



Retail and Delivery: Decoupling Could Improve Service and Lower Costs

September 22, 2011

**Prepared by U.S. Postal Service Office of Inspector General
Risk Analysis Research Center
Report Number: RARC-WP-11-009**

Retail and Delivery: Decoupling Could Improve Service and Lower Costs

Executive Summary

The U.S. Postal Service's (Postal Service) retail and delivery operations have been "coupled" both organizationally and physically since delivery services were first established almost 150 years ago. The location of these facilities, housing both delivery and retail, was primarily determined based on historical patterns or the need for delivery service efficiencies — with retail performance typically being a secondary consideration. However, there have been dramatic shifts in the marketplace and the Postal Service could benefit by reexamining such long standing practices with the opportunity to improve service, raise revenue, and lower costs. The purpose of this paper is to strategically examine the concept of "decoupling" delivery from retail, thereby breaking a long-standing organizational tradition. Such decoupling could be physical, managerial, or both.

In this study, we draw upon the experiences and insights of key stakeholders in the postal community, private sector delivery companies in the United States, and foreign postal operators to gauge potential consequences and outcomes.¹ In short, we found that while the Postal Service has made some steps in this direction, a much broader and more strategic implementation of decoupling could add value to the Postal Service by lowering costs and improving service to the American people. We believe that carefully decoupling retail and delivery both physically and managerially primarily in urban and suburban areas would have the most practical benefit. These changes could provide improved customer service for existing products and better options to the Postal Service for reconfiguring both its delivery and retail networks and offering retail products and services that can best respond to changing market conditions and diverse customer needs across the country.

Key Strategic Findings

- 1) The Postal Service could benefit by partially decoupling its retail network from its delivery network with potential cost, revenue, and customer service improvements. In brief, both delivery and retail functions could potentially be better off with decoupling.
- 2) Customer postal retail access needs are quickly changing and they vary greatly by geographic location and demographics. A decoupling strategy affords the Postal Service more flexibility to respond to changing customer needs for retail service.

¹ This research also benefited from the input of both NGI-Solutions and the many people we spoke with at the Postal Service.

- 3) Recent mail volume declines, changes in mail processing technology, and changing delivery operations have reduced the space needed in delivery offices. This provides significant opportunities for space consolidation savings.
- 4) Retail is too often ignored, receiving secondary managerial attention when competing with delivery for time and resources. Decoupling could help transform retail into a growth and best-practices driven, strategic business unit.
- 5) Despite the long history of coupling, the operational needs between retail and delivery are actually few, relatively minor, and can be overcome. The key need that does exist — shared clerk work hours — could better be addressed with a reasonable increase in work hour flexibility.
- 6) In general, consumers and business mailers express little concern regarding the decoupling of retail and delivery. This is likely to be the case as long as the changes do not negatively affect the services provided or increase their costs.
- 7) In the last 20 years, managerial and physical separation of delivery from retail has become common practice at the major foreign posts. The delivery and retail offices are often operated by two completely separate groups of people with distinct skills, training, and performance measures.
- 8) Major private sector delivery companies in the United States, such as United Parcel Service (UPS) and Federal Express (FedEx), have separated retail and delivery operations to optimize the benefit of both functions.
- 9) To gain full value from separating retail and delivery, the Postal Service needs to make that separation a part of its strategic vision. Drawing on successful experiences of foreign posts, this strategic vision must consider the perspectives and insights of customer, employee, and public policy stakeholders.
- 10) There is a compelling case for the Postal Service to decouple retail from delivery as a business strategy. Delivery and retail operations each have important contributions to make to the Postal Service's long-term viability and financial health. Developing an integrated strategy that maximizes the potential value of both functions has the potential to be extremely beneficial to the Postal Service and its customers.

Table of Contents

Introduction	1
History of Retail and Delivery Operations.....	1
The Current Postal Service Delivery and Retail Network Is Expansive	2
Delivery and Retail Interdependencies Are Unnecessary in the Long Term	4
In Shared Facilities, Focus Is on Delivery Operations, Not Retail.....	4
A Changing Environment Enhances the Case for Decoupling	5
Investment in Mail Processing Automation Has Decreased the Need for Delivery Floor Space and Reduced the Need for Delivery Carriers in Each Office.....	5
Retail Sales in Post Offices Are Falling and Demand Is Changing Between Facilities	6
Status Quo Is Functional But May Result in Poorer Service and Higher Costs.....	6
Decoupling Offers Benefits and Challenges.....	6
Private Sector Shippers Offer Valuable Insights	8
Retail Facilities Are Located Close to Customers and Focus on Service	8
Delivery Facilities Are Located in Low-cost, Industrial Areas with Easy Access to Transportation Links and Focus on Efficiency.....	8
International Posts Also Offer Many Valuable Insights.....	9
The Canadian Example May Be Most Relevant to the Postal Service	10
Decoupling Value and Implementation.....	11
Implementation Strategy for Decoupling Delivery and Retail Operations.....	11
Decoupling Enables Expanded Retail Products and Services.....	12
Conclusions and Suggestions	13

Tables

Table 1	Delivery Operations	3
Table 2	Benefits and Challenges of Decoupling	7
Table 3	Retail Products and Services of Foreign Posts and Private Sector Shippers	12

Figures

Figure 1	Retail and Delivery versus Retail-Only Facilities	3
----------	---	---

Appendices

Appendix A	Case Study 1: Deutsche Post (Germany).....	15
Appendix B	Case Study 2: Svenska Posten (Sweden).....	16
Appendix C	Case Study 3: Canada Post (Canada)	17
Appendix D	Case Study 4: Australia Post (Australia).....	18

Retail and Delivery: Decoupling Could Improve Service and Lower Costs

Introduction

The Internet and the economic recession have joined forces to drive postal mail volumes to record declines. It is within this context that stakeholders are looking for re-examination of the traditional ways of doing business to ensure financial sustainability and superior customer service. The purpose of this paper is to examine one of these traditions: the way the Postal Service operates its delivery and retail functions. More specifically, this paper addresses the question of whether delivery and retail should be

The basic principle of decoupling is managerial autonomy or independence of retail from delivery.

physically and/or managerially decoupled and suggests some implications for such a business direction. Currently, the Postal Service generally combines managerial responsibilities for retail and delivery functions. It also combines physical facilities and staffs for both of these functions in many locations.

During the course of talking to postal managers, mailers, and other stakeholders, it became clear that many people directly associated decoupling with the physical separation of delivery and retail operations. While this could be a logical outcome in selected situations, the basic principle of decoupling is managerial autonomy or independence of retail from delivery. Decoupling could occur first organizationally, with separation of managerial responsibility, and subsequently, it could potentially support physical separation where it made business sense.

History of Retail and Delivery Operations

Free City Delivery Service began in 1863 in a few cities in the United States by order of Congress. Window retail service, mail processing, and delivery operations were located in the same building because, at the time, the scale of operations was small and a single Post Office in most cities made sense. Even as cities expanded and additional postal service locations such as stations and branches were opened, delivery and retail operations continued to reside together. Stations were opened within the city's limits some distance from the main Post Office to supplement that city's postal network. Branches on the other hand, were opened outside a city's limits to supplement that area's postal services for both delivery and retail. Post Offices, stations, and branches with co-located delivery and retail operations were generally located near more densely populated areas where access did not require vehicles. These facilities often existed in locations that later became costly prime real estate. As the population shifted, especially after World War II, cities continued to expand and suburbs developed. To serve this shifting population, the number of branches and stations grew and continued to use the

model of combining retail and delivery operations in the same facility. As routes converted from walking to vehicle delivery, these facilities required large parking lots, which demanded additional space.

In the rural areas of our nation in the 19th century, farmers and other residents traveled to rural Post Offices to pick up and send their mail. With the advent of Rural Free Delivery (RFD) in 1896, delivery of mail was extended to rural residents thus eliminating the need to travel to a Post Office to pick up mail. RFD, along with a population shift from rural to urban areas, started the rapid reduction in the number of small rural post offices that took place in the early part of the 20th century. In fact, since the peak of almost 77,000 Post Offices in 1901, almost 45,000 Post Offices were closed by 1971.

Historically, the Postal Service experimented with various other forms of delivery and retail operations such as Contract Postal Units (CPUs) and Post Office Express. Since the 1960s, CPUs have provided postal services as private operators under contract with the Postal Service. Post Office Express was established in 1995 and is comprised of retail units located in large chain retail stores and open during store hours, staffed by postal employees. Additionally, with the advent of shopping centers, the Postal Service opened a few storefront retail-only operations staffed by postal employees. Recently, the Postal Service has proposed a new contracted retail model it calls the Village Post Office.²

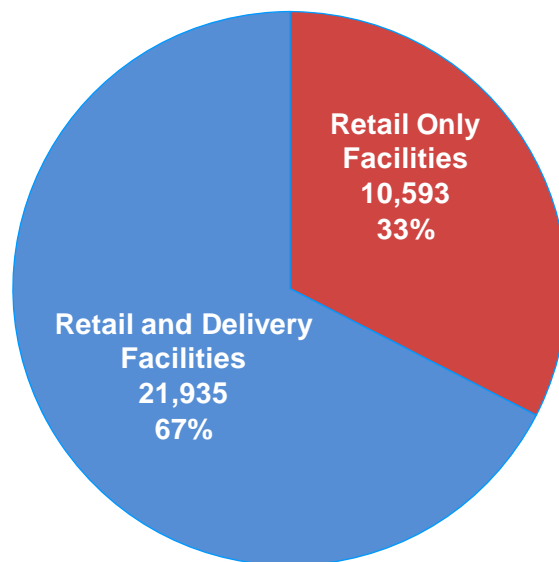
The Current Postal Service Delivery and Retail Network Is Expansive

The Postal Service currently operates a network of 32,528 Post Offices, stations and branches, of which 21,935 (67 percent) house both delivery and retail operations within the same facility.³ This figure demonstrates that the number of postal facilities currently combining retail and delivery operations far outnumber those that serve as retail locations only. The sheer size of this network dwarfs those of both private sector providers in the United States and those of foreign posts. Therefore, we recognize the additional challenges of reforming such a large network.

² See the Postal Service's Fact Sheet on Village Post Offices for more information at <http://about.usps.com/news/electronic-press-kits/expandedaccess/assets/pdf/vpo-fact-sheet-110726.pdf>.

³ The Postal Service also has 2,931 Contract Postal Units and 763 Community Post Offices. U.S. Postal Service, *2010 Annual Report*, <http://about.usps.com/who-we-are/financials/annual-reports/fy2010.pdf>, p. 84.

Figure 1: Retail and Delivery versus Retail-Only Facilities



Source: FY 2010 Annual Report and Supplemental Data.

On an average business day, 9 million customers visit a Post Office in America to purchase postage, mailing services, packaging supplies and to pick up mail. In fiscal year (FY) 2010, annual “walk-in” retail revenue (not including Commercial Revenue, Permit or Meter postage) was \$17.5 billion.⁴

To fulfill its mission of providing efficient, reliable delivery of mail, delivery operations employs 268,405 city and rural letter carriers who deliver mail through a network of 234,001 city and rural routes. The average letter carrier delivers 2,394 pieces of mail to 571 addresses reaching over 150 million delivery points six days per week.

Table 1: Delivery Operations

Delivery Operations	Number
Carriers	268,405
Mail Routes	234,001
Addresses Per Carrier	571
Mail Pieces per week, per Carrier	2,394

Source: 2010 Annual Report and Comprehensive Statement.

The duties of a letter carrier are divided between office time and street time. With the advent of automated sequencing, typical letter carriers now spend approximately 73 percent of their workday on their routes delivering mail to customers.⁵

⁴ U.S. Postal Service, *2010 Comprehensive Statement on Postal Operations*, http://about.usps.com/strategic-planning/cs10/CSPO_12_2010.pdf, p. 24.

⁵ U.S. Postal Service, *National Payroll Hours Summary Report, FY 2010, Pay Period 20* (estimate based on In-Office and Street Time costs).

Delivery and Retail Interdependencies Are Unnecessary in the Long Term

Although co-locating retail and delivery operations in the same facility is common, their operational co-dependencies are actually few and relatively minor; rather they result largely from tradition. The major interdependency between retail and delivery operations that does exist involves shared clerk work hours. Clerks often serve both the retail window and also engage in back-office tasks such as unloading trucks and distributing mail to carriers and Post Office Boxes™. On an average day, about one third of a clerk's work hours are used to perform "customer facing" duties, such as selling products and services at the retail window.⁶ The remaining hours are devoted to "back office" and administrative functions. These shared work hours seem to exist primarily to address the lack of flexibility in retail clerk hours. There is no inherent business need to have retail co-located with delivery. If reasonably increased workforce flexibility is allowed (by allowing some retail clerks to work a half day, for example), the business need for coupling could effectively disappear. The recently approved contract with the American Postal Workers Union (APWU) introduced new scheduling flexibility⁷ for career employees that might support this change.

In Shared Facilities, Focus Is on Delivery Operations, Not Retail

Postal Service delivery operations focus on measurements of productivity, cost control, and service quality. A delivery operation measures its effectiveness and efficiency through attention to important daily performance data. Examples of key metrics include: carrier work hours, overtime hours, carrier return from their routes by 5 p.m., percentage of mail articles scanned correctly, and deliveries per hour.

Along with cost control and service quality measures, retail operations also attempts to gauge the effectiveness at generating revenue and serving customers. Retail performance measurements include: walk-in revenue, revenue/cost per transaction, average transaction time, wait time in line, retail associate's work/overtime hours, and adherence to lobby appearance/signage standards.

However, where retail and delivery operations exist in the same facility, the manager of

A clerk's first priority is often back room operational support activities — even if that means a retail customer waits longer in line.

that facility has the responsibility of managing both disparate operations. We found such managers primarily focus on delivery performance and cost control over providing retail service or promoting revenue generation. In fact, their performance evaluations often guide them to focus on meeting delivery cost and service goals to the exclusion of

retail service or revenue generation goals. Unlike most retail stores in the private sector where employees are called up from the back office when lines are long to serve the customer, the focus in Postal Service shared facilities is the exact opposite. A clerk's

⁶ U.S. Postal Service Office of Inspector General, *Audit Report – Efficiency of Retail Customer Service Operations*, Report No. MS-AR-10-004, July 28, 2010, www.uspsoidg.gov/foia_files/MS-AR-10-004.pdf, p. 6.

⁷ Rather than just working five, 8-hour days to reach 40 hours per week, the new contract allows irregular shifts totaling between 30 and 48 hours per week.

first priority is often back room operational support activities — even if that means a retail customer waits longer in line.

A Changing Environment Enhances the Case for Decoupling

The Internet and mail processing technology have dramatically changed the operational environment and the market conditions facing the Postal Service. Electronic communications are replacing paper-based communications and changing demand for retail services, while advances in mail processing technologies are dramatically affecting the Postal Service's downstream delivery operations. Given this changing environment, decoupling enhances the Postal Service's prospects by encouraging management and employee focus on retail as well as promoting improved operational and facility flexibility. This section also notes the costs of inaction and maintaining the status quo.

Investment in Mail Processing Automation Has Decreased the Need for Delivery Floor Space and Reduced the Need for Delivery Carriers in Each Office

Adoption of automated sequencing technology⁸ offers opportunities for significant savings. Improvements in mail sorting technology upstream at the processing plant have reduced the need for local sorting in the carrier office. Carriers once spent more than half of their day manually sorting mail at the local carrier office before delivering it, but now devote slightly more than two hours per day to this function. In turn, this has increased delivery "street time" to almost six hours per day.⁹

With carriers spending less time in the office, more mail can be delivered by each carrier and there is less need for letter carriers in each facility. With fewer carriers and the removal of local sorting equipment, there is idle floor space in facilities and less need for carrier vehicle parking. Such idle space means that delivery operations can be consolidated and the remaining spaces can be sold off or leases cancelled. For example, the Postal Service could consolidate two nearby postal facilities into a single carrier-only facility and relocate it to a lower-cost facility with better connections to transportation links. This would produce savings by reducing both facility and transportation costs and by designing a space geared specifically toward efficient delivery operations. (When making such changes, it is important to note there is a threshold in distance between the delivery office and recipients beyond which the savings from delivery consolidation start to decline because carriers would spend too much time driving to the first delivery point.)

⁸ Automation sequencing technologies include Delivery Point Sequencing (DPS) for letters and the Flats Sequencing System (FSS) for flats.

⁹ U.S. Postal Service, *National Payroll Hours Summary Report*, FY 2010, Pay Period 20 (estimate based on In-Office and Street Time costs).

Retail Sales in Post Offices Are Falling and Demand Is Changing Between Facilities

Retail sales in post offices are falling as customer demand for sending mail weakens and alternatives grow. Post Office retail transactions are down 20 percent since FY 2000.¹⁰ As recently as 2000, about 79 percent of bills were paid by consumers using postage stamps, but by 2010 this had fallen to less than 50 percent. Also, use of alternate channels such as retail stores, usps.com, and CPUs has grown from only 18 percent of retail revenue in 2005 to 31 percent in FY 2010.¹¹ On a positive note, packages sent by consumers at post offices or left for letter carrier pickup grew by 142 percent between 2005 and 2009, suggesting improved retail prospects in that area.¹²

Because the needs of delivery generally dominate in shared facilities, the retail operation may have limited flexibility to adapt its footprint to changes in customer demand. By decoupling, retail could be more responsive to different types of demand across different retail facilities. For example, some locations could benefit from increased attention to areas such as shipping services or passports that garner very little business in other locations. Similarly, in some areas, the quality of service can be improved by expanding hours to meet the needs of a customer base that demands services after 5 p.m. and on weekends. In some areas, however, there may be insufficient customer demand to support a brick and mortar retail presence.

Status Quo Is Functional But May Result in Poorer Service and Higher Costs

There were sound reasons in the past for combining delivery and retail operations in the same facility. These included matching the operational and customer needs of the time and the convenience of handling items such as parcel pickup at retail offices. There is now a need to create improved cost efficiencies in delivery operations, generate increased revenue from existing products, and provide better customer service in retail operations. Given the magnitude and urgency of the independent challenges facing delivery and retail, the Postal Service could benefit by re-examining the conventional wisdom of combining operations. Today, it may be impossible to accomplish such disparate goals as maximizing operational efficiency and generating maximum revenue if delivery and retail operations are housed in the same facilities and managed by the same managers.

Decoupling Offers Benefits and Challenges

Decoupling of the delivery and retail network has the potential benefit of improving service, increasing revenue, reducing cost, and improving productivity. However, there are potential challenges as well, particularly in the short term during the transition from the traditional configuration to a new alignment. There will be some one-time costs

¹⁰ U.S. Postal Service, Retail Data Mart.

¹¹ Interviews with U.S. Postal Service.

¹² U.S. Postal Service, *The Household Diary Study: Mail Use and Attitudes in FY 2009*.

associated with the change and the potential for lapses in customer service quality as both operations transition to a new paradigm. Some of these benefits and challenges are discussed in the chart below.

Table 2: Benefits and Challenges of Decoupling

	Benefits	Challenges
Financial Implications	<ul style="list-style-type: none"> • Long-term lower costs and higher revenues. • Delivery will be able to relocate in lower-cost facilities that provide easier access to transportation and promote efficiency. 	<ul style="list-style-type: none"> • Initial one-time transition costs. Speed of changes will dictate the size of transition expenses. • Disposal of excess facility space. • Potential for increased retail management costs.
Retail Network Implications	<ul style="list-style-type: none"> • Supports retail optimization efforts. • Facilities are selected and configured to provide desired levels of customer service, convenient access, and enable a wider selection of products and services. 	<ul style="list-style-type: none"> • Managing transition with customers given the long tradition of coupling. • Managing change in a risk-averse work culture.
Delivery Network Implications	<ul style="list-style-type: none"> • Decoupling is strategically consistent with efforts to reap cost savings from DPS and FSS¹³. • Opportunities to realize consolidation savings. 	<ul style="list-style-type: none"> • Addressing clerk work hour flexibility in the short term. • Managing the decoupling process seamlessly.
Stakeholder Implications	<ul style="list-style-type: none"> • Consumers may applaud more products and services and a wider set of channels for accessing service. • Specialization leads to more focused training, improved customer service, increased revenue, and lower costs. • Decoupling has the potential for new marketing and retail opportunities. • Decoupling has the potential to lower costs and help optimize both retail and delivery networks. 	<ul style="list-style-type: none"> • Potential personnel relocations. • Need a sustained commitment to formulate and execute a comprehensive decoupling strategy. • Transformation from a sole focus on reducing operating expenses to increasing revenue and improving customer satisfaction. • Need proactive communication plan for customers.

¹³ Please refer to footnote 8, above.

Private Sector Shippers Offer Valuable Insights

Private sector shipping companies in the United States have established a set of retail and delivery business best practices that they have found improve customer service, maximize revenue, and lower costs. It is important to recognize that these practices evolved over time to meet customer needs and adapt to a changing business climate.

Retail Facilities Are Located Close to Customers and Focus on Service

Historically, companies such as UPS focused on serving large-volume shippers and little effort was made to accommodate small businesses, much less individual consumers. These carriers did accept some small business package shipments as long as they were dropped in stand-alone drop boxes conveniently placed for efficiency along regular pick-up routes. Potential customers could also travel to the carrier's processing hubs, which were generally located in industrial areas far away from downtown or suburban areas.

Recognizing the emerging needs of small businesses and consumers to ship packages in the 1980s, a cottage industry of independent "pack and ship" retail stores developed. These small, independent stores provided packing services and accepted shipments for UPS, FedEx, and the Postal Service. Eventually, some carriers started to offer discounts for multiple shipments and individual stores were branded as authorized shipping centers.

In 2001, UPS recognized the growing small business market and purchased the Mail Boxes, Etc. "pack and ship" franchise to establish a major retail presence. Mail Boxes, Etc. was rebranded as the UPS Store in 2003 and continues to grow today. FedEx

UPS and FedEx retail outlets are located in convenient locations where people live, work, and shop.

responded by purchasing the Kinko's chain in 2003 to establish its own retail presence. Today, these two channels provide new access and support a growing small office/home office (SOHO) business market. UPS and FedEx retail outlets are located in convenient locations where people live, work, and shop. They offer expanded hours and respond to

the needs of local customers. Additionally, they offer a diverse line of complementary products and services that respond to the market. Finally, they open, close, and relocate their retail presence based on changes in customer demand.

Delivery Facilities Are Located in Low-cost, Industrial Areas with Easy Access to Transportation Links and Focus on Efficiency

Unlike the Postal Service, which has always been focused on serving every citizen, major shippers such as UPS started out serving a narrow, high-volume business clientele. As such, it located its facilities in industrial areas near its core business customers where real estate costs were low and space was plentiful. These areas also

supported the efficiency of the processing network by being located conveniently to rail, air, and highway transportation links. Even as its client base expanded and its retail presence exploded, it retained and expanded these facilities as the core of its processing and delivery network. Such focus on speed and efficiency remained consistent with the goals of delivery even as these locations no longer were appropriate for serving retail customers as discussed above.

International Posts Also Offer Many Valuable Insights

Our review of the delivery and retail practices of foreign posts shows they have taken significant steps in decoupling retail and delivery functions. In some cases, decoupling has been implemented by foreign posts because postal liberalization allowed them to expand and diversify their products and services. Using the same personnel to operate retail and back office delivery functions would have been unsustainable and inefficient given the completely different set of skills they require. This is especially so in light of the effort required to sell and manage a broader range of products and services.

Overall, the foreign post transitions correlate with a trend toward fewer delivery offices and retail outlets. The separation of delivery and retail functions facilitated the use of franchised postal outlets in most countries. Within the European Union (EU), nationwide access to postal services is a key element of the universal service obligation. This resulted in regulations on size and sometimes organization of postal outlets (minimum numbers, density of postal outlets, formal procedures in case of post office closures) that differ considerably among the EU member states. These factors resulted in different paces of the transformation. The closure of traditional post offices and their replacement by franchised outlets was usually controversial and accompanied by public and political discussions. The degree of public acceptance of franchised postal outlets varies among the countries.

In the most successful transitions, the postal operators had a fully developed communication plan to inform customers how the new arrangement would affect them. Changes required careful planning, but the postal operators addressed potential concerns with creative approaches and adroitly implemented changes. For example, in many places, retail post offices still fulfill nominal delivery functions such as parcel pickup and may serve as locations for post office boxes. We undertook a survey of European postal operations and conducted a more in-depth review of four major postal operators.¹⁴ The major findings related to retail and delivery decoupling include:

- Separation of the retail function from delivery has become standard practice. Different personnel, with different skills and training, operate delivery offices and many view their retail operations as separate business units with profit and loss accountability.

¹⁴ The summary results are presented as brief case studies in Appendices A through D.

- The transition to a decoupled network has been a complex, multiyear process, involving coordination with employees, customers, and other key stakeholders in planning and implementation.

The Canadian Example May Be Most Relevant to the Postal Service

Because of its history and geographic similarities, Canada's example may be most relevant to the United States. Canada Post introduced a new retail strategy in the late 1980s, driven by a need to better serve customers with new locations and longer opening hours. The transition to a decoupled network took years and involved some level of trial and error. Due to a lack of funding for new brick and mortar facilities, a franchising model was partially deployed. Research confirmed that a customer's trip to the post office is usually one among several other shopping errands. Installing franchises within many of Canada's best retailers made access significantly more convenient. These retailers contributed retail know-how and expertise, great locations, and excellent customer interaction skills. As part of the franchise agreement, all had to be open within a pre-established set of hours that were longer than those of corporate-owned post offices.

The primary value proposition to host businesses was traffic generation. The income from the postal outlet was at breakeven or slightly positive, but the gain for the host business was additional revenue generated by consumers coming to the postal outlet and making purchases from the host business. It is typical for the postal outlet to be in the back of the store forcing consumers to pass through aisles of merchandise on the way to and from the outlet. The franchisee must perform to the requirements outlined in the agreement, such as meeting merchandising standards, training employees, and making timely payments.

The selection of franchises and locations followed a disciplined process based on best-in-class location analysis, including elements such as proximity to other outlets,

In Canada, franchises were added to better serve customers, not to replace corporate outlets.

population, traffic patterns, location suitability, and suitability of the host business. As a result, the customer experience improved and revenues grew steadily. In Canada, franchises were added to better serve customers, not to replace corporate outlets.

Corporate outlets remained open and were only removed from the network when revenue was below prescribed thresholds.¹⁵ Canadian retail clerks received mandatory customer service training and management went through a "Retail Management Basics" training program. In growth areas, franchises were added to handle the retail need rather than opening new corporate outlets. This allowed the delivery operation to acquire buildings better suited to their needs and with easier access to transportation links, often in industrial parks.

¹⁵ This business-based approach is not consistent with current laws governing the U.S. Postal Service, which do not allow Post Offices to be closed solely for operating at a loss.

Recently, Canada Post embarked on an ambitious program called Postal Transformation. Similar to the Postal Service, delivery carriers are receiving their mail already delivery sequenced, which reduces their time in office and frees more time for deliveries. The net result is fewer delivery routes are needed to serve the same number of delivery addresses. This has opened opportunities to consolidate carrier operations into fewer facilities. A recent example saw Canada Post combine three older downtown locations into one modern facility in an industrial park. All of the facilities were in excess of 50 years old, poorly suited to a delivery operation, with limited dock space, and, in one case, with a multi floor facility that made moving mail in the building expensive. After the move, Canada Post sold the buildings with significant financial gains. The new facility resulted in lower real estate costs and allows the implementation of a new delivery model that improves letter carrier productivity. The new model could not have been implemented in the old buildings.

Decoupling Value and Implementation

Our review of stakeholders' comments, the challenges and benefits, and the experiences of United States private sector delivery firms and selected foreign posts suggest the potential value of decoupling far outweighs the costs involved and could be significant. It is very difficult to estimate the potential value of decoupling to the Postal Service because of the many ways costs could be cut, service could be improved, and revenues could be grown. However, it is interesting to note that all four of the foreign posts we examined noted improvements after decoupling and that Australia Post now has a separate Retail business unit that reported net profits of almost \$80 million in 2010 even though the country is only 1/14th the size of the United States. Beyond that, the implementation of such a major change requires detailed planning that is far beyond the scope of this research project. We nonetheless offer some preliminary implementation insights suggested by our overall findings.

Implementation Strategy for Decoupling Delivery and Retail Operations

Our research suggests the Postal Service can best succeed in its implementation plan by publicly communicating an objective, positive, and transparent strategy, starting at the headquarters level. Such a strategic plan can then be evaluated and validated locally for reasonableness and appropriateness in specific field locations. This feedback in turn informs the headquarters strategy and creates a continually improving plan. The continuous feedback loop between headquarters and field offices is generally termed a "top down, bottom up" approach and has been found to be a best practice for implementing major efforts in large, geographically dispersed organizations. Such efforts have been found to help by promoting:

- Flexibility – The approach supports whatever other decisions the Postal Service makes regarding retail and delivery.
- Productivity – Decision making is focused on where decoupling opportunities can be best identified and evaluated to produce the most cost effective results.

- Superior Customer Experience – The approach helps ensure customers will receive delivery and retail services of consistent quality throughout the country and that they understand the benefits of such a change in improved service.

Decoupling Enables Expanded Retail Products and Services

A key premise behind decoupling in other places has been that it provides for more organizational focus and better customer service as well as the skills necessary to support the sale of a broad array of products and services. Foreign posts and private sector carriers in the United States have diversified and expanded the portfolio of products and services offered through their retail outlets to meet the demands of their customers. For examples of such products, please see Table 3 below. Please note that many of these items are provided through partnerships with major companies. Also, many of these items are currently not available to customers through the Postal Service’s retail network. Should the decision be made to allow the Postal Service to diversify its offerings, a decoupled retail presence would be required to successfully implement such an opportunity.

Table 3: Retail Products and Services of Foreign Posts and Private Sector Shippers

Service	Description
Financial Services	<ul style="list-style-type: none"> • Banking services (checking/savings, credit cards, mortgages) • Insurance services (home, life, auto) • Bill payment and digital currency • Investment products
Business Services	<ul style="list-style-type: none"> • Small and home office centers • Office and mailing supplies • Printing and copying services
Other Products	<ul style="list-style-type: none"> • Mobile phones • Calling cards • Broadband services
Government Services	<ul style="list-style-type: none"> • Acceptance of tax payments and fines • Government benefits (pensions, tax refunds, social security) • Hunting, fishing, and professional licenses (e.g., plumbing) • ID services (Driver licenses, In-person proofing, employment)
Traditional Products	<ul style="list-style-type: none"> • Stationery, envelopes, and boxes, • Greeting cards • Philatelic items

Conclusions and Suggestions

Our analysis of the benefits and challenges as well as our review of foreign posts and private sector delivery companies identified the separation of retail and delivery as a vehicle to improve service, maximize revenue, and minimize costs. Although not without its challenges, decoupling could have significant value if implemented wisely and in the appropriate locations. Both delivery and retail operations have important contributions to make to the long-term viability, financial health, and public service responsibilities of the Postal Service. An integrated strategy allows both retail and delivery to optimize and could greatly help the Postal Service as it confronts the myriad of challenges it faces. We recognize the Postal Service has already made a number of positive steps in this direction and we suggest they continue in a more strategic and comprehensive manner. Specifically:

- 1) We believe the Postal Service could benefit by adopting a strategy of decoupling retail and delivery operations in selected urban and suburban areas where it has the most potential value. In rural areas where decoupling is generally not practical, the Postal Service could develop plans to facilitate collaboration among local government(s), business community, and postal officials to explore ways that the local assets of the post office could be utilized for the financial, service, social, and public policy benefit of all parties.
- 2) The Postal Service can best implement decoupling by adopting recognized practices of working closely with its workforce in planning and implementing such changes and in developing plans to thoughtfully communicate such changes to its customers and other stakeholders.

The Postal Service Headquarters Retail Group could enhance decoupling by developing guidelines (perhaps similar to efforts already underway in Delivery) that provide technical and strategic direction to field locations. Such direction could assist the field with determining optimum retail locations in an objective, analytical, and transparent way that improves service and lowers costs. Finally, separate retail and delivery strategies could be developed that recognize and support both functions in pursuing their common goal of an efficient Postal Service that provides excellent service at a minimum cost.

Appendices

Appendix A Case Study 1: Deutsche Post (Germany)



Key country figures (2009)

Population: 82 million

Country size (sq km): 357,002

Population density: 230 inhabitants / sq km

Mail items per inhabitant: 240

- **Deutsche Post organizationally separated retail and delivery offices in 1995.**
- Date of corporatization: 1995 (Foundation of Deutsche Post AG, Postreform II), went public in 2000.
- The letter market was fully opened to competition in 2008. Perceptible competition has emerged since 2002. To date, Deutsche Post's market share is around 90 percent (in terms of mail items).
- Location factors relevant to postal outlets and for delivery offices are different:
 - Delivery office locations are selected by application of operation research-based optimization processes (use of Geographic Information System (GIS) technology) in order to minimize real estate, transport and labor costs. Important location factors are the distances between delivery routes and delivery office and real estate costs (central locations are more expensive than locations in the periphery). The reorganization process was accompanied by a substantial reduction in delivery routes.
 - Retail postal outlets are to be completely outsourced by the end of 2011. Important location factors are accessibility for customers (by foot, car and/or local traffic; opening hours), potential demand, and existence of competitors' outlets.

Appendix B Case Study 2: Svenska Posten (Sweden)



Key country figures (2009)

Population: 9 million

Country size (sq km): 449,964

Population density: 21 inhabitants / sq km

Mail items per inhabitant: 315

- **Retail and delivery offices were organizationally separated in 2001.**
- Date of corporatization: 1994 (Foundation of Posten AB), merger with Post Danmark in 2009.
- Date of full market opening: 1993. The current market share of competitors (essentially City Mail) is around 11 percent in terms of mail items.
- Retail postal outlets for private customers have been outsourced since 2001.
- Ongoing re-organization of sorting and delivery operations is aimed at substantially reducing the number of delivery offices and sorting facilities. Important location factors are the distances between delivery routes and delivery office and real estate costs (central locations are more expensive than locations in the periphery).

Appendix C Case Study 3: Canada Post (Canada)



Canada Key country figures (2009)

Population: 34 million

Country size (sq km): 9,984,670

Population density: 3.4 inhabitants / sq km

Mail items per inhabitant: 323

- **Retail and delivery operations started to separate in the late 1980's to improve access for customers. Retail reported to the Sales organization while Delivery remained under Operations.**
- Canada Post became a crown corporation in October, 1981. Previously it was the Department of the Post Office with an operating deficit in excess of \$400 million (CAD).
- For 2010, Canada Post Corporation (CPC) had profits in excess of \$400 million, its 16th consecutive year of profitability.
- CPC Operates the largest retail network in Canada.
- Urban retail and delivery operate out of separate facilities, but they remain combined in rural areas due to cost considerations. In rural areas, such combined facilities report to the Regional Operations organization.
- A retail franchise model was implemented placing full service postal outlets within a host business (postal outlet within a drugstore, supermarket, etc.).
- The move to franchising retail was made to provide better customer access and longer opening hours, to take advantage of locations with high customer traffic, and to respond to high new suburban growth.
- Separating of delivery operations enabled more efficient delivery routing, from lower-cost facilities better suited for its operations (parking, space, docking, access to highways, etc.).
- 58 percent of its retail outlets remain corporate-owned and operated. An outlet is only closed when revenue falls below a profitability threshold and after going through a process involving community and union consultation.
- Separate retail provides the focus on key customer metrics such as customer satisfaction, revenue per transaction, and revenue per store as well as consistently marketing, branding, and delivering a quality customer experience.
- Franchise stores are more productive in terms of revenue, traffic counts, and cost.

Appendix D Case Study 4: Australia Post (Australia)



Australia Key country figures (2009)

Population: 22 million

Country size (sq km): 7,637,930

Population density: 2.8 inhabitants / sq km

Mail items per inhabitant: 228

- **Retail and delivery operations began to separate in 1989 and a separate Retail Business Unit was soon established.**
- Australia Post operates the largest retail network in Australia.
- Retail operates with profit and loss responsibility. Delivery transfer pricing is in place for delivery duties performed by Retail.
- Retail licensing models were adopted in the form of Licensed Postal Outlets, Community Postal Agencies and Franchised Outlets.
- The new models provide better access, longer opening hours, locations where customers already shop and, where new suburban growth is occurring.
- Delivery operations has the flexibility to locate new delivery stations in more suitable, lower cost facilities.
- Separate retail enables focus on key customer metrics such as customer satisfaction, revenue per transaction, revenue per store, consistent branding and customer experience.
- The Retail Strategic Business Unit produces annual sales of \$712 million (AUD) and a profit of \$78.9 million.
- Principal retail strategies are maximizing return from existing services while pursuing new products and services for future growth.