

Direct Insight

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Express

POSTAL UPDATE

USPS Financial Outlook

The USPS anticipates volumes in the third and fourth quarters to decline by 1.7%, due to higher than expected rate increases. As a result, a projected loss of \$1.8 billion for the second half of the year could be exceeded by as much as \$500 million.

Add to this new costs associated with elimination of the Civil Service Retirement System (CSRS) contribution; elimination of escrow and loss of interest income; scheduled payment to the Retirement Health Benefit Fund (RHBF); removal of interest income on the escrow; additional Sarbanes-Oxley Act (SOX) contribution and administration; and the direct impact of reform estimated net income.

If the PRC recommends a rate change for standard letters and/or flats, and the Board of Governors accepts it, the suggested implementation date will be July 15 to coincide with the Periodical rate increase.

Mailers will be able to use the Intelligent Mail Barcode (IMB) for Address Correction Service (ACS) on flats, but will pay the electronic fee, not the lower IMB fee.

USPS is already working on a new rate case, not necessarily intending to file it, but simply starting the lengthy process. If the rules on reform come out in the fall as anticipated, the USPS will evaluate them vis-à-vis revenues and make a decision at that time.

Address Quality/Strategy

The Move Update requirement (also known as the NCOA requirement) federal register notice, has been posted to the USPS website, and is expected to publish the week of May 20, with a 30-day comment period and implementation 18 months hence. Coding Accuracy Support Software (CASS) Cycle M (August 1, 2008) will require vendors to enable interface with the Suite^{Link} product. This secondary information for business addresses must be made available as an additional service for mailing list owners. Cycle N (August 1, 2009) will require Suite^{Link} as part of CASS to obtain automation discounts for business addresses only.

Intelligent Mail Barcode (IMB)

USPS announced it will be able to lower the minimum barcode height requirement to 0.125" instead of the preferred 0.134", but it will take nine months to retool its equipment. Mailers can move to the new height immediately, but barcodes on flat mail processed by UFSM 1000 machines will not be able to be read, possibly compromising its delivery. The IMB was extended to flats May 16.

The new 24-digit tray label will be available to pre-qualified postal customers in the fourth quarter and to all mailers in the second quarter of next year. The new label will become a requirement in fiscal 2008/2009.



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The Postal Automated Redirection System (PARS) is scheduled for deployment in October. The second phase of the surface-visibility initiative will be implemented in fiscal 2008. The IMB will be mandated for all automated discounts in calendar year 2009. Seamless Acceptance of mail is also expected in calendar year 2009.

Flats Update

The first phase of the Flats Sequencing System (FSS) will be deployed into 29 districts and 32 new and existing processing facilities, with two to five systems per facility. Beginning in the fall of 2008, this initial deployment covers about a fifth of the zones and nearly 30% of processed volume.

The USPS expects to increase customer-applied Delivery Point Barcodes (DPB) and improve address and barcode readability. In addition, you may see new rules this summer regarding standardized address placement and evolving standards for machinability.

Also under consideration are changes in container and pallet makeup to better align mail preparation requirements with processing needs. And possible changes in entry points and critical entry times may involve redirecting flat mail to specific processing facilities. The USPS is already planning for the second phase of deployment, which is expected to overlap phase one.

Mailers' Technical Advisory Committee (MTAC) Update

MTAC 114 - Developing Service Standards

First Class

Tentative agreement has been reached to start with standard 2-3 day delivery for existing First Class mail, but there are concerns regarding the "tail-of-the-mail" measurement. The committee is also reviewing specific types of First Class Mail, including remittance, international and forwarded mail.

Periodicals

Tentative agreement was also reached on existing standards for periodicals, which if achievable by the USPS, will meet business needs. A subgroup has begun discussions on measurement and is evaluating Red Tag as an interim service performance measurement system.

Standard Mail

The committee tentatively agreed to recommend a range of delivery days based on existing standards for origin-entered mail, which accounts for about 25% of Standard Mail volume. Also proposed was a delivery matrix for drop-ship-entered mail, accounting for 75% of Standard Mail. This matrix reflects facility types DMBC, DSCF, DDU and presort carrier route vs. non-carrier route. A number of service standard issues remain open, notably seasonality.

Packages

It was agreed that existing standards for commercial packages, i.e. parcel post, library mail, and media mail, will meet business needs if the USPS can meet them at an acceptable level. Mailers of Standard Mail parcels are evaluating standards for packages compared with Standard Mail. Retail parcel post may be outside the purview of the MTAC workgroup. Return Services (Merchandise Return/Bulk Parcel Return) are being assessed as special services.

Other

The USPS has been advised that significant changes to CETs (Critical Entry Times) will effectively change service standards. Forwarded mail subgroups are analyzing the process and possible standards. The USPS is conducting an internal review of existing service standards with a preliminary report due to the workgroup in early June. The existing standards may not be achievable in Zip codes outside the contiguous U.S. (Hawaii, Guam, Alaska and Puerto Rico) given the current environment in the USPS logistics network.

The workgroup is scheduled to complete its deliberations by mid-September, with consultation between the PRC and USPS beginning this month. Standards for all market-dominant products must be established by December of this year, and the USPS must present a plan, including network structure and goals, for achieving these standards. The PRC and USPS will determine a timetable for putting performance metrics in place.

