

# ADVANCE

M A G A Z I N E G R O U P

**DAVID ORLIN**

SENIOR VICE PRESIDENT  
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February 10, 2003

Mr. Dennis Shea  
Executive Director  
President's Commission on the United States Postal Service  
1120 Vermont Avenue, N.W., Ste. 971  
Washington, D.C. 20005

Dear Mr. Shea:

I am writing to you on behalf of the Advance Magazine Group regarding our concerns about the future of the United States Postal Service. The Advance Magazine Group Publishing Divisions include Condé Nast Publications, Fairchild Publications, Golf Digest Companies, The Condé Nast Bridal Group and Parade Publications.

We are a major publisher both of consumer publications (*Vogue*, *Architectural Digest*, *Glamour*, *The New Yorker*, etc.), as well as business-to-business trade publications (*Women's Wear Daily*, *Supermarket News*, *Home Furnishings News*, *Footwear News* etc.). We depend on a Postal Service which is financially sound and which can maintain consistent, universal service at reasonable and steady rates.

Our company cannot deliver our various publications to our millions of subscribers without the United States Postal Service. It is for this very reason that we applaud the work of this Commission and will support you in any way possible as you undertake this most vital task.

We strongly believe that a business enterprise as large as the Postal Service needs to be governed and operated as a business. This means it needs to be able to react to changing market and competitive conditions, through changes in labor practices, locations, rates, etc. In order for the Postal Service to act like a private sector company, it needs to free its managers of the cumbersome regulatory process. The oversight from the Board of Governors should mirror that of the Board of Directors for a private-sector company. To sit on the Board of Governors, these individuals should have experience in managing large organizations or institutions. The same should hold true for individuals who are appointed to any regulatory agency that governs the Service (i.e.: The Postal Rate Commission).

We do not believe that the Service should be a private-sector company, but it needs to be managed as if it were in the private sector. They need to be able to more readily adjust rates (downward, as well as upward) according to market conditions and should report their financial conditions much like private-sector corporations.

Current methods for rate setting, rule changes and facility closings are outdated and need to be streamlined. Private sector enterprises can change their rates instantly, whereas the USPS must compile data for possibly five months before they can actually file a case with the Postal Rate Commission. The case can then take a maximum of ten months before new rates are recommended. The actual implementation usually takes place a few months after the Board of Governors approves the new rates. No private sector institution takes up to seventeen months to adjust pricing, service levels or closings of any of its facilities.

The Postal Service is a government enterprise that reaches every household in America. It has a monopoly on the delivery of letter mail. All citizens have the right to receive mail and, in turn, the right not to read what they receive. Mail that pays its way, covering its costs and contributing to the USPS institutional overhead, is not considered junk mail by us.

The USPS should be able to license the use of the mailbox for a fee to outsiders if they do it appropriately. This could produce additional revenue for the USPS without having to give up the monopoly on letter mail. This monopoly allows all Americans to pay a single fixed rate for a First Class stamp regardless of distance traveled.

Approximately 80% of the USPS budget is for labor. They pay approximately \$1 billion a week to their employees. The USPS is the second largest civilian employer (non-military) in the United States. Postal rates are directly attributed to their labor costs. Tough decisions will have to be made in this area if there is to be a long-term future for the USPS. There is nothing more sensitive than wages, salary and compliment. First Class volume will no doubt decline and the affect on USPS revenue could be catastrophic as time goes on.

We will be faced with prohibitive rates unless the USPS can align its labor with the needs of the marketplace. This could mean increasing labor as well as reducing labor in specific areas. The USPS is no different than a private sector enterprise when it comes to meeting the needs of the marketplace.

The USPS is a volume-driven business with fixed overhead. When volume falls, rate increases are assessed and this has a deleterious effect on future volume if only for the short-term. Never has competition been so keen. Increasing prices will only come with the loss of future volume, especially if at a rate in excess of that of the cost of living.

Management and labor need to work more closely on work rule and wage issues. Third party arbitrators should not be the final authority since they pay no postage. Rate increases are triggered by their decisions and they have no idea as to how the mailing industry will react to their wage settlement decisions when it filters down to the thousands of individual rate cells involved.

The USPS must pass along the costs of increased labor that are in excess of productivity gains. Rising volumes might have precluded this scenario in the past, but with the future First Class volumes projected to decline, mailers will be faced with repeated increases in excess of the rise in CPI.

The USPS has invested billions of dollars in automation equipment but cannot adjust their work force selectively. They can only depend on reduction through attrition of which they have no control. A \$67 billion corporation must have greater control over its work force.

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There should be financial incentives available for both management and labor to spur productivity. We believe that there should no longer be a salary cap on management salaries based on the Postmaster General's salary (pegged at that of a Cabinet level officer within the Administration).

The USPS is unable to close down unprofitable post offices. The laws governing closings are very specific. If these facilities are deemed to be in the public interest even if they do not, at minimum, break even financially, the Federal government should provide the funding to the USPS for their continual operations. The USPS has stated on many occasions that customers would not receive diminished levels of service if small unprofitable Post Offices were allowed to be closed.

The USPS was meant to be self-sustaining with all costs born by its customer base. Its mandate was to break even over time. However, mailers should not be burdened with picking up the cost for social purposes and/or matters of public interest. The Congress should pay for these types of costs if they deem it necessary for America.

We thank you for the opportunity to voice our concerns. Kindly contact us if we can be of further assistance in this challenging task that lies ahead.

Sincerely,



David Orlin  
Senior Vice President, Strategic Sourcing

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