



March 31, 2009

PATRICK R. DONAHOE
DEPUTY POSTMASTER GENERAL AND CHIEF OPERATING OFFICER

SUBJECT: Management Advisory Report – Benchmarking Postal
Service Parcel Productivity (Report Number EN-MA-09-002)

This report presents the results of our review of U.S. Postal Service mail processing productivity (Project Number 09XS001EN000). The report responds to a request from the Board of Governors Audit and Finance Committee that we benchmark Postal Service productivity against that of similar U.S. commercial entities. Our objective was to assess the process the Postal Service uses to drive parcel processing productivity improvements by benchmarking with the U.S. private sector. This review addresses strategic, financial, and operational risks. See [Appendix A](#) for additional information about this audit.

Conclusion

We concluded the Postal Service has improved productivity through the use of various strategies to promote continuous improvement, including automated processing operations, competitive intelligence to improve processes, the closure of facilities and consolidation of operations to reduce costs, and the increased use of industrial engineers in plants to assist management. However, the Postal Service has additional opportunities to increase productivity by adopting best practices used in the commercial parcel processing industry. The business practices of Postal Service competitors lend themselves to increased agility in response to prevailing economic conditions and customers' needs, while the Postal Service is challenged to comply with its Universal Service Obligation¹ and various restrictions that limit its ability to manage fixed costs and streamline its network.

We benchmarked productivity improvement methods in the private sector at two processing and distribution companies (Federal Express Corporation [FedEx] and United Parcel Service, Inc. [UPS]), a parcel consolidator (FedEx SmartPost), and a major parcel mailer (L.L. Bean, Inc.). We determined that these entities measure productivity in ways similar to the Postal Service, generally as a ratio of volume to

¹ 39 U.S.C. 101(a) states, "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."

workhours. We were unable to compare actual Postal Service productivity with these commercial entities because productivity data was not available from the benchmarked companies.

Among the benchmarked entities, we identified best practices that could benefit parcel processing productivity at the Postal Service.² Specifically, workforce flexibilities, reliance on performance standards, and continuous operations flow are strategies that may offer the Postal Service the opportunity to improve productivity. See [Appendix B](#) for our detailed analysis of this topic.

Strategies to Improve Productivity

Common to Postal Service and benchmarked entities are the use of various strategies to promote continuous improvement, including automated processing operations, competitive intelligence to improve processes, the closure and consolidation of operations to reduce costs, and the increased use of industrial engineers in plants to assist management. See [Appendix C](#) for our detailed analysis of this topic.

Workforce Flexibility

The Postal Service has limited workforce flexibility compared to the benchmarked companies. The Postal Service processing workforce is predominantly comprised of full-time employees, scheduled in three 8-hour shifts daily,³ and bound by union agreements with limited ability to cross crafts.⁴ Benchmarking companies predominantly use part-time employees, scheduled in 4-hour shifts with staggered start times, which may vary daily or weekly depending on work volumes. In addition, managers at the benchmarked companies monitor workload daily, evaluate productivity in real time, and adjust employee work schedules in response to workload changes. Further, cross-trained employees at benchmarked companies are moved in response to workload needs, including crossing crafts.

Implementing more flexible workforce strategies such as these would have a positive impact on Postal Service processing productivity, in that employee hours could be better managed based on workload. Further, this may result in workhour savings. See [Appendix C](#) for our detailed analysis of this topic.

When the current collective bargaining agreements expire, we suggest the Postal Service review the benefits of negotiating with the unions to modify work rules to promote a more flexible, part-time workforce,⁵ including:

² While our review focused on parcels, mail processing for other mail shapes could also benefit from these best practices.

³ The Postal Service is currently exploring the compression of work tours to consolidate volumes being processed within a given number of workhours and increase productivity.

⁴ The Postal Service *Corporate Complement Management Guidelines* defines crossing crafts as, "The assignment of an employee from one craft to work in a different craft because of insufficient work in the employee's assignment or a light workload period in one craft and a heavy workload period in another craft/occupational group; consistent with the provisions of Article 7."

⁵ During our audit, the Postal Service and one union agreed to provide increased flexibility in the motor vehicle craft.

- Maintaining new-hire part-time status unconditionally.
- Offering full-time employees part-time positions.
- Moving employees among tasks by crossing crafts.
- Developing more multi-activity positions.

Work Standards and Goals

The Postal Service has opportunities to improve work standards and goal-setting. Our benchmarked companies use consistent productivity standards for each work activity, based on machine specifications and time-motion studies performed by industrial engineers. Managers and employees are held accountable for meeting productivity goals, and the budget for operations and workhours is linked to productivity standards. Further, managers and industrial engineers revisit productivity continuously, reset standards as appropriate, and adjust employee work duties to meet goals. The benchmarked companies also increase their productivity targets each year, continuously raising the goals for even top-performing plants.

In contrast, the Postal Service must coordinate with its unions when setting work standards for employees.⁶ The Postal Service uses actual operational performance by the top-performing plants as targets for lower-performing facilities. Operational targets are reviewed and adjusted annually. Management stated continuous improvement for high performing plants is addressed through the budget process.

The use of standardized performance goals for activities throughout the Postal Service network would clarify expectations for employees and provide managers with a basis for measuring progress toward productivity goals. See [Appendix C](#) for our detailed analysis of this topic.

We suggest the Postal Service review the benefits of establishing work standards and productivity measures for work activities with a defined link between work standards and the budget.

Continuous Flow of Parcels

The Postal Service uses batch processing more than the benchmarked companies, which focus on continuous flow of parcels. At three of the four commercial operations we visited, parcels were not seen in staging areas or in containers waiting to be rolled to a loading dock. Rather, the parcels moved continuously on conveyor belts from plant

⁶ Article 34, Work and/or Time Standards, of the American Postal Workers Union (APWU) Collective Bargaining Agreement describes the process the Postal Service and the union must follow to change or add work standards. The APWU Collective Bargaining Agreement includes stipulations for employee work standards, including requirements for notifying the unions, developing the standards, and testing and implementing the standards.

entry, through processing and sorting, and on to final exit for distribution. These parcels moved more quickly through operations at the benchmarked entities when compared with the flow at the Postal Service.

By adopting the continuous flow practices in use by the benchmarked entities, the Postal Service could decrease use and cost of mail transport equipment, decrease handling time, and decrease workhours. See [Appendix C](#) for our detailed analysis of this topic.

We suggest the Postal Service look for opportunities to promote continuous flow in processing operations.

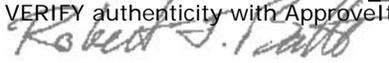
Management's Comments

Management agreed with our suggestions to review the benefits of negotiating with the unions to modify work rules, to establish work standards and productivity measures for work activities, and to look for opportunities to promote continuous flow in processing operations. See [Appendix E](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the suggestions and corrective actions should resolve the issues identified in the report.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Michael Magalski, Director, Network Optimization, or me at (703) 248-2100.

E-Signed by Robert Batta 
VERIFY authenticity with ApproveIt


Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: William P. Galligan, Jr.
Anthony M. Pajunas
David E. Williams, Jr.
Robert D. Williamson
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service experiences wide variations in productivity among plants. In a 2005 report,⁷ the Government Accountability Office (GAO) stated the Postal Service was challenged by workforce rules and resistance to plant closings, and the lack of criteria and processes for eliminating excess capacity could prolong processing inefficiencies.

In its 2008 Network Plan,⁸ the Postal Service addressed productivity as follows:

Refinement of Postal Service operations is an ongoing process, and results in continuous improvements in processing, equipment standardization, productivity, service performance, and customer satisfaction. The Postal Service mail processing strategy focuses on maximizing the use of its automated equipment, improving the quality of mail processing, and eliminating excess capacity, while minimizing adverse impact on service.

In January 2009, GAO testified before the Congress⁹ that the Postal Service's current financial position and outlook have deteriorated, largely based on economic conditions. GAO noted that Postal Service institutional costs are high and difficult to change in the short term. Compensation and benefits for the Postal Service workforce (about 663,000 career and nearly 102,000 non-career employees at the end of fiscal year [FY] 2008) generated close to 80 percent of these costs.

The Postal Service has collective bargaining agreements with its four largest unions that expire in 2010 and 2011. These agreements include layoff protections, health benefit contributions,¹⁰ semiannual cost-of-living allowances, and work rules that constrain the Postal Service's flexibility.

The Postal Service is predominantly a letter processing entity and is an acknowledged leader in the automation of letter processing. During 2008, approximately 81 percent of the 203 billion pieces processed by the Postal Service was letter mail. (See Figure 1.) In 2008 the largest volume decline occurred in single-piece First-Class™ letters, part of a long-term trend that reflects the impact of communications over the Internet, electronic bill payment, and other electronic alternatives.

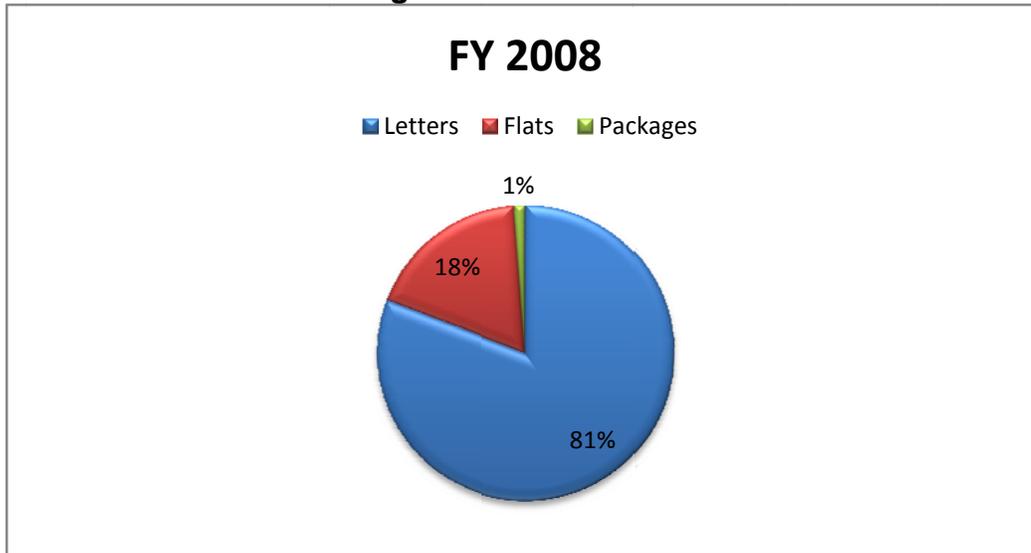
⁷ *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability* (Report Number GAO-05-261, dated April 4, 2005).

⁸ Postal Accountability and Enhancement Act § 302, Network Plan, June 2008.

⁹ *U.S. Postal Service, Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs* (Report Number GAO-09-332T, dated January 28, 2009).

¹⁰ OIG, *Postal Service's Employee Benefit Programs* (Report Number HM-AR-07-03, dated September 24, 2007).

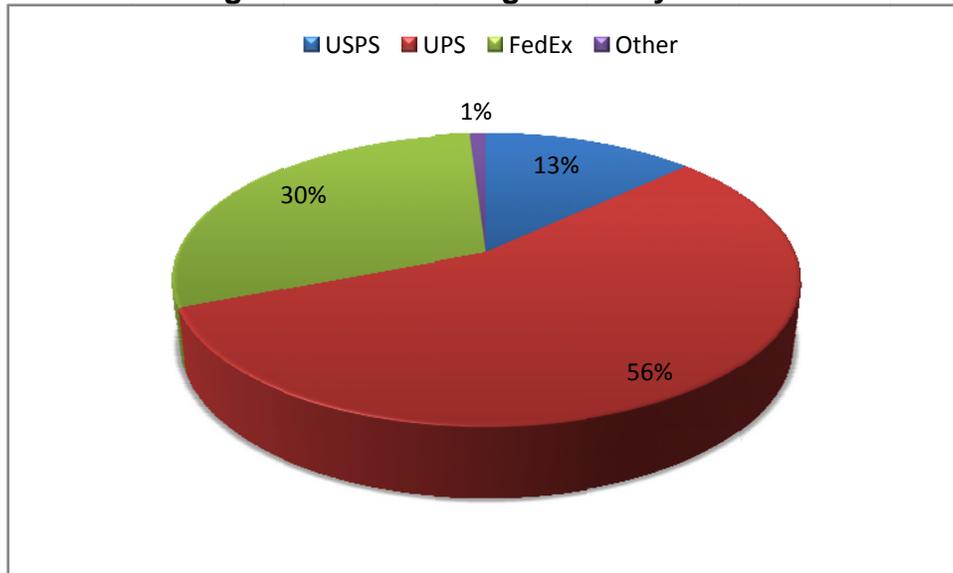
Figure 1: Mail Volumes



Source: Headquarters Finance, Demand Forecasting Report, January 8, 2009

Although parcels represent less than 2 percent of Postal Service volumes, they make up 13 percent of market share in the U.S. (See Figure 2.)

Figure 2: U.S. Package Delivery Market



Source: SJ Consulting Group Inc., February 3, 2009

As letter volumes decline, parcel shipments offer an opportunity for growth, and the Postal Service forecasts increasing parcel volumes in the future. (See Figure 3.)

Redacted

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the process the Postal Service uses to drive productivity improvements by benchmarking with the U.S. private sector. This audit focused on parcel processing productivity. To accomplish our objective, we partnered with Postal Service managers, observed operations at selected U.S. private sector parcel processing and distribution facilities (see [Appendix B](#)), discussed operational and productivity methods with Postal Service and private sector managers, and analyzed publicly available information.

We conducted this review from October 2008 through March 2009 in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*. We discussed our observations and conclusions with management officials on March 18, 2009, and included their comments where appropriate.

SCOPE LIMITATION

Due to the proprietary nature of some information, the benchmarked commercial entities did not share their specific productivity data or provide exact numbers of their parcel processing employees.

RISK ASSESSMENT

See [Appendix D](#) for a summary of risks associated with this audit.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>Postal Service's Employee Benefit Programs</i>	HM-AR-07-03	September 24, 2007	We concluded that the Postal Service's Federal Employees Group Life Insurance (FEGLI) and Federal Employees Health Benefits (FEHB) programs for bargaining ¹¹ and nonbargaining ¹² employees were comparable to the six federal and five quasi-federal agencies against which we benchmarked. However, the Postal Service's contribution rates ¹³ for both programs were significantly higher than most agencies. We also determined that the Postal Service can change existing FEGLI and FEHB contribution rates through negotiations with its unions (for bargaining employees) and consultations with management associations (for nonbargaining employees). Specifically, we calculated the Postal Service's potential savings resulting from further reductions in benefit program contributions to be \$1.073 billion over 10 years.
<i>U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability</i>	GAO-05-261	April 8, 2005	The GAO reported on major changes in the mailing industry that have reinforced the need for the Postal Service to reduce costs and increase efficiency. To address these changes and become more efficient, the Postal Service is implementing initiatives aimed at realigning its mail processing network. Challenges such as maintaining delivery standards and addressing stakeholder and community resistance remain.
<i>U.S. Postal Service: Progress Made in Implementing Mail Processing Realignment Efforts, but Better Integration and Performance Measurement Still Needed</i>	GAO-07-1083T	July 26, 2007	GAO's testimony described: (1) the changes that have affected the Postal Service's processing network, (2) GAO's concerns related to the Postal Service's strategy for realigning its mail processing network and implementing its Area Mail Processing consolidations, and (3) GAO's concerns related to the Postal Service's progress in improving delivery performance information.
<i>U.S. Postal Service: Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs</i>	GAO-09-332T	January 28, 2009	GAO testified that when Congress passed the Postal Accountability and Enhancement Act in December 2006, the Postal Service had just completed FY 2006 with its largest mail volume ever—213 billion pieces of mail and a net income of \$900 million. Two years later, the Postal Service's mail volume dropped almost 5 percent—the largest single-year decline. The Postmaster General testified in March 2008 before Congress that the Postal Service was facing a potential net loss of over \$1 billion for FY 2008.

¹¹ Bargaining employees are represented by labor unions that negotiate with the Postal Service for wages, hours, and other terms and conditions of employment. These employees include city and rural letter carriers, clerks, mail handlers, special delivery messengers, maintenance employees, and motor vehicle operators.

¹² Nonbargaining employees are career and noncareer employees in supervisory professional, technical, clerical, administrative, and managerial positions in the Executive and Administrative Schedule who are not subject to collective bargaining agreements.

¹³ The contribution rate is the percentage of the life insurance or health benefit premiums the agency or employer pays on behalf of the recipient.

APPENDIX B: BENCHMARKED COMMERCIAL ENTITIES

Company	Site Visit Location	Operation Type	Company Information
FedEx	Memphis, TN	Parcel processing and distribution	FedEx Ground specializes in small-package shipping delivery for convenient residential service. FedEx Ground service has a workforce of more than 71,000 employees and independent contractors. The average daily volume is more than 3.3 million packages throughout the U.S., Canada, and Puerto Rico.
UPS	Louisville, KY	Parcel processing and distribution	UPS Package Operations delivered more than 4 billion packages and documents in 2007. The average daily delivery volume is 15.8 million packages and documents. UPS delivers in North America and Europe and to more than 200 countries and territories. The corporation has a total of 425,300 employees worldwide.
FedEx SmartPost	Dallas, TX	Parcel consolidation	FedEx SmartPost picks up, sorts, line hauls, tracks, and delivers an estimated 300 million packages.
L.L. Bean	Freeport, ME	Parcel mailer	L.L. Bean is a privately held, family-owned company specializing in direct sales of sporting goods, home furnishings and clothing. Headquartered in Freeport, ME, the company has annual sales of more than \$1.6 billion.

APPENDIX C: DETAILED ANALYSIS

Strategies to Improve Productivity

Common to the Postal Service and our benchmarked entities are the use of various strategies to promote continuous improvement, including automated processing operations, competitive intelligence to improve processes, the closure of facilities and consolidation of operations to reduce costs, and the placement of industrial engineers in plants to assist management.

- The Postal Service and the benchmarked entities process parcels both manually and using automation. At one benchmarked facility, automation generally precludes employee handling of parcels except when being unloaded upon entry to the facility; once on a conveyor belt, processing is automated and parcels are sorted into bags before being loaded (manually) into air containers. In *Vision 2013: Strategic Plan 2009 – 2013*, the Postal Service credits automation as the single-most important factor in its own service and productivity gains.
- Competitive intelligence, or the use of information learned from similar or dissimilar operations, is common to the benchmarked entities and the Postal Service. At one benchmarked processing plant, managers pointed out that they had adapted a baggage handling device observed at the Frankfurt Airport to move large irregular parcels through the plant. The sled and its straps had been further modified at the suggestion of an employee by creating a depression in the flat surface suitable for holding large containers, such as 5-gallon buckets of paint. Postal Service officials had already visited three of the four facilities where we observed operations, and one Postal Service manager told us that as the result of one of these site visits, more industrial engineers are now being used at Postal Service facilities.
- We learned that the benchmarked entities consolidate and close facilities as business needs change, which diverts volumes, cuts costs, and increases productivity at the remaining facilities. The Postal Service has a parallel process in its Area Mail Processing consolidation program, but encounters stakeholder opposition to most consolidation proposals. In this issue as well as others, the Postal Service is challenged by external factors that prolong processing inefficiencies.
- Industrial engineers in benchmarked entities focus on strategies designed to improve productivity, including elimination of waste and non-value-added activities, through continuous review and development of standards. The Postal Service increased the number of industrial engineers in processing facilities as a result of its own benchmarking with the private sector. Using the skills of industrial engineers may improve processing productivity in the future.

Workforce Flexibility

The Postal Service has limited workforce flexibility compared to the private sector. All the benchmarked companies predominantly use part-time employees, scheduled in 4-hour shifts with staggered start times, which can vary daily or weekly depending on work volumes. One company is similar to the Postal Service in that its processing employees are union members; however, their collective bargaining agreements incorporate flexible scheduling and crossing crafts.

Managers at the benchmarked companies monitor workload daily, evaluate productivity in real time, and adjust the workforce in response to workload fluctuations. According to managers, part-time shifts maximize both flexibility and productivity. One manager stated that the urgent nature of parcel processing does not allow employees to perform at their peak for 8 hours at a time — 4 hours is the ideal amount of time to stay fresh on the job. Notifying employees of their work schedules takes place by various methods; for example, in one facility employees call a number with a recorded message to learn their start times and can be told to stop work earlier than scheduled if necessary. At one facility we were told that even the few full-time employees would not work full-time hours in the months to come, to reduce costs during the ongoing economic downturn.

To make part-time employment more attractive, three of the four benchmarked companies provide health benefits and tuition reimbursement incentives to their part-time employees.

Cross-trained employees are moved among jobs in response to need. At one entity, we saw employees transfer among activity centers to finish work at the end of a shift, and at another, we observed employees moving from a sorting activity to loading bags into air containers. A manager at one facility told us that moving employees across crafts increases flexibility in the process of filling and shipping orders, and said that employees who finish their processing tasks early sweep and collect debris from the work areas to complete their 4-hour shift.

In contrast, the Postal Service processing workforce is predominantly comprised of full-time employees, scheduled in three 8-hour shifts and bound by union agreements. On this issue, the Postal Service is challenged by workforce rules that prolong processing inefficiencies. Article 7, Employee Classifications, of the APWU Collective Bargaining Agreement (2006 – 2010) provides guidelines for part-time employees and stipulates that:

With respect to the clerk craft, no later than December 1, 2007, all part-time flexible employees in postal installations which have 200 or more man years of employment will be converted to full-time regular status. Henceforth, installations which have 200 or more man years of employment shall be staffed with all regular employees. (Article 7.3, Employee Complement, page 23)

In effect, this requirement provides more employees with a 40-hour work week, allowing less workforce flexibility during a period of declining mail volumes and potentially affecting productivity. Maintaining part-time status would reduce costs and potentially increase Postal Service productivity.

Criteria are also in place for crossing crafts. This flexibility-increasing tactic is subject to Article 7.2 of the APWU agreement and requires managers to consider wage level, knowledge, and experience before asking employees to perform duties outside their normal purview. In addition, sufficient notice of crossing crafts must be given to union representatives.

Increasing Postal Service workforce flexibility by managing part-time scheduling and filling employee workhours with necessary tasks, even across crafts, could increase productivity. In addition, workhour savings could be achieved immediately, rather than delayed and achieved only over time through attrition.

Work Standards and Goals

The Postal Service has opportunities to improve work standards and goal setting. At the benchmarked companies, industrial engineers work with managers to set consistent productivity standards for each work activity, based on machine specifications and time-motion studies. One manager stated that “everything on site” was measured. Managers and employees are held accountable for meeting productivity goals, and the budget is linked to productivity standards. Further, managers and industrial engineers revisit productivity continuously, reset standards as appropriate, and adjust employees’ work duties to meet goals. Below are two examples of work standards and goal-setting.

- One manager told us he estimates the productivity required for a shift before it begins, based on incoming volumes. He checks the employees’ throughput after 10 minutes and talks to any employee whose work will not meet the goal.
- At one facility, employees are informed of their progress in completing a goal through a processing cycle by electronic signs throughout the plant. The signs identify the wave number, percentage of completion, and next tasks required to finish the processing.

The Postal Service has various new initiatives to promote consistency in equipment targets and standardization in operations. Examples include:

- Standardizing the use of various pieces of automation equipment and a certification process to promote uniformity.
- Defining consistent equipment productivity goals for the same equipment located in different facilities.

While productivity targets for equipment are in use at Postal Service facilities, work performance standards for employees or activities are limited in processing operations. For example, work standards exist for employees in the remote encoding centers. However, since work standards are not fully developed and communicated in all operations, holding employees accountable is more difficult.

Finally, the benchmarked companies increase productivity targets each year, continuously raising goals for even top-performing plants. In contrast, the Postal Service uses demonstrated operational performance by the top-performing plants as targets for lower-performing facilities. Operational targets are reviewed and adjusted annually, and management stated continuous improvement for high performing plants is addressed through the budget process. The Postal Service encourages lower-performing plants to aspire to the highest performance demonstrated, but they do not know if that productivity is the highest that is reasonably achievable. Productivity improvement, rather than meeting an objective standard, is rewarded through the Postal Service pay for performance program for managers.

Continuous Flow of Parcels

The Postal Service uses more batch processing than the benchmarked companies, which focus on continuous flow.¹⁴ At benchmarked facilities, parcel handling is minimized. For example, at one processing plant, a manager told us employees touch a parcel only twice – once when it comes off a bed-loaded truck and once when it is containerized; otherwise, the parcel remains on a conveyor belt.

We saw very little, if any, parcel transport equipment or manual movement of parcels in any of the non-postal facilities we visited. Parcels were not observed in staging areas or in containers waiting to be rolled to a dock. Instead, they were either coming off a truck onto a conveyor belt, moving through the plant on sorting equipment, or being containerized prior to being reloaded onto a truck. Parcels moved through one benchmarked facility in as little as 8, but no more than 45, minutes.

Parcel processing operations in Postal Service facilities are essentially completed in batches, in accordance with service standards and 24-hour clock criteria.¹⁵ Parcels may be handled many times at a Postal Service facility. They are moved manually in various types of mail transport equipment between docks and processing machinery, staged and held in waiting areas for additional processing, and moved manually back to docks before being loaded onto trucks in transport equipment. This is sometimes the result of old, legacy facilities not well suited to the modern processing of parcels. Parcels might remain in a Postal Service facility for hours or days, depending on the mail class and applicable service standards. (See Figure 4.)

¹⁴ Continuous flow is a production strategy that minimizes waste of resources (time, space, and work) and results in on-time, damage-free parcel volumes.

¹⁵ The 24-hour clock indicators show how key operations affect each other and may influence service. Each indicator is a key link in providing service to downstream facilities and customers.

Figure 4: Service Standards

<i>Postal Service Service Standards by Mail Class (Continental U.S.)</i>	
Express Mail®	1 – 2 Days
Priority Mail®	1 – 3 Days
First-Class Mail®	1 – 3 Days
Periodicals	1 – 9 Days
Package Services	2 – 8 Days
Standard Mail®	3 – 10 Days

APPENDIX D: RISK ASSESSMENT

Risk Category	Risk Factor	Probability	Impact	Risk
Strategic	Network Optimization: Enterprise resilience	High	High	Competitive nature of parcel industry requires flexibility.
Strategic	Long-term forecasting: Economy	High	High	Economic downturns affect parcel industry.
Strategic	Strategic workforce planning	High	High	Decreasing volumes require flexibility in workforce, as seen in parcel and other industries.
Financial	Labor costs	High	High	Labor costs are mainly fixed and represent nearly 80 percent of all costs.
Operational	Planning and monitoring work: Volume/workhours	High	High	Workforce inflexibility causes delays in adjusting workhours to workload.

APPENDIX E: MANAGEMENT’S COMMENTS

PATRICK R. DONAHOE
DEPUTY POSTMASTER GENERAL & COO



March 26, 2009

Ms. Lucine M. Willis
Director, Audit Operations
Office of Inspector General
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Benchmarking Postal Service Parcel Productivity
(Report Number EN-MA-09-DRAFT)

In general, the Postal Service agrees with the conclusions stated in the Advisory Report. Specific comments are provided in the appropriate section of this report.

Recommendation #1 - Workforce Flexibility:

When the current collective bargaining agreements expire, we suggest the Postal Service review the benefits of negotiating with the unions to modify work rules to promote a more flexible, part-time workforce, including:

- Maintaining a new-hire part-time status unconditionally.
- Offering full-time employees part-time positions.
- Moving employees among tasks by crossing crafts.

Management’s Response:

The Postal Service agrees that greater workforce flexibility should be pursued. As a corporate-wide strategy, Postal Service management is actively moving toward the consolidation of its processing facilities’ operating tours—to less than the typical 3 tours, 24 hours a day, 7 days per week. These activities involve maximizing machine throughput while realigning staffing to match workload.

Specific management tools have been developed and deployed to enable local facility staff to more accurately project volume, plan equipment run times, schedule employees, and assign workhours to operating schedules on a daily basis.

Review of the Postal Service’s distribution network is currently underway. Clearly defined processing windows without a lights-out philosophy are included in the operating concepts for the network. This concept is different than current plant operations in that processing windows are shorter and operating tours are not sequential and include planned downtime between tours. This approach more closely aligns processing with volume arrival profiles. Concepts being considered also involve using greater workforce flexibility in the realigned network facilities.

While the Postal Service may have some ability under Article 7 to enable employees in one craft to perform activities assigned to another, the process is cumbersome and creates grievances. Even though these existing labor agreements limit management’s ability to effectively direct employees to “cross crafts,” recent Memorandums of Understanding (MOUs) have mitigated some of the roadblocks in regard to crossing crafts. For example, a MOU now enables a Motor Vehicle craft employee to also perform Distribution Clerk duties.

475 L’ENFANT PLAZA SW
WASHINGTON DC 20260-0050
WWW.USPS.COM

Recommendation #2 – Work Standards and Goals:

The use of standardized performance goals for activities throughout the Postal Service network would clarify expectations for employees and provide managers with a basis for measuring progress toward productivity goals.

We suggest the Postal Service review the benefits of establishing work standards and productivity measures for work activities with a defined link between work standards and the budget.

Management's Response:

The Postal Service agrees that a continuous improvement philosophy should be used in setting performance benchmarks and targets. There are several instances where Postal Service craft employees have performance-based work standards. These include: custodial, Remote Encoding Center (REC) employees, Rural Carriers, and City Carriers.

Recommendation #3 – Continuous Flow of Parcels:

By adopting continuous flow practices in use by benchmarked entities, the Postal Service could decrease use and cost of mail transport equipment, decrease handling time, and decrease work hours.

We suggest the Postal Service look for opportunities to promote continuous flow in processing operations.

Management's Response:

The Postal Service agrees with the continuous flow philosophy wherever feasible and is working to develop a more continuous processing flow scenario for its parcel sorting network. To support the philosophy, the Postal Service has created a "Continuous Improvement" department that trains management to conduct Lean Six Sigma (LSS) projects and approves projects (via Charters) while tracking and reporting the status of LSS projects to senior management.

Summary:

The Postal Service is actively moving toward a business model that leverages flexible processing and transportation networks while maintaining unprecedented levels of service and customer satisfaction. We will continue to invest in the Intelligent Mail Barcode, the new Flats Sequencing System, and other initiatives that promise new gains in service, efficiency, and customer value in the years ahead. We will embrace change and foster innovation and collaboration—the very foundation of the Continuous Improvement philosophy.



Patrick R. Donahoe

-3

cc: Mr. Galligan
Mr. Pajunas
Mr. Williams
Mr. Williamson
Ms. Banks