



September 28, 2010

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PRESIDENT, MAILING AND SHIPPING SERVICES

SUBJECT: Management Advisory – Revenue Generation Strategic Report
(Report Number MS-MA-10-002)

This report presents the results of our review of revenue generation strategies for the U.S. Postal Service (Project Number 10RG007MS000). Our objective was to suggest strategic revenue generation opportunities for the Postal Service. This self-initiated review addresses strategic risk. See [Appendix A](#) for additional information about this review.

In addition to this report, our Risk Analysis Research Center is planning a white paper which may include additional suggestions for generating revenue in the digital world. We anticipate completing that project in fiscal year (FY) 2011.

The combination of electronic diversion and the recent recession has led to an unprecedented decline in mail volume and a resulting decline in revenue for the Postal Service.¹ Without fundamental changes, management expects current trends to worsen over the next decade. In addition, the Government Accountability Office (GAO) reported that the Postal Service urgently needs to improve its financial viability primarily by taking action to right-size operations, cut costs, and increase revenue.²

The Postal Service engaged a group of consultants led by McKinsey & Company to identify revenue-generating ideas and assist in developing a 10-year plan to become financially viable. To improve its financial position, the Postal Service is pursuing major changes, including several cost-reduction initiatives, such as 5-day delivery, changing retiree health benefit funding, and closing retail facilities. While these cost-saving initiatives could help improve the Postal Service's financial situation in the short term, the Postal Service needs to also consider long-term revenue generation strategies if it expects to continue fulfilling its mission of providing universal service. The Postal Service has elected not to pursue some of the longer term revenue generating ideas recommended by the consultants due to current constraints on operating capital.

¹ *Assessment of U.S. Postal Service Future Business Model*, November 2009, page 2.

² GAO-10-601T, *U.S. Postal Service: Action Needed to Facilitate Financial Viability*, April 22, 2010.

Conclusion

Strategic opportunities exist for the Postal Service to generate additional revenue from new postal and non-postal products and services. We suggest opportunities for the Postal Service to further evaluate or re-evaluate in the future to diversify and expand its product and service offerings to ensure its financial viability. While several of the recommended changes may require legislative changes, implementing these suggestions could result in potential additional revenue³ of as much as \$9.7 billion for the Postal Service annually, while providing improved service⁴ to its customers.

Revenue Generation Opportunities

The Postal Service has the opportunity to generate additional revenue by offering new postal and non-postal services. Mail volume and revenue are declining due to ongoing electronic diversion and the recent widespread economic recession. Mail volume is expected to drop from a high of 213 billion pieces in 2006 to 150 billion pieces by 2020, with a sharp decline in First-Class Mail.⁵

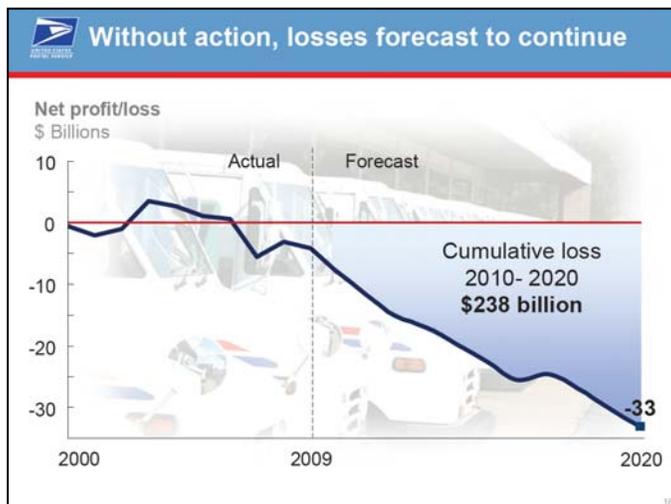
Additionally, the Postal Accountability and Enhancement Act of 2006 (the Postal Act of 2006) prohibits the Postal Service from offering non-postal products and services and caps price increases on market-dominant products at the rate of inflation,⁶ limiting revenue growth from rate increases. As a result, the Postal Service is foregoing millions of dollars of revenue that could be generated if it diversifies into non-postal services.

³ Potential additional revenue generated from new sources. An example would be revenue that could be generated by implementing a new marketing initiative. We did not calculate the potential cost to implement the suggested initiatives.

⁴ Initiatives aimed at expanding and improving the quality of and access to products and services that serve the entire spectrum of the Postal Service customer base.

⁵ *Ensuring a Viable Postal Service for America: An Action Plan for the Future*. U.S. Postal Service, March 2010, page 7.

⁶ The price cap applies separately to each market-dominant class of mail.



Source: *Ensuring a Viable Postal Service for America: An Action Plan for the Future*, March 2010, slide 18.

Several international posts generate substantial revenue by offering non-postal products and services. For example, the Japan Post provides financial services, including savings accounts and insurance, as well as logistics services. In 2006, Germany’s Deutsche Post DHL derived 76 percent of its revenue from the sale of non-postal products and services, while Netherlands postal operator TNT Post derived 60 percent of its revenue from non-postal products and services.⁷

The Postal Service should evaluate such opportunities as well. Based on feedback from industry representatives and international posts, we identified 10 potential revenue generating opportunities that could result in significant revenue impact in the long term (see Table 1).⁸

Table 1. Revenue Generation Opportunities

Products/Services That Can Be Offered Under Current Legislation	
1	Unaddressed mail service
2	Post Office box customer information
3	Selling advertising space in Postal Service outlets and on delivery vehicles
4	Enhanced online ordering and package delivery
Products/Services That May Require Legislative Change	
5	Digital identity; secure e-mail services
6	Comprehensive micro-logistics service provider
7	Entertainment: DVD/video games fulfillment
8	In-person service center for community and government services
9	Bill payment at Postal Service outlets
10	Banking services

⁷ *Assessment of U.S. Postal Service Future Business Model*, Appendix B, pages 1–2, November 2009.

⁸ While some initiatives may not be feasible in the short term due to the Postal Service’s current financial situation, they could represent significant revenue potential in the long term.

Implementing these initiatives could generate potential additional revenue of as much as \$9.7 billion annually for the Postal Service. Furthermore, these opportunities would provide improved service to Postal Service customers by enabling access to a larger range of relevant services. See [Appendix B](#) for our detailed analysis of this topic.

Management's Actions

In March 2010, the Postal Service announced a 10-year plan to address its near-term funding challenges and long-term financial health. The effort identified more than 30 potential sources of revenue growth for the Postal Service, some of which were non-postal services.

The Postal Service's current plan for pursuing revenue generating efforts is focused more on immediate-term solutions. To meet FY 2009 economic challenges, the Postal Service implemented several revenue generating initiatives such as the Standard Mail[®] Volume Incentive Pricing Program ("Summer Sale") and First-Class Mail Incentive Pricing Program. These programs, which were intended to boost mail volume, offered customers a postage rebate if their mail volume exceeded a specific threshold. To increase Priority Mail[®] revenue, the Postal Service launched a promotional campaign to promote the value of the Priority Mail Flat Rate Box⁹ and make customers aware of the ease and convenience of flat-rate shipping.

As advised by its consultants, the Postal Service has elected not to pursue some of the longer term revenue generating ideas that were identified, due to current constraints on operating capital. We believe our ideas should be thoroughly evaluated and implemented if deemed cost effective when operating capital becomes available in the future.

We suggest the president, Mailing and Shipping Services:

1. Review the list of opportunities detailed in [Appendix B](#) and conduct feasibility studies to determine their revenue generating potential. Management should establish a mechanism to preserve ideas such as these for future consideration and seek regulatory and legislative change where necessary to pursue these ideas.

Management's Comments

Management agreed with our conclusion that strategic opportunities exist for the Postal Service to generate additional revenue from new postal and non-postal products and services and stated the Postal Service has nearly all of our suggested opportunities under consideration or in development. Management noted that our report did not discuss net profitability and that although an opportunity may generate revenue, it may not provide sufficient margin to make development, at present, a good investment of

⁹ Using a Priority Mail Flat Rate Box, the Postal Service allows customers to ship at a flat rate anywhere in the U.S.

limited resources. Management further stated the Postal Service is pursuing legislative and regulatory changes to enable it to provide appropriate products and services to 21st century customers, make business decisions necessary to align costs and revenue, and ultimately achieve financial health. See [Appendix D](#) 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 suggestion in this report.

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



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

Attachments

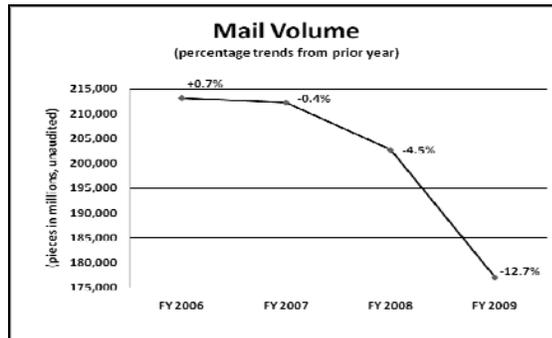
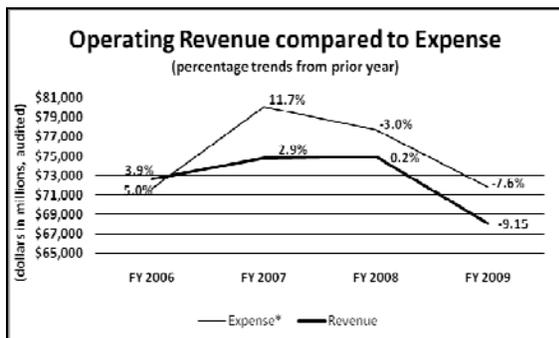
cc: Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Reorganization Act of 1970 required the Postal Service to become self-sufficient and act as a business, relying on sales of its products and services to finance its operations. This business model worked well for many years as mail volume grew. The Postal Act of 2006 established a new regulatory structure and introduced crucial requirements and restrictions, such as retiree health benefit pre-funding, limits on price increases (price caps) by class of mail based on the Consumer Price Index, and a restriction against offering non-postal products and services. This framework did not anticipate the level of volume decline that has occurred over the past several years.

With a weakened economy and the diversion of mail to electronic communication, mail volume and revenue continue to decline and, despite focused cost reductions and increased efficiency, the Postal Service now faces a dire financial situation. Total mail volume fell by 12.7 percent in FY 2009, with an accompanying operating revenue decline of 9.1 percent. Even with a cost reduction of \$1 billion or more every year since 2001 and \$6.1 billion in FY 2009, the Postal Service could not fully offset the drop in mail volume and revenue, and ended FY 2009 with a \$3.8 billion net loss. Further, the Postal Service is projected to lose \$6.4 billion in FY 2010.



Sources: Postal Service 2006 and 2009 Annual Reports

The Postal Service engaged a team of consultants — McKinsey & Company, Boston Consulting Group, and Accenture, LLC — to assist in defining its future business model. The objective of this effort was to formulate a 10-year plan to address both short-term funding challenges and the long-term health and financial viability of the Postal Service. Their analyses concluded that without significant changes to its business model, cumulative losses will continue¹⁰ and, to reverse projected losses over the next 10 years without cost to U.S. taxpayers, the Postal Service needs legislative and regulatory changes that will provide greater speed and flexibility in responding to marketplace dynamics.

¹⁰ The amount of future losses is disputed.

To address its long-term financial problems and continue to thrive in the future, the Postal Service needs to adopt innovative revenue generating strategies while improving service quality and pricing efficiency. Change and additional flexibility are necessary if the Postal Service is to respond to the rapidly changing environment, continue to meet its universal service obligation, and remain a viable institution for many years to come. These changes include offering new products and services.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to suggest strategic revenue generation opportunities for the Postal Service. To accomplish our objective, we:

- Surveyed international postal operators, mailing industry representatives, and other key stakeholders to identify potential revenue-generating ideas for the Postal Service.
- Evaluated the universe of ideas to select strategic opportunities to suggest to the Postal Service.
- Calculated the potential additional revenue for 10 ideas.

We conducted this review from December 2009 through September 2010 in accordance with the *Quality Standards for Inspections*.¹¹ We obtained Standard Mail volume and revenue data and total Package Services revenue from the Postal Service's FY 2009 Revenue, Pieces, and Weights (RPW) report. RPW reports present the official Postal Service estimates of its revenue, volume, and weight by mail class, product, and major special service. We obtained total and occupied Post Office Box information and facilities with positive stamp sales from the Enterprise Data Warehouse (EDW).

We assessed the reliability of the computer-generated data used in our analyses and concluded the data used were sufficiently reliable for the purposes of this report. Specifically, we assessed the reliability of RPW data by reviewing the prior OIG report titled *Controls Over the Bulk Mail Revenue, Pieces, and Weight (BRPW) System* (Report Number CRR-AR-09-007). The report concluded that BRPW data contains adequate edit controls and that management appropriately evaluates the reliability of system-calculated values. Further, the audit did not identify any data inaccuracies. The Postal Service uses BRPW data (along with other inputs) to prepare monthly, quarterly, and annual RPW reports for the Postal Regulatory Commission, thus, we believe this data to be a reliable indicator of the accuracy of the RPW volume and revenue data we used. We assessed the reliability of EDW data by interviewing Postal Service officials.

¹¹ These standards were last promulgated by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) in January 2005. Since then, The Inspector General Act of 1978 as amended by the IG Reform Act of 2008 created the Council of the Inspectors General on Integrity and Efficiency (CIGIE), which combined the PCIE and ECIE. To date, the Quality Standards for Inspections have not been amended to reflect adoption by the CIGIE and, as a result, still reference the PCIE and ECIE.

For example, we interviewed Retail Products and Services personnel to determine the total and occupied number of Post Office Boxes, and compared these amounts to the EDW data. We discussed our observations and conclusions with management officials on August 26, 2010, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact
<i>U.S. Postal Service, Strategies and Options to Facilitate Progress toward Financial Viability</i>	GAO-10-455	4/12/2010	None
<i>U.S. Postal Service, Financial Challenges Continue, with Relatively Limited Results from Recent Revenue Generation Efforts</i>	GAO-10-191T	11/05/2009	None
<i>U.S. Postal Service, Restructuring Urgently Needed to Achieve Financial Viability</i>	GAO-09-958T	8/6/2009	None
<i>High-Risk Series, Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability</i>	GAO-09-937SP	7/28/2009	None

In July 2009, the GAO added the Postal Service’s financial condition to the list of high-risk areas needing attention by Congress and the executive branch to achieve broad-based transformation. The GAO subsequently suggested the Postal Service restructure to achieve financial viability and suggested changing the Postal Act of 2006 to provide the Postal Service with greater flexibility to generate revenue.

In April 2010, the GAO reported that the Postal Service has not been able to reduce costs to offset declining mail volume and revenue loss. The GAO recommended Congress consider providing financial relief, such as revising Postal Service retiree health benefit funding and requiring any binding arbitration to consider the Postal Service’s financial condition. In addition, the GAO suggested Congress consider setting up a panel of experts to develop proposals for broader legislative and operational reform. The Postal Service agreed with the report’s key findings but raised concerns about the timing involved in establishing a panel.

APPENDIX B: DETAILED ANALYSIS

Revenue Generation Opportunities

We developed a list of strategic revenue generation opportunities for the Postal Service to further evaluate or re-evaluate in the long term. We solicited ideas from various sources, including mailing associations, international posts, suppliers of postal systems, and other leaders within the postal community. Analyses by the Postal Service's consultants suggest that its current financial situation and legal restrictions may limit its ability to pursue some of these opportunities in the short term. However, we identified 10 revenue-generating ideas the Postal Service should preserve and consider implementing over the long term (see Table 2).

Table 2. Revenue Generation Opportunities (Detailed)

	Opportunity	Description
	Products/Services That Can Be Offered Under Current Legislation	
1	Unaddressed mail service	Offer small businesses an easy and low cost means of distributing advertising flyers and circulars. Mailers could submit unaddressed Standard Mail pieces to their local Post Offices for delivery by route or 5-digit area.
2	Post Office box customer information	Offer real-time notification via e-mail, cell phone, etc., that mailpieces are available in the customer's Post Office box for pick up, and provide an image of the front of the mailpieces.
3	Selling advertising space in Postal Service outlets and on delivery vehicles	Rent space in Postal Service outlets and on delivery vehicles for customer advertising.
4	Enhanced online ordering and package delivery	Enable usps.com visitors to order catalogs online by specific name, category of merchandise or area of interest. Further customization could allow customers to order catalogs in advance to meet their specific needs. In addition, the Postal Service could partner with an online gift shop to offer merchandise for online shopping. The primary objective of this partnership would be to increase parcel and catalog volumes.
	Products/Services That May Require Legislative Change	
5	Digital identity, secure e-mail services	Provide secure electronic transactions between business users, public entities, and private customers with features including: 1) Verification of identity for online banking, online shopping, etc. (this feature would be substituted for the functions of user name and password). 2) A digital signature. 3) Integrity (the user would be notified of data amendments). 4) Confidentiality. Also, provide an encrypted e-mail service and electronic registered mail service transmission.

	Opportunity	Description
6	Comprehensive micro-logistics service provider	Offer business customers complete end-to-end supply chain management capability, from the origin manufacturer to the end consumer. Some value-added services include: 1) Multi-country consolidation. 2) Multi-mode international freight forwarding. 3) Destination port and customs services. 4) Electronic order processing. 5) Warehousing. 6) Inventory management. 7) Automated reporting and credit management. 8) Kitting ¹² and pick and pack of goods. ¹³ 9) Distribution and returns management.
7	Entertainment: DVD/video games fulfillment	Offer space in Postal Service facilities for video and game kiosks. Revenue could be based on rental of space and/or transaction fees. The Postal Service could also offer kiosk customers the opportunity to have their rentals delivered to them and/or returned to the kiosk by Postal Service personnel.
8	In-person service center for community and government services	Provide in-person service centers for people to access basic federal, state, and local government services, including identity proofing, driver license processing, tax and fine payment, and enrollment services. Customers could use self-service kiosks to access other government services.
9	Bill payment at Postal Service outlets	Use Postal Service outlets to pay utility bills such as gas, electricity, and telephone. This could also include insurance fees, mail order bills, and tax bills. Payment could be sent electronically or by mail.
10	Banking services	Provide full-scale banking services, including money orders, deposits, savings, credit, insurance, and automated teller machines.

While we did not estimate the potential cost of implementing these ideas, we estimated the Postal Service could generate potential additional revenue of up to \$9.7 billion annually (see Table 3).

¹² Kitting is the process in which individually separate but related items are grouped, packaged, supplied, and transported together as one unit.

¹³ Pick and pack is a part of a complete supply chain management process that is commonly used in, but not limited to, the retail distribution of goods. It entails processing small to large quantities of products — often truck or train loads — and disassembling them, picking the relevant product for each destination, and re-packaging with a shipping label affixed and an invoice included.

Table 3. Potential Additional Revenue (in Millions)

Products/Services That Can Be Offered Under Current Legislation	
Unaddressed Mail Service	\$156.1
Post Office Box Customer Information	69.0
Selling Advertising Space in Postal Service Outlets and on Delivery Vehicles	357.9
Enhanced Online Ordering and Package Delivery	307.8
Products/Services That May Require Legislative Change	
Digital Identity; Secure e-Mail Services	178.0
Comprehensive Micro-logistics Service Provider	3,404.5
Entertainment: DVD/Video Games Fulfillment	187.6
In-person Community/Government Services	229.0
Bill Payment at Postal Service Outlets	22.3
Banking Services	4,822.0
Total	\$9,734.2

Unaddressed Mail Service

Unaddressed Mail Service would give small- and medium-sized businesses the opportunity to send mail without names and addresses to potential customers in the communities they serve using the Postal Service's knowledge of how many mailpieces are needed to cover a given delivery area. Businesses, such as pizza parlors, dry cleaners, florists, dentists, and hardware stores, would pay the Postal Service to blanket an area with their advertising circulars. Companies would bring their circulars to a local post office for delivery at every stop on a letter carrier's route, avoiding the cost of purchasing mailing lists and commercial mail services.

The Postal Service had approximately 233,994 delivery routes at the end of FY 2009,¹⁴ consisting of city, rural, and highway contract routes. City and rural routes each average more than 500 delivery points, while highway contract routes average 336 delivery points (see Table 4).

¹⁴ 2009 Comprehensive Statement of Postal Operations, page 35.

Table 4. Postal Service Delivery Points and Routes

FY 2009 Year End			
Delivery Routes by Type	Delivery Points	Total Routes	Average Deliveries Per Route
City	87,670,966	150,779	581
Rural	39,704,212	75,332	527
Highway Contract Route	2,649,132	7,883	336
Total	130,024,310	233,994	

With Unaddressed Mail Service, mailers could submit a minimum of 200 pieces in a mailing to be distributed to certain areas or streets on a particular route. Table 5 represents additional increased annual revenue the Postal Service could generate by implementing this service. We are basing the potential revenue on various levels of piece mailings delivered to each nationwide route in 1 year.

Table 5. Potential Annual Additional Revenue from Unaddressed Mail Service

Yearly Nationwide Mailings Per Route	Mailpieces Per Mailing (Potential Annual Additional Revenue in Millions)						
	200	250	300	350	400	450	500
12	\$78.1	\$97.6	\$117.1	\$136.4	\$155.3	\$174.1	\$193.0
24	\$156.1	\$195.2	\$234.2	\$272.8	\$310.6	\$348.3	\$386.0
36	\$234.2	\$292.7	\$351.3	\$409.3	\$465.8	\$522.4	\$579.0
48	\$312.2	\$390.3	\$468.4	\$545.7	\$621.1	\$696.5	\$772.0
60	\$390.3	\$487.9	\$585.5	\$682.1	\$776.4	\$870.7	\$965.0

If every route nationwide received two 200-piece mailings per month (24 mailings per route in 1 year) at \$.139 per piece,¹⁵ the Postal Service could capture potential additional revenue of \$156.1 million¹⁶ annually.

Post Office Box Customer Information

To increase the value of receiving mail through a Post Office box, the Postal Service has much of the infrastructure in place to offer new value-added services, including images of mailpieces and real-time notification via e-mail that a mailpiece has arrived and is available for pickup in the customer's Post Office box.

The Postal Service has a total of 21.6 million Post Office boxes, with 14.4 million¹⁷ occupied. Table 6 shows the potential annual additional revenue the Postal Service

¹⁵ Piece rate is based on the Standard Mail carrier route letter rate of 3.3 ounces or less at \$.139 each.

¹⁶ 233,994 total delivery routes x 2 mailings x 200 pieces x 12 months x \$.139 per piece = \$156,120,797.

¹⁷ Post Office box data (total and occupied) from EDW, as of FY 2009 year-end.

could generate (based on various adoption rates and fee options) by implementing the Post Office Box Customer Information service. If the Postal Service implements this service and charges a monthly fee of \$2, it could capture an additional \$69 million¹⁸ in annual revenue, assuming a 20 percent adoption rate.

Table 6. Potential Annual Additional Revenue from Post Office Box Customer Information Service

14.4 Million Occupied Post Office Boxes							
Potential Annual Additional Revenue (in Millions)							
Adoption Rate	Monthly Fee						
	\$1	\$2	\$3	\$4	\$5	\$10	\$20
5%	\$8.6	\$17.3	\$25.9	\$34.5	\$43.1	\$86.3	\$172.6
10%	\$17.3	\$34.5	\$51.8	\$69.0	\$86.3	\$172.6	\$345.2
15%	\$25.9	\$51.8	\$77.7	\$103.6	\$129.4	\$258.9	\$517.8
20%	\$34.5	\$69.0	\$103.6	\$138.1	\$172.6	\$345.2	\$690.3
25%	\$43.1	\$86.3	\$129.4	\$172.6	\$215.7	\$431.5	\$862.9
30%	\$51.8	\$103.6	\$155.3	\$207.1	\$258.9	\$517.8	\$1,035.5

This estimate does not include new Post Office box rentals from customers finding the new service attractive. For an additional fee, customers could also request home delivery of the mail in their Post Office box.

Selling Advertising Space in Postal Service Outlets and on Delivery Vehicles

With its extensive presence throughout the U.S., the Postal Service could generate significant revenue by selling advertising space in its retail facilities and on postal delivery and collection vehicles. Advertising options include posters; dispensers for samples; leaflets, brochures, or promotional items available at the counter; and video spots projected on a digital screen in front of the waiting queue.

If the Postal Service sold advertising space at \$200 per month to three businesses at each of its 30,065 retail locations,¹⁹ it would potentially generate \$216.5 million²⁰ in additional revenue annually (see Table 7). The Postal Service has 196,445 delivery and collection vehicles.²¹ If 20 percent (or 39,289) of the vehicles contained one advertisement at \$300 per month, the Postal Service would generate another \$141.4 million²² in revenue (see Table 8), for a total of \$357.9 million in additional annual revenue from selling advertising space.

¹⁸ 14,382,102 occupied boxes x \$2 fee x 12 months x 20 percent adoption rate = \$69,034,090.

¹⁹ Facilities with positive stamp sales – walk-in revenue (EDW), September 2009.

²⁰ 30,065 retail facilities x \$200 per month x 12 months x 3 businesses = \$216.5 million.

²¹ 2009 Comprehensive Statement on Postal Operations, page 34.

²² 39,289 vehicles x 1 advertisement x \$300 per month x 12 months.

Table 7. Potential Annual Additional Revenue from Selling Advertising Space in Postal Service Outlets

Number of Advertisers	Potential Annual Additional Revenue (in Millions) Generated at 30,065 Retail Sites							
	Monthly Fee							
	\$150	\$175	\$200	\$225	\$250	\$275	\$300	\$325
1	\$54.1	\$63.1	\$72.2	\$81.2	\$90.2	\$99.2	\$108.2	\$117.3
2	\$108.2	\$126.3	\$144.3	\$162.4	\$180.4	\$198.4	\$216.5	\$234.5
3	\$162.4	\$189.4	\$216.5	\$243.5	\$270.6	\$297.6	\$324.7	\$351.8
4	\$216.5	\$252.5	\$288.6	\$324.7	\$360.8	\$396.9	\$432.9	\$469.0
5	\$270.6	\$315.7	\$360.8	\$405.9	\$451.0	\$496.1	\$541.2	\$586.3
6	\$324.7	\$378.8	\$432.9	\$487.1	\$541.2	\$595.3	\$649.4	\$703.5

Table 8. Potential Annual Additional Revenue from Selling Advertising Space on Delivery Vehicles

Number of Advertisers	Potential Annual Additional Revenue (in Millions) Generated from Advertising on 39,289 Vehicles					
	Monthly Fee					
	\$100	\$150	\$200	\$250	\$300	\$350
1	\$47.1	\$70.7	\$94.3	\$117.9	\$141.4	\$165.0
2	\$94.3	\$141.4	\$188.6	\$235.7	\$282.9	\$330.0
3	\$141.4	\$212.2	\$282.9	\$353.6	\$424.3	\$495.0

Enhanced Online Ordering and Package Delivery

The usps.com website has more than one million visitors daily and a high level of user trust and brand recognition. The Postal Service can expand its website offerings by allowing businesses to advertise on usps.com and enabling visitors to order catalogs by specific name, category of merchandise, or area of interest. The website could operate as an electronic shopping mall by offering customers a one-stop shopping source for catalog shopping and delivery. Customers would benefit from having access to several merchants from a single online location.

Catalogs make up 14.9 percent²³ of all Standard Mail.²⁴ In FY 2009, the Postal Service delivered 12.3 billion catalogs²⁵ at an average piece rate of \$0.24.²⁶ In developing base

²³ *The Household Diary Study, Mail Use & Attitudes in FY 2009, Table A3-5.* Data reflects household volumes only.

²⁴ FY 2009 total Standard Mail pieces equaled 82,706,211,000, per FY 2009 RPW report.

²⁵ 82,706,211,000 total Standard Mail pieces x 14.9 percent = 12,323,225,439 catalogs.

²⁶ Unit revenue estimated based on revenue and volume data (revenue divided by volume) for Standard Mail products that include catalogs: High-Density and Saturation Flats and Parcels, Carrier Route, and Flats (FY 2009 RPW report).

case²⁷ mail volume projections for the Postal Service, the Boston Consulting Group projected overall Standard Mail volumes would remain relatively flat over the next 10 years. However, they projected catalog volume would decline 29 percent by the year 2020, and did not expect any recovery to reverse this trend.

Table 9. Cumulative Rate of Catalog Volume Decline

Cumulative Rate of Catalog Volume Decline ²⁸										
29 Percent Overall Catalog Volume Decline over next 10 Years (by 2020)										
Year	1	2	3	4	5	6	7	8	9	10
	3.4%	6.6%	9.8%	12.8%	15.7%	18.6%	21.3%	24.0%	26.5%	29.0%

By implementing online ordering, the Postal Service could generate additional volume from both catalog and merchandise delivery and offset some of the projected volume decline. Assuming online catalog ordering yields a 10 percent increase in catalog volume, the Postage Service could generate additional revenue of \$285.8 million, not including the potential additional revenue generated from shipping charges resulting from catalog merchandise orders and other online merchandise orders (see Table 10). Total Package Services Mail revenue was \$1.7 billion²⁹ in FY 2009. Assuming a 2 percent increase in package volume (shipments) from catalog merchandise and other online merchandise orders, the Postal Service could generate another \$22 million in revenue (see Table 11), for a total of \$307.8 million³⁰ in additional revenue from online catalog ordering and package delivery.

Table 10. Potential Additional Revenue from Online Catalog Ordering and Delivery

Potential Additional Revenue due to Catalog Delivery (in Millions)			
FY 2009 total Standard Mail pieces	82,706.2		
FY 2009 catalog volume (total Standard Mail pieces x 14.9%)	12,323.2		
Projected catalog volume decrease for year 1 (3.3669% x 12,323,225,439 catalogs)	414.9		
Catalog volume less projected volume decrease		11,908.3	
Estimated 10% increase in volume due to online catalog ordering		1,190.8	
Potential additional revenue (catalog volume increase due to online catalog ordering x cost per piece (\$.24))			\$285.8

²⁷ Business as usual scenario assuming no new revenue or cost savings initiatives, no regulatory or legislative changes, and an economy that returns to a normal growth rate in 2 to 3 years.

²⁸ We estimated the cumulative volume decline per year based on Boston Consulting Group's projection of a 29 percent decline in catalog volume by 2020.

²⁹ RPW Report, Revenue, FY 2009.

³⁰ \$285.8 million from increased catalog deliveries + \$22 million from increased merchandise deliveries.

Table 11. Potential Additional Revenue from Delivery of Merchandise

Potential Additional Revenue due to Merchandise Delivery (in Millions)		
Package Services Mail: ³¹	Revenue	Mailpieces
Single-Piece Parcel Post	\$699.3	80.7
Media and Library Mail	397.4	140.1
Package Services Mail Fees ³²	2.6	0
Total ³³	\$1,099.3	220.9
Average revenue per piece (\$1,099,252,050 divided by 220,855,000 pieces)		\$4.98
2% increase in pieces (220,855,000 x 2%)		4.4
Potential additional revenue (4,417,100 pieces (package volume) x \$4.98)		\$22.0

Digital Identity and Secure E-mail Services

Digital identity enables private customers, business users, and government entities to transmit secure electronic transactions. Features include verification of identity for online banking and online shopping (substitutes for the functions of username and password); digital signature;³⁴ integrity;³⁵ and confidential transmission. Australia Post's suite of identity services was a key driver of revenue growth for its agency services and retail merchandise portfolio, which consists of products and services that complement its core business activities. Revenue for the portfolio rose by 3.2 percent during 2009.

Post offices and other retail options generated \$17.8 billion for the Postal Service in FY 2009.³⁶ If the Postal Service offers digital identity services and, as a result, experiences a 1 percent increase in retail revenue, it would generate \$178 million³⁷ in additional revenue. Additionally, the Postal Service can offer a secure encrypted e-mail service and electronic registered mail service to government entities, business users and private customers for a fee.

³¹ RPW Report, Revenue and Pieces, FY 2009.

³² Total Package Services Mail revenue was \$1,682,651,000, per RPW Report, FY 2009. Single-Piece Parcel Post and Media and Library Mail were 65.2 percent of the total revenue from Package Services Mail ((\$699,269,000 + \$397,398,000) divided by \$1,682,651,000). Total Package Services Mail Fees were \$3,977,000. Therefore, Package Services Mail Fees attributable to Single-Piece Parcel Post Mail and Media and Library Mail total \$2,593,004 (3,977,000 x 65.2 percent).

³³ Includes the categories of Package Services Mail applicable to merchandise delivery as a result of the online ordering and package delivery opportunity.

³⁴ Digital signature ensures the recipient that the message was created by a known sender and that it was not altered in transit. It is used to authenticate the identity of the sender of a message or the signer of a document.

³⁵ Integrity provides assurance that the information can only be accessed or modified by those authorized to do so. The user is notified of data amendments.

³⁶ U.S. Postal Service, 2009 Comprehensive Statement on Postal Operations, page 30.

³⁷ 17.8 billion x 1 percent.

Comprehensive Micro-Logistics Service Provider

Logistics, which includes freight forwarding, warehouse, and transportation management, along with other value-added services, is a large and growing market. International posts operating in this market tend to offer a wide range of services. Australia Post reported parcel and logistics revenue of \$1.1 billion, 27 percent of total revenue, for 2009. Posten Norden reported \$906.9 million³⁸ in logistics revenue, 25.9 percent of total revenue in 2009.

The Postal Service can use its network of post offices and processing facilities to offer business customers, including small businesses, complete end-to-end supply chain capability, from the origin manufacturer to the end consumer. The Postal Service earned operating revenue of \$68.1 billion³⁹ in FY 2009. Assuming logistics services increase its revenue by 5 percent, the Postal Service could generate additional revenue of \$3.4 billion annually.⁴⁰

Entertainment: DVD/Video Games Fulfillment

The overall market for video, DVD, and game rentals was more than \$8 billion⁴¹ in 2009 and is anticipated to continue its growing trend. The kiosk channel, which represents about 14 percent of all rentals, grew by more than 120 percent in 2009.⁴² The Postal Service can partner with video and game rental distributors to offer rentals through kiosks installed in postal facilities. Revenue could be generated from a share of rental transaction fees, as well as from leasing space for the kiosks.

With more than 24,000 kiosks installed in stores, a DVD rental distributor dispensed 9 million DVDs weekly for the first 3 months of 2010 and generated \$774 million in revenue from kiosk rentals in 2009.⁴³ If the Postal Service enters into a 40 percent partnership with a DVD rental distributor and has kiosks installed in its retail facilities, it could generate \$187.6 million⁴⁴ annually in additional revenue from DVD rentals. We based this calculation on having one kiosk installed in each of 30,065 facilities⁴⁵ at average annual revenue of \$15,600 per kiosk.⁴⁶ Table 12 represents the increased annual revenue the Postal Service could generate by partnering with a DVD rental distributor based on various partnership levels.

³⁸ Established on June 24, 2009, information for calendar year 2009 is pro forma. *Posten Norden Annual Report 2009*, pages 1 and 44.

³⁹ U.S. Postal Service, *2009 Annual Report*, page 41.

⁴⁰ FY 2009 operating revenue of \$68,090,000,000 x 5 percent.

⁴¹ Industry revenue \$8.2 billion, IBISWorld Industry Reports, <http://www.ibisworld.com/industry/default.aspx?indid=1370>

⁴² NGI-Solutions LLC, Task Order #RS-10-001R, page 8.

⁴³ The DVD rental distributor projects to have 30,000 kiosks installed by the end of 2010.

⁴⁴ 30,065 facilities x 1 kiosk per facility x \$15,600 per kiosk = 469,014,000 gross revenue from kiosk rentals x 40 percent share of revenue = \$187,605,000.

⁴⁵ Facilities with positive stamp sales – walk-in revenue, EDW, September 2009.

⁴⁶ The DVD rental distributor's weekly revenue of \$9 million (\$1 per DVD), divided by their projected year-end kiosk total of 30,000 = \$300 average revenue per kiosk per week x 52 weeks = \$15,600 annual revenue per kiosk.

Table 12: Potential Annual Additional Revenue from Partnership with DVD Rental Distributor

Percentage of Rental Revenue	Potential Annual Additional Revenue (in Millions)
5%	\$23.5
10%	\$46.9
15%	\$70.4
20%	\$93.8
25%	\$117.3
30%	\$140.7
35%	\$164.2
40%	\$187.6
45%	\$211.1
50%	\$234.5

In-Person Service Center for Community and Government Services

Several federal, state, and local government agencies currently operate in-person service centers at one or more locations in each state. With the aging population, there is a growing need to bring relevant government and community services closer to those needing the service. The Postal Service can increase revenue by offering these services through its vast network of retail facilities. This service could operate as a one-stop outlet for people to come in person to a Postal Service facility to access government services such as identification and enrollment services, driver license processing, tax and fine payment, and self-service kiosks to access other agencies remotely. Customers could also access the 1-800-ASK-USPS call center from retail lobbies.

As an example of this service, the Postal Service could collaborate with local Departments of Motor Vehicles to offer vehicle registration services at some of its retail locations. According to *National Transportation Statistics*, 254.4 million highway vehicles⁴⁷ were registered in 2007. Table 13 represents the increased annual revenue the Postal Service could generate by offering vehicle registration services. We based the revenue on various adoption rates and service fee levels. Assuming the number of highway vehicles remains at the 2007 level, 30 percent of these vehicles are registered at Postal Service facilities, and the Postal Service charges a \$3 service fee for each vehicle registration transaction, the Postal Service could earn additional revenue of \$229 million⁴⁸ annually.

⁴⁷ *National Transportation Statistics*, Table 1-11: Number of U.S. Aircraft, Vehicles, Vessels, and Other Conveyance, updated April 2010.

⁴⁸ 254,403,082 registered vehicles x 30 percent adoption x \$3 service fee.

Table 13. Potential Annual Additional Revenue from Vehicle Registration

Highway Vehicles Registered in 2007: 254.4 Million							
Potential Annual Additional Revenue (in Millions)							
Adoption Rate	Yearly Fee						
	\$1	\$2	\$3	\$4	\$5	\$10	\$20
5%	\$12.7	\$25.4	\$38.2	\$50.9	\$63.6	\$127.2	\$254.4
10%	\$25.4	\$50.9	\$76.3	\$101.8	\$127.2	\$254.4	\$508.8
15%	\$38.2	\$76.3	\$114.5	\$152.6	\$190.8	\$381.6	\$763.2
20%	\$50.9	\$101.8	\$152.6	\$203.5	\$254.4	\$508.8	\$1,017.6
25%	\$63.6	\$127.2	\$190.8	\$254.4	\$318.0	\$636.0	\$1,272.0
30%	\$76.3	\$152.6	\$229.0	\$305.3	\$381.6	\$763.2	\$1,526.4
35%	\$89.0	\$178.1	\$267.1	\$356.2	\$445.2	\$890.4	\$1,780.8
40%	\$101.8	\$203.5	\$305.3	\$407.0	\$508.8	\$1,017.6	\$2,035.2

Bill Payment at Postal Service Outlets

The Postal Service could provide bill payment services at its retail locations and accept payments for utility companies, telecommunications providers, mail order companies, government agencies, and banks. This service would allow the public to visit postal retail facilities to pay bills issued by participating companies.

In 2009, Spain's Correos Post processed 11.3 million bill payments for participating companies.⁴⁹ Assuming the Postal Service would process bill payments at a similar rate, it would process 74.4 million bill payments⁵⁰ per year based on the larger U.S. population.⁵¹ By charging a transaction fee of \$.30 per payment transaction, the Postal Service would generate \$22.3 million in additional revenue⁵² annually (see Table 14).

⁴⁹ *Correos Annual Report 2009*, page 40.

⁵⁰ 11,276,800 bill payments processed by Correos Post x 659.8 percent = 74,404,326.

⁵¹ U.S. population as of July 20, 2010, was 309,779,356 (U.S. Census Bureau – U.S. & World Population Clocks). Spain's population as of January 1, 2010, was 46,951,532. (309,779,356 divided by 46,951,532 = 659.8 percent).

⁵² 74,404,326 bill payments x \$.30 transaction fee = \$22,321,298.

Table 14. Potential Annual Additional Revenue from Bill Payment Transaction Fees

Projected Number of Annual Bill Payments: 74,404,326	
Bill Payment Charge Per Transaction	Potential Annual Additional Revenue (in Millions)
\$0.30	\$22.3
\$0.50	\$37.2
\$0.70	\$52.1
\$0.90	\$67.0
\$1.00	\$74.4
\$1.10	\$81.8

Banking Services

Several opportunities exist for the Postal Service to generate revenue within the banking and financial services industry. With its extensive network of more than 30,000 retail facilities, the Postal Service could offer space for a range of services such as savings, checking, loans/consumer credit, international services, and insurance products. The services can be carried out by bank employees assigned to postal facilities or postal employees trained to provide a professional banking customer experience. Additionally, putting automatic teller machines in retail lobbies would allow customers self-service access to their bank accounts, for which the Postal Service could charge a transaction fee.

The majority of international posts have expanded their product and service offerings to include profitable banking and financial services. For example, the New Zealand Post Group's Kiwibank reported revenue of \$803 million in 2009,⁵³ an increase of 85 percent since its formation in 2002, and its net profit after taxes is expected to rise from \$51 million to \$350 million⁵⁴ between 2009 and 2020. Similarly, in 2009 La Banque Postale, the banking subsidiary of France's La Poste Group, reported a record net profit of \$804 million⁵⁵ from offering financial products and services through its 17,000 Postal Service outlets and other channels.

The Postal Service can enter the retail banking market by partnering with banking institutions to offer these services in its numerous retail facilities. In 2009, total interest income earned by Federal Deposit Insurance Corporation (FDIC) insured commercial banks was \$482.2 billion.⁵⁶ Assuming banking partnerships yield the Postal Service

⁵³ NGI-Solutions LLC, Task Order #RS-10-001R, page 60.

⁵⁴ NGI-Solutions LLC, Task Order #RS-10-001R, page 60.

⁵⁵ Bloomberg Businessweek, *La Banque Postale Reports Earnings Results for 2009*, (<http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=26972090>), March 18, 2010.

⁵⁶ Federal Deposit Insurance Corporation, Commercial Banking Reports, Table CB05, *Interest Income, FDIC-Insured Commercial Banks, United States and Other Areas, Year-to-Date Activity, 1934–2009* (<http://www2.fdic.gov/hsob/>).

1 percent of the total FDIC-insured interest income, it could generate additional revenue of \$4.8 billion annually.⁵⁷

Management should establish a method to preserve these 10 suggested revenue-generating opportunities for future evaluation. The Postal Service should conduct feasibility analyses of the suggestions and seek regulatory and legislative relief where necessary to adopt feasible opportunities. These opportunities could result in significant revenue impact as the Postal Service broadens its scope of business to adapt in a rapidly changing environment.

⁵⁷ \$482.2 billion x 1 percent.

APPENDIX C: NON-MONETARY IMPACT

Finding	Impact Category	Amount
Opportunities to Generate Additional Revenue	Potential Additional Revenue	\$9,734,237,193

APPENDIX D: MANAGEMENT'S COMMENTS

PAUL VOGEL
PRESIDENT
MAILING AND SHIPPING SERVICES



September 24, 2010

LUCINE WILLIS

SUBJECT: Draft Management Advisory – Revenue Generation Strategic Report
(Report Number MS-MA-10-DRAFT)

Thank you for the opportunity to review and comment on the subject draft management advisory report.

The report's conclusion – that "Strategic opportunities exist for the Postal Service to generate additional revenue from new postal and non-postal products and services" – is fully supported by postal management. The Postal Service has a tremendous interest in and need for opportunities that will help to diversify and expand postal product and service offerings.

The ideas presented in the report are good and, in one form or another, nearly all are currently under consideration or in development. Some have been considered or attempted in the past, and are being freshly evaluated from an updated perspective. Other ideas, as the report correctly notes, are not presently feasible, whether due to the need for capital investment, existing legal and regulatory constraints, or various market factors. Nonetheless, the Postal Service is actively working on identifying new and/or enhanced products and services, evaluating their potential, and developing those with the greatest promise.

A key factor in the Postal Service's strategic analysis of new products and services is net profitability, which is not discussed in the report. Revenue is only part of the equation. Opportunities may generate revenue but not provide sufficient margin to make development of them, at present, a good investment of limited postal resources.

Similarly, while some ideas inspired by the experiences of foreign posts may be appropriate for adoption in the United States, there is no question that markets, as well as the use of the mail, differ from country to country. Products and services offered by foreign posts must be evaluated in the context of the U.S. market, and consider the particular needs, habits and objectives of Postal Service customers.

In recent months, the Postal Service has invited a broad range of stakeholders to share innovative ideas for new products and services. These ideas are being captured for review, evaluation and possible implementation where it makes sense.

The Postal Service is pursuing legislative and regulatory changes to enable it to quickly and efficiently provide the appropriate products and services to 21st Century customers; make the business decisions necessary to align costs and revenue; and, ultimately achieve financial health. The Office of Inspector General can provide immense value to this process by supporting feasibility studies on the ideas the Postal Service determines have the greatest potential.

As we pursue all of these innovations, we look to your office for continued support.


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