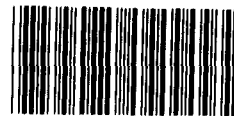


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Operational Performance of the
United States Postal Service

Statement of L. Nye Stevens
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Operations Issues
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Before the Committee on
Post Office and Civil Service
U.S. House of Representatives



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OPERATIONAL PERFORMANCE
OF THE POSTAL SERVICE

Summary of Statement By
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Operations Issues

Following its disappointing financial performance in fiscal year 1989, the Postal Service met its financial improvement goals for 1990--productivity gains and restrained growth in labor costs. The efforts of Postal managers produced a substantial increase in productivity and slashed the 1990 predicted deficit of \$1.6 billion by \$716 million. But as productivity grew, overnight mail delivery service fell to its lowest point in 5 years. At the request of the House Post Office and Civil Service Committee, GAO explored the question of whether the productivity and service improvement goals are necessarily inversely related.

GAO found that there appeared to be a tradeoff between service and productivity in 1990 but the extent of that tradeoff was not clear-cut. Changes in level of service appear to be related to both budget and non-budget issues. Responding to budget pressures, Postal managers in 1990 tried to process more mail than they normally would have through less labor-intensive automated equipment. Although the greater reliance on automation increased productivity, it did not always yield problem-free mail processing--and may have hurt service to some extent because supplemental processing was not added to meet dispatch times for outgoing mail. Currently, only 25 percent of the planned automation is in place. Several non-budget factors also affected service in 1990, including weather-related transportation delays and a shortage of cargo space on airlines.

The Postmaster General has proclaimed 1991 as a "Year of Balance." So far productivity improvement is down from 1990 and service scores are rising. However, it is unclear what portion of the service score increase was a result of cutting back overnight delivery areas and what portion was due to improved service.

As the Postal Service moves to keep costs below inflation over the next several years, the balancing act between productivity and service could become more difficult but not impossible. Among the most promising new initiatives to bring about service improvement are the introduction of more meaningful and independent service measurement systems, such as the new External First-Class Measurement System run by Price Waterhouse, a new Customer Satisfaction Index survey operated by Opinion Research Corporation, and a Third-Class Mail Analysis system jointly sponsored by the Service and several large volume mailers. To the extent that the Service's commitment to these improved service measures translates into real incentives for management to improve performance, comparable to its expectations for productivity improvement, GAO finds reason for encouragement that service and productivity need not move in opposite directions as they did in 1990.

Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss operational performance of the Postal Service during fiscal year 1990 and the outlook for 1991. During our appearance before this Committee last year¹ we expressed considerable concern about the Postal Service's ability to keep operational costs within predicted levels. As you may recall, we matched 1989 actual costs against the 1989 forecast that was the basis for the April 1988 postal rate increase. We found that the anticipated workforce level was greatly exceeded and the year ended with a financial performance well below the anticipated level.

The disappointing financial performance during 1989 projected forward into 1990 to a predicted deficit of \$1.6 billion. This prediction, however, proved wrong because of the accomplishment of financial improvement goals--productivity gains and restrained growth in labor costs--established by the Postmaster General. Productivity increased substantially and the projected deficit was reduced by \$716 million to a loss of \$874 million. We also find it encouraging that workhour usage remained at essentially the 1989 level. On the downside, overnight mail delivery service, as measured by an internal system called the Origin-Destination Information System (ODIS), was one point below 1989 and three points below the 95 percent standard. A recently

¹Financial Performance of the United States Postal Service
(GAO/T-GGD-90-16, Feb. 7, 1990).

instituted external measurement system also indicates that overnight delivery scores are below standard.

The improvement in productivity, coupled with the simultaneous apparent decline in service performance, have raised the question of whether the goals of productivity and service are necessarily inversely related. At the request of this Committee we investigated that question.

We worked at Postal Service headquarters, the Eastern and Central regions, and nine division offices--Atlanta, Baltimore, Chicago, Jackson (MS), Miami, North Suburban (IL), Northern Virginia, Southern Maryland, and Tampa. These regions and divisions were judgmentally selected based on their 1990 service and productivity profiles which indicated they experienced increases in productivity and decreases in service. This enabled us to obtain oral evidence of the causes of concurrent increases and decreases. Time constraints precluded the examination of a representative selection of divisions. The divisions were, however, located in three of the five Postal Service regions.

At headquarters, we talked to key officials in the Planning Department, Consumer Affairs Department, Department of the Controller, Office of Budget, and Operations Systems and Performance Department. We expanded the information provided by

these officials by talking to officials in the Eastern and Central regions and to officials in the divisions we visited including division general managers/postmasters, controllers, heads of mail processing and delivery operations, heads of marketing and communications, and associate office postmasters or station managers. We also talked to officials of the Postal Rate Commission, and representatives of the National Association of Postmasters of the United States and the National Association of Postal Supervisors.

In doing our work, we reviewed productivity and service records, explored the effects of cost containment initiatives on prior and current years' performance, and examined Postal Service initiatives for improving on-time service and productivity. We also discussed with Postal Service officials the effect of recent changes in delivery standards on service scores. Additionally, we discussed new service measurement systems and their effects on postal operations. Our field work was done in January and February, 1991.

THE POSTAL SERVICE EXPERIENCED
SUBSTANTIAL PRODUCTIVITY GAINS
AND A DECLINE IN SERVICE IN 1990

The Postal Service's total factor productivity (TFP) measure, which is used to assess nationwide combined effectiveness in the

use of labor, materials, and capital resources in handling its workload, showed an increase of 3.1 percent in 1990. This increase was due to handling a greater than expected workload within budgeted workhours.

The last similar notable jump in TFP occurred in 1978--a year which looks very much like 1990. In both years the Postal Service imposed limits on total employment and in both years experienced a drop in service indicators.

While TFP measures overall productivity, the Postal Service uses an indicator called DPI (Distribution Productivity Indicator) to assess its mail processing and distribution productivity. DPI is a calculated result from dividing mail processing volume by clerical and distribution workhours. In 1990, nationwide DPI increased 6.4 percent over the previous year and was 1 point above the 1990 goal.

Until recently, the only measure of timeliness of mail delivery service was provided by an internal measurement system, ODIS. ODIS measures mail processing and distribution time starting when a letter arrives at a processing facility and ending when the letter is available for delivery. It does not measure elapsed time from mailing a letter to actual delivery. The nationwide ODIS scores for First-Class mail were lower in 1990 than the previous year.

For example, during 1990 the Postal Service met its ODIS delivery standard for First-Class stamped and metered mail to overnight areas 91.75 percent of the time--a drop of one point from 1989 and the lowest level in 5 years. Delivery to 2-day and 3-day areas was two points below the 1989 level. Ideally, the Postal Service aims to meet its delivery standards 95 percent of the time.

APPARENT TRADEOFF BETWEEN
PRODUCTIVITY AND SERVICE IN 1990

On the surface, there appeared to be an inverse relationship between 1990's increased productivity and reduced service. Nationwide, as 1990 cumulative quarterly service² ranged from 1 to 1.3 percent below 1989 levels, quarterly cumulative productivity, as measured by DPI, was substantially above 1989 levels--from 6.4 to 7 percent. The second quarter (characterized by adverse weather and the Christmas season) showed the lowest cumulative service level --down 1.3 percent below the same period in 1989. Only one of five regions--the Northeast--exhibited an increase in both service and productivity scores. The Southern region had the highest productivity improvement and the largest decline in service--three points below 1989.

²Unless otherwise stated, service performance data represent ODIS scores for overnight areas for First-Class stamped and metered mail, combined.

For insight into the suspected tradeoff between productivity and service, we interviewed key officials in headquarters, two regions, and nine divisions. We inquired about relationships in cumulative workhour, overtime, and service data for the four quarterly accounting periods in 1990 and the first quarter of 1991. We found that there appeared to be a tradeoff between service and productivity but the extent of that tradeoff was not clear-cut. Changes in level of service appear to be related to both budget and non-budget issues.

Budget Pressures Affected Service

Field officials cited several reasons for the service decline in 1990 including the significant pressure on managers to improve productivity. Although the extent of the adverse impact of budget pressures on service is not quantifiable, it can be demonstrated through analysis of data combined with explanations of managers as to how they tried to increase productivity.

Managers said that to make budget they tried to process more of the mail through less labor-intensive automated sorting equipment. For example, early in 1990, divisions within the Southern region implemented an automation utilization program which had an objective of maximizing the use of automated equipment while minimizing the use of manual sorting time and the

impact on overnight service commitments. During the first quarter of 1990, productivity soared to about 10 percent above 1989, but it was accompanied by a decline in overnight delivery service of 4.5 percent. Although greater reliance on automation increased productivity, it did not always yield problem-free mail processing as indicated by the drop in overnight delivery scores. Sufficient automation equipment³ was not available to process all outgoing mail volumes within scheduled dispatch times. Missed dispatch times cause service failures.

The automation utilization program was subsequently modified to allow the use of more manual sorting time in order to seek a better balance between productivity and service. For example, in the Tampa division, the 1990 first quarter overnight delivery score was 85.5, about 9 points below 1989. First quarter use of manual processing hours was down almost 10 percent from 1989. By the end of the year, the overnight delivery score had increased to 88 along with an increase in manual processing hours of almost 4 percent above 1989. The Southern region ended the year with a cumulative increase in productivity of 8.6 percent and a decline in overnight service of 3.2 points.

³Currently, about 25 percent of the planned automated system is in place. Thus, to have mail ready for shipment at scheduled dispatch times, Postal managers must operate dual sorting systems--mechanized and automated. Both systems are supplemented by manual mail sorting which is substantially less productive than automated and mechanized processing.

The Chicago and North Suburban divisions in the Central region also stressed increasing the amount of mail going through automated processing. Chicago removed several hundred manual sorting cases from the workroom floor in an attempt to force mail into the automated mail stream and reduce workhours. Chicago's service performance fell in 1990 and, on a cumulative basis, every quarter in 1990 showed that manual mail processing workhours were below the same periods in 1989. Throughout 1990 North Suburban's use of manual processing hours and overnight delivery scores were also below 1989. At the end of the first quarter of 1991, both manual processing hours and the overnight delivery score were above 1990. The overnight delivery score was up about 4 percent. Manual workhour usage was about 16 percent more than expected and 14 percent above 1990.

Other Factors Also Affected Service

According to officials we interviewed, several non-budget factors had a significant influence on service during 1990. For example, in the winter of 1989, delays in transporting the mail occurred as a result of bad weather. Officials said that the Southern Region, which showed the steepest decline in service in 1990, was especially hard hit by bad weather. Also, outgoing mail was frequently backlogged at airports and mail processing facilities by the shortage of cargo space on airlines. To make

matters worse, this shortage occurred during the heavy volume Christmas season.

Some locations experienced lower service scores because of significant changes in operating procedures, such as opening a new mail processing facility. For example, Atlanta's delivery scores were adversely affected by preparing for and moving into a new mail processing facility in October 1990. During this quarter, Atlanta's overnight delivery score was about 3 points below the score of the year before. Tampa's overnight delivery scores in 1990 were also adversely affected by the opening of new mail processing facilities. Miami's delivery scores were not helped by the removal of needed letter sorting machines to equip new mail processing facilities.

Officials in the Chicago division said that part of the decrease in service was caused by poor operating practices. These practices were identified by an Inspection Service audit. According to division officials, the audit identified several operational deficiencies which, when corrected, resulted in improved performance near the end of 1990.

THE NEED FOR FUTURE PRODUCTIVITY
GAINS DOES NOT NECESSARILY PORTEND
A GLOOMY OUTLOOK FOR SERVICE

To meet the Postmaster General's objective of keeping Postal Service costs below the rate of inflation for the next several years, productivity gains will need to continue. During the period 1990 through 1995, TFP is expected to grow 4.7 percent. Based solely on service performance during the banner year of productivity in 1990, one might think this portends a tradeoff of service for productivity. The Postmaster General has, however, asked his managers to make 1991 a "Year of Balance".

In a 1988 Postal Service Planning Department paper on productivity measurement, the Department said "It is possible to achieve simultaneous gains in both productivity and service, but this requires careful management. Otherwise, gains in one area are likely to come at the cost of declines in the other."

Such an inverse relationship occurred during 1990, especially during the first quarter when budget pressures were most intense. The continuation of this relationship into 1991 is not clear.

Cumulative first quarter overnight ODIS scores for each of the 5 regions were from about 1 to 2.3 percent above the scores of the same period in 1990. The combined score was 92.65--up from 91.55

for the same period in 1990. While the combined first quarter 1991 DPI score was 3 percent above the same period in 1990, DPI for all regions fell below expectations (from 2.1 to 4.4 percent) and was less than one-half of the growth rate in 1990.

While the numbers indicate an increase in both productivity and service performance, the increased service level for overnight delivery may be an artifact of July 1990 changes in delivery service standards--overnight areas were made smaller to assure more consistent delivery. Headquarters officials said they expected the change in delivery service standards to slightly improve nationwide ODIS scores for overnight delivery. If so, the apparent increase in overnight delivery performance during the first quarter of 1991 may not represent a real improvement. However, based on several developments during the past year, we believe that the Postal Service wants to and can improve its management of service as well as productivity.

Recent Service Measurement and Improvement Initiatives

Among the most promising new initiatives to measure service performance and bring about service improvement is the introduction of more meaningful and independent service measurement systems. These are the External First-Class (EXFC) measurement system, the Customer Satisfaction Index (CSI), and

the Third-Class Mail Analysis System (TCMAS). Continuing emphasis is being placed on the Consumer Service Card program. This program was started in 1975 to improve communications with customers and use their feedback to improve service at local post offices.

External First-Class Measurement System

The Postal Service announced the new External First Class Measurement System in May of 1990. This promising program, contracted to Price Waterhouse for 3 years at a cost of \$23.4 million, is designed to measure the delivery time of First-Class letter mail, flat mail, and postal cards from the time they are dropped in a collection box to the time they are reported to be delivered. EXFC differs significantly from ODIS which measures the time between postmarking and availability for delivery, and which is administered internally by the Postal Service.

From the customer's viewpoint, EXFC should provide a much more accurate and objective measure of service than ODIS. Postal officials are hopeful that the results will enable them to focus on operational problem areas that may be causing mail to not meet delivery standards. Generally, Price Waterhouse "mailers" will mail 29 various types of letters, flats, and postcards and then measure the time those pieces take to be delivered to Price Waterhouse "recipients" in other cities. The program will

annually generate 520,000 pieces of First-Class mail going from 86 origin cities to cities within one-day, two-day, and three-day delivery areas. Additionally, 766,000 pieces of First-Class mail will flow back and forth between 21 "paired cities".

To date, test results have been compiled for the fourth quarter of 1990 and the first quarter of 1991. The 1991 first quarter results show that nationally, 81 percent of overnight mail met the delivery standard, 74 percent of the 2-day mail was within standard, and 81 percent of the 3-day mail was on-time. Although nationwide results from the second quarterly measurement changed little from the 1990 fourth quarter, 46 of the 86 cities experienced changes in service scores--18 cities improved in overnight performance and 28 cities experienced service score declines. Similarly, more cities declined in 2-day and 3-day service scores than improved.

Customer Satisfaction Index

The new Customer Satisfaction Index (CSI) is a program designed to provide the Postal Service with information on customers' overall satisfaction with service quality and rating of specific factors such as (1) responsiveness, (2) carrier services, and (3) reliability. This information is obtained through the use of a continuous random sample questionnaire survey that will eventually be sent to enough postal customers to ensure that at

least 1,067 questionnaires from each of about 170 Management Sectional Centers (MSCs) are returned each quarter.

Test results have shown that the CSI will provide a valid picture of customer satisfaction and will be sensitive to operational changes made to improve service. The CSI project is operated under contract with Opinion Research Corporation at a 3-year cost of \$4.9 million.

The CSI is so new that results are available for only 40 MSCs and only for the first quarter of 1991. According to the Consumer Affairs Department, CSI will, once implemented nationwide, provide USPS with an ongoing external measurement tool for assessing customer satisfaction over a broad range of service attributes. It will also provide timely and operationally useful data that will permit managers to target resources and develop action plans to improve the satisfaction level of residential customers.

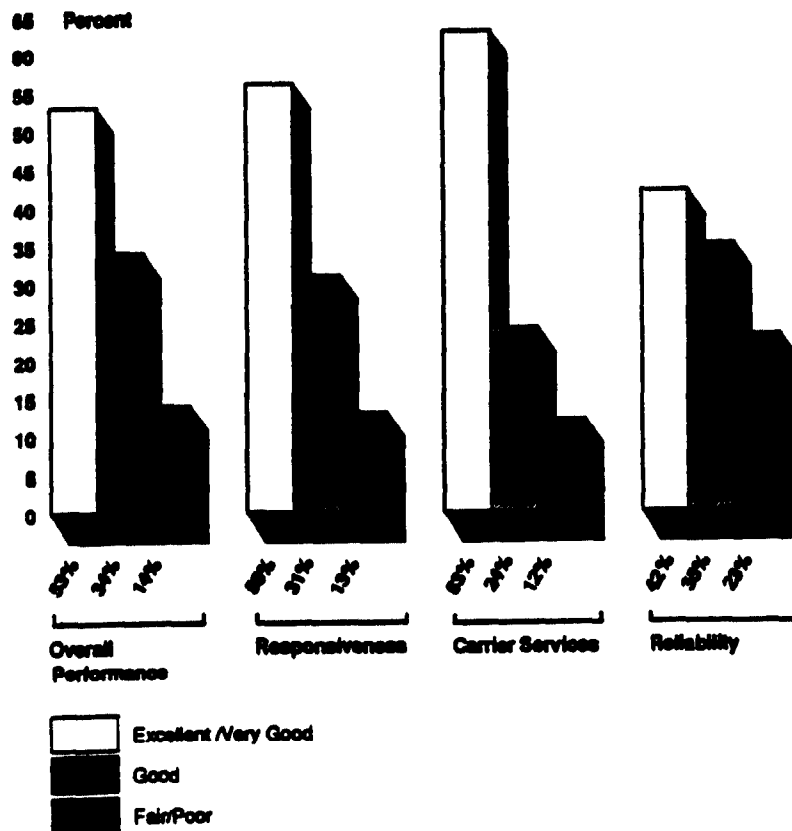
As depicted in figure 1, the results for the first quarter of 1991⁴ show that nationally, 53 percent of the customers surveyed thought the overall performance of the Postal Service was excellent/very good; 34 percent thought overall performance was good, and 14 percent thought performance was fair/poor. Fifty-

⁴Percentages may add to more than 100 percent if respondents gave more than one answer, or less than 100 percent if some response categories were omitted.

six percent of the respondents thought that Postal Service responsiveness was excellent/very good, 31 percent thought it was good, and 13 percent thought it was fair/poor. Rated higher were carrier services. Sixty three percent of respondents thought carrier services were excellent/very good, 24 percent thought they were good, and 12 percent thought they were fair/poor. Reliability had a lower rating. Forty two percent of respondents thought Postal Service reliability was excellent/very good, 35 percent thought it was good, and 23 percent thought it was fair/poor.

Figure 1

Postal Service Customer Satisfaction Index (First Quarter 1991 Results)



Of the locations we visited, Chicago had the highest fair/poor score and the lowest excellent/very good score in the overall performance category. Chicago managers said that these results will inspire initiatives to bring about improvements in how they provide service to their customers.

Third-Class Mail Analysis System

The Postal Service recently signed a 3-year, \$3.5 million contract with National Data Corporation for the development and implementation of a Third Class Mail Analysis System (TCMAS). That effort is still in the preliminary stage and results are not expected before the end of the second quarter of 1991 at the earliest.

TCMAS is a joint venture with several large volume mailers who share its costs. According to postal officials, the unique feature of TCMAS is that the participating subscribers will be able to track service performance on their individual mailings. This tool will enable mailers to correlate sales and other advertising activity in a ZIP Code area with the timing of the reported delivery of the mail pieces.

Consumer Service Card Program

The Postal Service introduced the national Consumer Service Card program in 1975. Its goal is to improve communication with customers and to use customer feedback to improve service.

Consumer service cards are available in local post offices and can be used by customers to (1) request information, (2) offer suggestions, (3) note problems, or (4) register compliments.

The results of the 1990 Consumer Service Card Program, which show a 7 percent increase in total customer concerns, are consistent with other sources showing downward trends in service. For example, when compared to 1989, customer concerns went up in 6 of the 12 major customer concern categories. For example, self service equipment complaints went up 50 percent, late delivery complaints went up 47 percent, and delayed mail complaints went up 32 percent. The category with the most complaints was delayed mail--96,124 nationwide--and 54 percent of those complaints concerned publications and newspapers and 34 percent concerned First-Class mail.

This upward trend in customer complaints for 1990 is a distinct change from previous years. In 1989, customer complaints were down from 1988 in all categories with the exception of delayed mail, which increased 17 percent.

Customer compliments recorded in 1990 decreased by 3 percent from 1989. This was the first time in 5 years that the total number of compliments decreased.

The Impact of the Service Measurement Programs

Even though the external measurement programs are new, postal managers are already beginning to look for ways to solve problems as they are identified.

Following the release of the fourth quarter EXFC scores, Postal headquarters moved quickly to see how service could be improved. It targeted specific actions to improve mail collections, mail processing, and delivery services. At the operating level, this translated to increased emphasis on numerous activities such as making sure that times posted on mail collection boxes are accurate and that mail is collected from boxes on schedule. Officials at one division said, for example, that they are paying particular attention to ensuring that substitute carriers perform timely mail pick-ups from collection boxes on their route. In the past, substitute carriers may have, in some instances, picked up mail too early or too late, or missed some boxes.

At mail processing facilities, emphasis is being placed on improving mail preparation operations and the proper utilization of cancelling procedures. Improvements are targeted to improve

not only EXFC scores, but in some cases, ODIS scores as well. For example, one division noted that it is carefully examining metered mail to make sure it is not "stale" (dated before the day it is mailed) before it enters the mail processing facility. Identifying "stale" mail and prompting mailers to use correct metering procedures should help improve ODIS service scores.

At the local post office level, managers have been instructed to concentrate on particular activities that can improve service scores. For example, steps are being taken to ensure that mail is sorted correctly to the carrier case and that any mail sorted to the wrong carrier is quickly redirected to the correct carrier in order to avoid delayed delivery. Mistakes of this sort would have affected delivery to customers, but would not have been measured in ODIS scores. Additionally, extra emphasis is being placed on addressing complaints that surface through the Consumer Service Card program.

Several divisions also mentioned the implementation of a new initiative for post offices called the GIST program. That program encourages window clerks to: (1) "G"reet customers in a friendly, helpful manner, (2) "I"nquire about the customers' needs, (3) "S"uggest ways the Postal Service can address the customers' needs, and (4) "T"hank the customers for their patronage.

Productivity Gains are Hinged to
Automated Mail Processing

The Postal Service's Capital Investment Plan for 1991 through 1995 includes \$5.2 billion for the automation program. The \$5.2 billion is approximately 42 percent of the total Capital Investment Plan. For 1991, \$554 million has been budgeted for mail processing equipment. About twice this amount is scheduled to be committed in each of the following 4 years. The Postal Service believes that automated equipment deployed thus far, combined with equipment included in the Capital Investment Plan will provide the resources required to achieve productivity goals. Currently, about 25 percent of the planned automated system is in place.

Although automation is key to future productivity improvement, the Postal Service has not yet determined its expected contribution to productivity. Postal Service officials told us that it is not possible to come up with reliable rule of thumb for how many workhours can be saved by automation in a real-world environment because, operations at each mail processing facility are unique, and that the results at one facility can not necessarily be expected at another. At each location, the physical plant, existing equipment, type of mail handled, available transportation, and the distribution network including the area served and the distances involved are different. These

factors influence how much savings will occur when automation is introduced.

Absent the attainment of a method to calculate the savings from automation, the Postal Service uses a wide variety of performance indicators to track the kinds of results that the automation program should achieve. These range from overall indicators such as reduced employment levels, total factor productivity, statistics on the amount of mail shifted from manual and mechanized operations to automated processing, and changes in labor productivity in the mail processing and delivery functions. Improvements in these areas over time are generally believed to be due to automation, although it should be kept in mind that the indicators are influenced by the total environment, not just automation.

CONCLUSION

In 1990, the Postal Service had a much better budget year than expected while service performance was below expectations. While a number of factors contributed to this situation, relationships among productivity data, mail processing workhours, and ODIS scores indicate that the pressure on managers to improve productivity had some adverse impact on service during 1990.

As the Postal Service moves aggressively to keep costs below the rate of inflation over the next several years, and public disclosure of the results of external measurement systems adds customer pressure to improve service, the balancing act between productivity and service could become more difficult but not impossible. To the extent that the Postal Service's improvement of its service measurement systems translates into real incentives for management performance, comparable to the expectations it imposes for productivity improvement, there is reason for encouragement that service and productivity need not move in opposite directions.

Also, the outlook for increased automation during and beyond 1991 should greatly assist achievement of productivity gains and free up some resources for improving services. We will, however, be more comfortable with this conclusion when we see the methodology to be used to definitively identify and realize savings from automation.