DEFENSE BUSINESS BOARD

Report to the Secretary of Defense

Military Postal Service Task Group

Report FY05-5

- **Recommendations regarding the military postal system of the Department of Defense**

December 2005

MILITARY POSTAL SERVICE TASK GROUP REPORT

TASK

The Secretary of Defense requested that the DBB form a Task Group to make recommendations to the Department of Defense (DoD) on the best business model for the delivery of mail to members of the Armed Forces and DoD civilians either deployed or assigned overseas. The GAO April 2004 report on military mail cites that the Department continues to struggle to achieve the timely delivery of mail, which is negatively impacting the morale of employees serving the Department overseas.

Specifically, the Task Group was asked to deliver the following:

- Recommendations for the best business model for the delivery of mail to DoD employees deployed overseas and assigned overseas

- Change management recommendations to support an efficient transition to the new business model

PROCESS

The tasks were performed by the following DBB members:

Task Group Chairman: Barbara Barrett
Task Group Members: James Kimsey, Arnold Punaro, Dov Zakheim, Henry Dreifus
Task Group Sponsors: David Chu, Under Secretary of Defense (Personnel And Readiness) and Ken Krieg, Under Secretary of Defense (Acquisition, Technology and Logistics)
Task Group DoD Liaison: Bill Carr, Acting Deputy Under Secretary of Defense, Military Personnel Policy
Task Group Executive Secretaries: Kelly Van Niman (DBB, Executive Director) and Lynne Schneider (DBB, Deputy Director)

The Task Group held initial fact-finding discussions with representatives from the United States Postal Service (USPS), DoD/Military Postal Service Agency (MPSA), DoD/Comptroller's office, DoD/Program Analysis and Evaluation, DoD/Personnel and Readiness, and

DoD/Acquisition, Technology and Logistics. The Task Group conducted independent research on international outsourcing initiatives in the postal area, and identified a growing trend in this area driven by efficiencies gained and cost savings.

The Task Group also reviewed two significant studies of the military postal service – the Government Accountability Office report of April 2004 entitled, "Long Standing Problems Hampering Mail Delivery Need to be Resolved" and the August 2000 Military Postal Service Task Force After Action Report. Among the notable findings of the GAO report were statements that the, "true cost of military mail cannot be calculated," and that, "Service members expressed dissatisfaction with mail service." The MPS Task Force recommended reviewing current laws, regulations and agreements to determine which functional areas within the MPS may be outsourced, but a final action plan from the Army was not expected until December 2005 (prior to the release of this report) – five years later.

At the Board's July 28, 2005 Quarterly Meeting, the Military Postal Service Task Group presented its interim findings and recommendations entitled, Part I Final Report (**Appendix A**). The full Board concurred with the initial observations, findings and progress of the Task Group.

Part II of the Task Group's report was delivered at the December 1, 2005 DBB meeting. The DBB discussed the additional recommendations presented by the Task Group and the DBB again concurred. (The Part II Final Report can be found at **Appendix B**.)

RESULTS

During the July 25, 2005 DBB meeting, the Board concluded that mail delivery is a non-core business of the Department and therefore DoD should minimize the use of uniformed personnel touching mail ("tail-to-tooth" rationale). The Board recommended that the Department take a **TABULA RASA** approach (Latin for "clean slate") to the collection, processing and distribution of mail. Outsourcing to the maximum extent possible would allow private sector best practices to guide the development of the most efficient business model, making use of available technology.

The Deputy Secretary of Defense requested support in developing further recommendations for:

- Implementation of outsourcing the delivery of mail to DoD employees deployed overseas and assigned overseas, and

- Change management recommendations to support an efficient transition to the new business model.

The Task Group conducted additional research on lessons learned from outsourcing mail in the private and public sectors around the world. Several inquiries were made in an attempt to quantify the cost of military mail operations. The Task Group presented its findings and the Board deliberated on and issued their final recommendations related to outsourcing the processing and delivery of military mail during its December 1, 2005 meeting.

The Board concluded that the current process is disjointed, disparate and not auditable. Further, the current, piecemeal approach by MPSA to outsource small portions of the process ran the risk of making matters worse by increasing complexity and costs. The Board agreed with the GAO conclusion that it was impossible to calculate the true cost of current military mail operations. The Board recommended that the Department look to the private sector to find a complete end-to-end solution to innovate and unify the processes, technology, training, procedures and funding for military mail. Such an approach would allow DoD to achieve economies of scale, efficiencies, and cost savings (international studies show 30% + cost savings from outsourcing mail services to the private sector). Furthermore, the Department would be able to establish measures of performance, trace-ability and accountability, thereby supporting efforts to achieve a clean audit opinion.

These conclusions and recommendations were presented to the Secretary of Defense and Deputy Secretary of Defense (see **Appendix B**) later that afternoon.

DETAILED RECOMMENDATIONS

1. **Immediately issue and open-ended RFP to allow the private sector to provide an innovative, end-to-end (not piecemeal) solution for the processing and delivery of military mail**

   - RFP should include all processes, and offer design options for a future, desired business model

2. **Seek to achieve most efficient business model that capitalizes on economies of scale and organizational efficiencies**

   - Require compatibility with current supply chain management policies directed by the Business Transformation Agency (currently not considered part of the supply chain)

3. **Develop a coordinated implementation strategy to address management, budget, organizational and policy issues:**

   - Organizational interests and resistance to change

   - Budget and staff organic capabilities required to support new processes

     o Marine Corps enlisted mail clerk could be only remaining MOS (Navy is making it a secondary MOS)

   - USPS pensions and training need to be addressed –i.e. when MPS service personnel transition to USPS payment of retirement pensions is an issue

   - Address congressionally mandated preference to use domestic carriers to transport mail

     o USPS is currently requesting forbearance on regulated rates that it pays to U.S./foreign carriers

- After RFP is awarded, address and re-negotiate the mail services contract with USPS – i.e., transportation costs (U.S. and foreign carriers or other methods)

CONCLUSION

The primary business reason to outsource is that it frees the organization to concentrate on strategic initiatives and its core competencies. Military mail is not a core function of the Department. Furthermore, Congress establishes maximum military manpower end-strengths that require the Department to maximize the use of its military capital. Outsourcing military mail allows the Department to re-focus over 4,000 military personnel plus many ancillary soldiers on their warfighting functions. Therefore, the Board recommends that the Department should look to the private sector to find a complete end-to-end solution to innovate and unify the processes, technology, training, procedures and funding for military mail.

Respectfully submitted,

Barbara Barrett

APPENDIX A:

Defense Business Board Report

on the

Military Postal Service (Part I)

(July 2005)

Task Group
on
Military Postal System

PART I FINAL REPORT
July 2005

DBB Task Group

Barbara Barrett (Task Group Chairman)

Henry Dreifus

Jim Kimsey

Arnold Punaro

Dov Zakheim

Kelly Van Niman (DBB Executive Director)

Stephan Smith (DBB Staff Assistant)

DoD Sponsor

Dr. David Chu (Under Secretary of Defense (Personnel & Readiness))

DoD Liaison

Mr. William Carr, Principal Director, Military Personnel Policy

OBJECTIVES

1. Recommendations for the best business model for the delivery of mail to DoD employees deployed overseas and assigned overseas

2. Change-management recommendations to support an efficient transition to the new business model

STUDY PROCESS

➢ Information briefing with the Military Postal Service Agency leadership (including representatives from USPS and DoD)

➢ Courtesy calls with Task Group Chair and Under Secretary of Defense (Personnel & Readiness) and former Acting Deputy Under Secretary of Defense (Logistics and Materiel Readiness)

➢ Discussions with logistics commander for Operations Desert Storm & Shield

➢ Informal discussions with officers and enlisted personnel returning from theater

➢ Private sector best practices research on military mail

  ➢ DHL/Deutsche Post World Net

  ➢ Pitney Bowes

  ➢ Siemens

  ➢ FedEx

➢ **Why consider outsourcing military mail?**

1. Delivery of mail is not a core military function

    ➢ Only among Navy enlisted personnel is "postal" a primary Military Occupation Specialty (MOS) – for all other Services, and among Navy Officers, "postal" is a sub-skill set

2. Opportunity to move military personnel from postal to other functions

    ➢ For example 2,232 active duty personnel are qualified as postal clerks, of which 277 are aboard Navy ships

    ➢ Task is time intensive and utilizes military and civilian assets who could be better utilized in primary military and civilian occupational skill set

3. GAO sites inadequacies with current system for training military mail personnel

4. DoD continues to struggle to achieve the timely delivery of mail

    ➢ Per MPSA, current transit times average 3 to 7 days in most areas with OIF/OEF averaging 11 to 13 days

    ➢ GAO's audit closer to the time of the ground war found much longer transit times

5. GAO suggests that true costs of military mail delivery cannot be calculated

| **Two-year DoD MPS Task Force study had similar findings in August 2000** |

➢ **Current available postal manpower:**

	Navy	Air Force	Army	Marines	Totals
Active Duty Officers	0	7	45	19	71
Active Duty Enlisted	557	675	483	452	2167
Total Active duty	557	682	528	465	2232
Reserve Officers	0	0	210	0	210
Reserve Enlisted	8	0	2016	0	2024
Total Reserve Component	8	0	2226	0	2234
Government Service (GS)	29	48	290	2	352
Contractors	36	63	199	65	363
Totals	630	793	3243	532	5198

➢ **US private industry provides mail services and has expressed interest in expanding its role (e.g., digitized mail services to US Congress and auto-redirect for USPS and worldwide transportation for USPS)**

➢ **DoD is outsourcing other non-core services (food/laundry services)**

➢ **Mail not considered part of the DoD supply chain (not part of BMMP)**

　➢ Mail is not classified according to the military classes of supply (1-9) to determine importance and transportation priority within OCONUS theaters

➢ **Mail is "purple" until the first point of entry OCONUS, e.g. the airport**

　➢ OCONUS military post office, while overseen by the dominant Service, is staffed with Active Duty, Reservist, DoD civilians or contractors, where each Service is responsible for sorting and delivering its own Service-specific mail

➢ **Currently under Title 39 USC, MPSA is an extension of USPS**

　➢ Similar law may be required for private handling

➢ **August 2000 MPS-Task Force recommended reviewing current laws, regulations and agreements to determine which functional areas within the MPS may be outsourced.**

　➢ MPSA/military services/USPS working group developing recommendations on outsourcing guidelines. Expected completion is December 2005.

➢ **No standardized parameters for establishing a 5-digit zip code that reflect the capabilities of mail sorting technology as well as operational realities/requirements in the field (e.g., headcount, geographic location, mobility vs. fixed, etc.)**

  ➢ Military mail is read / sorted to both the 5 and 9-digit zip level (but 9 digits not commonly used by the public)

  ➢ Current USPS technology reads an APO and 5 or 9-digit zip code on the last line – no other address content is read

➢ **MPSA planning for a three-year implementation of a new standardized address initiative using an 11-digit zip code**

  ➢ Goal is to sort all military mail to the unit and individual level

  ➢ Automated readers at CONUS gateway will scan unit (e.g., "Unit 133") and P.O. Box (e.g., "11") to automatically generate bar-code on letter or parcel

  ➢ Long implementation time planned in order to standardize addresses, coach members and organizations, and assign 11-digit zip codes to persons at the time they "PCS" (permanent change of station)

PRIVATE SECTOR TRENDS IN MAIL HANDLING, PROCESSING AND DISTRIBUTION

<u>Digitized Mail</u>

➢ Letters scanned and sent digitally (practice of 30 US House of Representative offices)

➢ Pictures taken of packages; recipient asked whether to open/send/dispose (Privacy Act must be satisfied)

<u>Outsourcing</u>

➢ US Congress and private entities take receipt of mail from USPS and private companies process and distribute mail to end-user (although it is no longer considered "mail" once the private company takes possession of it from USPS)

➢ Focus on customer service – privately owned substations (stamps, mail, money orders)

➢ Bar coding and automated sorting

OUTSOURCE
(*TABULA RASA* APPROACH)

➢ **Outsource collection, processing and distribution of mail to the maximum extent possible**

  ➢ Mail delivery is a non-core business

  ➢ Minimize use of uniformed personnel touching mail ("tail-to-tooth" rationale)

  ➢ Far greater contractor involvement and automation should be focused on labor intensive functions such as mail sorting, loading and unloading trucks, transporting mail, and providing redirect and locator services

  ➢ Should MPSA go beyond the seven functions they currently consider eligible to be outsourced? {Processing & distribution; Directory & redirect; Local ground transport; Supply Clerks; Build aircraft pallets; Unloading and processing mail containers; Retail clerks (with proper bonding)}

➢ **See Appendix A for Recommendations to Improve the Current System**

TABULA RASA APPROACH: PROS

➢ The work performed in the delivery and processing of military mail, up to the point of handoff to the brigade commander in the field can be performed by private companies

> ➢ Below the brigade level (sometimes referred to as the "last mile" since troops are mobile) the military commander in the field -- at the lowest level possible -- takes final responsibility

> ➢ Mail delivery in "last mile" is not an issue in an overseas area where there are no contingencies

➢ Our research suggests that private companies are willing to and capable of assuming all functions of non-contingency area delivery of military mail and already have assumed this role in contingency areas, up to the point of hand off to the military commander

> ➢ Currently only at corps level

➢ Our research suggests that private companies could establish "purple" postal stations in contingency areas; or alternatively, provide persons to perform labor-intensive, low-skill work to free up military (down through brigade level)

➢ Our research suggests that there is cutting edge technology currently available to resolve problems and guide DoD policy with respect to military addresses

> ➢ Address "hygiene" and standardization must be resolved now – not in three years

TABULA RASA APPROACH: PROS

➢ Innovative private company solutions may offer rapid technological advances in electronic processing – DoD as a "test case"

➢ Mail handled by the military inevitably faces conflicts over scarce transport, e.g., mail for morale or ammunition for battle

  ➢ Private handling of military mail mitigates this dilemma

  ➢ Mail is increasingly electronic, which reduces the volume for letter mail

➢ Current congressional interest in changes in domestic mail offers timely opportunity for significant modernization of military mail

➢ DoD outsourcing of other battlefield functions has been successful (e.g., food service, laundry, etc.)

➢ DBB seeks "overarching," systemic recommendations

➢ Our goal should be a "transformational" solution

TABULA RASA APPROACH: CONS

➢ Implementation of outsourcing could be complex

➢ Danger of civilian casualties in contingency areas

➢ The usual concerns and questions regarding the legal status of civilian contract personnel in contingency areas

➢ Potential hindrances from Status of Forces Agreements

NEXT STEPS

1. Incorporate comments from full Board received July 28, 2005

2. Present Part I recommendations to the Secretary through the Deputy Secretary

3. Present Part II recommendations to the full Board at December 1st DBB meeting

4. Deliver final report to the Secretary and Deputy Secretary

5. Work with the SecDef/DepSecDef-appointed leader to incorporate the DBB's final recommendations into an implementation plan

IMPROVE THE CURRENT SYSTEM

1. Mandate Jointness Immediately

- ➢ Standardize and coordinate mail collection, processing and distribution in theater

- ➢ Define "purple" protocol for military addresses (compatible w/ USPS)

- ➢ Use unique identifier codes, e.g. bar codes, for in-transit visibility

- ➢ Establish "purple" post offices in theater beyond the first point of entry

2. Treat OCONUS Mail as Part of the DoD Supply Chain

- ➢ Consider IT and HR requirements* in BMMP implementation (*only budget costs would need to be considered if MPS was outsourced)

- ➢ Consider TRANSCOM role (Current DoD distribution process owner)

- ➢ Consider the separate demands of packages and letters

3. Review MPSA Role and Alignment

- ➢ Army is currently Executive Agent

IMPROVE THE CURRENT SYSTEM

4. Incorporate Mail Processing and Distribution in Contingency Planning

➢ Include training, facilities and equipment unique to mail requirements

➢ Utilize movement control group to distribute mail in theater (at corps level and below)

➢ If contract transportation temporarily unavailable, move with supplies in appropriate priority according to the military classes of supply (1-9)

5. Renegotiate USPS-MPSA Agreement to Support *tabula rasa* Approach

APPENDIX B:

Defense Business Board Report

on the

Military Postal Service (Part II)

(December 2005)

Task Group
on
Military Postal System

PART II FINAL REPORT
December 2005

DBB Task Group

Barbara Barrett (Task Group Chairman)

Henry Dreifus

Jim Kimsey

Arnold Punaro

Dov Zakheim

Kelly Van Niman (DBB Executive Director)

Lynne Schneider (DBB Deputy Director)

Stephan Smith (DBB Staff Assistant)

DoD Sponsor

Dr. David Chu (Under Secretary of Defense (Personnel & Readiness))

DoD Liaison

William Carr, Acting Deputy Under Secretary of Defense, Military Personnel Policy

OBJECTIVES

1. Recommendations for implementation for outsourcing the delivery of mail to DoD employees deployed overseas and assigned overseas

2. Change-management recommendations to support an efficient transition to the new business model

STUDY PROCESS

➢ Discussions …..with USPS, Private industry, MPSA, Comptroller, PA&E

  ❖ USPS already outsources some of its services to private firms

➢ Research papers on outsourcing mail processes

  ❖ International outsourcing initiatives i.e. Germany, Japan, Brazil, New Zealand, Great Britain, Sweden, (150 countries)

  ❖ Results show: reduction in postal fees, more efficient, better service

➢ Private sector best practices research on implementation of outsourcing mail services

  ❖ Pitney Bowes

  ❖ Reason Foundation

  ❖ American Enterprise Institute

  ❖ Cornell University

  ❖ Siemens

➢ **Observations from Part I of DBB report on Military Postal Service:**

1. Delivery of mail is not a core military function

2. Opportunity to move 2,232 military personnel from postal to other functions

3. GAO sites inadequacies with current system for training military mail personnel

4. DoD continues to struggle to achieve the timely delivery of mail

5. GAO suggests that true costs of military mail delivery cannot be calculated

6. Mail not considered part of the DoD supply chain (not part of BMMP)

7. Mail is only "purple" until the first point of entry OCONUS, e.g. the airport

8. Currently under Title 39 USC, MPSA is an extension of USPS overseas

9. August 2000 MPS-Task Force recommended reviewing current laws, regulations and agreements to determine which functional areas within the MPS may be outsourced

Visible costs – (identified to date:)

➢ Transportation Costs –Secondary Destination only: (provided by MPSA)
  *secondary destination – US to first point of entry overseas

Volume	Lbs	Cost
FY04 Total:	323,393,493	$392,853,644
FY05 Total:	343,428,793	$ 487,348,770

  Transportation Costs – Intra and Inter theater mail:

*inter and intra theater mail is between first point of entry and other points in country as well as between in country points of destination

  ➢ Cost is at least as much as commercial air transportation costs if not more (true cost could not be calculated) **

  ➢ **Total transportation costs estimated over $1Billion per year (15 March 2004**)**

**(taken from notes MPSA meeting with Adj. General Gina Farissee 15 March 2004 from then Deputy Director Mr Pardini)

GAO suggests that true costs of military mail delivery cannot be calculated

Visible costs – (identified to date:)

➢ <u>Free Mail is not free:</u>

❖ Military personnel in designated war-zones do not pay postage for letter mail. USPS tracks and charges back to DoD the cost of the letter after it reaches the US point of entry

Qtr	FY03	FY04	FY05	Total
1st	$116,637	$883,880	$1,652,101	$2,652,618
2nd	$338,413	$1,264,607	$1,304,116	$2,907,136
3rd	$769,858	$1,960,639	$1,061,998	$3,792,495
4th	$1,065,101	$1,344,440	$1,081,411	$3,490,952
Total	$2,290,009	$5,453,566	$5,099,626	$12,843,201

Visible costs – (identified to date:)

Headquarters and Joint Military Postal Activity Costs

➢ Includes oversight of mail sorting operations on west and east coast managed by DoD Civilians – but does not include military personnel costs

Program Description	H6 (JMPA-A)		H7 (JMPA-P)		H8 (HQ)		Agency Totals	
Category	**FY04**	**FY05**	**FY04**	**FY05**	**FY04**	**FY05**	**FY04**	**FY05**
Payroll	$272,168	$189,608	$410,260	$441,231	$1,114,438	$1,245,035	$1,796,866	$1,875,874
Travel	$41,550	$7,990	$44,027	$58,264	$84,650	$174,039	$170,227	$240,293
GSA Car	$12,430	$19,186	$8,020	$10,597	$0	$0	$20,450	$29,783
Communication	$0	$724	$6,312	$11,565	$0	$0	$6,312	$12,289
Contract	$1,230	$3,747	$6,287	$4,200	$65,191	$83,289	$72,708	$91,236
Supply	$13,964	$15,111	$14,052	$12,175	$17,169	$18,410	$45,185	$45,696
Totals	$341,341	$236,366	$488,958	$538,031	$1,281,448	$1,520,773	$2,111,748	$2,295,171

Visible costs (continued) – (unknown variables:)

➢ Maintenance and personnel costs associated with ground and air equipment (trucks, helicopters)

   ❖ Portion of costs should be billed back to MPS under performance based budgeting

➢ IT costs – new MPSA technology platform - $5,700,000 plus

   ❖ New FY06 contract with COMTEK is a continuation of previous work

➢ Military mail training infrastructure –

   ❖ Joint service school is at Ft. Jackson (Army, Navy, USMC, Air Force)

   ❖ Additional separate service schools:

      ❖ USMC school trains approximately 500 Marines for postal clerk duties per year.

      ❖ Army has postal clerk school at Ft. Jackson and pulls individuals from mobilization sites and flies them to Ft. McCoy for initial or refresher training and then back to their mobilization site (active and reserve).

      ❖ Navy MOS school.

      ❖ Training cost for those deploying to combat zones is charged to the deployment account and so not included in MPSA budget

Visible costs (continued) – (unknown variables):

➢ Outsourcing gives the Department the opportunity to focus over 4000 military personnel on warfighting functions

  ➢ Military Personnel (nothing is free) 4,466 (Active and Reserve) military personnel could be returned to the force &/or focus on warfighting capabilities

  ❖ $33.7M officers ($120K average cost x 281) *estimate based on PA&E average

  ❖ $230.5M for enlisted ($55K average cost x 4191) *estimate based on PA&E average

  ❖ Navy is dissolving the postal clerk primary MOS and will treat it as a secondary MOS

➢ Ancillary support : soldiers coming off missions often then tasked to go and help sort and guard mail

➢ What is DoD paying USPS for equipment that is sent overseas?

➢ 15-35% of mail is undeliverable at destination (most could be identified prior to ever leaving U.S. soil) and is returned to the states. In some cases the mail is re-addressed state-side and sent back overseas for a third trip

➢ Contractor cost for sorting, delivery and ground transportation in country - $ unknown

  ❖ Kuwait to Iraq as well as Pacific, South America, and Europe

    ✶ See maps in backup slides

Private Sector Technology is available

➤ DoD is availing itself of some private sector capabilities such as the private sector hybrid mail system called "Superletter" adopted by the US Marine Corps

  ❖ "Family and friends of deployed Marines in Iraq can _NOW_ send a letter to be downloaded, printed, and ready for delivery, usually within 24 hours. _THE SERVICE IS FREE, PRIVATE and SECURE._"

➤ Examples of cutting edge technology: optical code readers, address interpretation, language interpretation, track and trace, dynamic en-route re-direction, intelligent mail, RF-ID, ink sensing to name a few

  ❖ With OCR the current DoD addressing system would not need to be changed thereby saving IT and software development costs as well as allowing Services to keep their current addressing format (available today vs. 3 year current DoD effort)

➤ Other types of supporting technology:

  ❖ email, satellite, cellular, mobile broadband satellite

Other Considerations:

➢ Congress is pushing for greater outsourcing and partnering with private industry for USPS

➢ Policy is lagging behind the technology

➢ Mail pickup, sorting, and delivery is outsourced for mail going through Frankfurt

➢ KBR sorts mail at Baghdad and Kabul

  ➢ The Pentagon has relied increasingly on such contracts to support its operations abroad, with private companies doing jobs once handled by military personnel. In Iraq, for example, Halliburton Co. employees have fed soldiers, cut their hair and carried their mail. *San Francisco Chronicle November 14, 2005*

  ➢ Military postal officials stated that, during Operation Iraqi Freedom, trucks were scarce in theater and carrying mostly ammunition, water, and food. In order to minimize delays in mail delivery, postal officials in January 2003 arranged with a U.S. government contractor to provide 72 trucks and drivers to deliver the mail from the Joint MilitaryMail Terminal to military post offices in Kuwait and Iraq. Although it took the contractor several more months to obtain all the trucks, this action was a great help, according to U.S. Central Command postal units serving in theater at that time.

Other Considerations (continued):

➢ TESA – rules for hiring practices in overseas nations (i.e. Germany)

➢ International Mail Outsourcing initiatives:

❖ Japan, Germany, Sweden, New Zealand, United Kingdom, Singapore, just to name a few of the 150 plus countries outsourcing mail services

➢ USPS currently requesting forbearance on regulated rates (determined by the Department of Transportation (DoT)) that it pays to U.S./foreign carriers

❖ Also requesting ability to seek competitive rate bids directly from carriers

❖ Revenues from transporting mail account for about less than 1 percent of total annual operating revenues for U.S. air carriers. (deregulation of international mail carrier service via DoT began in 2004)

➢ **<u>Outsourcing as a Strategic Matter</u>**

  ➢ Outsourcing is a strategic decision that creates strategic relationships that support business goals

  ➢ Success requires strong internal governance and demand management to ensure strategic priorities remain the focus – cost and performance measures are key – goals must be shared with vendors and must align incentives so that both parties benefit when the goals are achieved

  ➢ To fully capture the value of outsourcing, clients must understand the underlying economics and cost drivers

  ➢ USPS is aggressively pursuing transformation and outsourcing initiatives as a major strategic and business model change

  ➢ Provides better service to the military and civilians on the ground overseas

    ❖ speed/track and trace

➢ <u>**Outsourcing as a Strategic Matter Continued**</u>:

  ➢ Unifies the processes, technology, training and procedures for military mail

    ➢ Current processes are disjointed, disparate and not auditable

  ➢ A piecemeal approach makes matters worse by increasing complexity and costs
    Getting the Most from Outsourcing – Leading Innovations 2005

  ➢ DoD will be able to establish measures of performance, trace-ability and accountability under an outsource business model

"*In-house service and support activities are de facto monopolies. They have little incentive to improve their productivity. There is, after all, no competition. In fact, they have considerable disincentive to improve their productivity. In the typical organization, business or government, the standard and prestige of an activity is judged by its size and budget -- particularly in the case of activities that, like clerical, maintenance and support work, do not make a direct and measurable contribution to the bottom line. To improve the productivity of such an activity is thus hardly the way to advancement and success.*"

Peter Drucker article <u>Sell the Mailroom</u> 25 July 1989

<u>Outsourcing Provides Efficiencies</u>

➢ Outsourcing provides efficiencies and flexibility

   ❖ studies show 30% cost savings or more for outsourced mail services

   ❖ Economies of scale

➢ USPS partnership with private industry made 1.8 million address changes in 3 days after Hurricane Katrina

➢ Provides savings to the tax payer

➢ Absentee ballots mailing and tracking for states (outsourced by states)

Recommendations:

➢ Issue an <u>open-ended RFP</u> to allow the private sector to provide an innovative, end-to-end (not piecemeal) solution for the processing and delivery of military mail

➢ Seek to achieve most efficient business model that capitalizes on economies of scale and organizational efficiencies

❖ Require compatibility with current supply chain management policies directed by the Business Transformation Agency

❖ After RFP is awarded, address and re-negotiate the mail services contract with the USPS – i.e. Transportation costs (U.S./foreign carriers or other methods)

➢ Develop a common strategy to address management and policies issues:

❖ Organizational interests and resistance to change

❖ Budget and organic staff capability

❖ Marine Corps enlisted mail clerk could be only remaining primary service MOS

❖ USPS pensions and training

❖ Congressionally mandated preference to use domestic carriers to transport mail

NEXT STEPS

➢ Deliver final report to the Secretary and Deputy Secretary

➢ Work with the SecDef/DepSecDef-appointed leader to incorporate the DBB's final recommendations into an implementation plan under BTA

APPENDIX A:

- Transportation Cost Breakout (Secondary only)

- Inter and Intra mail routes
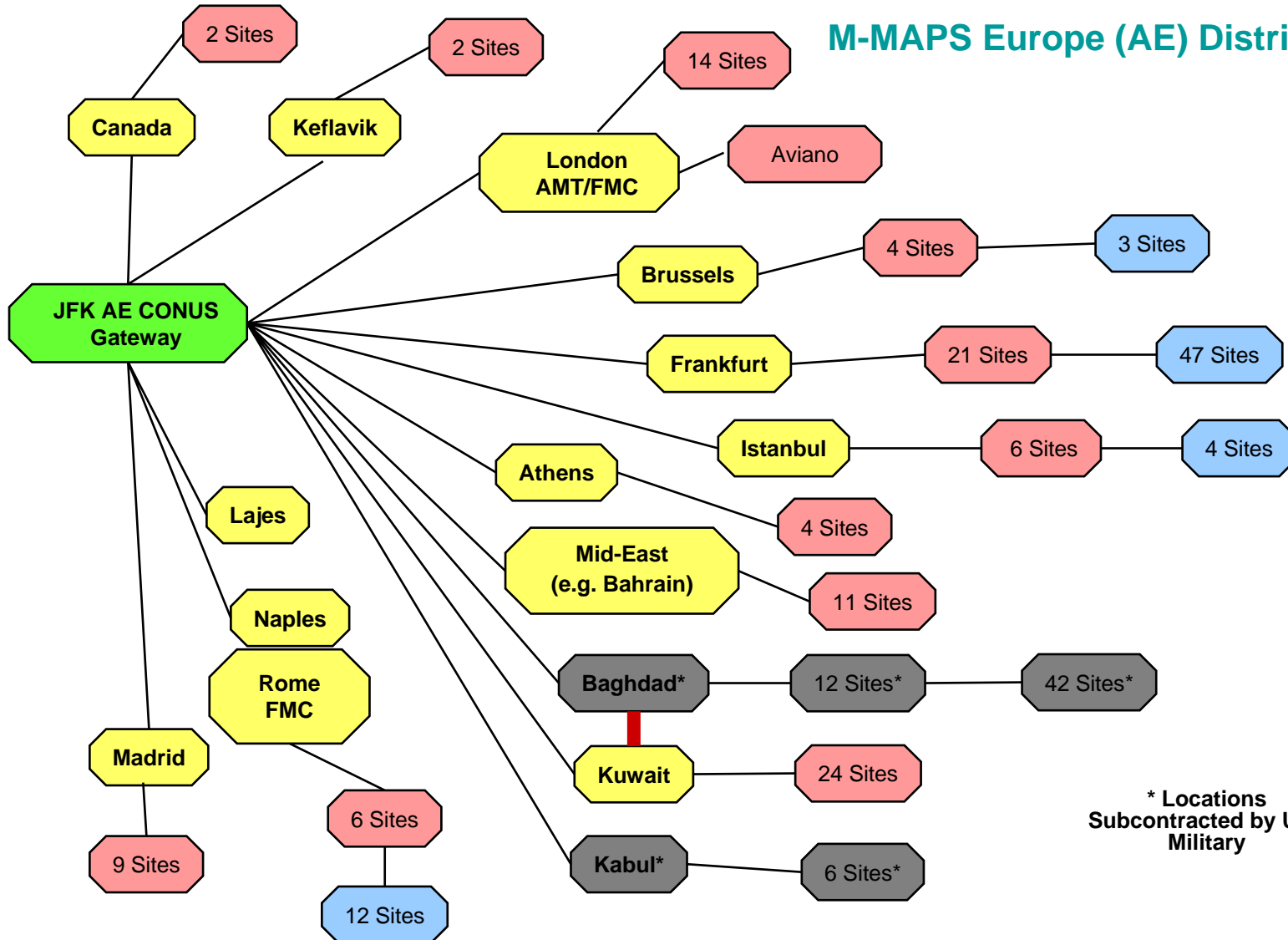
- Phase I Tabula Rasa Approach Pros and Cons

DEFENSE BUSINESS BOARD

Second Destination Transportation Costs FY2005

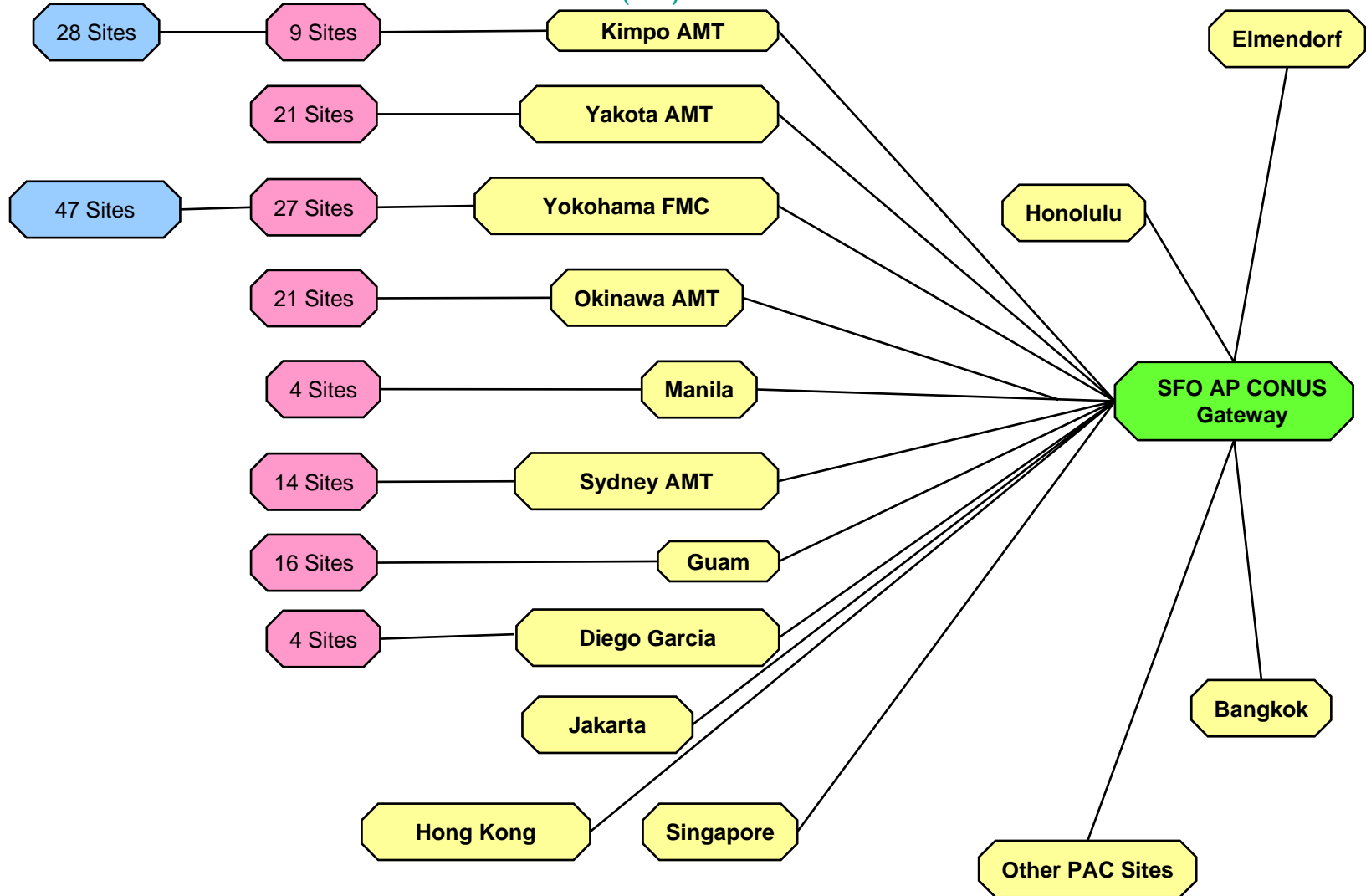|	
Commercial Air	$283,119,112.00
Charter	$161,018,498.00
War-Risk Surcharge	$18,494,570.89
AMC (Military Air)	$20,249,748.81
SDDC (Sealift Mail)	$4,466,840.66
Total (FY 2005)	$487,348,770.36

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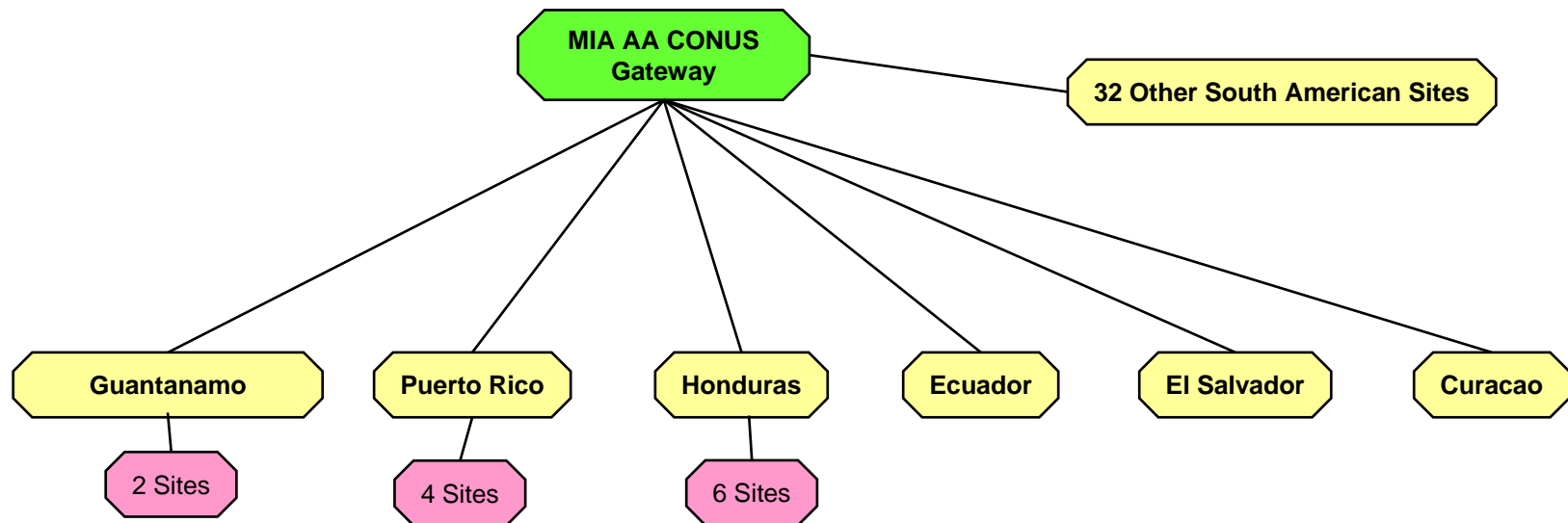**M-MAPS Europe (AE) Distribution**

M-MAPS Pacific (AP) Distribution

M-MAPS Americas (AA) Distribution

USSOUTHCOM's facilities include all military installations located throughout the Area of Responsibility. <u>There are no U.S. military installations located in South America.</u> There are a number of military facilities located in the Caribbean. Soto Cano Air Base, Honduras is home to Joint Task Force Bravo. The United States Navy also continues to maintain the Naval Base at Guantanamo Bay, Cuba. USSOUTHCOM also shares use of facilities with partner nations in the region. These facilities are known as forward operating locations.

TABULA RASA APPROACH: PROS

➢ Our research suggests that private companies are willing to and capable of assuming all functions of non-contingency area delivery of military mail and already have assumed this role in contingency areas, up to the point of hand off to the military commander

➢ Our research suggests that private companies could establish "purple" postal stations in contingency areas; or alternatively, provide persons to perform labor-intensive, low-skill work to free up military (down through brigade level).

➢ Our research suggests that there is cutting edge technology currently available to resolve problems and guide DoD policy with respect to military addresses

➢ MPSA is currently designing a DoD specific solution - technology platform rather than use what is already available from private industry

TABULA RASA APPROACH: PROS

➢ Innovative private company solutions may offer rapid technological advances in electronic processing – DoD as a "test case"

➢ Mail handled by the military inevitably faces conflicts over scarce transport, e.g., mail for morale or ammunition for battle

  ➢ Private handling of military mail mitigates this dilemma

  ➢ Mail is increasingly electronic, which reduces the volume for letter mail

  ➢ Current congressional interest in changes in domestic mail offers timely opportunity for significant modernization of military mail

➢ DoD outsourcing of other battlefield functions has been successful (e.g., food service, laundry, etc.)

➢ DBB seeks "overarching," systemic recommendations

➢ Our goal should be a "transformational" solution

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TABULA RASA APPROACH: CONS

➢ Implementation of outsourcing could be complex

➢ Danger of civilian casualties in contingency areas

➢ The usual concerns and questions regarding the legal status of civilian contract personnel in contingency areas

➢ Potential hindrances from Status of Forces Agreements