



# OFFICE OF INSPECTOR GENERAL

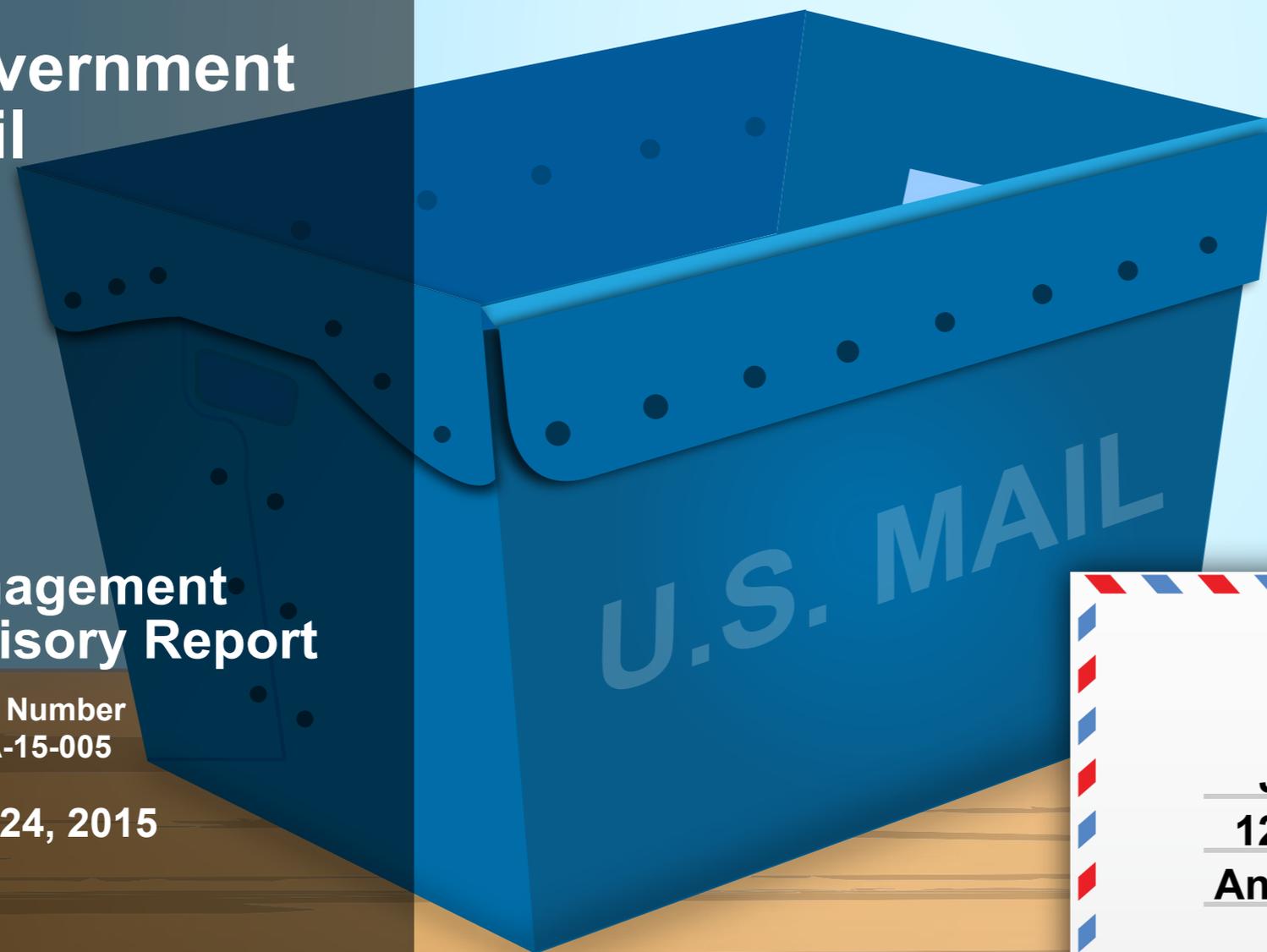
UNITED STATES POSTAL SERVICE

## Government Mail

## Management Advisory Report

Report Number  
MS-MA-15-005

April 24, 2015





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

## Highlights

***The Postal Service has opportunities to increase revenue by enhancing its sales and marketing efforts to government mailers.***

### Background

Federal, state, and local governments use mailing and shipping services to help carry out their missions and meet their diverse mailing needs. Government mailers consider price, service, and contract terms when deciding between the U.S. Postal Service and one of its competitors; and some government entities use presorting to qualify for price discounts.

The Postal Service recorded [REDACTED] billion in revenue from government mailers in fiscal year (FY) 2014; most of the revenue was from mailing products, such as First-Class Mail or Standard Mail. The Postal Service's competitors have a larger share of certain government package markets – for example, competitors captured 98 percent (\$302 million) of the \$308 million spent on select packages purchased through General Services Administration contracts in FY 2014. While mail is useful for conducting government business, it is affected by electronic alternatives and paperwork reduction efforts. At the same time, package shipments will continue to be a necessary part of government business operations.

The Postal Service's Sales organization has [REDACTED] managers who sell products and services to [REDACTED] federal agencies that are considered strategic accounts based on revenues and potential opportunities. Other Sales staff members sell to the remaining federal, state, and local agencies and commercial mailers in their respective territories. The Sales organization recently reduced the number of staff members dedicated to federal

customers to focus on commercial growth, but it continues to look for opportunities to increase government revenue.

Our objective was to evaluate Postal Service opportunities to increase government mail revenue. We identified federal shipping challenges and opportunities in a 2013 audit report, specifically noting challenges related to price inflexibility and the lack of 2- and 3-day guaranteed express products.

### What the OIG Found

The Postal Service has opportunities to increase revenue by enhancing its sales and marketing efforts to government mailers. Mailers we spoke with identified pricing, product, and service considerations that influenced them to use the Postal Service's competitors, but we found that the Postal Service has opportunities to gain an advantage in the area of prices, products, and service performance; and could provide better value in certain instances, such as for products weighing less than one pound.

The Postal Service may also be able to capture revenue by promoting its mailing partners' capabilities. For example, we found that 72 percent of federal agency mail was presorted. Mailing partners may be able to offer additional presorting services to lower the cost of government mailings. These partners could also offer more flexible payment options, such as paying after the service was provided. Factoring in mailing partners' capabilities as part of Postal Service marketing efforts

could be mutually beneficial: it could help the Postal Service retain government mail revenue and lower government mailers' postage costs.

We estimate a revenue impact of [REDACTED] million in FY 2015 from the Postal Service enhancing its sales and marketing efforts toward government mailers.

## What the OIG Recommended

We recommended the Postal Service enhance sales and marketing efforts toward governmental mailers. This could include more effectively promoting Postal Service prices, products, and service performance and promoting its mailing partners' capabilities.



April 24, 2015

**MEMORANDUM FOR:** WILLIAM C. RUCKER III  
VICE PRESIDENT, SALES

E-Signed by Janet Sorensen  
VERIFY authenticity with eSign Desktop



**FROM:** Janet M. Sorensen  
Deputy Assistant Inspector General  
for Revenue and Resources

**SUBJECT:** Management Advisory Report – Government Mail  
(Report Number MS-MA-15-005)

This report presents the results of our management advisory on Government Mail (Project Number 15RG003MS000).

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

Attachment

cc: Corporate Audit and Response Management

# Table of Contents

Cover	
Highlights.....	1
Background.....	1
What the OIG Found.....	1
What the OIG Recommended.....	2
Findings.....	5
Introduction.....	5
Conclusion.....	7
Government Mail.....	7
Promoting the Postal Service.....	7
Mailing Partners.....	8
Recommendation.....	9
Management’s Comments.....	9
Evaluation of Management’s Comments.....	10
Appendices.....	11
Appendix A: Additional Information.....	12
Background.....	12
Objective, Scope, and Methodology.....	13
Prior Audit Coverage.....	14
Appendix B: Management’s Comments.....	15
Contact Information.....	17

# Findings

**Federal, state, and local governments use mailing and shipping services to help carry out their missions and meet their diverse mailing needs.**

## Introduction

This management advisory report presents the results of our self-initiated review of Government Mail (Project Number 15RG003MS000). Our objective was to evaluate the U.S. Postal Service’s opportunities to increase government mail revenue. See [Appendix A](#) for additional information about this review.

Federal, state, and local governments use mailing and shipping services to help carry out their missions and meet their diverse mailing needs. Government mailers consider multiple factors, including price, service, and contract terms, when selecting a delivery company. For example, federal agencies often choose to operate under General Services Administration (GSA) agreements for shipping services.<sup>1</sup> Some entities also choose to presort their mailings or participate in worksharing<sup>2</sup> to qualify for price discounts.

The Postal Service recorded [REDACTED] billion in revenue from government mailers in fiscal year (FY) 2014. Most of this revenue was from market dominant products such as First-Class Mail and Standard Mail (see Table 1). Postal Service competitors have a larger share of certain government package markets – for example, competitors captured 98 percent (\$302 million) of the \$308 million spent on packages purchased through GSA Schedule 48, Transportation, Delivery and Relocation Solutions, Special Item Numbers (SIN) 451-1 and 451-2, in FY 2014. Under Schedule 48, GSA established long-term federal government-wide contracts with vendors to provide shipping services to federal agencies at volume discount pricing. Although Federal Express (FedEx) and United Parcel Service (UPS) have been vendors on Schedule 48 since 2001, the Postal Service did not participate until May 2009 because it did not have a Sales force or market strategy that targeted the federal sector. The GSA also awarded UPS and FedEx the DDS3 – a blanket purchase agreement for shipping services under Schedule 48. The DDS3 provides additional discounts to the already low prices available on GSA Schedule 48 for shipping services.

In a January 2013 report we identified challenges – such as price inflexibility and the lack of 2- and 3-day guaranteed express products – that the Postal Service faced in capturing more of this package segment. We made recommendations to address those challenges and enhance customer intelligence on federal agencies’ shipping practices.<sup>3</sup>

**Table 1. Government Mailings by Mail Class, FY 2014**

Class of Mail	Volume (in millions)	Revenue (in millions)
First-Class Mail	2,197.5	\$877.0
Standard Mail	1,334.8	\$230.1
Periodicals	92.6	\$17.2
Parcels	[REDACTED]	[REDACTED]
Others*	[REDACTED]	[REDACTED]
<b>Total</b>	[REDACTED]	[REDACTED]

Source: Customer Data Mart (CDM).

Note: Totals may not match due to rounding.

\*Includes categories such as Bound Printed Matter, Business Reply Mail, Ground Packages, International Mail, Miscellaneous Products and Services, Priority Mail, Priority Mail Express, and Residual Meter mail.

- 1 The GSA provides procurement and contracting services for federal agencies to leverage the best pricing. Express and routine ground delivery services between two points within the 50 states and Puerto Rico fall under the GSA’s Schedule 48, the Domestic Delivery Services (DDS) program.
- 2 The Postal Accountability and Enhancement Act of 2006 (the Postal Act) defines workshare discounts as rate discounts provided to mailers for presorting, pre-barcoding, handling, or transporting mail. According to the Postal Act, workshare discounts may not exceed costs the Postal Service avoids as a result of workshare activities, except under specific circumstances.
- 3 *Federal Shipping* (Report Number [MS-AR-13-004](#), dated January 18, 2013). Additional information on the findings of this report is provided in [Appendix A](#).

The Postal Service's Sales organization has [REDACTED] Strategic Account Managers (SAM) who sell products and services to [REDACTED] federal agencies that are considered strategic accounts based on revenue and potential opportunities (see Table 2). Other Sales staff members sell to the remaining federal, state, and local agencies and commercial mailers in their respective territories. Table 2 shows FY 2014 Postal Service data on the agencies served by the [REDACTED] SAMs, as well as the 10 largest non-federal government accounts by revenue. Although the Sales organization recently reduced the number of staff members dedicated to federal customers, it continues to look for opportunities to increase government revenue.

**Table 2. Major Postal Service Government Mailers, FY 2014**

Mailers	Volume (in millions)	Revenue (in millions)
<b>Strategic Federal Agencies (served by Postal Service SAMs)</b>		
[REDACTED]	[REDACTED]	[REDACTED]
<b>Ten Largest (Other) Government Accounts</b>		
[REDACTED]	[REDACTED]	[REDACTED]

Source: CDM.

***Mail is an effective, low-cost, secure, and trusted way for government entities to conduct business and communicate with the public and program recipients.***

***The Postal Service has opportunities to increase revenue by enhancing its sales and marketing efforts toward government mailers.***

***Mailers we spoke with identified pricing, product, and service considerations that influenced them to use the Postal Service's competitors.***

The Postal Service needs to pursue additional revenue opportunities, particularly considering its ongoing financial challenges. Postal Service management stated that it is difficult to increase government mail revenue because of competitors' pricing advantages in some cases, increased electronic dissemination of government information, and technological alternatives. These challenges and other factors have driven declines in Postal Service government revenue and reductions in Postal Service federal Sales staff, as Sales managers transferred staff to commercial growth opportunities.

The Postal Service, however, can still play a key role in the future of government mail. Mail is an effective, low-cost, secure, and trusted way for government entities to conduct business and communicate with the public and program recipients. In addition, the Postal Service has a nationwide delivery infrastructure and is improving its operational performance.

## **Conclusion**

The Postal Service has opportunities to increase revenue by enhancing its sales and marketing efforts toward government mailers. Mailers we spoke with identified pricing, product, and service considerations that influenced them to use the Postal Service's competitors. For example, competitors can offer lower prices on certain packages. Still, we found the Postal Service could gain an advantage in the area of prices, products, and service performance; and could provide better value in certain instances, such as for products weighing less than 1 pound.

The Postal Service may also be able to capture additional revenue by promoting its mailing partners' capabilities. For example, we found that 72 percent of federal agency mail was presorted. Mailing partners may be able to offer additional presorting services to lower the cost of government mailings. These partners could also offer more flexible payment options, such as paying after the service was provided. Factoring in mailing partners' capabilities as part of Postal Service marketing efforts to government mailers could be mutually beneficial: it could help the Postal Service retain government mail revenue and government mailers could pay less postage.

We estimate a revenue impact of █████ million in FY 2015 resulting from the Postal Service enhancing its sales and marketing efforts toward government mailers.

## **Government Mail**

The Postal Service has an opportunity to retain and increase government revenue through more effectively promoting its pricing, products, service performance, and mailing partner capabilities.

### **Promoting the Postal Service**

The Postal Service can more effectively promote its prices, products, and service performance to government mailers. Mailers we spoke with identified pricing, product, and service considerations that influenced them to use the Postal Service's competitors. For example, competitors can offer lower prices on certain packages. But we found the Postal Service could be more competitive and, in certain instances, gain an advantage. For example, Postal Service pricing compares favorably to those of its competitors for products weighing less than 1 pound.

***The Postal Service may also be able to increase revenue by promoting its mailing partners' capabilities.***

The Postal Service's Critical Mail™ is one example of a Postal Service product that compares favorably to those of its competitors and that could benefit from enhanced sales and marketing efforts. Critical Mail is available to Commercial Plus<sup>4</sup> mailers and offers 1- to 3-day delivery with prices starting at \$3.50 and includes tracking and delivery confirmation at no extra charge (there also are no additional surcharges for fuel, Saturday delivery, or delivery to remote areas). This product targets customers who use FedEx or UPS 2- or 3-day air for urgent materials or who are looking for high visibility at a competitive price.

Critical Mail is less expensive than the lowest DDS3 contract price for FedEx Express Saver<sup>5</sup>, which is \$4.09, and the lowest UPS 3-Day Select<sup>6</sup> price of \$5.01. Furthermore, FedEx and UPS may charge additional fees for fuel, Saturday delivery, or delivery to remote areas. DDS3 prices primarily apply to federal mailers. Postal Service pricing could also help state and local government mailers reduce postage costs. Postal Service staff members responsible for selling to government agencies stated that they have presented the Critical Mail option to several federal agencies. Some were interested in the product, while others said they were either unaware of it or did not know how it could help meet their mailing needs.

If the Postal Service were to develop more effective sales and marketing efforts to convince government mailers it can provide better value for certain products (and, in doing so, mitigate any concerns these mailers may have) the result could be mutually beneficial. The Postal Service could gain more revenue while government mailers could reduce their overall postage costs.

To estimate the revenue impact associated with enhancing its sales and marketing efforts, we analyzed the Postal Service revenue trends of federal mailers for FYs 2010-2014 and projected revenue for FY 2015 and FY 2016. We found that revenue declined by █████ million in FY 2013, and by █████ million in FY 2014, and we projected revenue declining by █████ million in FY 2015, and by █████ million in FY 2016. We estimate that enhancing the Postal Service's sales and marketing efforts to government mailers could offset these declines, resulting in a total revenue impact of █████ million over this 4-year period.

### **Mailing Partners**

The Postal Service may also be able to increase revenue by promoting its mailing partners' capabilities. Although many government mailers already presort their mail – in FY 2014, 72 percent of federal agency mail was presorted – mailing partners may be able to offer additional presorting services to promote efficiencies.

Mailing partners may also be able to offer more flexible payment options (such as paying in arrears) and help agencies avoid technical obstacles. For example, agency officials and Postal Service Sales staff raised concerns about agency firewalls and limitations on installing Postal Service software on agency computers. We recognize it may be challenging for the Postal Service to factor in mailing partners during its marketing efforts, but it could be worth the effort by helping to fill the gap left by a reduced Sales team for government customers.

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4 A program offered by the Postal Service that provides highly discounted postage rates for high-volume shippers. Shippers can qualify for Commercial Plus pricing by entering into a Customer Commitment Agreement with the Postal Service or meeting designated volume thresholds. For Critical Mail, the threshold volume is 5,000 pieces per year.

5 A FedEx product that delivers to businesses in 3 business days by 4:30 p.m. and to residences by 8 p.m. Except in limited instances, only federal agencies are eligible for DDS3 pricing.

6 A UPS product that provides delivery by the end of the 3<sup>rd</sup> business day.

# Recommendation

We recommend the vice president, Sales, increase government mail revenue by:

1. Enhancing sales and marketing efforts toward governmental mailers. This could include more effectively promoting U.S. Postal Service prices, product offerings, and service performance; and promoting mailing partners' capabilities.

## Management's Comments

Management disagreed with our findings, recommendation, and monetary impact.

Management stated they found it difficult to interpret the findings and recommendation because of inconsistencies in terminology and lack of definitions in referring to agencies as "federal" and "government". Management disagreed with the statement that "the Sales organization recently reduced the number of staff members dedicated to federal customers to focus on commercial growth," stating that it was factually incorrect.

Management stated that our report was correct that the Postal Service is looking for opportunities to increase revenue and is doing so by becoming more agile in responding to potential government agency leads. The agency specifically developed a proactive strategy in which any field Sales employee can sell to any government customer (not just federal). The Postal Service also established a special page on its USPS.com site where agencies can request a Sales contact.

Regarding promoting mailing partners' capabilities, management stated that the Postal Service has provided significant resources to highlight the benefits of workshare discounts. Management also stated that they have limited ability to influence decision making and the acquisition process under the Federal Acquisition Regulations (FAR).

Regarding the monetary impact, management stated that our model fails to acknowledge expected volume and budget decline and churn. They stated that the assumption that the Postal Service can achieve 100 percent churn protection is fundamentally flawed noting, particularly, the industry-wide First-Class Mail® decline that resulted from the 2011 presidential memorandum to transition to digital records management.

Management also stated that the report is missing the economic concept of staffing opportunity costs. They stated that, while it may be possible to reduce the revenue impact cited in our report, the resources required would result in a lower return on investment (ROI). They stated that dedicating more resources to the government sector would not be the best business decision for the organization since it receives four times more revenue per strategic account from the non-government sector than from the government sector.

Regarding the recommendation, management stated that they are always looking for ways to increase revenue and have a solid approach in place for promoting Postal Service products and services. This approach entails identifying and responding to potential leads at government agencies; supporting government agencies through strategic account management, field sales, and the Business Service Network; continuing to participate in GSA Schedule 48; and focusing on opportunities with mail and package business (outside the DDS3).

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

## Evaluation of Management's Comments

The OIG considers management's comments non-responsive to the recommendation in the report.

Regarding management's comments about the inconsistencies in terminology and lack of definitions, we believe the report wording is clear and consistent. We specifically used the term "federal" when referring to federal government agencies, and used "government" when referring to the broader collection of federal, state, and local governments.

Regarding management's concerns about our finding on staff reductions, we reported that at one time the Postal Service had █████ SAMs for the federal sector, but it has reduced this number in recent years to focus on commercial opportunities. As we also reported, the Postal Service currently has █████ SAMs who sell Postal Service products and services to █████ federal agencies the Postal Service considers strategic accounts.

Regarding management's comments about mailing partner capabilities, we recognize the challenges (including limitations under FAR), but maintain that promoting their capabilities is a meaningful action because these partners may also be able to offer more flexible payment options (such as paying in arrears) and help agencies avoid technical obstacles.

Regarding management's concerns about our monetary impact methodology, we assumed a 100 percent churn protection rate to highlight the potential revenue impact. Our estimate considers federal agencies only, although our recommendation is not limited to the federal government. We believe our estimate is reasonable since we did not include the impact of implementing the recommendation at the state and local government levels.

Regarding management's concerns about our exclusion of staffing opportunity costs, we chose to focus our methodology on the changes in government revenue rather than differences in staffing ROIs. Given the Postal Service's position that it receives four times more revenue per non-government strategic account versus the government sector (and that it disagrees with our recommendation to enhance its sales and marketing efforts toward government mailers), the Postal Service may need to re-evaluate its sales strategies and staffing to reflect this imbalance.

We concur with management's comments about opportunities to increase revenue.

Regarding management's comments that they already have a solid approach for promoting Postal Service products and services to government mailers, we continue to believe that enhancements, such as more effectively promoting Critical Mail, could help strengthen these efforts. We believe that if the Postal Service were to develop more effective sales and marketing efforts to convince government mailers it can provide better value for certain products (and, in doing so, mitigate any concerns these mailers may have) the result could be mutually beneficial. The Postal Service could gain more revenue while government mailers could reduce their overall postage costs.

The OIG does not plan to formally pursue audit resolution. We will continue to evaluate opportunities for enhancing sales and marketing efforts for government mail in future audit work.

# Appendices

*Click on the appendix title  
to the right to navigate to  
the section content.*

Appendix A: Additional Information.....	12
Background .....	12
Objective, Scope, and Methodology .....	13
Prior Audit Coverage.....	14
Appendix B: Management’s Comments .....	15

## Appendix A: Additional Information

### Background

Federal, state, and local governments use mailing and shipping services to help carry out their missions and objectives. The Postal Service recorded \$2.7 billion of revenue from government mailers in FY 2014. The Postal Service's Sales organization has staff members who service its government accounts:

Federal agencies reported more than \$828 million in expenditures with the Postal Service in FY 2013 to the GSA. They also reported more than \$148 million in expenditures with FedEx and UPS combined that fiscal year. The GSA established contracts for shipping services with the Postal Service and its major competitors under Schedule 48.<sup>7</sup> Although FedEx and UPS have been vendors on Schedule 48 since 2001, the Postal Service did not participate until May 2009 because it did not have a Sales force or market strategy that targeted the federal sector. The GSA also awarded UPS and FedEx the DDS3 – a blanket purchase agreement for shipping services under Schedule 48. The DDS3 provides additional discounts to the already low prices available on GSA Schedule 48 for shipping services. Table 4 highlights the amount the Postal Service has earned since FY 2011.

**Table 4. Postal Service Shipping Service Revenue, FYs 2011-2014**

<b>Fiscal Year</b>	<b>Revenue From GSA Contracts (in millions)</b>	<b>Revenue Outside of GSA Contracts (in millions)</b>
2011	\$1.2	\$86.2
2012	\$4.8	\$95.9
2013	\$5.4	\$84.2
2014	\$5.9	\$62.2

Source: GSA Schedule Sales query and the Postal Service.

Similar to DDS3, many states have “consortium pricing.” The states work together to get better pricing than the Postal Service can offer.

<sup>7</sup> Supplies and services are categorized in each schedule by a SIN. SIN 451-1 is *Express Small Package and Express Heavyweight Delivery Services*; and SIN 451-2 is *Ground Small Package Delivery Services*.

The GSA also encourages federal agencies to realize cost savings through presorting and other workshare activities, which allows the Postal Service to avoid certain costs it would otherwise incur. Although several federal and state agencies are presorting their mail to reduce mailing costs, there is no guarantee that those savings translate into increased revenue and volume for the Postal Service.

## Objective, Scope, and Methodology

Our objective was to evaluate the Postal Service's opportunities to increase revenue through government mail and presort activities.

To accomplish our objective, we:

- Reviewed Postal Service policies and procedures for selling to the government, including strategies used by the Postal Service's Sales organization, and discussed this information with Postal Service managers and staff.
- Analyzed government mailing data from CDM for FYs 2012-2014.
- Interviewed mail policy managers or other decision makers at various federal agencies including GSA, Agriculture, Health and Human Resources, Defense, Homeland Security, Treasury, the IRS, and Housing and Urban Development.
- Interviewed mail managers at selected state and local organizations, such as the North Carolina, Arizona, and Utah departments of administration, as well as the city of Ft. Mitchell, KY. We selected these organizations because their Postal Service expenditures either increased or decreased significantly between FYs 2012 and 2014.
- Interviewed representatives from organizations involved in presorting government mail, such as the National Postal Policy Council and National Association of Presort Mailers.
- Reviewed related research, including Postal Regulatory Commission reports and past OIG reports, and interviewed researchers.

We conducted this review from October 2014 through April 2015, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on April 1, 2015, and included their comments where appropriate.

We assessed the reliability of CDM data by reviewing existing information about the data and the systems that produced them. We determined that the data were sufficiently reliable for the purposes of this report.

## Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Government as a Postal Partner and Customer: International Round Table Recap</i>	<a href="#">RARC-IB-14-003</a>	8/11/2014	None
<i>Federal Shipping</i>	<a href="#">MS-AR-13-004</a>	1/18/2013	\$73.6

**Report Results:** Our report determined that the government services market presents significant business opportunities for postal operators. Posts almost everywhere have features and resources that provide them with competitive advantages over others in the e-government space. Competitive advantages, such as an unrivalled physical network, trusted intermediary role, cultural affinity, and similar working models could help position posts as preferred government services providers. Many posts have successfully leveraged these advantages to develop a broad portfolio of physical and digital government solutions to assist agencies in reducing costs, streamlining processes, and improving inter-agency coordination and customer service. Effectively doing business with the government requires developing appropriate skills and capabilities, defining clear strategic plans, and establishing rigorous evaluation processes to determine the return on investment of new opportunities. We made no recommendations.

**Report Results:**

Our report determined that the Postal Service must overcome two major challenges to capture a larger share of the federal shipping market: price inflexibility and lack of 2- and 3-day guaranteed express delivery products. The Postal Service also faced other challenges, including late entry into the GSA market, insufficient federal sales force size and structure, and limited payment acceptance methods. We estimated these shortcomings resulted in unrecoverable lost revenue of \$21.4 million in FY 2011, and \$17.4 million in FY 2012. We recommended the Postal Service address its challenges in the federal shipping marketplace and enhance customer intelligence on federal agencies' shipping practices, as doing so could generate \$17.4 million of additional revenue annually during FY 2013 and FY 2014. The Postal Service agreed with our findings and recommendations, but disagreed with the estimated monetary impact.

## Appendix B: Management's Comments

CLIFF RUCKER  
VICE PRESIDENT, SALES



April 20, 2015

LORI LAU DILLARD, DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Management Advisory Report – Government Mail  
(Report Number MS-MA-15-DRAFT)

The following findings were discussed in this OIG report:

The Postal Service has opportunities to increase revenue by enhancing its sales and marketing efforts to government mailers. Mailers we spoke with identified pricing, product, and service considerations that influenced them to use the Postal Service's competitors, but we found that the Postal Service has opportunities to gain an advantage in the area of prices, products, and service performance; and could provide better value in certain instances, such as for products weighing less than one pound.

The Postal Service may also be able to capture revenue by promoting its mailing partners' capabilities. For example, we found that 72 percent of federal agency mail was presorted.

Mailing partners may be able to offer additional presorting services to lower the cost of government mailings. These partners could also offer more flexible payment options, such as paying after the service was provided. Factoring in mailing partners capabilities as part of Postal Service marketing efforts could be mutually beneficial: it could help the Postal Service retain government mail revenue and lower government mailers' postage costs.

We estimate a revenue impact of [REDACTED] million in FY 2015 from the Postal Service enhancing its sales and marketing efforts toward government mailers.

#### Management Response:

The Postal Service disagrees with the findings and recommendations presented by the OIG in its report and also disagrees with the monetary impact calculations.

The Postal Service found it extremely difficult to interpret the findings and recommendations because of the inconsistencies in the use of terminology and the lack of definitions in referring to agencies as Federal and Government.

The OIG report states that "The Sales organization recently reduced the number of staff members dedicated to federal customers to focus on commercial growth ... ." The Postal Service strongly objects to this statement because it is factually incorrect. There are inconsistencies around federal and government terminology as well as the different Sales organization roles such as Strategic Account managers and Field Sales. The OIG is correct in that the Postal Service is looking for opportunities to increase revenue. We are doing so by becoming more agile in responding to any potential leads in government agencies.

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The Postal Service has already implemented a proactive strategy to expand its reach by modifying their rules of engagement and utilizing Field Sales employees who can reach out to any government customer (not just federal). Any Field Sales employee is allowed to reach out and sell to government entities. This allows any of the Field Sales employees currently on-rolls with the Postal Service to take action on any potential leads. Instead of reducing customer contact, the Postal Service has increased their attention to government accounts. In addition, USPS established a special page on USPS.com (Government Solutions Products and Services, <http://about.usps.com/what-we-are-doing/gov-services/welcome.htm>) where government agencies can request a Sales contact.

The OIG report talks about potential opportunities to capture revenue by promoting mailing partners' capabilities that would lower the mailing cost for government agencies through additional presorting services. The Postal Service has provided significant resources through educational and pricing materials to highlight the benefits of workshare discounts. But we are limited in our ability to influence decision making as well as the acquisition process under the Federal Acquisition Regulations (FAR).

In regard to monetary impact, the OIG model fails to acknowledge expected volume and budget decline and churn. Furthermore, the model assumes 100% churn protection can be achieved. This is a fundamentally flawed assumption. Government agencies mirror the rest of the mailing industry in the declining use of First-Class mail. In addition, the 2011 Presidential Memorandum to transition to digital records management has impacted First-Class mail usage.

Another factor which seems to be missing from the OIG report is the economic concept of opportunity cost, specifically staffing opportunity cost. It is possible the Postal Service may reduce the estimated revenue impact cited by the OIG, but the resources required would result in a lower return on investment (ROI). In other words, "Is the juice worth the Squeeze?" To illustrate this impact, today the Postal Service receives 4X more revenue per Strategic Account from the non-government sector account portfolio versus the government sector. Putting more dedicated resources against the government sector would not be the best business decision for the organization.

#### **Recommendations**

We recommend the Vice President, Sales, increase government mail revenue by:

1. Enhancing sales and marketing efforts toward governmental mailers. This could include more effectively promoting U.S. Postal Service prices, product offerings, and service performance; and promoting mailing partners' capabilities.

Management Response/Action Plan:

Management disagrees with the OIG recommendation. While the Postal Service is always looking for ways to increase revenue, management feels they already have a solid approach for promoting USPS products and services. The Postal Service will continue to:

- Identify and respond to potential leads in government agencies
- Support government agencies through Strategic Account management, Field Sales, and the Business Service Network.
- Continue to participate in GSA Schedule 48.
- Focus on opportunities with mail and package business (outside DDS3)

  
Cliff Rucker

cc: Sally K. Haring,  
Manager, Corporate Audit and Response Management  
U S Postal Service



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**INSPECTOR  
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UNITED STATES POSTAL SERVICE

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