

Written Statement  
of  
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## SUMMARY

Postal reform is essential because the Postal Service is the linchpin of a much larger mailing industry, which in turn plays a key role in our economy. The mailing industry in the United States is a \$900 billion industry, with 9 million workers. It drives almost 9% of the U.S. GDP. Mail is critical to commerce and the way in which the Postal Service conducts its function has a dramatic impact on American business. **Postal reform legislation should:**

**Clarify that the mission of the Postal Service is to maintain universal mail service.** Universal access and universal delivery are needed at affordable prices. The functions of the Postal Service are accepting, collecting, sorting, transporting and delivering physical mail and packages. The Postal Service should remain a public entity, but become leaner and more flexible. This can be done by implementing best practices and rightsizing the postal network and the work force (through attrition).

**Enhance private sector partnerships for the most cost effective postal system.** Total mail system costs can be reduced, system efficiency improved, and mail made more affordable through partnerships with the private sector. If the private sector can perform functions better and at lower costs, it should be encouraged to do so. The Postal Service should give worksharing discounts whenever private sector efforts result in reduced operational, transactional, or other costs of mail preparation, collection, sortation or transportation. The Postal Service should continue to benefit from the innovative U.S. mailing industry and not attempt to preempt or compete with private sector participants.

**Embrace technology.** The Postal Service's Intelligent Mail (I-mail) program will enable each mail piece to be uniquely identified and tracked through the use of data-rich, machine-readable information. I-mail increases the value of mail to sender and recipient, reduces postal system costs, and improves mail security at the lowest additional cost.

**Maintain price stability while increasing pricing flexibility.** Price stability is critical. Postage rates should not increase faster than the rate of inflation, and improved productivity should enable rate increases to be constrained even further. The Postal Service should offer flexible or negotiated rates that depend on volume, mail mix, and value of service. The Postal Service also should offer dynamic pricing that varies by season, day of week, and time of day. In general we support after the fact review of rate changes for increases below the rate of inflation.

**Improve management.** The Postal Service should be judged by sound business metrics across all product lines. Performance measures should be based on careful and comprehensive cost accounting of the true operation costs of the service. A Governing Board should be organized around and designed to function in accordance with best practices for financial transparency.

**Civil Service Retirement System.** The Congress should approve the use of CSRS savings currently held in "escrow." Responsibility for funding the CSRS pension benefits related to military service of Postal Service retirees should be returned to the Treasury.

## **INTRODUCTION AND BACKGROUND**

### **1. Pitney Bowes**

Good morning. I am Mike Critelli, Chairman and CEO of Pitney Bowes Inc. I greatly appreciate the opportunity to testify today. The mailing industry in the U.S. is a \$900 billion industry, with 9 million workers, and it drives almost 9 percent of the U.S. GDP. Pitney Bowes is vitally interested in postal reform as a company, as a member of the industry, and as an American taxpayer.

Pitney Bowes helps organizations of all sizes engineer the flow of communication to reduce costs, increase impact, and enhance customer relationships. Starting in the mail and the print stream and expanding into digital documents, Pitney Bowes has developed unique capabilities for improving the efficiency and effectiveness of the communication flow critical to business.

Pitney Bowes is the world's leading provider of integrated mail and document management systems, services and solutions. Pitney Bowes invented the postage meter in 1920, which enabled the post office to offer more convenient and secure postage payment at lower cost for business mailers. Over time, our innovations created high-speed automated mail processing for large volume business mailers, and provided both conveniences for mailers who did not have easy access to a retail post office and further reductions in retail costs for the post office. Today, metered mail is 44% of the First-Class Mail stream and accounts for more than \$25.4 billion in Postal Service revenues or about 37% of total revenue. Pitney Bowes is a major presence in the presort industry through its wholly owned subsidiary, the PSI Group, Inc. PSI, the nation's largest mail presort company, helps high-volume mailers reduce their costs and speed the delivery of their mail. Through the acquisition of DDD Company, which now operates as Pitney Bowes Government Solutions, Inc., Pitney Bowes specializes in screening mail for government agencies with security concerns.

Pitney Bowes postage meters and mailing equipment are in millions of offices, small and large, across the country and around the world. We have solutions for customers that range from small home-based businesses to the largest corporations. The company's 80-plus years of technological leadership has produced many major innovations in the mailing industry and more than 3,500 active patents with applications in a variety of markets, including printing, shipping, encryption, and financial services. We also are the leading manager of corporate and government mailrooms, and share our expertise every day with many thousands of additional businesses through our professional consulting services, postal management seminars, and distance learning tools for mail center managers and professionals. With approximately 33,000 employees worldwide, Pitney Bowes serves more than 2 million businesses through direct and dealer operations.

## **2. Mailing Industry CEO Council**

I also am privileged to chair the Mailing Industry CEO Council. The Council is a non-profit organization whose main objectives are to provide senior executive input on proposed reforms, establish industry standards, and promote the role of mail in industry and commerce.

The Mailing Industry CEO Council was created in 2002 to assist the joint USPS/Industry Mailing Industry Task Force in its efforts to implement its proposed reforms, as well as promote reforms that require the enactment of legislation by Congress. In addition to working to improve public policy with respect to the mailing system, the Council seeks to facilitate the establishment of industry standards that foster industry growth and improve the mailing system.

The sixteen members of the Council represent a cross-section of companies that depend on the postal system for much of their business. Together, we employ nearly 500,000 people, with facilities in every state in the nation generating approximately \$50 billion in revenue. Attached to my testimony is a list of the current CEO Council members. I also am pleased to report that Bill Novelli, CEO of AARP, will be joining us shortly. I'm here today to pledge to you that members of the Council stand ready to assist you in any way possible.

### **MAIL IS CRITICAL TO COMMERCE AND POSTAL REFORM IS ESSENTIAL**

Postal reform is essential because the Postal Service is the linchpin of the much larger mailing industry, which in turn plays a key role in our economy. Quite simply, postal reform will help stimulate the economy.

Mail remains a vital piece of the communications flow for individuals and organizations of all sizes around the world, contrary to predictions of a paperless environment. Research and everyday experience confirms that paper messaging will remain a part of American life for decades to come. The challenge is to enable mail to remain a vital communications medium in the 21<sup>st</sup> Century.

There are over 425 billion pieces of mail generated annually around the world. The U.S. Postal Service delivers over 200 billion pieces of mail annually, nearly 8 times that of the next largest post, and more than 40 percent of the world's letters and cards. It covers a large and dispersed geography. It is more flexible on what it accepts and processes than any other post. It would rank number 9 on the 2003 Fortune 500, with \$68.5 billion in annual revenues and employment today of over 750,000.

Yet as large as the U.S. Postal Service is, it is only the core of a much, much larger American mailing industry. It ranges from paper, card and envelope manufacturers, to postal automation equipment providers, direct marketers, printers, publishers, mail processors and package shippers.

The industry is so large because organizations understand the power of mail to exchange critical information, products, and payments. Compared with other forms of marketing,

businesses and non-profits can reach out to prospects in a non-intrusive manner. Mail facilitates the collection of trillions of dollars of payments. It is the engine of remote Web-enabled commerce, for many businesses and individuals.

In short, mail is critical to commerce. It serves as a vital channel for business. We must remember that more than 90 percent of the mail stream today is business-related. This mail is business-to-business, business-to-consumer and consumer-to-business. This is what the Postal Service refers to as “commercial mail” – mail that is generated by known mailers. These mailers typically use meters or permits for postage. They do much of the work preparing the mail by sorting it, applying automation bar codes, and presenting the mail at designated postal facilities.

Consequently, the way in which the Postal Service conducts its function has a dramatic impact on American business. Moreover, mail is a fundamental communications tool that on its own and together with marketing and other forms of communication is an engine of growth for most businesses within and outside the mailing industry. Our vision of postal commerce includes the Postal Service as a booster of economic growth – not a drain on public resources.

The postal system, and the economy it supports, stands threatened by many internal and external forces. Mail volume has stagnated due to the state of the economy, electronic alternatives, and concerns about security. Rapidly escalating rates have made mail less affordable, diminishing its value as a communication medium. This needs to be addressed now.

Transformation and reform are required. The U.S. economy cannot accept a continuation of the status quo. Change is required to avoid the continuing spiral of underlying cost escalation, rate increases, and volume erosion.

We agree with the Administration’s principles for postal reform. We believe that the Postal Service must be able to implement best practices to reduce costs, set rates and adjust key aspects of its business in order to meet its obligations to customers in a dynamic marketplace. The USPS should conduct its functions transparently and subject to appropriate independent oversight.

## **WHAT NEEDS TO BE DONE**

### **1. Clarify that *the* mission of the Postal Service is to maintain universal physical mail service.**

The Postal Service must focus on its core functions. *The* functions of the Postal Service are accepting, collecting, sorting, transporting and delivering physical mail and packages.

Congress should define the core functions and ensure that the Postal Service sticks to them. This is important since successful businesses today all share a common philosophy – the need to maintain management focus on core products and core competencies in order to deliver superior customer value.

The mission of the Postal Service is universal mail service – universal access and universal delivery at affordable prices. Today, mail touches every household and every business six days a week and provides the communication fabric of our nation. At its heart, the Postal Service offers a ubiquitous “final mile” delivery system.

When Postal Service officials get up in the morning, we think they should be focused on “growing the mail.” They should be focused on taking aggressive actions that drive increases in mail volume. They must revitalize mail as a vital communications medium by maximizing the value of the mail to senders and recipients. This includes: improving service and productivity; reducing costs; enhancing the customer experience; and enabling the Postal Service to price its products attractively and, where appropriate, competitively.

We agree with those in Congress, the Administration, and the President’s Commission who believe that the Postal Service should remain a public entity, but become leaner and more flexible.

We agree that, for the foreseeable future, a publicly operated and owned system continues to be required to meet the needs of the American public and American businesses. The USPS continues to provide a fundamental service to the American people – the ability for literally everyone to send mail from anywhere to anyone, any place in the country at affordable rates. Postal “privatization” or “liberalization” should only be undertaken cautiously and very gradually.

We agree with the Administration that the Postal Service must be able to implement best practices to reduce costs, set rates and adjust key aspects of its business in order to meet its obligations to customers in a dynamic marketplace.

We also agree that there should be a leaner USPS. This can be accomplished by right-sizing the workforce and the postal network. The Postal Service can and should close redundant and underutilized processing and distribution facilities. That’s what businesses have to do every day – and the productivity gains can be significant. We also like the Commission’s recommendations that the Postal Service carefully contemplate end-to-end standardization of the postal network to reap large productivity gains.

The Commission noted that more than 75 percent of Postal Service revenues go to cover the cost of current and retired postal employees. As the Commission explained, far more than individual benefits, the size of the workforce determines the costs of the workforce. Once again, we agree with the Commission that enhanced productivity will enable the Postal Service to continue reducing its workforce. There are significant opportunities for attrition. Forty-seven percent of current career employees are eligible for regular retirement by 2010.

## **2. Enhance private sector partnerships for the most cost effective postal system.**

The American postal system is a nationwide integrated network of mailers, shippers, manufacturers and the U.S. Postal Service. It is the largest single logistics network in this country. The goal should be to reduce the total combined operational, transactional, or other

costs of mail preparation, collection, sortation, and transportation. Only in this way will mail continue to play a vital role in the American economy, including the 20 million small businesses that rely on the mail to market their services, send statements, and collect payments.

The United States has shown global leadership in utilizing the private sector to help the national post fulfill its functions. We agree with the Presidential Commission that these efforts must be continued and expanded. Postal operational efficiency and effectiveness can be optimized by greater reliance on private sector participation. If the private sector can perform functions at lower costs, it should be encouraged to do so.

The Postal Service should give worksharing discounts whenever private sector efforts result in reduced operational, transactional, or other costs of mail preparation, collection, sortation, or transportation. Examples include pre-sorting, pre-bar-coding and the drop shipping of mail. Worksharing discounts promote economic efficiency by encouraging the use of the lowest-cost provider. Estimates are that at least \$15 billion in potential USPS costs have been shifted through discounts to private industry mailers and intermediaries. Worksharing has allowed the Postal Service to better manage its workforce by eliminating the need to expand its workforce in areas where the private sector can provide the same service.

The Postal Service needs additional flexibility to be able to offer price incentives in all cases where this work is transferred to more efficient customers or private intermediaries. This includes savings from the application of technology by customers, such as applying postage with meters or PC Postage rather than stamps, thereby saving the significant cost of designing, producing and selling stamps. Where the application of technology results in avoided Postal Service costs, it should be recognized as worksharing and encouraged with appropriate pricing incentives.

There are many private sector partnership opportunities. They include, for example, allowing the private sector to operate Postal Service processing facilities through facility management contracts and outsourcing back office functions that are not USPS core competencies (e.g., human resources). The goal, again, is to reduce the total combined cost of mail in whatever way possible.

Postal reform legislation should seek to maximize private sector innovation and collaboration with the Postal Service. The U.S. mailing industry has been very innovative because the U.S. Postal Service has had the kind of relationship with the rest of the mailing industry that has facilitated innovative solutions. Many of the privatization and liberalization approaches tried in other parts of the world have not enabled as much innovation because of the tendency of postal operators to move beyond their core functions into adjacent spaces and to preempt or compete with private sector participants.

Postal reform legislation also should preclude the Postal Service from using its governmental authority, particularly its regulatory authority, to favor itself in competition with private sector businesses. It also should strictly prohibit Postal Service investment in private securities or entities.

Pitney Bowes supports granting the USPS commercial freedoms that will allow it to thrive and prosper in its core functions in the future, but not at the detriment of existing private players or any potential private players in other non-core markets of the future. The Postal Service should not enter new non-core markets that are or can be served by the private sector.

A continuing role for the postal regulators will be to ensure a fair opportunity for all participants in the postal sector. The Postal Service should be given clear guidelines as to its regulatory role. It is not the role of a commercial operator, such as the Postal Service, to determine market share or favor particular competitors. The Postal Service should be empowered to act as a commercial operator, and except where absolutely necessary to its core mission, it should not be empowered to act as a government regulator. For example, it is inappropriate for a commercial operator to be empowered to compel the disclosure, transfer, or licensing of private sector intellectual property such as patents, copyrights and other proprietary information. Rather, its mission should include enhancing the role of the private sector to ensure a robust mail system.

### **3. Embrace technology.**

Technology has played an integral role in the evolution and modernization of the U.S. postal system and has saved the United States Postal Service billions of dollars. Technology will continue to be the key to a vibrant postal system. As the President's Commission recognized, the Postal Service must use technology to increase the value of mail, reduce costs, and improve security.

At the heart of this vision is the Postal Service's "Intelligent Mail" program. I-mail is the use of data-rich, machine-readable information to uniquely mark a mail piece. Mail can be marked to identify the sender, the recipient, the postal product used, the payment received, a piece identification number and value added services. Importantly, the technology is already available to support the next generation of mail in the form of I-mail.

I-mail increases the value of mail to the sender by allowing coordination with other services based on when a piece of mail is received. Knowing when the mail will arrive enables companies to time follow-up communications. For companies that receive a large number of payments through the mail, I-mail can provide crucial information on when customers have truly put the check in the mail, and can route those payments to a lockbox or other processing point for improved cash flow. Individuals could also redirect letters or packages in transit to where they might be.

I-mail reduces postal system costs. It provides the Postal Service with valuable information to better manage its workload and its workforce, to achieve greater efficiency and reduce costs. It can help the USPS level production peaks and valleys that drive up processing and transportation costs. I-mail could enable dynamic rerouting of mail and provide data on which components of the system could be optimized.

I-mail improves security at the lowest additional cost. The traceability of "sender identified mail" deters the use of mail as a terrorist weapon because those who seek to use the

mail for such purposes do so anonymously in order to evade detection. Sender Identified Mail (SIM) is mail that contains a unique identifier applied by the originator of the mail piece. SIM is one application of intelligent mail. The Postal Service recognizes that SIM can be a valuable tool in detecting and deterring attacks through the mail by ensuring traceability of mail to the sender.

While we applaud the Commission's endorsement of sender-identified mail, we disagree with its recommendation that every piece of mail be "sender identified." Anonymous stamped mail should always remain an option for those who want it. Some have noted its importance in political discourse and whistle blowing. However, it needs to be recognized that secure, sender-identified mail is less costly and can be processed more efficiently and swiftly. Conversely, anonymous mail may incur additional security costs and take longer. For these reasons we believe the Postal Service can and should promote the creation of SIM and discourage the creation of "at risk" mail (generally anonymous stamped collection mail).

We also need to make postal services more accessible and convenient. The President's Commission discusses "Revolutionizing Retail Access" by moving services away from USPS windows. Its Report says, "alternatives offer an equivalent standard of service ... at substantially less cost." And they do – postage can be provided more conveniently (and at less cost to the Postal Service) through expanded use of meters, PC Postage, ATM's, vending machines, Stamps by Mail, and expanded retail access at drugstores and supermarkets.

The Postal Service's Transformation Plan Progress Report (November 2003) says it is beginning to actively promote less expensive and more convenient alternatives to sales of stamps at windows. It should be encouraged to do so through appropriate pricing incentives because the savings are dramatic. The Postal Service says it costs 24 cents for each dollar in revenue to provide stamps over its retail counters. The comparable USPS cost for mail with meter indicia is 1/10 of one cent.

#### **4. Maintain price stability while increasing pricing flexibility.**

The pricing of postal products is extremely important. The Postal Service should price its core mail products to maximize volume, smooth out mail flows, reduce costs, and increase revenue.

The President's Commission agreed with the mailing industry that price stability is a critical element of any postal reform program. This stability requires predictable rate increases for business mailers and predictable individual stamp prices for every consumer. The Commission similarly agreed with the mailing industry that postage rates should not increase faster than the rate of inflation, and that improved productivity should enable rate increases to be constrained even further than the rate of inflation.

We support the President's Commission recommendation that the Postal Service be allowed to offer pricing flexibility subject to an overall constraint based on an appropriate index tied to the rate of inflation. The Postal Service should be allowed to negotiate prescribed rates by customer, in the form of Negotiated Service Agreements or contract rates. Flexible pricing will

allow greater management discretion to enter into arrangements favorable to the Postal Service, specific customers, and the postal system as a whole. Flexible pricing will enable the Postal Service to more effectively use its capacity, resulting in lowered total average prices and increased mail volume.

In addition, we would go further than the Commission to say that the Postal Service also should implement dynamic pricing to quickly change prices by month, day, and even time of day, much like the airlines, phone companies or hotels. This freedom to price its products will allow the Postal Service to add value, maximize volume, smooth out mail flows, reduce costs, and increase revenue.

In order for the Postal Service to have the needed pricing flexibility, a fresh look at the current ratemaking process is required. Today, the USPS finds itself unable to react to changing competitive forces and customer needs with more flexible offerings for new products, variations of current products, or changes in prices that reflect its economics of production. Postal customers ultimately bear all the costs of the current ratemaking process, which can take as long as 18 months. In general, we support the Presidential Commission's recommendations for after the fact review of rate changes provided any increases are below a maximum tied to the rate of inflation. We believe that such review will provide the appropriate independent oversight called for by the Administration.

## **5. Improve management.**

We believe that the framework under which postal reform must be accomplished should include financial accuracy and transparency similar to that of publicly traded companies.

The Postal Service and its management should be judged by sound business metrics across all product lines including:

- Profitability;
- Productivity;
- Quality of service;
- Customer satisfaction;
- Customer transactions; and
- Access to services.

These performance measures should be based on careful and comprehensive cost accounting of the true operation costs of the service across all product lines and accurate accounting for benefit cost transfers, charge backs and reserves between the USPS and other government agencies. Costs should be derived through the use of the latest tools, technology and systems available in cost accounting. The Administration has called for financial transparency to "ensure that important factual information on the Postal Service's product costs and performance is accurately measured and made available to the public in a timely manner."

We also endorse recommendations establishing a Governing Board organized around and designed to function in accordance with the best practices for financial transparency. Detailed

organizing principles, scheduling and committee structure will be finalized by the appointed Board to be determined by Congress.

#### **6. Release Civil Service Retirement System escrow funds and correct military service funding.**

Earlier this year Congress acted to correct a serious over funding situation with respect to USPS Civil Service Retirement System obligations. That action allowed the Postal Service to reduce debt by more than \$6 billion and ensure rate stability until at least January 2006.

Beginning in 2006, however, future over funding savings must be held “in escrow” and cannot be used by the Postal Service until approved by Congress. As part of the postal reform effort, Pitney Bowes urges Congress to approve use of these funds for the benefit of the Postal Service, the \$900 billion mailing industry, and the nation’s economy.

Pitney Bowes also agrees with the President’s Commission that responsibility for funding Civil Service Retirement System pension benefits related to the military service of Postal Service retirees should be returned to the Department of Treasury so the Postal Service is treated the same as all other federal agencies with respect to these obligations.

### **NOW IS THE TIME FOR POSTAL REFORM**

We at Pitney Bowes, and the members of the Mailing Industry CEO Council, believe the time is right to pass significant, meaningful postal reform legislation.

Certainly there is a well-known litany of problems that have developed during the past several years.

- Rates of growth for First-Class Mail and standard mail have been in decline since the 1980’s.
- Electronic diversion threatens to accelerate this trend.
- Continued high costs and lack of productivity are causing a deteriorating financial situation.
- GAO put the Postal Service on its “High-Risk List” in 2001.
- The Postal Service increased postage rates three times in just slightly over three years, with a total average increase of about 14 percent.

However, at the same time, there **have** been positive developments.

- Postmaster General Potter and Deputy Postmaster General Nolan have not only faced up to the situation, but have begun to take serious actions.
- They worked with industry through the Mailing Industry Task Force to identify ways to grow mail and cut costs under existing authority – and then went ahead and implemented them!

- In April 2002, in response to Congressional requests, the Postal Service issued its Transformation Plan to chart how it will adapt to the future.
- The Postal Service has reduced its workforce by about 68,000 career positions since 1999, of which about 45,000 occurred in the last two years.
- The Postal Service will deliver \$5 billion in cost savings through 2006.
- The Postal Service proceeded with a Negotiated Service Agreement with Capital One and secured approval by the PRC.
- The Postal Service obtained some breathing room as a result of legislation fixing its CSRS overpayment.
- The Postmaster General committed to no new rate increases until fiscal 2006 at the earliest.

Clearly Congress has been hard at work for several years. In the House, Congressman McHugh has led the reform effort for quite a while. More recently, Senator Carper introduced legislation that incorporated and expanded on some of the earlier House proposals. Chairmen Davis and Collins have brought new energy and leadership to the Committees and demonstrated a year ago that they can work in a bipartisan manner as well as with each other in taking quick action to correct the CSRS over funding problem.

Significantly, last year the President's Commission on the U.S. Postal Service did a superb job. Although the commissioners were intentionally not from the mailing industry, they thoroughly examined the issues surrounding postal reform. We believe they developed a blueprint for the future with workable solutions to challenges that face the Postal Service.

They called for dramatic, aggressive measures that will enable a viable USPS in the 21<sup>st</sup> Century so that the Postal Service can continue providing universal service. Clearly the Commission's recommendations built upon a lot of the earlier intellectual work in the business community, think tanks, and here on the Committees. The Commission also acknowledged that the Postal Service has been moving in the right direction. But the Commission called for moving farther, faster. For this, we need postal reform legislation.

Finally, we are pleased that President Bush's Administration, after receiving the recommendations of the Commission, has called on Congress to enact comprehensive postal reform legislation that "reflects the sensible, balanced approach the commission recommended" in order "to ensure that the United States Postal Service can continue to provide affordable and reliable universal service, while limiting exposure of taxpayers and operating appropriately in the competitive marketplace."

We know what needs to be done.

The time to do it is now.

Thank you.