just aren't [communicating](#) through traditional mail as much as before. Low-cost telephone service, e-mail, social-networking websites, electronic birthday cards, automatic bill-paying options, digital tax-return filing and other options have siphoned away its core business.

### • [Postal Service: Interesting facts](#)

The venerable service is clearly in a bind. It recently reported a \$5.2 billion quarterly loss. Yet it still must strive to meet a [tough](#) mandate: delivering the mail, though less of it, at uniform and affordable prices everywhere in the country.

The challenges are immense. Beyond increasing Internet use, it must deal with fierce competition from other delivery services, an inflexible business model, high labor expenses and mounting pension and retiree-health costs. It has reported \$25.3 billion in combined losses over the past five years and cut more than one-quarter of its staff since 2000. Earlier this month, it defaulted on a required payment to a retiree-health [fund](#).

Few people expect it to go out of business in the foreseeable future, but some see privatization as inevitable.

The agency has backed away from a plan to close thousands of retail offices, but shorter hours likely are coming at many rural facilities, including 50 in Arizona at locales such as Greer, Jerome, Mount Lemmon, Naco and Wikieup. A general reduction in mail delivery, from six to five days a week, also has been proposed, and delivery times could get longer.

"I'd have no problem with them not delivering mail on Saturday," said Peoria resident Carole Giannantonio Turley. "If that helps to save the post office, I'm all for it."

At the same time, the Postal Service is pursuing more products and services to keep itself relevant. It now runs the world's third-largest [computer](#) network and is focusing on innovation and partnerships. If unshackled from restrictions imposed by Congress, some say, the Postal Service might branch out into check

cashing, warehousing, notary services, Internet-access rentals, bill-paying for customers and handling services for other government entities.

## **Fresh approaches**

At the Bike Emporium in Scottsdale, more than 125 people come into the store on a typical day, but only about half are thinking about cycling. The rest are there to purchase postal supplies and services — stamps, packaging, insurance, tracking and more.

“We do everything except passports and money orders,” owner Glenn Kukac said. “Some people never expect to see that in a bike shop.”

He calls the arrangement a win-win situation: He can increase the visibility of his store while selling Postal Service products at the same prices customers would find at a regular post office. “Most of the time, there are no lines, and it’s just more convenient for everyone,” Kukac said.

There are now roughly 71,000 approved providers nationwide, from small stores such as the Bike Emporium to giant retailers such as Walmart and Walgreens — compared with 32,000 actual postal facilities.

Arizona counts nearly 320 postal facilities, mainly retail offices, along with nearly 9,400 employees, said Peter Hass, a spokesman in Phoenix.

Among other examples of innovation, the Postal Service now allows small businesses to select specific delivery routes for sending advertisements, allowing them to target marketing efforts more precisely.

The Postal Service also has invested heavily in mail-scanning and other technology. Its “click-n-ship” service lets customers send certain types of parcels after buying postage online and requesting a package pickup at their doorstep.

The Postal Service still faces important restrictions. Basic policies such as setting the price of stamps — currently 45 cents for first class — must be approved by Congress, even though the agency receives virtually no federal funding.

More daunting from a financial standpoint, the Postal Service is required to prefund pension and retiree-health costs for its massive workforce of 540,000 career employees (and 638,000 overall), thus diverting money that could be used to improve the business.

It missed a \$5.5 billion retiree-health payment that was due Aug. 1 and has indicated it will skip a \$5.6 billion payment due Sept. 30, technically putting it in default. What this means isn’t clear because it hasn’t happened before, although management insists it won’t have a material impact on operations.

## **Focus on costs**

A five-year plan to achieve financial stability and repay debt, announced by the Postal Service earlier this year, envisions new revenue streams, improved productivity and cost reductions, especially for staffing, which accounts for the bulk of ongoing expenses.

Worker pay and benefits consumed 72 percent of operating expenses for the Postal Service in 2011, compared with 57 percent for United Parcel Service and 42 percent at FedEx Corp. in their most recent years.

At an average hourly rate of \$41.60 in 2011 for wages and benefits, Postal Service jobs pay relatively well.

The Postal Service workforce has been cut from 882,000 in 2000 to 638,000. Cuts will continue, largely through attrition and [early retirement](#) incentives.

## **Facility downsizing**

Some productivity enhancements can be achieved by overhauling retail services and the processing and delivery of mail to adjust for declining volumes. That means new transportation routes and fewer processing/distribution facilities. Among them: Mail flowing into a Tucson processing/distribution facility will be transferred to a similar operation at 48th and Van Buren streets in Phoenix — the largest such facility in Arizona and one of the biggest in the nation.

That means mail sent from one Tucson address to another first will be trucked to Phoenix, then sorted and sent back down Interstate 10. While reducing processing capacity is needed, some delivery times could lengthen, Hass said. Currently, 55 percent of first-class mail nationally gets delivered overnight, and nearly all the rest arrives within two or three days.

The Postal Service already has consolidated more than 200 processing facilities over the past five years. Its current network of 461 processing locations could shrink by 140 more by next February.

“We simply do not have the mail volumes to justify the size and capacity of our current mail-process network,” Patrick Donahoe, postmaster general and USPS chief executive officer, said in a statement.

## **Looking to Congress**

The Postal Service wants authority to implement measures to increase efficiency and cut costs. Roughly a dozen bills have been introduced recently in Congress, but nothing has passed that would significantly alter the grim outlook.

Strategies requiring congressional action include cutting mail delivery to five days a week, which could save \$3 billion annually, and obtaining a refund of payments to the retirement system, amounting to \$11 billion. Management also wants Congress to ease the requirement that the Postal Service prefund retiree-health benefits.

Postal Service management has complained that the agency faces hurdles that private competitors don't. For instance, it is restricted from entering substantially different lines of business that might generate revenue.

### **Privatization possibilities**

Some researchers believe at least partial privatization is inevitable — meaning a shift to shareholder ownership and Wall Street scrutiny, with new management priorities and financial incentives for executives. Without privatization, some predict eventual taxpayer support will be necessary.

“What the USPS needs is greater freedom when it comes to pricing, moving into alternative lines of business, cutting costs and the like,” wrote Robert Carbaugh and Thomas Tenerelli for the conservative Cato Institute. “The USPS has to bear many costs that normal businesses do not encounter — for example, not being able to close uneconomical post offices because few members of Congress want a post office closed in their district.”