

GAO

Report to the Ranking Member,  
Subcommittee on Federal Workforce,  
U.S. Postal Service and Labor Policy,  
Committee on Oversight and Government  
Reform, House of Representatives

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March 2011

# U.S. POSTAL SERVICE

## Ending Saturday Delivery Would Reduce Costs, but Comprehensive Restructuring Is Also Needed



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Highlights of [GAO-11-270](#), a report to the Ranking Member, Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

The U.S. Postal Service's (USPS) financial outlook has deteriorated as customers have shifted to electronic alternatives. Mail volumes have declined over 20 percent since fiscal year 2006 and are expected to continue declining. To help its financial outlook, in March 2010, USPS presented a detailed proposal to the Postal Regulatory Commission (PRC) to move from a 6-day to a 5-day delivery schedule. USPS projected this would save about \$3 billion annually and reduce mail volume by less than 1 percent. This proposal factors in widespread changes to USPS's workforce and networks. USPS has also asked Congress to not include language in its annual appropriation requiring 6 day-a-week delivery.

As requested, GAO assessed (1) USPS's cost and volume estimates and the operational impacts associated with its 5-day delivery proposal and (2) the trade-offs and other implications associated with this proposal. GAO reviewed USPS's proposal (including its assumptions, methodologies, and conclusions) and other information from the PRC's 5-day delivery proceeding, surveyed postal employee and mailer groups, and interviewed USPS officials and postal employee groups. Because GAO previously recommended that Congress consider providing financial relief to USPS, as well as other cost-saving options, this report contains no new recommendations. USPS generally agreed with GAO's findings and provided additional context on its proposed change to end Saturday delivery.

View [GAO-11-270](#) or key components. For more information, contact Phillip Herr at (202) 512-2834 or [herrp@gao.gov](mailto:herrp@gao.gov).

March 2011

## U.S. POSTAL SERVICE

### Ending Saturday Delivery Would Reduce Costs, but Comprehensive Restructuring Is Also Needed

#### What GAO Found

USPS's proposal to move to 5-day delivery by ending Saturday delivery would likely result in substantial savings; however, the extent to which it would achieve these savings depends on how effectively this proposal is implemented. USPS's \$3.1 billion net cost-savings estimate is primarily based on eliminating city- and rural-carrier work hours and costs through attrition, involuntary separations, or other strategies. USPS also estimated that 5-day delivery would result in minimal mail volume decline. However, stakeholders have raised a variety of concerns about USPS's estimates, including,

- First, USPS's cost-savings estimate assumed that most of the Saturday workload transferred to weekdays would be absorbed through more efficient delivery operations. If certain city-carrier workload would not be absorbed, USPS estimated that up to \$500 million in annual savings would not be realized.
- Second, USPS may have understated the size of the potential mail volume loss due to questions about the methodology USPS used to develop its estimates of how 5-day delivery may affect mail volumes.

The extent to which USPS can achieve cost savings and mitigate volume and revenue loss depends on how well and how quickly it can realign its operations, workforce, and networks; maintain service quality; and communicate with stakeholders. USPS has spent considerable time and resources developing plans to facilitate this transition. Nevertheless, risks and uncertainties remain, such as how quickly it can realign its workforce through attrition; how effectively it can modify certain finance systems that cannot be changed until congressional approval for 5-day delivery is granted; and how mailers will respond to this change in service. Further, uncertainties remain as factors other than delivery frequency—e.g., price increases—can also affect mail volumes and revenues.

USPS's proposal involves several factors that need to be considered. It would improve USPS's financial condition by reducing costs, increasing efficiency, and better aligning its delivery operations with reduced mail volumes. However, it would also reduce service; put mail volumes and revenues at risk; eliminate jobs; and, by itself, be insufficient to solve USPS's financial challenges. USPS's role in providing universal postal services can affect all American households and businesses, so fundamental changes involve key public policy decisions for Congress. If Congress decides 5-day delivery is necessary, then Congress and USPS could factor the savings into deliberations about what package of actions should be taken to restore USPS's financial viability. Conversely, if Congress maintains the mandate for 6-day delivery, Congress and USPS would need to find other ways to achieve equivalent financial savings, so that the package is sufficient to restore USPS's financial viability. This would likely entail difficult decisions with broad implications for USPS's infrastructure, workforce, and service. As GAO has reported, a package of actions by Congress and USPS is urgently needed to modernize USPS's operations, networks, and workforce.

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## Abbreviations

|      |   |
|------|---|
| FTE  | full-time equivalent                    |
| MTAC | Mailers Technical Advisory Committee    |
| NALC | National Association of Letter Carriers |
| PRC  | Postal Regulatory Commission            |
| USPS | U.S. Postal Service                     |

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United States Government Accountability Office  
Washington, DC 20548

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March 29, 2011

The Honorable Stephen F. Lynch  
Ranking Member  
Subcommittee on Federal Workforce,  
U.S. Postal Service and Labor Policy  
Committee on Oversight and Government Reform  
House of Representatives

Dear Mr. Lynch:

The U.S. Postal Service (USPS) has a number of challenging financial problems, and its financial condition is on our high-risk list.<sup>1</sup> Over the last 4 years, mail volumes have declined by over 20 percent (from 213 billion pieces at the end of fiscal year 2006 to 171 billion pieces at the end of 2010) because of the economic downturn and the public's changing use of mail. USPS's financial condition has deteriorated, with cumulative losses of over \$20 billion in the past 4 years. In fiscal year 2011, USPS projects a \$6.4 billion loss and expects to reach its \$15 billion statutory debt limit. Additionally, its long-term outlook is poor. USPS projects that mail volumes will continue to decline further in the coming decade, with volumes in fiscal year 2020 comparable to those in fiscal year 1986, particularly for First-Class Mail. These volume shifts are having a profound impact on USPS revenues. According to USPS, it generated \$1.80 in daily revenue contribution for each delivery point in fiscal year 2000; but by fiscal year 2009, that number had shrunk to \$1.40, and by fiscal year 2020, it could be around \$1.00. These trends raise serious concerns about USPS's business model, which has relied on growth in mail volume to help cover costs.

We have reported that restructuring USPS is urgently needed to enhance its current and long-term viability.<sup>2</sup> We reported that action by Congress and USPS is needed on a number of difficult issues so that USPS can move toward financial viability by reducing costs, increasing efficiency, and generating revenues. On March 2, 2010, USPS released its Action Plan that

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<sup>1</sup>GAO, *High-Risk Series: An Update*, [GAO-11-278](#) (Washington, D.C.: February 2011).

<sup>2</sup>See the list of related GAO products at the end of this report.

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identified strategies for addressing its financial situation.<sup>3</sup> The plan included actions that USPS could take under its existing authority, as well as seven key areas in which it would need legislative changes or support, one of which was moving to 5-day delivery. Specifically, USPS asked Congress to not include the language in its annual appropriations legislation that requires it to deliver mail 6 days a week. Later that month, it presented a detailed 5-day delivery proposal and projected this change would save approximately \$3 billion annually and would have a minimal effect on mail volume. On March 30, 2010, USPS sought a nonbinding advisory opinion on its proposal from the Postal Regulatory Commission (PRC). PRC issued its nonbinding advisory opinion on March 24, 2011; however, since our audit work was completed in early March, this opinion was not included in this report.

In 2010, Senator Thomas Carper introduced legislation, based on proposals made by USPS that included a provision that would give USPS authority to adjust delivery frequency.<sup>4</sup> The recently issued Report of the National Commission on Fiscal Responsibility and Reform<sup>5</sup> also recommended removing the 6-day delivery requirement. However, 6-day delivery continues to be required in USPS's annual appropriations legislation, and some Members of Congress have raised concerns about eliminating Saturday delivery. For example, Senator Susan Collins also introduced legislation in 2010 to improve USPS's financial situation<sup>6</sup> and stated that pursuing significant service reductions, including elimination of Saturday mail delivery, was not a viable long-term solution to the challenges confronting USPS. To assist the subcommittee in its work, GAO was asked to review USPS's 5-day proposal and evaluate its related analysis. Specifically, our objectives were to assess (1) USPS's cost and volume estimates and the operational impacts associated with its 5-day

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<sup>3</sup>USPS, *Ensuring a Viable Postal Service for America: An Action Plan for the Future* (Washington, D.C., March 2010).

<sup>4</sup>On September 23, 2010, Senator Thomas Carper introduced The Postal Operations Sustainment and Transformation Act of 2010 (POST Act of 2010). S. 3831, 111th Cong. (2010).

<sup>5</sup>The White House, The National Commission on Fiscal Responsibility and Reform, *The Moment of Truth* (Washington, D.C., December 2010).

<sup>6</sup>On December 2, 2010, Senator Susan Collins introduced the U.S. Postal Service Improvements Act of 2010. S. 4000, 111th Cong. (2010) and reintroduced the bill on February 15, 2011, as the U.S. Postal Service Improvements Act of 2011. S. 353, 112<sup>th</sup> Cong. (2011).

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delivery proposal and (2) the trade-offs and other implications associated with USPS's 5-day delivery proposal.

To assess USPS's cost and volume estimates and the operational impacts associated with its 5-day proposal, we reviewed information submitted during PRC's proceeding to consider the proposal. This proceeding included seven public, on-the-record hearings and generated thousands of public comments, as well as testimony and input on the proposal from mail users and interested members of the public. We also reviewed several USPS plans, including its action plan; 5-day delivery proposal;<sup>7</sup> operational specific implementation and communication plans; and other financial and operational reports. We interviewed officials from USPS, postal labor unions, and postal management associations. We analyzed USPS's estimates and the operational impacts of 5-day delivery, including reviewing the assumptions and methodologies that USPS used as the foundation for its conclusions and estimates for cost savings and mail volumes. We also reviewed relevant congressional hearings and testimonies, proposed postal reform legislation, and our past work.

To gain additional insight into the financial and operational impacts associated with USPS's 5-day proposal, we surveyed 65 stakeholder organizations in the summer of 2010. These organizations included the seven major postal labor unions and management associations and 58 mailing industry associations that either (1) had formally participated in the PRC proceeding on 5-day delivery or (2) were members of the Mailers Technical Advisory Committee (MTAC), a venue for USPS to share technical information with mailer associations and other organizations related to the mailing industry and to receive their advice and recommendations on postal matters. While these groups represent major segments of the mailing industry and their members generate most mail volume, they are not statistically representative of all organizations in the industry, and therefore our survey results cannot be generalized to the industry as a whole. Finally, to assess the trade-offs and other implications associated with USPS's 5-day delivery proposal, we analyzed the evidence collected for this engagement and our past work on the need to restructure USPS.

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<sup>7</sup>USPS, *Delivering the Future: A Balanced Approach—Five-Day Delivery is Part of the Solution* (Washington, D.C., March 2010).

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We conducted this performance audit from May 2010 to March 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I contains a detailed discussion of our scope and methodology. We requested comments from USPS on a draft of this report and its comments are discussed later in this report and reproduced in appendix III.

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## Background

Mail delivery is central to USPS's mission and role in providing postal services to "bind the nation together through the personal, educational, literary, and business correspondence of the people."<sup>8</sup> USPS is required by law to provide prompt, reliable, and efficient services, as nearly as practicable, to the entire U.S. population.<sup>9</sup> USPS is also required to maintain an efficient mail collection system. These and related requirements are commonly referred to as the "universal service obligation." The PRC has reported that delivery frequency is a key element of universal postal service.<sup>10</sup> Further, provisions in annual USPS appropriations since 1984 mandate 6-day-a-week delivery and rural mail delivery at certain levels.<sup>11</sup>

The frequency with which customers receive mail service from USPS has evolved over time to account for changes in communication, technology, transportation, and postal finances. As recently as 1950, residential deliveries were made twice a day. It is useful to note that while most current customers receive delivery service 6 days a week, some customers receive 5-day or even 3-day-a-week delivery, including businesses that are not open 6 days a week; resort or seasonal areas not open year-round; and

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<sup>8</sup>39 U.S.C. §101.

<sup>9</sup>39 U.S.C. §§101 and 403. USPS is to provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining.

<sup>10</sup>PRC, *Report on Universal Postal Service and the Postal Monopoly* (Washington, D.C., Dec. 19, 2008).

<sup>11</sup>These provisions have specified that "6-day delivery and rural delivery of mail shall continue at not less than the 1983 level." See e.g., Pub. L. No. 111-117, 123 Stat. 3200 (Dec. 16, 2009).

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areas not easily accessible, some of which require the use of boats, airplanes, or trucks to deliver the mail.

Mail delivery accounted for nearly one-third of USPS's \$76 billion in expenses in fiscal year 2010. That year, USPS recorded compensation and benefit costs of nearly \$23 billion and 586 million work hours for its more than 310,000 full- and part-time mail carriers. Delivery is labor intensive and includes carriers manually sorting certain mail<sup>12</sup> into the sequence in which it will be delivered and delivering mail to, and collecting it from, nearly 131 million residential and business addresses.<sup>13</sup> Moreover, this delivery network has grown on average by over 1 million addresses each year over the last 5 years, resulting in additional personnel, fuel, and vehicle costs. Declines in volumes, however, challenge USPS's ability to make corresponding cost reductions because some activities—such as providing 6-day delivery—continue regardless of mail volume.

Former Postmaster General John Potter testified in January 2009 that 6-day delivery was becoming unaffordable and requested that Congress not include the restriction in annual appropriations legislation so that USPS could move to a 5-day delivery schedule. USPS had been unable to cover its costs, many of which were difficult to cut, as mail volumes and revenues were declining. USPS developed a cross-functional, internal task force composed of experts across various operational areas to examine a variety of topics, including the economic value, financial and operational impacts, and business risk of eliminating a day of delivery. The task force solicited input from the public, mailing industry, and postal unions and management associations. Based on this work, the task force prepared USPS's March 2010 5-day delivery plan, which was approved by USPS's Board of Governors. Table 1 summarizes highlights of this plan. The plan recognizes that certain customers may be negatively affected by the proposed reduction in service; however, USPS believes the reduction is necessary to improve its long-term financial viability. In a March 2, 2011, testimony, the current Postmaster General Patrick Donahoe reiterated USPS's position on 5-day delivery, stated there is no longer enough mail volume to support a 6-day delivery model, and said that moving to a 5-day schedule would strengthen USPS's future.

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<sup>12</sup>This mail includes parcels and flat-sized mail such as magazines, newspapers, and oversized envelopes.

<sup>13</sup>Another 20 million addresses are provided delivery as part of USPS's Post Office box service. These deliveries are made by USPS clerks.

**Table 1: Highlights of USPS's 5-Day Delivery Proposal**

| Operational area               | What would change under 5-day delivery   | What would stay the same under 5-day delivery   |
|--------------------------------|--|---|
| Delivery                       | <ul style="list-style-type: none"> <li>There will be no Saturday mail delivery to street addresses for homes and businesses</li> </ul>   | <ul style="list-style-type: none"> <li>P.O. Box-addressed mail will still be delivered 6 days a week</li> <li>Express Mail will continue to be collected and processed from dedicated Express Mail boxes and accepted and processed at post offices on Saturday, and will continue to be delivered 7 days a week</li> </ul>   |
| Mail collection and acceptance | <ul style="list-style-type: none"> <li>Mail will not be picked up from collection boxes or post offices on Saturday</li> <li>Mail deposited in collection boxes or accepted at post offices on Saturday will be processed the following Monday, unless Monday is a holiday (then it would be processed on Tuesday)</li> <li>There will be no Express Mail or Priority Mail Carrier Pickup at homes and businesses on Saturday</li> </ul> | <ul style="list-style-type: none"> <li>No post office will be closed as a result of the change to 5-day delivery. Post offices open on Saturday will continue to accept mail on Saturday</li> <li>Postal facilities that accept business mail on Saturday and Sunday (e.g., mailings of bills, advertisements, and magazines) will continue to do so</li> <li>Detached mail units, such as those located at facilities of business mailers, will be open to accept bulk business mail on Saturday and Sunday</li> </ul>   |
| Mail processing                | <ul style="list-style-type: none"> <li>Mail processing facilities will no longer process (sort and organize) mail accepted on Saturday, except for Express Mail and local bulk business mail</li> <li>Transportation of mail between mail processing facilities and post offices will be reduced</li> </ul>  | <ul style="list-style-type: none"> <li>For mail already sorted and organized, transportation will generally continue as it currently does between mail processing facilities on Saturday and Sunday</li> <li>Mail processing facilities will perform limited operations needed to support               <ul style="list-style-type: none"> <li>delivery to P.O. Boxes on Monday through Saturday, and</li> <li>business mail pickup from USPS facilities (Caller Service) on Monday through Sunday</li> </ul> </li> </ul> |

Source: GAO analysis of USPS proposal.

USPS estimated that if 5-day delivery had been in effect in fiscal year 2009, it would have realized \$3.1 billion in net savings—including \$3.3 billion in gross savings less \$0.2 billion in revenue losses due to a slight volume decline. Of these savings, \$2.7 billion would have resulted from reducing work performed by city and rural carriers. City carriers employed specifically to handle delivery on the sixth day, as well as other part- and full-time city carriers used to replace regular carriers on the sixth day, would no longer be needed. USPS plans to achieve these work-hour reductions by attrition, involuntary separations, or other strategies to reduce work hours.<sup>14</sup> Aside from these city-carrier savings, other savings

<sup>14</sup>Current collective bargaining agreements contain “no-layoff” provisions that cover most career employees and require USPS to release lower-cost noncareer part-time and temporary employees before it can lay off any career employees without layoff protection.

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would be achieved by eliminating rural-carrier work hours that would no longer be needed on Saturday, as well as other associated vehicle, supervisor, and transportation costs.

USPS's estimate of gross savings was based on "full-up savings," which assumed that the transition to 5-day delivery, including the associated operational and workforce changes, had been fully implemented.<sup>15</sup> USPS has not reported how many years this transition would take, but has noted that it would include realigning USPS's workforce through attrition and other changes. Tables 2, 3, and 4 summarize USPS's gross savings, mail volume, and net revenue estimates, including the supporting methodology and assumptions.

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<sup>15</sup>USPS defines "full-up savings" as the annual gross savings less associated volume-related reductions in net revenue available after the completion of all adjustments needed to reduce staffing and adapt contracts, facilities, and equipment to the 5-day environment.

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**Table 2: Description of USPS's Cost-Savings Estimate Associated with Moving to 5-Day Delivery**

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Conclusion: USPS estimated that if 5-day delivery had been in effect in fiscal year 2009, it would have realized \$3.3 billion gross cost savings, achieved by saving over 40,000 full-time equivalent (FTE) positions. Of these savings, over 90 percent would be achieved by eliminating 26,400 city-carrier and 9,925 rural-carrier FTE positions. USPS estimates that this change would lead to reductions of 47 million city-carrier work hours and 18 million rural-carrier work hours. Table 3 shows how USPS determined its gross savings.

Methodology: USPS's methodology for calculating its cost-savings estimate relied on three key steps:

Step 1: Establish the appropriate baseline for the 6-day environment. This included looking at the operations that support Saturday delivery—for example, USPS determined that 145 of its 270 mail processing facilities process outgoing First-Class Mail on Saturday.

Step 2: Review the operational response to 5-day delivery to identify possible cost implications of the operational changes. In doing so, USPS modeled operations at each processing facility to determine the changes that would be needed to transition to a 5-day operating environment. This included analyzing operations that would be eliminated on Saturday, operations that would continue on Saturday, operations on Monday through Friday that would be influenced by the migration of mail from Saturday, and changes in indirect resources, such as supervisors and vehicles.

Step 3: Calculate the sum of the direct and indirect cost impacts and then subtract them from the corresponding 6-day delivery costs determined in Step 1. USPS relied on operational and costing experts to translate these operational changes into dollar cost savings.

Key assumptions: To develop its estimates of gross savings, USPS made the following key assumptions:

- A significant amount of mail that is currently delivered on Saturday is expected to be shifted to Monday without causing major increases in the time city carriers spend delivering mail. Based on the judgment of its operational experts, USPS assumed that most of the Saturday workload transferred to weekdays would be absorbed through more efficient delivery operations. USPS noted that city-carrier productivity has been falling in recent years as mail volumes have declined. USPS then concluded that higher carrier productivity would again be achieved in a 5-day environment because weekday delivery volumes would increase with the addition of Saturday volumes.
- USPS's air transportation network would have sufficient capacity because it has, given current volume levels, excess capacity under the existing contracts.
- USPS would be able to reduce work hours and match reductions in workload through (1) retirements or attrition, (2) involuntary separations of employees not covered by no-layoff protections, most of whom are part-time employees, (3) work-hour reductions for some part-time employees, and (4) reassignments.

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Source: GAO analysis of USPS proposal.

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**Table 3: USPS's Estimate of Gross Savings from Its 5-Day Delivery Proposal, Had It Been Fully Implemented in Fiscal Year 2009**

Amounts in millions

| <b>Operation</b>         | <b>Work-hour savings</b> | <b>Gross savings</b> |
|--------------------------|--------------------------|----------------------|
| <b>Delivery</b>          |                          |                      |
| City carriers            | 47.2                     | \$2,263              |
| Rural carriers           | 18.0                     | 484                  |
| <b>Transportation</b>    | 1.2                      | 376                  |
| <b>Mail processing</b>   | 2.4                      | 123                  |
| <b>Retail operations</b> | 1.2                      | 53                   |
| <b>Total</b>             | <b>70.0</b>              | <b>\$3,300</b>       |

Source: USPS data.

Note: Gross savings are from all sources of savings, such as compensation, benefits, and contract savings (e.g., savings from contracts for long-distance transportation of mail).

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**Table 4: USPS’s Estimate of How 5-Day Delivery Would Affect Mail Volume and Net Revenue**

Estimate: USPS estimated that if 5-day delivery had been in effect in fiscal year 2009, mail volume would have been 0.71 percent less (about 1.2 billion pieces), resulting in a loss in gross revenue of \$466 million. USPS estimated that this loss would have been offset by a \$260 million decrease in costs avoided by not handling this volume. As a result, USPS estimated a net revenue loss of \$206 million due to the volume loss resulting from the change to 5-day delivery.

Methodology: USPS contracted with a market research company to develop and support its estimate of the impact a 5-day delivery schedule would have on mail volume. Among other things, the company surveyed business mailers and the public in late 2009, asking them to estimate how USPS’s 5-day proposal would affect their mail volume levels. To do this, USPS described its 5-day proposal to business mailers and then asked them to estimate the following:

- their USPS mail volumes in the coming year under 6-day delivery;
- the likelihood that 5-day delivery would cause their organization to modify their mail volumes, rated on a scale from 0 to 10, where “0” means extremely unlikely and “10” means extremely likely; and
- for those who had answered the likelihood question from “1” to “10” (i.e., all answers but “0”) their USPS mail volumes in the first 12 months after 5-day delivery was implemented.

USPS then calculated each mailer’s estimated change in volume and judged how to apply the “likelihood factor” to the mailer’s estimate as follows:

- Example 1: If a business mailer estimated a 50,000-piece volume loss and said its likelihood was “10” on the 0 to 10 scale, USPS would factor in a 50,000-piece volume decline.
- Example 2: If a business mailer estimated a 50,000-piece volume loss and said its likelihood was “5” on the 0 to 10 scale, USPS would factor in a 25,000-piece volume decline.
- Example 3: If a business mailer estimated a 50,000-piece volume loss and said its likelihood was “1” on the 0 to 10 scale, USPS would factor in a 5,000-piece volume decline.

USPS asked similar questions of residential customers surveyed to obtain their estimates of how 5-day delivery would affect their mail volumes, including applying the likelihood factor. These customers were asked for their actual mail volumes in the past 12 months and what these mail volumes would have been if 5-day delivery had been in effect during that time.

Key assumptions: USPS assumed that mailers would overstate the impact of 5-day delivery on their mail volumes. In support of this assumption, USPS stated that the “likelihood factor” is a measure of purchase intention routinely used in market research studies to assess consumer intention to purchase possible new products and services. USPS said the information collected by its 5-day research was typical of such market research studies and, thus, the application of the “likelihood factor” to reduce mailer estimates would produce more accurate results.

USPS also assumed that its volume-impact estimate was usable even though it was based on respondents’ reactions to a 5-day proposal that reduced service more than the 5-day proposal subsequently proposed. Specifically, USPS modified its original 5-day delivery concept based on input from mailers, market research, and other analysis. For example, USPS decided it would not close business mail entry units and would continue to accept certain bulk mail on weekends, and would continue weekend Express Mail collections from dedicated collection boxes. These modifications were designed to mitigate the impact of 5-day delivery on business and individual mailers.

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Source: GAO analysis.

These assumptions, methodologies, and conclusions have generated a significant amount of debate since USPS requested an advisory opinion from PRC in March 2010. USPS is required to request a PRC advisory opinion on a service change when USPS determines that there should be a change in the nature of postal services that will generally affect service on a nationwide basis.<sup>16</sup> The resulting PRC public proceeding has provided a

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<sup>16</sup>39 U.S.C. § 3661.

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detailed record that includes, among other things, USPS's proposal and its supporting evidence; input provided by interested parties through oral and written testimony and other supporting evidence; and various statements and rebuttals submitted by USPS and interested parties. PRC issued its nonbinding advisory opinion on March 24, 2011; however since our audit work was completed in early March, this opinion was not included in this report.

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## USPS Should Achieve Significant Cost Savings from 5-Day Delivery, but the Extent of Savings Will Depend on How Well the Change Is Implemented

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### Cost Savings from 5-Day Delivery Are Likely to Be Significant, but Some Savings Will Depend on Increasing City-Carriers' Productivity

USPS is likely to achieve significant cost savings by reducing delivery from 6 days to 5 days because it would eliminate costs associated with carriers traversing their routes on Saturday. During the PRC proceeding, however, stakeholders raised a variety of criticisms about the assumptions, methodology, and conclusions USPS used to determine its cost-savings estimate. Exchanges have occurred between the stakeholders and USPS about these criticisms. Our analysis of these exchanges and our independent analysis<sup>17</sup> identified a key area of concern that may have a considerable impact on USPS's estimate of net financial savings—how efficiently USPS can absorb the cost of its workload transferred from Saturday to weekdays.

USPS assumed that most of the Saturday workload transferred to weekdays would be absorbed through more efficient operations. According to USPS, this assumption was based on operational judgments that excess capacity in city-delivery operations would be used to

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<sup>17</sup>A summary of the methodology and criteria used during this analysis can be found in appendix I.

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accommodate this shifted mail volume because, among other things, the time associated with certain carrier activities (i.e., loading mail into mailboxes) could be performed with greater mail volumes without much increase in work hours. USPS also assumed that a significant portion of its delivery operations would not be substantially affected because this work must be performed regardless of mail volumes (e.g., driving the route). USPS stated it expects that absorbing shifted mail volumes would raise city-carrier productivity, and in doing so, would reverse the productivity declines experienced from shrinking mail volumes. Specifically, USPS has reported that city-carrier productivity<sup>18</sup> has decreased in recent years as mail volume has declined. USPS stated that in a 5-day environment, with Saturday volume transferred to weekdays, higher carrier productivities would be reached.<sup>19</sup> The National Association of Letter Carriers (NALC), which represents city carriers, expressed concerns that this higher city-carrier productivity may not be realized. Specifically, it stated that recent route adjustment efforts have resulted in routes that have little or no excess capacity to absorb the transferred volumes. If certain Saturday city-carrier delivery work hours were not absorbed under 5-day delivery (when mail is transferred to other days of the week), USPS estimated the cost savings would be reduced by up to \$500 million. To the extent to which USPS can absorb this Saturday workload, city-carrier productivity and cost savings should increase. We believe that USPS could realize some increase in city carriers' productivity under 5-day delivery, but the extent to which such an increase would be realized and workload from Saturday to weekdays would be absorbed between Monday and Friday would depend on several factors. These factors would include how effectively USPS implemented its 5-day delivery plans and managed its city carriers and their workload based not only on 5-day delivery, but also on other actions to increase delivery efficiency, such as adjusting delivery routes and deploying flat-mail sorting equipment.

In addition, the Greeting Card Association raised concerns during the PRC proceeding about the compensation rates and attrition levels USPS used in calculating its initial work-hour savings. USPS acknowledges it will not achieve its estimated savings from 5-day delivery within the first year of implementation, in part because some savings are based on realigning

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<sup>18</sup>In this case, USPS measured the productivity of city carriers by calculating the number of mail pieces delivered per hour on their routes.

<sup>19</sup>This assumption did not depend on which weekdays would receive the additional workload.

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USPS's workforce over time through attrition and other changes. USPS can use workforce strategies to support its workforce transition, such as not filling vacancies before implementing 5-day delivery or offering early-out retirement. USPS also has flexibility to reduce hours for different types of noncareer part-time employees whose wages vary widely, but are generally less than the wage levels USPS assumed in its cost-savings estimates. The timing and amount of savings achieved would be influenced by how these strategies were employed and when eligible employees decided to retire.

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### Five-Day Delivery Will Likely Result in Volume Loss and Concerns Have Been Raised that USPS May Have Understated these Losses

USPS and many others agree that 5-day delivery will produce some volume loss as mailers and customers see service reduced with the elimination of Saturday delivery. Concerns have been raised, however, that USPS may have understated the potential volume losses based on questions about the methodology USPS used to develop its estimate and the impact of other factors that can affect mail volumes. During the PRC proceeding, for example, some stakeholders raised questions about USPS's methodology for adjusting mailers' estimates of how 5-day delivery would affect their mail volumes. USPS adjusted these estimates in one direction which could lead to estimates that would underestimate potential volume loss in a 5-day environment. For example

- *Example using USPS methodology.* If a business mailer estimated (1) a 50,000-piece volume loss and (2) it was 50 percent likely to modify its mail volume under 5-day delivery, USPS adjusted the mailer estimate and incorporated a 25,000-piece volume loss into its analysis.
- *Alternative methodology.* If a business mailer estimated (1) a 50,000-piece volume loss and (2) it was 50 percent likely to modify its mail volume under 5-day delivery, it may have been more appropriate to adjust the estimated loss in both directions. Under this methodology, the analysis could incorporate losses of 25,000 and 75,000 pieces.
- *Alternative methodology.* Make no adjustments and incorporate the mailer estimates at face value.

Although USPS indicated that its method of adjusting mailer estimates was a standard industry practice, decision makers may find it useful to have an analysis that reflects adjustments in each direction or just takes the mailer estimates at face value. In addition, some stakeholders expressed concern about potential bias in USPS's mailer surveys supporting its estimate of a 0.71 percent volume loss resulting from a shift to 5-day delivery—some

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said that the questionnaire language elicited overstatements of volume loss, while others said that it elicited understatements of volume loss. USPS stated that its estimate likely overstated the volume and revenue losses that would result from its 5-day delivery proposal because respondents were asked about service cutbacks that USPS subsequently dropped after conducting the survey. According to NALC, however, aspects of the questionnaire language encouraged respondents to understate the degree to which 5-day delivery would affect their future mail volumes. USPS responded that the questionnaire was designed to address potential biases and was carried out in a manner that avoided them.

In addition to these methodological issues, information collected from our survey of mailer groups in the summer of 2010 suggests that these groups are somewhat uncertain about how 5-day delivery would affect future mail volumes.<sup>20</sup> For example, when asked “do the members of your organization expect USPS’s proposal for 5-day delivery to affect the mail volumes that they or their customers send?” 51 percent of respondents answered “yes,” 29 percent “no,” and 20 percent “not sure” (see app. II for survey results). Five-day service is only one factor among many others, such as postage prices, the availability of electronic alternatives, competition, the cost-effectiveness of mail, quality of service, and ease of use that residential and business customers consider as they plan their current and future use of mail. Changes in any of these key factors may affect future mail volume, particularly given the uncertainty about the effects of 5-day delivery.

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### Addressing Operational Concerns Would be Key To Successfully Implementing 5-Day Delivery

Implementing 5-day delivery would require USPS to realign its operations network to increase efficiency, maintain service, and address many of the operational issues raised by stakeholders. To its credit, USPS has dedicated a substantial amount of staff time and other resources to study the staff, system, network, and operational realignments needed to transition to a 5-day environment and has developed communication and implementation plans to support this effort. Risks remain, however, that could threaten USPS’s ability to implement these plans and achieve its financial targets.

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<sup>20</sup>See Appendix II for tabulations of our survey responses.

Stakeholders have raised a variety of operational issues about USPS's proposal, such as the extent to which USPS will be able to maintain high-quality service; align its processing, retail, and delivery network with changes in workload; and communicate changes with stakeholders. These operational issues would have a direct impact on its ability to capture its estimated cost savings and retain volumes. To address these issues, USPS has developed

- communication plans for internal and external stakeholders, including employees, mailers, and the public, and
- implementation plans across functional areas, such as delivery, transportation, mail processing, and post office operations. These plans describe the major tasks, milestones, and time frames needed to transition to 5-day delivery within 6 months of congressional approval.

Because USPS field officials will play a major role in making these changes, USPS headquarters officials are working with field-staff representatives to develop implementation guidance. This guidance, which is to be finalized in March 2011, will include checklists of key steps that field managers will have to complete to be adequately prepared for the transition.

Table 5 identifies questions that we or stakeholders have raised about USPS's ability to make the operational changes necessary to transition to a 5-day environment.

**Table 5: Analysis of Key Operational Issues for USPS's 5-Day Proposal**

| <b>Operational issue</b>  | <b>USPS response</b>   | <b>GAO analysis</b>  |
|---|--|--|
| How will USPS maintain service quality?   | USPS will monitor service quality and respond to any issues that may arise.  | Service quality will depend on how well USPS makes the operational changes discussed below, handles greater workload on weekdays, and responds to any issues that arise.   |
| Will USPS adjust mail entry times for bulk business mail (e.g., bulk mailings of bills, advertisements, and magazines)? | USPS is evaluating entry times for bulk business mail, but has incorporated no changes into its current implementation plans.  | Balancing the types of mail, type of facility, capacity at that facility (e.g., the extent to which dock space is available) and mailer input will be important when evaluating possible changes to entry times.                         |
| How will USPS handle additional Monday/Holiday volumes?   | USPS has modeled operations at mail processing facilities to determine needed changes. USPS expects the facilities to have ample capacity under 5-day delivery, but has contingency plans to use overtime work hours to process additional volume. | How well USPS handles these volumes will depend on its ability to use available time and capacity; realign its workforce; and coordinate with mailers. It may take some time for these changes to be implemented throughout the network. |

| <b>Operational issue</b>   | <b>USPS response</b>   | <b>GAO analysis</b>  |
|--|--|--|
| Will USPS be able to change its surface and air transportation contracts?                            | USPS's transportation contracts may need to be modified, renegotiated, or canceled under the change to 5-day delivery using processes similar to those now being used to reassess transportation needs and contracts.  | Factors such as the contract renewal terms, volume shifts, and mailing pattern changes will be important when working with transportation suppliers to modify contracts.   |
| How will USPS adjust carrier assignments and workload?   | These adjustments, which include eliminating positions and adjusting carrier office and street time, will be made in coordination with current collective bargaining agreements, existing processes, or both.  | The success of these adjustments both during and after the transition (particularly as volumes may fluctuate with the operational and service changes) will depend in part on how collaboratively USPS works with postal labor unions and how quickly it adjusts carrier routes and assignments. |
| How will USPS reduce work hours?   | Key strategies include attrition (primarily through retirements), elimination of positions, involuntary separations of noncareer employees, work-hour reductions for part-time employees, and reductions in overtime use.  | Because large numbers of employees are eligible for retirement, USPS has opportunities to make work-hour reductions, but fully implementing workforce changes will likely take more than a year.   |
| What happens at the post offices and other retail locations that do not offer Saturday retail hours? | USPS stated that customer demand after implementation would be analyzed and that retail hour adjustments, such as extending current hours or instituting new hours, would be considered.   | Optimizing USPS's retail network will depend on coordinating 5-day delivery with other efforts such as expanding retail access using lower-cost alternatives and closing unneeded facilities.  |
| What is USPS's strategy for notifying stakeholders of changes?                                       | USPS plans to use multiple strategies and channels to notify stakeholders, including mailings, print and broadcast news media, signage in retail facilities and collection boxes, call centers, and its Web site, <a href="http://www.usps.com">www.usps.com</a> . | Because of the scope of these changes and the potential for unexpected outcomes, it will be important for USPS to discuss operational issues as they arise with relevant stakeholders and, equally important, be proactive in communicating planned changes.                                     |

Source: GAO analysis.

As USPS recognizes, some actions included in its proposal would require sizable modifications throughout its workforce and operational networks, and some actions will take longer to implement than others. Furthermore, due to their design and complexity, certain USPS information systems (e.g., finance systems) will not be modified unless and until Congress allows 5-day delivery. If any major difficulties arise while these information systems are being updated, the timing of other key operational changes may be delayed.

## Five-Day Delivery Would Provide Cost Savings, but Additional Restructuring Actions Are Also Needed

### Five-Day Delivery Involves Difficult Trade-offs

USPS's 5-day delivery proposal involves both positive and negative effects. Key benefits would include improving USPS's financial condition by reducing costs; reducing the size of its workforce; and increasing efficiency by better aligning delivery operations with reduced mail volumes. On the minus side, it would reduce service; put mail volumes and revenues at risk; eliminate jobs; decrease USPS advantages over competitors that do not have Saturday delivery; and, by itself, be insufficient to solve USPS's financial challenges. Table 6 summarizes these and other key trade-offs.

**Table 6: Key Trade-offs Associated with 5-Day Delivery**

| Pros of 5-day delivery  | Cons of 5-day delivery  |
|---|---|
| <p><u>Financial condition:</u> This option is one of few options that USPS has identified that would lead to multibillion-dollar cost savings after it is fully implemented. This financial benefit would:</p> <ul style="list-style-type: none"> <li>• reduce the need for other cost-saving actions that would affect service, such as reducing window service hours at post offices and retail facilities;</li> <li>• reduce the size of its workforce, which may be facilitated by the large number of retirement-eligible staff</li> </ul> <p><u>Efficiency:</u> Would better align delivery operations with reduced mail volume</p> <p><u>National implementation:</u> Compared to other options that may impact only certain customers in certain locations, this option would affect all business and residential customers that receive carrier delivery</p> | <p><u>Service:</u> This option would reduce service, which could negatively affect certain customer groups that may depend more on USPS for mail delivery than other groups that have alternatives:</p> <ul style="list-style-type: none"> <li>• business mailers, local newspapers that rely on Saturday delivery, and residential mailers who would be affected by longer mail transit times; and</li> <li>• other population groups, such as rural residents, the homebound, or the elderly</li> </ul> <p><u>Volumes/revenues:</u> Would reduce volume and revenue</p> <p><u>Employees:</u> Would reduce the number of USPS jobs and could lead to the relocation or reassignment of certain employees and a reduction in work hours for some part-time employees</p> <p><u>Advantage over competitors:</u> Could reduce the advantage that USPS has over competitors that do not offer Saturday delivery, particularly delivering postal parcels on Saturdays at no additional charge</p> <p><u>USPS brand image:</u> Could diminish USPS's image, in part by reducing public contact with carriers</p> |

Source: GAO analysis.

Moving to 5-day delivery would not, by itself, resolve USPS's considerable financial challenges. We have reported that a variety of actions are needed

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for USPS to adapt more quickly to changes in the public's use of mail and to achieve financial viability. USPS's 5-day proposal should be considered in the context of other restructuring strategies both within and outside the delivery network. In April 2010,<sup>21</sup> we discussed strategies and options across multiple operational and financial areas targeted at reducing operational costs and improving efficiency, including the following:

- Delivery operations—expand use of more cost-efficient delivery, such as cluster boxes.
- Retail operations—optimize the retail facility network, move more retail services to private stores and self-service locations, and close unneeded facilities.
- Mail processing operations—close unneeded facilities or relax delivery standards to facilitate closures or consolidations.

We have also reported on other actions that could improve USPS's overall financial condition,<sup>22</sup> including the following

- revising retiree health benefits funding requirements,
- reducing compensation and benefit costs, and
- generating revenues through product and pricing flexibility.

Mailer, business, and public use of the mail is changing as technology and alternatives evolve. Five-day service is one factor among many others, such as postage prices, the availability of electronic alternatives, competition, the cost-effectiveness of mail, quality of service, and ease of use that residential and business customers consider as they plan their current and future use of the mail. Through our survey of mailer groups and major postal labor unions and management associations, conducted in the summer of 2010, we found that they were divided over the merits of 5-day delivery, with the groups offering diverse perspectives on the potential effects on mail volume and members' finances. Asked about USPS's proposal for 5-day delivery, about half of those surveyed did not express

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<sup>21</sup>GAO, *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability*, [GAO-10-455](#) (Washington, D.C.: Apr. 12, 2010).

<sup>22</sup>GAO, *U.S. Postal Service: Legislation Needed to Address Key Challenges*, [GAO-11-244T](#) (Washington, D.C.: Dec. 2, 2010) and [GAO-10-455](#).

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an overall view, with some explaining that their members had differing views on the matter. Of those surveyed, 22 percent favored USPS's proposal, including some who said it would lower USPS's costs and thus help keep rates down. Some other proponents qualified their support, such as by stating they would favor 5-day delivery only as part of a package of changes to improve USPS's financial condition. Twenty-eight percent opposed USPS's proposal, often stating it would reduce mail volume and harm USPS's business. Some mailer groups said the change would negatively affect customers and increase their costs, while others said they would prefer other options to improve USPS's financial condition. Postal labor unions and management associations raised similar objections. One employee organization expressed concern that 5-day delivery would negatively affect vulnerable populations, such as rural residents, the homebound, the elderly, and small businesses that depend on the mail. Another employee organization expressed concerns that 5-day delivery would negatively affect Saturday retail service and efficiency, as well as reduce support for USPS and its monopoly on delivering mail to mailboxes. See appendix II for tabulations of the responses to our survey.

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### A Decision on 5-Day Delivery Should Be Made in Conjunction With Additional Restructuring Actions

The status quo is unsustainable as USPS is unable to finance its current operations and service levels. Action by Congress and USPS is urgently needed to comprehensively restructure USPS's operations, networks, and workforce and to modernize its organization. We recently reported that Congress and USPS urgently need to reach agreement on a package of actions to restore USPS's financial viability and enable it to begin making necessary changes.<sup>23</sup> We also stated that Congress should consider any and all options available to reduce USPS's costs, and that one option for Congress is to not include appropriations language requiring 6-day delivery. When fully implemented, 5-day delivery would provide USPS with needed cost savings, although the extent of those savings is uncertain. Additional uncertainties remain as factors other than delivery frequency—e.g., price increases—can also affect mail volumes and revenues. USPS's role in providing universal postal services can affect all American households and businesses, so fundamental changes to universal postal services involve key public policy issues for Congress to decide. Some questions for Congress to consider include the following:

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<sup>23</sup> [GAO-10-455](#).

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- What aspects of universal postal service, including frequency of mail delivery, are appropriate in light of fundamental changes in the use of mail?
  - How much postal service does the nation need and what restructuring of USPS's operations is needed for USPS to become more efficient, cover its costs, keep rates affordable, and meet changing customer needs?
  - What incentives and oversight mechanisms are needed to ensure an appropriate balance between providing USPS with more flexibility and ensuring sufficient transparency, oversight, and accountability?

Congressional decision-making actions on USPS's 5-day delivery proposal will be informed not only by this report but also by PRC's public proceedings and advisory opinion on the proposal. If Congress decides 5-day delivery is necessary, Congress and USPS could factor the savings from 5-day delivery into deliberations about what package of actions should be taken to restore USPS's financial viability. Conversely, if Congress maintains the mandate for 6-day delivery, Congress and USPS would need to find other ways for USPS to achieve other substantial financial savings. This would entail difficult decisions with implications for USPS's infrastructure, workforce, and service.

USPS's financial crisis is nearing a tipping point as USPS anticipates having insufficient cash at the end of fiscal year 2011 to meet all of its obligations, as well as reaching its \$15 billion statutory debt limit. Addressing USPS's financial viability is critical, since USPS plays a vital role in the U.S. economy and provides postal services to all communities. Because GAO previously recommended that Congress consider providing USPS with financial relief, and in doing so, consider all options available to reduce costs, this report contains no new recommendations.

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## Agency Comments and Our Evaluation

We provided a draft of this report to USPS for review and comment. USPS provided comments in a letter from the Vice President, Corporate Communications, dated March 18, 2011. These comments are presented in appendix III. USPS also provided technical comments, which we incorporated where appropriate. USPS generally agreed with our findings, but provided additional context for these findings. USPS said that the net cost savings from ending Saturday delivery would be significant given its operations and cost structure. USPS also stated that it agrees with the findings in our report that said there are always risks and uncertainties in modifying information systems. However, USPS noted that most of its

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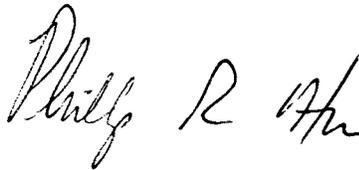
information systems that need to be modified to support 5-day delivery have already passed rigorous testing and there is no appreciable risk or uncertainty relating to these systems. Finally, USPS commented that a change to 5-day delivery is needed because there is no longer sufficient volume to sustain 6-day delivery, and that moving to 5-day delivery is one of the fundamental business model changes needed to help it close the gap between revenues and costs.

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We are sending copies of this report to the appropriate congressional committees, the Postmaster General, the Chairman of the Postal Regulatory Commission, and other interested parties. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-2834 or [herrp@gao.gov](mailto:herrp@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink that reads "Phillip R. Herr". The signature is written in a cursive style with a large initial "P" and "H".

Phillip Herr  
Director, Physical Infrastructure Issues

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# Appendix I: Objectives, Scope, and Methodology

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The objectives of our work were to assess (1) the U.S. Postal Service's (USPS) cost and volume estimates and the operational impacts associated with its 5-day delivery proposal and (2) the trade-offs and other implications associated with this proposal.

To assess these estimates and impacts, we reviewed documents and testimonies from a wide variety of postal stakeholders, including USPS, the Postal Regulatory Commission (PRC), mailers, unions, management associations, economists, and concerned citizens. Much of this information was submitted as part of PRC's review of USPS's proposal to move to 5-day delivery. We also reviewed USPS's action plan entitled *Ensuring a Viable Postal Service for America: An Action Plan for the Future*; a 5-day delivery plan entitled *Delivering the Future: A Balanced Approach, Five-Day Delivery Is Part of the Solution*; operational-specific communication and implementation plans; and other financial and operational information contained in USPS's annual reports, integrated financial plans, and comprehensive statements. We also reviewed reports from PRC, the USPS Office of Inspector General, the Congressional Research Service, the Congressional Budget Office, and the National Commission on Fiscal Responsibility and Reform; relevant congressional hearings and testimonies; laws requiring 6-day delivery; pending postal reform legislation; and our past work. We interviewed officials from USPS, including officials on its 5-day delivery task force, postal labor unions, and postal management associations.

In conducting our analysis of the estimates and operational impacts of 5-day delivery, we also reviewed the assumptions and methodologies that USPS used as the foundation for its conclusions and estimates for cost reduction and mail-volume impact. We reviewed the multiple exchanges before PRC about issues or criticisms that stakeholders had raised about USPS's assumptions, methodology, operational issues, and conclusions and USPS's corresponding responses. In assessing the estimates themselves and these various exchanges, we considered the following criteria for conducting these types of reviews: the magnitude of criticism on the overall estimate; the internal consistency; consistency with social science best practices; the reasoning or support behind the methodology; and the presence of agreement and/or disagreement among stakeholders.

After applying these criteria, we further analyzed two issues that may significantly affect USPS's net financial savings estimate—(1) USPS's assumption and judgment that most of the Saturday workload transferred to weekdays would be absorbed through more efficient city delivery operations and (2) USPS's methodology for estimating the effect of its 5-

day delivery proposal on mail volume, including reducing mailers' estimates based on their responses to the question asking about the likelihood that their mail volumes would change if USPS implemented its proposal.

We surveyed 65 selected stakeholders in the summer of 2010 about their views on USPS's proposal for 5-day delivery, including implementation issues, concerns, and questions; their views on whether the implementation of USPS's 5-day proposal would affect mail volume and mailers' financial conditions; and their overall position on USPS's 5-day proposal. Stakeholders we identified included all seven major postal labor unions and management associations and 58 mailing industry associations that either (1) formally participated in PRC's proceeding on 5-day delivery or (2) were members of the Mailers Technical Advisory Committee (MTAC). MTAC is a venue for USPS to share technical information with mailers and to receive advice and recommendations from mailers on matters concerning mail-related products and services. MTAC members include mailer associations and other associations and organizations related to the mailing industry. MTAC organizations represent major segments of the mailing industry and members of MTAC organizations that generate most mail volume. However, MTAC organizations are not statistically representative of all organizations in the mailing industry and, therefore, our survey results cannot be generalized to the industry as a whole. We received responses from five major postal labor unions and management associations and 45 mailing industry associations, for a combined response rate of about 77 percent.

Our work to assess the trade-offs and other implications associated with USPS's 5-day delivery proposal was based on analyzing the evidence collected for this engagement and our past work on restructuring options and strategies for USPS.

We conducted this performance audit from May 2010 to March 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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# Appendix II: Results of GAO's Survey of Mailer and USPS Employee Groups

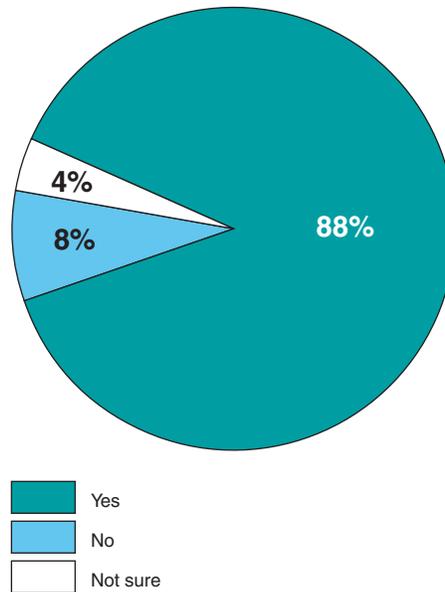
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Tabulations of the 50 responses to our survey from five major postal labor unions and management associations and 45 mailing industry associations follow. Some questions in the survey were asked of all organizations; other questions applied only to mailer groups.

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**Figure 1: Implementation Issues or Concerns about USPS's Proposal**

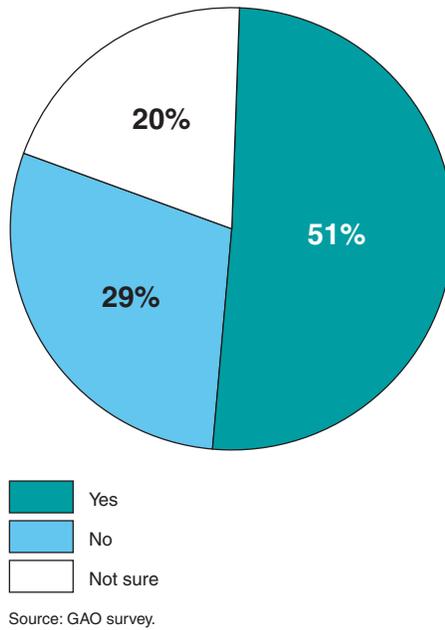
**Mailer/USPS Employee Group Question:** Do the members of your organization have any issues or concerns regarding how USPS plans to implement its proposal for 5-day delivery?



Source: GAO.

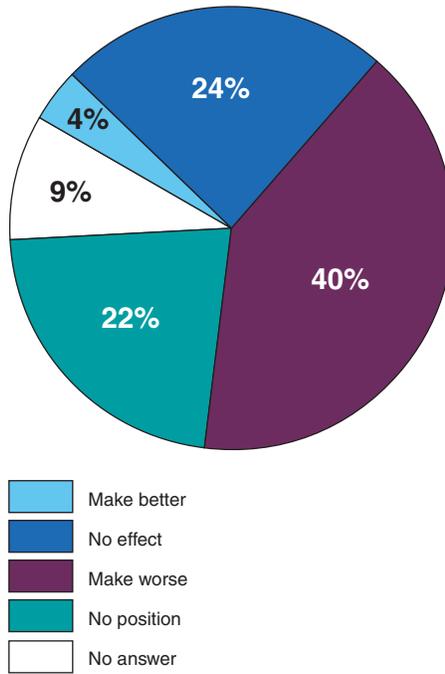
**Figure 2: Views of Mailer Groups on Whether USPS's 5-Day Delivery Proposal Would Affect the Volume of Mail That Their Members or Customers Send**

**Mailer Group Question:** Do the members of your organization expect USPS's proposal for 5-day delivery to affect the mail volume that they or their customers send?



**Figure 3: How Mailer Groups Expect USPS's 5-Day Delivery Proposal to Affect the Financial Condition of Their Members**

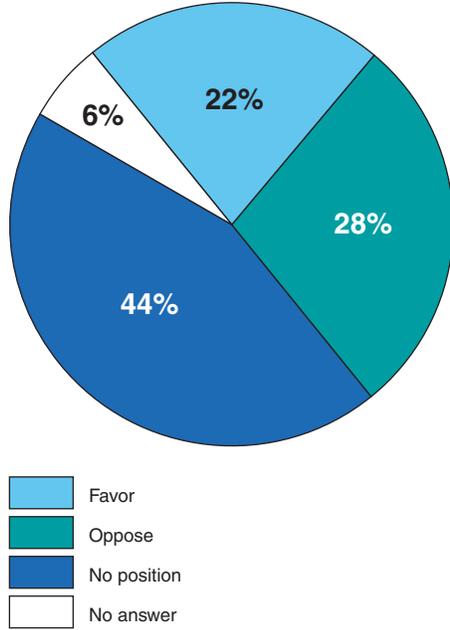
**Mailer Group Question:** How would USPS's proposal for 5-day delivery affect the financial condition (i.e., costs and/or revenues) of your members?



Source: GAO survey.

**Figure 4: Overall Views on USPS's 5-Day Delivery Proposal**

**Mailer/USPS Employee Group Question:** Does your organization favor, oppose, or have no position on USPS's proposal to reduce delivery to 5 days a week?



Source: GAO survey.

# Appendix III: Comments from the United States Postal Service

SAMUEL M. PULCRANO  
VICE PRESIDENT, CORPORATE COMMUNICATIONS



March 18, 2011

Mr. Phillip Herr  
Director, Physical Infrastructure Issues  
United States Government Accountability Office  
441 G Street, NW  
Washington, DC 20548-0002

Dear Mr. Herr:

Enclosed are the Comments of the United States Postal Service to the draft report of the United States Government Accountability Office (GAO) to the Ranking Member, Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, Committee on Oversight and Government Reform, House of Representatives, "Ending Saturday Delivery Would Reduce Costs, but Comprehensive Restructuring Also Needed." We request that our comments be included in Appendix III of the Report.

You and your team are to be commended as they have produced a balanced report on the Postal Service proposal to eliminate Saturday delivery and collection of mail and its readiness to do so. We are appreciative of that effort.

Moving to a five-day delivery schedule is a critical element in the Action Plan for the Future the Postal Service advanced in March 2010. That plan details the strategies necessary to ensure a viable Postal Service well into the 21<sup>st</sup> Century.

This subject is not new to the GAO, as you have in the past urged the Congress to give this proposal serious consideration. For our part, we did not come to this point without serious thought, and the decision to ask that we be allowed to reduce delivery to five days a week was a difficult one.

We believe, however, that we had made the case that a six-day schedule is no longer sustainable. Postal finances can no longer afford it and mail volumes cannot support it. Your continued interest in the Postal Service is greatly valued.

Sincerely,

A handwritten signature in black ink that reads "Sam Pulcrano".

Samuel M. Pulcrano

Enclosure

475 L'ENFANT PLAZA SW  
WASHINGTON DC 20260-3100  
WWW.USPS.COM

**RESPONSE AND COMMENTS OF UNITED STATES POSTAL SERVICE TO GAO REPORT ON ENDING SATURDAY DELIVERY**

The Postal Service appreciates the efforts of the GAO to provide a balanced report on its proposal to eliminating Saturday delivery and collections of mail. The Postal Service provides below its comments in response to the United States Government Accountability Office (GAO) Report to the Ranking Member, Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, Committee on Oversight and Government Reform, House of Representatives, "Ending Saturday Delivery Would Reduce Costs, but Comprehensive Restructuring Also Needed." (GAO Report)

We respond and comment on the discussion in the GAO Report concerning the two key concerns raised by stakeholders - the Postal Service's ability to realize the delivery operations cost savings and the amount of the mail volume that would be lost due to implementation of five-day delivery. We also comment on the discussion in the GAO Report regarding the risks and uncertainties in implementing certain changes in our Information Systems to support implementation of five-day delivery.

• **Overview**

Reducing delivery frequency to five-days a week is a difficult decision. We would not be proposing five-day delivery if six-day delivery could be supported by current mail volumes or projected mail volume trends. Plainly stated, there is no longer sufficient volume to sustain six days of delivery. The volume reductions experienced in recent years and projected into the future are such that continuing to deliver and collect mail six days a week will result in employees not having enough work to do every day of the week.

The USPS has incurred net losses in 15 of the last 17 fiscal quarters. The 2010 fiscal year net loss was \$8.5 billion. The USPS has sustained operating losses despite existing cost cutting programs that successfully removed more than \$6 billion in costs. These cost cutting efforts were not enough.

Elimination of Saturday delivery to street addresses will result in an additional annual cost savings of \$3.3 billion and a net cost savings of about \$3.1 billion. We need to realize these net cost savings as one of the fundamental changes in our business model to help us close the gap between revenues and costs.

The importance of maintaining a healthy and vibrant Postal Service is crucial to the American economy. We will continue to work with everyone who has a stake in the Postal Service to move forward, embrace change and to find ways to succeed. This must consist of a combination of efforts: the Postal Service must control costs, manage its workforce effectively and find new and innovative ways to attract customers and work with our business partners; our employees must deliver the best service possible; and Congress should help the Postal Service solve the far-reaching issues of Civil Service Retirement System and Federal Employees Retirement System overfunding, retiree health benefits prefunding, delivery frequency and by providing the flexibility that the Postal Service needs in order to succeed.

- **Absorption of Delivery Operations**

GAO finds that stakeholders said: "If certain city carrier workload would not be absorbed, USPS estimated that up to \$500 million in annual savings would not be realized." GAO Report, "Highlights".

The \$500 million "at risk" number raised by stakeholders comes from the extreme assumption that there are no savings of any volume-variable street time. In PRC Docket No. N-2010-1, Six-Day to Five-Day Street Delivery and Related Service Changes, 2010 (PRC case), postal unions argued that the Postal Service approach may have assumed too much absorption of volume variable time (about 75 percent). Their argument was essentially there would be no absorption. However, it not reasonable to imply there will be no absorption (0 percent).

In FY 2009 (the year of the cost savings analysis), the Postal Service needed a total of 63 million city carrier hours on Saturdays to deliver mail. Of that, just 17 million hours (27 percent) are the volume variable street time hours that are at issue. Much of the rest of Saturday hours are unaffected by workload delivery volume, such as driving the route. These costs will be saved by elimination of Saturday delivery to street addresses. The Postal Service assumed that 4 million of those 17 million variable street time hours will be transferred to other days, so the absorption factor at issue relates to just 13 million of the 63 million hours or 20.6 percent.

Instead of unreasonably assuming there would be no absorption, we believe a more reasonable sensitivity analysis is that there is uncertainty of about 40 to 50 percent of the \$500 million in savings or \$200 to \$250 million in savings. If the higher amount of \$250 million were used, for example, the cost savings would remain huge as they would be reduced from about \$3.3 billion to about \$3.05 billion.

- **Potential Mail Volume Loss**

The GAO Draft Report states that the second key concern of stakeholders is that:

USPS may have understated the size of the potential mail volume loss due to questions about the methodology USPS used to develop its estimates of how 5-day delivery may affect mail volumes. "Highlights".

We agree that there will be a volume loss if five-day delivery is implemented because we will be reducing mail service. However, the size of that loss is relatively small at about -.71 percent of total volume. Even if the amount of volume loss is understated by some factor, it does not change the decision that we reached that implementing five-day delivery is a responsible exercise of our public service obligation and a sound business decision.

That the volume loss will be near the estimate made by the Postal Service is shown in the independent opinion polls and the market research conducted by the Postal Service. In the polls and research, most individuals and businesses said that they will accept a reduction of delivery frequency to five-days a week. All of the research shows that the American people and businesses care that the Postal Service remains financially viable and most are willing to accept and adapt to five-day delivery. No matter who or how the question is asked - a majority of Americans favor eliminating Saturday delivery. For example, in a May, 2010 Washington Post poll, an overwhelming 71 percent of those polled were willing to give up on Saturday delivery. The USA Today/Gallup poll conducted in March 2010 found that 71 percent favored ending Saturday delivery as a way to ensure the Postal Service's financial stability. In three Rasmussen polls conducted since March 2010, a majority of Americans supported eliminating Saturday delivery. In the March 2010 Rasmussen poll, 58 percent supported the proposal when the question was a stand alone question. In its July 2010 poll, 68 percent supported the proposal when the 5 day delivery concept was presented in context of avoiding a price increase. In its February, 2011 poll, 52 percent supported the proposal when the question was a stand alone question.

The concerns raised by stakeholders about the market research should also be put in context by referring to the rebuttal testimony in the PRC case of Dr. Peter Boatwright, Associate Professor of Marketing in the Tepper School of Business at Carnegie Mellon University. He testified about the methodology used by the Postal Service's market research and evaluated the estimates of the volume, revenue and contribution loss from moving to Five-Day Delivery. PRC Docket No. N2010-1, Tr. Vol. 11 at 3112 *et seq.*. He concluded that the estimated loss of contribution of \$206 million is a reasonable estimate. *Id.* at 3119. As he testified:

Predicting the future involves some degree of uncertainty, including prediction of future costs, volumes, and revenues. To reduce the uncertainty surrounding a new product decision, firms conduct market research, forecast sales volumes, and analyze projected costs. Critically important, the purpose of gathering and analyzing data is not to eliminate uncertainty but rather to reduce uncertainty, because in the end the future always retains some uncertainty.

*Id.*, at 3220-21.

Whatever uncertainties about the estimate of volume and, hence, contribution loss, exist, as Dr. Boatwright testified, *id.* at 3143, the fact remains that the loss will be "dwarfed" by the cost savings. Dr. Boatwright testified that the research methodology could mean that the estimate of contribution loss were off by as much as five percent (+/- five percent). This variance would mean that the contribution loss would be between \$196 and \$216 million. *Id.* at 3143. Such a variance would have no effect on the decision of whether moving to five-day delivery as the net cost savings would still be over \$3 billion.

If a sensitivity analysis of the estimate of volume loss were made that the estimate was off by 100 percent, the contribution loss would double to \$412 million instead of the \$206 million. And the conclusion reached by Dr. Boatwright would remain - - the net cost savings would still "dwarf" the loss of contribution by almost \$2.9 billion.

In summary, no matter how one looks at the financial results and the potential volume loss, the inescapable conclusion is that the net cost savings are huge, even if all the suggestions to reduce the estimated cost savings and increase the estimated revenue loss are incorporated. It is incontrovertible that eliminating Saturday delivery and collections will result in a net cost savings of about \$3 billion, even if the size of the volume loss is understated. We would add that the cost savings still dwarf the volume loss, even if the absorption of carrier street time is \$250 million less as the net cost savings would be about \$2.8 billion.

- **IT Risks**

The GAO Report finds that there are risks and uncertainties regarding modifying the Postal Service's Information Systems to support five-day delivery. Highlights and at 16.

Many of the changes in the information systems that need to be changed to support five-day delivery are complex. However, the complexity has been resolved and 29 applications have passed rigorous testing and have been deployed or will be implemented by November, 2011. While the information systems that need to be changed after Congress acts are complex and something could happen that would prevent updates, they are the type of changes that the Postal Service executes routinely and without any delay.

The status of the information systems changes (IT) is that the last six of 28 applications, capable of supporting both five and six day street delivery, will be in daily production by November, 2011. Of the remaining nine, one was eliminated from the IT plan because it did not require modification and four are non-IT supported applications (small non-critical applications programmed by other Postal Service organizations) that either require minor modifications or will be discarded. The last four are financial applications relate to recording workhours to support payroll. Programming will be resumed if no legislative barrier to implementation of five-day delivery is imposed and union negotiations regarding five-day delivery are concluded. Based on available information, none of these remaining Finance applications changes are considered extensive.

We agree with the GAO Report that there are always risks and uncertainties in modifying information systems. However, we do not believe that there is any appreciable risk or uncertainty that we will make the necessary modifications to the remaining four applications on-time. These four applications are ones that the Postal Service regularly makes changes in for craft employees after a new contract is signed and when a new contract year starts. Such changes have been made on-time for over 30 years. For example, we will be making changes in these applications as a result of the new contract with the American Postal Workers Union.

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

Phillip Herr, (202) 512-2834 or [herrp@gao.gov](mailto:herrp@gao.gov)

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## Staff Acknowledgments

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*U.S. Postal Service: Legislation Needed to Address Key Challenges.* [GAO-11-244T](#). December 2, 2010.

*U.S. Postal Service: Action Needed to Facilitate Financial Viability.* [GAO-10-601T](#). April 22, 2010.

*U.S. Postal Service: Action Needed to Facilitate Financial Viability.* [GAO-10-624T](#). April 15, 2010.

*U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability.* [GAO-10-455](#). April 12, 2010.

*U.S. Postal Service: Financial Crisis Demands Aggressive Action.* [GAO-10-538T](#). March 18, 2010.

*U.S. Postal Service: Financial Challenges Continue, with Relatively Limited Results from Recent Revenue-Generation Efforts.* [GAO-10-191T](#). November 5, 2009.

*U.S. Postal Service: Restructuring Urgently Needed to Achieve Financial Viability.* [GAO-09-958T](#). August 6, 2009.

*U.S. Postal Service: Broad Restructuring Needed to Address Deteriorating Finances.* [GAO-09-790T](#). July 30, 2009.

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