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Distinguished Members of the Presidential Commission on the United States Postal Service, it is both an honor and a pleasure to appear before you today. My name is Heribert Stumpf, and I am the President and CEO of Siemens Dematic Postal Automation, located in Arlington, Texas. My company is a subsidiary of Siemens Corporation, NY, a corporation with about $20 billion Dollar revenue and more than 70,000 employees at 700 locations in all 50 states.

I am here today to speak about how technology can improve the efficiency and effectiveness of the U.S. Postal Service. We believe this is essential for the Postal Service's ability to endure, and serve its customers and the nation.

Before coming to these topics, I would like to provide a quick summary of our company's current role as a technology provider to the U.S. Postal Service, so that you can see the extensive background that Siemens Dematic brings to this topic.

Siemens Dematic provides a comprehensive range of products, solutions and services, for all types of mail from postcards to parcels. The systems Siemens Dematic provides include pre-processing of mail, automatic address reading and coding, sorting of mail, material handling, and information technology solutions.

Since the beginning of the automation program for the U.S. Postal Service in the early 1980's, Siemens Dematic has been the key supplier of automation technology to the USPS. Siemens Dematic has supplied the technology for the more than sixteen thousand letter mail automation systems to the U.S. Postal Service. The Siemens Dematic operation in Grand Rapids, Michigan, completed last year, the production and deployment of the AFSM 100 machines for flats processing. The

U.S. Postal Service is our single largest customer. Siemens Dematic is also the supplier of choice to most of the other major postal organizations throughout the world. Over the years Siemens Dematic has delivered more than twenty thousand systems in forty countries. Thus, a thorough understanding of the global postal industry and the way in which the various posts are using technology shapes our experience.

Although a supplier, we view ourselves more as a partner to the U.S. Postal Service. We have invested our own resources and money to help our customer find ways to increase USPS productivity. Our teams analyze USPS processes and cost data. Based on that information, Siemens Dematic develops concepts for innovations to increase effectiveness and efficiency. Siemens Dematic and its partners invest in Research and Development, sometimes for several years, to prove the technical feasibility and the economic value of concepts. Together with the USPS, Siemens Dematic optimizes those concepts and matures the technology for deployment.

There are many programs and initiatives underway within the United States Postal Service to improve effectiveness and efficiency. I want to highlight some key areas and make some clear recommendations for action:

1. A faster, more commercially oriented approach to investments
2. Productivity improvements with new automation programs
3. Consolidate the postal network and capture savings from existing assets.
4. Increase the value of the mail

1. A faster, more commercially oriented approach to investments

There are a number of technological advancements that could yield significant improvements in efficiency in the near future. However, the pace at which new technology is implemented is not always driven by suppliers' capabilities and economic sense for the Postal Service. Some of the factors that hamper this process are:

- Multiple layers of oversight and management
- Risk averse decision making process and culture

The multiple layers of oversight and outside intervention require exhaustive justifications for any proposal or plan. Layers of audits are demanding that all assumptions for investment decisions prove correct after implementation. Taking risk, even calculated or consciously, and driving innovations is rarely rewarded but often criticized. The result is a risk-averse culture and long decision processes, based on consensus rather than long-term vision. To be clear, USPS management did not choose to have a risk-averse management style and culture; rather, they adapted to the demands of their environment.

In today's business environment, we all have some appreciation for conservative business practices. Siemens Dematic is not recommending that the planning process be scrapped, or that it not be followed step-by-step. However, we do recommend that more decisions would be allowed at lower levels and with simplified procedures.

The current approach to investments does not give much incentive to implement improvements quickly, or even set aggressive productivity targets. It is putting a well-documented audit trail before a higher and faster return on investments.

To implement a faster and more entrepreneurial approach to investments would require process change as well as cultural change. The USPS compensation and incentive system should be structured such that it would motivate management to pursue more aggressive targets, and management should have more freedom to make entrepreneurial decisions.

Siemens Dematic believes that if the restrictive governance structure is maintained that this will certainly cause the U.S. Postal Service to stay less efficient than it needs to be in the future.

2. Productivity improvements with new automation programs

Capital investments have remained at a very low level due to budget cuts and debt ceiling concerns. This is further complicated by the U.S. Postal Service break-even requirement. During the last three years, USPS capital spending has been frozen, stopping many initiatives that would enable cost savings in the years to come.

Siemens Dematic recommends that a more commercial approach that allows retained earnings be adopted. Also, higher debt should be possible, as long as the money is used for capital investments with an attractive return on investment.

The Postal Service should accelerate the deployment of technology that will allow more to be done, in less time, with fewer people, and with less real estate.

Automation has enabled the USPS to greatly improve productivity. Total Factor Productivity has risen by 5.7%[1] over the last 10 years. However, total labor productivity has increased by 13.7%[1]. This is an even greater accomplishment when one realizes that the emphasis for the cost reduction activities has been on mail processing, which is now only about 23%[2] of USPS total cost. Another 39%[3] of USPS total cost resides in the delivery network, which has remained relatively untouched.

There is significant untapped potential for savings in the delivery part of Postal operations. This is even more significant, particularly in light of the fact that the number of delivery points is steadily increasing. Things like cluster mailboxes for new subdivisions can limit the rate of cost increase. Taking these approaches and

applying them to the older, established routes could provide some savings. However, these actions alone will not be enough to drastically reduce the cost of the delivery function.

There are initiatives on the way that will take cost out of the delivery network. Expeditious implementation of PARS Phase I and II will reduce the cost of undeliverable as addressed, or "UAA" mail by more than $1 million a day. The Delivery Point Packaging program has the potential to save in the magnitude of $3 billion per year by bringing technology to bear on manual processes. These technologies are enablers, and when combined with process change, will yield enormous savings for the U.S. Postal Service.

Suppliers to USPS have to focus resources and make very high investments, in some cases for several years, in order to make these concepts a reality. This fact represents a high financial risk, and not many of the Postal Service's suppliers are ready and able to bear this risk. A more reliable and continuous investment profile by the Postal Service is essential for suppliers to make future investment in new technology development a sound business decision.

3. Consolidate the postal network and capture savings from existing assets.

The U.S. Postal network is the largest, and one of the oldest delivery networks in the world. Stagnating and declining volumes of mail, the increased use of drop-shipments by major mailers, the increased efficiency of plants and the geographical migration of mail streams are causing a growing disparity between processing capacities and requirements.

In the private sector, capacities and their utilization are closely monitored. In stagnating industries that are burdened with overcapacities, consolidation is a natural process and part of accepted and expected business strategy.

For the Postal Service, this problem goes far beyond just the number of mail processing facilities. Certainly, there are more than makes economic sense. In addition, some of them are outdated, or not in the right geographic location for the current mail and population distribution. To date, the efforts on standardization have been aimed at the processing equipment. Having developed and grown over many years, however, the facilities are not standardized and in many cases not suited for highly efficient operations. Bottom line is, the Postal Service needs a massive network alignment program. Analysis work on this initiative has been done during the last year or so by the Postal Service. In fact, Siemens Dematic believes that the work on the Network Integration would not only optimize the transportation and logistics of the postal network, but it could also be a driver for the standardization of plant layouts, and processes within the plants.

Some changes on a limited scale are being implemented. The changes that are really required are much bigger in scale. Siemens Dematic understands that this topic, network integration, has significant political implications; however, from an economic perspective this is a project that must be undertaken in the interest of the viability of the entire postal industry.

Lastly, Siemens Dematic sees that the U.S. Postal Service has the additional potential to capture savings from its currently installed base of automation systems. The upgrade of aged equipment can extend its life and reduce maintenance cost. The upgrade from outdated single purpose machines to multi-use systems can reduce floor space, improve productivity and allow for more flexibility for future changes in mail volume and mail mix.

4. Increase the value of the mail

With continued decline in mail volumes, the U.S. Postal Service should increase the value of the mail in order to maintain volumes and remain competitive with other means of communication. One of the ways that this can be accomplished is through the use of new information technology. The “Confirm” product, which enables mailers to track automation-compatible letter-sized and flat mail, is just a start. The utilization of an ID Code on each mail piece, for tracking and tracing purposes, would most certainly add additional value to the mail.

Another aspect of the value of mail has to do with confidence in the mail. The mail system was recently used as a vehicle for terrorism, which resulted in the tragic deaths and injuries of postal workers and mail recipients. The implementation of mail security measures will enhance the value of the mail. The installation of enhanced detection systems, combined with ventilation and filtration systems will enhance mail security and will further enhance confidence in the mail system.

Conclusion

To conclude, we would like to summarize our recommendations. The recommendations are that:

- The restrictive multiple layers of governance be removed to allow the U.S. Postal Service to act more like a commercial enterprise,
- The setting of ambitious goals and achieving these goals be highly rewarded by an appropriate compensation and incentive system,
- The U.S. Postal Service be allowed to retain earnings for later investment.
- The USPS be allowed and supported to move quickly to consolidate its network infrastructure,
- The U.S. Postal Service move expeditiously to reduce cost of the delivery system, implement technology like PARS and advance rapidly the Delivery Point Packaging concept towards deployment.
- The USPS implement as a fast track program its Mail Security Plan and its Information Technology Plan to enhance confidence and the value of the mail.

We applaud the Commission for the work done so far. This is a historic opportunity to reshape the United States Postal Service and make it an even stronger core of the $900 billion postal industry. I am grateful for the opportunity to give input to this very important process.

Footnotes

1. 2002 data reported by the U.S. Postal Service to the Mailers Council, and reported in the Mailers Council Study on Productivity dated February 12, 2002.
2. Based on data reported by the U.S. Postal Service in its Financial and Operating Statements for Accounting Period 5, 2003.
3. Ibid