UNITED STATES GENERAL ACCOUNTING OFFICE
Washington, D.C. 20548-0001

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m., EDT
Tuesday, June 25, 1985

STATEMENT OF

WILLIAM J. ANDERSON

DIRECTOR, GENERAL GOVERNMENT DIVISION

BEFORE THE

SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

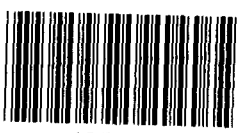
HOUSE OF REPRESENTATIVES

ON

THE STATUS OF

THE POSTAL SERVICE'S

ZIP + 4 PROGRAM



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to provide a status report on the Postal Service's efforts to successfully implement its ZIP + 4 program--a program that we testified on last year before this subcommittee as well as reported on several times during the past few years. We will provide information today on

--the extent to which businesses are using ZIP + 4 codes to address their mail and

--the progress the Service has made in developing prototype "conversion kits" for turning single-line optical character readers into multiline readers.

As you know Mr. Chairman, the Service developed the ZIP + 4 program to automate the processing of First-Class letters and postcards. Under the program, the Service purchased optical character readers and expanded the ZIP Code to nine digits. The optical character equipment reads the nine-digit or ZIP + 4 code in a letter's address and prints a series of bars on the envelope to represent that code. Other, newly purchased machines --bar code sorters--then sort the mail by reading the bar codes. The automated system will enable the Service to reduce or save processing costs by sorting mail more efficiently than today's manually operated, mechanical system. The amount of the savings largely depends on the extent to which businesses use ZIP + 4 codes.

During 1989, the first full year in which all the readers and sorters are scheduled to be operational, the Service expects to process 50 billion pieces of First-Class ZIP + 4 coded mail on the automated equipment. At that volume, the Service believes net savings will approximate $12 billion dollars over a 20-year period and provide a return on investment nearing 50

percent. (The net savings considers the cost to develop, implement, and maintain the automated system and the buildup of ZIP + 4 usage to 50 billion pieces.) The Service presented this net savings estimate to the Postal Service Board of Governors in January 1984 when the Service sought, and received, the Board's permission to purchase the second quantity of optical character readers and bar code sorters.

BUSINESSES' USE OF ZIP + 4

Let me turn now, Mr. Chairman, to the current status of ZIP + 4 use among businesses.

Businesses have been slower than the Service anticipated in adopting ZIP + 4 and, as a result, the Service has revised its January 1984 estimate of ZIP + 4's growth pattern during the years leading to 50 billion pieces in 1989. The revision was made during the summer of 1984, after the Service saw that ZIP + 4 was getting off to a slow start. These estimates are compared with the January 1984 estimates in the following table.

Year	Summer 1984 estimate	Jan. 1984 estimate
	(billions of pieces of First-Class Mail)	
1985	6.8	20.9
1986	13.2	31.4
1987	27.0	41.8
1988	40.0	48.4
1989	50.0	50.0

Most obvious when comparing the two estimates is that the summer 1984 estimate is much less each year until 1989 and has a much greater increase between 1988 and 1989 to reach 50 billion pieces.

Achievement of 1985 estimate likely

We believe the Service will probably achieve its revised ZIP + 4 estimate of 6.8 million pieces for 1985.

The Service tracks ZIP + 4 growth through its Customer Services Department. There, ZIP + 4 "sales" figures are accumulated and reported to senior management. According to the March 15, 1985, report, the businesses that had converted to ZIP + 4, or had said they would do so, were expected to generate, annually, an estimated 5.3 billion pieces of ZIP + 4 mail. (About 57 percent would be generated by businesses that planned to convert.) If all 5.3 billion pieces were available to the Service in 1985 and the sales pace for the rest of the year continued at the past rate, we believe the 1985 volume will fall between 6.2 billion and 7.6 billion pieces.

Service taking further measures to encourage ZIP + 4 use

While the Service may achieve its revised estimate for 1985, it still has far to go to reach the 50-billion-piece level in four more years. The Service recognizes this and recently announced further measures to encourage more businesses to convert to ZIP + 4. Let me quickly summarize those measures.

--The Service provides mailers a postage rate incentive or discount for each piece of qualified ZIP + 4 mail. The Service was not going to allow mailers to mix such mail with non-ZIP + 4 mail in the same presorted mailing. However, in April 1985, the Service dropped the scheduled ban and announced it would establish, by next April or later, a minimum percentage of ZIP + 4 coded mail that must be in a combined presorted mailing.

The year (or more) delay until the minimum is established is intended to give businesses a margin of time for maximizing the number of addresses converted without causing the loss of discounts (presort and ZIP + 4).

--A working group has been formed to review the Service's procedures for accepting mailings receiving the ZIP + 4 discount. The procedures were established to ensure that such mailings are eligible for the discounts. Some businesses apparently found or believed the current procedures burdensome or difficult to comply with, which may have slowed conversion to and use of ZIP + 4.

--The Service plans to make the presorting of ZIP + 4 mail much easier for businesses. Mail presorted by ZIP Code is separated by the first three and five digits of the code. This would not change except for ZIP + 4 mail which would be presorted to three digits only. The Service believes that ZIP + 4 mail presorted to five rather than three digits provides no added benefits when processed on the automated equipment. The scheduled effective date for this change is sometime after the minimum percentage of ZIP + 4 mail in a presorted mailing is established.

Finally, Mr. Chairman, the Postal Service Governors may be contemplating action to spur conversion to ZIP + 4. In December 1984, the Governors announced across-the-board changes in postal rates and fees and increased presort discounts. At that time, the Governors said that the increase in the discount for presorted First-Class Mail may have an unintended adverse effect on participation in the ZIP + 4 program. The increase from 3 to 4 cents a letter, they said, may slow participation in the ZIP + 4 program. (The ZIP + 4 discounts of 0.5 cent and 0.9 cent a

letter were not changed.) The Governors have not publicly announced any action on this issue.

POSTAL SERVICE'S EFFORTS TO DEVELOP A MULTILINE CONVERSON KIT

Mr. Chairman, ZIP + 4 usage directly affects my next topic: the status of the Service's efforts to develop a multiline conversion kit for its single-line optical character readers (OCRs).

The Service has purchased 655 OCRs to automate its letter processing operations and all 655 are single-line readers. That is, they can read at least one line of the address block (the city, state, and ZIP Code line) and correctly bar-code the ZIP Code that is in the address. Single-line readers depend on mailers to furnish the ZIP Code that is read and barcoded.

OCR technology has advanced to where an OCR can read several lines of an address and, after searching an internal directory, determine the ZIP Code (or ZIP + 4 code) for that address and print the related bar code. Such "multiline" OCRs need no ZIP Code on the mail piece if the address is in the machine's directory. However, the cost-effectiveness of multiline OCRs is enhanced when letters are addressed with ZIP Codes.

Last June, we, as well as the congressional Office of Technology Assessment, presented to this subcommittee the results of our comparison of the two optical character reader technologies available for mail processing. We said that, in the final analysis, the key to whether the Postal Service should

switch from single-line OCRs to multiline read OCRs was, in our view, the eventual level of ZIP + 4 usage by business mailers. We held that view because the extent of savings each technology would produce was directly related to the level of ZIP + 4 usage.

Also testifying before this subcommittee that June was the Senior Assistant Postmaster General for Operations. He proposed a course of action that Service officials believed would be consistent with both the OTA and GAO studies. He said the Service planned (1) to proceed with the second purchase of single-line OCRs and (2) to initiate a strategy to assure that it has the capability to convert its single-line OCRs to multiline reading. To develop this capability, the Service planned to have the companies that manufactured the single-line OCRs each develop a prototype conversion kit for their respective machines. In a subsequent letter to you, Mr. Chairman, the Service said contracts to develop prototype conversion kits would be awarded in early 1985, that prototypes should be available by late 1986, that testing of the prototypes would occur in 1987, and the decision whether to convert "may" be made by the end of 1987.

Contracts to develop prototypes not yet awarded

Now that we have given you the background, Mr. Chairman, let me tell you the status of prototype development.

In October 1984, the Service solicited proposals from the single-line OCR manufacturers as a first step in developing the prototypes. The solicitation laid out three general steps or "work groups," each building on the preceding one, that the

Service and the manufacturers would follow in developing the prototypes and the scheduled completion dates. (The development steps and completion dates are shown in attachment I to my statement.) The solicitation asked the manufacturers to submit proposals and pricing for the first development step.

Proposals have been received but contracts to develop the prototype conversion kits have not yet been awarded. We understand that the Technology and Development Committee of the Service's Board of Governors is studying the conversion kit concept and the possible need to purchase OCRs manufactured as multiline readers. The Service is waiting for the outcome of the committee's work before awarding contracts to develop the prototypes.

GAO OBSERVATIONS

Before concluding my statement, Mr. Chairman, I would like to convey our observations concerning ZIP + 4 usage levels and conversion kit development.

--The Service has developed, at different times, estimates of ZIP + 4 usage that all reach 50 billion pieces by 1989 regardless of the growth pattern before then. The obvious question the estimates generate is whether they are realistic. While we may have our doubts that they are, we cannot say for certain one way or the other. We are unaware of any statistically sound market analysis upon which the yearly estimates are based. Because of the relative newness of the ZIP + 4 program and the major changes that are still occurring (e.g., changes to be made by April 1986), a reliable market analysis may have

been impossible in the past and may not be possible until all of the changes are made. However, we believe the Service should place itself in the position of being able to conduct a market study so that it can judge the potential market for ZIP + 4. In that way, it will have a sound basis in 1987 to determine whether the single-line OCRs should be converted to multiline readers. The Service has said that one of the prime factors in its conversion decision will be ZIP + 4 usage in 1987 and the anticipated usage in later years.

--We believe the Service should strive to achieve 50 billion pieces of ZIP + 4 coded mail because such volume maximizes the return on investment from a single-line OCR system. However, a volume somewhat smaller than 50 billion pieces should still provide a very favorable return on investment from the single-line reader system.

--The Service has told Congress that the 655 OCRs already purchased satisfies the Postal Service's basic requirements for optical character readers. If this is the case, then the Service should be moving ahead with the development of prototype conversion kits so it can be in a position to convert the single-line OCRs. Without such movement, the return on investment in automated equipment cannot be maximized if ZIP + 4 usage does not reach an acceptable level.

This concludes my statement, Mr. Chairman. My associates and I will be happy to answer any questions you may have.

ATTACHMENT I

Steps and Completion Dates to Develop Prototype Multiline Conversion Kits*

Steps	Tasks	Completion dates
Work Group I	Resolve directory questions; determine specific approaches to be taken; write detailed specifications and work statement for Work Groups II and III.	6 months after contract award
Work Group II	Design, build, and debug the conversion kit. Conduct an in-plant test of kit at end of Work Group II.	No later than end of calendar year 1986
Work Group III	Install the kit on an operational OCR; conduct acceptance tests.	6 months after completion of Work Group II

*As contained in the Postal Service's October 26, 1984, solicitation to research and develop the prototypes.