UNITED STATES POSTAL SERVICE

BY EMAIL AND CERTIFIED MAIL

January 19, 2021

Craig A. Holman, Esq.
Arnold & Porter Kaye Scholer LLP
601 Massachusetts Avenue, NW
Washington, DC 20001-3743
Email: Craig.Holman@arnoldporter.com

Re: Supplier Disagreement Resolution Case No. SDR-21-XX-002
Updater Inc.'s Objection to the Extension of the MoverSource Strategic Alliance

Dear Mr. Holman,

This letter responds to the business disagreement ("Disagreement") lodged on behalf of Updater Inc. ("Updater") on November 30, 2020, with the Supplier Disagreement Resolution Official ("SDRO"). The Disagreement concerns the Strategic Alliance between the United States Postal Service ("USPS" or the "Postal Service") and the entity currently operating as MyMove LLC ("MyMove") to develop and implement the MoverSource Program. For the reasons set forth below, I deny Updater's Disagreement.

Background

On July 30, 2020, Updater submitted an unsolicited proposal that it believed would help modernize and improve the MoverSource program. On September 21, 2020, William Bentley, the USPS MoverSource Program Manager, responded to Updater by recommending that Updater contact the USPS closer to the 2025 expiration date of the Strategic Alliance with MyMove, the Postal Service's current MoverSource program alliance partner.

On November 2, 2020, Updater, through its counsel, e-mailed Mr. Bentley and James McNally requesting a formal response to Updater's unsolicited proposal. On November 5, 2020, the Postal Service responded to Updater's November 2 e-mail, stating that: (i) the current Strategic Alliance for the MoverSource program was extended to 2025; (ii) the USPS was returning Updater's unsolicited proposal without action; and (iii) Updater was required to submit its unsolicited proposal under the procedures outlined in Publication 131, the Postal Service Unsolicited Proposal Program, if Updater wanted it to be considered.

On November 13, 2020, Updater filed an initial disagreement, challenging the Postal Service's Strategic Alliance with MyMove as an improper "sole source" contract. The initial disagreement was filed pursuant to the procedures set forth at 39 C.F.R. § 601.107, which apply to disputes related to the Postal Service's acquisition of property and services within the scope of 39 C.F.R. § 601.103. Moreover, to support its argument in the initial disagreement, Updater made numerous references to the Postal Service's failure to follow the Supplying Principles and Practices ("SPs and Ps"), which are internal USPS purchasing guidelines that are designed to supplement the regulations set forth at 39 C.F.R. Part 601 governing the acquisition of property and services.

On November 20, 2020, the Postal Service responded to Updater's initial disagreement, stating that the Strategic Alliance with MyMove is not an acquisition of property and services under 39 C.F.R. § 601.103, and, therefore, the regulations at 39 C.F.R. Part 601 (including the business disagreement regulations at section 601.107) and the SPs and Ps do not apply.

On November 30, 2020, Updater appealed that disposition of its Disagreement to my office.

Discussion

Updater's Disagreement asserts that, contrary to the Postal Service's November 20, 2020 response to Updater's initial disagreement, the Strategic Alliance with MyMove constitutes an acquisition of services subject to the purchasing regulations of 39 C.F.R. Part 601. Updater argues that, because the regulations at 39 C.F.R. Part 601 apply to the Strategic Alliance, the Postal Service's failure to follow those purchasing regulations renders the Strategic Alliance improper or *ultra vires*.

Contrary to Updater's assertion in its Disagreement, strategic alliances are not acquisitions of property or services subject to the procurement regulations at 39 C.F.R. Part 601 or to the SPs and Ps, which are internal policy guidelines that apply only to Supply Management when conducting procurement activities. Rather, strategic alliances are cooperative arrangements between the Postal Service and private entities for the joint development or marketing of a product, and, as such, are governed by the procedures set forth in USPS Handbook F-66D (attached as Exhibit 1) and the 1997 Strategic Alliance Guidelines (attached as Exhibit 2 and incorporated by reference in Section 4-3.3 of Handbook F-66D). In fact, both the Strategic Alliance Guidelines and Handbook F-66D explicitly distinguish strategic alliances from purchasing contracts. For example, Handbook F-66D states that "[a] strategic alliance is distinguished from a purchasing contract in that the primary purpose of the alliance is the development of a joint product, not the 'purchase' of goods and services." Exhibit 1 at 44-45 and 67; *see also* the cover page of Exhibit 2 (distinguishing a strategic alliance from a "purchase").

Handbook F-66D further has a section titled "Distinguishing a Strategic Alliance From a Purchase," which states:

> The act of obtaining goods and services for the benefit of the Postal Service in exchange for Postal Service funds is generally a purchase governed by the Interim Internal Purchasing Guidelines [(now the SPs and Ps)]. Although the Postal Service may obtain the use of goods and services as a result of a strategic alliance, generally the goods, services, and rights obtained are those employed in the common and mutually beneficial cooperative effort. The acquisition of those goods and services may not be the primary purpose of the strategic alliance.

Exhibit 1 at 58-59; *see also* Exhibit 2 at 1 (making clear that "alliances are not governed by Procurement Manual [superseded by the SPs and Ps]").

Thus, the rules governing strategic alliances contain provisions that explicitly place them outside the realm of the procurement regulations at 39 C.F.R. Part 601 and the SPs and Ps. Moreover, unlike purchasing contracts, which must be approved and awarded by a Supply Management contracting officer, strategic alliances require approval by senior Postal Service officers and managers, including the Executive Leadership Team (formerly, "Executive Committee"), Strategic Planning Committee, and the Board of Governors. Exhibit 1 at 61. This approval process, which is entirely external to Supply Management, further distinguishes the Strategic Alliance with MyMove from a procurement contract.

Updater also argues that, because the MoverSource program has been defined as a "nonpostal *service,*" it necessarily qualifies as an *acquisition* of services. The Postal Service does not dispute that the MoverSource program involves a nonpostal *service*.[1] That service, however, is not one that was *acquired* by the Postal Service. Rather, in accordance with Handbook F-66D and the Strategic Alliance Guidelines, the MoverSource program "services" were the product of a joint development and implementation effort between the USPS and MyMove. The primary purposes of the program were to: (i) jointly develop and execute the MoverSource program to further the Postal Service's mission of moving mail efficiently and effectively; (ii) decrease the Postal Service's operating costs; and (iii) generate revenue for the Postal Service. The services jointly created under the program are offered directly to USPS customers; they are not acquired by (or transferred to) the USPS. Thus, the MoverSource program is not an *acquisition* of services.

Finally, Updater's Disagreement cites to bid protest decisions that it claims establish that the MoverSource program constitutes an acquisition of goods and services, but those decisions are inapplicable. Unlike the MoverSource program, none of the transactions at issue in the referenced decisions involved the joint development of products or services to be offered directly to the public. Rather, almost all the decisions involved supplier-initiated services that were provided directly by the suppliers to satisfy a service or need that the government would otherwise be required to provide itself or acquire through another contract.[2] Here, the Postal Service is not required to provide the full range of services that make up the MoverSource program but instead jointly developed those services for the purpose of benefitting its customers and generating revenue.

Moreover, unlike the agencies involved in those decisions, the Postal Service is an independent establishment of the executive branch, 39 U.S.C. § 201, and, as such, operates differently than those agencies and is not subject to the same procurement statutes and regulations. *See* 39 U.S.C. § 410(a). Most notably, the Postal Service is not subject to the Competition in Contracting Act, 31 U.S.C. §§ 3551, 3552, which serves as the basis for the Government Accountability Office's ("GAO") protest authority. Therefore, the GAO decisions cited in the Disagreement do not apply to the Postal Service. *See also* 39 C.F.R. 601.108(f) ("Non-Postal Service procurement rules or regulations and revoked Postal Service regulations will not apply or be taken into account.")

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[1] The USPS is authorized, in some cases, to offer customers nonpostal services, such as the MoverSource program, which are essentially services outside of mail delivery. *See* 39 U.S.C. § 404(e).

[2] The one exception to this is *Ozdemir v. United States*, 89 Fed. Cl. 631, 639 (2009), which involved a solicitation for research and development and is inapplicable because it involves the statutory interpretation to determine whether the Court Federal Claims has jurisdiction over a pre-award protest of a non-procurement solicitation.

SDRO Resolution

For the reasons stated above, the Strategic Alliance is not an acquisition of property and services, and the business disagreement regulations of 39 C.F.R. Part 601 do not apply. Therefore, this Disagreement is denied. In accordance with 39 C.F.R. § 601.108(g), this is my final and binding resolution of this matter.

Sincerely,

E-SIGNED by ROBERT D'ORSO
on 2021-01-19 15:07:32 CST

Robert D. D'Orso
Supplier Disagreement Resolution Official

Attachments: Exhibit 1
Exhibit 2

EXHIBIT 1

Investment Policies and Procedures — Business Initiatives, Alliances, Real Estate Development, and Major Operating Expense Investments

Handbook F-66D

February 2006
Transmittal Letter

A. Revision. This revised edition of Handbook F-66D, *Investment Policies and Procedures — Business Initiatives, Alliances, Real Estate Development, and Major Operating Expense Investments,* updates the policy and procedures for Postal Service investments to ensure that projects adhere to the *Strategic Transformation Plan 2006–2010* strategy to reduce costs. Reducing costs includes the commitment to enhance corporate financial responsibility and to continue to invest in equipment, technology, and facilities. This handbook replaces the June 1999, version of Handbook F-66D, *Other Investment-Related Policies and Procedures.*

B. Explanation. This handbook is one of six modules being published and distributed separately which, upon completion, will update and replace Publication 191, *Investment Policies and Procedures.* The new series comprises the following six modules:

- Handbook F-66, *General Investment Policies and Procedures.*
- Handbook F-66A, *Investment Policies and Procedures — Major Facilities.*
- Handbook F-66B, *Investment Policies and Procedures — Major Equipment.*
- Handbook F-66C, *Field Investment Policies and Procedures.*
- Handbook F-66D, *Investment Policies and Procedures — Business Initiatives, Alliances, Real Estate Development, and Major Operating Expense Investments.*
- Handbook F-66E, *Information Policies and Procedures — Postal Support and Information Systems.*

C. Changes. Handbook F-66D provides updated guidance concerning major operating expense investments, business initiatives, alliances, and developmental real estate projects.

D. Online Availability. You may view this handbook in electronic format on the Postal Service PolicyNet Web site.

1. Go to *http://blue.usps.gov.*
2. Under “Essential Links” in the left-hand column, click on *References.*
3. Under “Policies” on the right-hand side, click on *PolicyNet.*
4. Click on *Hbks.*

E. Comments and Questions. Address comments or questions to:

CAPITAL AND PROGRAM EVALUATION
US POSTAL SERVICE
475 L'ENFANT PLZ SW RM 8541
WASHINGTON DC 20260-5231

F. Effective Date. This revision is effective February 2006.

Lynn Malcolm

Lynn Malcolm
Vice President
Controller

Contents

Exhibits

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1 Overview

Handbook F-66D provides guidance for major operating expense investments, business initiatives, alliances, and real estate development investments. These types of projects require additional steps in the review and approval process, over and above those required for equipment or facility projects. Different documentation is also required.

Chapter 2 sets forth the requirements for the following:

a. Initiating major operating expense investment projects.

b. Preparing the required documentation.

c. Obtaining approval for these projects at the Headquarters level.

d. Tracking the progress of projects to ensure compliance with the approved plan.

The focus of chapter 2 is on the requirements and processes that make these investments different from other investment projects. Use this chapter in conjunction with Handbook F-66B, *Investment Policies and Procedures — Major Equipment,* and Handbook F-66, *General Investment Policies and Procedures.*

Chapter 3 sets forth the requirements for the following:

a. Initiating developmental real estate projects.

b. Preparing the required documentation.

c. Obtaining approval for these projects at the Headquarters level.

d. Tracking the progress of projects to ensure compliance with the approved plan.

e. Requesting approval to make changes to a previously approved project.

The focus of chapter 3 is on the requirements and processes that make these investments different from other major facility projects. Use this chapter in conjunction with Handbook F-66A, *Investment Policies and Procedures — Major Facilities,* and Handbook F-66.

Chapter 4 sets forth the requirements for the following:

a. Initiating new products and services, strategic alliances, and business initiatives, including developing the business plan and other required documentation.

b. Completing required reviews.

c. Conducting rigorous financial analysis, testing, and measurement to determine, as accurately as possible, whether proposed projects will make a positive financial contribution to the organization.

New product and service, strategic alliance, and business initiative projects do not require a Decision Analysis Report (DAR) unless the project is identified as a major operating expense or a capital investment.

2 Major Operating Expense Investments

2-1 About This Chapter

Major operating expense investments are subject to the requirements in Handbook F-66 and Handbook F-66B. This chapter describes the additional requirements that are unique to these projects, including DAR requirements and review and approval steps.

2-2 Purpose

This chapter sets forth requirements for the following:

a. Initiating major operating expense investment projects.

b. Preparing the required documentation.

c. Obtaining approval for these projects at the Headquarters level.

d. Tracking the progress of projects to ensure compliance with the approved plan.

The focus of this chapter is on the requirements and processes that make these investments different from other major equipment projects.

The policies and procedures in this handbook are not exhaustive, and management and staff involved in making decisions relative to these investments are expected to interpret the intent of these policies using prudent business judgment to arrive at solutions that are in the best interest of the Postal Service. Questions concerning policy relating to expense investments and the potential for developing a formal DAR may be directed to the manager of Capital and Program Evaluation, Finance.

2-3 Definition

A *major operating equipment investment* (MOEI) is an expense investment associated with a new initiative, project, or program and must include in a one-time expense outlay. MOEIs may also include ongoing operating expenses associated with the initiative, as well as capital expenditures that may fall under the $5 million capital DAR threshold. When the total investment is less than $5 million, and the total of all new expenditures exceed $7.5 million, the investment is classified as a MOEI and a DAR is required.

2-3.1 Expense Investment Process Flow

When an expense investment is required to implement a business initiative or corporate alliance, the investment may meet the criteria for a MOEI. A MOEI requires a DAR in addition to the information provided in the business plan. Where a DAR is required, the appropriate investment process must be followed. The sponsor may consult the manager of Capital and Program Evaluation to discuss whether or not the initiative or alliance may be a MOEI.

This exhibit…	**contains a process flow chart that**…
2-1	identifies the decision tree for determining the review and approval steps associated with capital and expense investments, including a MOEI.
2-2	defines the approval authority required for investments.

2-3.2 Example

An example of a MOEI is an expense investment that consists of a one-time expenditure for a new initiative. When the combination of new one-time expense investment, new capital investment, and new operating expense reach $7.5 million, the investment is classified as a MOEI. Typically, the DAR (for the MOEI) would present an analysis that shows the Postal Service will achieve a return on investment that is high enough to justify the proposed expenditure. As such, the appropriate approval is needed and the project must be presented to and approved by the Capital Investment Committee (CIC). It is apparent that various combinations and permutations of capital investments, expense investments, lease and contract costs may add-up to the $7.5 million threshold requiring that the project, initiative or alliance be supported with a DAR in order to receive the appropriate level of corporate approval and oversight.

2-3.3 Exceptions

The following are not MOEIs:

a. Actions taken to comply with a legal requirement or regulation (e.g., Occupational Safety and Health Administration (OSHA) standards or architectural barriers compliance requirements).

b. Routine operating expenses associated with the day-to-day business of the organization (e.g., transportation contracts, refuse disposal, or ongoing maintenance agreements).

c. Expenses related to the consolidation of existing contracts (for services or nonfacility leases) when a one-time expense expenditure is not required.

2-4 Calculating the Cost of a Major Operating Expense Investment

Costs that must be considered in determining whether a project meets or exceeds the approval threshold include, but are not limited to, the following:

a. New one-time expense investments.

b. Ongoing expenditures (e.g., personnel, outside contracts, supplies, services, development, training, start-up, operations, maintenance, and measurement systems).

Costs are calculated for the service life of the project, not to exceed 10 operating years.

Note: If a proposed new operating expense investment, capital expenditure, and related operating expense together exceed the $7.5 million threshold, the entire project must be recommended by the Headquarters Capital Investment Committee (CIC) and approved by the postmaster general and chief executive officer.

2-5 Responsibility

A Headquarters vice president must sponsor major operating expense investment projects. The sponsoring vice president has the following responsibilities:

a. Identifies the proposed program as a major operating expense investment and determines the financial impact of the initiative, including projected costs and benefits.

b. Develops the DAR, ensuring that it encompasses all phases of the proposed program and that it addresses the present and planned budget impact on other functions.

c. Coordinates the validation and review by all functional areas that the proposed program will affect, including their agreement, in writing, with the budget impact on their function.

d. Identifies and incorporates metrics and program tracking methods into the DAR. This information will be used throughout all phases of the program to update senior management on the status of the investment (see Handbook F-66, section 3-3.2 and chapter 7).

e. Implements and tracks program performance by comparing the projected and actual revenue increases or cost reductions. All supporting or participating organizations must concur with the proposed measurement methodology. Costs for the measurement and tracking systems must be included in the DAR.

f. Completes and submits quarterly compliance and status reports for discussion in the Significant Initiatives section of the *Investment Highlights* as required in Handbook F-66, chapter 7.

2-6 DAR Requirements for Major Operating Expense Investments

Major operating expense investments must be supported by a DAR prepared by the sponsoring organization to justify the expenditure. The DAR explains the background and purpose of the program and fully documents costs and benefits estimates. Costs must be supported with documentation that shows the calculations and the basis for all assumptions. Support the revenue projections or volume changes with a market analysis that outlines the justification with supporting volume changes, price increases, and impact on the total market.

The DAR for a MOEI must meet the requirements and follow the prescribed format for equipment projects (see Handbook F-66B) except as noted here. See the sample DAR in Handbook F-66B, exhibit 2-3, for further guidance.

2-6.1 DAR Preparation

In preparing the DAR, the sponsoring organization is responsible for the following:

a. Identifies all expenses by budget line item, as identified in the Accounting Data Mart (ADM) or other Finance-sponsored systems, to develop the savings and benefits that will be derived from implementing this project.

b. If the proposed program or initiative requires ongoing measurement of the changes in projected revenues or costs (see part 2-6.5), separately identifies and describes the projected revenues or costs associated with the design, development, and operation of the measurement system or study.

c. Coordinates the functional review of the DAR and obtains written agreement with costs impacting each function, including costs associated with the measurement or tracking of revenue increases and cost reductions.

2-6.2 Project Justification

The DAR must include a cash flow that shows 10 full fiscal years of operation (or the project life, if less than 10 years). If the project is generative, appropriate financial data must be presented in the DAR narrative. If a program is non-generative, the benefits (e.g., safety, service, legal requirements, capacity, or performance considerations) must be discussed in the DAR narrative.

The DAR must include sufficient cost data and other information to allow the CIC and approving officials to fully evaluate the potential budget impact and long-term organizational implications of the investment.

2-6.3 Market Analysis

The DAR for a major operating expense investment must include a market analysis to support volume changes and growth, revenue increases, and the impact on the total market. In the market analysis clearly identify how and why this impact will occur. Exhibit 2-3 provides an outline of the information that must be included in the market analysis.

The market analysis is required when a program:

a. Involves revenue generation or volume impacts (e.g., the project proposes advertising to increase customer-barcoded mail).

b. Is based on an expected marketplace situation.

c. Recommends changes to services or to a customer's ability to use postal services.

d. Includes proposals for multiple products. A revenue projection is required for each product, any impact on existing products must be assessed.

2-6.4 Revenue and Volume Projections

Sponsors must use the official estimates developed by Finance for the base year for revenue and volume projections. Any projections for growth in future years must be adjusted for the built-in growth contained in these official estimates from Finance.

To support revenue and volume projections, the sponsor is encouraged to include in its plans independent market research studies that pertain to particular product areas under consideration. However, if base-year estimates are available from Finance, these must be used (i.e., data from other sources may not be substituted).

2-6.5 Implementation and Tracking Plan

The DAR must include an implementation and tracking plan. In the plan, dentify the following:

a. Implementation strategies.

b. Plans for tracking the financial performance of the project.

c. Special tracking systems that must be developed. (The sponsor must ensure that these special systems are developed before project implementation.

Include all costs associated with implementation and tracking in the cash flow.

2-6.6 Financial Summary

The DAR must include a financial summary that shows the total expense investments and the results from the cash flow analysis, including operating variances from baseline operations. The following financial summary format is suggested:

	10-Year Operating Period ($ in thousands)
Capital Investment (if Applicable)	$xx,xxx
Expense Investment	$xx,xxx
Total Investment	$xx,xxx
Total Operating Variances	$xx,xxx
Net Present Value Discounted at ___%	$xx,xxx
Return on Investment (if applicable)	xx.x%

2-7 Review and Approval Process

Major operating expense investments are subject to the same review and approval requirements for major equipment projects (see Handbook F-66B), except as described here. DAR approval is linked to the budget process. See also Handbook F-66 for other review and approval processes.

2-7.1 Headquarters Vice Presidents

Headquarters vice presidents review and approve major operating expense investments up to $7.5 million.

2-7.2 CIC Review

After the vice president of the Office of the Controller validates the DAR for a major operating expense investment project that exceeds $7.5 million, the sponsor sends the DAR to the secretary of the Headquarters CIC. The secretary of the Headquarters CIC schedules the DAR for consideration by that committee. The sponsor prepares a financial impact statement and makes a presentation to the CIC.

2-7.3 Final Approval

If the CIC votes to proceed with the project, projects up to $25 million are reviewed for approval and funding by the appropriate senior officer (deputy postmaster general, chief operating officer, chief financial officer, chief marketing officer, chief technology officer, general counsel, chief postal inspector, inspector general, or the senior vice president of Operations).

The postmaster general and chief executive officer must also approve major operating expense investment projects that exceed $25 million, after notification to the Board of Governors.

Note: The Board of Governors must approve projects with a capital investment component that exceeds $25 million.

2-7.4 Post Implementation Review

Major operating expense investments follow the standard compliance and DAR modification requirements that apply to other equipment investments (see Handbook F-66B and Handbook F66). In addition, major operating expense investments must be tracked to ensure they meet targeted results; failure to meet targeted goals may result in cancellation of the project.

The vice president of the Office of the Controller coordinates appropriate budget, revenue, or complement adjustments based on the approved program. To ensure that approved programs achieve the stated objectives, Finance (in conjunction with other functional areas as necessary) periodically monitors programs against specific revenue and expense targets. (For example, Forecasting, Finance, would monitor proposed increases to the corporate contribution.)

If a program does not meet its proposed contribution target, the secretary of the CIC is notified by Finance, to schedule a review of the program with the sponsor. The sponsor must make a presentation to the committee comparing the current status or actual results versus the objectives and targets outlined in the DAR. Based on this information, the committee decides whether continued funding of the project is warranted.

2-8 Funding Procedures

2-8.1 Planning Costs

The initial planning phase of a program, including preparation of the DAR, may require some expenditure of resources. Planning-related costs are normally funded from the sponsor’s current operating budget and do not require program approval.

2-8.2 Funding Withheld for Unapproved Programs

During development of the annual budget call, the sponsoring organization must indicate whether the proper approving officials have reviewed and approved a major operating expense investment. Investments that have not received approval must be identified as unapproved.

Funding for unapproved programs is withheld until the project is approved.

2-8.3 Continuation of Funding Unless Withdrawn

Once approved, major operating expense investments continue to be funded each fiscal year (based on the funds approved) unless senior management, in the form of the Executive Committee, Headquarters CIC, or the Establish Team, subsequently withdraws funding following a program review.

Exhibit 2-1

Business Process Flow Decision Tree for Capital and Expense Investment Types

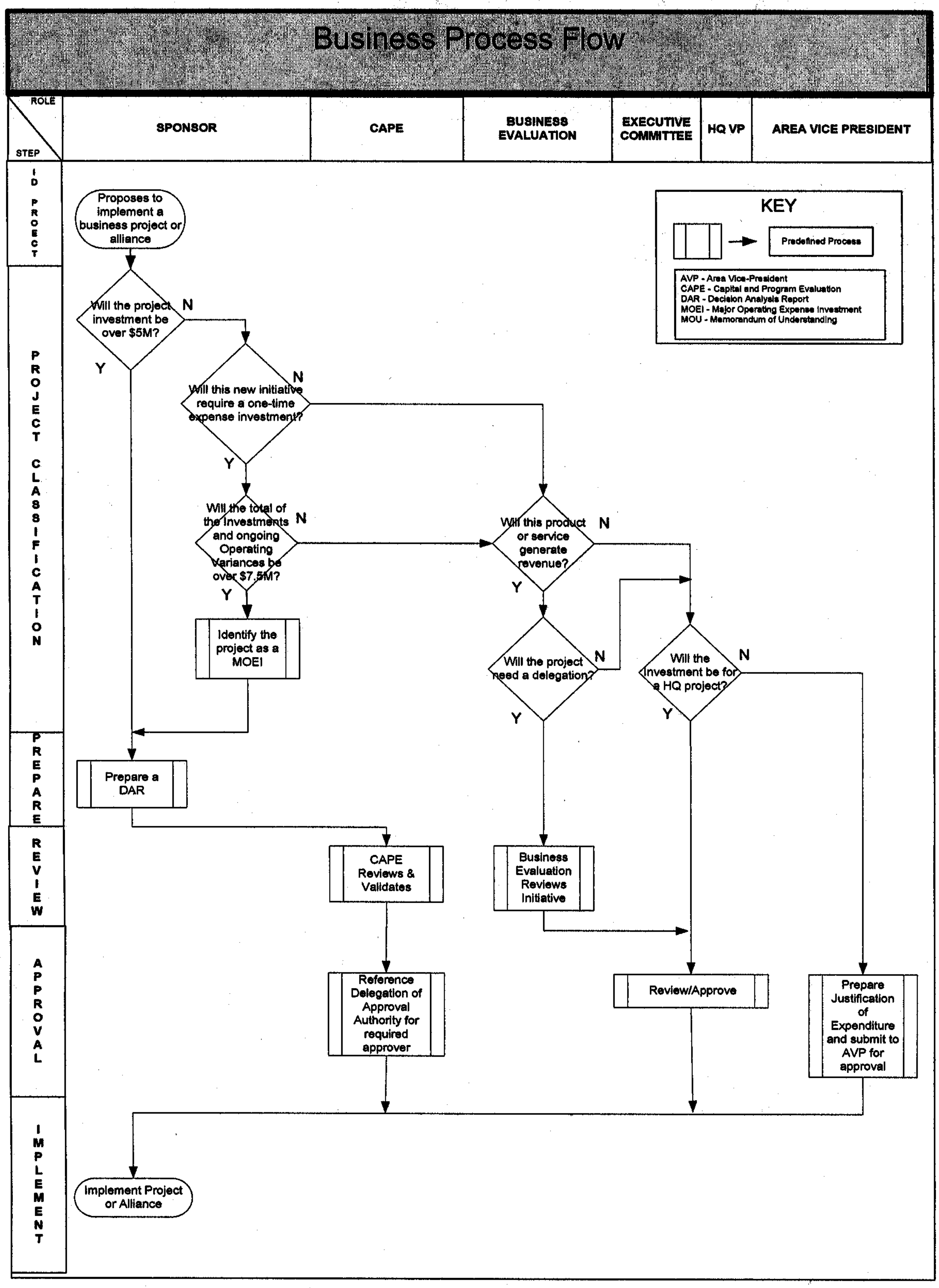

Exhibit 2-2
Approval Authority Decision Tree

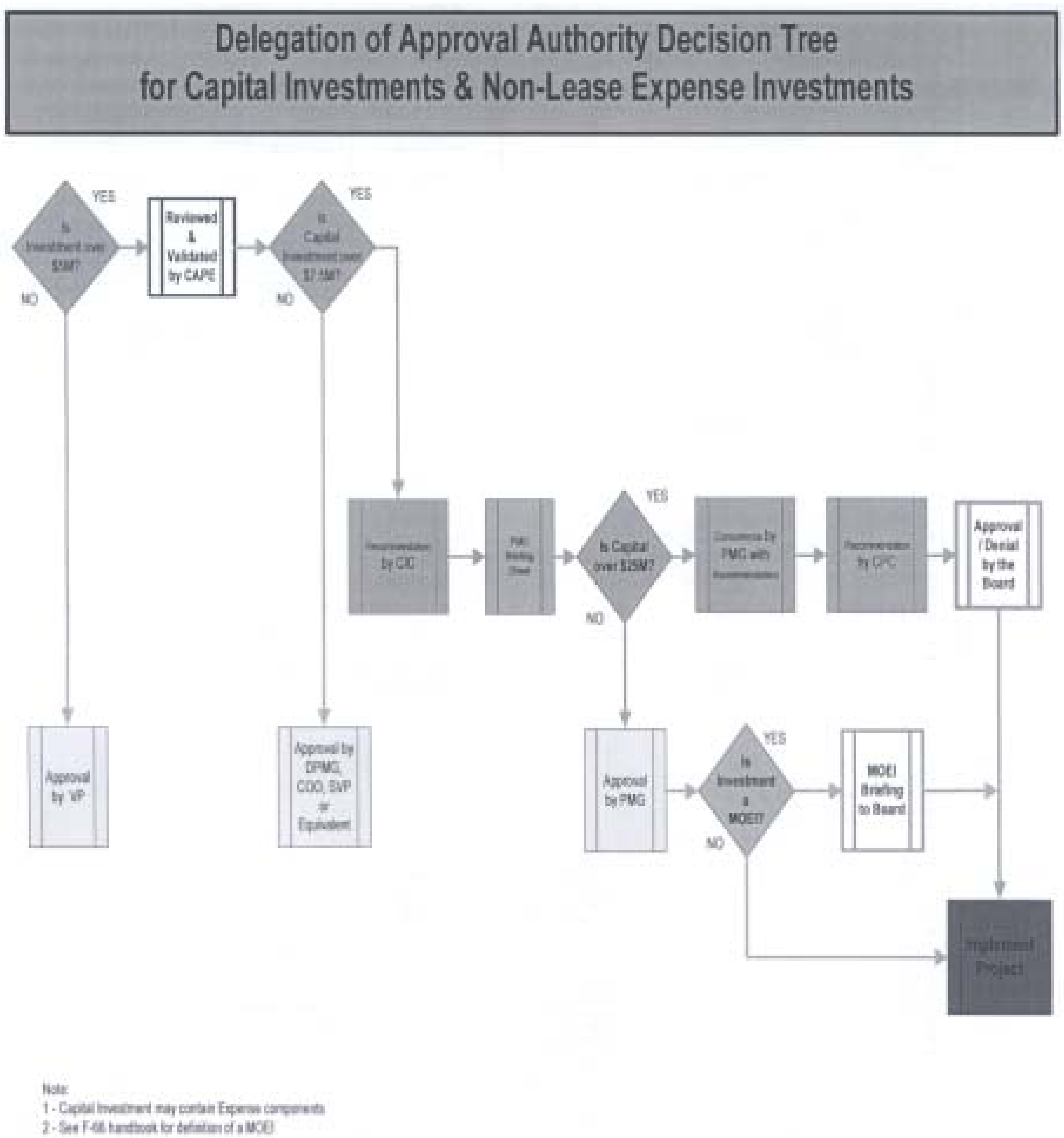

Exhibit 2-3
Market Analysis of Volume and Revenue Assumptions

1. Identify the services affected by the program.
2. Identify the required response needed from the marketplace.

   Examples:

   Mail volume prepared in pre-barcode format must increase from _______ to _______.
   Express Mail revenues must increase from $_______ to $_______.
3. Assess the anticipated effect of the program (e.g., improved service performance, more convenient deposit and acceptance, mail preparation and deposit, or mail payment procedures). Evaluate the proposed program or service versus those of competitors.
4. Identify customer segments (e.g., consumers, commercial mailers, nonprofit mailers, or selected industries) that will be critical to the success of the program (i.e., customer segments that must respond to achieve the projected volume or revenue results).
5. Discuss the expected response of each customer segment. Address marketing strategies (including products, price, place, and promotion), and clearly identify the priorities among the strategies. Note that marketing expenses must be included in the cost/benefit analysis.
6. Identify and discuss the risk factors regarding the marketplace response. Discuss what could prevent the expected response and how this would affect results.
7. Assess the expected response of competitors and how the Postal Service will react.
8. Discuss the method of measuring volume-related and non-volume-related revenue. Clearly identify the source of the revenue and cost information.
9. Where a significant change in revenues or major changes in customer behavior are projected, include relevant market research to support the projections in the DAR.
10. Address the impact of the investment on the price of affected postal services. If a project will significantly raise or lower the costs of one or more subclasses of mail, address the impact on Postal Service competitiveness.

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3 Development Real Estate Projects

3-1 About This Chapter

All developmental projects are subject to the requirements in Handbook F-66 and Handbook F-66A. This chapter describes the additional investment requirements that are unique to developmental real estate projects, including additional DAR requirements and review and approval steps.

Handbook RE-1, *Realty Acquisition and Management,* also provides pertinent information.

3-2 Purpose

This chapter sets forth the requirements for the following:

a. Initiating developmental real estate projects.

b. Preparing the required documentation.

c. Obtaining approval for these projects at the Headquarters level.

d. Tracking the progress of projects to ensure compliance with the approved plan.

e. Requesting approval to make changes to a previously approved project.

The focus of this chapter is on the requirements and processes that make developmental real estate project investments different from other major facility projects.

The policies and procedures in this handbook are not exhaustive, and management and staff involved in making decisions relative to developmental real estate are expected to interpret the intent of these policies using prudent business judgment to arrive at solutions that are in the best interest of the Postal Service.

3-3 Definition

Developmental real estate projects are a category of facility investments that include one or more of the following features:

a. The Postal Service makes an investment of real property, cash, cash equivalents, or other personal property in a real estate project not solely for Postal Service use. This may include the surrender of real property assets, a below market-rate lease, or the forgiveness of rent due in exchange for a promise to pay higher rents in the future, or additional equity interest in the subject project or in other properties.

b. An economically justified financial return is based on the nonpostal aspects of the project.

c. The Postal Service controls, through the requirements in a contract document such as a lease or other ongoing approval rights, the uses made of the property.

d. Contractual arrangements allow or require the Postal Service to contribute to the project after the property is turned over to the supplier. These contributions may be in the form of cash or some other asset, or rent deferred more than 30 days where the deferred amount is paid over an extended period of time.

e. The income or other economic returns to the Postal Service depend on the commercial success of the project.

Any acquisition of real property that is not strictly for Postal Service use and any disposition of real property other than a simple cash sale or outlease may be a candidate for the designation of developmental real estate.

3-4 Realty Asset Executive Committee

The Realty Asset Executive Committee (RAEC) is a unit of the Postal Service that is responsible for reviewing, approving, and controlling developmental projects and the disposal of excess real estate. The membership and functions of this committee are as follows.

3-4.1 Membership

The Realty Asset Executive Committee (RAEC) is composed of three members:

a. Vice president of Facilities (chair).

b. Deputy general counsel, Headquarters.

c. Manager of Real Estate Finance, Treasurer.

3-4.2 Responsibilities

The RAEC meets monthly (as necessary) to fulfill the following responsibilities:

a. Approve the treatment of each surplus real estate asset (i.e., determine whether it should be sold, outleased, or developed) and the developmental strategies to be used.

b. Approve the recommended capital investment, subject to final approval based on the investment level.

c. Approve major changes in approved developmental projects.

d. Monitor developmental projects from inception through project completion.

e. Approve sales of excess properties with an appraised value of $250,000 or more when the proposed sale price is less than 90 percent of the appraised value.

3-5 Initiating Developmental Real Estate Projects

3-5.1 Identifying a Potential Project

Properties with developmental potential are typically properties that have been declared surplus by postmasters, district or plant managers, or area offices. A property may be identified as excess in the DAR for a new facility, by a District Excess Property Report, or by notification to the facilities service office. Developmental opportunities may also be generated through the identification of excess land, unused space within an existing facility, and properties with developmental potential (such as undeveloped air rights in high-density neighborhoods in major metropolitan areas), and from unsolicited proposals by developers. Developmental opportunities may also arise where property is acquired that is in excess of that required for a new facility.

3-5.2 Developing the Project Idea

When a property is identified as a potential project, a real estate specialist or the sponsor makes an initial assessment of developmental potential. Information about the property is entered into the Realty Asset Management (RAM) tracking system (a database of excess properties). The RAEC evaluates and approves the proper category for each identified project (i.e., whether the property is to be developed, outleased, or sold). RAEC, the General Counsel, and Finance agree on alternatives to be explored for developmental projects. RAEC provides status reports to the Capital Investment Committee and the Board of Governors.

3-5.3 Calculating the Project Investment Cost

The investment cost of a developmental real estate project is the sum of the following:

a. As-is value of the postal assets contributed to the project.

b. Cash contributed by the Postal Service.

c. Debt that impacts the Postal Service's investment.

Debt that impacts Postal Service investment includes third-party obligations for which the Postal Service has no direct exposure if the anticipated returns to the Postal Service are subject to the servicing of that obligation.

In addition, any contribution from a federal, state, or local governmental agency (e.g., cash contributions for improvements or free rent in lieu of cash payments) must be included in the investment cost of the project. Direct any questions regarding the inclusion of such amounts to the manager of Capital and Program Evaluation, Finance, or to the manager of Real Estate Finance, Treasurer.

Developmental projects up to $5 million, as computed above and including any lease costs computed as defined for approval authority (see Handbook F-66), must be approved first by the RAEC and then by the vice president of Facilities. Projects in excess of $5 million (as computed above and including any lease costs computed as defined for approval authority) must be approved first by the RAEC and then by the appropriate approving authorities (see exhibit 3-1).

3-5.4 Determining Whether Board Notification Is Required

Information about developmental real estate projects, irrespective of cost, may need to be furnished to the Board of Governors. The Board's bylaws (39 CFR 3-3.7, July 1, 1998) state:

3.7(d) Management shall furnish to the Board:

(1) Information regarding any significant new program, policy, major modification or initiative; any plan to offer a significant new or unique product or system implementation; or any significant new project not related directly to the core business function of the Postal Service. This information shall be provided to the Board in advance of entering into any agreement in furtherance of such project. For the purposes of this paragraph, "significant" means a project anticipated to have a notable or conspicuous impact on (i) corporate visibility or (ii) the operating budget (including increases in expense amounts) or the capital investment budget. The notification requirement of this paragraph governs applicable projects regardless of the level of expenditure involved.

(2) Information regarding any project, in advance of entering into any agreement in furtherance of such project, where the potential liability due to termination, breach, or other reason would equal or exceed the amount specified by resolution for approval of capital investment projects pursuant to section 3.3(e) hereof.

Direct questions regarding the applicability of these requirements to the manager of Capital and Program Evaluation, Finance, or to the manager, Real Estate Finance, Treasurer. The chief financial officer in consultation with the senior vice president, General Counsel, is the final authority as to whether a developmental real estate project requires Board notification under this section of the bylaws.

3-6 DAR Requirements

Developmental real estate projects must be documented with a Decision Analysis Report that meets the minimum requirements for major facility projects as described in Handbook F-66A, chapter 3. Additional DAR requirements that apply to these projects are discussed here. Exhibit 2-3, Sample DAR — Developmental Real Estate Project, is provided for further guidance.

3-6.1 Responsibility

3-6.1.1 Sponsor

The sponsor of a developmental real estate project is usually the manager of Realty Asset Management, Facilities; the plant or district manager; or the vice president of Area Operations. Developmental projects that are sponsored by the field must be co-sponsored by Realty Asset Management.

3-6.1.2 Preparer

The DAR for a developmental real estate project may be prepared by the sponsor or by an analyst in Realty Asset Management.

3-6.1.3 Real Estate Finance

Real Estate Finance personnel perform the following activities with respect to developmental projects:

a. Provide technical guidance to the sponsor for the economic analysis of the developmental aspects of the project alternatives.

b. Participate in the Headquarters functional review process for developmental aspects of a project and provides comments on the DAR (including any DAR Modification Requests).

c. Provide a development assessment to Capital and Program Evaluation, Finance.

3-6.1.4 Reviewer

The manager of Facilities Planning and Approval must review the DAR for a developmental real estate project before the sponsor forwards the DAR to the vice president of Facilities and other appropriate approving officials.

3-6.2 DAR Components

Because developmental projects generally have elements of both a Postal Service facility and a commercial development involving rental income or a complex legal structure, the sponsor must customize the DAR to fit the situation. However, the portion of the DAR relating to Postal Service space must meet the requirements for major facility projects, as set forth in Handbook F-66A.

The DAR for developmental real estate projects includes the following additional components, as appropriate:

a. Developer or manager.

b. Financial alternatives.

c. Financial and legal structure.

d. Appraisal.

e. Sensitivity analysis.

f. Risk analysis.

g. Exit strategy.

h. Implementation and tracking plan.

3-6.2.1 Background and Problem Definition

The DAR for a developmental real estate project must provide site-specific information and clearly describe the relationship between the postal and developmental portions of the project. In addition to the issues specified in Handbook F-66A, part 2-6.4, the following issues must be addressed, if applicable:

a. Description of real property — land and building.

b. Market data bearing on potential leasing.

c. Tenancy — schedule of leases including principal terms and an evaluation of the major tenants, if available. If not available, provide the terms and conditions under which the developer/manager will lease to tenants and the minimum acceptable rental rates for the project to be economically justified.

3-6.2.2 Developer or Manager

The DAR for a developmental real estate project must include information about the proposed developer/manager of the project. Discuss the following:

a. The basis for selecting the developer.

b. The developer's experience and ability to complete the type of project proposed.

c. The developer's previous experience with the Postal Service.

d. Ownership information, if the developer is a closely held entity.

If the developer or manager has not been selected, discuss the criteria that will be used in the selection process.

3-6.2.3 Alternatives

In addition to traditional facility alternatives, developmental project alternatives may include such things as differing levels of Postal Service investment resulting in differing ownership or participation in the project income.

3-6.2.4 Financial and Legal Structure

Explain the proposed legal structure of the development project, highlighting all relevant legal and financial relationships as they impact the project. For complicated structures involving master leases, limited liability companies, management contracts, and ground leases, details of the legal structure may be included in an appendix to the DAR.

3-6.2.5 Appraisal

Discuss any outside appraisals or evaluations conducted in conjunction with the developmental project.

3-6.2.6 Sensitivity Analysis

A sensitivity analysis is required to address any issues pertaining to the developmental portion of the project that are not adequately presented using a cash flow analysis. The sensitivity analysis can also be used to evaluate the variation in the net present value (NPV) and return on investment (ROI) of a project based upon a change in the following:

a. Capitalization rate.

b. Rental rate that the sponsor believes is attainable versus the minimum rental rate acceptable.

c. Costs absorbed by the Postal Service versus those absorbed by potential tenants, developers, or purchasers.

3-6.2.7 Risk Analysis

In the risk analysis section, discuss the risks associated with the developmental aspects of the project, including any steps being taken to mitigate the identified risks to acceptable levels. See Handbook F-66, subchapter 5-5, for detailed risk analysis requirements.

3-6.2.8 Exit Strategy

In the exit strategy section, discuss any plans for the eventual disposition or sale of the developmental property. This will provide the basis for later disposition of the property without the necessity of submitting a new DAR or DAR Modification Request. In the exit strategy section, also describe, and request approval for, any subsequent financing by the developer tied to the project. Master lease modifications that would convert payments to be received over a period of time to a large upfront payment may result from this type of activity.

When the exit strategy is ready to be carried out, the RAEC must approve the disposition of the property and, as applicable for large transactions, notification of the Board may be required.

3-6.2.9 Implementation and Tracking Plan

Identify the implementation strategies as well as plans for tracking the financial performance of the project. If the project requires development of special tracking systems, identify and arrange for their development before project implementation. Include all costs associated with implementation and tracking in the cash flow.

3-6.2.10 Financial Summary

When a project includes both postal space and developmental space, the developmental information must be segregated out to arrive at an appropriate NPV and ROI. The financial summary must be modified to include this information.

3-6.2.11 Exhibits

In addition to the standard exhibits required for facility projects, developmental real estate projects may require additional exhibits to adequately illustrate complicated transactions. For example, a flow chart may be a good way to show owner relationships, functional relationships, and cash inflows and outflows. The following exhibits may be included, if appropriate:

a. Detailed analyses of proposed tenants.

b. Market strategy for the project.

c. Phased project totals and summary.

d. Space allocations.

e. Detailed identification and evaluation of developmental aspects.

In addition, the sponsor may need to modify the project schedule to reflect significant milestones that are unique to developmental projects.

3-6.3 DAR Backup Documentation

Backup documentation for the postal portion of a developmental project must comply with the normal requirements for facility projects (see Handbook F-66A, chapter 3). Additional backup documentation pertaining to the developmental portion of the DAR will vary from project to project. Additional guidance may be obtained from Realty Asset Management, Real Estate Finance, or Capital and Program Evaluation.

3-6.3.1 Calculation of Residual Value

In developing the cash flow analysis for the developmental portion of a project, the residual value is based on the market value of the facility in the last project year. Calculate the residual value by applying an appropriate capitalization rate to the net future income stream beyond the scope of the project (see Handbook F-66, exhibit 5-1). In some cases, the residual value of a developmental property that will be outleased or a special property such as a condominium unit (to be used either for postal operations or nonpostal activities) will be based on an appraisal. The appropriate Facilities staff or an outside appraiser may perform this appraisal.

3-6.3.2 Costs of Maintaining Vacant Space

While a sustaining baseline may not be relevant to the developmental portion of a project, it may be appropriate to determine and discuss the costs associated with the “mothballing” of vacant space that could otherwise be developed in some fashion.

3-7 Review and Approval Process

Facilities Planning and Approval, Headquarters, coordinates the Headquarters review and approval of developmental real estate projects. The DAR must follow the normal review and approval process for major facility projects, as outlined in Handbook F-66A, chapter 4. In addition, the Realty Asset Executive Committee and the vice president of Facilities must approve all developmental real estate projects.

The area CIC and approved by the vice president of Area Operations must review field-sponsored developmental projects before the sponsor forwards the DAR to Headquarters for review, validation, and final approval (see Handbook F-66C, *Field Investment Policies and Procedures*).

Exhibit 3-1 shows the steps in the approval process.

3-7.1 Functional Reviews

The DAR is circulated to appropriate functions for review and comment. At a minimum, the Inspection Service or the Office of Inspector General, Accounting, and the Treasurer’s office must provide comments. If necessary, an initial review meeting may be held in which the functional representatives discuss with the sponsor their concerns and comments. The general counsel’s opinion memorandum must be included in the DAR backup documentation, and all issues must be resolved prior to issuance of the validation memorandum by the vice president of the Office of the Controller.

3-7.2 Review and Approval by Realty Asset Executive Committee

The Realty Asset Executive Committee must approve all developmental projects before the spsonsor submits the DAR to the vice president of Facilities for approval. The general counsel prepares an opinion memorandum addressing the authority for, enforceability of, and legal risks associated with the lease or other contractual documents.

RAEC performs the following functions:

a. Reviews the need, priority, risk, and consistency of the project with overall Postal Service strategies.

b. Approves the implementation/tracking plan.

c. Ensures that all applicable costs have been included as investments for determining the appropriate approval level for the project.

d. Determines whether the project is of a sensitive nature that requires notification to the Board of Governors (subject to review by the chief financial officer and the general counsel).

e. Reviews the general counsel's opinion memorandum.

f. Signs off on project and sends it forward for funding approval.

3-7.3 Vice President Review and Approval

The vice president of Facilities is the final approving authority for developmental real estate projects up to $5 million. Projects of $5 million or more are signed by the vice president of Facilities and sent to Finance for validation before the project is sent forward for final approval.

3-7.4 Validation

The vice president of the Office of the Controller must validate the DAR for a developmental real estate project greather than $5 million before the sponsor forwards the DAR for approval. DAR Modification Requests for approved projects must also be validated. See Handbook F-66A, chapter 5, for details.

3-7.5 Final Approval

Developmental projects greater than $5 million must be reviewed and approved by the appropriate approval authority (deputy postmaster general and chief operating officer, Headquarters Capital Investment Committee, postmaster general and chief executive officer, or Capital Projects Committee and Board of Governors).

Note: Some projects may require Board notification, regardless of their cost (see part 1-5.4).

3-8 DAR Compliance Reports

Like other major facility projects, developmental real estate projects are tracked throughout the investment process using DAR Compliance Reports. These reports must be prepared quarterly from the time a project is approved until 18 months (6 quarters) after completion or move-in (see Handbook F-66, chapter 7 and Handbook F-66A, chapter 6). Real Estate, Finance, assists in the review of DAR Compliance Reports for developmental real estate projects and helps identify the need for a DAR Modification Request.

3-9 DAR Modification Request

If a project changes substantially after approval, a DAR Modification Request may be required. Such a request must meet the requirements in Handbook F-66A, chapter 7, and Handbook F-66.

Exhibit 3-1

Headquarters Review and Approval Process for Developmental Real Estate Projects

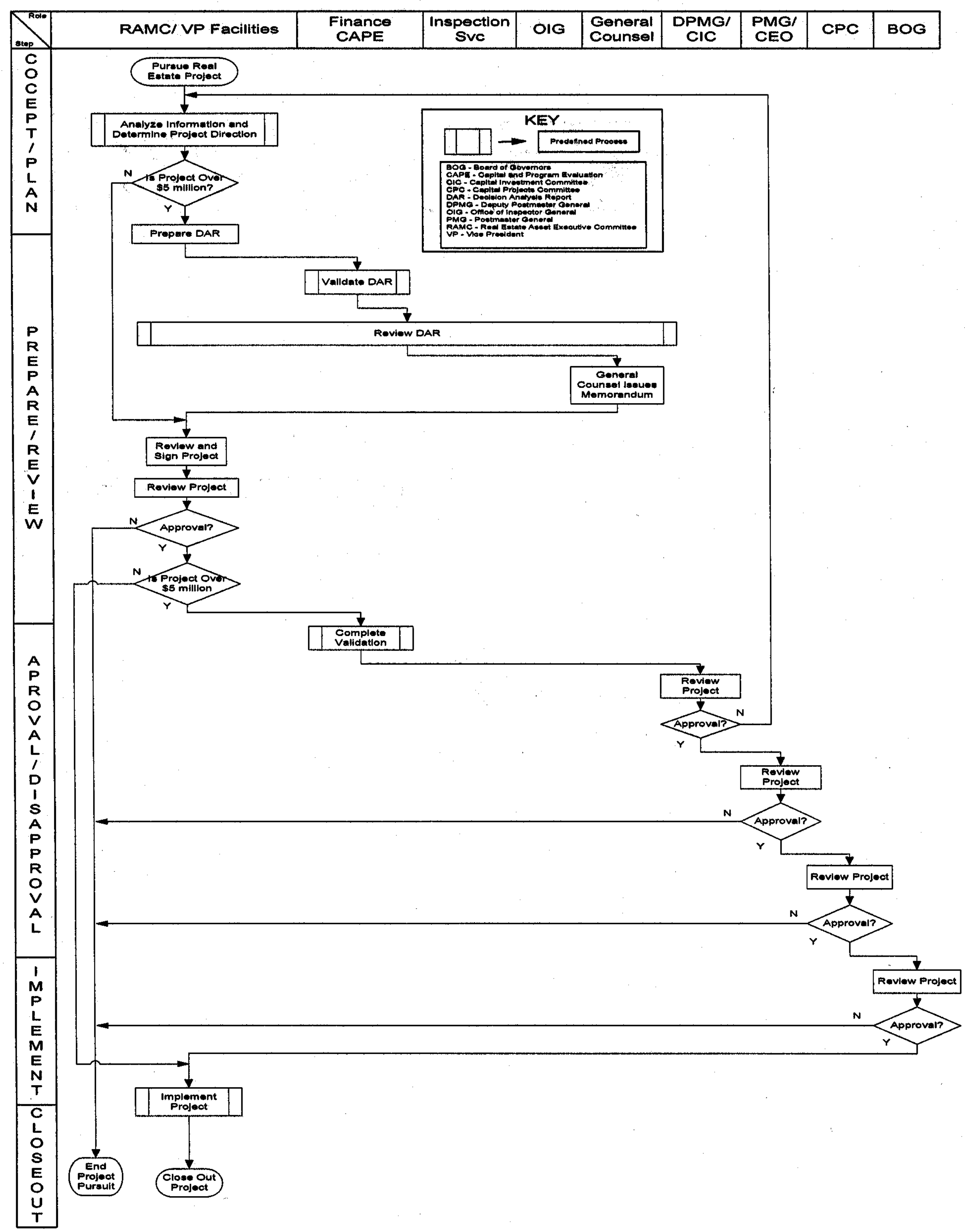

Exhibit 3-2 (p. 1)
Sample DAR — Developmental Real Estate Project

UNITED STATES POSTAL SERVICE®

DECISION ANALYSIS REPORT

Mountainview, CO
Main Post Office

FACILITIES

RESTRICTED INFORMATION

June 12, 1998

Exhibit 3-2 (p. 2)
Sample DAR — Developmental Real Estate Project

DECISION ANALYSIS REPORT
MOUNTAINVIEW, CO, MAIN POST OFFICE

Signature Page

PREPARED BY:	*<Signature>*	
	<Typed Name> Realty Asset Management Specialist	Date
REVIEWED BY:	*<Signature>*	
	<Typed Name> Manager Facilities Planning and Approval	Date
SPONSORED BY:	*<Signature>*	
	<Typed Name> Manager, Realty Asset Management	Date
APPROVED BY:	*<Signature>*	
	<Typed Name> District Manager	Date
APPROVED BY:	*<Signature>*	
	<Typed Name> Vice President, Area Operations Western Area	Date
APPROVED BY:	*<Signature>*	
	<Typed Name> Vice President, Facilities	Date
APPROVED BY:	*<Signature>*	
	<Typed Name> Deputy Postmaster General & COO	Date

Exhibit 3-2 (p. 3)
Sample DAR — Developmental Real Estate Project

DECISION ANALYSIS REPORT
MOUNTAINVIEW, CO, MAIN POST OFFICE

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Exhibit 3-2 (p. 4)

Sample DAR — Developmental Real Estate Project

DECISION ANALYSIS REPORT
MOUNTAINVIEW, CO, MAIN POST OFFICE

Background And Problem Definition

The town of Mountainview, CO, is a picturesque mountain community located 368 miles southwest of Highland City. It is a popular winter and summer resort area with approximately 3,000 permanent residents, an increase of 51 percent since 1991[1]. The population is expected to increase to 5,000 by the year 2008. There is no delivery service available in Mountainview, and all mail is delivered through Post Office boxes. During ski season, the population of Mountainview increases dramatically, and the demand for Post Office boxes from seasonal residents increases accordingly.

The Mountainview Main Post Office (MPO), an associate office of the Highland City District, has a current employee complement of nine. Since 1981, it has occupied 2,960 net interior square feet of leased space on the ground floor of a three-story building zoned for both residential and commercial use. The MPO houses administrative functions, retail services, Post Office boxes, and mail processing operations. Population growth and increased mail volume have caused severe overcrowding. All 2,232 Post Office boxes at the MPO are rented, and there is no room for additional boxes.

In 1992 the Postal Service purchased a 52,820 square foot site to be used for a new Mountainview MPO. This site, which is 2 blocks from the existing MPO, offers developmental opportunities because it is larger than required for postal operations and is in a prime location. In December 1994, a 1,450 square foot modular nonpersonnel unit (NPU) was established on this site to provide additional Post Office boxes, parcel lockers, and limited stamp vending machine services. All 1,120 Post Office boxes at the NPU were rented within 6 months of occupancy.

An expanded MPO is required to provide necessary postal services to Mountainview and the surrounding area. Growth in the community has increased the need for post office boxes, as well as for retail services and new delivery service, which the current MPO cannot accommodate. An environmental assessment of the acquired site in February 1996 resulted in a Finding of No Significant Impact. The community strongly supports the construction of a new MPO on this site.

Developer

XYZ Limited Partners (XYZLP) has been selected to develop the property. This firm was formed in 1988 to acquire, develop, manage, lease, and rehabilitate commercial real estate. Since that time it has purchased or developed 23 properties valued in excess of $50 million. Asset Management, Facilities, retained XYZLP to secure entitlements for a mixed-use joint venture project on the Postal Service-owned property. These entitlements were approved in 1997. Designs for the development were taken to 30 percent in the approval process. XYZLP and the Postal Service finalized negotiations on the project and issued a letter of intent signed and dated June 5, 1998. The letter of intent expires on August 31, 1998. The new MPO will be a condominium with an undivided interest in the land.

[1] Source of population projections: CACI, 1996 — Colorado.

Exhibit 3-2 (p. 5)
Sample DAR — Developmental Real Estate Project

Alternatives Analyzed

Alternative A — Joint-Use Development (Recommended)

Alternative A is for a planned use development project on a Postal Service-owned site that will result in an 81,000 square foot mixed-use building. The Mountainview MPO will own and occupy a 16,331 square foot condominium in the building. The project will also include 40 residential condominium units (including nine units designated for city employees), 4,064 square feet of retail space, underground parking, and a landscaped pedestrian walkway. The Mountainview Historical and Architectural Review Committee has approved the planned development of the site.

Two new delivery highway contract routes (HCRs) will be established at move-in. The existing leased MPO will be vacated. Prior to and during construction of the development, the NPU will be relocated to a leased site in Mountainview for up to 4 years, after which it will be returned to the Highland City District.

The site has been appraised at $5,280,000 with entitlements. Based on this appraised value, the Postal Service investment is $6,019,000 with a return on investment (ROI) of 2.2 percent and a net preset value (NPV) cost of -$2,913,000 when discounted at 7.8 percent. This is the recommended alternative.

Alternative B — Construct New MPO

Alternative B is for the construction of a new 16,908 square foot freestanding MPO on the Postal Service-owned site. Two new delivery HCRs will be established at move-in. The existing leased MPO will be vacated. The modular NPU will be relocated to a leased site in Mountainview during construction, after which it will be returned to the Highland City District. The total investment required is $8,529,000 with no ROI and an NPV cost of -$5,279,000 when discounted at 7.8 percent.

Sustaining Baseline

No sustaining baseline can be established for the Mountainview project because the sustaining measures that could be taken have already become part of the baseline for the project.

Alternatives Eliminated

Expand The Existing Mountainview MPO
The existing leased MPO is in a three-story building in downtown Mountainview. No other space for postal operations is available in this or surrounding buildings, and there is no adjacent vacant land that would allow for expansion of the existing MPO.

Lease A Larger Existing Building In The Preferred Area
No other property in the Mountainview area was identified as suitable and available for relocation of the MPO functions.

Relocate The Mpo To A Site Outside The City Limits And Retain A Downtown Presence
Although there are sites available outside the city limits, the community has opposed this alternative. The community wants to retain all postal services within the city limits and is supportive of the developmental project. The Mountainview ZIP Code is desired by all residents of the present ZIP Code area. Split operations would require increased staffing and would be operationally inefficient.

Exhibit 3-2 (p. 6)

Sample DAR — Developmental Real Estate Project

Priority

This project is a priority one customer service project for the Highland City District. The project has received congressional attention because of the high profile of the community and its need for additional post office boxes and other retail services. In response to the community's request for delivery service, two HCRs are also planned to be established at move-in.

Financial And Legal Structure

The recommended alternative will permit the Postal Service to sell excess development rights to which it has obtained entitlements. The developer's success in securing these rights has increased the land value from the appraised as-is value of $4,225,000 to approximately $5,280,000 (appraised value including entitlements). Realty Asset Management has retained the developer to market the site for a fee of $500,000. The Postal Service has invested $2,465,000 in the land plus $672,000 for entitlements. The Postal Service will have a total cash investment of $3,924,000 in return for the turnkey condominium full-service MPO. Because a postal asset appraised at $5,280,000 is being exchanged in part for a completed condominium, the higher appraised value is used in lieu of the actual site costs to determine the funding and approvals required.

Facilities has taken the design as far as the developer needs to fix the purchase price. Additional design funds will not be required. Under an agreement between the Postal Service and XYZLP signed and dated on June 5, 1998, the Postal Service will sell the property to XYZLP for $5 million. The agreement initially involves two components: XYZLP will pay $500,000 for conveyance of the property and will issue a letter of credit for $4.5 million. Upon receipt of the $500,000, the Postal Service will immediately pay XYZLP this amount as compensation for acquiring the development entitlements. After 18 months, XYZLP will deliver a turnkey MPO facility of approximately 16,331 square feet to be owned and operated by the Postal Service. At that time, the Postal Service will pay an additional $500,000 in cash to XYZLP and release the $4.5 million letter of credit.

Appraisal

The Postal Service has invested $2,465,000 in the site that is currently appraised at $4,225,000 without entitlements. The property was appraised as of June 26, 1997 by John Jones of J. Jones Appraisal Service, Inc., based on the comparable sales approach. The appraiser examined eight properties that sold between November 1996 and June 1997 with unadjusted sales prices ranging from $34.09 to $116.00 per square foot. Adjustments for location and size resulted in upward adjustments to three of the sales. Placing equal emphasis on all sales, the appraiser selected a value of $80 per square foot (without entitlements). The value of the site including entitlements is $5,280,000.

The appraisal was reviewed and validated by a Postal Service appraiser who agreed with the appraised value for this property.

Exhibit 3-2 (p. 7)
Sample DAR — Developmental Real Estate Project

Risk Analysis

The risks associated with this project are those typically associated with a commercial developmental project. The Postal Service is contributing land with an as-is value of $4,225,000 (or $5,280,000 with entitlements) to a limited partnership that will own and build the project.

In addition to exchanging the land for a promise to deliver a fully operational MPO for a fixed price of $5 million, the Postal Service will be the beneficiary of a $4.5 million standby letter of credit to be issued by a major U.S. commercial bank. In order to minimize the risk of receiving an unacceptable facility, the agreement will call for Postal Service Facilities personnel to review and approve plans and construction progress reports prior to release of funds to the contractors for postal portions of the project.

By holding a standby letter of credit plus cash equal to the full value of the condominium to be delivered and having modified disbursement control, the project risk to the Postal Service is deemed to be minimal.

Exit Strategy

This project will result in a permanent postal operation housed in a mixed-use condominium to be provided by the developer.

Implementation And Tracking Plan

Since the only significant postal funds required to further develop this project will not be disbursed until the postalized condominium is delivered and the developer fee is due, no special tracking plans are required.

The Postal Service's General Counsel will be involved in the detailed review and approval of all documentation related to this project including, but not limited to, the land sale agreement, condominium documentation, agreement to sell/deliver the finished postal condominium, terms and conditions of standby letter of credit, and construction documentation and disbursement control.

Analysis Of Incremental Investment

Investment Requirement for Alternatives

Alternative A	**Alternative B**
$6,019,000	$8,529,000

Incremental Analysis

	Incremental Investment	**Rate of Return**	**Net Present Value Discounted at 7.8%**
B versus A	$2,510,000	N/A	($2,366,000)

The incremental analysis indicates that Alternative A is the more economically beneficial alternative. The additional investment of $2,510,000 required for Alternative B is not economically justified.

Exhibit 3-2 (p. 8)
Sample DAR — Developmental Real Estate Project

Financial Summary

Alternative A

Investments

10-Year Operating Period ($ in thousands)

	Amount for Approval (Undiscounted)	Approval Threshold
Site (Actual Cost)	$2,465	$2,465
Site Support/Survey/Appraisal	720	720
Site Appreciation	2,095	2,095
Capital Required	689	689
Relocation of NPU	50	50
Required Capital Investment	6,019	6,019
Leased Site for NPU (4-year term)	90	
Lease Discounted at 6.3%		82
Total for Approval	**$6,109**	**$6,101**

Cash Flow Data

Capital Investment	$6,019
Operating Variances	($1,879)
Net Present Value Discounted at 7.8%	($2,913)
Return on Investment	2.2%

Recommendation

Authorization is requested for funding not to exceed $6,109,000 for acquisition of a 16,331 square foot finished MPO in a condominium project on a Postal Service-owned site in Mountainview, CO (Alternative A). The funding request includes $2,465,000 for the site (purchased in 1992); $720,000 for site support; $2,095,000 for the increase in site value as determined by appraisal; $689,000 for design, construction, support, and phone system; $50,000 for relocation of the modular NPU from the current owned site to a leased site; and $90,000 (undiscounted) for a 4-year ground lease for the relocated NPU during project construction. This project is unique in that a Postal Service asset that cost $2,465,000 in 1992 is presently appraised at $5,280,000 (with entitlements). This site will be exchanged in part for a condominium share in a commercial development on that site.

Exhibit 3-2 (p. 9)
Sample DAR — Developmental Real Estate Project

Exhibit 1. Site Map

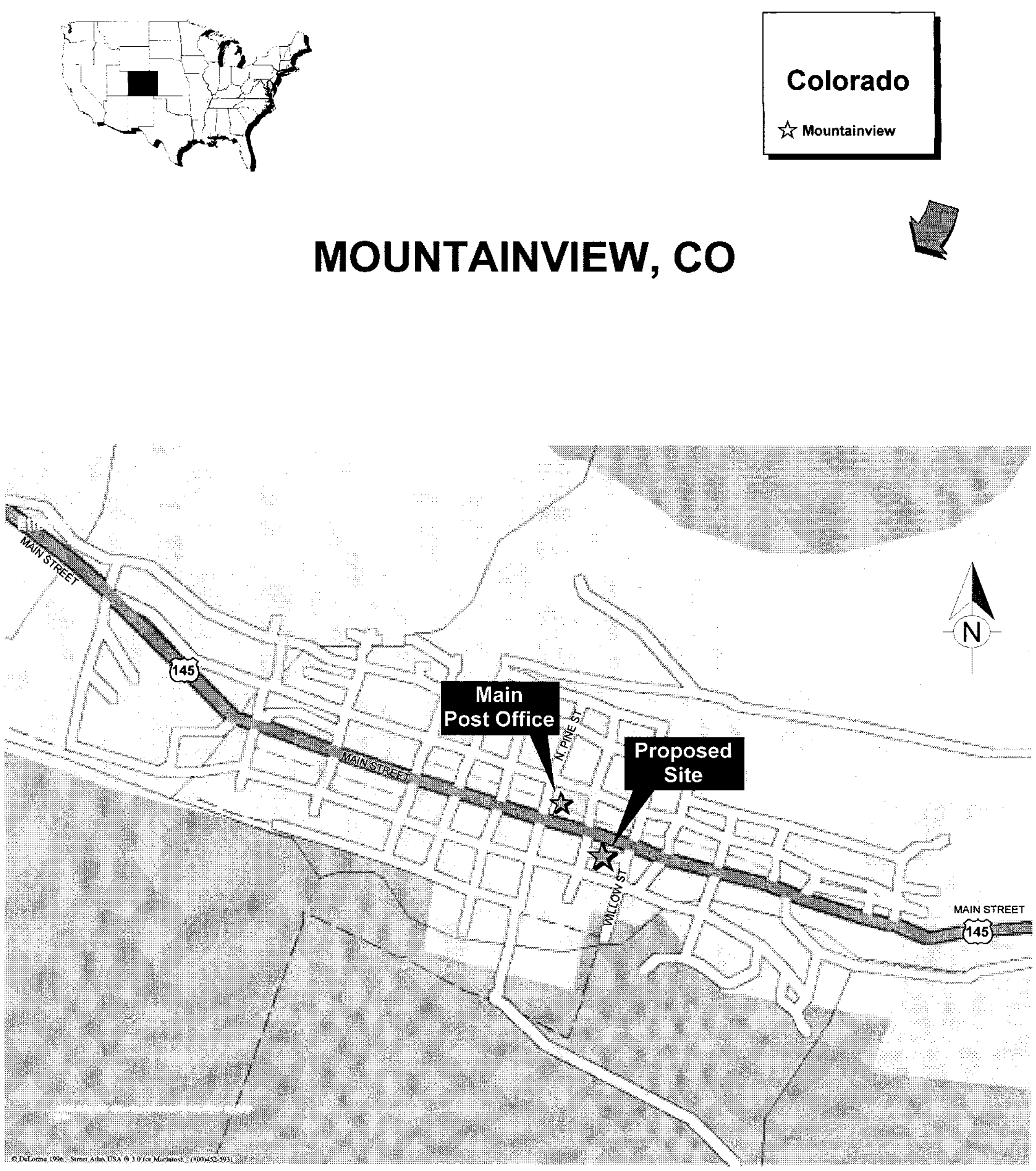


Exhibit 3-2 (p. 10)
Sample DAR — Developmental Real Estate Project

Exhibit 2. Site, Environmental, and Intergovernmental Summary

Mountainview, CO, Main Post Office
Site, Environmental, and Intergovernmental Summary

A. Site Information		
Location:	Corner of Mountain and View	Mountainview, CO
Site size:	Advertised site size: 52,820 sq ft	919/920 site size: 52,820 sq ft
Building size: for standalone bldg	Advertised bldg. size: 16,908 sq ft	919/920 bldg. size: 16,908 sq ft
Within preferred area? Yes		Date of ad (mo/yr): 9/91
Number of sites investigated:	2	Date contending sites sel.: 1/92
Number of contending sites:	2	Date of site review mtg.: 1/92
Reasons for elimination:	Size, price, topo/environmental	
Types of site control:	Site acquired by USPS in 1992	
Site cost:	$2,465,000 (1992)	
Approved appraisal value:	$4,225,000 as is	$5,280,000 with entitlements
Number of comparables: 8	Range of comps: Low: $34.09/sq ft	High: $116.00/sq ft
Review appraiser:	R.X. Burden	
Previous owners: Mountainview 12	Date acquired: December 1998	Purchase price: $2,075,000
Part of larger site?	No	
Occupied?	N/A	
Relocation required?	Yes — USPS NPU	
All utilities available (list)? Yes	Gas, electric, water, phone	Sanitary storm sewer
Zoning: Commercial/mixed use resid.	Compatible with USPS use? Yes	Rezoning required? No
Buildings on site? Yes	USPS modular building	
B. Environmental Assessment		
Checklist (PS 7498-D) completed?	Date: 2/1/97	By: USPS real estate specialist
Environmental Due Diligence TSQ (PS 7499) (Leases only) Phase I ESA completed? Yes Phase II ESA completed? Yes Phase II ESA results: No elevated containments in soil	 Date: Date: April 19, 1997 Date: April 24, 1997 Clean up required?: No	 By: By: Environmental Services Co., Anytown, USA By USPS?: N/A
NEPA Review CATEX applies? EA Prepared? Yes Mitigation required? No FONSI Issued? Yes	 If yes, which CATEX? Date: February 8, 1996 Explain: Date: February 8, 1996	 Appendix A, RE-6 By: Environmental Services Co., Anytown, USA By: USPS
REC (PS Form 8194)	Date: 4-30-97	By: USPS MFO
C. Intergovernmental Contact	Date of IGN letter: 1-5-97	Negative comments? None
D. Community Contact	Date of initial CC letter: 11-15-96 Date of response: 12-27-96 Negative comments? None	Date of meeting with mayor: Date of public meeting: Date of final CC letter: Negative comments? None
E. Historic Considerations	Adverse Effect? None	Section 106 Process complete? Yes Date: 4-27-97

F. Significant Comments: Two suitable sites were initially identified in 1992. The acquired site was selected based on its superior location, condition, size, configuration, topography, and price.

Exhibit 3-2 (p. 11)

Sample DAR — Developmental Real Estate Project

Exhibit 3. Facility Investment Cost Sheet

FACILITY INVESTMENT COST SHEET

I. Project Identification: Mountainview, CO — Date: February 28, 1998

II. Project Type: Main Post Office

III. Location: Mountain and View Sts., Mountainview, CO

IV. Size and Cost Data:

	Sq. Ft. (000)	Cost Per Sq. Ft.	Cont. ($000)	Total ($000)
A. Site				
1. Land Acquisition	52.82	46.67		2,465
2. Survey, Appraisal, Etc.				720
3. Site Appreciation				2,095
4. NPU (Modular) Relocation				50
5. Total Site Cost				5,330
B. Buildings				
1. Design & Engineering				54
2. Construction (Cash)	16.33			500
3. On-site Paving, Landscaping, Utilities, Etc.				
4. Construction Support				100
5. Total Building Cost				654
C. Total Site & Building				5,984
D. Other Investment Costs				
1. Telephone Systems	16.33	2.00	2	35
2. Total Other Investments				35
V. Total Investment for Approval				6,019

VI. Milestone Dates (Month/Year):

Site Acquisition	Design Award	HQ Approval	Construction Award	Complete Project
Apr-92	Jul-98	Aug-98	Aug-98	Nov-99

VII. Additional Information/Significant Comments:

1. Land acquisition cost of $2,465,000 plus entitlement cost of $672,000 equals a total cost of $3,137,000.
2. Site was purchased in 1992; site and $500,000 will be traded for finished condo.
3. Site is appraised at $4,225,000 as-is and $5,280,000 with entitlements (an appreciation of $2,095,000).
4. Project scheduling is based on weather; 30% designs are complete.

Exhibit 3-2 (p. 12)

Sample DAR — Developmental Real Estate Project

Exhibit 4. Cash Flow

Mountainview, CO Alternative A Developmental	Cash Flow (000)													6/12/98
PROJECT YEAR	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**Total**	**Residual**
I. Investment														
Site & Site Support	-3185	-50											-3235	
Building	-54	-600											-654	9700
Appreciated Site Value	-2095												-2095	
Other Investments		-35											-35	
Total Investment	-5334	-685											-6019	9700
Residual Value												9700	9700	
Net Investment	-5334	-685										9700	3681	
II. Operating Variances from Baseline														
Building Maintenance			-69	-70	-72	-73	-75	-77	-78	-80	-82	-84	-759	
Utilities			-30	-30	-31	-31	-32	-33	-33	-34	-34	-35	-324	
Transportation			-79	-80	-82	-83	-85	-86	-88	-89	-91	-92	-854	
Start-Up Costs		-34	-20										-54	
Labor			-36	-37	-38	-39	-40	-41	-42	-42	-43	-44	-403	
Condo Assoc Fees/CAM			-14	-14	-14	-14	-15	-15	-15	-15	-15	-16	-147	
Rent (+ 4-Yr Ground Lse)			53	53	53	53	75	75	75	75	75	75	660	
Total Operating Variance		-34	-194	-179	-184	-188	-171	-176	-181	-186	-191	-196	-1879	
III. Net Cash Flow (I+II)	-5334	-719	-194	-179	-184	-188	-171	-176	-181	-186	-191	9504	1802	
IV. Net Cash Flow Discounted @ 7.8%	-5334	-667	-167	-143	-136	-129	-109	-104	-99	-94	-90	4160	-2913	
V. Net Present Value	($2,913)													
VI. Return on Investment	2.2%													

Exhibit 3-2 (p. 13)
Sample DAR — Developmental Real Estate Project

Exhibit 5. Productivity and Service Impacts

Productivity

The only delivery service provided in Mountainview is Post Office box delivery. No quantitative productivity data are available for the MPO functions. Two highway contract routes for delivery service will be established at move-in. Each route will carry approximately 450 deliveries, increasing to three routes with approximately 600 deliveries each within 10 years. Mileage for each route will not increase, but deliveries per route will increase as vacant land along the routes is developed.

Service

All 2,232 P.O. boxes at the MPO and 1,120 boxes at the modular NPU are rented. The two HCR delivery routes planned for move-in will reduce the demand for P.O. boxes. The addition of 1,058 boxes will provide a total of 4,410 boxes in the new facility. The waiting list will be eliminated and boxes will be available for anticipated future demand.

Revenue at the Mountainview MPO exceeded $500,000 for the past year. A postal retail store with open merchandising, vending, and self-service equipment will be included in the new MPO to enhance image, service, and revenue generation.

Exhibit 3-2 (p. 14)
Sample DAR — Developmental Real Estate Project

Exhibit 6. Space Summary

MOUNTAINVIEW, CO, MPO
SPACE SUMMARY
ALTERNATIVE A

	Existing Space *	Percentage of Required Space	Proposed New MPO ***
Office	0	0.0%	559
Lobby	1,740	20.6%	8,449
Employee	0	0.0%	1,067
Support	0	0.0%	1,588
Workroom	1,160	40.4%	2,870
Platform	60	5.6%	1,080
Other **	0	0.0%	718
Total	2,960	18.1%	16,331
Total Site	4,709	27.7%	16,970

* Existing space includes only the existing MPO, not the modular NPU.

** Other space includes look-out galleries and mechanical rooms.

*** Space for the proposed new MPO is based on 30% designs.

OVERALL DEVELOPMENT SUMMARY
ALTERNATIVE A

	Square Feet	Percent of Total
Postal Condominium	16,331	20.16%
Retail Space	4,064	5.02
Residential Space (31 units)	46,969	57.99
City Employee Residential Space (9 units)	13,636	16.83
Total Building	81,000	100.00%

Exhibit 3-2 (p. 15)
Sample DAR — Developmental Real Estate Project

Exhibit 7. Summary of Operations

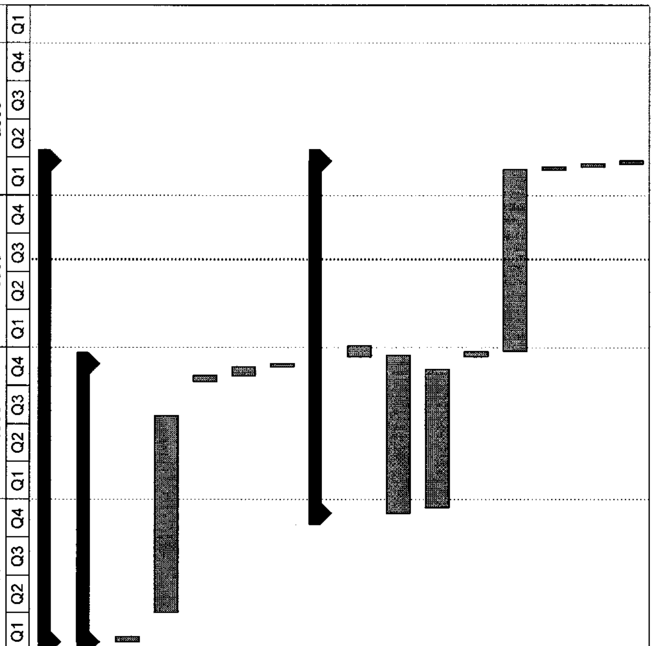
Baseline	Alternative A
Existing MPO Leased at $75,000/yr through Oct. 31, 2001; No renewal options available Retail/P.O. boxes Administration for MPO	**Existing MPO** Vacate
	New MPO Postal Service-owned Retail/PO boxes HCR delivery routes Administration for MPO
Modular NPU Postal Service-owned on Postal Service-owned site P.O. boxes and vending	**Modular NPU** Remove and return to Highland City District

Exhibit 3-2 (p. 16)
Sample DAR — Developmental Real Estate Project

Exhibit 8. Project Schedule

MOUNTAINVIEW, CO, MAIN POST OFFICE

ID	Task Name	Plan Start	Plan Finish
	MOUNTAINVIEW, CO, MAIN POST OFFICE	**9/23/96**	**11/22/99**
1	**Facility Planning & Approval Activities**	**9/23/96**	**7/23/98**
2	Project Inception	9/23/96	10/4/96
3	DAR Preparation	12/3/96	3/20/98
4	DAR Submission Finalization	6/12/98	6/25/98
5	Finance Review & Validation	6/26/98	7/16/98
6	COO Review/Approval	7/17/98	7/23/98
7	**Acquisition, Design & Construction Activities**	**7/30/97**	**11/22/99**
8	Acquire Site	8/10/98	9/4/98
9	Award Design	7/30/97	8/12/98
10	Design	8/13/97	7/10/98
11	Award Construction	8/10/98	8/21/98
12	Construction	8/24/98	11/1/99
13	Building Acceptance	11/2/99	11/8/99
14	Move In	11/9/99	11/15/99
15	Building Fully Operational	11/16/99	11/22/99



4 New Products and Services and Alliances

4-1 About This Chapter

This chapter describes the investment policy for all new products and services, enhancements to existing products and services, and new initiatives that are intended to generate revenue and strategic alliances. For the purposes of this policy, new initiatives include the following:

a. Postal Service-branded products and services and any substantive enhancements.

b. Initiatives that leverage existing physical assets to generate revenue.

c. Licensing agreements for Postal Service brand, name, logo or other assets.

d. Licensing agreements for Postal Service patents.

e. Affiliate agreements.

This policy also addresses activities that support these initiatives such as:

a. Postal Service-owned and contracted channels.

b. Postal Service-owned and contracted fulfillment operations

c. Major suppliers and alliance partners.

Every element of a new initiative affects its financial viability. For additional guidance concerning these policies and procedures may be addressed to the manager of Business Evaluation, Treasurer, Headquarters.

4-2 Purpose

The purpose of the policies and procedures in this chapter is to ensure that new and enhanced products and services, including strategic alliances, consistently meet customer needs, generate new revenue, and strengthen the Postal Service as a business. Because such management initiatives have the potential to significantly affect revenue and expenses and have high public visibility, it is crucial that Postal Service leadership have the information needed for effective decision-making. New initiatives have the potential to significantly impact revenue and have high public visibility. Therefore, we have a fiduciary responsibility to subject new initiatives to rigorous financial analysis, testing, and measurement, to determine whether they will make a positive financial contribution to the organization. This policy will ensure that the Postal Service's leadership is provided with appropriate information for effective decision-making in regard to new initiative and alliances. Implementing this policy will improve the likelihood that new initiatives meet customer needs, generate new revenue, and strengthen the Postal Service. Although the analyses performed prior to approval provide valuable insights into the likely financial success of these initiatives, the policies and procedures set forth herein are not a substitute for prudent business judgment.

Note: If significant capital investment is required, the sponsor must consult with Business Evaluation and Capital and Program Evaluation to determine whether a Decision Analysis Report (DAR) is required and its associated review and approval process must be followed.

4-3 Definitions

The policies and procedures in this chapter encompass these types of initiatives:

4-3.1 New Products and Services

New product and service initiatives, developed primarily by Marketing, propose products and services that are not currently offered by the Postal Service but complement existing products and services. These initiaviates must be consistent with Postal Service's *Strategic Transformation Plan, 2006–2010,* and the *Five-Year Strategic Plan, FY 2004–2008.*

4-3.2 Special Programs — Retail and Stamps

Initiatives that are not a new product or service or an enhancement to a current offering, but involve significant revenue or non-capital costs, are also subject to these policies and procedures. Retail products and stamp services initiatives fall within this category.

4-3.3 Strategic Alliances

A *strategic alliance* is a cooperative arrangement between the Postal Service and one or more private entities. In return for a substantive benefit from cooperative efforts to jointly develop or market a product, the Postal Service allows its alliance partners the use of (or access to) tangible or intangible Postal Service property or the efforts of postal personnel. Where a service is provided in conjunction with a private party, strategic alliances can be used. The Strategic Alliance Guidelines approved by the Board define a strategic alliance as a cooperative arrangement between the Postal Service and a private entity to share property and personnel in the development of a joint product or service. A strategic alliance is distinguished from a purchasing contract in that the primary purpose of the alliance is the development of a joint product, not the "purchase" of goods and services. These private sector partnerships are central to new service development, deployment, and operations. This approach uses the best of both private sector and Postal Service capabilities. More often than not, expenses such as operations, customer service, and marketing and promotion are the primary or sole responsibility of the private sector partner. The typical business model with this category is a revenue share arrangement. The Postal Service's role normally includes, at the minimum, branding and ongoing governance if the service is offered by the Postal Service. Limited operational, marketing and promotion roles may also be involved.

4-3.4 Marketing Agreements

The Postal Service also uses a variety of marketing agreements to promote products and services.

a. *Marketing channel agreements* provide distribution channels for postal services (e.g., through web-linking agreements or the sale of postal products through non-postal retail facilities).

b. *Affiliate relationships* allow the Postal Service and its partners to combine their services or their brands for mutual benefit. Where a service is fully provided by the private sector, the Postal Service simply provides an access channel (e.g., through usps.com) and receives a portion of revenue from each customer who uses the services through that channel.

c. *Sales partner agreements* are marketing tools where the Postal Service enters into a supporting relationship with a major postal customer.

d. A *retail agreement* allows third-parties limited access to certain distribution channels, which may include defined revenue expectations for given products or services.

4-3.5 Licensing Agreements

A *licensing agreement* is a contract under which the licensor for an agreed-upon consideration, grants to the licensee certain rights with respect to intellectual property (e.g., trademarks, patents, or copyrights) of the licensor.

4-3.6 Memorandum of Understanding (Interagency Agreements)

Pursuant to its authority under Title 39, United States Code (U.S.C.), Section 411, the Postal Service enters into memorandums of understanding with other federal agencies. Examples include the Passport and Selective Service Registration program, and value-added services such as the sorting of Internal Revenue Service returns. Under the inter-governmental immunity doctrine disputes under these agreements are not resolved in the courts, but by the Department of Justice.

Questions regarding whether an initiative is a new product or service or an enhancement to an existing product or service may be directed to the manager of Business Evaluation. Questions concerning strategic alliances may be directed to the manager of Alliances and Partnerships.

4-4 Purchasing Contracts

While purchasing policy is not contained in this handbook, the use of purchasing contracts themselves is discussed in the context of developing new products and services or strategic alliances. Authority to negotiate an agreement and the organizations that must be contacted to obtain that authority is included as information in this document. Supply Management develops purchasing policy and ultimately provides for the general delegation of authority to negotiate.

The *Interim Internal Purchasing Guidelines* are available on the Postal Service Intranet.

a. Go to *http://blue.usps.gov/cpim.*

b. Click on *Manuals.*

c. Click on *Interim Internal Purchasing Guidelines IIPG.*

The direct URL is *http://www.usps.com/cpim/manuals/pm/pm.htm.*

4-4.1 Purchasing Contract — Use

Purchasing contracts include all contracts for the purchase of goods or services. The contracts may be of various types, including fixed price or cost-reimbursement contracts, and may be for definite or indefinite quantities (including requirements contracts). Delivery orders are often used to obtain items under indefinite quantity or indefinite delivery contracts.

4-5 Responsibilities

4-5.1 Senior Management

Senior management is responsible for decisions regarding the following:

a. Privacy and security.

b. Level of investment and participation required by the Postal Service.

c. Approving the project.

4-5.2 Functional Organization

Each functional organization must ensure that management instructions, policies, regulations, and laws are upheld. However, day-to-day management of new initiatives and alliances require many decisions which are best left to the sponsor or program manager.

4-5.3 Sponsor

The sponsor (or program manager) for an initiative has the following responsibilities:

a. Prepare the business proposition statement and business plan (see sections 4-5.2.1 and 4-5.2.2).

b. Establish the cross-functional project review team with appropriate representatives from each functional area that is directly or indirectly involved with or impacted by the initiative. At a minimum, the review team usually includes representatives from Finance; General Counsel; Information Technology; Inspection Service; Marketing; Operations; Supply Management; and Business Evaluation, Treasurer.

c. Establish the project schedule, showing milestone dates for idea generation through final product implementation. Ensure that any changes in the schedule are provided to the cross-functional team.

d. Ensure that proper approvals have been obtained at each stage.

e. Ensure that the Executive Committee reviews the product before operations and market testing.

f. Share the activation plan with all interested parties and request feedback.

g. Ensure that operations and market tests proceed as planned, and that deviations to the test and project plan are dealt with expeditiously.

Guidance and policy for the Postal Service's five-phase Program Management Guidelines are available at *http://eagnmnsu024.usps.gov/pls/pmceprodnp/pmce_home.*

A high-level process flow chart is provided in exhibit 4-1 to help the sponsor identify review and approval activities associated with business initiatives for new products and services. Developing an alliance also follows this process. However, there are additional review and approval activities associated with the General Delegation Authority (see subchapter 4-9.5.1 and exhibit 4-3) that is needed when establishing an alliance.

4-5.4 Business Evaluation

Business Evaluation, Treasurer, does not participate in the concept phase of the initiative or alliance, it joins the cross-functional team and performs an independent review of the financial projections to determine, as accurately as possible, if the proposed new initiative will produce and sustain a positive financial contribution to the organization.

Business Evaluation personnel use predictive analytical tools to evaluate revenue potential, cost savings, impact on current postal businesses, and compliance with Postal Service guidelines. This analysis, along with recommendations from the general counsel, and other appropriate business functions, is the basis for decisions regarding adoption of new initiative.

4-5.4.1 Financial Impact Statement

Business Evaluation develops a financial impact statement that summarizes the financial analysis and projections for each new initiative. This statement is used to inform the decision-makers.

4-5.4.2 Delegation of Authority — New Products and Services

Business Evaluation reviews all requests for delegations of authority that support new products and services initiatives. Business Evaluation provides the sponsor with a written concurrence to proceed. Contact Business Evaluation for guidance concerning the processes referenced in this policy document and for appropriate discount rates to be used in a project.

4-5.4.3 Financial Performance Measurement

Business Evaluation measures financial performance using generally accepted methods to determine the success of new products and services. Revenue is recorded and costs are attributed in a consistent manner to facilitate comparison among new initiatives.

4-6 Overview of Development Process

New products and services are developed to ensure that they consistently meet customer needs, generate new revenue, and strengthen the Postal Service as a business. The process features decision points for the approval of new products and services. Disapproval at any stage results in the return of the proposal to the sponsoring vice president. An overview of the new product development process follows. Exhibit 4-1 shows this process in greater detail in a process flow chart format.

4-6.1 Concept Stage

In the concept phase the sponsor ensures a strategic linkage between a new initiative vision and corporate strategy, determines feasibility, and assigns accountability to a program manager. The goal of this initial stage (see exhibit 4-1) is to generate marketing ideas that are consistent with Postal Service's *Strategic Transformation Plan* and the *Five-Year Strategic Plan, FY 2004–2008*. The project sponsor prepares a business proposition statement for review and approval by the sponsoring vice president.

4-6.2 Business Plan Stage

The purpose of the business plan stage (see exhibit 4-1) is to achieve cross-functional consensus on the assumptions of the business plan. The following activities are included in this stage:

a. Representatives of Marketing, General Counsel, Finance, Information Technology, Operations, and Supply Management provide input, with additional input from field operations, Labor Relations, Employee Resource Management, Intelligent Mail and Address Quality, Government Relations, and Public Affairs and Communications, as needed.

b. Following preparation of the preliminary business plan, including legal implications, Business Evaluation completes a financial analysis.

c. The sponsoring vice president solicits feedback from individual members of the Executive Committee and then presents the business plan to the full Executive Committee for approval.

d. Upon approval by the Executive Committee, the sponsoring vice president provides the preliminary business plan to the Strategic Planning Committee (SPC) of the Board of Governors and briefs the SPC chairman, who informs the full Board.

e. If consideration by the Board is required, action is taken at a future meeting.

4-6.3 Test Stage

The purpose of the test stage (see exhibit 4-1) is to test and evaluate the new product. The test stage includes the following activities:

a. Field operations participate with cross-functional product team representatives to establish the scope of the test and relevant measures of success.

b. The sponsoring vice president reviews the results and determines the need for an expanded test.

c. If a major market test is conducted, the sponsoring vice president reviews the results of that test as well.

d. After testing and evaluation, the business plan is finalized.

e. The sponsoring vice president and the Executive Committee must approve the new product before SPC involvement and approval by the Board.

4-6.4 Implementation Stage

After the sponsor obtains the necessary approvals, the new product or service is implemented nationally.

4-7 Evaluation of New Products and Services

Finance performs an independent review of the financial projections to determine, as accurately as possible, if the proposed new product or service will produce and sustain a positive financial contribution to the organization. Predictive analytical tools are used to evaluate revenue potential, cost savings, and the impact on current postal businesses. This analysis, along with recommendations from Business Evaluation, General Counsel, and other appropriate business functions, is the basis on which the Board of Governors or other officers of the Postal Service make decisions regarding the adoption of new products or services.

For each new product or service, the following documentation and analyses are required:

a. Business proposition statement.

b. Business plan.

c. Measurement plans and performance reporting.

d. Financial analysis and impact.

4-7.1 Business Proposition Statement

The sponsoring vice president initiates the consideration of a new product or service by preparing a business proposition statement that explains the product concept and rationale, the market opportunity, the benefits and risks to the Postal Service, and the strategy for successful implementation. The cross-functional team reviews the statement and provides comments to the sponsor.

The business proposition statement includes the following components:

a. Description of product or service.

(1) Categorize as new product or service, enhancement to existing product or service, or infrastructure improvement.

(2) Indicate relationship of proposed product or service to one of the sponsoring vice president's visions that have been presented to the Board.

(3) Describe relationship to existing products and services, including how the introduction of this product or service will create a synergy with current postal products and services and what gap this product or service fills.

(4) Explain how the product or service will benefit Postal Service customers.

(5) Provide any other pertinent information.

b. Market.

(1) Define the target audience, market size, and trends.

(2) Provide an estimate of the extent to which the target audience will use this product or service.

(3) Identify the competition.

c. Assumptions. To the extent that these can be defined at this early stage, discuss the assumptions that underlie this product, including the following:

(1) Success criteria (deliverables) and performance measurement criteria associated with the product.

(2) Projected impact on the field.

(3) Potential for revenue generation.

(4) Estimated costs to test, implement, and maintain the product.

(5) Approximate timeline to implement the product.

d. Cross-functional partners. Identify the postal functions to be included in the development of the product and cross-functional activities.

e. Supporting documentation. Attach market research and other documentation or data providing information about this product.

f. Signature. The program manager or project sponsor and the sponsoring vice president plan must sign and date the business proposition statement.

The business proposition statement must not exceed 3 pages. If information that must be included is not available, state this in the report.

4-7.2 Business Plan

Upon approval of the business proposition statement, the project sponsor, in conjunction with the cross-functional team, develops a detailed preliminary business plan. The business plan must include the following components:

a. Executive summary (not to exceed 2 pages).

   (1) Provide a high-level summary of the project: the need, costs and benefits, timetables, and recommendations.

   (2) Do not include any new information in the executive summary that is not included in the body of the business plan.

b. Table of contents. List the major sections of the document with page numbers on the right.

c. Business concept.

   (1) Describe the proposed product or service, and where it will be offered.

   (2) Describe any discounts that will be offered.

   (3) Describe any special services that will be offered.

   (4) Explain any qualifications or restrictions that will be imposed (such as size, quantity, or weight).

d. Market analysis.

   (1) Describe the potential customer base for the product, including market size and industry growth potential (cite data or research that backs up growth projections).

   (2) Describe major trends in the industry (e.g., consolidation, increased regulation) and dynamics of the market (e.g., highly competitive, growth, or mature).

   (3) Name the competitors or potential new entrants to the market, if any. Provide the market share of existing competitors.

   (4) Explain what advantage, if any, the Postal Service has over the competition. Predict how competitors will react to our entry into the market.

   (5) Explain the Postal Service’s pricing strategy and compare it to pricing strategies of competitors in the industry.

   (6) Indicate how our product or service will be positioned in the market (e.g., low-cost or full service provider).

e. Product design specifications and business impact.

(1) Specify the objectives and goals of the operations test, market test, and nationwide implementation.

(2) Explain how these objectives will be met. Describe the long-term strategic benefits to the Postal Service and how the product or service capitalizes on or leverages the strengths of the Postal Service.

(3) Define the impact of the product or service on other postal products and services, currently and in the future. Identify any overlap with existing products and services. Discuss the likelihood of confusion between the proposed product and existing products. Explain what we are trying to accomplish (grow, defend market share, take advantage of new business opportunity).

(4) Describe the major risks and threats.

(5) Identify the legal issues associated with this proposal.

f. Service delivery and operations.

(1) Define the operating process for the new product or service. Describe how the product or service will work and the key technologies and equipment that are required.

(2) Establish delivery standards consistent with customer expectations.

(3) Indicate whether a direct or indirect sales approach will be used and what types of sales support will be provided. Provide the sales forecast for the first 5 years, and describe the contingency plan if sales do not meet expectations.

(4) Define impacts on the postal organization (e.g., Facilities, Information Technology, and Operations).

(5) Describe the personnel requirements, including training.

(6) Outline a communications plan stating how the product will be promoted (such as by media advertising, promotions, or in-store signage).

(7) Indicate whether the Postal Service will rely on outside assistance to build and operate the product. If so, identify whether this will be a purchase or strategic alliance.

(8) Explain how revenue, volume, and weight information will be captured.

(9) Describe the payment and billing process.

(10) Indicate how the product will conform with mail acceptance and verification procedures.

(11) Indicate whether a mailing statement form (specify form number) will be required.

g. Operations and market test specifications.

(1) Specify duration of test, success factors, and monitoring plan.

(2) Circulate a complete product definition to the accounting service centers (ASCs) before product test. Include a pretest of all reports to be used for payment at ASCs prior to start of test.

(3) Ensure proper approvals prior to all tests.

h. Quality standards and measures.

(1) Describe how program success will be measured. Define performance measures to be evaluated (e.g., delivery, timing, and accuracy).

(2) Describe the data collection systems to be used to collect the measurement data, reports to be used, and frequency of reporting.

(3) Indicate whether the success criteria are attainable and, if so, what will be required.

(4) Describe potential barriers to success.

i. Financial analysis.

(1) Prepare an analysis of the expected revenues, contribution, and costs by line item for years 1, 2, 5, and 10, as appropriate. Show the first year by accounting periods and the remaining by year.

(2) Present market research to support the revenue projections and backup for the cost information. Complete a financial analysis for each phase of the product (e.g., operations test, market test, and project implementation).

(3) Establish an expected break-even time.

Tailor the business plan to the type of product or service involved. If information that must be included in the business plan is not available or is not applicable to the initiative, state this in the report. Contact Business Evaluation, Treasurer, for further guidance.

4-7.3 Measurement Plans and Performance Reporting

The cross-functional team becomes involved early in the planning process for new product development in order to clarify assumptions prior to the commitment and expenditure of funds. Initiatives that do not lend themselves to standard approaches because of the lack of measurable benchmarks or industry data are analyzed in greater depth and presented with greater attention to risk factors (See Handbook F-66, Subchapter 5-5, Risk). The strategic goals and critical success factors of a new product or service are the foundation for developing the measurement criteria for that initiative. The measurement criteria are developed and agreed upon by a cross-functional team prior to testing. As the product or service moves through the various test stages, the sponsor expands or modifies the criteria, as appropriate, based on what is learned.

4-7.3.1 Measurement Plans

Before testing, the sponsor, with the support of the cross-functional team, creates a measurement plan that defines the data to be measured and outlines performance report criteria. The objective is to determine what existing sources of data best measure the performance criteria and whether alternative data collection techniques are needed. This analysis also assesses the impact, if any, a new product or service will have on existing products and services. Significant factors that are integral to the success of the project are also addressed.

4-7.3.2 Performance Measurement

The sponsor must collect documentation in support of the assumptions in the business plan. The sponsor measures the performance of the project as follows:

a. Gathers and assesses marketing, financial, and operating data resulting from the operations (proof of concept) test and market test.

b. Reviews the performance and financial results of testing and implementation and adjusts the impact and expectations associated with the new product or service, as necessary.

c. Measures performance using methods generally accepted by the financial community to determine the success of new products and services.

Additional compliance reporting or the quarterly *Investment Highlights* compliance report may be required. See Handbook F-66 for compliance reporting requirements.

4-7.3.3 Financial Analysis and Impact

Finance independently prepares a financial analysis and projections that examine revenue and costs attributable to the new product or service.

4-7.3.3.1 Financial Analysis

The analysis, which becomes an integral part of the project documentation, includes the following:

a. Revenue projections.

b. Start-up costs.

c. Direct and indirect costs.

d. Contribution.

4-7.3.3.2 Financial Impact Statement

Finance develops a financial impact statement that summarizes the financial analysis and projections outlined in the business plan for a new product, service, or enhancement. The chief financial officer uses this statement to inform decision makers, including members of senior management and the Board of Governors (as deemed appropriate), of the financial assumptions contained in the business plan.

A financial impact statement includes the following:

a. Program and product assumptions.

   (1) Revenue estimates by source and how the estimates were derived.

   (2) Market penetration, volume, and transaction data.

   (3) Expense impact to implement.

b. Project status.

c. Status of project in the *Strategic Transformation Plan* and the *Five-Year Strategic Plan, FY 2004–2008* (as applicable).

d. Explanation of test process, including the time period and number of sites.

   (1) Summary of work completed to date and highlights of the project.

   (2) Anticipated timeline to implementation.

e. Nonfinancial benefits. Impact of project on service, customer satisfaction, safety, space utilization, and enhancement of other products and services, if applicable.

f. Financial summary:

   (1) Market test results.

   (2) Current and projected investments.

   (3) Projected revenues and expenses for the period covered by the proposal.

   (4) Summary of the short-term and long-term (5 years) financial benefits of the product or service, including cost avoidance.

   (5) Profitability estimates.

g. Risk.

   (1) Factors that could adversely impact the financial performance of the new product or service.

   (2) Market environment and product competition.

   (3) Level of cannibalization of existing Postal Service products, if applicable.

   (4) Cost to terminate the product.

   (5) Other possible risks to product success such as infrastructure and technological needs, legal, and safety considerations.

h. Recommendation. Finance's recommendation that the product or program proceed as planned, be modified or expanded, or be discontinued.

i. Signature.

   (1) The Finance manager signs the "Prepared by" block at the bottom of the financial impact statement.

   (2) The chief financial officer and senior vice president signs the "Concurrence by" block.

4-8 Enhancements to Existing Products and Services

Proposed programs that are enhancements to current Postal Service products and services include postal services that must be approved through the mail classification process described under 39 U.S.C. 3626. These include domestic and international expedited products and services, retail products and services, stamps, and advertising mail. The development process for enhanced products and services is similar to that for new products and services, entailing a business proposition statement, a business plan, and operations and market tests prior to project implementation. See exhibit 4-2 for a checklist of the major steps in developing an enhancement to an existing product or business.

Finance performs a financial review of proposals for enhanced products and services that is similar to that performed for proposed new products and services. The assumptions associated with this review are clearly identified by the cross-functional team and agreed to by Business Evaluation prior to the beginning of the review.

Because the same analytical tools and techniques are used to evaluate both new and enhanced products and services, only those procedures that are unique to the evaluation of enhanced products and services are highlighted here. The following types of analysis are specific to the decision-making process for enhancements to existing products and services:

a. Baseline data collection.

b. Evaluation of projected program costs.

c. Evaluation of projected program revenue and cost savings.

4-8.1 Baseline Data Collection

Baselines are established to clearly differentiate between existing and potential new revenues and costs. Baselines represent historical data that enable changes resulting from product and service enhancements to be measured. This baseline analysis is a joint effort between the sponsor and Finance. If available, revenue and costs for a full operating year are used in developing the baseline.

4-8.2 Evaluation of Projected Program Costs

The evaluation of potential costs for enhancements to existing products and services focuses on the additional program-related costs over the baseline. Examples of these costs include workhours, transportation, services, supplies, and travel. Most analyses are completed for a 5-year time frame.

4-8.3 Evaluation of Projected Program Revenue and Cost Savings

A major factor in the decision to implement new or enhanced programs is the potential benefit to the Postal Service. Many programs are discretionary in nature and are designed to improve service, increase revenue, or lower costs. Determining revenue and costs savings from enhancements to existing products and services can be difficult and challenging. Normally the following steps are taken:

a. Identify assumptions from which to estimate revenue and cost savings.

b. Develop projections for revenue, cost, and contribution.

c. Review actual performance data as it relates to baseline assumptions.

4-9 Strategic Alliances

The guidelines for strategic alliances are intended to complement the new product development process by providing specific procedures to follow when the Postal Service is proposing to develop or market a new product with an alliance partner.

Note: Consistent with the *Strategic Transformation Plan 2006–2010* and the *Five-Year Strategic Plan, FY 2004–2008,* all strategic alliances must be approved by the Executive Committee and reviewed by the Board of Governors.

4-9.1 Defining a Strategic Alliance

A *strategic alliance* is a cooperative arrangement between the Postal Service and one or more private entities. In return for a substantive benefit from cooperative efforts to develop and/or market a joint product, the Postal Service allows its alliance partners any or all of the following:

a. Use of or access to tangible Postal Service property (e.g., retail lobby space).

b. Use of or access to intangible Postal Service property (e.g., trademarks, copyrights, patents, and technical data).

c. Efforts of Postal Service personnel.

Joint products may include a service or product sold to the public, joint marketing activities, a patented process or device, technical data, software, and cost savings strategies or devices.

Where a service is provided in conjunction with a private party, strategic alliances may be used. The Strategic Alliance Guidelines approved by the Board define a strategic alliance as a cooperative arrangement between the Postal Service and a private entity to share property and personnel in the development of a joint product or service. A strategic alliance is distinguished from a purchasing contract in that the primary purpose of the alliance is the development of a joint product, not the “purchase” of goods and services. These private sector partnerships are central to new service development, deployment and operations. This approach uses the best of both private sector and Postal Service capabilities.

More often than not, expenses such as operations, customer service, and marketing and promotion are the primary or sole responsibility of the private sector partner. The typical business model with this category is a revenue sharing arrangement. The Postal Service's role normally includes, at the minimum, branding and ongoing governance if the service is offered by the Postal Service. Limited operational, marketing and promotion roles may also be involved.

4-9.1.1 Related Agreements

Alliances may involve agreements that are associated the joint marketing of products or services or involve a licensing agreement. These agreements are also subject to the rigorous approval and review processes as in section 4-9.5.

Marketing Agreements:

The Postal Service uses a variety of marketing agreements to promote products and services.

a. *Marketing channel agreements* provide distribution channels for postal services, such as through web-linking agreements or sale of Postal Service products through non-postal retail facilities.

b. *Affiliate relationships* allow the Postal Service and its partners to combine their services or their brands for mutual benefit. Where a service is fully provided by the private sector, the Postal Service simply provides an access channel (e.g., through www.usps.com) and receives a portion of revenue from each customer who uses the services through that channel.

c. *Sales partner agreements* are marketing tools where the Postal Service enters into a supporting relationship with a major postal customer.

d. A *retail agreement* allows third-parties limited access to certain distribution channels, which may include defined revenue expectations for given products or services.

e. A *license agreement* is a contract under which the 'licensor' for an agreed-upon consideration, grants to the 'licensee' certain rights with respect to intellectual property (such as trademarks, patents, copyrights) of the licensor.

f. Pursuant to its authority under 39 U.S.C. 411, the Postal Service enters into *memorandums of understanding* (interagency agreements) with other federal agencies. Examples include the Passport and Selective Service registration program, and value-added services such as the sorting of Internal Revenue Service returns. Under the inter-governmental immunity doctrine disputes under these agreements are not resolved in the courts, but by the Department of Justice.

4-9.2 Distinguishing a Strategic Alliance From a Purchase

The act of obtaining goods and services for the benefit of the Postal Service in exchange for Postal Service funds is generally a purchase governed by the *Interim Internal Purchasing Guidelines*. Although the Postal Service may obtain the use of goods and services as a result of a strategic alliance, generally the goods, services, and rights obtained are those employed in the common and mutually beneficial cooperative effort. The acquisition of those goods and services may not be the primary purpose of the strategic alliance.

Supply Management and the General Counsel needs to be consulted early in the development of a project to determine whether a particular undertaking constitutes a purchase or a strategic alliance.

4-9.3 Defining the Project and Determining Benefits

Whenever a Postal Service function considers sponsoring a strategic alliance, it must consult with other impacted functions and document the following:

a. **Purpose —** Identify the objective of the strategic alliance and the intended commitments as well as advantages to the Postal Service.

b. **Market demand analysis —** Perform an analysis of the marketplace to determine if the proposed alliance will meet market expectations in the face of competitive alternatives and customer requirements.

c. **Financial analysis —** In conjunction with Finance, determine revenue projections and costs associated with the proposed alliance. Include data on expected initial (and targeted) market share, and perform an analysis of financial risk, an evaluation of costs and revenue sharing by the partners, and a forecast of sustained market share over a relevant period of time.

d. **Infrastructure and operations impact —** Assess the impact on the Postal Service's infrastructure and operations to determine whether additional costs must be incurred and whether the potential return justifies any new investment. A preliminary operating plan must be developed.

e. **Service requirement —** Evaluate existing service expectations in order to provide a framework to determine the required service standards for the proposed alliance.

f. **Legal analysis —** Obtain an analysis from the General Counsel of significant legal issues relating to the proposed alliance.

g. **Strategic Fit —** Show the direct contribution to Postal Service goals, sub-goals, and indicators as part of the "Establish Process."

4-9.4 Selecting and Justifying a Strategic Alliance Partner

The agreement plan must include a justification of the selection of the alliance partner and a statement that the appropriate due diligence has been completed. The alliance may be achieved through either a competitive or noncompetitive process. The selection process must be followed in choosing an alliance partner for the test market phase as well as for the national roll-out. During this process, consider whether it is in the best interest of the Postal Service to test market with one partner and then change partners when the national roll-out of the product occurs. If the sponsoring organization considers a change of partners detrimental to product success, then it must document this in the selection process and incorporate it in the selection justification before the market test begins.

4-9.4.1 Competitive Selection

Unless there are compelling reasons for the selection of a specific partner, consider several potential partners. If a competitive selection is used, the sponsoring organization will choose, with the assistance of Supply Chain and the General Counsel, an appropriate method for identifying and considering potential alliance partners.

4-9.4.2 Noncompetitive Selection

If a noncompetitive selection is made, explain the criteria which affected the selection of the alliance partner. Examples of criteria that may merit noncompetitive selection are as follows:

a. **Special attributes —** The alliance partner has special attributes that satisfy the intended objective and compares favorably with other firms that were considered (identify the firms considered). Special attributes may be, but are not limited to, the following:

   (1) A patent on a device or process.

   (2) Data or knowledge not available elsewhere.

   (3) Access to a market that other firms do not possess.

   (4) Possession of trademarks, copyrights, or other intellectual property that the Postal Service wants to use.

   (5) Special knowledge or experience in a market, product, or process.

   (6) Special standing in a particular market.

b. **Confidentiality —** Discussions with other parties concerning a strategic alliance plan or joint product would cause significant harm to the Postal Service. The vice president of the sponsoring organization and the vice president of Supply Management (or a designee), must concur with the need for confidentiality.

c. **Nondisclosure agreement —** The terms of a nondisclosure agreement preclude discussions with other parties. If so, explain the necessity for entering into the nondisclosure agreement.

   Note: If the potential alliance partner requests that Postal Service personnel execute nondisclosure agreements before discussing a potential strategic alliance plan, consult Supply Management and the General Counsel for advice before executing the agreement.

d. **Compelling urgency —** The Postal Service has a compelling urgency for proceeding with a strategic alliance; delay would seriously harm the Postal Service.

e. **Best interest of the Postal Service —** A competitive procedure would not be in the interest of the Postal Service.

4-9.4.3 Written Justification

The decision that an alliance partner is suited for the strategic alliance must be in writing and must include appropriate documentation.

4-9.4.4 Identification of Firm

Analyze the relevant strengths and weakness of the firm chosen for the alliance. Describe in detail how the idea originated and the circumstances which indicate that the chosen firm has the financial, management, and technical resources necessary to deal successfully with the Postal Service to achieve the intended objective.

4-9.4.5 Conflict of Interest

Those involved in the selection of an alliance partner, or in making decisions about the alliance itself, must not have any financial interests that present a conflict or even the appearance of a conflict. Organizational conflicts between the Postal Service and its contractors and alliance partners must also be avoided. Consult the General Counsel immediately if there are any questions in this regard.

4-9.5 Drafting and Negotiating the Strategic Alliance Agreement

A strategic alliance agreement is a contract; as such, it must be drafted and negotiated with the same care as any other Postal Service contract. The contract must define all relevant rights and obligations of the Postal Service and the alliance partner, including damages and liability, intellectual property, indemnification, termination, and sovereign acts. Give special consideration to security, privacy, and technology compliance.

The agreement may not be for an indefinite time period. Unless authorized by the Executive Committee, all agreements must provide for termination by the Postal Service upon notice or for convenience, with defined damage.

Legal counsel and Supply Management must be included early in the process to assist in drafting and negotiating strategic alliance agreements. All functions likely to be affected by the strategic alliance must review the contract.

Strategic alliance agreements must be signed by an official with contracting authority or who has received a delegation of such authority from the vice president of Supply Management for the purpose of signing the agreement.

No binding contract may be signed with the alliance partner until the Executive Committee, Strategic Planning Committee and the Board of Governors has reviewed and approved the strategic alliance as defined in this document.

4-9.5.1 General Delegation Authority

It is important that the process for obtaining General Delegation Authority specified by Business Evaluation and Supply Management be followed so that agreements are not made with alliance partners without performing the appropriate review and approval. A general process map with a detail list (see exhibit 4-3) illustrates the steps that must be taken to receive general delegation authority from Supply Management. This process map is current as of publication of this handbook. Contact the manager of Business Evaluation to ensure that the most current process and documents are used when requesting a general delegation authority. Below is a brief overview of the activities required to gain general delegation authority:

a. Business Evaluation and the General Counsel review the business deal and agreement.

b. Labor Relations reviews the deal and agreement for Article 32 compliance and issues.

c. Executive Committee (EC) member gives *approval to negotiate* and distributes a communications notice.

d. The deal is negotiated with input and review by:

   (1) Legal Counsel.

   (2) Business Evaluation.

   (3) Strategic Planning Committee.

   (4) Licensing.

   (5) Other stakeholders.

e. The sponsor sends the delegation package to the vice president Supply Management for execution.

f. Delegation to execute agreement issued to a member of the EC.

g. Agreement is executed.

h. A member of the EC submits annual report to Supply Management.

4-9.5.2 Purchasing Contracts

Purchasing contracts include all contracts for the purchase of goods or services. The contracts may be of various types, including fixed price or cost-reimbursement contracts, and may be for definite or indefinite quantities (including requirements contracts).

Delivery orders are often used to obtain items under indefinite quantity or indefinite delivery contracts. Some arrangements with suppliers are known as ordering agreements (OA), which allow but do not require the Postal Service to make purchases under the OA. Ordering agreements are not binding contracts. A binding contract is created, however, when the Postal Service issues a purchase order (PO) and the supplier accepts a PO (for supplies) or a task order (for services) for a specific item under the ordering agreement.

A basic pricing agreement (BPA) is one form of an OA. Under an OA or BPA the Postal Service is not obliged to place an order with a supplier and the supplier is not obligated to accept the order.

Effective May 19, 2005, *Interim Internal Purchasing Guidelines* replace all issues of earlier Postal Service purchasing regulations contained in Issues 1–3 of the Postal Service *Purchasing Manual* and all purchasing directives prior to the *Purchasing Manual.* The regulations that now apply to Postal Service supply chain functions are contained in 39 Code of Federal Regulations 601. The *Interim Internal Purchasing Guidelines* apply to all solicitations issued on and after May 19, 2005. In some cases, a solicitation provision or contract clause may reference a previous purchasing directive. In such cases, the referenced directive will apply as provided in the provision or clause, but not otherwise. The guidelines are available on the Postal Service Intranet at *http://www.usps.com/cpim/manuals/pm/pm.htm.*

Exhibit 4-1 (p. 1)

New Product Development

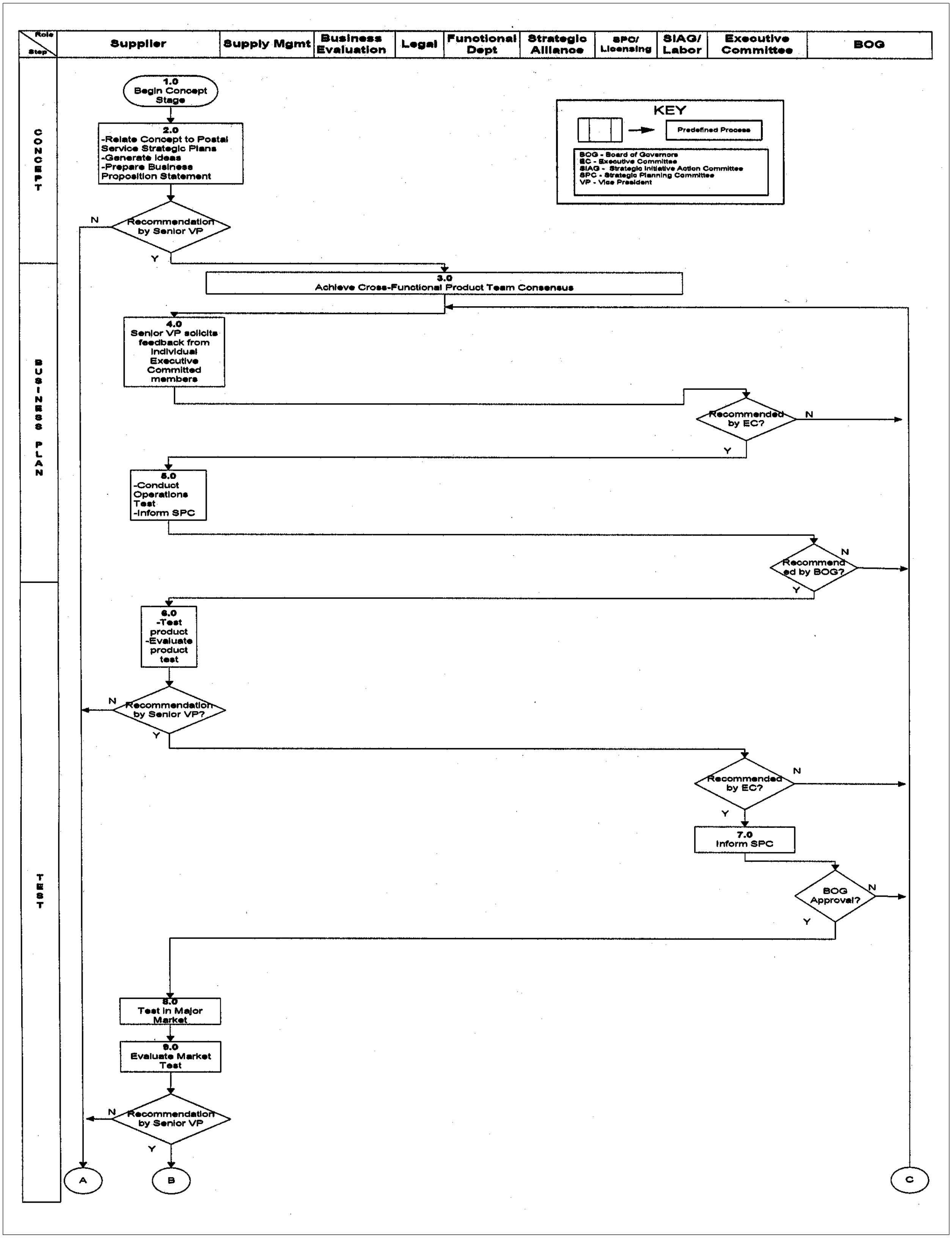


Exhibit 4-1 (p.2)
New Product Development

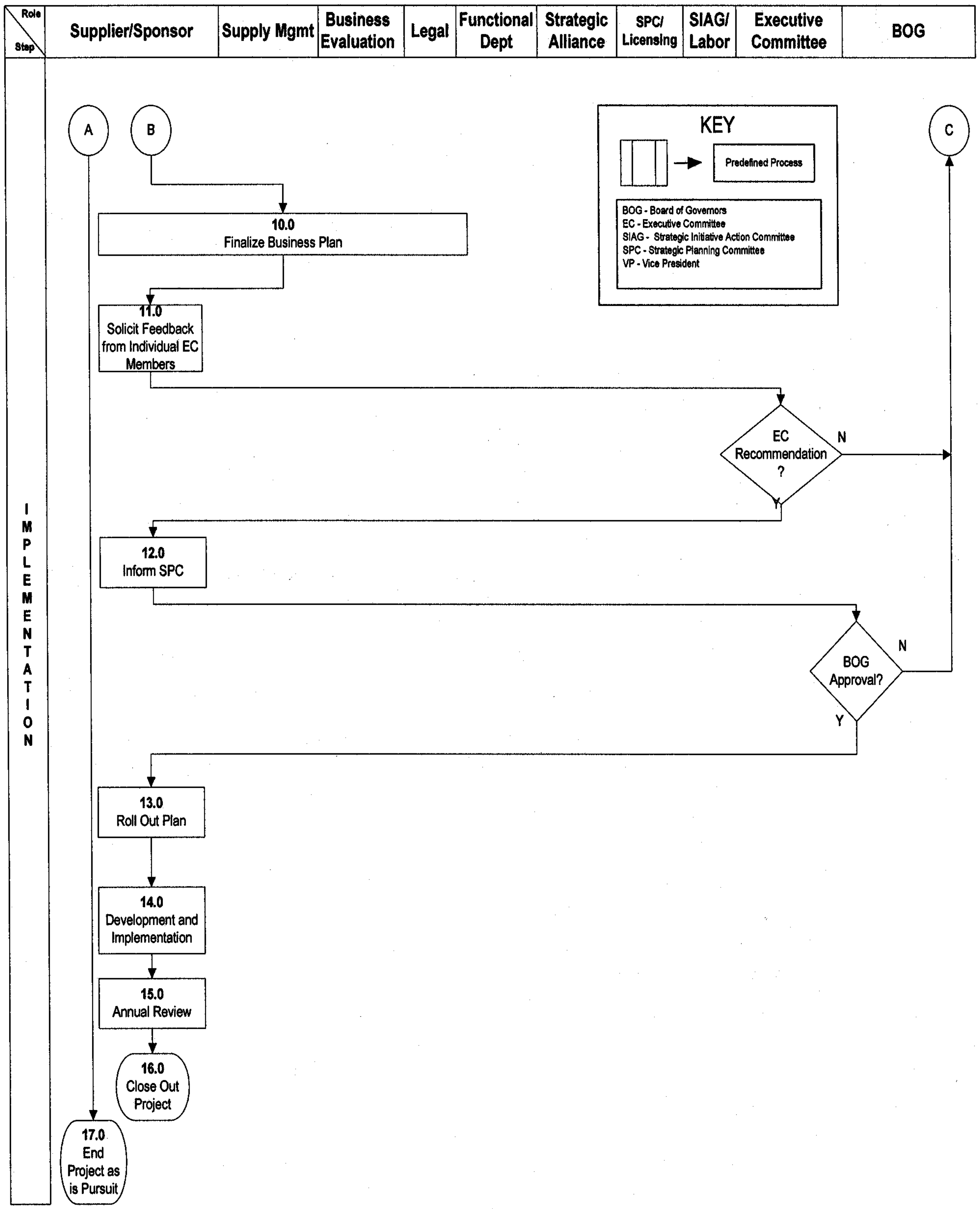


Exhibit 4-1 (p. 3)

Development Process Activity List — New Products or Services

Idea Generation	
1.0	Generate idea for enhancement or modification to core business by: ■ Listening to customers. ■ Conducting market research. ■ Obtaining sales feedback. ■ Reviewing suggestions from management. ■ Obtaining a competitive response.
	A representative of the senior vice president (VP) adds the idea to the project tracking database with the following information: ■ Name of project (deliverable). ■ Date proposal was submitted. ■ Brief description of idea. ■ Key milestones and who is responsible for action (when, who, status of action).
Business Proposition Statement	
2.0	The project manager prepares business proposition statement. ■ Concept overview and rationale — business description, market situation, investment costs, and expected outcomes. ■ Business definition — identifiable customers, services or product, distribution approach, value added, Postal Service positioning in market, and strategic fit. ■ Issues to be addressed — target customers, product, market potential, competitive environment, Postal Service competency, technology, use of Postal Service facilities, capital investment, testing, and regulatory issues.
	Obtain approval of business proposition statement by sponsoring VP and senior VP. Forward to Finance.
Preliminary Business Plan	
3.0	A cross-functional team updates the business proposition statement to form a preliminary business plan. At a minimum, the cross-functional team includes members of the General Counsel, Finance, and Supply Management. The preliminary business plan includes: ■ Business concept. ■ Market analysis. ■ Product design specifications and business impact. ■ Service delivery and operations. ■ Operations and market test specifications. ■ Drafts of agreements and contracts. ■ Quality standards and measures. ■ Financial analysis. ■ Project schedule and process review milestones through roll-out plan.
4.0	Responsibilities of sponsoring VP: ■ Resolve any issues from cross-functional team. ■ Inform the Executive Committee of preliminary business plan and proposed operations test.

Exhibit 4-1 (p. 4)
Development Process Activity List — New Products or Services

Operations Test	
5.0	Conduct an operations test in a geographic area representative of the operational environment expected during roll-out. Limit the test to one market with limited customers. The test should validate the fundamental assumptions laid out by the cross-functional team.
6.0	The project manager evaluates the results of the operations test with the cross-functional team: ■ Summarize operations test results. ■ Determine if success criteria are met. ■ Develop market test plan incorporating experience from operations test.
	The project manager presents the recommendations to the sponsoring VP. If the success criteria are not met, recommend no go or change in initiative.
	The sponsoring VP briefs the Executive Committee on recommendations for market test.
7.0	Upon recommendation by the Executive Committee, the sponsoring vice president provides the preliminary business plan to the Strategic Planning Committee (SPC) of the Board of Governors
Market Test	
8.0	Test according to market test plan in several major, diverse markets. Determine the locations of the market tests based on sites that are representative of planned future expansion.
9.0	The project manager evaluates the test results with the cross-functional team. ■ Summarize market test results. ■ Determine if success criteria are met.
Final Business Plan	
10.0	The project manager, with input from cross-functional team, revises the business plan, incorporating experience from the market test.
	The project manager presents recommendations to sponsoring VP, making changes as necessary. If success criteria are not met, recommend no go or change in initiative.
	The sponsoring VP briefs senior VP.
11.0	The senior VP briefs Executive Committee on business plan and makes recommendations for roll-out. Executive Committee determines if project needs Board approval. If Board approval is required, follow business plan stage of process.
12.0	Upon recommendation by the Executive Committee, the sponsoring vice president provides the final business plan to the Strategic Planning Committee (SPC) of the Board of Governors.
13.0	Roll out implementation to field units. ■ Schedule roll-out implementation. ■ Plan training. ■ Plan communications. ■ Execute plans.
15.0	The project manager, in conjunction with Finance, tracks results against plan and assesses continued strategic fit.
Project Implementation Review	
16.0	The senior VP briefs the Executive Committee on the success of the roll-out.

Exhibit 4-2 (p. 1)

Development Process Activity List — Enhancements to Existing Products or Services

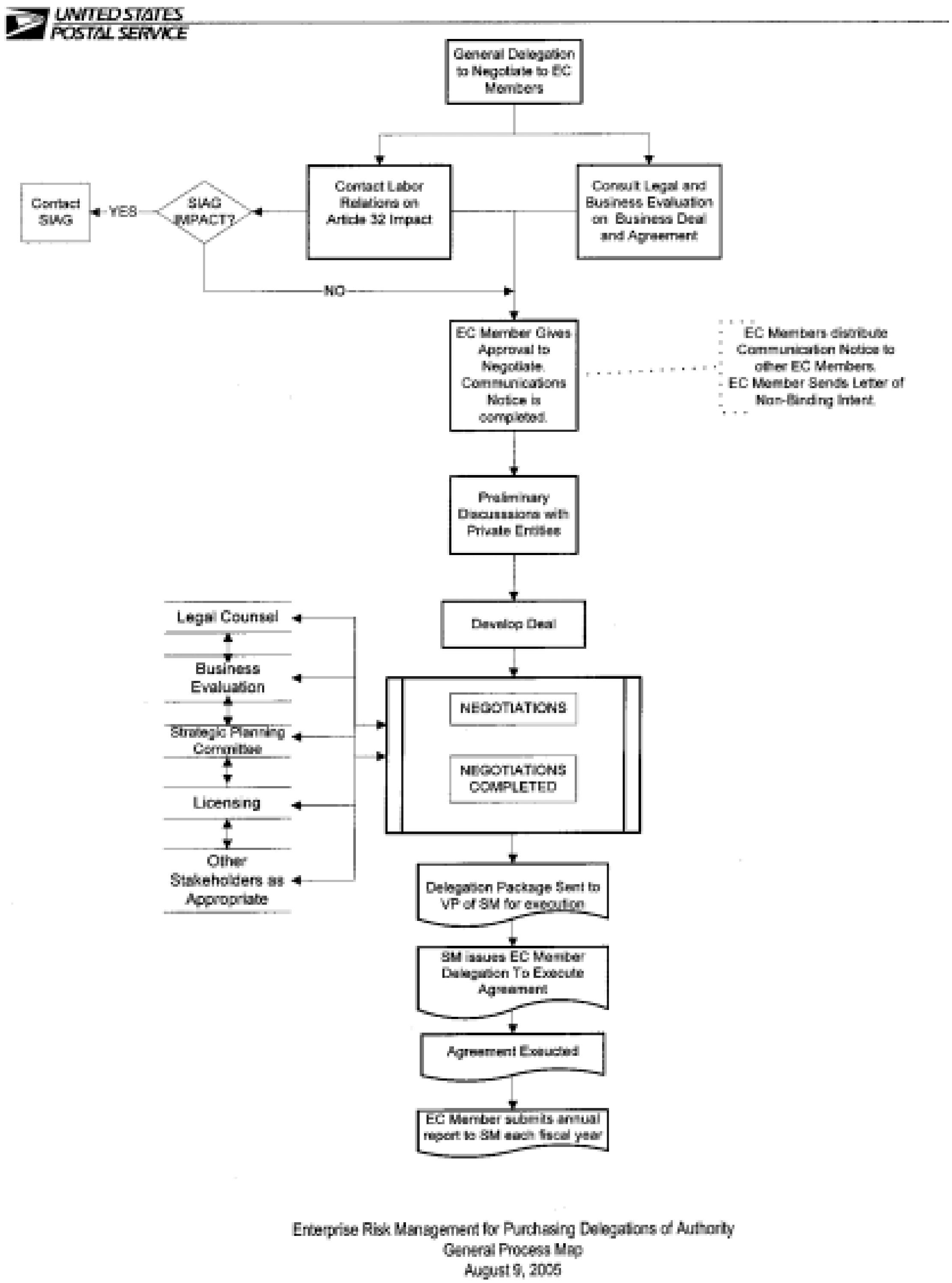
Idea Generation	
	Generate idea for enhancement or modification to core business by: ■ Listening to customers. ■ Conducting market research. ■ Obtaining sales feedback. ■ Reviewing suggestions from management. ■ Obtaining a competitive response.
	A representative of the senior VP adds the idea to project tracking database, including the following information: ■ Name of project (deliverable). ■ Date proposal was submitted. ■ Brief description of idea. ■ Key milestones and who is responsible for action (when, who, and status of action).
Business Proposition Statement	
	The project manager prepares business proposition statement. ■ Concept overview and rationale — business description, market situation, investment costs, and expected outcomes. ■ Business definition — identifiable customers, services or product, distribution approach, value added, Postal Service positioning in market, and strategic fit. ■ Issues to be addressed — target customers, product, market potential, competitive environment, Postal Service competency, technology, use of Postal Serivce facilities, capital investment, testing, and regulatory issues.
	Obtain approval of business proposition statement by sponsoring VP and senior VP. Forward to Finance.
Preliminary Business Plan	
	A cross-functional team updates the business proposition statement to form a preliminary business plan. At a minimum, the cross-functional team includes members of the General Counsel, Finance, and Purchasing and Materials. The preliminary business plan includes: ■ Business concept. ■ Market analysis. ■ Product design specifications and business impact. ■ Service delivery and operations. ■ Operations and market test specifications. ■ Drafts of agreements and contracts. ■ Quality standards and measures. ■ Financial analysis. ■ Project schedule and process review milestones through roll-out plan.
	Responsibilities of sponsoring VP: ■ Resolve any issues from cross-functional team. ■ Inform the Executive Committee of preliminary business plan and proposed operations test.

Exhibit 4-2 (p. 2)

Development Process Activity List — Enhancements to Existing Products or Services

Operations Test	
	Conduct an operations test in a geographic area representative of the operational environment expected during roll-out. Limit the test to one market with limited customers. The test should validate the fundamental assumptions laid out by the cross-functional team.
	The project manager evaluates the results of the operations test with the cross-functional team: ■ Summarize operations test results. ■ Determine if success criteria are met. ■ Develop market test plan incorporating experience from operations test.
	The project manager presents recommendations to the sponsoring VP. If success criteria are not met, recommend no go or change in initiative.
	The sponsoring VP briefs the Executive Committee on recommendations for the market test.
Market Test	
	Test according to market test plan in several major, diverse markets. Determine market test locations based on sites that are representative of planned future expansion.
	The project manager evaluates test results with cross-functional team. ■ Summarize market test results. ■ Determine if success criteria are met.
Final Business Plan	
	The project manager, with input from cross-functional team, revises the business plan, incorporating experience from market test.
	The project manager presents recommendations to sponsoring VP, making changes as necessary. If success criteria are not met, recommend no go or change in initiative.
	The sponsoring VP briefs the senior VP.
	The senior VP briefs the Executive Committee on the business plan and makes recommendations for the roll-out. The Executive Committee determines if the project needs Board approval. If Board approval is required, follow business plan stage of process.
	Roll out implementation to field units. ■ Schedule roll-out implementation. ■ Plan training. ■ Plan communications. ■ Execute plans.
	The project manager, in conjunction with Finance, tracks results against plan and assesses continued strategic fit.
Project Implementation Review	
	The senior VP briefs the Executive Committee on the success of the roll-out.

Exhibit 4-3
Flow Chart for General Delegation of Authority for Alliances



Note: Please contact the manager of Business Evaluation for the most recent processes for obtaining General Delegation Authority.

EXHIBIT 2

MARVIN RUNYON
POSTMASTER GENERAL, CEO

UNITED STATES
POSTAL SERVICE

January 2, 1997

ALL OFFICERS

SUBJECT: Strategic Alliance Guidelines

The Postal Service is developing new products and services, consistent with our statutory authority, to respond to the needs of our customers and improve our bottom line. Some of these products and services are being developed through strategic alliances with other business organizations. Two recent examples are our alliance with the Mexican bank Bancomer to offer electronic wire transfer service to Mexico and our alliance with American Express to produce and sell FIRSTCLASS PHONECARDs that display our stamp art.

The attached Strategic Alliance Guidelines provide a process for developing such alliances. The Guidelines are the product of input from the Purchasing, Marketing, Finance, Law, and Quality departments and have been reviewed with the Board of Governors.

The Guidelines define a strategic alliance as a cooperative arrangement between the Postal Service and a private entity to share property and/or personnel in the development and/or marketing of a joint product. A strategic alliance is distinguished from a purchase in that the primary purpose of the alliance cannot be the "purchase" of goods and services by the Postal Service.

The office in the Postal Service sponsoring the alliance must define the purpose of the alliance and demonstrate the benefits of the alliance to the Postal Service. This effort would include market demand, financial, operational, service, *CustomerPerfect* and legal analyses.

The Guidelines provide that a strategic alliance can be either competitive or noncompetitive and outline the requirements for each. The Guidelines apply to all phases of any alliance, from market test to permanent alliance.

The Guidelines set out a process to develop the alliance project and to select the alliance partner. As part of that process, the alliance is to be developed in coordination with the New Product Development Process (*CustomerPerfect* 5.1). A written justification will be required for the selection of an alliance partner, with any noncompetitive selection based on compelling justification. Specific attention will be given to avoiding conflict of interest problems. Finally, a negotiated written agreement is required for each alliance.

Marvin Runyon

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STRATEGIC ALLIANCE GUIDELINES

1. DEFINITION

A strategic alliance is a cooperative arrangement between the Postal Service and one or more private entities. In return for a substantive benefit from cooperative efforts to develop and/or market a joint product, the Postal Service allows its alliance partner(s) the use of or access to Postal Service property, either tangible (e.g. retail lobby space) or intangible (e.g. trademarks, copyrights, patents and technical data) and/or the efforts of Postal Service personnel. The Postal Service may also obtain the use of or rights to the partner's property. Joint products may include a service or product sold to the public, joint marketing activities, a patented process or device, technical data, software, and cost savings strategies or devices. The cooperative effort may result in revenue or cost savings to the Postal Service from the joint product.

2. DISTINGUISHING A STRATEGIC ALLIANCE FROM A PURCHASE

The act of obtaining goods and services for the benefit of the Postal Service in exchange for Postal Service funds is generally a purchase governed by the Procurement Manual. Although the Postal Service may obtain the use of goods and services as a result of a strategic alliance, generally the goods, services and rights obtained are those employed in the common and mutually beneficial cooperative effort, and the acquisition of those goods and services cannot be the primary purpose of the arrangement. Purchasing and Materials and the Law Department should be consulted early in the project development in order to determine whether a particular undertaking constitutes a purchase or a strategic alliance.

3. SCOPE

These guidelines apply to the initiation, development, testing, and final implementation of any program in which a strategic alliance will be involved.

4. DEFINING THE PROJECT AND DETERMINING BENEFITS

Whenever a Postal Service department or organization is considering sponsoring a strategic alliance, it will assess and document the following:

<u>Purpose</u>: Identify the objective of the strategic alliance and the intended commitments as well as advantages to the Postal Service.

<u>Market Demand Analysis</u>: Perform and describe an analysis of the market place to determine if the proposed alliance will meet market expectations in the face of competitive alternatives and customer requirements. Determine (a) who wants the product and in what quantities, (b) what are the future prospects of the product or service or business opportunity in terms of customer acceptance,

(c) what is the net revenue generation for the Postal Service, and (d) what is the positioning of postal products and services in a competitive environment.

Financial Analysis: In conjunction with the Finance Department determine revenue projections and costs associated with the proposed alliance. Include data on expected initial market share and the target being sought, and perform an analysis of financial risk, an evaluation of costs and revenue sharing by the partners, and a forecast of sustained market share over a relevant period of time.

Infrastructure and Operations Impact: Assess the impact on the Postal Service's infrastructure and operations to determine if additional costs must be incurred and whether the potential return justifies any new investment. This assessment should include the personnel or labor relations plans for the venture.

Service Requirements: Evaluate existing service expectations in order to provide a framework to determine the required service standards for the proposed alliance.

Legal Analysis: Obtain an analysis from the Law Department of significant legal issues relating to the proposed alliance.

CustomerPerfect! Compliance: Show direct contribution to Postal Service Goals, Sub-Goals, and Indicators as part of the Establish Process. In addition to VOB and VOC considerations, there should be a clear consideration of any impact on VOE Human Resources strategies.

5. DEVELOPING THE PROJECT AND SELECTING THE PARTNER

New Product Development Process: These Strategic Alliance Guidelines are intended to complement the New Product Development Process. Instructions on integrating these processes are in Appendix A.

Alliance Partner Selection Process: Depending on the circumstances, the alliance may be achieved through a competitive or non-competitive process. In either case, a written justification for the selection of an alliance partner over other potential partners must be prepared. A list of factors to be addressed in the justification is in Appendix B.

The Strategic Alliance Agreement: Because alliances are not governed by Procurement Manual procedures, a detailed agreement must be negotiated in writing for each alliance. Procedures for creating an agreement are in Appendix C.

APPENDIX A

COORDINATION OF THE STRATEGIC ALLIANCE GUIDELINES WITH THE NEW PRODUCT DEVELOPMENT PROCESS

1. The Strategic Alliance Guidelines are intended to complement the 5.1 New Product Development Process (*CustomerPerfect* 5.1) by providing procedures to follow when the Postal Service is proposing to develop and/or market a new product with an alliance partner. In these circumstances, the Preliminary Business Plan should explain the value to the Postal Service of the joint product, as set out in section 4 of the Strategic Alliance Guidelines.

2. The Preliminary Business Plan should also include a section justifying the selection of the alliance partner, as set out in Appendix B of the Strategic Alliance Guidelines. Depending on the circumstances, the alliance may be achieved through a competitive or non-competitive process. In either case, the selection process should be followed in selecting an alliance partner for the test market phase as well as for the national roll-out. The Business Plan should consider whether it is in the best interest of the Postal Service to test market with one partner and then change partners when the national roll-out of the product occurs. If the sponsoring organization considers a change of partners detrimental to product success, then it must document this in the selection process and incorporate it in the selection justification before the market test begins.

3. Consistent with *CustomerPerfect* 5.1, all strategic alliance Preliminary Business Plans must be approved by the Management Committee and reviewed by the Board of Governors.

APPENDIX B

FACTORS TO BE ADDRESSED IN THE SELECTION JUSTIFICATION FOR A STRATEGIC ALLIANCE PARTNER

1. Competitive Selection: Generally, unless there are compelling reasons for the selection of one specific partner, several potential partners should be considered. If a competitive selection is used, the sponsoring organization will choose, with the assistance of Purchasing and Materials and the Law Department, an appropriate method for identifying and considering potential alliance partners. Appropriate methods for identifying potential partners may include the following:

A. Use of a market survey,

B. Publishing a notice requesting interested parties to submit their qualifications, and

C. Solicitation of detailed proposals from potentially qualifying parties.

2. Noncompetitive Selection: If a noncompetitive selection is made, explain the extent to which one or more of the following criteria affected the selection of the alliance partner:

Special Attributes - The alliance partner has special attributes that satisfy the intended objective and compares favorably with other firms that were considered (identify other firms considered). Examples of special attributes include, but are not limited to, the following:

(a) a patent on a device or process,

(b) technical data or knowledge not available anywhere else,

(c) access to a market that other firms do not possess,

(d) possession of trademarks, copyrights, or other intellectual property which the Postal Service wants to use,

(e) special knowledge or experience concerning a market, product or process, and

(f) special standing or position in a particular market.

Confidentiality - Discussions with other parties concerning a strategic alliance plan or joint product would cause significant harm to the Postal Service. The Chief Marketing Officer (or a designee) (or the VP of the sponsoring organization, if different) and the VP of Purchasing and Materials (or a designee) should concur in the need for confidentiality.

Nondisclosure Agreement - The terms of a nondisclosure agreement preclude discussions with other parties. If that is so, explain the necessity for entering into the nondisclosure agreement. Note: If the potential alliance partner requests that Postal Service personnel execute nondisclosure agreements before discussing a potential strategic alliance plan, consult Purchasing and Materials and the Law Department for advice before executing the agreement. The wording of such agreements can seriously hamper future activities.

Compelling Urgency - The Postal Service has a compelling urgency for proceeding with a strategic alliance; delay would seriously harm the Postal Service.

Best Interests of the Postal Service - A competitive procedure would not be in the interest of the Postal Service.

3. Written Justification: A determination that an alliance partner is suited for the strategic alliance should be in writing and should include appropriate documentation.

4. Identification of Firm: Analyze the relevant strengths and weakness of the firm chosen for the alliance. Describe with particularity how the idea originated and the circumstances which indicate that the chosen firm has the financial, management, and technical resources necessary to deal successfully with the Postal Service to achieve the intended objective.

5. Conflict: Those involved in the selection of an alliance partner, or making any decisions about the alliance itself, must not have any financial interests that could present a conflict or the appearance of a conflict. Organizational conflicts between the Postal Service and its contractors and alliance partners should also be avoided. The Law Department should be consulted immediately if there are any questions in this regard.

APPENDIX C

DRAFTING AND NEGOTIATING THE STRATEGIC ALLIANCE AGREEMENT

1. The Strategic Alliance Agreement is a contract and must be drafted and negotiated with the same care as any other Postal Service contract. The contract should define all relevant rights and obligations of the Postal Service and the alliance partner, including (1) damages/liability, (2) intellectual property, (3) indemnification, (4) termination, and (5) sovereign acts.

2. No agreement may be for an indefinite length. Unless authorized by the Management Committee, all agreements must provide for termination by the Postal Service upon notice or for convenience with defined damages.

3. Legal counsel and Purchasing and Materials should be included early in the process to assist in drafting and negotiating strategic alliance agreements.

4. Strategic Alliance Agreements must be signed by an official with contracting authority or who receives a delegation of such authority from the VP of Purchasing and Materials for the purpose of signing the agreement.

5. The contract should be reviewed by the Finance Department and other departments likely to be affected by the strategic alliance.

6. No binding contract should be signed with the alliance partner until the Management Committee and/or the Board of Governors have reviewed the strategic alliance at issue.