

# **Transforming the USPS: Leading Through Change**

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# Need for Transformation

- Financial condition/crisis
- \$87B financial loss since 2006
- Consistent service failures
- Unsustainable operating model to meet changing business environment
- Chronic underinvestment in infrastructure and employees

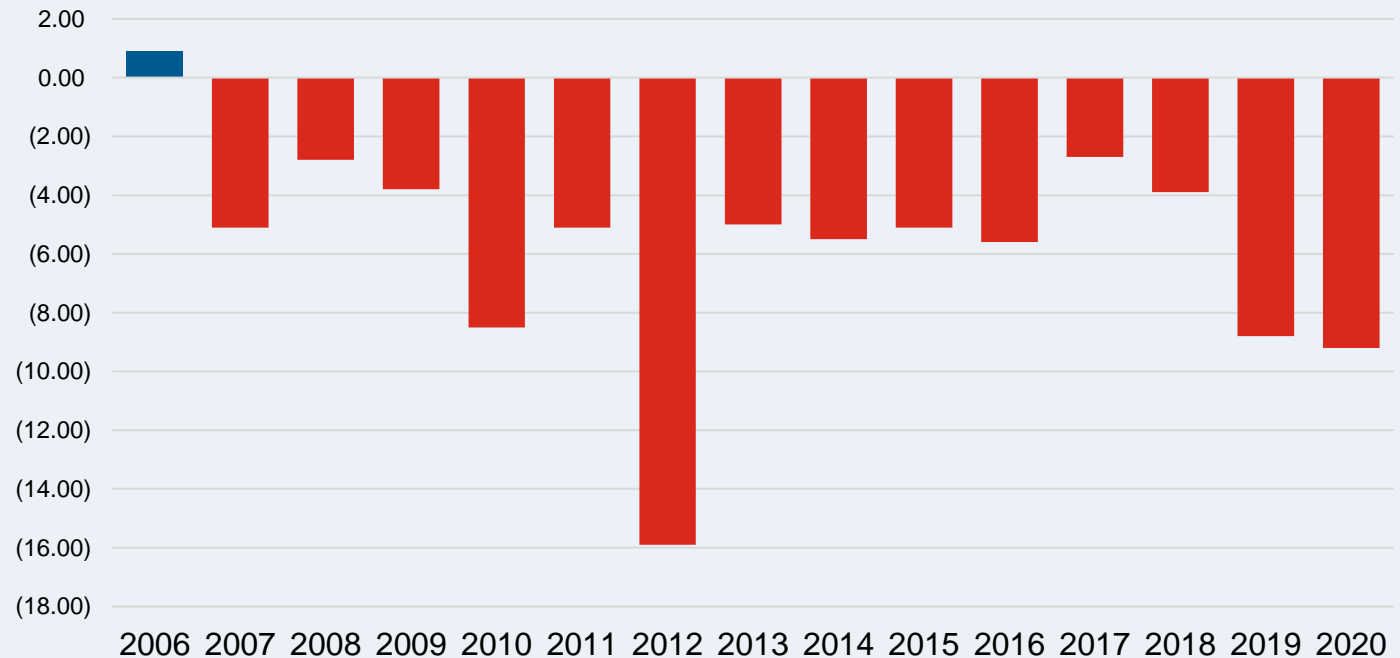
**\$152 billion** total unfunded liabilities as of September 30, 2020

**\$87 billion** lost over the past 14 years since the passing of the Postal Accountability and Enhancement Act of 2006 (PAEA)

**\$63 billion** total retiree health benefits, CSRS and FERS amounts unpaid as of September 30, 2020

**\$9 billion** net loss for fiscal year 2020

Postal Service Financial Losses Since PAEA Enactment



# Challenges to Solve

- Methodically analyzed operational issues and strategic priorities
  - Widening financial losses, declining service performance, loss of customer confidence, stalled innovation, unacceptably high rates of employee turnover
- Developed comprehensive balanced plan to address each challenge



Hastened shift in demand away from mail to packages



Unattainable First-Class Mail service standards



High turnover rate within our non-career employee workforce



Misaligned mail and package processing operations



Prolonged underinvestment in retail and delivery network



Long-overdue pricing regulation changes from the PRC



Underperforming air and surface transportation network



Misaligned and redundant organizational design



Onerous legislative and administrative mandates

# Delivering for America: The Solution

- Plan focuses on investments in people, technology & infrastructure
- Addresses revenue growth, cost efficiency, and pricing
- Progress is underway



A strengthened public service mission including 6 and 7 days of mail and package delivery



With congressional support, electric delivery fleet by no later than 2035



A modern, transformed network of Post Offices designed as go-to destinations



An organization structured to support effectiveness



Service standards that foster service excellence - 95 percent on time reliability



Best-in-class mail and package processing network



A fully optimized surface and air transportation network



A supportive legislative and administrative framework



A bold approach to growth, innovation and continued relevance - \$24 billion of new revenue



Best-in-class mail and package delivery network



A stable and empowered workforce including reducing non-career workforce turnover by 50%



A more rational pricing approach including the judicious implementation of new and existing pricing authority

# Prior Transformation Efforts

...why they did not succeed.

- Lacked internal stakeholder input/buy-in
- Heavily influenced by competing stakeholder interests and priorities
- Objective focused on cost cutting/labor reductions/lacked balance
- Lacked proper operational analysis
- Inflexible/No ability to adapt



# USPS is Transforming

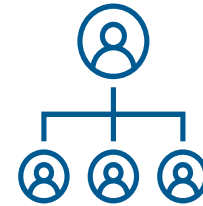
## Our People Are Our Greatest Asset



Internal stakeholders have a seat at the table



Implementing changes with a people first mindset



Committed to ensuring our leaders drive change the right way



# MOVING FORWARD

An overview of our path forward to protect the financial sustainability of the Postal Service while providing the reliable service our customers and the American public expect and deserve



# Challenges to Solve

## I. Hastened shift in demand away from mail to packages

Sharp declines in mail volume

- 212B pieces in 2007; 127B pieces today
- Negative Financial Impact
- Infrastructure Impact / Challenges (mail mix)

## Progress / Addressing the Challenge

- Combining digital / physical mailing strategies
- Offering same-day / next-day delivery options for sending mail
  - Affordable rates
  - Connect local mail same platform
- Increase size of First-Class commercial mailer postcard
  - Provides marketers added room to communicate to their customers



# Challenges to Solve

## II. Misaligned Mail & Packaging Operations

Overall mail volume decline, changing mail mix, increase packages present challenges to our processing, transportation, and delivery network.

### Progress / Addressing the Challenge

Realigning the network

- Creation of Regional Processing & Distribution Centers (RPDC's) / Local Processing Centers (LPC's); standard floor plans & equipment sets in processing facilities
- Deploying new automation and processing equipment to increase processing capacity
  - 65 parcel sorters this FY; 264 parcel sorters since inception of DFA
  - Secured \$561M in capital investments for additional equipment in FY23
- Deploying new vehicles designed to support package growth

# Challenges to Solve

## III. Unattainable First Class Mail Service Standard

Failed to meet First-Class service targets to our customers for numerous mail and package products; service standards unattainable and a lack of operational precision / misaligned network.

### Progress / Addressing the Challenge

- Implemented new service standards for First-Class Mail, Periodicals, First Class Package Service, and Retail Ground/Parcel Select Ground
- Stabilized and improved service performance across all categories. Average time to deliver across network was 2.5 days vs. 2.7 days SPLY
- Changed entry time for Priority Mail Express product to the end-of-day to better align with processing capabilities
- Launch of USPS Ground Advantage (Summer 2023)
  - Previously First Class Package Service
  - 2-day to 5-day service for packages up to 70lbs

# Challenges to Solve

## IV. Underperforming air and surface transportation network

Air transportation / high cost and significant risk. Reliant on external carriers. Surface transportation riddled with inefficiencies / burdensome manual processes.

### Progress / Addressing the Challenge

- Shifted air volume to surface transportation reducing our reliance on third party carriers such as FedEx (168M savings FY22)
- Eliminated more than 206,000 underutilized trips (90M savings FY22)
  - Avoiding 120M pounds of CO2 emissions
- Introduced new PVO concept

# Challenges to Solve

## V. Prolonged underinvestment in retail and delivery network

Inadequate investments to modernize delivery footprint, vehicles, route structures, and platforms to support our universal service obligation.

### Progress / Addressing the Challenge

- Creating new Sortation & Delivery Centers
  - Aggregate multiple delivery units into centralized delivery centers
  - Provide greater population reach.
  - Reduce manual package sorting / delivery
  - Implemented Athens S&DC in November 2022, 5 S&DCs in February 2023
  - 8 sites scheduled for June; additional sites under evaluation for September
- Will deploy more than 106,000 new vehicles within next 5 years
  - 66,000 will be electric by 2028
  - One of the largest EV fleets in the nation.
- Actively evaluating route structures; and aligning city office performance
- Enhanced the Retail Footprint
  - Expansion of government services (EBIS, IPP, PIV)
  - Improving self-service technology for customers (SSK, LBRO, RDS, MRD)

# Challenges to Solve

## VI. Misaligned and redundant organizational design

Prior organizational structure range of responsibility too broad –difficult for one leader to execute strategies across all mission critical functions. Structure inhibited our ability to effectively integrate nationwide operating initiatives to drive consistency and precision.

### Progress / Addressing the Challenge

- Implemented a new organizational structure to improve line-of-sight objectives, drive operational precision, and improve organizational performance.
- Improve organizational culture / drive engagement and collaboration
- Mold leaders who will make correct decisions and drive performance the right way
- Are accountable to those principles
- Improved organizational performance centered on DFA implementation

# Challenges to Solve

## VII. High turnover rate within our non-career employee workforce

Multiple factors have contributed to an unacceptable turnover rate amongst our non-career employees. High turnover rate leads to inefficiency, productivity loss and increased hiring cost.

### Progress / Addressing the Challenge

- Changing management philosophy on managing
  - Revised Supervisor training; expanded content to equip supervisors to navigate the grievance/arbitration process, Equal Employment Opportunity process and to manage time and attendance; New modules teach how communicate and resolve conflict effectively and how to effectively manage employee retention. Activities incorporated to provide opportunities to practice skills through application based learning to promote accountability.
- Offering opportunities for advancement through conversions and workforce expansion efforts (converted over 128,061 pre-career employees to career status- October 2020 to February 27, 2023)
- Improving non-career experience during first 90 days
  - Redesigned new hire orientation; Highlight career paths within USPS
  - Deployed welcome process for new hires as they start in work unit
  - Deployed joint pilots with the NALC to improve CCA experience
  - Operational leadership focused on improving on-the-job training to build skill sets for new employees
- Leveraged the collective bargaining process to make improvements to work rules, pay and benefits for non-career employees.

# Challenges to Solve

## VIII. Long-overdue pricing regulation changes from PRC

2006 Postal Accountability and Enhancement Act (PAEA)

- Price capped by Consumer Price Index (CPI).
- Required PRC to evaluate price cap 10 years PAEA enactment (December 2016).
- Took PRC 14 years to finalize evaluation
- We had no pricing authority to respond to changing market

### Progress / Addressing the Challenge

- Implemented new pricing for market dominant and competitive products
- Instituted the Time Limited Price Change for peak season (in line with the industry's approach)
- Exercising our authority to raise prices up to twice a year



# Challenges to Solve

## IX. Onerous legislative and administrative mandates

The Postal Service is one of the most regulated agencies in the country. Legislative reforms are needed to eliminate unfunded mandates and unnecessary funding requirements.

### Progress / Addressing the Challenge

- Secured enactment of the **Postal Service Reform Act (PSRA) into law** to reduce expenses by \$48 billion over 10 years
- PSRA eliminates the 2006 PAEA pre-funding mandate and requires future postal retirees to enroll in Medicare

# Our path forward



Our Plan provides an important path forward for an organization in crisis—and positions us to successfully meet the evolving mailing and shipping needs of the nation.