



June 7, 2010

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VICE PRESIDENT, NETWORK OPERATIONS

SUBJECT: Management Advisory Report – Benchmarking Best Practices with Presort Bureaus (Report Number EN-MA-10-004)

This report presents the results of our review of Benchmarking Best Practices with Presort Bureaus (Project Number 10XG018EN000). The objective of our review was to benchmark letter and flat mail¹ processing at the U.S. Postal Service with presort mailers.² This review was self-initiated and addresses financial and operational risks. See [Appendix A](#) for additional information about this audit.

Recent reports by independent consultants³ and government agencies⁴ recognize the financial crisis the Postal Service faces. Although it currently processes approximately 40 percent of the world's letter and card mail, the Postal Service might improve its operations by benchmarking for best practices with the letter processing industry. We benchmarked Postal Service operations with DST Mailing Services and Pitney Bowes Presort Services, two companies that presort mail to a 3- or 5-digit ZIP Code before tendering it to a Postal Service facility.

Conclusion

The Postal Service's letter processing operations are similar to operations at presort mail bureaus (presorters). For example, the Postal Service and industry presorters use similar mail processing equipment, continually look for ways to improve processing operations, measure productivity as mailpieces per workhour or machine throughput, and consider mail mix and mail flow (availability) as two factors affecting productivity.

However, processing operations the Postal Service uses and industry presorters differ in the following areas:

¹ Mail presorters processed minimal amounts of flat mail and therefore did not provide a benchmarking opportunity.

² The Postal Service currently offers workshare discounts to companies that presort mail before tendering it for additional processing at a Postal Service facility.

³ McKinsey and Company, *USPS Future Business Model*, March 2, 2010.

⁴ Government Accountability Office (GAO)-10-624T, *U.S. Postal Service: Action Needed to Facilitate Financial Viability*, April 15, 2010.

- Mail Mix
 - The Postal Service receives a wide variety of First-Class Mail® (FCM) that is generally heterogeneous in shape, size, and weight.
 - Mail presorters either generate their own, largely homogenous mailings, or commingle and process mail for customers with established drop-off appointments, approximate number of pieces, and similar mailpiece characteristics.
- Capacity
 - The Postal Service is experiencing declines in FCM volume that have led to speculation of up to 50 percent of excess processing capacity.⁵
 - Mail presorters told us they sometimes reschedule incoming volumes when they project machines to meet capacity for a shift.
- Workforce
 - Postal Service employees work under collective bargaining agreements that ensure full-time pay, although full-time work may not be available. The average employee age is 53.⁶
 - Mail presorters have a more flexible workforce that receives an hourly rate significantly lower than that of Postal Service employees. Managers stated the average employee age range is low to mid-20s.

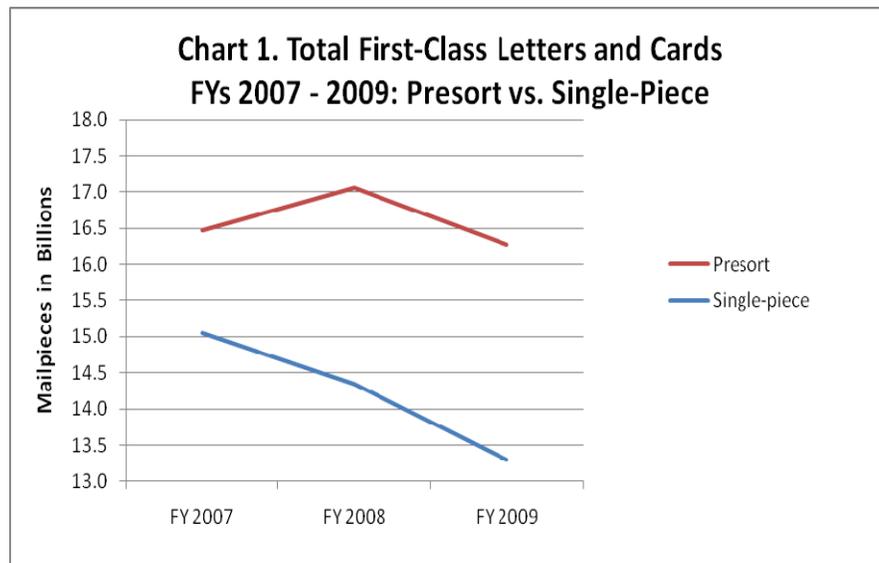
In looking for best practices, we found that presort mailers streamlined their networks with little stakeholder resistance, consistently used tray takeaway systems, and maintained a flexible and lower paid workforce.

Minimal Stakeholder Resistance to Network Changes

To match workload with enduring volume changes, presort managers stated they streamline their networks as necessary with little, if any, stakeholder resistance. Postal Service data shows the volume of presorted and single-piece letters and cards declined between fiscal years (FYs) 2007 and 2009 (see Chart 1). Managers at presort facilities stated that fluctuations in mail volume have been evident, although they attribute a slower decline in presort FCM cards and letters to aggressive marketing of their services.

⁵ GAO-10-538T, *U.S. Postal Service: Financial Crisis Demands Aggressive Action*. March 18, 2010.

⁶ Patrick Donohoe: *Delivering Morale Amid USPS Cuts*. *Bloomberg Business Week, Executive Insight*, dated March 30, 2010.



Source: Postal Service Revenue, Pieces, and Weights

Like the Postal Service, presort companies use a standardized notification process for employees when they plan network changes, such as plant closures. Unlike the Postal Service, presorters are not subject to binding union contracts and are generally independent of political intervention. Therefore, presorters are better able to handle fluctuations in mail volume and economic changes with more agility and latitude.

Because we have made prior recommendations⁷ and the Postal Service is working to address stakeholder resistance as it streamlines its processing and distribution network, we are not making a recommendation.

Consistent Use of Tray Takeaway Systems

We observed consistent use of automated and mechanized tray takeaway systems at presorter facilities and little dependence on manual movement of trays. At Postal Service facilities, we noted employees often moved trays manually between processing operations, sometimes bypassing automated or mechanized alternatives. For example, we saw mail moved from the cancellation operations to the barcode sorters that bypassed the automated tray management system (TMS).⁸ We were not able to determine why the TMS was not in use when we were onsite at the facility.

By using employees to move mail manually when automated or mechanized takeaway systems are available, the Postal Service may incur unnecessary workhours and labor costs. In FY 2009, management attributed approximately 2.4 million hours to Labor

⁷ *Area Mail Processing Communications* (Report Number EN-AR-09-001, dated February 4, 2009).

⁸ The Postal Service designed TMS to automate movement and staging of mail in Postal Service processing and distribution centers (P&DCs).

Distribution Code 17 Operation 114 – Manual Transport (in-house)⁹ with almost 116,000 additional overtime hours. If the Postal Service eliminated only the overtime hours in this operation, it might have avoided an expenditure of approximately \$8 million in allied operations labor costs.¹⁰

Because management agreed to savings associated with allied operations in a recent U.S. Postal Service Office of Inspector General (OIG) audit,¹¹ we are not making a recommendation regarding workhour reduction nor are we reporting this as a monetary impact.

Flexible and Lower Paid Workforce

Presort managers told us they base workforce schedules on volume, employees cross-crafts between processing and mail handling tasks, and workers are generally paid lower wages than Postal Service employees. Conversely, Postal Service employees work full-time schedules independent of volume availability, do not typically cross-crafts, and their FY 2009 hourly rates average \$45.76, including benefits.

The difference in employee staffing and scheduling flexibility results from lack of employee unions at industry facilities and the presence of collective bargaining agreements at the Postal Service. Increasing workforce scheduling flexibilities could also decrease Postal Service labor costs.

In an earlier audit in which we benchmarked parcel processing productivity improvements,¹² we suggested:

. . . when the current collective bargaining agreements expire. . . review the benefits of negotiating with the unions to modify work rules to promote a more flexible, part-time workforce, including:

- 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.

Because management agreed with our suggestion and has yet to renegotiate the collective bargaining agreement, we are not making a recommendation at this time.

⁹ Handbook M-32, *Management Operating Data System* (March 2009), defines LDC 17, Operation 114 as “manual transport from opening units to downstream operations and between sortation operations that are not an opening unit.”

¹⁰ This includes salary and benefits at an hourly average rate for FY 2009 of \$45.76, and an overtime hourly average rate of \$68.64.

¹¹ Management Advisory Report – *Assessment of Overall Plant Efficiency* (Report Number NO-MA-09-002, May 8, 2009).

¹² Management Advisory Report – *Benchmarking Postal Service Parcel Productivity* (Report Number EN-MA-09-002, March 31, 2009).

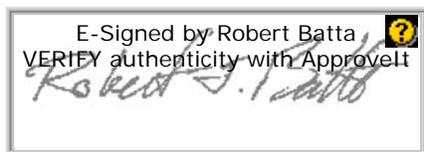
Public Input

We asked the public, using an external blog on the OIG website, which of these best practices would most improve the Postal Service's processing of FCM. During the first week, voters indicated a preference for consolidating plants as noted below (total voters: 153):

- Consolidate plants so fewer facilities process more volume. (42 percent of votes)
- Increase workforce flexibilities to adapt to changing mail volumes (33 percent of votes)
- Reduce manual movement of mail within plants (25 percent of votes).

Management agreed with the findings in our report and chose not to comment because there were no recommendations.

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.



Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachment

cc: Patrick R. Donahoe
Steven J. Forte
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Sally K. Haring

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Recent reports authored by independent consultants¹³ and government agencies¹⁴ acknowledge the financial crisis the Postal Service faces. Between FYs 2006 and 2009, total FCM volume declined approximately 14 percent – accelerated by economic downturn and made permanent by the public’s shift to digital and mobile communications. One source forecasts FCM volume will drop from 84 billion pieces in 2009 to approximately 50 billion pieces in FY 2020.¹⁵ This loss of volume results in declining revenue and requires a realignment of operations, networks, and workforce for the Postal Service to remain viable.

The Postal Service processes approximately 40 percent of the world’s letter and card mail. As a result, it is difficult to find comparable entities with which to benchmark FCM processing operations. However, the Postal Service currently offers workshare discounts to companies that presort mail to a 3- or 5-digit ZIP Code before tendering it for additional processing at Postal Service facilities. A “presort mailer” sorts its mail or has it sorted by ZIP Code before presenting it to the Postal Service. More similar to Postal Service operations, a “presort bureau” is a company that presorts and commingles mail for other companies, its customers. Benchmarking presort bureaus for best practices in this segment of FCM letter and card processing operations might provide the Postal Service an opportunity to improve its processing operations.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to benchmark letter and flat mail processing at the Postal Service with presort mailers. To accomplish our objective, we collaborated with managers and benchmarked letter and flat mail operations at Postal Service P&DCs¹⁶ and in the private sector at DST Mailing Systems¹⁷ and Pitney-Bowes Presort Services.¹⁸ We interviewed managers, observed operations, and documented our observations. We reviewed data from Postal Service systems, including Electronic Data Warehouse; Revenue, Pieces, and Weight; and the Activity-Based Costing System. We hosted a blog on the OIG’s external website to gather public opinion about FCM letter and card processing and reviewed Postal Service policies and the work of their consultants.

¹³ McKinsey and Company, *USPS Future Business Model*, March 2, 2010.

¹⁴ GAO-10-624T, *U.S. Postal Service: Action Needed to Facilitate Financial Viability*, April 15, 2010.

¹⁵ The Boston Consulting Group, Inc. *Projecting U.S. Mail Volumes to 2020: Final Report-Detail*, March 2, 2010.

¹⁶ We visited the Pittsburgh and Fort Worth P&DCs.

¹⁷ DST Mailing Services, El Dorado Hills, CA.

¹⁸ Pitney-Bowes Presort Services, Grand Prairie, TX.

We conducted this review from January through June 2010 in accordance with the *Quality Standards for Inspections*.¹⁹ We discussed our observations and conclusions with management officials on May 25, 2010, and included their comments where appropriate.

SCOPE LIMITATION

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

¹⁹ These standards were last promulgated by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) in January 2005. Since then, **The Inspector General Act of 1978 as amended by the IG Reform Act of 2008** created the Council of the Inspectors General on Integrity and Efficiency (CIGIE), which combined the PCIE and ECIE. To date, the Quality Standards for Inspections have not been amended to reflect adoption by the CIGIE and, as a result, still reference the PCIE and ECIE.