

Mailers Hub News

December Summary *From the December 4 and 18 issues*

USPS Plans to Lose \$6.3 Billion in FY 2024

According to the Postal Service's *Fiscal Year 2024 Integrated Financial Plan*, released November 20, the agency plans to lose \$6.3 billion over the period (October 1, 2023, through September 30, 2024). Release of the plan was a week after the USPS Board of Governors' meeting at which a FY 2023 loss of \$6.5 billion was announced. The *IFP* also projects that volume will plummet by another 7.7%, falling to 107.2 billion pieces, just over half of FY 2006 volume. Meanwhile, revenue is forecast to edge slightly up to \$81.7 billion, helped by price increases in January and July 2024 designed to extract yet more money from the decreasing number of ratepayers still tolerating semi-annual rate hikes.

The USPS began the document by reprising its explanations for the FY 2023 results, diverting any explanation for what caused plunging volume and meager revenue away from any role that aggressive price increases could have played:

"Controllable loss for 2023 was \$2.3 billion, \$2.8 billion worse than the planned \$0.5 billion controllable income. This variance is primarily due to lower mail volume than planned, inflationary pressures, and efforts to improve service."

The same approach was taken when explaining projected FY 2024 volume and revenue:

"We project a decline for First-Class Mail, reflecting the ongoing migration of communications and transactions out of First-Class Mail into electronic media. USPS Marketing Mail volume is also expected to decline as marketers continue to leverage technology to target customers and increase their investment in digital advertising at the expense of hard-copy media. Periodicals volume is expected to decline as newspaper and magazine readership continues to migrate to online media; while Market Dominant mail and periodical volumes are expected to decline, as show in the revenue table [left]. ... Revenue from domestic mail products is expected to be flat in 2024. First-Class Mail revenue is expected to increase, Marketing Mail revenue is expected to decrease, and Periodicals revenue is expected remain approximately the same."

Meanwhile, the USPS continued its dubious reliance on package volume to save the bottom line:

"Package volume is expected to increase due to our aggressive efforts to grow our market share. Our network improvements and streamlined product line (including the launch of USPS Ground Advantage) are expected to result in improved service. Our sales team has been reorganized to capitalize on these advantages to grow our package business. ... Domestic shipping and package revenue is expected to account for approximately 41% of total revenues in 2024. Revenue from this category is expected to increase due to increased volume and modest price increases."

And ... as for The Plan ... when it was issued it boldly forecast a \$1.7 billion surplus in FY 2024, \$8 billion better than what the USPS has now projected. This has led to increasing interest in reworking The Plan's estimates.

FY	No Plan Projection (Billions)			With Plan Projection (Billions)		
	Revenue	Expenses	Net Result	Revenue	Expenses	Net Result
2021	\$70.9	\$76.5	\$-9.7	\$71.1	\$76.5	\$-9.4
2022	\$68.8	\$76.3	\$-11.7	\$71.3	\$72.2	\$-2.0
2023	\$69.7	\$77.8	\$-12.3	\$73.7	\$72.4	\$0.0
2024	\$70.4	\$79.2	\$-13.1	\$75.5	\$72.6	\$1.7

FY	With Plan Projection (Billions)			IFP Projection (Billions)		
	Revenue	Expenses	Net Result	Revenue	Expenses	Net Result
2021	\$71.1	\$76.5	\$-9.4	\$70.9	\$80.6	\$-9.7
2022	\$71.3	\$72.2	\$-2.2	\$77.5	\$85.9	\$-8.4
2023	\$73.7	\$72.4	\$0.0	\$81.2	\$85.7	\$-4.5
2024	\$75.5	\$72.6	\$1.7	\$81.7	\$88.0	\$-6.3

FY	With Plan Projection (Billions)			Actual Results (Billions)		
	Revenue	Expenses	Net Result	Revenue	Expenses	Net Result
2021	\$71.1	\$76.5	\$-9.4	\$77.0	\$81.8	\$-4.9
2022	\$71.3	\$72.2	\$-2.2	\$78.6	\$79.6	\$-1.0
2023	\$73.7	\$72.4	\$0.0	\$78.4	\$85.4	\$-6.5

On page 46 of The Plan, the agency charted its projected net losses totaling \$159.8 billion, on total revenue of \$705.8 billion, over the FY 2021-2030 period. On pages 49-50, those data are recast to reflect the presumed benefits of the initiatives contained in The Plan. The text of The Plan did not detail either how the figures were developed or the bases for the projected revenues, expenses, and resulting losses/surpluses.

Although it's not stated, readers can readily surmise that the unexplained assumptions underlying the numbers were likely designed to provide sharp contrast, yielding numbers absent The Plan's initiatives, and after their implementation, that are the least and most positive, respectively.

Concurrently, the USPS has issued an *Integrated Financial Plan* annually to separately present projected revenue, expenses, and end-of-year results. As

shown in the charts, the annual projections of results as The Plan is being implemented vary from what the agency had at first forecast. History later revealed how close (or apart) any of the projections were to actual results.

The Postal Service would offer its customary reasons to explain these variances, such as unforeseen electronic diversion, inflation, competition, and external factors such as the workers' compensation liability and imposed costs. However, such factors aren't new, and have been present in the economic environment since well before issuance

of The Plan. Why they seemed so poorly estimated is unknown.

Absent public disclosure of how the agency developed the estimates in The Plan, there can be no objective evaluation of how reliable the bases of those projections might have been; the same could be said for its annual *IFP* numbers. Projections are, by definition, educated guesses but, looking at how divergent the various USPS projections are with both each other and final results, many observers are questioning whether the doomsday 2030 forecast presented in The Plan, and used as the justification for its initiatives, is itself still realistic. Observers further note that, if The Plan is off in its projections by a significant amount, the value of the initiatives in The Plan, like its assumptions of revenue and expense, also may be, and should be reconsidered accordingly.

Of course, providing a realistic picture – of service, financials, or anything – does not support the PMG’s narrative. Controlling the message, and using selected facts (and excuses) to bolster his now-familiar assertions (and explanations) are core to DeJoy’s opaque prosecution of his agenda. Because recalculating the financial bases for his Plan might not yield the results he’d prefer, it’s unlikely any reassessment will occur, so the validity of his \$160 billion estimate and the actions he’s based on it all will remain untested.

PRC Approves Market-Dominant NSA

In a 41-page order issued November 22, the Postal Regulatory Commission *provisionally* approved a Negotiated Service Agreement between the Postal Service and Publishers Clearing House. While the PRC approves NSAs for competitive products almost routinely, the agreement with PCH is the first for a market-dominant product in several years.

The USPS had filed for the agreement on August 11, stating that it will “will improve its net financial position and will not cause unreasonable harm to the marketplace.” The agency also stated that it “will negotiate and implement functionally equivalent agreements with similarly situated mailers.”

The commission expressed concerns about the lack of an “analytical principle,” i.e., a basis for evaluating the financial benefit expected from the incentive. As in previous market-dominant NSA proposals, the PRC also had serious concerns about the wisdom (and benefit) of offering a discount for “anyhow” mail, i.e., mail that, arguably, would have been mailed without an incentive.

“While the Commission is concerned about the lack of critical analysis from the Postal Service on the veracity of PCH statements regarding volume it would not mail absent a discount, the PCH NSA constitutes a novel NSA structure with several factors that help to allay the Commission’s concerns regarding the financial results of the PCH NSA. ... Considered in the totality, these factors lead the Commission to conclude that the risk that the PCH NSA will result in lower contribution than would occur in its absence is minimized. Moreover, given its small scale, the PCH NSA has the potential to serve as a useful experiment, offering the Postal Service the opportunity to pilot a novel NSA structure with minimal financial risk, and providing both the Postal Service and the Commission with valuable data and experience that will be useful in developing an accepted analytical principle to be applied to future NSAs structured like the PCH NSA. For these reasons, the Commission finds the PCH NSA to constitute an acceptable financial risk. ...”

The full text of the PRC’s order is available from the November 22 daily listing at www.prc.gov.

Questions Seek Details About “Optimized Collections”

More information has started to emerge about the Postal Service’s “Optimized Collections” initiative.

Under the initiative, a single morning “milk run” to non-spoke post offices (i.e., those whose carriers were not consolidated into a sorting and delivery center) both drops off that day’s mail for delivery and picks up outgoing collection mail – but that would be the *previous day’s* collection mail. There would be no longer be an afternoon trip to drop mail processed at the plant that day and return with collection mail from the “spoke” office.

Though this system would presume to “optimize” the efficiency of transportation, it would do so at the expense of service to the impacted customers. However, because there apparently *would be* an afternoon trip from the S&DC to the local processing facility, the obvious consequent difference would be that a retail customer’s mail would reach the local plant a day earlier if that customer were served by an S&DC spoke office, compared to someone served by a non-spoke office getting only “milk run” transportation.

The disparate service for retail and collection mail from spoke vs non-spoke offices that would appear to be a result of the “optimization” plan obviously disserves customers from the latter group.

The disclosure of the new initiative began a flurry of concern among mailer groups and the Postal Regulatory Commission. Reflecting its concerns, the PRC issued a Chairman’s Information Request on November 22, seeking responses from the USPS by December 4 to twelve multi-part questions. Among the answers submitted by the Postal Service:

Details about the “facilities affected by the Optimized Collections Plan”; “collection pick-up times at each facility listed ... before and after implementation of the Optimized Collections Plan”; and the “impact on transportation of

mail between processing centers and post offices” were not made public.

In regard to how delivery units are assigned to the plan’s reduced collection schedule, the USPS stated:

“... First, if the Postal Service chooses to implement Optimized Collections within a particular geographic area, only those locations that are more than 50 miles from the relevant processing plant ... will be analyzed to determine whether implementation of Optimized Collections at that location is appropriate. Locations that are within 50 miles of the processing facility, and which therefore require shorter routes to pick-up and drop-off the mail and packages, will continue to receive separate afternoon pick-up transportation. ...

“Second, for that subset of locations within a particular geographic area in which Optimized Collections is being applied, the Postal Service then determines whether to implement optimization for a particular location, and in what manner. This determination is generally based on volume. Locations with lower volume (1 container of originating volume per day on average) are generally subject to “Full Optimization,” in which the pick-up and drop-off occurs at the same stop on a route; this serves to reduce both the number of trips, and the number of stops. Locations with higher volume (more than 1 container of originating volume per day on average) are generally subject to “Hybrid Optimization,” in which the truck first drops off the destination volume at all locations on the route on the outgoing leg of the trip, and then proceeds to pick up the originating volume at locations in line of travel of the return leg; this serves to reduce the number of trips.

“The Postal Service may also choose to exempt locations from optimization entirely even if they are more than 50 miles from a LPC, based on operational and other considerations such as volume. The Postal Service exempts a location if it has a large amount of volume (7 or more containers of originating volume per day). If a location is exempted, afternoon collection trips will continue to occur. ...”

Many observers had already concluded that the Optimized Collections plan was driven by the Postal Service’s decision to insource transportation now provided by contractors which, in turn, was driven by the need to create positions for unionized employees displaced because of processing plant consolidations. Contractors can assign drivers as necessary to provide separate morning and afternoon transportation but the contracts of USPS employees guarantee a fixed eight-hour day, so *the easy solution was to simply eliminate any trips that could not be served within an eight-hour day.*

When the USPS was asked about cost savings, it avoided a direct answer:

“... While the benefits to our transportation costs from taking these actions is clear, the Postal Service has not yet prepared comprehensive cost savings estimates regarding the initiative.”

In other words, the USPS is undertaking an initiative *assuming* it will yield cost savings but without any objective assessment of whether those will actually occur. Therefore, as noted earlier, it appears that Optimized Collections is an initiative taken to enable insourcing of transportation, regardless of reliably defined savings, with declarations of greater “efficiency” and vehicle utilization being equally speculative.

The Postal Service said that the initiative won’t alter the “start the clock” event, but that’s misleading. When the USPS defines “starts the clock” occurs is different from when a customer puts mail in a USPS collection box or post office lobby receptacle. Logically, if a business day’s collection mail isn’t dispatched until the following day, this doesn’t change the “start the clock” event for the USPS but it *does* mean a customer’s mail is delayed by a day getting into the processing stream. Accordingly, the USPS answer reflects satisfaction that its *service measurement* won’t be impacted, but also a disinterest in *actual service* to the sender.

The Postal Service also claimed a benefit from “spreading the volume arrival profile,” but that seems an afterthought. For decades, the daily processing cycle has seen volume receipt, processing, and dispatch occur over an approximately twelve-hour overnight period. To cite “spreading the volume profile” as a planned benefit of Optimized Collections is likely no more than *post hoc* ideation.

It’s noteworthy that the Postal Service cannot define the volume of mail potentially impacted by Optimized Collections. If its implementation of the initiative is as “deliberate and systematic” as it claims, it would have volume data from post offices and delivery units at hand to use in modeling. Instead, it admits to not knowing impacted volume until *after* the initiative has been implemented.

In a perhaps inadvertent revelation about how the Postal Service values appearance over substance, it stated that Optimized Collections would be rebranded to “Local Transportation Optimization.” However, regardless of what the USPS wants to call the initiative, the descriptors the agency has used, whether for the initiative, for its processes and methods, or for what the initiative is supposed to yield, are all very subjective and likely would not be defined by customers and ratepayers as they have been by the Postal Service.

October Financials: Off on a Better Start

October provided an improved bottom line but the larger trends of decreased volume and revenue continued. Volume for the largest market-dominant classes again was sharply lower; competitive product volume, which, according to the PMG’s 10-Year Plan, is expected to grow as a source of volume and revenue, was better than in recent months.

Personnel costs were under plan, thanks to a \$344 million favorable swing in the workers’ comp liability, resulting

in total monthly revenue of \$6.917 billion and a monthly surplus to start the new fiscal year. (As the first month of the fiscal year, October and year-to-date data are the same.)

Total market-dominant mail volume was down 15.6% compared to October 2022; First-Class Mail volume fell by 5.9% but Marketing Mail plunged again, down 21.3%. Meanwhile, as the holidays approach and on-line shopping increases, competitive products volume was up 5.9%. Total USPS volume was 10.565 billion pieces, down 14.6% from 2022.

First-Class Mail: 3.790 bln pcs, **-5.9%**
Marketing Mail: 5.880 bln pcs, **-21.3%**
Periodicals: 251.7 mln pcs, **-3.8%**
Total Mkt Dom: 9.983 bln pcs, **-15.6%**
Total Competitive: 560.1 mln pcs, +7.5%
Total USPS: 10.565 bln pcs, **-14.6%**

Though market-dominant revenue should be higher because of price increases totaling over 10.7% since March 2022, revenue from the market-dominant classes was actually fell by 3.0% compared to October 2022.

First-Class Mail: \$2.131 bln, +2.8%
Marketing Mail: \$1.576 bln, **-12.8%**
Periodicals: \$82.06 mln, +5.0%
Total Mkt Dominant: \$4.133 bln, **-3.0%**
Total Competitive: \$2.667 bln, +4.1%
Total USPS: \$6.917 bln, -0.5%

Total "controllable" compensation and benefit costs in October were \$5.017 billion, 1.1% over plan and 0.7% higher than October 2022; total expenses were \$6.908 billion. Decreasing mail volume wasn't reflected in work-hour usage; workhours were 1.4% over plan, though 1.4% below October 2022. Despite less work, the Postal Service is still expanding its complement, and committing to more career employees.

Month's end complement: 642,747 employees (525,914 career, 116,833 non-career) **+0.90%** compared to last October (637,020 employees: 516,619 career, 120,401 non-career), but **1.8% more career** workers.

Compared to pre-pandemic October 2019, total USPS volume was down 18.97% (market dominant 20.22% lower; competitive up 22.51%), while revenue, after many price increases, was up only 11.75%. Despite significantly lower volume, total workhours were only 3.37% lower than three years ago..

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