BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REPORT, 2018	Docket No. ACR2018

COMMENTS OF THE
NATIONAL POSTAL POLICY COUNCIL
(February 14, 2019)

The National Postal Policy Council ("NPPC") respectfully submits these comments on the Postal Service's Annual Compliance Report for Fiscal Year 2018 ("*ACR*"), filed December 28, 2018.[1]

The ACR makes clear that in FY 2018, as in previous years, First-Class Mail volumes continued to decline, and Presort Mail continued to make an exorbitant contribution to institutional costs. NPPC has addressed these issues in previous Annual Compliance Review proceedings, and the concerns over the cost coverage and its effects on volumes that it has expressed in the past remain valid today.[2] However, in its comments this year, NPPC instead will focus on service performance and customer satisfaction, because these also affect volumes and revenues.[3]

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1 Comments initially were due on January 31, 2019, and the period was extended after a government furlough. Order No. 4960 (Dec. 31, 2018) (*Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments*); *filing period extended* Order No. 4988 (Jan. 29, 2019).

2 NPPC observes that the cost coverage for Presort Letters and Cards in FY 2018 was 308.9 percent (*ACR* at Table 1), a small decline from FY 2017, but revenues for this product remain more than triple the costs. We do expect the new rates established by Docket No. R2019-1 to reduce the excessive coverage of Presort Letters and Cards by a modest amount.

3 NPPC members, either themselves or through Mail Service Providers, generally avail themselves of the best presortation and transportation options in order to achieve optimal service. By doing so, they generally received service satisfactory to them until relatively recently. But the last two

I. THE POSTAL SERVICE DID NOT MEET ITS SERVICE PERFORMANCE GOALS FOR FIRST-CLASS MAIL IN FY 2018

The Postal Service admittedly did not achieve its performance targets for any category of First-Class Mail. For Presorted Letters and Cards, the Postal Service fell short in meeting its overnight delivery target, and also missed its two-day and three-to-five day delivery targets. USPS FY1817 *Annual Report to Congress* at 17; USPS FY18-29 *Service Performance Report* at 3. The Postal Service also failed to achieve its service targets for Single-Piece mail. *Id*. It had a particularly poor performance for 3-to-5 day Single-Piece mail, missing its 95.25 percent target by 11.75 percent. And its service performance for First-Class flats was still worse, as it missed even its overnight target (96.80 percent) by 14.6 percent. *Id*. For every one of these products, the Postal Service's performance was worse than in FY 2017 and, for overnight and two-day, worse than FY 2016 as well. *USPS Annual Report to Congress* at 17.

The Postal Service claims that the "root causes" of these products not meeting service targets included:

> origin sites failing to clear outgoing mail on time, mail waiting to be picked up at freight houses, origin sites failing to dispatch network trips on time, origin sites not clearing Flat operations on time, and Surface Transfer Centers (STCs) not meeting targeted transfer times.

USPS FY27-29 *Service Performance Report* at 7. The Service notes that in the second quarter, it conducted a network-wide job realignment and bidding process that

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years have reawakened serious service concerns that transcend isolated trouble spots with discrete causes.

impaired its ability to normalize operations quickly but expects to lead to better service performance in FY2019. The Postal Service does not state whether this process had any effect on any performance in the third and fourth quarters of FY 2018. The Postal Service also states that it plans to improve this service by using a Run Plan Generator to meet operational plant clearance times, and more dispatch discipline. *See Annual Report to Congress* at 22.

This is *déjà vu*. Using similarly optimistic language, the Postal Service described in its service performance report in the 2017 annual compliance review of five specific steps that it would be taking to improve performance in 2018. *See* Docket No. ACR2017, USPS-FY17-29 *Annual Report on Service Performance for Market Dominant Products* at 9. Despite these initiatives, service performance actually declined in FY 2018 and the current *ACR* filing does not mention what effect, if any, those five steps in fact had on service performance. There is no indication whether these steps were even implemented, much less what effect they had. At a minimum, the Commission could direct the Postal Service, in each subsequent ACR, to report on the progress and effects of initiatives promised in the preceding ACR.

In USPS Marketing Mail, also used by many NPPC members, the Postal Service's performance in every product category was worse than in FY 2017. *Compare* FY17-20 Service Performance Report at 12. The Postal Service did exceed its delivery target for High-Density and Saturation letters but failed to meet its target for all other categories except Parcels. *Service Performance Report* at 11. As with First-Class Mail, the Postal Service attributes its performance shortfalls to a failure to process mail in First-In-First-Out order and to run to daily processing capacity. *Id*. at 13. Also as with First-Class Mail, the Postal Service states that it hopes to improve performance in FY 19 through better RPG compliance and increased use of the Informed Visibility Marketing Mail Advancement tool. *Id*. at 13-14.

This performance report is troubling for several reasons. First, the Postal Service does not appear to consider that its service targets, and not merely its performance, could discourage some mailers from using the post. This can happen because the service performance targets that the Postal Service sets for itself are often lower than the internal customer delivery targets set by corporate customers. In particular, the performance targets that the Service has established for itself, which range in the 90 percentiles, are lower than what some business mailers actually need. Those mailers themselves have a very high (often 100 percent) target for on-time performance in presenting mail to the Postal Service. It can be difficult for those businesses to justify relying on a vendor whose service standards are less than the customer's own business requirements. While mailers do not always achieve their own high internal target, there are internal corporate consequences for misses.[4]

Compared to these corporate internal targets, the Postal Service's performance targets are materially lower. And the Postal Service's continual failure to meet its own service performance goals[5] may discourage mailers from using the mail, particularly

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4 For example, missed entry targets may require adjustments to (end user) customer accounts.

5 The Postal Service did not change its performance targets from FY 2017 to FY 2018. The Commission's proposal in Docket No. RM2017-3 would grant the Postal Service 0.25 percent additional market-dominant rate cap authority simply on the basis of that fact, ignoring that actual service

given that mailers cannot recover the postage expense from the Postal Service when it fails to deliver the performance for which mailers have paid. Businesses whose vendors do not live up to their own standards tend to find other vendors, and postal service performance issues can cause mailers to seek non-postal options.

Second, the Postal Service states that extreme weather, including hurricanes and wildfires, during the first 6 months of the fiscal year "significantly affected three of seven USPS Areas and disrupted operations across our network." *USPS Annual Report to Congress,* at 18.[6] It would have been helpful had the Postal Service provided further detail on the extent of these delays and the degree to which they were localized. Adverse weather conditions impair service in every year, and the Postal Service does not assert that the FY 2018 weather was atypically adverse.

II. THAT LARGE BUSINESS MAILERS HAVE LOWER CUSTOMER SATISFACTION IS A CONTINUING PROBLEM

The Postal Service reports customer satisfaction ratings for Market-Dominant products in both the *ACR* and in its Annual Report to Congress. Overall satisfaction on the part of the Large Business Panel survey was 72.34 percent, the lowest score in four years. *Annual Report to Congress* at 17. That means more than a quarter of large business customers did not receive the desired customer experience. The

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performance both failed to meet those standards and even declined from the previous year. Poorer performance should not earn the Postal Service a pricing reward.

[6] Presumably the Postal Service is referring to hurricanes Harvey, Irma, and Maria. Although the first two of these hit the United States prior to the commencement of the fiscal year, their effects were still felt in FY 2018.

Postal Service's satisfaction score for USPS Marketing Mail was also undesirably low, with only 64.5 percent of Large Business Mailers rating it Very/Mostly Satisfied. *ACR* at 57.

Furthermore, these numbers show a deterioration in customer satisfaction. The Large Business segment experienced a 5 percent decline in customer satisfaction across all Market-Dominant products. *ACR* at 58**.**

It should be a cause for alarm to the Postal Service that its largest and most profitable customers have the least satisfactory customer experience. In the private sector, a combination of price increases, unsatisfactory service performance, and difficulties in dealing with vendors would cause a company to look to take its business elsewhere. The postal monopoly constrains mailers' ability to do so, but dissatisfied customers have a strong motivation to accelerate where possible a shift to electronic alternatives.

The Postal Service apparently does not have a clear grasp of the reasons underlying this discontent. Although the Postal Service claims that it has "identified factors influencing overall customer and product satisfaction results in the Large Business segment" (*ACR* at 58), it has performed only a "preliminary driver's analysis of the Large Business Survey" although that analysis did not "thoroughly" examine satisfaction by product type. *Id.* at 59.

Oddly, one reason mentioned by the Postal Service is a large sample size, although this should not itself be a problem. Indeed, the Postal Service concedes that the larger sample size makes the results "more representative." *Id*.

The Postal Service reports that Large Business Customers reported the lowest satisfaction in the areas of:

- Building customer relationships;
- Ease of contacting a representative; and
- Issue/claim resolution.

ACR at 59. *See also Annual Report to Congress* at 21 (citing ease of contacting a representative and issue/claim resolution). The Postal Service "recognizes that it must perform further research to understand how large business customers' experience with each product type is driving overall satisfaction." *ACR* at 59.

It comes as no surprise to NPPC that large business mailers experience lower customer satisfaction with the Postal Service than other mailers. Such mailers work most closely with the Service, and in practice are the most affected by changes in mailing regulations, altered mail preparation requirements, modified entry windows, and mail processing and transportation adjustments. Both the "building customer relationships" and "ease of contacting a representative" issues appear to relate to difficulties in dealing with the Postal Service as customers.

It also is worth reminding that large business mailers have often pointed out that the Postal Service has in many ways shifted additional and uncompensated costs to mailers in the form of changed mail preparation and entry requirements.[7] These

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[7] The Full-Service IMb discount is one exception to the "uncompensated" cost shift. However, that modest per piece credit that comes nowhere close to compensating mailers for the additional costs they incur. And the Postal Service sought in 2013 to force mailers to adopt the Full-Service discount immediately when, in reality, mailers needed several more years to implement the necessary corresponding changes in their mailing operations.

increased costs, which mailers incur, have the same effect on mailers' budgets as postage rate increases but are invisible to the Postal Service and Commission, because they do not take the form of rates. If anything, the Postal Service regards this cost-shifting as a positive insofar as it reduces *its* costs. And the Commission has acknowledged that the price cap system creates an incentive for the Postal Service to shift costs to mailers.

Second, mailers experience frustration in working with the Postal Service even to address problems of mutual concern. For example, mailers worked for seven years to establish Undeliverable As Addressed Secured Destruction, a costly problem that surely could have been resolved in less time. Just the sheer length of time to address this problem can create dissatisfaction.

The Postal Service's change in the tolerance threshold for Move Update, imposed in 2017, is yet another example of a postal decision driven by management over the objections and concerns of mailers. When the Postal Service first proposed an error tolerance threshold of 0.8 percent, mailers explained how legal and operational constraints, together with differences between the Census and MERLIN methods, made compliance too difficult. Despite that, the Postal Service decided unilaterally to implement an even less tolerant 0.5 threshold, demonstrating either a lack of understanding of mailers' predicaments or an unwillingness to adjust.

While the Postal Service works with mailers through MTAC and other venues, these fora need to be conducive to the participants working cooperatively. MTAC achieves many successes, but there also have been occasions in which mailers have felt their legitimate concerns received short shrift, and issues have gone unresolved.

Third, when mailers must spend additional time identifying and working with the Postal Service to correct buggy Postal Service software updates – which has happened more than once – which should have been tested more thoroughly before being implemented, they have still less time to create more mailings.

Some of these problems could be ameliorated by more effective and responsive customer connections. Some mailers report having good relations, but other mailers do not. We urge the Postal Service to work to improve customer relations in FY 2019 and beyond.

Fourth, it should also be mentioned that many mailers lost faith in the Postal Service when the exigency surcharge was imposed.[8] The lesson that they took from that is that the Postal Service is an unreliable vendor from a pricing perspective. Regaining their confidence will take the Postal Service time. Unfortunately, the Postal Service's persistent efforts to eliminate the price cap does nothing to ameliorate their concerns.

Finally, in its Report to Congress the Postal Service states that it will be eliminating the Large Business Panel survey in FY 2019. *USPS-FY18-17* at 21. NPPC hopes that this is not an instance of shooting the messenger. It is not clear to

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[8] Many mailers could not raise their prices during and in the aftermath of the recession. In marked contrast, the Postal Service received annual cap-driven inflation increases. And no mailer could go back to its customers to require that they make up losses attributed to the recession, as the Postal Service did with the exigency surcharge.

us that expanding the BSN and BMEU surveys will adequately replace the Large Business Customer surveys.

III. CONCLUSION

The National Postal Policy Council urges the Commission to consider these comments as it evaluates the Postal Service's Annual Compliance Report.

Respectfully submitted,

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