



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Package Delivery Growth

Audit Report

May 4, 2012

Report Number MS-AR-12-003



HIGHLIGHTS

IMPACT ON:

U.S. Postal Service package revenue and operations.

WHY THE OIG DID THE AUDIT:

Our objectives were to assess the effectiveness of the Postal Service's strategies for growing its package delivery business, identify opportunities for growth, and estimate the resulting potential additional net revenue if the Postal Service increased its market share.

WHAT THE OIG FOUND:

The Postal Service's strategies for growing its package business have helped it keep pace with competitors in growing domestic and international package markets. Although the strategies are sound, their effectiveness has been impacted by (1) lack of a strategic decision-making process for evaluating new sale opportunities, (2) sales tracking system shortcomings, and (3) chronic sales staff vacancies. The Postal Service can grow its package business by stabilizing Sales staffing levels and adding new products. We estimate it could increase revenue by \$217 million in fiscal year (FY) 2012 and by \$340 million in FY 2013. This would be in addition to the \$90 million in additional revenue it did not capture in FY 2011 because of sales staffing shortages. Furthermore, we estimate the Postal Service could [REDACTED]

[REDACTED]

[REDACTED]
[REDACTED] within its key lightweight segment.

WHAT THE OIG RECOMMENDED:

We recommended the Postal Service establish a strategic decision-making process for evaluating new sales opportunities, enhance the CustomerFirst! System, reassess sales staffing levels, continue to pursue legislative change that will allow it to ship beer and wine, and evaluate offering prepayment of customs duties and taxes and a local delivery product.

WHAT MANAGEMENT SAID:

Management agreed with our findings and recommendations and set forth its plans for corrective actions. Management disagreed with the monetary impact in subsequent correspondence stating that, even with a reduced sales force, they have been able to increase sales by focusing on higher value sales and sales execution.

AUDITORS' COMMENTS:

Management's comments are responsive to the recommendations and corrective actions should resolve the issues identified in the report. While progress has been made, we continue to believe the Postal Service could further increase revenue if it fills vacant sales staff positions.

[Link to review the entire report](#)



May 4, 2012

MEMORANDUM FOR: GARY C. REBLIN
VICE PRESIDENT, DOMESTIC PRODUCTS

WILLIAM C. RUCKER
VICE PRESIDENT, SALES

DEBORAH GIANNONI-JACKSON
VICE PRESIDENT, EMPLOYEE RESOURCE
MANAGEMENT

GISELLE E. VALERA
VICE PRESIDENT AND MANAGING DIRECTOR, GLOBAL
BUSINESS

A rectangular box containing a handwritten signature in cursive that reads "Darrell E. Benjamin, Jr." with a yellow question mark icon in the top right corner.

FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Revenue and Systems

SUBJECT: Audit Report – Package Delivery Growth
(Report Number MS-AR-12-003)

This report presents the results of our audit of the U.S. Postal Service's efforts to grow its package delivery business¹ (Project Number 11RG012MS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Janet M. Sorensen, director, Marketing and Service, or me at 703-248-2100.

Attachments

cc: Paul Vogel
Anthony Vegliante
Corporate Audit and Response Management

¹For the purpose of this audit, we considered First-Class™ Parcels, not Flat-Machinables, Standard Parcels, Single-Piece Parcel Post, Express Mail, Priority Mail, Parcel Select, Parcel Return Service, and International Mail and Services as the Postal Service's package business.

Table of Contents

Introduction 1

Conclusion 1

Decision-Making Process 2

Sales Staffing 5

Opportunities for New Revenue 5

Recommendations 8

Management’s Comments 8

Evaluation of Management’s Comments 9

Appendix A: Additional Information 11

 Background 11

 Postal Service Strategies to Grow its Package Business 11

 Barriers and Limitations 13

 Objectives, Scope, and Methodology 13

 Prior Audit Coverage 14

Appendix B: Monetary Impact 16

Detailed Calculations 17

Appendix C: Management’s Comments 18

Introduction

This report presents the results of our audit of the U.S. Postal Service's efforts to grow its package delivery business² (Project Number 11RG012MS000). Our objectives were to assess the effectiveness of the Postal Service's strategies³ for growing its package delivery business, identify opportunities for growth, and estimate the resulting potential additional net revenue if the Postal Service increased its market share. This audit addresses strategic and financial risk. See [Appendix A](#) for additional information about this audit.

When Postmaster General Patrick Donahoe took office in January 2011, he announced "competing for package business" as one of his core strategies for improving the Postal Service's financial position. Fiscal year (FY) 2011 package revenue and volume grew by about 7 percent over FY 2010.⁴ In FY 2011, the nearly 3 billion packages the Postal Service delivered generated about [REDACTED] revenue — nearly [REDACTED]. This Postal Service segment represents about [REDACTED].⁵

Strong customer demand for goods purchased over the Internet has driven growth in the package market in an otherwise declining mail market. This growing package segment provides the Postal Service an opportunity to help counter the reduction in First-Class Mail (FCM) and the flattening of Standard Mail[®] volume. Customer expectations for the package business, however, are rising through demands for "free shipping" and increased tracking and visibility capabilities. As the volume of shipments and customer expectations continue to grow, so does competition between the Postal Service and other leading package delivery providers, such as FedEx and United Parcel Service (UPS).

Conclusion

The Postal Service's strategies for growing its package delivery business — which include increasing visibility, implementing more market-based pricing, and growing partnerships — have enabled it to grow with the market. While the Postal Service's strategies are sound, they could be more effectively implemented if the Postal Service used a more strategic decision-making process for evaluating new sales opportunities, enhanced the usefulness of its sales tracking system, and maintained a robust sales force to reach its customers.

² We considered First-Class Parcels, not Flat-Machinables, Standard Parcels, Single-Piece Parcel Post, Express Mail, Priority Mail, Parcel Select, Parcel Return Service and International Mail and Services as the Postal Service's package business.

³ We did not audit or evaluate the performance of specific products or channels, such as Click-N-Ship or Priority Mail Flat Rate Boxes.

⁴ Package revenue was [REDACTED].

⁵ We define the domestic package marketplace as "the transportation and delivery of shipments weighing up to 70 pounds that originate in the U.S."

Significant competition in the package marketplace leaves no apparent untapped market for the Postal Service to enter. However, there are opportunities the Postal Service could more fully exploit to increase revenue and its market share in the domestic and international package markets. Current Postal Service initiatives target many of these opportunities. Efforts include leveraging its first- and last-mile advantages to become the dominant provider in the package return market; becoming the shipper of choice for Business-to-Customer (B2C) packages; expanding international products, services, and partnerships; and increasing the effectiveness of its current sales force.⁶

Although these initiatives may improve the Postal Service's financial position, we believe it should continue to identify opportunities to open new revenue streams. For example, the Postal Service could evaluate offering a local product the customer either arranges to have picked up or takes to the local Post Office for sortation and delivery without involving a mail processing plant. The potential benefit would be a product that fills the gap created when proposed service and network changes are implemented by the Postal Service. It may also offer customers a lower priced alternative to competitors in the [REDACTED]. The Postal Service could also examine the potential revenue opportunity for shipping beer and wine — a provision included in several pieces of pending postal reform legislation.⁷

If the Postal Service stabilizes its sales staffing levels, we estimate that it could conservatively increase its revenue by \$217 million⁸ in FY 2012 and \$340 million in FY 2013. This would be in addition to the \$90 million of additional revenue that it did not capture in FY 2011 because of sales staffing shortages. These estimates could be even greater if the Postal Service enhances its decision-making processes and sales tracking system and develops new parcel products. Furthermore, we estimate the Postal Service could [REDACTED] [REDACTED] from its key package segment — B2C lightweight packages. See [Appendix A](#) for additional information.

Decision-Making Process

Postmasters, plant managers, and transportation managers made decisions regarding sales opportunities that may not always have been in the best financial interest of the Postal Service and did not always resolve disagreements resulting from conflicting priorities. Although the Postal Service's overall strategies for growing its package delivery business are generally consistent with leading practices, deficiencies in processes for analyzing and evaluating new sales opportunities have, at times, hindered

⁶These initiatives are included as part of the Postal Service's Delivering Results, Innovation, Value, and Efficiency (DRIVE) initiatives. Additional information on these and other actions taken by the Postal Service to grow its package business is provided in [Appendix A](#).

⁷S. 1789, 21st Century Postal Service Act of 2011, Section 404; HR 3591, Postal Service Protection Act of 2011; Section 1853, Postal Service Protection Act of 2011; Section 1262, Reform the Postal Service for the 21st Century Act; S. 1010, Postal Operations Sustainment and Transformation Act of 2011.

⁸This revenue estimate includes "Total Sold Revenue" as reported in CustomerFirst! and total Sales vacancies. We used total revenue because, although the CustomerFirst! System includes a shape field, it is not always filled out. We used total Sales vacancies because employees are not always limited to selling package products.

revenue optimization. If management implements processes to support decision making, we believe the Postal Service will be able to realize additional revenue opportunities and overall growth.

We identified more than \$100 million in lost sales opportunities⁹ nationwide in FY 2011 due to issues ranging from an inability to arrange for transportation to inadequate customer service, and believe that some of these occurrences could have been avoided — and resulted in increased revenue — had there been an objective decision maker in place. Although these occurrences cost the Postal Service opportunities to make specific sales, the potential loss of future revenue opportunities because of damaged relationships is even greater. For example:

- The Postal Service lost sales of \$1.5 million due to internal issues regarding whether it would provide transportation or risk losing sales to competitors. After meeting with representatives from a local company who were interested in using the Postal Service, sales officials met several times with transportation employees to discuss the Postal Service-provided transportation necessary to close the sale. Concerns about funding the transportation — the local plant manager did not have money in his budget to acquire new transportation — overruled what was in the best financial interest of the Postal Service; therefore, the Sales team was unable to close the sale.
- The Postal Service lost a \$1 million sale of return merchandise (about 500 packages daily) because of its inability to record these pieces in a timely manner. An existing Postal Service customer required its returns by 6:30 a.m. and, although the local Post Office received the mail on its 5:30 a.m. transportation run, officials from the Postal Service's Finance department required, for internal compliance reasons, every piece to be recorded before releasing the mail to the customer. The Postal Service could not adjust its operations to process these packages in time and the Postal Service lost this business. An additional \$1 million sale was lost with this same customer when the Postal Service was unable to resolve the return issue.

Based on our analysis, we believe the Postal Service could enhance its revenue growth through implementing:

1. **A strategic decision-making process** – Sales staff are responsible for identifying revenue opportunities and then, if necessary, working through an operations integrations specialist (OIS) to coordinate with Operations and obtain the necessary logistic and customer support. This coordination is key because the incentives each of these units has in relation to growing package revenue differ significantly. Sales employees' performance evaluations, including that of the OIS, are based entirely on

⁹ This number was derived primarily from data obtained from CustomerFirst!, the system the Postal Service Sales staff uses to track sales opportunities. After a review of information in the system, we focused on the following no-sale categories tied to operational, service, and customer perception issues: Service Performance Issues, Unfavorable Perception of the Postal Service, Later Pick Up Needed, Unable to Accommodate Pick Up, and Costly Pick-Up Fees. We also included additional sales opportunities that were provided to us during our fieldwork that had not been entered into CustomerFirst!, but have since been added.

revenue generation. Operations and support employees' performance evaluations are based primarily on cost reduction – they have limited or no revenue generation incentives. Implementing a strategic decision-making process that incorporates an objective review of the estimated costs and benefits associated with new opportunities would help ensure making decisions that are in the best interest of the Postal Service.

2. **More reliable actionable data from the CustomerFirst! System¹⁰** – More clear and defined information regarding why sales were not made is needed for decision makers to determine why sales are lost and to identify possible remedies. CustomerFirst! is not always an effective management tool for doing this and for resolving possible obstacles to closing sales because the system contains too many options (28) for why a sale did not close. This results in sales staff not always choosing the most accurate reason for why they did not complete a sale. After reviewing some of the CustomerFirst! entries, we found evidence of such confusion in the following:

- A \$2 million potential sale was categorized as “Unfavorable Perception of USPS.” However, the comments added by the sales person stated the customer was able to get lower rates through a competitor. If the rate the Postal Service offered was the true obstacle to completing the sale, “Rates” should have been chosen from the drop-down menu in the CustomerFirst! System. The apparently conflicting information recorded in the system makes it unclear what actions management needs to take to secure future sales.
- A \$100,000 potential sale was categorized as having “Costly Pick-Up Fees” in the CustomerFirst! System while the comments recorded in the system stated the reason was the Postal Service does not “pick up seasonal business.” The comment recorded in the system is vague and does not appear to correspond to the reason selected from the drop-down menu, making it unclear what actions management needs to take.

The reasons for failure to close a sale may be complex and, because the drop-down menu in CustomerFirst! contains many options, Sales staff do not always choose the most appropriate option. Sales staff have the opportunity to add more detail about the situation in a comment field, but this information does not always agree with the reason selected from the drop-down menu. If Sales staff do not choose the most appropriate reason for failure to close a sale or add contradictory information in the comment field, CustomerFirst! will not provide clear and accurate reasons for lost sales. Without clear and accurate information, management cannot redress either patterns of problems or significant individual occurrences and risks losing future revenue opportunities because of damaged relationships.

¹⁰ CustomerFirst! is a computer application used by Sales staff to manage and grow sales revenue. When a sale is not completed, Sales staff use a drop-down menu of choices to record the reason. They can add further details in a comment field. Management uses this system to follow up on situations where obstacles threaten a sale.

Sales Staffing

The Sales organization has experienced staffing shortages over the last several years resulting from reorganizations and hiring freezes. In FY 2011, the Postal Service had an average of 159 of 775 authorized sales positions vacant (a 21 percent vacancy rate).¹¹ The Postal Service has taken action in FY 2012 to reduce these vacancies and, as of March 2012, had 124 of 727 authorized sales positions vacant (a 17 percent vacancy rate). Vacancies are more pronounced in certain segments of the Sales organization. Specifically, 10 of the authorized 25 federal sector sales positions (40 percent) are vacant. Managers stated that funding for these positions has been allocated, but that it takes significant time to find and evaluate candidates who will succeed in these positions. The Postal Service has also recognized Sales staffing issues and has included, as one of its recent key initiatives, increasing the effectiveness of its sales force. As it implements this initiative, it will be critical that the Postal Service examine its staffing levels and hiring process to ensure there are a sufficient number of qualified staff members to identify and capture package sale opportunities.

We estimated that in FY 2011, Sales vacancies resulted in about \$90 million in lost sales revenue for the Postal Service and, if they continue, there will be about \$217 million in lost revenue in FY 2012 and \$340 million in FY 2013.¹² We based these estimates, in part, on our analysis that there are ample opportunities available to accommodate parcel revenue growth. By stabilizing its sales force, the Postal Service could take advantage of these opportunities and strengthen its position in the package market. See [Appendix B](#) for monetary impact and our detailed calculations

Opportunities for New Revenue

The expected growth in the domestic and international package markets will result in a variety of opportunities for the Postal Service to grow its market share. More specifically, there is forecasted growth¹³ in specific market segments in which the Postal Service has a competitive advantage, such as the low-cost, lightweight, B2C market segments:

- Low-cost: the Postal Service frequently provides the lowest prices for shipments weighing 5 pounds or less, and trends toward free shipping are gaining momentum and are likely to become the norm.

¹¹ "Authorized Sales positions" include positions in the national Sales group, excluding specialists, analysts, administrative assistants, secretaries, global account managers, and area managers.

¹² Our analysis factored in an average of \$3.6 million in annual sales from each Sales staff member that was calculated using the Postal Service's CustomerFirst! database and that the parcel market is sufficiently large to accommodate the additional Sales staff without experiencing diminishing revenue returns.

¹³ The forecast is based on research conducted by an independent consultant using volume growth rates of the overall market based on the aggregated compounded annual volume growth rates of FedEx, UPS, and the Postal Service from 2007 to 2015.

issues discussed earlier in this report, we believe the Postal Service can achieve a larger segment growth and revenue than it currently projects.

In addition to its current initiatives, we believe the Postal Service should continue to pursue opportunities to open new revenue streams. For example, the Postal Service could evaluate the financial impact and potential revenue and costs associated with the following:

- Offering a new local product that the customer either arranges to have picked up or takes to the local Post Office for sortation and delivery without mail processing plant involvement. For example, local retailers currently use a combination of the Postal Service, FedEx, and UPS to ship prescriptions, photographs, and other products for which some customers pay for delivery as an alternative to visiting the store. Considering the local delivery network at its disposal, the Postal Service should examine the feasibility of offering a local delivery product that is processed entirely at local post offices. This product would be unique to the Postal Service and possible benefits include filling the potential gap created by the service and network changes proposed by the Postal Service with a lower-priced alternative to competitors' products.
- Shipping beer and wine consistent with several pieces of proposed legislation¹⁴ that would allow the Postal Service, under certain conditions, to do so. According to bill co-sponsors, this provision would help the Postal Service take advantage of its nationwide retail, transportation, and delivery network to bring in new revenue. Eliminating the restriction may also help the Postal Service win additional market share because its competitors are not prohibited from shipping beer and wine. A Postal Service manager in the shipping organization stated that the Postal Service:
 - Has not performed specific market research to determine any potential financial impact and is reluctant to assign a dollar amount to this proposal at this time.
 - Has informally sized the market and believes that the potential impact on revenue would be "significant."
 - Is prepared to implement such a change if the provision is passed into law.
- An international service, similar to that offered by its competitors, that allows pre-payment of customs duties and taxes to help serve the growing international parcel market.

¹⁴ S. 1789, 21st Century Postal Service Act of 2011, Section 404; HR 3591, Postal Service Protection Act of 2011; S. 1853, Postal Service Protection Act of 2011; HR 1262, Reform the Postal Service for the 21st Century Act; and S. 1010, Postal Operations Sustainment and Transformation Act of 2011.

Recommendations

We recommend the vice president, Sales:

1. Implement a strategic decision-making process to objectively assess revenue and costs for potential sales to ensure that decisions are made in the best interests of the Postal Service.
2. Develop enhancements to the CustomerFirst! System to ensure that the data and information contained within are reliable and useful.

We recommend the vice president, Sales, in coordination with the vice president, Employee Resource Management:

3. Reassess Sales staffing levels and hiring processes to ensure that there are sufficient numbers of qualified staff to identify and capture package sale opportunities.

We recommend the vice president, Domestic Products:

4. Evaluate the feasibility of offering a local product the customer either arranges to have picked up or takes to the local Post Office for sortation and delivery without involving a mail processing plant.
5. Continue to pursue legislative change that will allow the Postal Service to ship beer and wine.

We recommend the vice president and managing director, Global Business:

6. Evaluate the feasibility of offering an international service that will allow customers the option of prepaying customs duties and taxes.

Management's Comments

Management agreed with our findings and recommendations. Regarding recommendation 1, management stated they would develop a needs assessment form to determine the overall benefit of a sale to the organization, taking into account operational costs that may be incurred by July 1, 2012. Regarding recommendation 2, management stated they have begun efforts to improve the value of the CustomerFirst! System consistent with our recommendation and have initiated an external consulting evaluation to determine how to better align the system with industry best practices. The system and data requirements are planned to be completed by September 30, 2012 with target implementation completed by January 31, 2015.

Regarding recommendation 3, management stated that staffing continues to be a key focus of the Sales organization and senior management is committed to hiring to meet the current authorized levels. This has resulted in the decline of the vacancy rate from

18.2 percent to 11.8 percent. The Sales organization is also assessing the package and mail market in relation to the current size of the Sales force and plans to make a recommendation to the president/chief marketing and sales officer on new staffing configurations. The Postal Service plans to implement this recommendation by May 1, 2012.

Regarding recommendation 4, management stated that initiatives, such as Hold for Pickup and GoPost, pave the way for a local shipping product that relies exclusively on its retail personnel and footprint. Management stated that its focus is developing shipping solutions for the growing ecommerce market, which leverages the Postal Service's last mile delivery capabilities and that the convenience of its retail locations give it an advantage for the acceptance and delivery of small parcels. Management will complete its analysis of offering this product by December 31, 2013.

Regarding recommendation 5, management agreed with the importance of continuing to pursue legislative change that would allow the Postal Service to ship beer and wine. Based on internal discussions, management is confident it will be able to make the required operational adjustments to offer beer and wine in the mail, should Congress enact legislation authorizing the service. The Postal Service recently commissioned a marketing study to determine the volume and revenue impact associated with this market opportunity. The results are expected in May 2012 and implementation is subject to legislation.

Regarding recommendation 6, management stated that a feasibility study and market research have been conducted and it is working on developing integrated return solutions that include the estimation of customs duties and taxes. The Postal Service plans to implement this recommendation in FY 2013.

Management did not comment in its formal response on the monetary impact. In subsequent correspondence, management stated they disagreed with the monetary impact as a whole because, even with a reduced sales force, they have been able to increase sales and double the value of each sale by focusing on higher value sales and sales execution.

See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. Although the Postal Service disagreed with our monetary impact, we believe the Postal Service's efforts to increase the value of each sale should enhance its ability to realize the increased revenue disclosed in our report. We acknowledge management's efforts to fill sales vacancies and note that we factored in vacancies filled as of March 21, 2012, in our monetary impact calculation.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

The Postal Service offers a variety of package products, such as First-Class Parcels, not Flat-Machinables, Standard Parcels, Single-Piece Parcel Post, Express Mail, Priority Mail, Parcel Select, Parcel Return Service, and International Mail and Services.

In [REDACTED] Some of these products are considered market-dominant for rate-making purposes,¹⁵ while others are considered competitive.

[REDACTED]

Sizeable variations also exist in the contribution for each of these package product lines. The table below shows that the Postal Service receives the greatest contribution from Express Mail, followed by Priority Mail and International Mail and Services.

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

Postal Service Strategies to Grow its Package Business

The Postal Service has undertaken a variety of actions to help grow its domestic and international package business, including the following:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

¹⁵ According to Public Law 109-435, Section 3642 (b)(1), December 20, 2006, "The market-dominant category of products shall consist of each product in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products. The competitive category of products shall consist of all other products."

- [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]

The Postal Service’s “Increasing Sales Force Effectiveness” initiative aims to:

- Increase net contribution per sales representative and total number of sales per sales representative.
- Reduce customer defection.
- Build the sales force organization of the future.
- Increase effectiveness of current sales force through recruiting, training, improved performance metrics, and so forth.
- Refocus strategic accounts on growth, not maintenance.

For these various strategies, the Postal Service has created key accountability mechanisms including milestones, timeframes, and revenue baselines and forecasts. For example, [REDACTED]

[REDACTED]

[REDACTED] These strategies and the accompanying accountability mechanisms are generally consistent with leading practices in the package marketplace.

Barriers and Limitations

The Postal Service faces key challenges in operating in the domestic and international package marketplace, including:

- Mature competitors – in the domestic and international package markets, Postal Service competitors frequently take advantage of their market advantages by offering customer-specific pricing contracts, bundling other tertiary services, such as logistics, and making quicker decisions about opening or closing facilities or negotiating with potential customers.
- Legal and regulatory requirements – the Postal Service is subject to a variety of legal and regulatory constraints including pricing requirements (both for its competitive and market-dominant package products), cost-attribution requirements, and other restrictions to include delivering beer and wine and offering non-postal services.

Objectives, Scope, and Methodology

Our objectives were to assess the effectiveness of the Postal Service's strategies for growing its package delivery business, identify opportunities for growth, and estimate the potential additional net revenue if the Postal Service increased its market share. To accomplish our objectives, we obtained and reviewed market research from Colography and ComScore. We enlisted a contractor to provide information about the package market and evaluate Postal Service opportunities. We obtained the Postal Service's package business volume and revenue results, as well as its goals for FYs 2011 and 2012. We interviewed key officials and subject matter experts on initiatives to grow the package business and current operating procedures. We obtained and reviewed the performance measures for various Finance, Sales, and Operations officials.

We identified the computer system the Postal Service used to track sales opportunities — CustomerFirst! — and then obtained and analyzed data from it. We judgmentally selected sales from the CustomerFirst! database that had not been closed and followed up to determine their current status. We assessed the reliability of CustomerFirst! data by judgmentally following up on selected sales that were not closed to determine their current status and, if not closed, the reasons why. We determined that the data was sufficiently reliable for the purposes of this report.

We conducted this performance audit from March 2011 through May 2012 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our

observations and conclusions with management on March 15 and 21, 2012 and included their comments where appropriate.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Benchmarking Postal Service Parcel Productivity</i>	EN-MA-09-002	3/31/2009	None	The Postal Service has improved productivity by using various strategies to promote continuous improvement. However, the Postal Service has additional opportunities to increase productivity by adopting best practices used in the commercial parcel processing industry. The business practices of Postal Service competitors lend themselves to increased agility in response to prevailing economic conditions and customers' needs, while the Postal Service is challenged to comply with its Universal Service Obligation and various restrictions that limit its ability to manage fixed costs and streamline its network. Management agreed with our suggestions.
<i>Handling and Transportation of Large and Lightweight First-Class Mail Parcels</i>	NL-MA-10-001	1/28/2010	\$71,835	The Postal Service mishandled and improperly processed large and lightweight FCM parcels at two facilities. This resulted in employees incorrectly placing FCM parcels on FedEx transportation instead of less expensive surface transportation. Management took corrective action during the audit and agreed with our findings and recommendation to reinforce established policies and procedures for processing, dispatching, and assigning FCM parcels.

<p><i>Surface Mail Classes on Air Transportation Networks</i></p>	<p>NL-MA-11-001</p>	<p>12/6/2010</p>	<p>\$72,753,356</p>	<p>The Postal Service used several air transportation networks instead of cheaper ground transportation with space available to move Standard, Periodicals, and Package Services mail classes. Weak controls existed for segregating mail and headquarters management was not always effectively monitoring the types of mail transported on air networks. Management took corrective action during the audit and generally agreed with our findings, recommendations, and monetary impact.</p>
<p><i>Foreign Posts' Strategies Could Inform U.S. Postal Service's Efforts to Modernize</i></p>	<p>GAO-11-282</p>	<p>2/16/2011</p>	<p>None</p>	<p>The foreign posts reviewed have developed alternative delivery choices for customers that, according to the posts, have reduced costs and improved customer satisfaction and service. Management agreed that the Postal Service must pursue modernization and adjust its business model in every way currently possible and noted that many such efforts are underway. Management also noted that modernization could be more quickly and effectively instituted if legal and political barriers were removed.</p>

Appendix B: Monetary Impact

Finding	Impact Category	Amount (in millions)
The Postal Service did not capture available revenue opportunities in FY 2011 as a result of Sales vacancies.	Revenue Loss ¹⁶	\$90
The Postal Service will not capture available revenue opportunities in FYs 2012 and 2013 if Sales vacancies remain.	Increased Revenue ¹⁷	557
Total		\$647

¹⁶ Amount Postal Service is (or was) entitled to receive but did not realize because policies, procedures, agreements, requirements, or good business practices were lacking or not followed.

¹⁷ Increased revenue from existing functions or revenue generated from new sources, perhaps because of implementing a new marketing initiative.

Detailed Calculations

To calculate revenue losses and increases, we multiplied the number of vacancies by the average sales revenue generated by each Sales employee. We reduced this by annual average salary and benefit costs for each sales staff member. We made adjustments based on the number of net vacancies the Postal Service reduced in FY 2012 (35) and the first year of employment. The following presents the key values used during this calculation (totals may not add due to rounding):

Description	Values
FY 2011	
Number of new staff	53
Estimated new revenue (\$1.82 million/new staff member)	\$96 million
Estimated staff costs (\$122,000/staff member)	(\$6 million)
Net financial impact	\$90 million
FY 2012	
Number of new staff	18
Estimated new revenue (\$1.82 million/new staff member)	\$33 million
Number of retained staff from FY 2011	53
Estimated revenue (\$3.64 million/retained staff member)	\$193 million
Estimated staff costs (\$122,000/staff member)	(\$9 million)
Net financial impact	\$217 million
FY 2013	
Number of new staff	53
Estimated new revenue (\$1.82 million/new staff member)	\$96 million
Number of retained staff (FYs 2011 and 2012)	71
Estimated revenue (\$3.64 million/retained staff member)	\$258 million
Estimated staff costs (\$122,000/staff member)	(\$15 million)
Net financial impact	\$340 million*

Source: OIG.

*Difference is result of rounding.

Appendix C: Management's Comments

CLIFF RUCKER
VICE PRESIDENT, SALES



April 19, 2012

SHIRIAN B. HOLLAND
A/DIRECTOR, AUDIT OPERATIONS

SUBJECT: Package Delivery Growth Draft Audit Report MS-AR-12-DRAFT

The findings and recommendations outlined in the Package Delivery Growth Draft Audit report have been reviewed and a collective response from Sales and Domestic products is as follows.

Recommendations for Vice President, Sales

Recommendation [1]:

Implement a strategic decision-making process to objectively assess revenue and cost for potential sales to ensure that decisions are made in the best interest of the Postal Service.

Management Response/Action Plan:

We agree with this recommendation. Sales, in cooperation with Operations, will develop a needs-assessment form to determine the overall benefit of a sale to the organization, taking into account operational costs that may be incurred as a result of the sale. When a salesperson is faced with operational issues or the need for additional transportation, the needs-assessment form will be utilized to determine the next course of action and will include but not be limited to the following fields:

- Customer name
- Potential USPS Revenue
- Net contribution (i.e. profit) daily, monthly, quarterly, yearly
- Cost to the Postal Service

The form will create a strategic decision-making process that incorporates an objective review of the estimated costs and benefits associated with new opportunities and ensure that decisions made are in the best interest of the Postal Service.

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260-5657
WWW.USPS.COM

Target Implementation Date:

July 1, 2012

Responsible Manager:

Cliff Rucker, Vice President, Sales

Recommendation [2]:

Develop enhancements to the CustomerFirst! System to ensure that the data and information contained within are reliable and useful.

Management Response/Action Plan:

We agree with this recommendation. Efforts around improving the value of CustomerFirst! are currently in progress. Recommendations provided will be included in further improvement endeavors. In October 2011, data integration of CustomerFirst! and Business Connect Data Center (BCDC) was instituted. By combining the data provided by two separate sources into one, the ability to determine why a sale was lost or won has been improved. Sales has also initiated an external consulting evaluation of CustomerFirst! to determine whether the system can be modified or must undergo a major overhaul in order to be better aligned with industry best practices. Once this assessment has been completed, a cost/benefit evaluation will be performed to determine next steps in regards to the future/end state of CustomerFirst!.

Target Implementation Date:

Further actions to be determined upon evaluation and recommendations of CustomerFirst! system.

Responsible Manager:

Cliff Rucker, Vice President, Sales

Recommendation [3]:

Reassess sales staffing levels and hiring processes to ensure that there are sufficient numbers of qualified staff to identify and capture package sale opportunities.

Management Response/Action Plan:

Staffing continues to be a key focus of the Sales organization and senior management is committed to hiring to meet the current authorized levels. To date, 78 new internal and external complement have been added to the sales force, resulting in the decline of the vacancy rate from 18.2 percent to 11.8 percent. Traditionally high external new hire attrition rates have been reduced to 7.8 percent year to date in FY2012. Additionally the Sales organization is assessing the package and mail market in relation to the current size of the sales force and will be making a recommendation to the President/Chief Marketing and Sales Officer (CMSO) on new staffing configurations for the Sales Organization.

Despite the vacancy rate, the sales organization has increased revenue at midyear by \$467M to SPLY with less people. This has been accomplished by focusing on the higher value sales. Through March of 2012, the average value of a sale is \$89,000 compared to an average value of a sale in FY2011 of \$44,000. By placing emphasis on this sales strategy, the sales organization has been able to increase revenue with less resources, thus making the sales organization more effective.

Target Implementation Date:

Recommendation to President/CMSO by May 1, 2012. Further actions to be determined upon concept evaluation by President/CMSO.

Responsible Manager:

Cliff Rucker, Vice President, Sales

Recommendations for Vice President, Domestic Products

Recommendation [4]:

Evaluate the feasibility of offering a local product the customer either arranges to have picked up for taken to the local Post Office for sortation and delivery without involving a mail processing plant.

Management Response/Action Plan:

The combination of strategic pricing, re-classification and an expanded product line has improved profitability and increased volume share growth for USPS shipping. With ground, flat rate, cubic, and regional shipping options available, our products are priced-right and well-suited for business-to-consumer fulfillment. During the past year we set the stage for even greater revenue potential and will continue to focus on creating competitive products that meet the needs of a changing marketplace.

As the USPS retail network transforms to meet current day realities, our expectation for the future is increased use of the internet and alternate access channels, while visits to Post Office locations will decrease. In the face of this behavioral shift, the USPS is focused on continual development of web, mobile, self-service and retail partner solutions that meet our customers changing needs and drive transactions to the most efficient channels. The cost savings that arise from more efficient channels will be a major factor in ensuring that postal products and services remain economical for consumers and small businesses.

Our strategic focus is the development of shipping solutions for the growing ecommerce market, which leverage our last mile delivery capabilities. The unparalleled convenience of USPS retail locations, combined with free packaging, carrier pickup, tracking, and our secure mailbox delivery, give us an advantage for the acceptance and delivery of small parcels.

Initiatives such as Hold for Pickup and GoPost pave the way for a local shipping product and we agree this recommendation warrants further evaluation. Establishing a shipping product which relies exclusively on our retail footprint and personnel will require careful analysis.

Target Implementation Date:
Pending evaluation.

Responsible Manager:
Gary C. Reblin, Vice President, Domestic Products

Recommendation [5]:
Continue to pursue legislative change that will allow the Postal Service to ship beer and wine.

Management Response/Action Plan:
We agree with the importance of continuing to pursue legislative change that would allow the Postal Service to ship beer and wine, and as noted in the report, this initiative is currently included in Senate bill S. 1789. In fact, the Postal Service has continued to pursue this effort through our Domestic Products and Government Relations teams for more than three years. Based on internal discussions, we are confident we will be able to make the required operational adjustments to offer beer and wine in the mail in the event legislation is enacted by the Congress authorizing the service.

In addition, the Postal Service recently authorized a marketing study to determine the volume and revenue impact associated with this market opportunity. The results are expected to be available in May 2012.

Target Implementation Date:
Subject to legislation.

Responsible Manager:
Gary C. Reblin, Vice President, Domestic Products



Cliff Rucker
Vice President, Sales



Gary C. Reblin
Vice President, Domestic Products

cc: Paul Vogel

GISELLE E. VALERA
MANAGING DIRECTOR, GLOBAL BUSINESS
AND VICE PRESIDENT



April 19, 2012

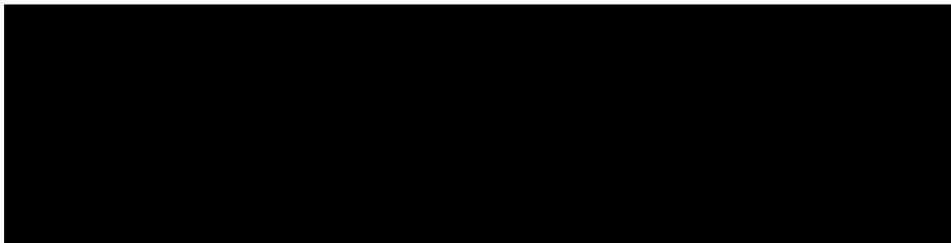
SHIRIAN B. HOLLAND
A/DIRECTOR, AUDIT OPERATIONS

SUBJECT: Package Delivery Growth Draft Audit Report MS-AR-12-DRAFT

The findings and recommendations outlined in the attached Package Delivery Growth Draft Audit report have been reviewed and our response is as follows.

Recommendation: # 6 - Evaluate the feasibility of offering an international service that allow customers the option of prepaying customs duties and taxes.

Management Response/Action Plan: Global Business agrees with the recommendation. Under FOIA, we are requesting that the entirety of our response shown below be redacted due to proprietary information.



This report and management response contain information that may be exempt from disclosure under the FOIA. Please see attachment.

A handwritten signature in cursive script that reads "Giselle Valera".

Giselle Valera

Attachment

cc: Mr. Paul Vogel
Mr. Gary Reblin
Mr. Cliff Rucker

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260
WWW.USPS.COM