

POSTAL ISSUES UPDATE

SUMMER 2008

Implementing Intelligent Mail Barcodes (IMB)

The Postal Service has released the final rule on the "Implementation of New Standards for Intelligent Mail Barcodes." On May 11, 2009, they will implement two options for using Intelligent Mail barcodes – Basic and Full-Service. Both Full-Service and Basic options can be used to claim automation discounts and to participate in OneCode Confirm (mail tracking) and OneCode ACS (address correction service). The Postal Service will also allow mailpieces using Full-Service and Basic options as well as pieces with Postnet barcodes to be commingled in a single mailing, with appropriate electronic documentation. Mailers can continue to use Postnet barcodes for automation discounts and Planet Code barcodes for Confirm tracking until May 2011.

Use of the Full-Service option will require:

- Unique identification in Intelligent Mail barcodes on letters and flats;
- Intelligent Mail tray labels, with unique barcodes, used on trays and sacks;
- Intelligent Mail container placards, with unique barcodes, affixed on the outside of pallets;
- Electronic postage statements and documentation.

Full-Service mailers will enjoy the following benefits:

- Address correction information for letters and flats using OneCode ACS at no charge (subject to approval by the Governors).
- "Start-the-clock" information that will document when the Postal Service has taken possession of each mailing.

Use of the Basic option will only require placing an Intelligent Mail barcode on the mailpiece – uniqueness of the barcode is optional. There are no unique tray and pallet barcodes, electronic postage statements, or electronic documentation required for the Basic option.

Although there will not be a difference in the automation discount offered for Full-Service and Basic options immediately upon implementation, the Postal Service announced their intention to recommend to their Board of Governors that mailers who use Full-Service pay lower automation prices beginning in the fall of 2009. (We won't know the amount of the price differential until the annual price adjustment proposal is presented to the Postal Regulatory Commission in February 2009.)

In May 2010, the Intelligent Mail barcode will be required on Qualified Business Reply Mail (QBRM) letters. Other Business Reply Mail and Courtesy Reply Mail will not be required to have Intelligent Mail barcodes until May 2011. Unique identification is not required on reply mail. The IMB used on QBRM must have a Mailer ID (MID). For all other reply mail the MID is optional.

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New Move Update Requirements Take Effect in November

New requirements for Move Update take effect on November 23, 2008. At that time Move Update will be required to obtain both automation and presort discounts for Standard Mail, not just First-Class Mail. In addition, the window in which Move Update processing must have been performed will be shortened to 95 days from the current 185 days. For solicitation Standard Mail using rented lists, Move Update is typically accomplished using NCOA^{LINK} processing.

Mail using an "exceptional address format" (for example "or Current Resident") is not subject to the Move Update requirements since it is always delivered to the address on the piece, and is not forwarded or returned.

At the August meeting of the Mailers Technical Advisory Committee (MTAC), Bob Galaher, USPS manager business mail acceptance, and Sharon Daniel, USPS manager mailing standards, announced that the "non-compliance adjustment" for Standard Mail not meeting the new regulations would be 7¢ per piece. First-Class Mail will continue to default to the single-piece First-Class rate (currently 42¢) when Move Update requirements are not met. Daniel noted that they arrived at the 7¢ figure for Standard Mail because that is the average increase

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Postal Service Calls on Marketers to Become “Enviromailists”

The Postal Service has begun giving a higher profile to their own efforts toward environmental sustainability as well as encouraging mailers to join them in “greening the mail.” They have launched a marketing campaign encouraging marketers to become “enviromailists” who take a greener approach to direct mail. Being an “enviromailist” includes using practices such as better targeting, respecting consumers’ mail preferences, good address hygiene, and postal optimization to deliver the right offer to the right audience at the right time. All these practices allow marketers to use paper and transportation resources more efficiently, reducing pressure on forests, cutting energy use and climate-change emissions, and producing less waste.

In May, the Postal Service named Sam Pulcrano, a 33-year Postal Service veteran, as the organization’s first vice president of sustainability. Pulcrano will be responsible for coordinating energy and environmental programs across all departments of the Postal Service. One of Pulcrano’s first goals will be to complete an inventory of greenhouse gas emissions and create an action plan to reduce emissions.

The Postal Service has taken several steps to improve its own sustainability profile including maintaining one of the largest fleets of alternate-fuels vehicles in the country, earning “cradle-to-cradle” certification for Express Mail and Priority Mail packaging materials, and providing improved access to recycling in its facilities. The Postal Service is also working with members of the mailing industry to develop an official sustainability policy to guide Postal Service practices into the future.

Sustainability has also become a major theme at postal meetings including this year’s National Postal Forum, which included a full-day “Green in the Mail” Symposium. At the August MTAC meeting, sustainability was a topic in a number of presentations including PMG Potter’s keynote in which he encouraged mailers to “send a message” and “get engaged” to communicate with customers and prospects about steps mailers are taking to make mail more environmentally friendly.

In addition, the Postal Service, in partnership with the mailing industry, industry suppliers, and non-governmental organizations, has established the Greening the Mail Task Force. This public-private partnership was designed to promote sustainability and to initiate a fact-based

discussion on mail and the environment. Michael Fanning, manager of environmental policy and programs for the Postal Service heads the coalition.

Fanning told the August MTAC meeting that organizations such as ForestEthics are providing information that is “dead wrong” about the effect of mail on the environment, adding “we have data on our side.” Fanning said the Postal Service is close to releasing a “life cycle analysis” of mail, which will show mail’s “carbon footprint” along the entire supply chain. This study is considered an important step to enhancing industry-wide environmental performance. The Postal Service is fine-tuning the communication plan around the release of the study, and it should be out soon.

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At the August meeting of the Mailers Technical Advisory Committee (MTAC) Tom Day, USPS SVP intelligent mail, said that in addition to any discounts offered for using the IMB options, mailers should focus on the “value” offered by Intelligent Mail. He cited increased ROI from improved address quality, better visibility as mail moves through the postal network, and reduced costs from electronic data transfers and document management.

“We believe the benefits of an information-rich mail stream will be evident for our mailers and the entire mailing industry, and investments to make that a reality will prove to be very much worthwhile,” continued Day. “However, given the volatility of the economy, decreasing mail volumes, and our own financial situation, it would be premature for us to commit to a pricing structure for the Intelligent Mail barcode at this time.”

Pritha Mehra, USPS VP business mail entry, told those gathered at the MTAC meeting that the Postal Service was committed to having all systems, software and hardware needed to support Full-Service in place before the May 2009 implementation. PostalOne!, the Postal Service web portal will be undergoing a major infrastructure upgrade between September and November of this year. This upgrade, among other things, will improve the testing environment for mail.dat files, provide a better ability to deal with commingled mailings, and improve spoilage accounting.

You can learn more about participating in the Full-Service option or request a copy of our FAQs about IMB by contacting your IWCO Direct sales executive or client service representative.

Postal Notes

Do Not Mail Initiatives

The 2008 state legislative year has seen twelve states with bills that would create state-run Do Not Mail registries – seven states carried over legislation from their 2007 session and five states filed new bills. Most state legislatures have now adjourned for the year. None of the bills in those states whose legislatures have not adjourned is thought to pose an immediate threat of passage.

The Mail Moves America coalition, of which IWCO Direct is an active member, is actively working with state business groups and communicating with legislators about the importance of direct mail for consumers, businesses and the economy.

Reorganization of Headquarters Staff

The Postal Service's marketing and sales organization has been split into two groups: a newly created Shipping and Mailing Services Division and a customer relations group. The Shipping and Mailing Services Division, to be led by marketing veterans and postal newcomers Robert Bernstock and David Shoenfeld, brings together product management, product development and commercial sales. The customer relations group, headed by postal veteran Stephen Kearney, combines pricing, communications, customer service and consumer affairs under unified leadership.

The reorganization also consolidates all Intelligent Mail activities under the direction of Chief Operating Officer Patrick Donahoe. Tom Day, USPS SVP intelligent mail and address quality, and Pritha Mehra, USPS VP business mail entry and payment technologies, will be in charge of Intelligent Mail development.

Non-Enveloped Letter-Sized Mail

The Postal Service continues testing "Slim Jim" catalogs and other non-enveloped letter-sized mailpieces (e.g., selfmailers) to better align piece design elements with letter sorting equipment. Proposed rules for such mail are expected in September followed by a comment period, with the final rule being issued in November, and implementation in spring 2009. New regulations are expected to strengthen the current requirements for non-enveloped letter-sized mail. Current results of testing indicate that relatively short mailpieces that are near the 1/4" thickness maximum and the 3 ounce weight maximum are the most problematic for the sorting equipment. Use of lightweight cover stocks can also result in excessive damage to the mailpieces.

Postal Service Submits "Network Plan" to Congress

The Postal Service, in consultation with the Postal Regulatory Commission, was required to submit a plan to Congress to describe how it intends to meet the new service standards established late last year, including performance goals; any planned changes to the postal processing network; and a description of the long-term vision for rationalizing postal infrastructure and workforce. The plan that was submitted to Congress on June 19 doesn't break new ground, but does give more detail and insight into where the Postal Service is going operationally in the near future. The plan included discussion of five topics:

1. Performance Goals: establishing a set of performance targets for each market dominant product before the start of FY2009 (10/1/08) and, at a minimum, reviewing and updating those targets annually.
2. "Operationalizing" Service Standards: implementing initiatives to improve operational consistency across facilities to enable achievement of performance targets.
3. Network Rationalization: articulating a "network vision" for a flexible, efficient network that results in lower costs for the Postal Service and mailers, improves consistency of service, and reduces the Postal Service's "environmental footprint."

Network rationalization has three components: continuing closures of airport mail centers, consolidating mail processing operations, and what is termed "Bulk Mail Center Transformation."

BMCs are 1970s-era facilities that no longer fit the operational needs of the Postal Service. The Postal Service is looking at outsourcing many of the current BMC functions and using the space to accommodate new Flats Sorting Systems (FSS) and consolidate other mail sorting functions.

4. Workforce Rationalization: planning for downsizing the workforce to meet operating changes, while minimizing disruptions to customer service.
5. Alternate Retail Options: providing retail services through venues other than brick and mortar postal facilities.

Volume Declines Cloud Postal Service Financial Picture

The Postal Service announced that after nearly breaking even at the end of their second quarter, they saw a dramatic decline in both volumes and revenues in Q3. Year to date (YTD) total mail volumes are off 3.9%, with a drop of 5.5% for both Standard Mail and First-Class Mail in Q3 compared to the same period last year (SPLY).

YTD revenues were up 1.4% to \$57.2 billion (based largely on rate increases), compared to expenses that were up 0.4% to \$58.4 billion resulting in a \$1.13 billion loss year to date. Although revenues were in positive territory for the year as a whole, Q3 revenue was off 2.5% from SPLY.

Glen Walker, USPS EVP & CFO, attributed about half the total loss to the slump in the housing industry and the financial sector. He said strong inflationary pressures, especially in the price of fuel, were also strong contributors to the poor results with the Postal Service anticipating record high cost-of-living-adjustment increases for their employees in September 2008 and March 2009. Walker noted that the early part of the quarter had been relatively stable, but that in June “completely everything fell apart.” He said they were still seeing the same weakness in the preliminary July results.

The Postal Service had originally targeted cost take-outs of \$1 billion for FY2008 and has accelerated that to a pace that will result in cost reductions of \$2.0 to \$2.5 billion by the time the fiscal year ends on September 30, but Walker observed that they wouldn't be able to take costs out fast enough to keep pace with declining revenues.

Walker said he anticipates no recovery in Q4, and that the Postal Service will post a “significant” loss at the end of the year. He projected that the Postal Service would end the year with \$7 billion in debt, which is well below their current debt ceiling of \$15 billion.

	Q3 FY 2008	Change from FY 2007
Financials		
Total revenue	\$57.2 billion	1.4%
Operating expense	\$58.3 billion	0.4%
Net Loss	(\$1.1 billion)	
Volume		
Total mail volume	155.2 billion	(3.9%)
First-Class mail volume	70.3 billion	(4.2%)
Standard mail volume	75.4 billion	(3.7%)

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when First-Class mail is bumped to the single-piece rate for non-compliance.

In discussing enforcement of the Move Update requirements, Galaher indicated that the non-compliance adjustment would be applied to the entire mailing, not just the portion of the mailing that was out of compliance. This brought immediate industry objections that this contradicted current DMM language. In response to these objections, USPS representatives promised to review both the language and how the adjustment will be applied.

Galaher also said that a new release of MERLIN software is being deployed that compares the addresses in the

MERLIN sample to the national change of address database and flags addresses that should have been updated. Once this release is fully deployed, mailers will have a “grace period” in which the Postal Service will provide informational notices about non-compliance without penalties being imposed.

IWCO Direct provides just-in-time NCOA^{LINK} processing that not only helps you meet these new requirements, but also provides the freshest change of address information available, helping you significantly reduce your costs for undeliverable-as-addressed mail.

