Meeting Minutes
Executive Steering Committee
Corporate Automation Plan-Phase 2
January 20, 2004

Industry Attendees: Bob O'Brien, Joe Lubenow, Joyce McGarvy, Val Scansaroli, Vince Giuliano, Anita Pursley

Postal Attendees: John Rapp, Charles Bravo, Tom Day, Nick Barranca, Bill Galligan, Walt O'Tormey, Skip McGill

The meeting began at 12:25 p.m. with a presentation of the Corporate Automation Plan Phase 2 (CAP P2) by John Rapp. Mr. Rapp requested that the Steering Committee ask questions and critique the presentation so that it could be improved before the February 4 MTAC meeting. The presentation is structured as follows:

- History of the CAP;
- Review of the accomplishments to date;
- Comparison of the contents of the original CAP vs. the update being prepared;
- Highlights of the major sections of the CAP P2 document: letters, flats, parcels, bundles, trays, containers, scanning and tracking, information flow, automation program support and longer term plans for on-going projects

The committee had questions regarding several slides and suggestions for improvement:

Regarding DPP/FSS, Val Scansaroli asked about the throughput and productivity assumptions that USPS was asking equipment vendors to meet. John Rapp replied that USPS did not provide a specification to the vendors, but instead posed an engineering problem that challenges the vendors to come up with their best design solution for DPP and FSS with the proviso that the solution offers a favorable payback/ROI.

Tom Day stated that there were four contractors for DPP and two for FSS. Each contractor will offer a unique design solution for evaluation. Joe Lubenow asked if any of the FSS contractors would be working on DPP. Tom Day stated that some partnering between vendors is expected in order to acquire certain system components.

<u>Market Research Update</u>
Moving on the next agenda item, Nick Barranca provided an update on packaging market research. USPS contracted with a well-known market research firm, National Analyst Inc., Philadelphia, PA, to conduct market research to gauge customer reaction to the concept of receiving packaged mail. Twenty-four focus group sessions were conducted in five cities: Washington, DC, Chicago, San Francisco, Ft. Lauderdale and Dallas. The focus groups were structured based on a variety of residential and business delivery types, e.g., curbline, door delivery, centralized delivery NDCBU and apartment delivery. Also, there were telephone interviews with customers in New Bern, NC that received packaged mail for a short time in the spring of 2003 as part of a Segway two-wheel

delivery vehicle test. Research results are being compiled and a report prepared. Results will be shared with the industry at a special meeting to be scheduled after receipt of the contractor's report.

Bob O'Brien asked if quantitative market research is planned to evaluate if there is any change in consumer response rates for packaged mail vs. today. Nick Barranca stated that a decision would be made after we have had a chance to review the contractor's report on the qualitative focus group market research.

Bill Galligan asked if the industry had performed any analyses on response rates for rural vs. city delivery? Many rural carriers place rubber bands around mail for each delivery point, which is a form of packaging. This type of analysis may be suitable as a proxy for quantitative market research.

Update on Flats R&D

Two contracts for R&D on Flats Sequencing System (FSS) awarded to Lockheed Martin and Northrup Grumman. Four contracts awarded for R&D for Delivery Point Packaging (DPP): Bowe Bell & Howell, Elsag, FKI Logistics, and Siemens Dematic.

The current work under contract is broken into eight steps:

1. Contract award (done)
2. Preliminary design review (done)
3. Critical design review
4. System specifications review
5. Pre-modeling validation
6. Final modeling validation
7. Simulation demonstration
8. Final report (summer 2004)

Based on favorable simulation results, there are contract options for additional testing. FSS testing would be an actual pilot test in a zone since versions of these machines exist and are in service at Japan Post and Royal Mail. For DPP, a test bed using a limited number of addresses in a zone would be used to assess feasibility.

Val Scansaroli asked about the assumptions being used for packaging. Tom Day stated that paper, strapping, bagging and dividers are being considered. There were also questions about whether FSS and DPP would be joined together in a tandem process and if the Postal Service would consider deploying both types of systems if feasible. Tom Day stated that the processing would take too long for a FSS and DPP tandem process. It is still too early to determine if it would be feasible to deploy FSS for some zones and DPP in other zones. Regarding size and shape characteristics, vendors are responding to the needs of the industry and have demonstrated they can sort Advo-type mailpieces and are working to improve more robust hard case type pieces. Vendors are responding to industry suggestions to look at the printing and binding industry to understand their processes and seek new technology opportunities.

Joe Lubenow stated that vendors are asking mailers for sample mailpieces for testing. Tom Day replied that the vendors are doing this independently and suggested that they are seeking extreme pieces to test the limits of the systems under development. During competitive tests, the Postal Service will use a standard test deck in a controlled environment, and test data will be protected. The test decks are designed to reflect the characteristics of the mailstream. There is an opportunity for the industry to have input into test deck design particularly to include a mix or type of mail that would be used in the future. The Postal Service is confident that FSS and DPP systems would handle a wide range of sizes and shapes. Of paramount importance is accuracy of sort that largely is determined by address block quality and location.

Bob O'Brien pointed out that the surcharge for small parcels gave the industry an incentive to get creative to have small parcels qualify for flat size rates. John Rapp suggested that the Postal Service may seek a change to reflect what the flat mailstream can realistically handle with the next rate case.

Val Scansaroli asked how the Postal Service planned to handle 8 percent of letters that are not capable of being processed on automation. John Rapp indicated that theoretically all mail is automatable, if not on letter automation then on flat or parcel automation.

Bob O'Brien opened the next agenda item on the industry proposal to have an MTAC workgroup to address the range of sizes and shapes that new flats automation equipment would need to handle. The basic question is: are we addressing everything that is in the mailstream? The workgroup would be comprised of industry, postal and vendor representatives.

Tom Day pointed out that in the current competitive environment, vendors would not be willing to disclose, in a public setting, the range of sizes being considered for their system design fearing loss of a competitive advantage. John Rapp expressed concern that a workgroup would tend to focus on the outer limits of size and drive the vendors to a higher cost piece of equipment.

Nick Barranca commented that the vendors are working to the size range of the FSM 1000 which is quite broad and asked if that was sufficient for the industry. Joe Lubenow asked if the FSM 1000 could handle atypical size publications like Barron's. Tom Day responded that the UFSM 1000 could handle folded, but not rolled, newspapers and made the point that size characteristics eventually come down to a value engineering question: What cost are you willing to pay for a universal range of size and capability? Vince Giuliano commented that the machine design and capabilities must support the needs of the marketplace.

Charlie Bravo emphasized that the quality of the address, the address block and the address block location are also critical aspects that need to be considered to ensure a high read rate.

John Rapp stated that bottom line, the machine decision will be based on financial viability. The test decks should not be overloaded with hypothetical future mailpieces that may not materialize. It should be designed primarily around the existing mail base within the limitations imposed by financial viability.

Summarizing, Bob O'Brien stated that the discussion during the meeting helped to alleviate earlier industry concerns about size and handling characteristics. The committee agreed that it was premature to have workgroups until vendors are more open to sharing information with the industry. The proposal was tabled.

Secondary Address Information

Joe Lubenow opened discussion on the Secondary Address information policy. Current policies and procedures for obtaining apartment number address data for high-rise buildings need improvement to increase the percentage of mail with apartment numbers. Current policies are based on postal and privacy laws. When using the best lists available, it is estimated that only 75 percent of apartment addresses are included. Much of the mail addressed to apartments must be cased and handled manually by carriers and requires local carrier knowledge. This drives up the cost of handling and increases the rate of mis-delivery. New processes are needed to improve apartment address information.

Four methods for improvement were discussed:

1. USPS supplies data – The National Customer Support Center in Memphis could provide supplemental data. However, current NCOA regulations require that to obtain a new address a mailer must first have the old address. Discussions with lawyers are underway to determine what alternatives might be legally possible.
2. USPS uses "partner keys" to provide surrogate data for apartment numbers. John Kelly developed this idea several years ago, but it was never approved.
3. Inference – have learning software in machine sort plans that could remember and use the apartment number information from prior mailpiece "covers" to sort pieces with missing apartment numbers.
4. Industry incentive – use rates and workshare requirements to provide incentive to obtain apartment numbers by private means.

Tom Day indicated that due to privacy rights considerations USPS is not planning to use learning software to collect and store information from mailpiece "covers" for use in sorting subsequent pieces without apartment numbers to a finer depth of sort. However, USPS has been successful using alternate databases to "arbitrate" a decision on an address to increase depth of sort.

After the discussion, John Rapp indicated that USPS would continue to pursue this issue internally to determine which options would work best to improve the percentage of mail that uses apartment numbers in the address. It was suggested that there might be potential to treat business suite numbers differently from residential apartment numbers if the privacy rights for businesses is different from individuals.

Charlie Bravo asked the industry for support in promoting the use of Internet Change of Address to improve apartment number addressing. The system forces inclusion of an apartment number if the address number calls for one. Customers also receive $65-$100 in "welcome wagon" retail coupons when filing COA order via internet. Only one in sixty COA orders is correct as received from customers. The program will be announced the week of January 26.

The meeting adjourned at 2:40 p.m.