**Michael J. Critelli**
**SPEECH TO COMREG**
**VISION OF 21ST CENTURY POSTAL SERVICES**
**OCTOBER 18, 2007**

I want to thank ComReg for inviting me to share my vision of 21st century
postal services.  We have had an operation in Ireland since 1968.  Our work
with mailers, An Post, and postal operators across Europe gives us a good
perspective on mailer and recipient needs, and as a result, what lies ahead for
the industry.

I want to focus on the core mailstream because, irrespective of how much
they diversify, postal operators must not lose focus on protecting their core
mailstream businesses, for two reasons.

First, the mailstream, by itself and in conjunction with other media, is a vital
communications medium for every society.  Second, protecting and growing
core businesses is vital when a firm embarks on diversification.

I will not discuss non-mailstream-related postal services, such as financial,
government, upstream print and mailroom management, or e-commerce
services being offered by many national postal operators, except to make a
few observations:

- Market liberalization and privatization have been proposed to enable
  the postal sector to gain benefits that other network industries have
  experienced from these processes.  Each country should decide the
  right course of action for its citizens.

- Whatever course of action each country takes, we remain committed to working with postal operators to grow mailstream value and volumes, while helping cut costs, add efficiencies, and grow revenue.

Any 21st century postal service discussion needs to build on what has made the postal service valuable, and what will continue to drive value for citizens. The postal network has been a cost efficient way of connecting families, communities, and commerce. 20th century postal operators made large infrastructure investments to provide designated places to access postal products and services, automated mail processing, and universal access via scheduled delivery routes. As communities and markets became more geographically dispersed, postal operators continued to grow their infrastructure. The network's value in facilitating commerce at a distance grew as well.

One growing trend this century is the individual's ability to take more control over when and how to access technologies, information, and services. The same is true for the mailing industry, where we are going to see more demand for individually-controlled access to postal products and services. Consumers will want to exercise preferences in both retail postal facilities and non-dedicated retail sites.

That is why the value proposition of the 21st century postal service should include the concepts of enhancing flexibility, enabling access and self-service aligned with the 24-7 pace of work/life, and increased network transparency. Postal network investments this century will incent the mailer to participate in this more flexible, optimized network.

Service deterioration or significant price increases threaten mailstream brand value. In addition, there are three other big brand-related threats: concerns about the environmental impact of mail, privacy issues, and the ability of recipients to stop receiving mail they do not want.  If we do not address these issues, our customers and our business will suffer.  I particularly agree with the comments of previous speakers that we need to think about reducing the environmental burden from every part of the mailing value chain, starting with how paper is sourced, and improving the recycling of mail and other tangible system inputs like ink, plastics, adhesives, and tapes.

Note these themes as I focus on six key operational aspects of postal operations in the future:

- Retail Strategies
- Collection, Processing and Transport
- Delivery
- Information Transparency and Quality
- Growth Opportunities
- A Redefined Universal Service Obligation

**Retail Strategies**

There are three core mailing transactional activities that occur at postal retail sites: bulk postage purchases, specific transactions that require more than postage evidencing, and the deposit of mail into the system.  Mail

preparation at retail outlets, such as the packing and labeling of packages by postal employees, is separable.

Retail interfaces can be human, machine, or web-based. The human interface in the future postal system would be in many more venues than today, and, like machine and web-based interfaces, would enable all three sets of activities to occur seven days a week, and close to 24 hours a day. Those who use the postal system would have the option not to travel to a dedicated retail post office and not to wait in queues to transact business.

What additional human interfaces would be available? Non-dedicated retail outlets contained within retail outlets open seven days a week would be in every community, and for remote areas, mobile postal retail systems, featuring letter carriers equipped with technology allowing completion of a wide range of transactions while face-to-face with the customer.

Postal kiosks, like ATMs, would be available in many more places. Postal lobbies, retail stores, college campuses, transportation centers, and even office buildings and corporate campuses would allow for transactional activity, and convenient places nearby to deposit mail into the postal system.

These machines would also help implement an equal discount access principle. Consumers would have equal access to discounts that high volume mailers do, if they create comparable cost savings through mail preparation. The self-service machines would enable low-volume mailers to get automation discounts by printing postage, address information and bar

codes.  Moreover, individuals would access presort discounts if they dropped off enough mail to qualify.

The web would allow mailers to complete all postal transactions, except for the placement of mail into the postal system, at their home, place of business, or other locations.  They would be able to print not only postage labels, but personalized postage stamp images.

The postal franking machine would continue to play a vital role in a $21^{st}$ century postal system.  Aside from evidencing postage, it would provide accounting and reporting, address validation, and real time information to the postal operator as to what postal services the mailer was accessing.  The franking machine would also prompt the mailer to consider other postal services and would be both a loyalty-building device and an additional marketing channel. The machine would be wireless and Bluetooth-enabled, and would connect to a desktop computer, a laptop, or a PDA.

The franking machine would provide the postal operator with complete system-wide visibility through connection to the same funds management system that would control postal retail counters, bulk mail acceptance, self-service kiosks, online postage purchases, stamp printing systems, and purchases completed by mobile postal vans and letter carriers.

## Collection, Processing and Transport

Today's inflexible, postal-centric mail collection systems are often dictated by political considerations as to where mail collection boxes are situated.

They would be replaced by a flexible and convenient set of mail collection options.  Like the retail system, deposit and collection processes should operate seven days a week, and 24 hours a day in high-traffic environments.

Where security is required for high-value packages, individual secure lockers should be available for packages and letters for both mailers and recipients.

In those markets in which letter carriers are doing their routes in vehicles that allow mail collection at time of delivery, the postal operator would be pre-notified of an item waiting for collection.

The mailer would have multiple choices for lodging the mail in the postal operator's system.  The options would include access to multiple consolidators differentiating themselves based on price, quality and reliability, and value-added services like address quality enhancement, track-and-trace, and performance management and reporting.

The postal network would let mailers or consolidators select routing that enables mail to get to recipients on a particular day.  To make this alternative practical, postal operators would need far more flexibility in building and modifying their processing network.  If they are required to bear legacy costs not required of a competitor, they should be compensated for bearing those legacy costs.

**Delivery**

Today, 5 to 6 day a week delivery is mandated for national postal operators, and the recipient delivery point is generally mandated. Moreover, most postal operators are locked into delivering not only to the doorstep, but often to the floor of a multi-tenant residential or office building.

Delivery costs represent a challenge to posts, regulators and governments. The 21$^{st}$ century postal network would consider new delivery options. Future postal operators would deliver when, where, and how the recipient desires, and the cost of meeting recipient needs would be reflected in recipient fees. Doorstep delivery to the door of a multi-family residence would cost extra. Recipients who give up their right to residential or office delivery to get post office box delivery would be given financial incentives consistent with avoided delivery cost.

The future postal service would scan mail at the first sort station. Recipients would be able to redirect it to more convenient destinations, such as a workplace or a vacation home. Redirected delivery would result in a fee equivalent to the redirection cost.

**Information Transparency and Quality**

Future postal services would mark mailpieces to track them from acceptance to delivery, making the system totally transparent. Transparency would be a value-added benefit for which a relatively small add-on fee would be charged, as opposed to the significant fees charged today.

Markings would be standardized across all carriers, to give mailers complete interoperability and seamless operation, even if multiple carriers handle the same mailpiece. Just as telecom providers have standardized communications protocols, mail should be freely transferable among carriers.

Postal delivery codes would also help businesses better target mail recipients and get higher investment return on direct mail. Better targeted mail, in turn, would help increase recipient willingness to receive more mail, would enhance their perception of mail relevance and quality, and would give all citizens a greater stake in the vitality of their postal network. I specifically agree with the previous speakers that the postal delivery code is an essential tool for Ireland in modernizing its postal system.

Address quality would be a future postal system hallmark. Postal services would have unrestricted access to the most current addresses, although privacy rules would restrict them from using recipient address data other than to facilitate delivery. Individuals not wishing to receive mail would have that right, but would pay for withholding mail from them, just as those who have unpublished or unlisted telephone numbers pay extra for anonymity.

Postal products would have incentives and penalties based on both intelligent mail markings and address quality accuracy. Future postal systems would have no undeliverable mail in the letter carrier's bag, and very little undeliverable mail entering the system.

Postal service performance would be knowable in real time with an intelligent, transparent system. Service performance would be continually published and updated. Before they deposit mail in the postal system, mailers would have access to information about forecasts for delivery times.

Total mail volumes would be reported and auditable, preferably by a regulator. Investors in publicly-held companies, including ours, depend on mail volume trend data for assessment of a company's and industry's future. Today, that data is often managed in many markets around the world for political, labor relations, or competitive purposes. Mail volume data should be a public asset, not a private trade secret.

Postal services would be rewarded for beating agreed-upon service standards and penalized for chronic failure.

**Growing the Market**

Everything I have discussed up to now is designed to provide more mailer and recipient flexibility, accessibility, and transparency, and more postal operator efficiency. All of these attributes are valuable to customers, and would build mail volumes. Direct mail and parcel services are two areas of potential volume growth for every postal service.

Most postal services concede that transactional and correspondence mail will decline because of electronic substitution. Future postal services would not concede volume declines, but would invest in making the product more valuable and in increasing its volume. For example, transaction mail can be

converted into a combination of transactional and promotional, now called trans-promotional mail. Since we know recipients nearly always read transaction documents, the transactional mailpiece is an opportunity to build loyalty, cross-sell and up-sell products and services, or cross-sell the products and services of a mailer's partner. Postal services would work with industry partners to maximize trans-promotional penetration.

Postal services would find ways to increase greeting card and personal correspondence volumes to maximize these full-rate and highly-profitable types of mail.

There are two broad areas of direct mail opportunity. Most postal services and industry players focus on direct mail to acquire customers. The more promising path that raises fewer privacy or environmental issues is using direct mail to build loyalty with existing customers. Mailers could generate a huge return on investment by using the mailstream to get repeat business and build customer loyalty.

Postal services should work with industry partners to help businesses and non-profits deploy solutions to collect customer data, and use that data to maximize loyalty and future business. Retailers like pharmacies, grocery stores, bookstores or restaurants are prime candidates for multi-channel marketing strategies that include the mailstream, because they have intermittent relationships with customers predominantly engaging in cash or credit card transactions of high lifetime value. Our goal should be to help convert intermittent and unpredictable customer relationships into

continuous dialogues that lead to increasingly frequent and predictable transactions.

Postal services would also advocate moving government-based transactional activity to the mailstream. Dedicated postal facilities often play an important role in the social fabric of communities, and serve as a physical outlet for many government services in Europe. We can use the mailstream to reduce carbon footprint by using the mail or the Internet for voting, toll collection, payment of traffic and parking tickets, and renewal of annual licenses and registrations.

Postal services also can figure out ways to make remote commerce more attractive. For those reluctant to do remote commerce to buy products, the combination of front-end money-back guarantees and easier-to-use merchandise return processes would bring additional users into the system. Date-certain delivery and affordable next-day delivery are particularly helpful for holiday and special occasion remote commerce activity.

Information transparency about parcels and other mailpieces traveling across borders help postal services expand the scope of remote commerce globally. I ordered a book on Blackwell's Online at less than 15% of its price on Amazon.com. As others discover the benefit of shopping globally, postal services will have a broader market for remote commerce products.

## A Redefined Universal Service Obligation

There are usually six components to a universal service obligation: a ubiquitous retail network for postage and postal product purchases, a similarly ubiquitous mail collection network, a 5-6 day-a-week delivery obligation to fixed addresses, a uniform price for a first-class mail product, security and privacy protection for first-class mail, and, in many societies, some degree of protection for mail with an educational, political, or charitable purpose.

There have been many ideas on how to change the USO. For each country it is important to agree on the facets of a desirable USO, and above all, agree on the impact on mailers, recipients and the medium, and to identify obstacles to moving from the current USO to one better suited for the 21$^{st}$ century. Finally, all stakeholders must work together to define a process that gets us to the desired state and ensures the mailstream viability and growth.

Here are my personal thoughts on the USO. Security and privacy protection for first-class mail, and protections for mail with an educational, political, or charitable purpose, are consistent with the obligations of government to its citizens, although postal operators should be compensated for providing subsidized services to individuals or groups elected officials choose to subsidize.

However, the first four components need to be defined more flexibly. Bricks-and-mortar retail operations are one of multiple channels available for postal services to be available to citizens. We should define universal access requirements in terms of evolving citizen preference, not a fixed and rigid mathematical or legislatively-defined formula.

For example, the retail USO should be defined as having a staffed retail capability available a certain number of hours a week. The postal service would have the choice where that obligation is met: a post office, an attended kiosk in a retail outlet, or some other retail facility.

Postal operators should have flexibility to reduce their dedicated bricks-and-mortar footprint over time, as they get customers more comfortable with self-service kiosks, online postage, franking machines and other retail access solutions.

Similarly, the need for fixed mail collection boxes diminishes if mailers can deposit their mail at locations other than a dedicated postal facility. Mail collection options increase if combined with self-service kiosks in workplaces and other retail outlets.

Redefining the delivery USO is more challenging, because the frequency of delivery benefits both senders and recipients. However, postal services should be able to adjust delivery location to meet recipient needs, and to redirect delivery to places more convenient to recipients. At the same time, delivery cannot continue to be defined to result in higher cost for postal services delivering to the doorstep. There needs to be recognition that a reasonably convenient delivery alternative needs to be universally available, but that recipients who want exceptionally high-cost and high-value services need to pay extra for those privileges.

Uniform pricing is a feature of consumer-originated mail. It is less necessary or desirable for business-originated mail. The postal service should deliver uniform pricing only on consumer-originated single-piece first-class letters.

## **Concluding Remarks**

I have welcomed the opportunity to present my vision of a future postal service and system. However, there are significant political and cultural obstacles to realizing this vision. I would like to make some concluding remarks about how those obstacles might be removed.

Postal infrastructures and services exist because a significant number of people benefit from the current system. Some interests must be addressed because those affected by change have relatively little ability to adapt to change. Two particular types of change come to mind:

- Closing or re-situating facilities involves downsizings and a temporary and significant blow to a community's economic health. These issues are real, and the people affected are real. Careful deliberation should be given to how they will be openly and candidly addressed. If governments feel that postal network redesign will cause hardship, they must make an informed decision to bear part of the economic burden of compensating those adversely affected.
- Postal operators carry many other non-core cultural and economic obligations in many markets, such as prevailing wage requirements in certain kinds of contracts, requirements to use certain air carriers, or

requirements to subsidize certain kinds of mail or mailers, or financial services for underserved populations.  Postal services can assume all these obligations, but there should be compensation for them.

- The 21st century postal service will be different from today.  Postal operators will have to pay special attention to how they bring their employees and unions along with them in the change process, and how they create an environment in which their employees and unions feel engaged and motivated to serve the customers.

A postal system consistent with my vision is one that will accelerate economic growth, create new jobs for its country's economy, and enable citizens to have better ability to transact business and communicate with one another than ever.  Let's get on with the task of debating this vision, and with bringing an agreed-upon vision to reality.  Thank you very much.