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U.S. POSTAL SERVICE

Action Needed to Maximize Cost-Saving Potential of Alternatives to Post Offices

U.S. Government Accountability Office

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Why GAO Did This Study

Declines in mail volume have brought the U.S. Postal Service (USPS) to the brink of financial insolvency. Action to ensure its financial viability is urgently needed. Visits to post offices have also declined, and in an effort to cut costs, USPS is considering closing nearly half of its 32,000 post offices by 2015. In their place, alternatives to post offices, such as the Internet, self-service kiosks, and partnerships with retailers, are increasingly important for providing access to postal services. Retail alternatives also hold potential to help improve financial performance by providing services at a lower cost than post offices. As requested, this report discusses how (1) USPS's efforts to expand access through retail alternatives support its service and financial performance goals, (2) USPS communicates with the public about retail alternatives, and (3) USPS oversees its retail partners. To conduct this work, GAO analyzed USPS documents and data and interviewed USPS officials and stakeholders. GAO also interviewed operators of postal retail partnerships.

What GAO Recommends

USPS should develop a plan to guide its retail network restructuring that is supported by relevant performance measures and data and includes a method to assess the effectiveness of its public communication strategy. USPS should also implement a risk-based approach to monitoring retail partners. USPS reviewed a draft of this report and stated it is developing a plan to guide its retail network restructuring and agreed to review how it monitors retail partners.

View [GAO-12-100](#) or key components. For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

U.S. POSTAL SERVICE

Action Needed to Maximize Cost-Saving Potential of Alternatives to Post Offices

What GAO Found

USPS has expanded access to its services through alternatives to post offices in support of its goals to improve service and financial performance. Retail alternatives offer service in more locations and for longer hours, enhancing convenience for many customers, but certain characteristics of these alternatives could be problematic for others. For example, services obtained from some alternatives cost more because of additional fees, which could deter use by price-sensitive customers. Furthermore, although about \$5 billion of its \$18 billion in fiscal year 2010 retail revenue came from alternatives, USPS officials said it is too early to realize related cost savings. USPS also lacks the performance measures and data needed to show how alternatives have affected its financial performance. A data-driven plan to guide its retail network restructuring could provide a clear path for achieving goals. Without such a plan, USPS may miss opportunities to achieve cost savings and identify which alternatives hold the most promise.

USPS Retail Network: Examples of Services Offered at Post Offices and Alternatives



Source: GAO.

USPS has sought to raise customers' awareness by developing media campaigns, enhancing its online tools for locating postal access points, and creating standard symbols for post offices and retail alternatives to show which products and services they offer. However, USPS has not assessed whether its message is reaching its customers, such as by using one of its existing customer surveys, and therefore does not know to what extent customers are aware of and willing to use its various retail alternatives. Although the public increasingly uses postal retail alternatives, more widespread adoption will be needed if USPS is to close thousands of post offices as planned in the next few years. USPS has projected that by 2020 alternatives to post offices will account for 60 percent of its retail revenue.

USPS's oversight of its retail partners, which includes entering into written agreements with them and providing training and guidance, could be improved if USPS modified its approach to monitoring compliance with its procedures. Local USPS officials are supposed to conduct quarterly reviews of retail partners to make sure they are following mailing procedures, but according to retail partners and USPS officials in field and local offices, these reviews do not always occur as often as intended because of resource constraints. A risk-based monitoring approach would allow targeting limited USPS oversight resources to areas of concern and thus address issues that could otherwise discourage customers from adopting retail alternatives, such as inadequate service.

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Abbreviations

ABnote	ABnote North America
CPU	contract postal unit
GPRA	Government Performance and Results Act of 1993
USPS	United States Postal Service

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G A O

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

November 17, 2011

The Honorable Darrell E. Issa
Chairman
Committee on Oversight and Government Reform
House of Representatives

The Honorable Stephen F. Lynch
Ranking Member
Subcommittee on Federal Workforce,
U.S. Postal Service and Labor Policy
Committee on Oversight and Government Reform
House of Representatives

The Honorable Edolphus Towns
Ranking Member
Subcommittee on Government Organization,
Efficiency and Financial Management
Committee on Oversight and Government Reform
House of Representatives

The U.S. Postal Service (USPS) is on the brink of financial insolvency as it faces a continuing decline in the overall demand for its products and services. USPS has reported that about 80 percent of its postal retail facilities do not generate sufficient revenue to cover their costs, yet this network of about 32,000 post offices has remained largely unchanged.¹ As customers increasingly turn to digital communications and payment methods, mail volume has decreased precipitously, dropping almost 20 percent from its 2006 peak of 213 billion pieces to about 170 billion pieces in fiscal year 2010. USPS projects a total decrease of 37 percent from the 2006 peak by 2020. This decline in mail volume is reflected in USPS's worsening financial condition: In fiscal year 2010, USPS recorded a loss of \$8.5 billion. At the end of fiscal year 2011, USPS expected to

¹Post offices, stations, and branches have different classification meanings to USPS, but they are all brick-and-mortar retail locations operated by USPS where customers can access postal products and services by conducting transactions with a USPS window clerk. In this report, we refer to these traditional places of access to USPS retail products and service simply as post offices. USPS also operates facilities known as carrier annexes that have delivery but not retail operations.

reach its statutory borrowing limit of \$15 billion.² In addition, the Postmaster General has testified that USPS would not be able to pay its statutorily mandated retiree health benefits payments that were due on September 30, 2011, and Congress delayed the payment due date until November 18, 2011.³

Action to modernize USPS's retail network is urgently needed to help bring USPS's costs in line with its revenue, and in 2011 USPS announced plans to review thousands of post offices for potential closure in the next few years.⁴ Alternatives to obtaining services at post office windows, including self-service options and partnerships with retailers, could help USPS contain facility and labor costs while still providing access for customers. In its March 2010 Action Plan, USPS included expanding access through retail alternatives as part of its overall strategy to return USPS to financial solvency. USPS stated that its effort to expand access through retail alternatives supports two of its agencywide strategic goals: (1) to improve service by offering its products and services in more convenient places where customers already work, live, and shop; and (2) to improve financial performance by growing revenue and offering services through alternatives at a lower cost than at post offices.⁵

²USPS borrows money from the U.S. Treasury via the Federal Financing Bank and has relied increasingly on this debt to fund its operations. Over the last 5 years, its net borrowing has increased by nearly \$12 billion, and federal statute limits USPS's total borrowing to \$15 billion. 39 U.S.C. § 2005(a).

³Pub. L. No. 112-36, § 124, 125 Stat. 386, 389 (Oct. 5, 2011). The 2006 Postal Accountability and Enhancement Act required USPS to prefund its retiree health benefit obligations with annual payments through 2016 to the Postal Service Retiree Health Benefits Fund. Pub. L. No. 109-435 (Dec. 20, 2006). Deferring some prefunding of these benefits would serve as short-term fiscal relief. However, deferrals also increase the risk that USPS will not be able to make future payments as its core business declines. See GAO, *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government*, [GAO-12-146](#) (Washington, D.C.: Oct. 13, 2011).

⁴In July 2011, USPS announced plans to study about 3,700 post offices for potential closure and in September 2011, said that it is examining about 15,000 post offices for possible closure by 2015.

⁵USPS, *Ensuring a Viable Postal Service for America: An Action Plan for the Future* (Washington, D.C.: March 2010).

Because of its dire financial condition, USPS is on our list of high-risk agencies and programs,⁶ and we continue to examine USPS's management, operations, and business model to identify actions needed to make USPS a sustainable enterprise.⁷ Citing concerns about its future financial viability, you asked us to review how USPS is expanding retail options for customers. This report discusses (1) how USPS's efforts to expand access through retail alternatives support its strategic goals of improving service and financial performance, (2) how USPS communicates with customers about the availability of its products and services at retail alternatives, and (3) what actions USPS has taken to oversee third parties that provide postal products and services.

To address these objectives, we reviewed USPS guidance, performance reports, and other documents and interviewed USPS officials responsible for managing and overseeing retail alternatives. In addition, we visited USPS district offices, post offices, and retail partnership operations in four USPS districts.⁸ We selected districts whose revenue from retail alternatives, growth in alternative revenue, and percentage of retail revenue from alternatives were higher than average for fiscal years 2009 and 2010.⁹ We interviewed stakeholders representing postal employees and managers, consumers, and retail partners, and analyzed USPS data on retail revenue for 2006 through 2010. We assessed the reliability of USPS's revenue data and determined that they were sufficiently reliable for presenting rounded figures of USPS revenue. We also reviewed laws, regulations, internal control standards, and prior GAO reports. See appendix I for a more detailed description of our scope and methodology.

We conducted this performance audit from December 2010 to November 2011 in accordance with generally accepted government auditing

⁶GAO, *High-Risk Series: An Update*, [GAO-11-278](#) (Washington, D.C.: February 2011).

⁷For a list of our most recent products on USPS, see related GAO products after the appendixes in this report.

⁸For administrative purposes, USPS divides the country into areas, which are further subdivided into districts. For our site visits, we visited locations in Florida, Minnesota, North Dakota, Texas, and Virginia. We visited locations that had higher than average revenue, represented a mix of types of retail alternatives, and were located in both urban and rural areas.

⁹The locations we visited in Virginia did not meet these revenue criteria. We visited them during the planning stage of our work to gain a better understanding of how retail alternatives operate.

standards. 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.

Background

USPS is required by law to provide prompt, reliable, and efficient services to patrons in all areas,¹⁰ a standard known as universal service. In meeting this standard, USPS is required to operate as a self-sufficient, independent establishment of the executive branch.¹¹ USPS receives no annual appropriations for purposes other than revenue forgone on free and reduced rate mail. USPS generates revenue through the sale of postage and postal-related products and services.

USPS has acknowledged that its operating costs must be cut, including by reducing the number of postal-operated retail facilities. Visits to post offices have decreased, with USPS reporting about 59 million fewer visits to post offices in 2010 than in 2009 and an overall decline in post office visits of about 21 percent over the last decade. However, it has been difficult for USPS to close post offices because of statutory restrictions on closing small post offices solely for operating at a deficit¹² and resistance from employees, affected communities, and Members of Congress concerned about possible effects on service, employees, and communities.¹³ USPS officials have also said that the amount of time it

¹⁰39 U.S.C. § 101(a).

¹¹39 U.S.C. § 201. In prior reports, we have recommended that USPS realign its postal operations, networks, and workforce with changes in mail usage and customer behavior. As part of this work, we proposed options for action by Congress and USPS to reduce costs and improve efficiency.

¹²39 U.S.C. § 101(b). Recently, USPS implemented regulatory changes to the process for discontinuing USPS-operated facilities to implement uniform procedures for closing or consolidating post offices. 76 Fed. Reg. 41413 (July 14, 2011).

¹³For example, in 2009, USPS engaged in a proceeding to analyze over 4,000 postal stations and branches for possible closure, which resulted in the closure of about 145 of those facilities.

takes to complete the statutory process for closing its facilities has hindered USPS from timely realignment of its retail network.¹⁴

Expanding retail alternatives is part of USPS's overall strategy to return to financial solvency while continuing to meet its universal service requirements. These alternatives have the potential to provide postal services at a lower cost to USPS than post offices, since USPS does not staff or maintain retail partners' facilities, and self-service options reduce the need for labor and facilities. In 2010, USPS reported that providing access through certain types of retail alternatives costs less in proportion to the revenue these alternatives generate, an estimate USPS officials referred to as cost per revenue dollar. The following retail alternatives are the focus of USPS's efforts to expand access.¹⁵

- *USPS Web site (usps.com)*. The Click-N-Ship section of USPS's Web site allows a customer to print domestic and international shipping labels using a computer, and the site's Postal Store offers stamps and collectable memorabilia (see fig. 1). Customers may also use the site to complete other tasks, such as informing USPS of a changed address or tracking their shipments.

¹⁴See GAO, U.S. *Postal Service: Dire Financial Outlook and Changing Mail Use Require Network Restructuring*, [GAO-11-759T](#) (Washington, D.C.: June 15, 2011).

¹⁵USPS also provides alternative retail access through mobile retail vans, Post Office Express units (USPS-operated outlets in privately owned facilities), stamps by mail, stamps by phone, and third-party online vendors. We focused our review on retail portions of usps.com, USPS's self-service kiosks, and retail partnerships (specifically contract postal units, Approved Shippers, and stamp retailers), since USPS documents indicate these types of alternatives are the strategic focus of USPS's expanded access efforts.

Figure 1: Retail Web Pages of usps.com

Click-N-Ship

Postal Store

Source: Click-N-Ship Web site page and the Postal Store Web site page ©2011 United States Postal Service®.

- USPS self-service kiosks.* USPS owns and operates about 2,500 kiosks, also known as automated postal centers, that allow customers to buy stamps and mail letters and packages in a self-service environment. Each kiosk consists of a touch-screen computer with a scale and is generally located in a post office lobby, with many

allowing for 24-hour customer access (see fig. 2).¹⁶ Customers can make purchases at kiosks using debit or credit cards.

Figure 2: Typical Self-Service Kiosk in Post Office Lobby



Source: GAO. The Eagle logo and the trade dress of USPS® Packaging and Automated Postal Center are among many trademarks of the U.S. Postal Service®.

- *Contract postal units (CPU)*. CPUs are the retail alternative most comparable to post offices. They generally provide a broad range of retail products and services to customers at USPS prices. Like post offices, CPUs do not offer competitors' shipping products and services. CPUs are operated and managed by independent retailers that USPS contracts with, providing them with signage and the rights to use the USPS logo. A CPU may be a stand-alone business or occupy space within a larger business, such as a counter within a store (e.g., pharmacy or grocery store) that also sells other products

¹⁶USPS has eight self-service kiosks at locations other than post offices. According to USPS officials, these kiosks generally do not make as much revenue as those in post offices.

and services (see fig. 3). According to USPS, there were about 3,600 CPUs as of fiscal year 2010.

Figure 3: Example of CPU Interior with Post Office Boxes



Source: GAO. The Eagle logo and the trade dress of USPS® Packaging and Signage are among many trademarks of the U.S. Postal Service®.

- *Approved Shippers.* Approved Shippers are retailers that may offer shipping services from a range of providers, including USPS. For example, Approved Shippers we met with offered shipping services from companies such as FedEx and UPS, as well as local delivery companies. USPS provides no compensation to the retailers, but provides its services at discounted commercial rates and puts no restrictions on additional fees that retailers can charge for USPS products and services. Vendors that participate in the Approved Shipper program are provided USPS branding rights and signage. According to USPS, as of fiscal year 2010, there were about 4,200 Approved Shippers.
- *Stamp retailers.* USPS's Stamps on Consignment program, managed by ABnote North America (ABnote), a company specializing in secure

distribution and order fulfillment, makes stamps available at retailers such as grocery stores and pharmacies and at banks' automated teller machines. USPS generally provides no compensation for stamp retailers, and retailers cannot sell stamps above face value; however, banks that sell stamps through automated teller machines may charge customers a fee for this service, and other stores that are not Stamps on Consignment program participants may also resell stamps and charge additional fees. According to USPS, as of fiscal year 2010, there were more than 56,000 Stamps on Consignment locations selling stamps.¹⁷

The types of USPS products and services available at post offices compared with those available at retail alternatives are shown in figure 4.

Figure 4: Comparison of USPS Services Offered at Post Offices and Retail Alternatives

	 Stamps	 Domestic mailing and shipping	 International mailing and shipping	 Money orders	 Passports
Post offices	●	●	●	●	◐
usps.com	●	●	●	○	○
Self-service kiosks	●	●	●	○	○
CPUs	●	●	◐	◐	○
Approved shippers	◐	●	◐	○	○
Stamp retailers	●	○	○	○	○

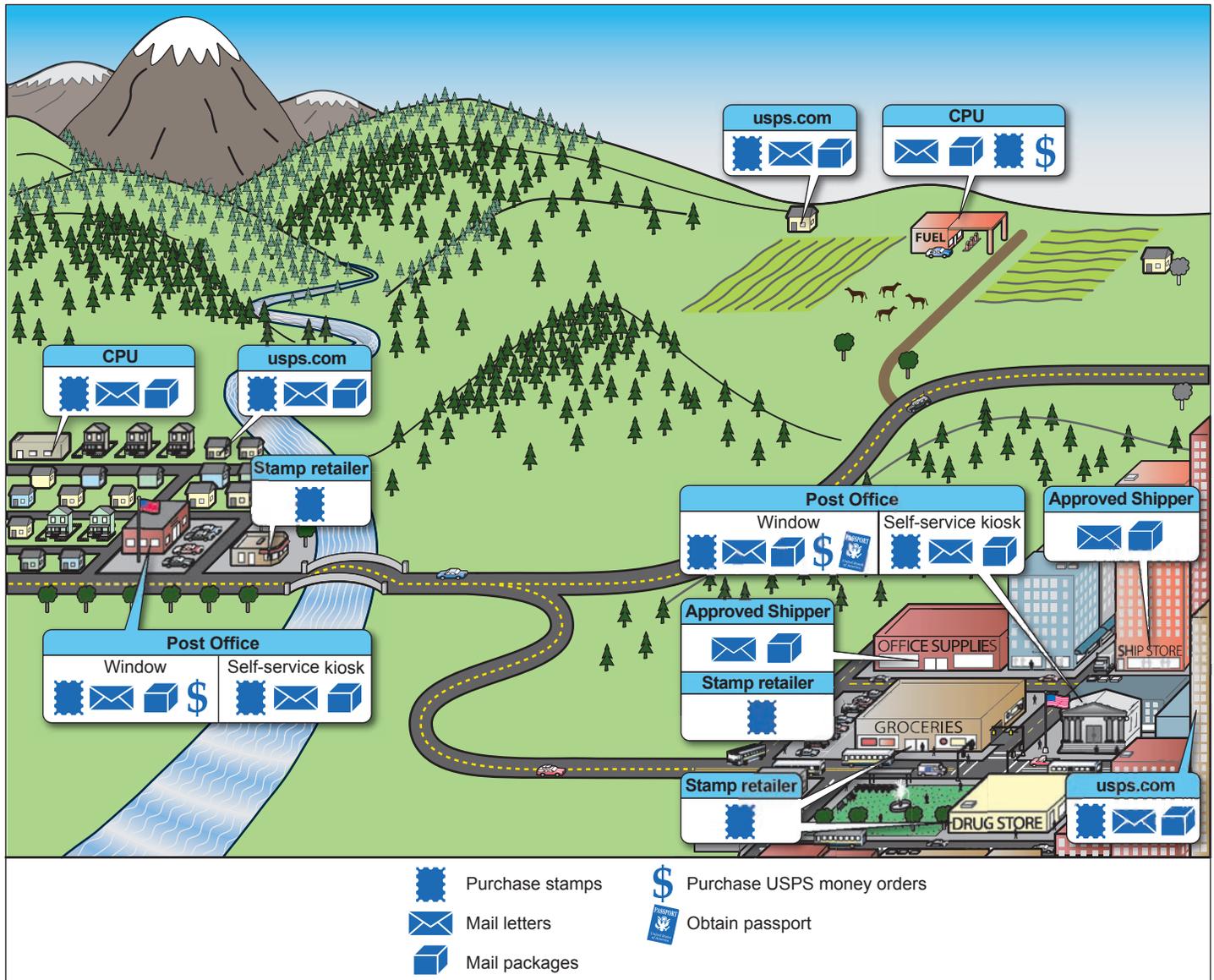
- Product/service is available
- ◐ Product/service may be available at some locations, but not others
- Product/service is not available

Source: GAO analysis.

Retail alternatives are available in urban, suburban, and rural areas, supplementing USPS's traditional retail network of post offices, as illustrated in figure 5.

¹⁷USPS has publicly reported higher figures for the number of stamp retailers. According to USPS officials, those figures include multiple access points at the same address (such as banks that have multiple automated teller machines that provide stamps) and locations not accessible to the general public, such as military bases and prisons.

Figure 5: Typical Retail Alternatives in Urban, Suburban, and Rural Areas



Source: GAO.

USPS employees in headquarters and field offices have roles in implementing retail alternatives. Headquarters officials are responsible for designing and overseeing the retail alternatives programs, including setting goals, developing marketing campaigns, managing usps.com, and developing policies for local officials that oversee kiosks and retail

partners. They also maintain databases on retail revenue and facilities. Officials in administrative field offices, particularly district offices, and post offices supervise postmasters and other managers who oversee and support local implementation of retail alternatives, in addition to their duties supporting the mail delivery network. These oversight duties include monitoring and servicing kiosks and training and monitoring retail partners.

The Government Performance and Results Act of 1993 (GPRA) requires USPS to establish outcome-related performance goals for its major functions. GPRA also requires USPS, as it does other federal agencies, to develop performance indicators for measuring the relevant outcomes of each program activity to demonstrate how well it is achieving its goals.¹⁸ We have previously reported that performance data should be complete, accurate, valid, timely, and easily accessible to be useful. Furthermore, we have reported on the importance of reliable cost data, noting that it can help provide accurate comparisons of costs and benefits; inform budgets and proposals for reorganization; identify potential savings, efficiencies, and waste; benchmark programs and activities; and measure program and managers' performance.¹⁹

A Retail Network Plan Could Help USPS Enhance Service and Financial Performance

USPS's efforts to expand access through retail alternatives are intended to support its strategic goals of improving service and financial performance. According to USPS's 2010 Comprehensive Statement on Postal Operations, retail alternatives improve service by making postal products and services available at times and places consistent with customer preferences, and they improve financial performance by increasing revenue and providing services at a lower cost than traditional outlets.²⁰

¹⁸Pub. L. No. 103-62, § 7 (Aug. 3, 1993), codified at 39 U.S.C. § 2801-2804.

¹⁹GAO, *Meeting the Fiscal and Performance Challenges Facing Government*, [GAO-11-754CG](#) (Washington, D.C.: June 15, 2011); and *Government Performance: GPRA Modernization Act Provides Opportunities to Help Address Fiscal, Performance, and Management Challenges*, [GAO-11-466T](#) (Washington, D.C.: Mar. 16, 2011).

²⁰Additionally, USPS's comprehensive statement outlines a third strategic goal unrelated to retail alternatives, which is to improve employee engagement. U.S. Postal Service, *2010 Comprehensive Statement on Postal Operations* (Washington, D.C.: 2010).

USPS Has Expanded Access through Retail Alternatives, but Service Differences May Present Barriers for Some Customers

USPS intends for both types of retail alternatives—self-service and partnership programs—to make postal products and services more convenient by expanding the locations and times at which they are available. For instance, USPS has expanded the number of access points in the following ways:

- Providing customers the option to obtain postal services through its Web site, usps.com. According to USPS, use of the site has increased from about 312 million visits in 2006 to more than 413 million visits in 2010, showing that customers are increasingly accessing postal services online.
- Deploying 2,500 self-service kiosks in 2004 to selected post offices, to provide an alternative to post office windows that enables customers to conduct most types of common postal transactions.
- Partnering with retailers to sell stamps in over 56,000 locations, such as pharmacies or grocery stores.
- Expanding its Approved Shipper program in 2010 to about 4,200 participants, including by offering postal services in about 1,000 Office Depot stores. According to USPS officials, the number of stores increased to about 1,100 stores in 2011.
- Placing CPUs in rural areas that need service but would not generate enough revenue to justify the cost of operating post offices in those locations.

According to USPS, retail alternatives improve service by providing access to customers not only in more places but also for longer hours. For example, usps.com is available 24 hours a day, and self-service kiosks are accessible when post office windows are closed.²¹ Additionally, USPS states that service at busy post offices can also be improved when kiosks in post office lobbies or CPUs in nearby areas are available to

²¹USPS officials told us that self-service kiosks were designed to allow customers to conduct up to 85 percent of the transactions available at a post office window; however, they also acknowledged that the actual percentage of transactions that can be done at a kiosk is smaller, since customers with multiple needs would use a window if at least one of those needs could not be fulfilled at a kiosk. According to USPS, most kiosks are available for use at any time, since many are located in an outer lobby of a post office that is accessible outside of regular business hours.

accommodate customers who could otherwise have long waits in post office lines.²² To further improve service through usps.com, USPS is currently redesigning its Web site with the intention of making it more useful for customers (see our assessment of USPS's Web site redesign in app. II).²³

Although retail alternatives expand service locations and hours, certain characteristics of these alternatives could be problematic for some postal customers. For example, USPS says that usps.com provides postal products and services "when and where" customers want them, but this option is only available to postal customers with access to the Internet. We identified the following characteristics that may affect customers' ability to access postal service at retail alternatives:

Cost. Postal services available through retail alternatives may be more costly for customers than at post offices because of added fees or limited options. For some customers, the convenience certain options offer may outweigh the added cost, but to more price-sensitive customers, higher costs could deter the use of some alternatives. Instances in which alternatives may be more costly include the following:²⁴

- USPS charges a \$1.00 service fee for stamps purchased from usps.com or over the phone, and banks that sell stamps through automated teller machines are allowed under their service agreements to charge customers a service fee.

²²When considering placement of a new CPU, USPS assesses the needs of an area in order to determine the demand for and viability of a potential CPU. Some factors that USPS uses in this assessment include projected growth in an area and feedback from customers suggesting that access to services should be expanded.

²³Since the redesign of usps.com is ongoing, we were unable to assess the outcomes of this effort. We examined how USPS's plans to redesign the site to make it more useful for customers correspond to industry best practices for retail Web sites, as discussed in appendix II. According to USPS planning documents, the redesign is scheduled to be completed in early 2012.

²⁴In some cases, postal services may also be less costly. For example, USPS offers a discount on the shipping options it makes available on-line through Click-N-Ship, making those shipping options less expensive than at post offices, and at least one national retailer that sells stamps has offered a discount off their standard price.

-
- The usps.com Click-N-Ship site offers Express Mail, which provides overnight or second-day delivery, and Priority Mail, which provides 1- to 3-day delivery, but not the less-expensive First-Class, Parcel Plus, and Media Mail shipping options.²⁵
 - USPS puts no restrictions on added fees Approved Shippers may charge for the same services available at post offices. Furthermore, many retailers that resell USPS stamps, including some Approved Shippers, may charge customers other than face value for them.²⁶ For example, during a site visit, we observed an Approved Shipper charging \$11.00 for a book of 20 stamps valued at \$8.80.

Access requirements. Self-service options give customers the flexibility of accessing postal services directly. However, these options have additional requirements for a customer to be able to use them:

- Both usps.com and self-service kiosks require an electronic form of payment, such as a credit card. This creates a barrier for customers who do not have access to credit cards, which could disproportionately affect low-income customers.²⁷

²⁵USPS's Web site provides links to third-party Web sites that provide additional online shipping options.

²⁶Approved Shippers receive no direct compensation from USPS, but can make money by charging more for products and services than they pay USPS to obtain them. As previously discussed, some retailers—specifically CPUs and Stamps on Consignment participants—have specific agreements with USPS to sell stamps at face value or no more than face value. Other third-party retailers that sell stamps, including Approved Shippers, have no such agreements with USPS about pricing.

²⁷Self-service kiosks require a credit or debit card for payment, and usps.com requires either a credit card or an online billing service that allows users to pay directly from checking or savings accounts.

-
- Internet access is required to use usps.com, putting customers who lack access to or do not use the Internet at a disadvantage, particularly those in remote areas.²⁸

Closure and termination procedures. Retail partners, unlike postal-operated facilities, can close without public notice or an opportunity for public input, creating the potential for unanticipated gaps in service:

- CPU contracts are generally valid for an indefinite period, but either the CPU operator or USPS can terminate a contract at any time, with or without notice, depending on the circumstances.²⁹ According to USPS, the number of CPUs has declined in recent years, from about 5,800 in 2006 to about 3,600 in 2010.³⁰ USPS officials and representatives of a national association of CPUs said that the main reason for the decline in CPUs has been the recent downturn in the U.S. economy. Furthermore, USPS officials told us they have faced challenges with expanding the number of CPUs, including resistance from postal labor and higher costs than implementing other types of retail alternatives. In order to minimize the potential for closures,

²⁸Access to broadband is particularly critical in rural areas, where advanced communications can serve to reduce the distances that isolate remote communities. We previously reported that millions of Americans either lack access to or do not use broadband Internet. A 2009 Federal Communications Commission survey showed that 65 percent of American households had access to broadband Internet, but that there was less adoption for certain demographic groups such as those in rural areas, with incomes less than \$20,000 per year, age 65 or older, and with no high school degree. GAO, *Telecommunications: National Broadband Plan Reflects the Experiences of Leading Countries, but Implementation Will Be Challenging*, [GAO-10-825](#) (Washington, D.C.: Sept. 14, 2010). Furthermore, U.S. households are increasingly relying only on wireless phone service and therefore lack landlines necessary for dial-up Internet access. According to the Centers for Disease Control and Prevention's National Center for Health Statistics, more than one-fourth of U.S. households lacked landlines during the first half of 2010, and in states such as Arkansas, Mississippi, and Texas, about one-third of households lacked landlines. See S.J. Blumberg and J.V. Luke, *Wireless Substitution: State-Level Estimates from the National Health Interview Survey, January 2007 – June 2010*, a report for the Centers for Disease Control and Prevention, National Center for Health Statistics (Washington, D.C.: Apr. 20, 2011).

²⁹Most CPU contracts can be terminated by either USPS or the retailer with 120 days' notice; however, USPS can also terminate the contract with 1 day's written notice if it is deemed in the interest of USPS, which USPS officials said is generally because of fraud.

³⁰We requested information from USPS on the number of openings and closures that resulted in this net decrease, but USPS did not provide it.

USPS officials told us they assess potential CPU operators to determine whether their existing business is viable.³¹

- USPS or Approved Shippers can terminate an Approved Shipper agreement with 10 days' notice to the other party.
- ABnote's agreement with stamp retailers states that either ABnote or the retailer may terminate the agreement with 30 days written notice to the other party and that ABnote may terminate it immediately.

USPS is required to provide universal service to customers throughout the United States, which includes providing access to its retail services. The Postal Reorganization Act of 1970 mandates that USPS provide "prompt, reliable, and efficient services to patrons in all areas and shall render postal service to all communities" as well as "...a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining."³² According to USPS, there are a number of dimensions to providing universal service, encompassing issues such as uniform prices and affordability, quality of service, access to services and facilities, and geographic scope—many of which are particularly applicable to providing retail services. However, USPS has not adopted a specific standard for universal service and has declined to create one.³³ This makes it difficult to determine to what extent the differences in cost, access requirements, and closure procedures previously discussed could affect USPS's ability to meet its universal service mandate as it modernizes its retail network to rely more on retail alternatives and less on post offices. Such ambiguity will add to the challenge of defining an appropriate level of access under

³¹According to USPS officials, they review a retailer's financial statements for the previous 3 years as part of the process for evaluating a potential CPU. We asked USPS officials to provide documentation of the requirements for these reviews, but they did not respond to our request.

³²Pub. L. No. 91-375, § 2, 84 Stat. 719 (Aug. 12, 1970), codified at 39 U.S.C. § 101(a), (b).

³³In a 2008 report on universal service, USPS said that having a more specific definition of universal service would unduly restrict USPS, resulting in harm to the American public and businesses it serves. USPS recommended that its universal service obligation be defined broadly so as not to prohibit or limit creating a more efficient network and replacing facilities with alternative access where appropriate, among other reasons. See USPS, *Report on Universal Service and the Postal Monopoly* (October 2008).

a modernized network, such as determining the optimal mix of retail alternatives and post offices USPS needs to effectively serve customers from varying socioeconomic and population demographics.

Other countries that have modernized their postal retail networks to include more partner-owned and -operated facilities developed criteria for providing a minimum level of service to guide their restructuring efforts. Such standards can include different requirements for serving areas of higher and lower population density. For example, in our recent report on foreign posts' efforts to restructure their networks, we noted that Australia's universal service standards require that at least 90 percent of residences in metropolitan areas be located within 2.5 km (1.56 miles) of a postal retail outlet and, in nonmetropolitan areas, at least 85 percent of residences be located within 7.5 km (4.66 miles) of a retail outlet.³⁴ Canada and Germany also set standards for determining appropriate geographic coverage of retail access points. Having criteria for assessing whether changes to its retail network conform with its requirements to provide universal service could help USPS determine the most cost-effective placement of retail access points—whether through post offices or alternatives. Such criteria could change over time to adapt to changing customer needs. They could also help USPS more clearly articulate how it intends to achieve its goals and better demonstrate its progress toward them. Without such measures, it is unclear how well USPS's efforts to expand access with retail alternatives are supporting its goal to improve service as intended.

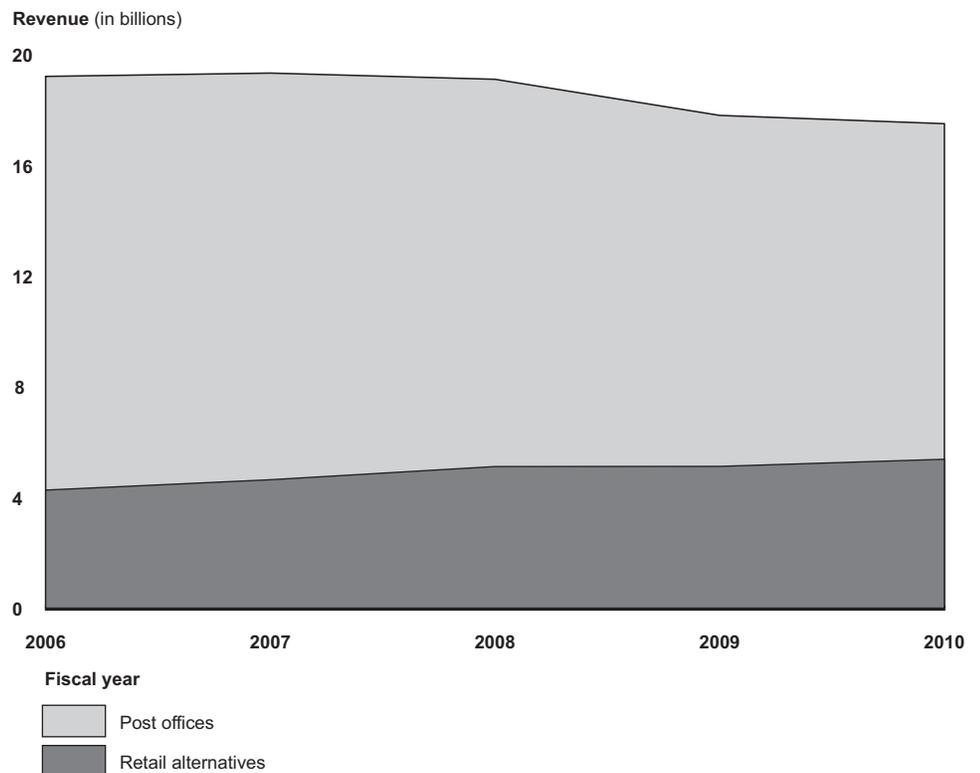
USPS Has Increased Revenue from Retail Alternatives, but Has Not Demonstrated Cost Savings

USPS has stated that retail alternatives support its goal to improve financial performance by generating revenue while offering products and services through outlets that are less costly than post offices. USPS officials told us that the increasing proportion of retail revenue from alternatives is a marker of improved financial performance, even though retail revenue from all sources—which constitutes about one-fourth of USPS's overall revenue—decreased from \$19.2 billion in fiscal year 2006

³⁴U.S. Postal Service: *Foreign Posts' Strategies Could Inform U.S. Postal Service's Efforts to Modernize*, [GAO-11-282](#) (Washington, D.C.: Feb. 16, 2011).

to \$17.5 billion in fiscal year 2010.³⁵ USPS data show that the share of retail revenue from alternatives grew from about 22 percent in fiscal year 2006 to about 31 percent in fiscal year 2010, representing an increase from about \$4.3 billion to \$5.4 billion during this period, while at the same time, revenue from post office windows decreased from \$14.9 billion to \$12.1 billion (see fig. 6). According to USPS, revenue from retail alternatives in fiscal year 2011 represented 35 percent of overall retail revenue. USPS has projected that by 2020 alternatives to post offices will likely account for 60 percent of its retail revenue.

Figure 6: USPS Retail Revenue from Post Offices and Retail Alternatives, Fiscal Years 2006-2010



Source: GAO analysis of USPS retail revenue data.

³⁵Total USPS retail revenue for fiscal year 2010 was about \$17.5 billion, representing about one-fourth of USPS's total revenue of \$67.1 billion for the year. All USPS revenue figures presented in this section have been adjusted to 2010 dollars to account for inflation.

Although overall postal revenue from alternative sources has grown in recent years, trends in revenue vary among the types of retail alternatives.³⁶ From fiscal years 2006 through 2010, revenue from some types of retail alternatives has increased:

- According to USPS, revenue from usps.com has grown from about \$370 million in fiscal year 2006 to about \$640 million in fiscal year 2010.
- Revenue from self-service kiosks has also grown, increasing from about \$410 million in fiscal year 2006 to about \$580 million in fiscal year 2010.
- Revenue from Approved Shippers, a comparatively small program, grew from about \$12 million in fiscal year 2006 to about \$29 million in fiscal year 2010, according to USPS.

However, revenue from other types of retail partners has decreased:

- Revenue from CPUs declined from about \$730 million in fiscal year 2007 to about \$625 million in fiscal year 2010.³⁷
- Revenue from stamp retailers declined in fiscal year 2010 to about \$1.1 billion, after having grown from about \$1.0 billion in fiscal year 2006 to about \$1.2 billion in fiscal year 2009.

According to USPS officials, retail alternatives also contribute to USPS's financial performance by providing access to its products and services at a lower cost than through post offices. In its March 2010 action plan,

³⁶We are presenting the figures on specific alternatives' retail revenue in rounded numbers in order to provide context for their relative contributions to USPS's overall revenue. USPS data on revenue from retail alternatives comes from various USPS sources that maintain the data in different ways and are therefore not comparable. For example, the data we provide about overall retail revenue come from USPS's audited accounting database, which contains reconciled revenue data, but data about specific types of alternatives come from unreconciled data that represent gross sales. Furthermore, there is some overlap in these data because some retail partners obtain the stamps they sell from USPS's Stamps on Consignment program, creating the potential to double-count some revenue when using the gross sales data. See appendix I for a more detailed explanation of our examination of USPS retail data.

³⁷As previously discussed, the number of CPUs also decreased during this period.

USPS presented estimates showing that, for each dollar in sales generated, costs were higher for post offices than for retail alternatives. Specifically, using fiscal year 2008 data, USPS contractors estimated that USPS incurred \$0.23 to \$0.39 in cost for each dollar in sales at post offices, while for retail alternatives, USPS estimated its costs per dollar of revenue ranged from \$0.02 to \$0.13.³⁸ In assessing the success of retail alternatives in providing cost savings, USPS officials repeatedly pointed to the cost per revenue dollar estimates; however, these estimates do not represent actual cost savings, and we identified several limitations with these estimates as a measure of financial performance:

- The 2008 cost-per-revenue-dollar estimates are a snapshot of costs and not a model that projects future costs as inputs or external conditions change. For example, in estimating the costs of local oversight of retail partners, USPS assumed that the existing retail and delivery network would remain intact and did not account for potential closures or staffing changes in post offices.
- The estimates do not take into account how additional retail alternatives could increase or decrease the per-unit cost of retail alternatives. For example, as USPS adds more retail alternatives, such as CPUs or Approved Shipper locations, the cost of providing additional oversight may be comparatively less, since USPS has already invested resources necessary for training postmasters or managers to oversee the initial units. Moreover, the declining demand for postal products and services could also significantly change the cost per revenue dollar estimates. If revenue declines, as has been the case for some retail alternatives, absent reductions in costs, the cost per revenue dollar would increase.
- More recent expenses, such as for redesigning USPS's Web site or reviewing the performance of Approved Shippers, were not factored into the 2008 cost estimates and could conceivably change the estimates.

³⁸According to USPS's action plan, the average cost per revenue dollar of postage and package transactions at post offices was \$0.23, while the average cost for all retail transactions at post offices ranged from \$0.31 to \$0.39. See USPS, *Ensuring a Viable Postal Service for America: An Action Plan for the Future* (Washington, D.C.: March 2010).

Consequently, the 2008 cost-per-revenue-dollar estimates do not provide a complete picture of cost savings realized or expected from implementing retail alternatives. According to USPS, the estimates are being updated with fiscal year 2009 and 2010 data using a similar methodology and include changes intended to improve their accuracy. As of October 2011, USPS had not completed this update.

USPS officials said they were unable to provide any details about actual cost savings resulting from their efforts to expand retail alternatives because wider adoption of retail alternatives is needed before USPS can realize cost savings by reducing staff at specific post offices. Officials responsible for oversight of retail partnerships told us that although they track the cost of their programs, they have not determined metrics for identifying cost savings, and need better cost data analysis to make effective program decisions. Furthermore, USPS officials told us their cost data systems were designed more for providing information in determining pricing of postal products than for analyzing costs of specific program areas. USPS did, however, estimate in 2003 that implementing self-service kiosks would save an average of \$110 million annually in labor costs from fiscal year 2005 through fiscal year 2009, but USPS has not assessed whether such cost savings were achieved.³⁹ USPS officials in headquarters and field offices told us that they can track changes in staffing at post offices that can result in cost savings, but cannot determine whether such changes are the result of customer shifts to retail alternatives or declines in demand for other reasons.

USPS has stated that it will realize cost savings as it closes redundant and underutilized post offices in response to decreased demand and customers shifting to retail alternatives. USPS announced in September 2011, that it will review as many as 15,000 post offices for possible closure, which it stated could produce annual savings of \$1.5 billion as part of an effort to eliminate \$20 billion in annual costs by 2015. As part of USPS's review begun in July 2011, USPS said that post offices that could potentially close are those that have insufficient demand and available alternative access. Also, in July 2011, USPS launched a new retail partnership initiative, the Village Post Office, which directly ties retail alternatives to USPS's ability to cut costs. USPS described the Village

³⁹USPS headquarters officials told us that the USPS Inspector General had studied cost savings from USPS self-service kiosks; however, according to USPS IG officials, they have not assessed whether USPS's kiosks achieved their intended cost-saving goal.

Post Office as a replacement option for some communities where underutilized yet costly post offices may close. With Village Post Office, USPS intends to partner with existing small businesses to provide a limited array of postal products and services to the local community, including mail collection boxes, post office boxes, stamps, and flat-rate shipping and mailing products. USPS launched its first Village Post Office in the town of Malone, Washington, in the summer of 2011, and USPS officials said they expect to open several thousand similar outlets by the summer of 2012. Our past work has shown that replacing postal-owned and -operated facilities with privately owned and operated facilities is a strategy some foreign posts, such as those in Australia, Germany, Finland, and Sweden, have used to restructure their retail networks in order to contain facility and labor costs.⁴⁰ USPS officials we spoke with recognized, however, that until post office closures actually occur, efforts to expand retail alternatives will yield no cost savings and in fact could increase costs, since, although the alternatives are generally less costly, USPS still incurs start-up, administration, and oversight costs.

Retail Network Plan Needed to Maximize the Potential of Retail Alternatives

Given USPS's financial challenges, a clear plan guiding investments in its retail network is essential, including how it intends to increase access through retail alternatives while considering cuts to its network of post offices. USPS has not yet produced a plan outlining how retail alternatives, as part of USPS's overall retail network, will improve service and financial performance. USPS released a plan to Congress in June 2008 outlining changes to its processing, transportation, and retail networks that included descriptions of alternatives it was pursuing, but did not include specific goals for expanding access through alternatives or specific related actions it would take to achieve cost savings.⁴¹ We reported in February 2011 that USPS officials said they were developing a retail strategy that would be made public in early 2011.⁴² However, as of October 2011, USPS officials told us they had not prepared a documented strategy for retail. According to an official responsible for USPS retail programs, such a plan has not been completed because the needs of postal customers continue to evolve. Members of Congress

⁴⁰[GAO-11-282](#).

⁴¹U.S. Postal Service, *Postal Accountability and Enhancement Act § 302 Network Plan* (June 2008).

⁴²[GAO-11-282](#).

have introduced legislation calling for USPS to develop a plan that addresses customer access, the closure and consolidation of post offices, and estimated cost savings attributable to such closures and consolidations.⁴³ Furthermore, GPRA identifies how such a plan should look, what it should include, and how it would help USPS measure progress toward its goals.⁴⁴

Effective Public Communication Is Key to Successful Network Restructuring with Retail Alternatives

As USPS continues to make changes to its retail network, an ongoing focus on public communication will be important to foster customers' acceptance of retail alternatives. USPS's Corporate Communications officials told us that building awareness of retail alternatives among the public has been a particular challenge. We have previously reported that agencies need to ensure they adequately communicate with external stakeholders, such as consumers, whose actions have a significant impact on an agency achieving its goals.⁴⁵ To accomplish this, agencies develop communication strategies, which can include actions for building awareness and support for a program. Determining whether such communication is adequate can include assessing whether the agency's message is reaching the intended audience, which is particularly important when the agency is trying to reach specific populations, such as those in rural areas or with low incomes. Without feedback from such groups, the agency cannot know whether its communication strategies are building the awareness and support needed to achieve its goals.

USPS Has Taken Steps to Increase Public Awareness of Retail Alternatives

USPS has included actions to inform the public about retail alternatives in its retail communications strategies and has recently launched communications efforts aimed specifically at increasing awareness of retail alternatives. In developing its public communications, USPS conducted focus groups to identify messages that would resonate with customers. USPS's actions under these strategies include the following:

⁴³U.S. Postal Service Improvements Act of 2011, S. 353, 112th Cong. (2011); Postal Reform Act of 2011, H.R. 2309, 112th Cong. (2011); Postal Operations Sustainment and Transformation Act of 2011, S. 1010, 112th Cong. (2011).

⁴⁴Pub. L. No. 103-62, codified at 39 U.S.C. § 2803.

⁴⁵GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

- As previously discussed, in July 2011, USPS launched the Village Post Office initiative to partner with small businesses to offer a limited array of postal products and services in areas where USPS may close underutilized post offices.
- In May 2011, USPS launched a communications campaign to promote the availability of its services at post offices and retail alternatives. This campaign uses the slogan “we’re everywhere so you can be anywhere” to communicate the availability of USPS products and services at locations other than post offices.
- Also in May 2011, USPS released an initial version of a new online tool customers can use to find post offices and retail partners, including Approved Shippers, which have generally received less promotion from USPS than other alternatives. USPS planned to release additional improvements to its online locator as part of the usps.com redesign.
- In 2010, to improve the public’s awareness of USPS services at multiple retail points, USPS created a set of icons that post offices and retail partners can display to show specific products and services available at a particular location (see fig. 7). A full-service post office would have most or all of these products and services, while retail partners like CPUs and Approved Shippers, would have fewer, such as only stamps, mailing, and shipping options.

Figure 7: USPS Icons Demonstrating Product and Service Availability



Source: USPS. The Eagle logo and the trade dress of USPS® Iconography are among many trademarks of the U.S. Postal Service®.

In May 2011, USPS developed its plan for communicating the redesign of usps.com. This plan focuses on the benefits customers may expect from the new features that will be deployed with each of the project's phases.⁴⁶ The plan called for USPS to use multiple methods to communicate with external stakeholders, including the public, such as press releases, e-mail to its business partners, and external publications. Key goals of the plan were to ensure that the Web site's current customers were aware of the launch of the new site and to help them understand the benefits of the transition and work to build interest among other customers for the new site.

Measures of Effectiveness Could Help Strengthen USPS's Communications Strategy

As previously discussed, some customers may be more likely to obtain postal services at post offices than through retail alternatives, because of certain characteristics that may make alternatives problematic for them. We have previously reported that USPS needs to clearly communicate to the public how its plans to optimize its retail network will affect customers, particularly those in rural areas.⁴⁷ We continue to believe this is important, especially in light of the changes that USPS is undertaking to close post offices and replace some of them with retail partners, a process that includes consideration of whether sufficient retail alternatives are available.⁴⁸ According to a senior USPS official responsible for advertising, USPS used to measure changes in public awareness by conducting surveys before and after major advertising campaigns, but is no longer doing so. Although financial constraints may preclude USPS

⁴⁶The first phase, launched in July 2011, includes the redesigned tools for shipping and tracking packages, while the second phase, originally scheduled for the end of September 2011, adds redesigned tools and features, such as redesigned tools for locating postal retail outlets and requesting redelivery of a parcel. According to USPS officials, the release of some features planned for September was delayed until October 2011. In early 2012, USPS plans to complete the third phase, which includes the site's infrastructure redevelopment, a redesigned section for purchasing USPS products, and integration of the site's various components with other USPS systems.

⁴⁷GAO, *U.S. Postal Service: USPS Needs to Clearly Communicate How Postal Services May Be Affected by Its Retail Optimization Plans*, [GAO-04-803](#) (Washington, D.C.: July 13, 2004).

⁴⁸In 2004, we recommended that USPS improve its transparency and communication about its retail optimization efforts. In responding to this recommendation, USPS provided Congress with a network plan in 2008 that explained its strategy to make changes to its processing, transportation, and retail networks. That same year, USPS also redesigned its Web site to provide customers with better information about the location of post offices and retail alternatives. See [GAO-04-803](#).

from introducing new customer feedback tools, it could potentially use existing tools to gauge public awareness of retail alternatives. USPS currently surveys residential and business customers about their experiences with USPS products and services, including their views on the convenience and customer service of post offices. The household diary study USPS conducts annually to assess customers' use of the mail is another such tool. Either of these options could serve as a platform for obtaining feedback on how aware customers are of retail alternatives and whether they are meeting customers' needs.

Feedback about customers' awareness and use of retail alternatives can help USPS be sure its message is reaching its intended audience. For USPS, as for the foreign posts we reviewed recently, having an effective communications strategy is an important way to mitigate resistance to modernizing a postal retail network.⁴⁹ For example, Sweden's postal service, Posten AB, developed a comprehensive public communications campaign to inform its stakeholders of how it was transforming its retail network, an effort begun in 2001. This campaign was intended to help change the perception of "the post as a place" to "the post as a service." Posten AB officials told us they made efforts to show customers and other stakeholders that although retail facilities owned and operated by the post were closing, the new retail partnerships offered more access points and made postal products and services more convenient to obtain. Swedish postal officials told us that the public was initially resistant to the sweeping changes to the nation's postal infrastructure, but ultimately accepted them. As of 2009, Sweden has transformed its retail network to be 88 percent owned and operated by retail partners. According to the officials, their public communications campaign was central to the post's successful transformation of its retail network. Similarly, three of the five other foreign posts we examined maintained a retail network with a majority of partner-owned and -operated facilities rather than their own traditional post offices. That about a third of USPS's retail revenue now comes from alternatives to post offices shows the public has started to accept and use retail alternatives. As previously discussed, USPS announced this year it is studying several thousand post offices for

⁴⁹Foreign post operators we studied modernized their brick-and-mortar retail networks by drastically reducing the proportion of facilities they operate relative to the proportion of those operated by others. According to all of the posts, retail modernization has either improved customer service or reduced operating and labor costs, or both. See [GAO-11-282](#).

potential closure and intends to close up to 15,000 post offices by 2015. If USPS closes these post offices as planned, it will be increasingly important for it to effectively encourage widespread adoption of retail alternatives.

USPS Takes Steps to Help Ensure Retail Partners Follow Procedures, but Could Improve Oversight

As USPS has expanded its use of retail partners, it has taken steps to help ensure that such third-party retailers offer products and services in accordance with its procedures. Specifically, USPS has established procedures for entering into written agreements with retail partners, training them, and monitoring their performance.

Contracts and Agreements

USPS contracts and agreements with retail partners establish terms of service and requirements for providing service:

- The standard CPU contract we examined specifies that a CPU must offer stamps, domestic and international shipping services, and other special services, such as insurance and confirmation of an item's delivery, and that the CPU may not offer competitors' shipping products and services.
- Approved Shippers sign licensing agreements stating they will comply with USPS requirements for offering postal products and services and follow guidelines on displaying USPS-branded signage and promotional materials.
- Stamp retailers sign agreements with USPS's contractor, ABnote, stating they agree to offer stamps at a price no higher than face value and advertise the availability of stamps.

Training and Guidance

USPS has procedures for providing initial and ongoing training and guidance to its retail partners. According to USPS guidance and officials, USPS provides new CPU operators with initial classroom and on-the-job training, which covers topics such as customer service, product knowledge, and equipment use. USPS may provide additional training to CPUs to cover changes in its products and services. Approved Shippers do not generally receive in-person training from USPS, but do receive training materials such as a guide to postal products, and Office Depot employees receive employer-provided training on USPS services. USPS

provides additional updates to retail partners through its field offices, and retail partners can call local USPS offices if they have questions. Most CPU operators we met with during our site visits raised no concerns about their training; however, operators at two CPUs told us they would like refresher training. Additionally, one CPU operator in Northern Virginia told us it would be useful to have more communication from USPS about the CPU's performance. Furthermore, according to a national association of CPUs, some CPUs have had trouble identifying an appropriate point of contact at USPS because of staffing changes.

Monitoring

USPS's guidance for overseeing CPUs states that local USPS officials are required to monitor the performance of CPUs on a quarterly basis through on-site reviews of their operations and compliance with policies.⁵⁰ According to USPS officials, similar reviews have also been required of Approved Shippers since fiscal year 2009; however, we do not know what these reviews cover since USPS did not provide us guidance for these reviews that we requested.

As we observed during our site visits, reviews of retail partner sites do not always occur quarterly as USPS intends.⁵¹ CPU operators in two of the four districts we visited told us that such reviews were happening either less frequently than required or not at all. Furthermore, none of the Approved Shippers we visited told us they had been visited by USPS staff

⁵⁰Additionally, those CPUs that are within the USPS financial accountability system—generally those on a fixed-fee contract—are subject to an annual audit to ensure that their stamp stock matches the amount allowed by their bond. CPUs on the newer, performance-based contract are responsible for purchasing their own stamps and are therefore not bonded or subject to this audit.

⁵¹Since we obtained our evidence of USPS's lack of monitoring retail partners during site visits, we cannot determine the extent to which such reviews may or may not be occurring nationwide.

conducting a quarterly review.⁵² Cuts in USPS's management-level staffing may contribute to lapses in oversight of retail partners. According to USPS headquarters officials, no staff in field offices or post offices are solely responsible for oversight of retail alternatives and personnel with such responsibility must balance their oversight duties with other responsibilities. Reductions in USPS staffing have led to the elimination or consolidation of management roles that provide oversight of retail partners, such as field managers who oversee USPS retail operations in several districts. USPS officials in one district told us that, although they were required to conduct such visits with Approved Shippers, they were not doing so. According to these officials, the quality of monitoring of retail partners had suffered because recent USPS staffing cuts had consolidated administrative duties for responsible post office employees.

We have previously reported that a risk-based approach to oversight can help agencies effectively target constrained resources to better address potential problem areas.⁵³ Such an approach could help USPS identify which retail partners should be monitored more closely and would give managers flexibility to conduct reviews more or less frequently as warranted by available resources and assessments of risks. USPS

⁵²Although this discussion focuses on USPS's monitoring of partners' compliance with its policies and procedures, as noted, USPS is also responsible for conducting financial audits of CPUs within the postal accounting system. In 2009, the USPS Inspector General examined USPS's financial oversight of a judgmental sample of CPUs selected based on financial risk and found that USPS had not provided sufficient oversight. Specifically, the Inspector General found that USPS officials were not always timely in recording CPUs' financial information, did not collect outstanding cash and stamp shortages, and allowed CPUs to issue unauthorized and unsupported disbursements. The Inspector General recommended that USPS improve its oversight by developing an action to plan to recover the shortages and reinforce procedures for the review and input of CPUs' financial information. USPS agreed with the recommendations and said it was taking steps to address them. See USPS Inspector General, *Management Advisory - High-Risk Contract Postal Units*, FF-MA-09-003 (Mar. 31, 2009).

⁵³For example, we reported that risk-based monitoring of grantees would strengthen the Department of Health and Human Services' Healthy Marriage and Responsible Fatherhood initiative by helping the agency better identify recipients that were not meeting goals or complying with grant requirements. See GAO, *Healthy Marriage and Responsible Fatherhood Initiative: Further Progress Is Needed in Developing a Risk-Based Monitoring Approach to Help HHS Improve Program Oversight*, [GAO-08-1002](#) (Washington, D.C.: Sept. 26, 2008). We also reported that a risk-based oversight approach could help land management agencies make better use of scarce resources in a manner that effectively addresses risk. See GAO, *Federal Lands: Adopting a Formal, Risk-Based Approach Could Help Land Management Agencies Better Manage Their Law Enforcement Resources*, [GAO-11-144](#) (Washington, D.C.: Dec. 17, 2010).

already collects data on retailers' revenue, complaints from customers, and results of monitoring reviews, which could be suitable for determining a retailer's relative level of risk and an appropriate method and frequency of monitoring. USPS could then make better use of its management resources, particularly during a time when such resources are being cut back. Effective monitoring of retail partners is important because it can identify bad operators whose actions could potentially undermine USPS's efforts to encourage the adoption of retail alternatives. Stakeholder organizations representing USPS postmasters, a major postal union, and consumers expressed concerns about the potential for retail partners to be inadequately trained in how they provide postal services, which could harm USPS's image, increase the potential for fraud, and frustrate customers. If retailers offering USPS products and services provide inadequate service, customers may be unwilling to adopt retail alternatives for their postal needs, hampering USPS's efforts to increase their use. For example, during our site visit to USPS's Houston district, officials told us about a CPU that was poorly managed, leading to customer complaints and decreased revenue. Eventually the CPU improved after its management was replaced.

Conclusions

USPS has acknowledged that to improve its financial condition, it needs to make changes to its operations, including modernizing its retail network to more cost-effectively serve customers through the use of retail alternatives. USPS now offers mailing and shipping products through thousands of retailers and stamps through tens of thousands of locations. Further network restructuring must occur quickly if USPS is to address its financial difficulties, and USPS has announced plans to study 15,000 post offices for potential closure by 2015. Expanding access through retail alternatives needs to be an integral part of this effort, but USPS has still not developed a plan to clearly outline its vision for what a modern retail network will look like, including how retail alternatives will help maximize cost savings and preserve customer access to a degree sufficient for meeting USPS's universal service mandate. A plan could facilitate realizing the cost savings USPS expects to achieve by expanding retail alternatives, but its costs could increase if it expands access without concurrently making cost-saving cuts in its expensive network of 32,000 post offices. Furthermore, effective progress measures and the data to support such measures would help USPS and key stakeholders determine whether efforts to expand access are improving its service and financial performance as intended.

No amount of planning or oversight will ensure the success of providing postal services through retail alternatives if the public does not use them. Clear communication about USPS's plans for providing access to postal services, even if it creates short-term resistance, will more likely create long-term acceptance if the public knows why, where, and how it may access postal services through alternatives, particularly as post offices close. Although USPS has strategies for communicating with the public about retail alternatives, it lacks methods of assessing whether its message is both reaching its intended audience and having the intended effect. USPS expects that, by 2020, retail alternatives will replace post offices as the principal means of access for its retail products and services—an outcome dependent on the public's growing awareness, acceptance, and use of the alternatives.

Since USPS expects to continue expanding its use of third-party retailers to provide postal services, it will need to have the resources necessary for effective monitoring of those third parties to help ensure they follow USPS procedures and provide quality service. On the basis of our site visits, we found that quarterly reviews of such retail partners are not occurring as required. And because the risk associated with any particular retailer may vary, a risk-based oversight approach could help USPS direct its resources toward those retailers that require more oversight. Factors that inform risk could include volume of sales, incidence of customer complaints, or prior performance history. As USPS continues to cut its administrative staffing to address funding shortfalls, efficient use of its streamlined management resources will be increasingly important.

Recommendations for Executive Action

We are making the following two recommendations to the Postmaster General:

- To better ensure that USPS's efforts to expand access through retail alternatives support its strategic goals to improve its service and financial performance, the Postmaster General should develop and implement a plan with a timeline to guide efforts to modernize USPS's retail network that addresses both traditional post offices and retail alternatives. This plan should also include:
 - criteria for ensuring the retail network continues to provide adequate access for customers as it is restructured;
 - procedures for obtaining reliable retail revenue and cost data to measure progress and inform future decision making; and

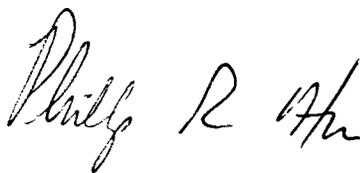
-
- a method to assess whether USPS's communications strategy is effectively reaching customers, particularly those customers in areas where post offices may close.
 - To help ensure CPUs and Approved Shippers provide postal products and services in accordance with USPS policies, while making efficient use of its constrained resources, the Postmaster General should establish procedures to focus monitoring of retail partners on those determined to be at a greater risk of not complying with its requirements and procedures.

Agency Comments

We provided a draft of this report to USPS for review and comment. In response to our recommendation to develop a plan to guide its retail network modernization, USPS stated that it is developing a comprehensive strategic plan to identify efforts and activities across the organization that align with optimizing the retail network. In response to our recommendation to establish risk-based procedures for monitoring retail partners, USPS agreed to review its current monitoring policies and stated that its review will be incorporated within its strategic planning efforts. USPS's full comments are reprinted in appendix III.

We are sending copies of this report to the appropriate congressional committees, the Postmaster General, and other interested parties. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any questions on this report, please contact me at (202) 512-2834 or herrp@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Contact information and key contributors to the report are listed in appendix IV.



Phillip Herr
Director, Physical Infrastructure Issues

Appendix I: Objectives, Scope, and Methodology

This report discusses (1) how the U.S. Postal Service's (USPS) efforts to expand access through retail alternatives support its strategic goals of improving service and financial performance, (2) how USPS communicates with customers about the availability of its products and services at retail alternatives, and (3) what actions USPS has taken to oversee third parties that provide postal products and services.

To obtain information for all of our objectives, we reviewed USPS documents and interviewed USPS officials responsible for implementing efforts to expand retail alternatives. We reviewed internal control standards and our prior reports to identify appropriate criteria for assessing aspects of how USPS manages its efforts to provide access through retail alternatives. We also visited four USPS districts to see how retail alternatives are being implemented at the local level. Specifically, we visited USPS district offices, post offices, contract postal units (CPU), and Approved Shippers in Detroit Lakes and Richwood, Minnesota, and Fargo, North Dakota (Dakotas District); Conroe and Katy, Texas (Houston District); Arlington and Winchester, Virginia (Northern Virginia District); and Miami and Stuart, Florida (South Florida District). We selected the Dakotas, Houston, and South Florida districts because for fiscal years 2009 and 2010 their revenue from retail alternatives, growth in alternative revenue, and percentage of retail revenue from alternatives were higher than average.¹ We chose the specific locations we visited to include a more urban and a more rural location in each district based on 2000 census data; locations where there were generally CPUs, Approved Shippers, and self-service kiosks present; and locations with higher than average revenue. We also interviewed USPS partners, contractors, and representatives of key groups affected by USPS retail efforts to obtain their views on USPS's efforts to provide access through retail alternatives (see table 1). We identified these stakeholders through reviews of USPS regulatory proceedings and prior GAO and USPS Inspector General reports and recommendations from other stakeholders and experts.

¹To minimize travel expenses, we selected the Northern Virginia district for our first site visit and, since it occurred early during our research before obtaining data from USPS, we consulted with USPS to identify suitable locations to visit.

Table 1: Stakeholders Interviewed

Type of stakeholder	Stakeholder organization or individual interviewed
USPS corporate contractor or partner	<ul style="list-style-type: none"> • ABnote North America • Costco • Office Depot • Walgreens
Postal employee organization	<ul style="list-style-type: none"> • American Postal Workers Union • National League of Postmasters
Consultant	<ul style="list-style-type: none"> • Anthony Yezer, The George Washington University • Jay Donahue, Global Office Link
Postal supplier	<ul style="list-style-type: none"> • Pitney-Bowes
Postal consumer organization	<ul style="list-style-type: none"> • Consumer Postal Council • Postal Regulatory Commission, consumer representative^a
Retail partner organization	<ul style="list-style-type: none"> • Contract Postal Unit Association of America

Source: GAO interviews.

^aWe did not meet with the Postal Regulatory Commission consumer representative in person, but instead received written responses to our questions.

To determine how USPS’s efforts to expand retail access support its strategic goals of improving service and financial performance, we reviewed USPS’s strategic planning documents to identify how efforts to expand retail alternatives are linked to its strategic goals and what the related performance measures are. We also reviewed USPS’s requirements under the Government Performance and Results Act of 1993 and prior GAO reports on strategic planning to achieve agency goals. We identified differences in services provided through retail alternatives and post offices using information obtained from USPS officials, site visits, and our examination of usps.com. To assess USPS’s plans to redesign its retail Web site, we reviewed literature on best practices for retail Web site design.

We analyzed available USPS data on revenue from retail alternatives for fiscal years 2006 through 2010 to identify trends and permit comparisons with revenue from post offices. USPS data on revenue from retail alternatives comes from various USPS sources that maintain the data in different ways and are therefore not comparable. Specifically, the data we provide about overall retail revenue, as well as revenue from post offices and retail alternatives in general, come from USPS’s audited accounting database, which contains revenue data that have been adjusted to account for factors such as customer returns, lost inventory, and how

USPS counts revenue for stamps sold but not yet used.² Because of these adjustments, USPS officials said this data source is more accurate for reporting overall retail revenue. In contrast, data on revenue from specific alternatives comes from a variety of USPS data sources, including databases of gross sales data that have not been reconciled in the same manner as the accounting database. Neither source could provide revenue data both overall and for specific retail alternatives, since the accounting database does not break out revenue for all of the types of alternatives we examined, and the sales database does not include revenue from post offices and CPUs that do not report revenue through an electronic point-of-sale transaction system. Furthermore, there is some overlap in the revenue data from specific retail alternatives. This occurs because some retail partners obtain the stamps they sell from USPS's Stamps on Consignment program, which is counted as revenue under that program, and then the partners report all postal sales, including stamp sales, to USPS, thus creating the potential to double-count some revenue when using the gross sales data.

Further affecting our ability to complete planned analyses were substantial delays in receiving responses to our requests for data from USPS. For example, delays of several months precluded planned analyses of trends in the number of specific types of alternative retail outlets in different geographic areas, differences in the types of products and services sold through different retail outlets, and trends in revenue for the specific locations and districts we visited. According to USPS officials, major staff restructuring that occurred while we were conducting our audit made it difficult for USPS to respond in a timely manner. Consequently, we scaled back our data analysis to focus on trends in revenue and the number of locations for retail outlets overall and for the specific types of retail alternatives that were the focus of our review.

We assessed the reliability of each of the data sources we used by interviewing USPS officials responsible for them or sending USPS questionnaires to obtain written answers about its procedures for

²For accounting purposes, USPS recognizes revenue from postage when a letter or package is mailed. Since customers may buy postage in advance, USPS adjusts postage sales for revenue reporting purposes to account for postage purchased but not yet used by customers. For example, for fiscal year 2010, USPS's balance sheets reflected a liability of \$2.6 billion in deferred revenue from prepaid postage. See U.S. Postal Service, *2010 Annual Report* (Washington, D.C.: 2010).

maintaining the data and verifying their accuracy. After reviewing this information, we determined that the revenue data for post offices, usps.com, self-service kiosks, CPUs, Approved Shippers, stamp retailers, retail alternatives in general, and retail services overall were sufficiently reliable for presenting rounded figures of USPS revenue.

Additionally, we obtained data from USPS officials about the number of outlets for each type of retail alternative. Although we did not verify the accuracy of these data, we believe they are sufficiently reliable to provide context for the relative number of alternative outlets offering access to USPS products and services. We reviewed USPS's estimates of the cost per revenue dollar earned from retail alternatives and discussed the methodology used for the estimates with USPS officials. We compared those estimates to estimates of post office costs prepared by USPS contractors, although we did not review the post office estimates in depth because it was beyond the scope of this review.

To determine how USPS communicates with customers about the availability of its products and services at retail alternatives, we reviewed USPS documents such as communications strategies and presentations and interviewed USPS officials responsible for developing and implementing public communications and advertising strategies for retail alternatives. We also reviewed USPS public communications, such as press releases, reports, and other information on the USPS Web site. We reviewed our prior reports on effective public communication by government agencies.

To determine what actions USPS has taken to oversee third parties that provide access to postal products and services, in addition to the site visits previously discussed, we reviewed USPS documents and interviewed USPS officials in headquarters and at the local level to determine how USPS recruits, contracts with, trains, and monitors retail partners.

In examining USPS's efforts to expand access through retail alternatives, we focused on specific aspects of management related to program goals and measures, use of data for decision making, guidance and training, risk assessment and monitoring, and public communication. We did not assess other aspects of management, such as project planning or management of financial systems.

We conducted this performance audit from December 2010 to November 2011 in accordance with generally accepted government auditing

standards. 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.

Appendix II: Redesign of usps.com

Created in 1994 as an information site, usps.com was later expanded to include retail components that today offer access to online shipping services and postal products, including stamps. Beginning in 2009, USPS began an overhaul of its Web site to improve its infrastructure and customer interface with an overall goal of improving customers' experience with the site. The first phase of the redesigned site was released in July 2011, and according to USPS planning documents, other new functions are expected to be released through early 2012. Because the redesign was still ongoing during our audit work, we were unable to evaluate the new Web site, but examined whether the intended functionality of the site is consistent with industry best practices for retail Web sites.¹

Planned improvements to usps.com generally align with industry best practices for better serving customers, as shown in literature on retail Web site design. Table 2 outlines how USPS's plans for the Web site redesign correspond to industry best practices.

Table 2: Redesign Plans for usps.com as Compared to Industry Best Practices for Web Retail

Best practice	Plans for usps.com redesign
Create a connection between digital and brick-and-mortar offerings, using various methods to make them both accessible.	USPS officials told us the redesigned site will emphasize creating a connection between the home and brick-and-mortar post offices and provide access to services that involve the local post office, such as arranging for redelivery of packages.
Focus on providing an improved, personalized customer experience that caters to a customer's needs.	The new site will allow customers to login at a single point and conduct all transactions, an improvement over the current "siloed" structure, which, for example, requires separate financial transactions to buy stamps and print shipping labels.
Focus on developing customer loyalty.	Although USPS officials said they were interested in having a customer loyalty program, there are no plans at present to develop one because USPS does not have the necessary resources or expertise. Furthermore, the officials told us they would like to be able to better track how customers use the site and analyze this information so they can segment customers for marketing purposes. However, the officials said they have not determined when they will implement such functions. ^a

¹Although the redesign as planned in 2009 was due to be completed in September 2011, as of June 2011, USPS estimated that some components of the project would not be completed until January 2012, with some training extending until March 2012. The USPS Inspector General reviewed causes of the project's delays and cost overruns and recommended that USPS improve the planning phase of its project management process for implementing technology solutions. USPS agreed with this recommendation. USPS Inspector General, *Project Phoenix Audit Report*, IT-AR-11-009 (Sept. 14, 2011).

Best practice	Plans for usps.com redesign
Provide multiple means of communication with customers and promptly respond to inquiries.	Customers can already communicate with USPS representatives via e-mail and telephone. USPS is adding a text-based chat feature to its Web site. Additionally, the USPS call center is being updated to provide more information to agents for helping customers. USPS is not developing a Web-based video chat option.
Ensure that the site is easy to use and up-to-date with functioning links and updated content.	Improving ease of use is a key goal of the Web redesign. The team that manages usps.com has a process for regularly reviewing and updating content.
Safeguard shoppers' security and privacy to create trust so that shoppers will want to purchase from the site.	USPS has taken steps to provide for secure transactions. The redesign will take additional steps to make the site fully compliant with industry best practices for credit card security.
Provide sufficient information about products and services to enable customers to make a purchase decision.	The site already provides a significant amount of information about postal products and services, and the redesign is meant to create easier access to them rather than providing more information.
Provide multiple payment options, not just credit cards.	USPS is adding other electronic payment options to usps.com, which already accepts credit cards.

Source: GAO analysis of USPS plans and literature on industry best practices.

^aUSPS cited privacy concerns as a main reason it is reluctant to pursue such data gathering for marketing purposes.

Appendix III: Comments from the United States Postal Service

KELLY M. SIGMON
VICE PRESIDENT, CHANNEL ACCESS



November 8, 2011

Phillip R. Herr
Director, Physical Infrastructure
United States Government Accountability Office
Washington, DC 20548-0001

Dear Mr. Herr:

Thank you for providing the U.S. Postal Service with the opportunity to review and comment on the draft report titled *Action Needed to Maximize Cost-Saving Potential of Alternatives to Post Offices*.

I wanted to provide you with an update on the current efforts of formalizing an implementation plan that will help guide expanded access through retail alternatives while improving service and the financial performance of the organization.

The Postal Service is in the process of completing a comprehensive strategic plan to outline an optimized retail access plan for the entire country and to identify efforts and activities occurring across the organization that align with optimizing the retail network. We have recently finalized an Access Optimization Charter that has an overall objective of providing customers with efficient, convenient and easy access to products and services in order to better meet their evolving needs. It has three basic tenets: provide greater convenience, lower cost of service, and improve the customer experience. We have identified a number of key work streams. A near-term deliverable within the Strategy and Optimization work stream is a detailed and comprehensive strategic plan that will update our overall strategy, the metrics for evaluating its progress, and the desired end-state.

The USPS is in agreement with reviewing our current monitoring policies and procedures for Approved Shippers and Contract Postal Units to determine if a more appropriate frequency should be assigned. This will be incorporated into the strategy and optimization work stream.

Over the last five years, our current retail strategy has resulted in an increase in alternate access revenue from 24% to 35% of our total retail revenue. This is one of the contributing factors that enabled operations to reduce window work hours by 23.7% during the same period of time.

If you or your staff wishes to discuss any of these comments further, I am available at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Kelly M. Sigmon".

Kelly M. Sigmon

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Appendix IV: GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

In addition to the individual named above, Heather Halliwell, Assistant Director; Jameal Addison; Leia Dickerson; Patrick Dudley; Bess Eisenstadt; Andrew Huddleston; Sara Ann Moessbauer; Josh Ormond; Friendly Vang-Johnson; and Crystal Wesco made key contributions to this report.

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