UNITED STATES
POSTAL SERVICE

USPS Corporate Flats Strategy

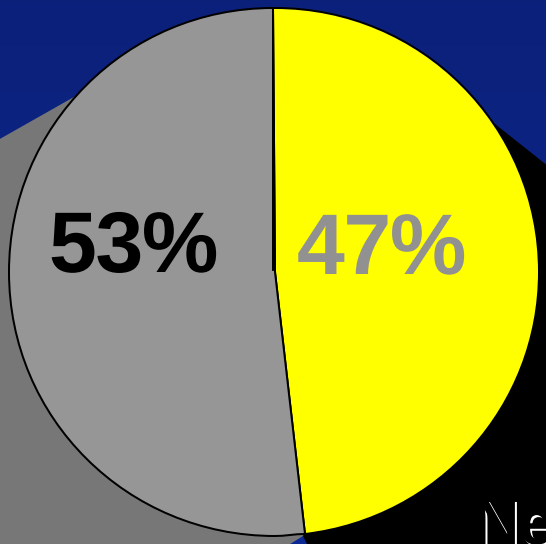
This presentation will provide a comprehensive overview of the United States Postal Service's Corporate Flats Strategy as it was presented at the Flats Summit on July 16, 2003.

Questions or comments should be addressed via e-mail to:

FlatStrategyFeedback@usps.gov

FLAT MAIL VOLUME GROWTH

51.6 billion pieces annually



Presorted to Carrier Route

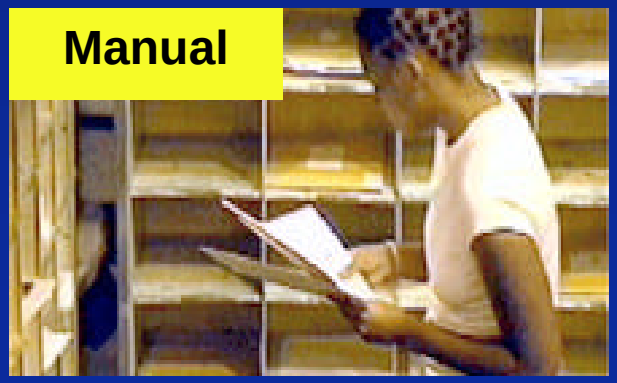
Both the Postal Service and the mailing industry realize that flats continue to be a growth business. In FY2002, it is estimated that over 51 billion flats were delivered to our customers. Over half of those flats were carrier routed and did not require the Postal Service distribution, only delivery. However, the Postal Service still had to process the rest to individual carrier routes.

CURRENT FLAT MAIL FLOW

PLANT

AFSM 100

Manual



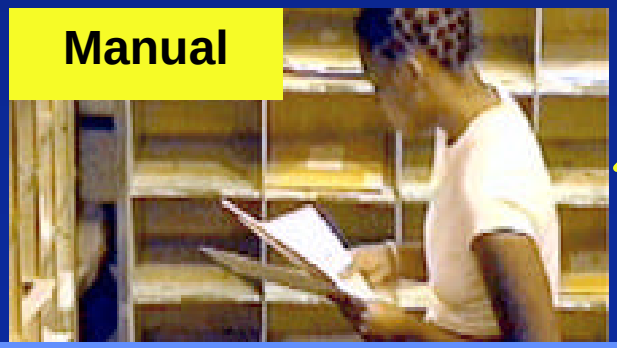
The majority of flat mail is sorted using an Automated Flat Sorting Machine model 100, or AFSM 100 for short, or a Flats Sorting Machine 1000 (not shown). The remaining volume must be sorted by hand because of various characteristics such as its size, shape, or weight.

CURRENT FLAT MAIL FLOW

PLANT

AFSM 100

Manual



TRUCK

DDU

Carrier Routed Volumes

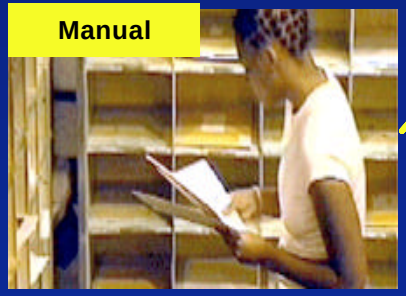
Once the sorting is completed, the flats are sent to the carrier unit. Letter carriers must then manually sort or sequence each flat into a case much the same way it was done during the last 100 years. Carriers must also case any remaining letter volume and mailer presorted mail that did not require postal sorting. This carrier casing is our most costly sort (approximately $4 billion per year) and this is the sort we hope to automate.

CURRENT FLAT MAIL FLOW

PLANT

AFSM 100

Manual



DDU

Carrier Routed Volumes

Vehicle Loading

Curbside Routes

Park & Loop Routes

After the manual sequencing is finished, the mail is loaded into a vehicle and delivery begins. The Postal Service has many types of carrier routes depending on the delivery location, the distance between deliveries, and the area being served. Over time, each type of carrier route has retained certain characteristics that are unique. For example, on “Curbside” routes carriers can deliver from up to 5 bundles. However, on “Park & Loop” routes, carriers can only deliver from 3 bundles at a time. But one characteristic is common to all routes. And that is the considerable amount of time that is used on the street fingering mail from each bundle to get all of the mail ready for delivery into a mailbox. One of our future concepts saves time on the street also by eliminating this fingering time.

SEARCHING FOR IMPROVEMENTS

- Reduce Costs Through Technology
- Use Existing Equipment
- Develop New Equipment

The Postal Service knew that it wanted to use automation and new technologies to reduce delivery related costs. An evaluation of the existing equipment revealed that the machines currently in use to sort flats could not be modified to reduce delivery costs. So, it was decided to begin an R&D project to determine if equipment could be developed to combine both the sorting and casing activities. The Postal Service's Board of Governors has approved funds for such an effort and it has begun.

INDUSTRY – USPS TEAMWORK

- Working Together is Important
- Industry Participation Adds Value
- Keeping Each Other Informed
- Sharing Ideas and Suggestions

Working together on projects such as this is very important to us. Industry participation and involvement adds value and ensures that adequate consideration is given to all ideas. Keeping each other informed allows ideas to flow freely and sharing ideas and suggestions can shorten program development.

THE DELIVERY VISION

- **Minimize In-Office Costs**
- **Maximize Street Efficiency**

You may have heard about the Postal Service's Delivery Vision.
Very simply put, it's a plan to use automation to minimize the "In-Office" delivery costs (these costs are related to the time that the letter carrier spends in the office sequencing mail) and to maximize "Street Efficiency" (as measured by an increase in deliveries made per hour).

Should we:

- **Sequence Letters and Flats Together?**
- **Sequence Letters and Flats Separately?**

While this process may seem straightforward, two options must be considered:
Our first option is to consider ways that letters and flats could be sequenced together and then "packaged" for each delivery. The second option is to sequence letters and flats separately.

CHOOSING THE RIGHT OPTION

- **OPTION 1: Delivery Point Packaging**

  Develop a machine that will use a one-pass system to sequence both letters and flats in delivery order.

Option 1 is being referred to as Delivery Point Packaging, or DPP. Conceptually, it could be a one-pass system, using a single machine to sequence both letters and flats and then "package" the mail.

In long run, DPP will have a greater payback than option 2. This option would automate the manual carrier sorting discussed earlier and also eliminate the time spent on the street fingering mail prior to delivery.

CHOOSING THE RIGHT OPTION

- **OPTION 2: Flats Sequencing System**

  Develop a machine that will use a two-pass system to sequence only flats in delivery order.

However, option 1 may take longer to develop than our second option which is being called the Flats Sequencing System, or FSS. The FSS is envisioned as a machine that would use two passes to sequence most, but not all, of the flats into delivery sequence, as the carrier does in the office today.

It may be possible to develop and deploy FSS two years earlier than DPP, but the payback would be significantly less than with option 1 since it only automates the sorting a carrier does.

DPP – HIGHLIGHTS

- A One Pass System
- Letters and Flats Sorted Together
- Packaged for Delivery
- DPS Letter Sorting Eliminated
- Carrier In-Office Time Reduced
- Carrier Street Time Reduced

Some of the highlights of the proposed DPP system would be that:

It is a one pass system.

Both letters and flats could be sorted together and then packaged for delivery.

Delivery point sequencing of letter mail could be eliminated.

Most carrier in-office time could be reduced.

And, the time the carrier spends on the street delivering mail could also be reduced.

DPP – POTENTIAL CUSTOMER CHANGES

- DPP Unit Entry Instead of DU
- CR Presort Eliminated in Automated Zones
- 11-Digit Barcode or ID TAG Required
- Detached Address Labels
- Increased 5-Digit Presort Volume
- Revised Rate Structure

What potential changes could affect our customers if we implemented DPP? While we don't have all of the answers, it looks like the following could change: Drop ship discounts could continue, but the places where mail enters the system might be different for about 7,000 zones. Customer presorting of both letters and flats to qualify for carrier route discount could be eliminated for these same zones. Detached address labels may be unnecessary. Most carrier route volumes would migrate into 5 digit presort.

The rate structure may change due to an increase in 11-digit barcoded volume and changes in the worksharing content.

CURRENT ROUTE BASELINE

- 500 Possible Deliveries
- 3 Hours Office Time
- 5 Hours Street Time

235,000 Routes

Implementing DPP could also allow us to change how we deliver mail.

Today, as we had already mentioned, the average letter carrier spends about 3 hours in the office sorting and sequencing mail for delivery.

POTENTIAL DPP EFFECT ON DELIVERY

? 500 Possible Deliveries → 750 TO 800

? 3 Hours Office Time →

? 5 Hours Street Time →

235,000 Routes → ???,000 Routes

DPP would enable us to reduce the total office time by 2 and ½ hours and at the same time increase the street efficiency because we eliminated the mail fingering time. The average letter carrier might eventually have between 750 to 800 deliveries on their route. We would need fewer delivery routes, have fewer vehicles to maintain, and could use smaller facilities.

DPP MAIL FLOW

CUSTOMER DROP
5D PRESORT

DPP Unit

SORT / SEQUENCE TO WALK SEQ/ PACKAGED

Let's look at what the mail flow would be with DPP. Because we don't know where we would deploy these machines, we will use the term "DPP UNIT" to indicate their location. In this scenario customers would deposit their presorted 5-digit letter and flat mail at the "DPP Unit" instead of their current drop-ship entry point.

The letters and flats would then be sequenced at the same time and packaged in delivery point sequence in one pass.

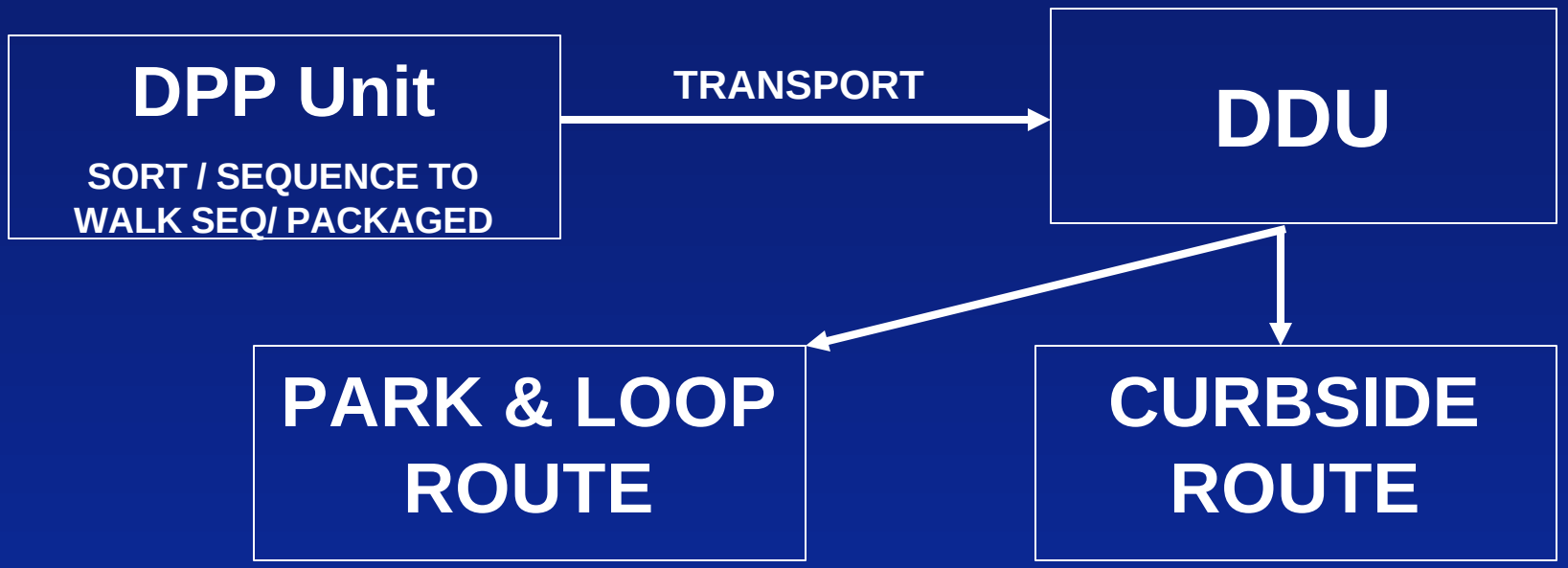
Letters and flats together!

DPP MAIL FLOW

CUSTOMER DROP
5D PRESORT

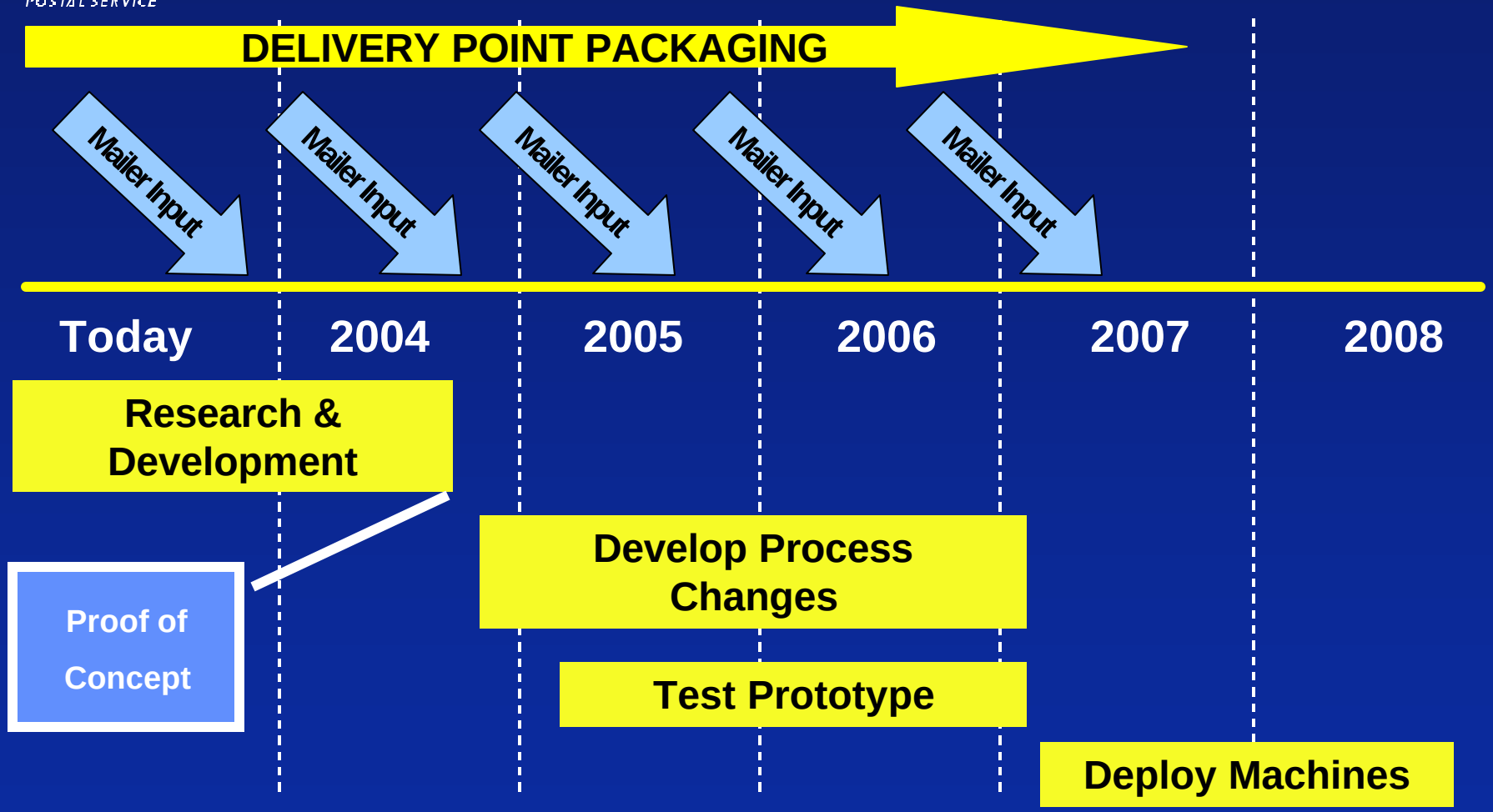
The “packaged” mail would then be dispatched to the DDU.

DPP MAIL FLOW



The carriers would still report to their Delivery Unit, pick up their keys and accountable mail, load their vehicle, and proceed to deliver the mail. One package for each delivery point.

DPP TIMELINE



This is how we think DPP might roll-out over the next few years. As you can see from the display, we are still in the Research & Development mode. If we are successful with our R&D effort, we would look at a deployment in 2007.

CHOOSING THE RIGHT OPTION

- **OPTION 2: Flats Sequencing System**

  Develop a machine that will use a two-pass system to sequence only flats in delivery order.

If for some reason, we are not able to develop DPP or if DPP purchase and deployment costs are too great, we would have to consider our second option: the Flats Sequencing System.
In this scenario, we would seek to develop and deploy a machine that would sequence only flats using a two pass system like we currently do for letters.

FSS – HIGHLIGHTS

- A Two Pass System
- Flats Only
- DPS Letter Sorting Continues
- Carrier In-Office Time Reduced

Some of the highlights of the proposed FSS system would be that:

It is a two pass system.

Only flats would be sorted.

Delivery point sequencing of letter mail would continue.

Some carrier in-office time could be reduced.

FSS – POTENTIAL CUSTOMER CHANGES

- Drop Ship Entry Points Would Change
- CR Presort Eliminated in Automated Zones
- 11-Digit Barcode or ID TAG Required
- Detached Address Labels
- Increased 5-Digit Presort Volume
- Revised Rate Structure

What potential changes could affect our customers if we implemented FSS?
While we don't have all of the answers, it looks like the following could change:
Drop ship discounts could continue, but the places where mail enters the system could change for about 7,000 zones.
Customer presorting of flats to qualify for carrier route discount could be eliminated to these same zones.
Detached address labels may be unnecessary.
Most carrier route flat volumes would migrate into 5 digit presort.
The rate structure may change due to an increase in 11-digit barcoded volume and changes in the worksharing content.

CURRENT ROUTE BASELINE

- ? 500 Possible Deliveries
- ? 3 Hours Office Time
- ? 5 Hours Street Time

235,000 Routes

Now let's look at how FSS could change how we deliver mail.
We should start with a quick look back at the current route baseline that we used earlier.

POTENTIAL FSS EFFECT ON DELIVERY

? 500 Possible Deliveries → 600 TO 650

? 3 Hours Office Time →

? 5 Hours Street Time →

235,000 Routes → ???,000 Routes

Implementing the FSS could decrease office time, but not as much as DPP would. Each day, the letter carrier would still have to sort by delivery sequence any remaining letter and flat volumes. Under this scenario, the Postal Service would be restricted to the "three bundle rule." One "bundle" of delivery sequenced letter mail, a second "bundle" of sequenced flats from the FSS machine, and a third "bundle" containing the remaining letters and flats that were manually sequenced for delivery.

FSS MAIL FLOW

CUSTOMER DROP
5D PRESORT

FSS Unit

2-PASS SORT / SEQUENCE TO WALK SEQ

Let's look at the FSS mail flow. Customers would deposit 5-D presorted mail at the FSS unit.

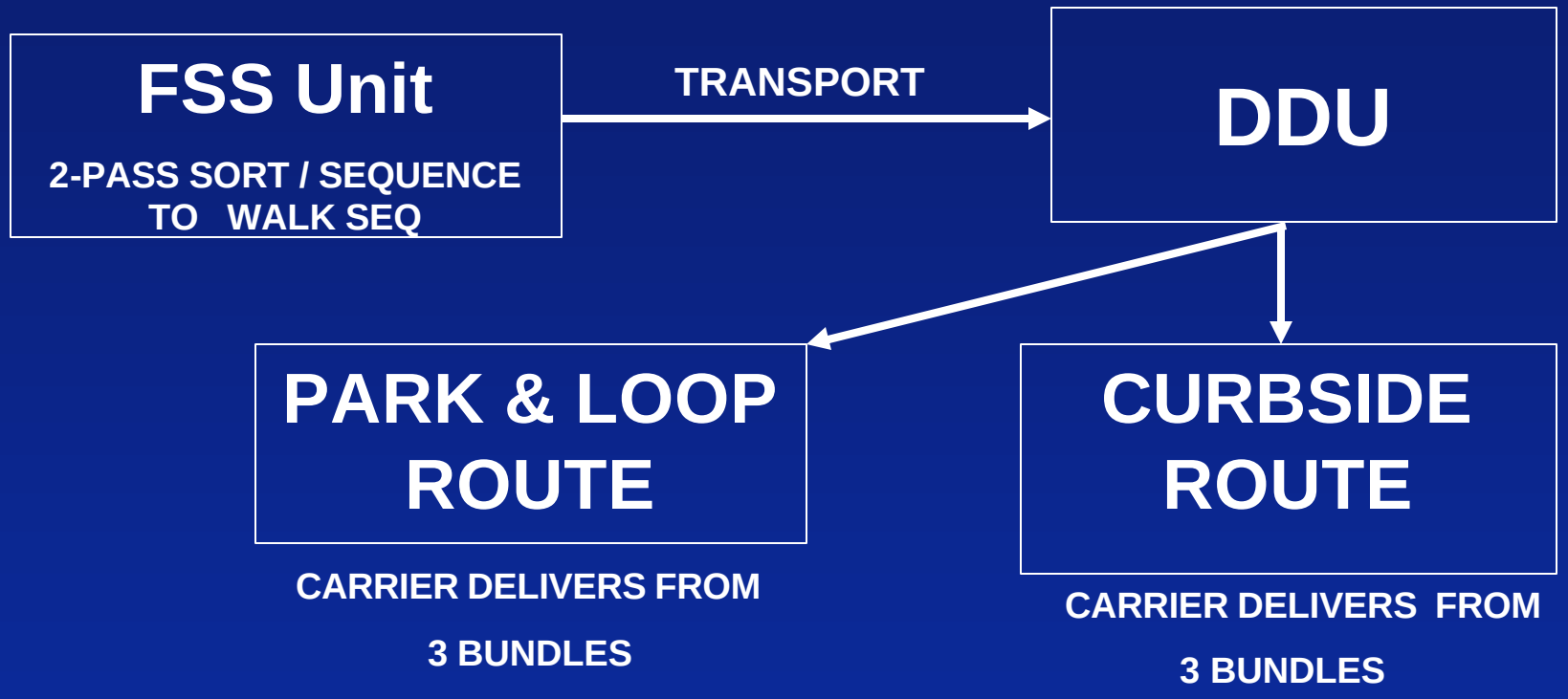
These flats would be sequenced in delivery point order.

FSS MAIL FLOW

CUSTOMER DROP
5D PRESORT

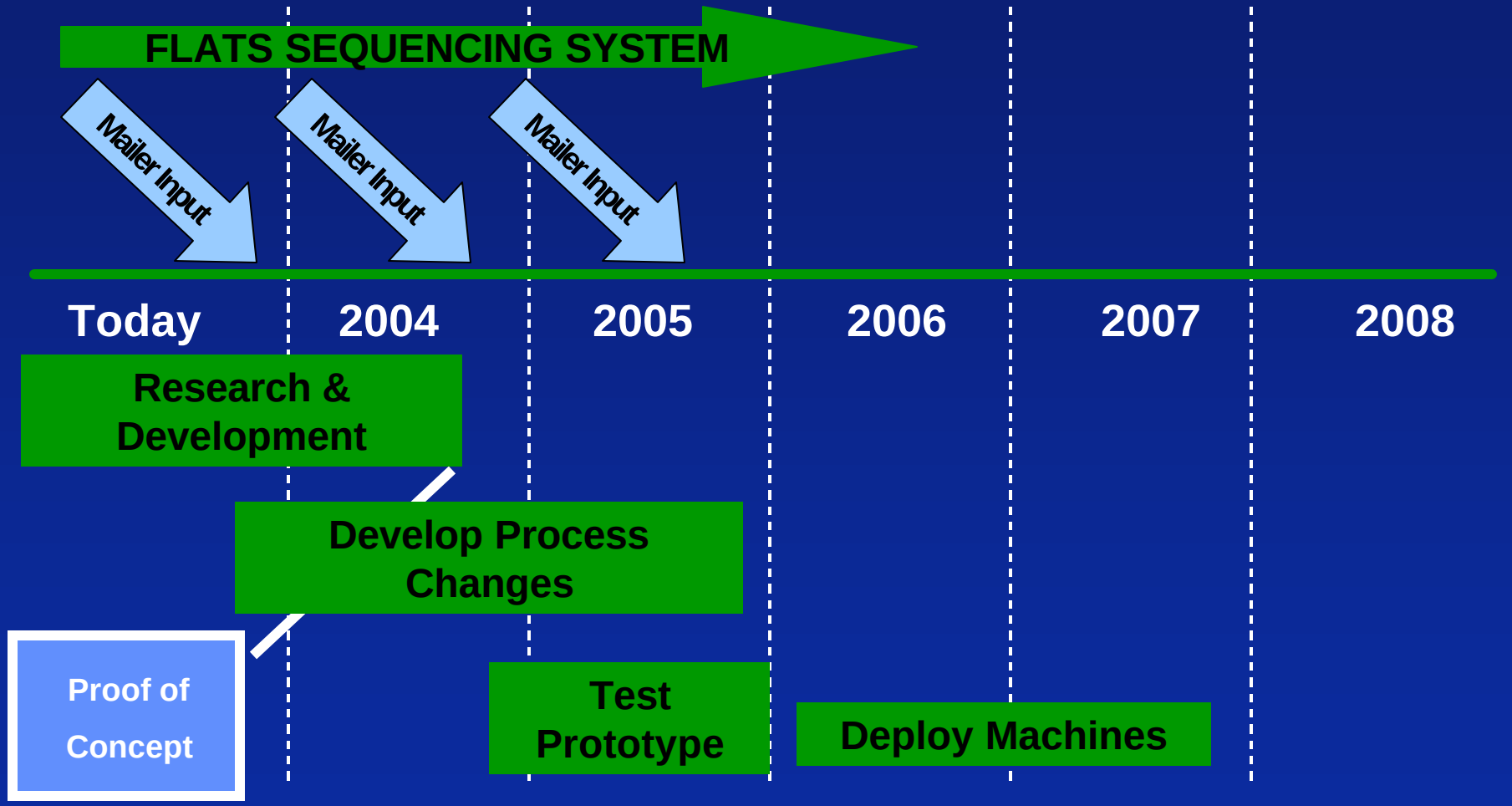
The flat mail would then be dispatched to the delivery unit where the carrier would sequence any remaining letters and flats.

FSS MAIL FLOW



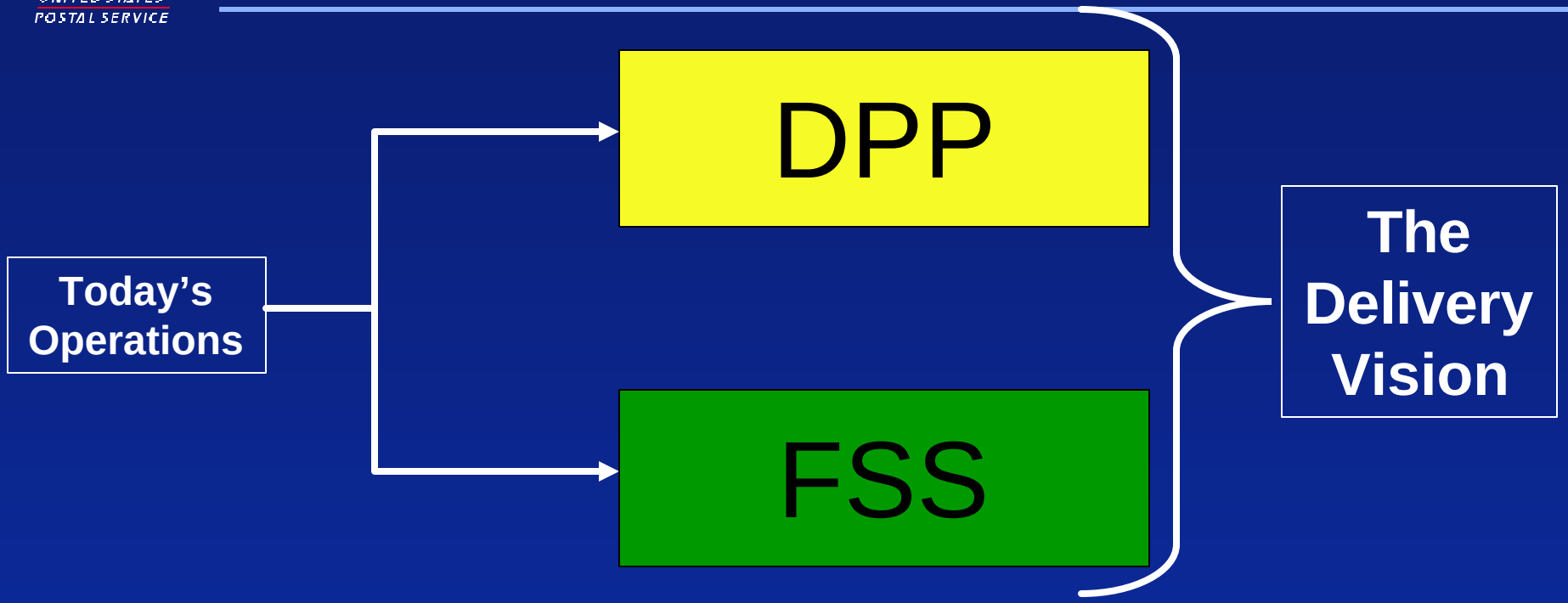
The carriers would load their vehicles, and begin their routes.

FSS TIMELINE



This is how we think FSS might roll-out time wise. As you can see we are still in the R&D mode. However, the timeline is considerably shorter than that for DPP.
If we are successful with our R&D effort, we would look at FSS deployment in 2006.

MAKE THE RIGHT CHOICE



So this is where the Postal Service is today. We are in the Research and Development phase for both the DPP and the FSS programs. NO option has been selected. While we are pretty sure that we can do FSS, DPP looks like it could have a bigger pay back for all of us. We do not want to make a unilateral decision. Whatever we do should be a collaborative effort.

FLATS STRATEGY
Comments? Suggestions?

e-mail us at:

FlatStrategyFeedback@usps.gov

If you would like to share your comments about the flats strategy, please send an e-mail at the address above.

Thank You.