



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

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**Federal Shipping**  
**Audit Report**

January 18, 2013

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**Report Number MS-AR-13-004**



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# HIGHLIGHTS

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## **BACKGROUND:**

The U.S. General Services Administration establishes long-term federal government-wide contracts with vendors to provide goods and services to federal agencies at volume discount pricing. The General Services Administration established contracts for shipping services with the U.S. Postal Service and its major competitors.

While Federal Express and United Parcel Service have been participant vendors since 2001, the Postal Service did not participate until May 2009. During fiscal years 2011 and 2012, federal agencies spent about \$342.6 million and \$336.9 million, respectively, on shipping services through GSA contracts. The Postal Service's share of this revenue was \$1.2 million for FY 2011 and \$4.8 million for fiscal year 2012.

Our objective was to evaluate the Postal Service's use of General Services Administration contracts to maintain and increase its share of federal agencies' shipping revenue.

## **WHAT THE OIG FOUND:**

The Postal Service has opportunities to increase its share of federal shipping revenue. Two major challenges include pricing inflexibility and the lack of 2- and 3-day guaranteed express delivery products. In addition, the Postal Service faces challenges resulting from late

entry into the General Services Administration market, the size and structure of its federal sector sales force, and limited payment methods it accepts. Further, the U.S. Department of Defense provides preferential treatment to those shippers that have their own air fleet and agree to make that fleet available during a national defense crisis.

By overcoming these challenges and enhancing customer intelligence to identify those federal agencies that predominantly ship lightweight packages, we estimate the Postal Service could generate \$17.4 million of additional revenue annually during fiscal years 2013 and 2014. This is in addition to lost revenue of \$21.4 million during fiscal year 2011 and \$17.4 million for fiscal year 2012.

## **WHAT THE OIG RECOMMENDED:**

We recommended the Postal Service address the challenges it faces in the federal shipping marketplace and enhance customer intelligence on federal agencies' shipping practices.

[Link to review the entire report](#)




January 18, 2013

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

GARY C. REBLIN  
NEW PRODUCTS AND INNOVATION

E-Signed by Janet Sorensen  
VERIFY authenticity with eSign Desktop



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

**SUBJECT:** Audit Report – Federal Shipping  
(Report Number MS-AR-13-004)

This report presents the results of our audit of Federal Shipping (Project Number 13RG001MS000).

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

Attachments

cc: Nagisa M. Manabe  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of Federal Shipping (Project Number 13RG001MS000). Our objective was to evaluate the U.S. Postal Service's use of U.S. General Services Administration (GSA) contracts to maintain and increase its share of federal agencies' shipping revenue. This self-initiated audit addresses strategic risk. See [Appendix A](#) for additional information about this audit.

The GSA establishes long-term federal government-wide contracts with vendors to provide goods and services to federal agencies at volume discount pricing under the Federal Supply Schedule program.<sup>1</sup> The GSA established contracts for shipping services with the Postal Service and its major competitors under Schedule 48, Transportation, Delivery and Relocation Solutions, Special Item Numbers (SINs) 451-1 and 451-2.<sup>2</sup>

Although Federal Express (FedEx) and United Parcel Service (UPS) have been vendors on Schedule 48 since 2001, the Postal Service did not participate until May 2009, because it did not have a sales force or market strategy that targeted the federal sector. The GSA also awarded UPS the second generation domestic delivery services (DDS2) contract.<sup>3</sup> The DDS2 contract is a blanket purchase agreement for shipping services under Schedule 48. The DDS2 contract provides additional discounts to the already low prices available on GSA's Schedule 48 for shipping services. The DDS2 contract is not a mandatory contract, and current Schedule 48 contract holders can continue to market their products and services.

During fiscal years (FY) 2011 and 2012, the Postal Service earned \$1.2 million and \$4.8 million, respectively, from shipping services through GSA contracts. In addition, the Postal Service earned \$86.2 million and \$95.9 million from shipping services for federal agencies outside the GSA contracts during FYs 2011 and 2012, respectively.

## Conclusion

Although its competitors have consistently captured more than 98 percent of shipping revenue from federal agencies through GSA contracts, the Postal Service has opportunities to increase its share of this market. However, to realize these opportunities, the Postal Service must overcome challenges that keep it from growing revenue in this area. In addition, the Postal Service could benefit from enhanced customer intelligence on federal agencies' shipping practices. By overcoming these challenges and enhancing customer intelligence, we estimate the Postal Service could

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<sup>1</sup> *Federal Acquisition Regulation (FAR) System, Subpart 8.4, Federal Supply Schedule.*

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

<sup>3</sup> The DDS2 contract is a follow-on contract to the first generation domestic delivery service (DDS1) contract. GSA awarded the DDS1 contract to FedEx.

grow an additional \$17.4 million of revenue annually during FYs 2013 and 2014. This is in addition to lost revenue of \$21.4 million during FY 2011 and \$17.4 million for FY 2012. See [Appendix B](#) regarding this monetary impact.

### Challenges to Growing Revenue

While the federal shipping market from GSA contracts was estimated at \$336.9 million in FY 2012, the Postal Service earned only \$4.8 million of this revenue – less than 2 percent of the overall market, as illustrated in Table 1.

**Table 1. Express and Ground Package FY 2011 Delivery Revenue from GSA Contracts**

Vendor	FY 2011 Revenue		FY 2012 Revenue	
	(in millions)	Percentage	(in millions)	Percentage
FedEx	\$205.2	59.9%	\$190.1	56.4%
UPS	131.7	38.5	138.7	41.2
Postal Service	1.2	0.3	4.8 <sup>4</sup>	1.4
Contrans Logistics	3.7	1.1	2.7	0.8
D.C. Dyna	0.4	0.1	0.4	0.1
Others	0.4	0.1	0.1	<0.1
<b>Total</b>	<b>\$342.6</b>	<b>100%</b>	<b>\$336.9</b>	<b>100%</b>

Sources: GSA Schedule Sales Query and U.S. Postal Service Office of Inspector General (OIG) Analysis.

The Postal Service faces challenges to growing its share of this market. Specifically, major challenges include pricing flexibility and the lack of 2- and 3-day guaranteed express delivery products. In addition, the Postal Service faces challenges resulting from late entry into this marketplace, the size and structure of its federal sector sales force, and the payment methods it accepts. Further, the U.S. Department of Defense (DoD) provides preferential treatment to those shippers that have their own aircraft and participate in the Civil Reserve Air Fleet (CRAF) program.<sup>5</sup> By overcoming these challenges, we estimate the Postal Service could generate an additional \$34.8 million of revenue during FYs 2013 and 2014.

<sup>4</sup> FY 2012 revenue includes \$2.9 million from a customer that previously purchased through a Postal Service Commercial Plus Pricing Agreement instead of GSA Schedule 48.

<sup>5</sup> CRAF is a cooperative voluntary program involving the U.S. Department of Transportation, DoD, and the U.S. civil air carrier industry in a partnership to augment DoD aircraft capability during a national defense-related crisis. Air carriers volunteer their aircraft to the CRAF program. In return, the participating carriers are given preference for commercial peace time cargo and passenger traffic for DoD.

## Pricing Flexibility

The Postal Service does not have the same pricing flexibility as competitors. Federal law<sup>6</sup> requires competitive products, such as Express Mail<sup>7</sup> and Priority Mail,<sup>8</sup> to cover their attributable costs;<sup>9</sup> and collectively competitive products must cover an appropriate share of the Postal Service's institutional costs.<sup>10</sup> Unlike competitors, the Postal Service cannot sell products below cost and make up the loss with other products or services to penetrate a market, attract new customers, or match competitors' prices.

Postal Service prices on Schedule 48 were not competitive, in most instances, with those of FedEx and UPS. As shown in Table 2, both FedEx and UPS offered significantly lower prices on next day express delivery of packages. In the 2- to 3-day delivery marketplace, Table 3 shows that Postal Service prices are more than FedEx but less than UPS for local delivery of lightweight packages. For longer distances, FedEx and UPS have a price advantage over the Postal Service.

**Table 2. Next Day Express Delivery Prices**

Weight (pounds)	Zone <sup>11</sup>	Postal Service Express Mail	FedEx Standard Overnight <sup>®12</sup>	UPS Next Day Air Saver <sup>13</sup>
1	2	\$11.54	\$4.95	\$6.28
2	2	\$11.85	\$5.11	\$6.40
3	2	\$13.44	\$5.60	\$6.51
1	8	\$24.75	\$4.95	\$6.28
2	8	\$30.25	\$5.11	\$6.40
3	8	\$33.05	\$5.60	\$6.51

Sources: Postal Service, FedEx, and UPS prices from Schedule 48. FedEx and UPS prices were adjusted to include the applicable fuel surcharges in effect on October 1, 2012.

<sup>6</sup> 39 U.S.C. § 3633(a).

<sup>7</sup> Express Mail is a Postal Service product that provides guaranteed overnight delivery services to most U.S. addresses by noon or 3 p.m.

<sup>8</sup> Priority Mail is First-Class Mail that weighs more than 13 ounces. First-Class Mail is a fast and affordable service for envelopes and packages weighing up to 13 ounces. Delivery is in 3 days or fewer.

<sup>9</sup> Direct and indirect postal costs that can be clearly associated with a particular mail product. It is the sum of volume-variable cost plus product-specific cost.

<sup>10</sup> Postal costs that cannot be directly or indirectly assigned to any mail class or product. They can be considered common costs or overhead costs needed for overall operations.

<sup>11</sup> For classes of mail where distance impacts the postage amount, the Postal Service has paired ZIP Codes into 'zones' and measures the distance a mailpiece travels by how many zones the mailpiece crosses.

<sup>12</sup> FedEx Standard Overnight is a FedEx product that provides guaranteed next-business-day delivery by 3 p.m. to most U.S. addresses, and by 4:30 p.m. to rural areas.

<sup>13</sup> UPS Next Day Air Saver is a UPS product that provides guaranteed next business day delivery by 3:00 or 4:30 p.m. to most U.S. addresses.

**Table 3. 2- to 3-Day Delivery Prices**

Weight (pounds)	Zone	Postal Service Priority Mail	FedEx Express Saver <sup>®14</sup>	UPS 3-Day Select <sup>®15</sup>
1	2	\$4.80	\$4.36	\$5.36
2	2	\$4.95	\$4.44	\$5.45
3	2	\$5.06	\$4.75	\$5.53
1	8	\$5.99	\$4.36	\$5.36
2	8	\$8.57	\$4.44	\$5.45
3	8	\$11.95	\$4.75	\$5.53

Sources: Postal Service, FedEx, and UPS prices from Schedule 48. FedEx and UPS prices were adjusted to include the applicable fuel surcharges in effect on October 1, 2012.

Nevertheless, there are options the Postal Service may consider to make its pricing more competitive. Specifically, to grow revenue in this area, the Postal Service could offer more competitive prices for 2- to 3-day delivery of lightweight packages (3 pounds or fewer). Such pricing has been developed on a limited basis through a negotiated service agreement (NSA) <sup>16</sup>

[REDACTED]

[REDACTED]

Weight (pounds)	Zone	Postal Service Priority Mail	FedEx Express Saver <sup>®14</sup>	UPS 3-Day Select <sup>®15</sup>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED] it may not be apparent to customers that competitors' base prices do not include the same level of service that the Postal Service provides. Specifically,

<sup>14</sup> FedEx Express Saver is a FedEx product that provides delivery in 3 business days to businesses by 4:30 p.m. and to residences by 7 p.m.  
<sup>15</sup> UPS 3-Day Select is a UPS product that provides delivery by the end of the 3rd business day.  
<sup>16</sup> An NSA is a customized and mutually beneficial contractual agreement between the Postal Service and a specific mailer. NSAs provide customized pricing and classification under the terms and conditions established in the agreement and may include modifications to current mailing standards and other postal requirements.



competitors' surcharges for additional services can result in a higher total price than that of the Postal Service. For example, Table 5 compares Postal Service prices to those of its competitors for delivery of a 3-pound package to Zone 8 with additional surcharges.

The Postal Service could better position itself in the federal shipping marketplace by offering prices similar to those negotiated with the [redacted] on Schedule 48. In addition, it could also offer products with reduced base prices and include surcharges for additional services like its competitors. Such enhancements would better position the Postal Service to compete in this environment.

**2- and 3-Day Guaranteed Express Delivery Products**

The Postal Service was disqualified from participating in the lucrative DDS2 contract<sup>19</sup> bidding, because it did not offer 2- and 3-day guaranteed express delivery products -- Priority Mail does not qualify because it does not include a delivery guarantee. However, during FYs 2011 and 2012 through Quarter 3, Priority Mail air and surface products actually met these performance measures more than 90-percent of the time. Adding a 2- and 3-day guaranteed service product would position the Postal Service to successfully bid on future domestic delivery services contracts.

**Late Entry**

The Postal Service was a late entrant into the GSA Schedule 48 market. While FedEx and UPS have been vendors on GSA Schedule 48 since 2001, the Postal Service did not participate until May 2009. Consequently many federal agencies have long-term relationships with competitors and are reluctant to switch to the Postal Service. In addition, some federal agencies, such as the VA and U.S. Department of Agriculture, required the use of Postal Service competitors.

<sup>17</sup> Cost to provide service to and from less populated areas that carry higher operating costs.  
<sup>18</sup> If a recipient's address is incomplete or incorrect, competitors may attempt to find the correct address and complete the delivery and charge the customer an address correction surcharge.  
<sup>19</sup> DDS2 revenue was \$105.3 million in FY 2011 and \$115.3 in FY 2012.

The Postal Service is working to overcome late entry barriers by building relationships with potential customers through trade shows, such as the GSA Expo,<sup>20</sup> networking and seminars, Federal News Radio, and the GSA eLibrary.<sup>21</sup> The Postal Service is also creating federal sector web pages to enhance its visibility, in response to a recent OIG report.<sup>22</sup> Enhancing the Postal Service's visibility and accessibility to federal agencies could enable the Postal Service to better reach target audiences and inform customers, with the end goal of increasing sales to federal entities.

### Sales Force Size and Structure

The size and structure of the Postal Service federal sector sales force has not been sufficient for selling shipping services to federal agencies through GSA contracts. The federal sector sales force consists of 13 federal sector specialists (FSSs) and five strategic account managers (SAMs) responsible for covering more than 60,000 agency locations. As a result, the federal sector sales force has to partner with the general sales force when selling to federal agencies. The federal sector sales force sells shipping products through Schedule 48 and mailing products off-schedule. While all five of the SAMs have prior experience selling to federal agencies, only four of the 13 FSSs have prior experience selling to federal agencies. GSA training for vendors states that success in selling to the federal government requires a dedicated sales force with individuals that have prior knowledge of selling to the federal sector. A dedicated federal sector sales force may be better suited to understand federal terminology, FAR and practices, and how federal budget cycles impact sales.

### Payment Methods

The Postal Service does not always accept the payment methods desired by customers. Federal agencies shipping with the Postal Service through Schedule 48 must use one of the following payment methods:

- PC Postage (Stamps.com or Endica.com).
- Express Mail corporate account.
- Permit Imprint.
- Official Mail Accounting System.

The Postal Service is at a competitive disadvantage compared to its competitors who accept multiple payment methods such as electronic billing data files. For example, DoD financial management regulations require DoD facilities to pay for shipping services using a government purchase card or electronics means such as U.S. Bank's Freight Reporting System supported by Syncada. Syncada is commercial freight auditing and payment software required by DoD. The Postal Service is taking actions to address this issue and has signed an agreement with U.S. Bank to facilitate sales to the Sierra Army

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<sup>20</sup> The GSA holds an annual event to showcase companies that hold a GSA schedule contract and to provide networking and training opportunities.

<sup>21</sup> The GSA eLibrary provides the latest GSA contract award information.

<sup>22</sup> *Federal Sector Web Pages: Opportunities for Enhancement* (Report Number MS-MA-12-002, dated September 12, 2012).

Depot (SIAD). SIAD is the first client to use this process, and the Postal Service plans to implement this payment method at 13 other depots. The Postal Service anticipates \$16 million in new business from this arrangement with U.S. Bank and SIAD.

### Air Fleet Requirements

The DoD gives preference to vendors that agree to make their aircraft available if needed during a national defense related crisis through the CRAF program. Because the Postal Service does not own aircraft, it is prohibited from competing for DoD<sup>23</sup> business allocated to CRAF participants, even when demonstrating lower prices. However, we believe the Postal Service may be able to obtain some portion of this shipping business without purchasing aircraft by developing partnerships with current CRAF participants or other air carriers. Certain air carriers may only desire the air portion of CRAF shipments and could rely on the Postal Service for the ground delivery requirements portion of the CRAF program. This type of partnership effort may be even more appealing when the Postal Service's current air transportation contract with FedEx expires in September 2013.

### Customer Intelligence

The Postal Service could benefit from greater customer intelligence on federal agencies shipping practices. The Postal Service's strength is with 2- to 3- day shipment of lightweight packages. Although the Postal Service's federal sector sales team targeted the top five agencies based on how much those agencies spent with competitors in its 'Go to Market' Strategy, this strategy did not identify where the Postal Service's strength lies. Instead the Postal Service strategy was to visit the top five agencies and their sub agencies to determine whether the Postal Service can meet their needs. Although this strategy led to sales of mailing and shipping products to agencies such as the VA and the IRS, we believe the Postal Service can capture a larger share of the federal shipping market through the use of customer intelligence to identify those agencies that predominantly ship lightweight packages.

The GSA provides resources to vendors to help them succeed in the federal marketplace. The GSA tracks what federal agencies spend on shipping by agency and type of service through the DDS2 contract. The Postal Service could work with GSA to gather information to identify agencies that ship predominantly lightweight packages. The Postal Service could also survey federal agencies to determine the types and amounts of packages they ship. The use of customer intelligence would allow the Postal Service to focus its attention on agencies that can benefit the most from Postal Service product offerings.

### Recommendations

We recommend the vice president, Sales, in coordination with the vice president, New Products and Innovation:

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<sup>23</sup> DoD is one of five agencies the Postal Service targeted on its federal sector strategy.

1. Address the challenges the Postal Service faces in the federal shipping marketplace such as pricing flexibility, lack of 2- and 3-day guaranteed express delivery products, late entry, sales force size and structure, payment methods, and air fleet requirements.

We recommend the vice president, Sales:

2. Identify and develop strategies to enhance customer intelligence on federal agencies' shipping practices.

### **Management's Comments**

Management agreed with our findings and recommendations. Regarding recommendation 1, management stated they are addressing the current GSA contract pricing structure. In addition, management will have discussions on payment methods and product selection for the federal sector. They will share their findings and actions with the OIG when these discussions are completed and make a determination on the next steps to take by January 2014.

Management did not agree with the estimated \$34.8 million in revenue that could be generated during FYs 2013 and 2014 should they overcome the challenges that keep it from growing revenue in the GSA marketplace. They stated that the lack of detailed data on the characteristics of federal shipments makes it nearly impossible to predict a value for Postal Service potential. Management also stated that revenue growth is dependent on two specific challenges, competitive pricing and product offerings. Until these challenges are addressed, it is difficult to fully understand the extent of revenue that can be generated from federal shipping.

Regarding recommendation 2, management stated that as the Pricing group works towards determining the value of 2- and 3-day guaranteed express delivery products, further research and intelligence will be gained on federal agency shipping practices. Pending an evaluation, management will determine the next steps to take by January 2014. See [Appendix C](#) for management's comments, in their entirety.

### **Evaluation of Management's Comments**

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. The Postal Service disagreed with the monetary impact stating that it cannot estimate an amount without addressing the competitive pricing and product offering challenges mentioned in our report and obtaining detailed data on the characteristics of federal shipments. We agree that future data will provide for more precise estimates. However, we believe our methodology for determining the monetary impact was valid and conservative based upon currently available Postal Service and GSA data. We believe the Postal Service's

efforts to increase the value of each sale should enhance its ability to realize the increased revenue disclosed in our report.

## Appendix A: Additional Information

### Background

The GSA provides procurement and contracting services for federal agencies through multiple award Federal Supply Schedules. Under the Federal Supply Schedules program, the GSA enables companies to offer goods and services to federal users, through a Federal Supply Schedule award. These schedules assure the federal user of a provider's best commercially offered prices under similar conditions and FAR compliance. This combination eliminates much of the contracting complexity in doing business with the federal government that has been a barrier in the past to the Postal Service.

To aid in the acquisition process, each GSA schedule groups similar products, services and solutions under SINs and provides a list of the vendors awarded GSA contracts. The GSA established contracts for shipping services with the Postal Service and its major competitors under Schedule 48. While FedEx and UPS have been vendors on Schedule 48 since 2001, the Postal Service did not participate until May 2009. The GSA also awarded UPS the DDS2 contract. During FYs 2011 and 2012, federal agencies spent about \$342.6 million, and \$336.9 million respectively, on shipping services through GSA contracts.

### Objective, Scope, and Methodology

Our objective was to evaluate the Postal Service's use of GSA contracts to maintain and increase its share of federal agencies' shipping revenue. To accomplish our objectives we interviewed Postal Service officials to gain an understanding of the Postal Service's federal sector strategy.

We reviewed Postal Service federal sector sales goals and sales reports. We also reviewed the Postal Service and competitors Schedule 48 contracts and the DDS2 contract. We obtained and reviewed market research to estimate revenue loss. In addition, we also interviewed GSA officials about Schedule 48 and the DDS2 contract. We obtained and reviewed GSA sales reports to gain an understanding of the amount of revenue generated through Schedule 48 and DDS2. We assessed the reliability of federal sector sales data by interviewing Postal Service officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this performance audit from June 2012 through January 2013 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for

our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on December 11, 2012, and included their comments where appropriate.

### Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Federal Sector Web Pages: Opportunities for Enhancement</i>	<a href="#">MS-MA-12-002</a>	9/12/2012	None
<p><b>Report Results:</b> Opportunities exist for the Postal Service to create federal sector web pages that would enhance the visibility of its products and services to federal agency purchasing decision makers. Federal sector web pages could enable the Postal Service to better reach target audiences and inform customers, with the end goal of increasing sales to federal entities. The report recommended the Postal Service evaluate the information in this report and determine the feasibility of creating federal sector web pages as part of its overall sales strategy. Management agreed with the finding and recommendation and stated that they will develop a proposal for enhancing their current website.</p>			
<i>Package Delivery Growth</i>	<a href="#">MS-AR-12-003</a>	5/4/2012	\$647 million
<p><b>Report Results:</b> Although the Postal Service's strategies for growing its package business are sound, their effectiveness has been impacted by (1) lack of a strategic decision-making process for evaluating new sale opportunities, (2) sales tracking system shortcomings, and (3) chronic sales staff vacancies. The Postal Service can grow its package business by stabilizing Sales staffing levels and adding new products. The report recommended the Postal Service establish a strategic decision-making process for evaluating new sales opportunities, enhance the CustomerFirst! System, reassess sales staffing levels, continue to pursue legislative change that will allow it to ship beer and wine, and evaluate offering prepayment of customs duties and taxes and a local delivery product. Management agreed with the findings and recommendations and set forth their plans for corrective actions and disagreed with the monetary impact.</p>			

<i>Market Intelligence</i>	<a href="#">MS-AR-11-005</a>	8/10/2011	None
<p><b>Report Results:</b> The Postal Service could benefit from a stronger integrated market intelligence strategy that incorporates best practices used by leading companies to target new and existing customers and make more informed business decisions. Additionally, management could be missing key marketing opportunities because of incomplete or inaccurate customer data. In FY 2010, the Postal Service could not accurately assign \$3 billion in commercial revenue to corporate customers to obtain additional market intelligence and adequately market to those customers. Management disagreed with the recommendation to establish a group responsible for transforming and aligning market information, and disagreed with updating the Customer Experience Measurement survey form. Management agreed with the recommendations to develop an automated mechanism to enter and validate consistent and complete customer information and to encourage mail service providers to provide mail owner information at mail entry.</p>			



### Appendix B: Monetary Impact

Recommendation	Impact Category	Amount (in millions)
1	Revenue Loss <sup>24</sup>	\$73.6

The Postal Service should be able to capture 6.6 percent<sup>25</sup> of federal agencies' spending on shipping services through GSA contracts based on its market share of lightweight package volume in the overall shipping marketplace.

During FY 2011, federal agencies' spent \$342.6 million on shipping services through GSA contracts; 6.6 percent of \$342.6 million is \$22.6 million. Therefore, the Postal Service could have captured \$22.6 million if it implemented our recommendations. During FY 2011 the Postal Service realized \$1.2 million from Schedule 48. The net revenue loss for FY 2011 is \$21.4 million (\$22.6 million–\$1.2 million).

During FY 2012 federal agencies spent \$336.9 million on shipping services; 6.6 percent of this amount is \$22.2 million. Therefore, the Postal Service could have captured \$22.2 million if it implemented our recommendation. During FY 2012 the Postal Service realized \$4.8 million from Schedule 48. The net loss for FY 2012 is \$17.4 million (22.2 million – \$4.8 million).

Total revenue loss for FYs 2011 and 2012 is \$38.8 million (\$21.4 million + \$17.4 million). Using the FY 2012 net revenue loss amount of \$17.4 million, we estimate that revenue loss for FYs 2013 and 2014 would be \$34.8 million (\$17.4 million for 2 years). We estimate the total revenue loss would be \$73.6 million.

<sup>24</sup> Amount Postal Service is (or was) entitled to receive but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed. May be recoverable or unrecoverable. May apply to historical events or a future period (in the sense perceived future losses may be prevented by the implementation of a recommendation).

<sup>25</sup> We took the Postal Service's market share of lightweight packages and applied it to the number of packages mailed by federal agencies under the FY 2011 DDS2 contract to determine how many packages and how much revenue could be captured. The Postal Service's amount of revenue was then compared to the total revenue received under the DDS2 contract, which equated to 6.6 percent.

## Appendix C: Management's Comments

CLIFF RUCKER  
VICE PRESIDENT, SALES



January 14, 2013

JUDITH LEONHARDT  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Federal Shipping (Report Number MS-AR-13-DRAFT)

The findings and recommendations outlined in the Federal Shipping Draft Audit report have been reviewed and a collective response from Sales and New Products and Innovation is as follows. We also request that all confidential and contract related data (ex. CMOP NSA pricing) be redacted from the audit report as highlighted in the attached document.

**Recommendations for Vice President, Sales in coordination with the Vice President, New Products and Innovation:**

**Recommendation [1]:**

Address the challenges the Postal Service faces in the federal shipping marketplace such as pricing flexibility, lack of 2- and 3-day guaranteed express delivery products, late entry, sales force size and structure, payment methods, and air-fleet requirements.

**Management Response/Action Plan:**

Agree. We appreciate the investigation and analysis of the federal shipping market and are in agreement with the challenges cited within the audit to penetrating the federal marketplace. However, we disagree with the estimated \$34.8 million in revenue that could be generated by the Postal Service should we overcome marketplace barriers including pricing flexibility, lack of 2- and 3-day guaranteed express delivery products, late entry, sales force size and structure, payment methods, and air fleet requirements. Without more detailed data on the characteristics of federal shipments (weight, size, zone, origins, destinations, service levels), it is nearly impossible to predict a value for Postal Service potential. Furthermore, the opportunity for revenue growth in the federal sector is highly dependent on two specific challenges: competitive pricing and product offerings. Until these barriers are addressed, it is difficult to fully understand the extent of revenue that can be generated from the federal shipping.

We are working with the Vice President, Pricing to address the current GSA contract pricing structure. Further, Sales and New Products and Innovation will work together on

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WWW.USPS.COM

payment methods and product selection for the federal sector. Once these discussions have been completed, we will share our findings and actions with the OIG.

Target Implementation Date:

Pending evaluation. Will make a determination on next steps within 12 months.

Responsible Managers:

Cliff Rucker, Vice President, Sales

Gary C. Reblin, Vice President, New Products and Innovation

**Recommendations for Vice President, Sales**

**Recommendation [2]:**

Identify and develop strategies to enhance customer intelligence on federal agencies' shipping practices.

Management Response/Action Plan:

Agree. As the Pricing group works toward determining the value of 2- and 3-day guaranteed express delivery products, further research and intelligence will be gained on federal agency shipping practices.

Target Implementation Date:

Pending evaluation. Will make a determination on next steps within 12 months.

Responsible Manager:

Cliff Rucker, Vice President, Sales

**This report and management response contains information that may be exempt from disclosure under the FOIA. Please see attachment for portions of the audit document that must be redacted.**



Cliff Rucker  
Vice President, Sales



Gary C. Reblin  
Vice President, New Products and Innovation

cc: Nagisa Manabe