



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

International Marketing

Audit Report

Report Number
MR-AR-16-003

April 13, 2016





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The international mailing and shipping industry continues to grow, with global eCommerce topping \$1.3 trillion in 2014 and a projected growth of 20 percent in 2015.

Background

The U.S. Postal Service recorded \$2.8 billion in revenue from international products and services in fiscal year (FY) 2015, which was 4 percent of its total revenue. Postal Service international products and services include Global Express Guaranteed, Priority Mail Express International, Priority Mail International, First-Class Mail International, and First-Class Package International Service.

To market its international offerings, the Postal Service relies on a variety of strategies and media channels such as networking, print, and digital. The Global Business, Brand Marketing, and Sales groups work together to develop the marketing strategy for international products and services.

Effectively marketing its international services is becoming increasingly important for the Postal Service. The international mailing and shipping industry continues to grow, with global eCommerce topping \$1.3 trillion in 2014 and a projected growth of 20 percent in 2015.

A 2010 presidential executive order requiring the use of federal resources to support continued growth of U.S. exports furthers the opportunity for the Postal Service in this market. However, the Postal Service faces significant competition from domestic and international private delivery companies and other foreign posts. To capitalize on this opportunity and address its ongoing financial challenges, the Postal Service must adequately invest

in its international products and services, including marketing productively and efficiently.

Our objective was to evaluate the Postal Service's marketing of its international products and services.

What The OIG Found

The Postal Service's marketing of international products and services is not providing sufficient customer awareness in a growing, competitive international marketplace. International mailers and the Postal Service have indicated that the Postal Service's international marketing efforts are not creating enough customer awareness. Customers and businesses do not regularly associate the Postal Service with international shipping.

Instead of using a comprehensive international strategy, the Postal Service's current marketing strategy focuses on enhancing its brand, educating the sales force about international products and services, and implementing specific international marketing initiatives with a limited reach.

The Postal Service could benefit from a comprehensive international marketing strategy to effectively promote customer awareness of its international offerings. Leading practices emphasize the importance of having a comprehensive international marketing strategy when conducting global business. Such a strategy would assess marketing efforts,



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identify areas for improvement, and help demonstrate the need for additional marketing funds.

We also found the Postal Service was unable to provide certain reports and data spelled out in its marketing contracts that should have key information on the global mailing and shipping market. Being able to access and use this information would help the Postal Service craft an effective international marketing strategy.

The lack of a comprehensive international marketing strategy will continue to put the Postal Service's ability to capture

revenues and grow market share in the global marketplace at risk. We estimate a comprehensive international marketing strategy could enhance the Postal Service's global marketing efforts and help it capture an additional \$20.3 million annually during FYs 2016 and 2017.

What The OIG Recommended

We recommended the Postal Service develop a comprehensive marketing strategy for its international products and services to include specific actions for promoting customer awareness.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

April 13, 2016

MEMORANDUM FOR: CHRISTOPHER J. KARPENKO
EXECUTIVE DIRECTOR (A), BRAND MARKETING

GISELLE E. VALERA
VICE PRESIDENT, GLOBAL BUSINESS

E-Signed by Janet Sorensen
VERIFY authenticity with eSign Desktop

A handwritten signature in black ink, appearing to read "Janet M. Sorensen", is displayed within a rectangular box.

FROM: Janet M. Sorensen
Deputy Assistant Inspector General
for Retail, Delivery and Marketing

SUBJECT: Audit Report – International Marketing
(Report Number MR-AR-16-003)

This report presents the results of our audit of the Postal Service's International Marketing (Project Number 15RG036MS000).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

The Postal Service's international products and services include Global Express Guaranteed, Priority Mail Express International, Priority Mail International, First-Class Mail International, First-Class Mail International, and First-Class Package International Service.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's International Marketing (Project Number 15RG036MS000). Our objective was to evaluate the Postal Service's marketing of its international products and services. See [Appendix A](#) for additional information about this audit.

The Postal Service's international products and services include Global Express Guaranteed, Priority Mail Express International, Priority Mail International, First-Class Mail International, and First-Class Package International Service. The Postal Service paid outside contractors \$146 million in fiscal year (FY) 2015 for marketing and advertising services, including use of television, digital, print, and social networks.¹ The Postal Service has implemented a number of specific initiatives over the past few years aimed at marketing its international products and services. These include:

¹ These contracts also describe information and analyses the contractor could provide to the Postal Service on the global mailing and shipping market.

The Postal Service's international offerings are aligned with the evolving needs of global customers. These services include international tracking, affordable pricing, and various delivery options.

Several groups share international marketing responsibilities within the Postal Service. Global Business works with Brand Marketing to develop international marketing strategies and initiatives. Brand Marketing develops and implements campaigns to support these strategies and initiatives, often in consultation with contractors. Sales is responsible for contributing to global sales strategy. The Global Business and Sales groups are also involved in key international revenue growth initiatives related to the Postal Service Delivering Results, Innovation, Value, and Efficiency (DRIVE)² program.

The Postal Service's international offerings are aligned with the evolving needs of global customers. These services include international tracking, affordable pricing, and various delivery options. Effectively marketing these international services is becoming increasingly important as the market expands. The international mailing and shipping industry is growing significantly — global eCommerce topped \$1.3 trillion in 2014 — 24 percent more than in 2013 — and is projected to grow another 20 percent in 2015.³ But, because of the Postal Service's ongoing financial challenges, it needs to spend resources productively and efficiently.

A 2010 presidential executive order requiring the use of federal resources to support continued growth of U.S. exports furthers the opportunity for the Postal Service in this market. However, the Postal Service's international revenues declined by 8 percent between FYs 2013 and 2015. The Postal Service recorded \$2.8 billion in revenues from international products and services in FY 2015, but continues to face significant competition in the international marketplace from domestic and international private delivery companies and other foreign posts.

As these companies are active in the global marketplace, they also undertake efforts to promote their respective international mailing and shipping services (see Figure 1 showing a DHL truck promoting its international service with the slogan "Your Specialists in International Since 1969"). Furthermore, both UPS and FedEx have executives positioned as heads of Global Marketing.

Figure 1. DHL Truck Promoting Its International Service



Source: OIG photograph taken November 19, 2015.

² DRIVE is a management process the Postal Service uses to improve business strategy, development, and execution. DRIVE initiatives include cost cutting, revenue generation, and capability enhancement. International revenue growth relates to DRIVE Initiatives 48, *International Competitiveness* and 16, *Sales Excellence*. Additional information on these specific initiatives is provided in [Appendix A](#).

³ U.S. Postal Service Office of Inspector General (OIG), *Small Business Exports* (Report Number [MS-WP-15-002](#), issued August 26, 2015).

The Postal Service's marketing of international products and services is not providing sufficient customer awareness in a growing, competitive international marketplace.

The Postal Service has recognized that customers and businesses do not regularly associate it with international shipping.

Summary

The Postal Service's marketing of international products and services is not providing sufficient customer awareness in a growing, competitive international marketplace. International mailers and the Postal Service have indicated that the Postal Service's international marketing efforts are not creating enough customer awareness. Customers and businesses do not regularly associate the Postal Service with international shipping. Instead of using a comprehensive international strategy, the Postal Service's current marketing strategy focuses on enhancing its brand, educating the sales force about international products and services, and implementing specific international marketing initiatives with a limited reach.

The Postal Service could benefit from a comprehensive international marketing strategy to effectively promote customer awareness of its international offerings. Leading practices⁴ emphasize the importance of having a comprehensive international marketing strategy when conducting global business. Such a strategy would assess marketing efforts, identify areas for improvement, and help demonstrate the need for additional marketing funds.

We also found the Postal Service was unable to provide certain reports and data spelled out in its marketing contracts that should have key information on the global mailing and shipping market. Being able to access and use this information would help the Postal Service craft an effective international marketing strategy.

The lack of a comprehensive international marketing strategy will continue to put the Postal Service's ability to capture revenues and grow market share in the global marketplace at risk. By addressing the issues outlined in this report through a comprehensive international marketing strategy, the Postal Service could enhance its international marketing and revenue generating efforts, resulting in an additional \$40.6 million in revenue from international products and services during FYs 2016 and 2017.

International Marketing Strategy

The Postal Service's marketing of international products and services is not providing sufficient customer awareness in a growing, competitive international marketplace. Specifically:

- The Postal Service has recognized that customers and businesses do not regularly associate it with international shipping. Major international mailer organizations we spoke with indicated that they are not aware of certain Postal Service international offerings, such as tracking, or related market developments, and some were not aware of the Postal Service's competitive prices. One Postal Qualified Wholesaler (PQW)⁵ stated that, while the Postal Service offers the best products for shipping, his customers know very little about them.
- The Postal Service recognizes that it does not market its international capabilities (such as performance data on international mailings) as aggressively as its competitors.

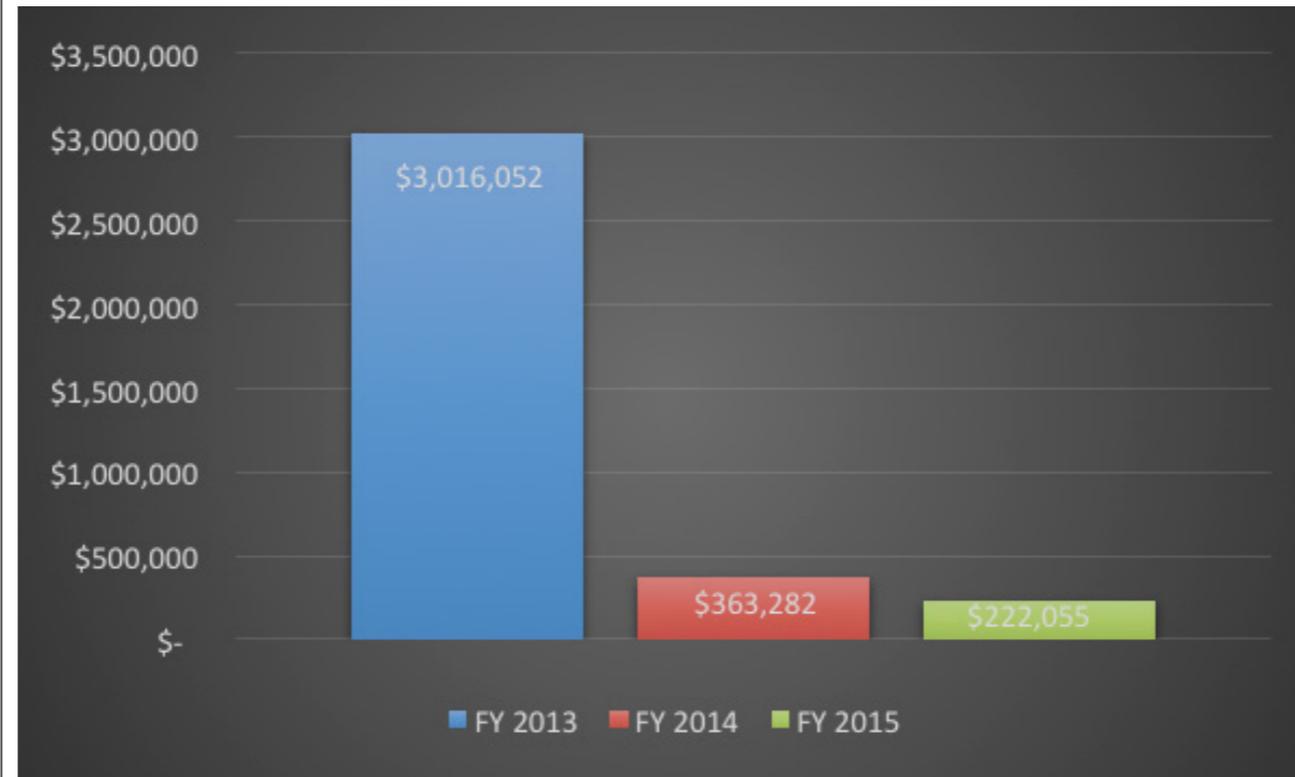
The Postal Service provided documentation to support just over \$220,000 on specific international advertising efforts in FY 2015. The Postal Service identified other initiatives, including trade shows, sales tools, and retail signage, but did not allocate and track these costs as they relate to the promotion of international products and services.

⁴ Leading practices were taken from the American Marketing Association, specifically an article titled [People, Process and Content...Then Technology](#), accessed on December 16, 2015; and *International Marketing Strategy*, 5th edition, authored by Isobel Doole and Robin Lowe.

⁵ PQWs work closely with the Postal Service to help prepare and dispatch global commercial mailings and package shipping.

Postal Service officials recognized that spending for international marketing is historically a very small percentage of total advertising expense. The amount the Postal Service paid to advertising agencies for marketing of international products and services has declined substantially over the last 3 years (see Figure 2), as the Postal Service has chosen to focus on promoting its overall brand.

Figure 2. Postal Service International Advertising Spend, FYs 2013-2015



Source: OIG review of Postal Service advertising contracting spend.

The Postal Service's key competitors undertake specific marketing initiatives related to their international products and service. For example:

- FedEx: Advertising and promotion expenses of \$403 million in 2015, which included a Show the World⁶ global shipping campaign, as well as a Growing Business commercial that promoted FedEx's global commerce solutions.
- UPS: Recent commercials promoted its global business solutions.⁷

The Postal Service lacks a comprehensive marketing strategy for its international products and services. While it has worked to develop a broad organizational marketing strategy with narrowly focused international marketing initiatives, this approach is not providing sufficient customer awareness in a growing, competitive international marketplace.

⁶ We accessed the [Show the World](#) campaign on December 29, 2015; and the [Growing Business](#) commercial on December 29, 2015.

⁷ These commercials included the [United Problem Solvers™](#) commercial accessed on December 29, 2015; and the [From Small-town Designer to Big-time Trendsetter](#) commercial accessed on December 29, 2015.

Additional Postal Service focus on international marketing can be beneficial, particularly as Postal Service marketing data repeatedly shows the Postal Service's marketing investments are financially beneficial.

Leading practices⁸ show that a comprehensive marketing strategy can be used to develop customer awareness of international offerings. An effective strategy should include information on stakeholder expectations, situation analysis, research and capabilities, knowledge management, corporate aims and objectives, plan implementation, and control processes. A comprehensive strategy can also be useful for assessing marketing efforts and identifying ways to improve and where to increase marketing spending. This is particularly important because the Postal Service has spent minimal resources on international marketing in recent years.

We also found that the Postal Service was unable to provide certain reports and data spelled out in its marketing contracts that would have key information on the global mailing and shipping market. Being able to access and use this information would be helpful when crafting an effective international marketing strategy.

Additional Postal Service focus in this area can be beneficial, particularly as Postal Service marketing data repeatedly shows the Postal Service's marketing investments are financially beneficial. Recent Postal Service data showed a return on advertising spend (ROAS) for all of its products and services (both domestic and international) of \$22.68 per dollar spent for the period from August 2014 through January 2015⁹, and positive response rates and lead generations from its FY 2015 Global Shipping campaign.

The lack of a comprehensive international marketing strategy will continue to put the Postal Service's ability to capture revenues and grow market share in the global marketplace at risk. By addressing the issues outlined in this report through a comprehensive international marketing strategy, the Postal Service could enhance its international marketing and revenue generating efforts, resulting in additional annual revenues of \$20.3 million in FYs 2016 and 2017 from international products and services.

⁸ Sources for leading practices include the American Marketing Association, specifically an article titled [People, Process and Content...Then Technology](#), accessed on December 16, 2015; and *International Marketing Strategy*, 5th edition, authored by Isobel Doole and Robin Lowe.

⁹ Postal Service ROAS is for total advertising spend; international spending is not broken out. The Postal Service was unable to provide international marketing performance data developed by its advertising contractors of record.

Recommendation

We recommend management develop a comprehensive marketing strategy for its international products and services to include specific actions for promoting customer awareness.

We recommend the acting executive director, Brand Marketing, and vice president, Global Business:

1. Develop a comprehensive marketing strategy for its international products and services, which includes specific actions for promoting customer awareness.

Management's Comments

Management agreed with our finding and recommendation, but disagreed with our calculation of monetary impact, stating that we should not have used domestic ROAS results to calculate the international return.

Regarding our finding, management agreed with our general assessment on the importance of a comprehensive international marketing strategy, which includes specific actions for promoting customer awareness. They also agreed that effective marketing is a key component to any corporation's success in the marketplace.

Regarding our recommendation, management stated that current international marketing strategies include promoting products with marketing collateral in the form of print, direct mail, digital, search, and social media. They believe the marketing strategies employed to date have been productive, but agreed that a more comprehensive approach is a valid recommendation. Management agreed to include specific actions for promoting customer awareness of international products and services in the Postal Service's marketing strategy for 2017. In subsequent correspondence, management stated they would implement this action by September 30, 2016.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective action should resolve the issues identified in the report. Regarding management's disagreement with our monetary impact estimate, we recognize there are potential differences in domestic and international ROAS; however, we believe using domestic ROAS results was appropriate considering that the Postal Service was unable to provide international ROAS results. In addition, we believe that domestic ROAS results would be a reasonable, conservative proxy for international ROAS results since growth and opportunity in the international marketplace has recently outpaced that of the domestic market.

The recommendation requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action are completed. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

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Appendix A: Additional Information

Background

The Postal Service's international offerings include Global Express Guaranteed, Priority Mail Express International, and First-Class Package International Service. The Postal Service recorded \$2.8 billion in revenues from international products and services in FY 2015—this represented 4 percent of its total revenue for the year.

The Postal Service relies on a variety of strategies and media channels such as radio, print, and digital, to market its international offerings and has recognized the importance of growing international revenue as part of the following DRIVE initiatives:

- **Initiative 48, International Competitiveness** - This initiative is designed to transform the Postal Service into a world leader in international mail and package products and services through a focus on increasing Postal Service global market share and new revenue in key established and emerging markets by working with partner posts and U.S. and foreign companies. According to the Postal Service, this initiative will achieve success if it doubles international revenue by 2018. The Postal Service reported an 8 percent decline in international revenue (from \$3 billion to \$2.8 billion) between FYs 2013 and 2015, so being able to double international revenues in between FYs 2016 and 2018 would require a significant improvement in performance.
- **Initiative 16, Sales Excellence** - This initiative is designed to increase the Postal Service's market share through acquisition of new customers and growth and retention of existing customers. The initiative will achieve success if it establishes and improves infrastructure in support of sales effectiveness, including improvements in sales force talent management, expansion of the international shipping market, customer retention, and improved effectiveness of inside sales.

Objective, Scope, and Methodology

Our objective was to evaluate the Postal Service's marketing of its international products and services. To accomplish our audit objective we:

- Reviewed Postal Service international marketing strategies and campaigns across various media channels including television, radio, print, and Internet between FYs 2013-2016.
- Reviewed Postal Service international marketing policies and procedures.
- Collected and analyzed various Postal Service international marketing data on costs, status, milestones, and performance.
- Reviewed Postal Service marketing invoices between FYs 2013-2015, and compared invoiced amounts against Postal Service marketing spend data.
- Reviewed the Postal Service's contracts for international marketing activities, which included contract requirements, milestones, and contractor performance evaluations.
- Reviewed Postal Service DRIVE initiatives focused on international revenue growth.
- Interviewed Postal Service managers and staff.

- Reviewed leading practices related to global and international strategic marketing plans and other comparative international marketing information from various sources, including the American Marketing Association, UPS, FedEx, and other research.
- Interviewed officials from major international mailer organizations, as well as judgmentally selected international mailers.

We conducted this performance audit from July 2015 through April 2016 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 March 2, 2016, and included their comments where appropriate.

We assessed the reliability of Postal Service data by comparing it to the Postal Service’s audited financial statements and contractor invoices, as well as through interviews with Postal Service officials. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Revenue Opportunities for Innovative Mail Services</i>	FT-WP-15-002	1/20/2015	\$176
Report Results: This white paper discussed the mail service innovations of domestic, foreign, and emergent markets that could offer diversification and revenue opportunities for the Postal Service such as international mail forwarding (IMF), continuity shipping, digital printing, and private locked bags. The Postal Service has the opportunity to diversify and become a serious contender in the international market and eCommerce revolution through innovation, reinvention, and transformation. We estimated monetary impact for IMF, continuity shipping, and digital printing. Management generally agreed with our monetary impact calculations and analysis for IMF and continuity shipping but disagreed with our monetary impact regarding digital printing.			
<i>International Small Business Commerce</i>	MS-WP-13-001	1/30/2013	None
Report Results: This white paper discussed the opportunity for the Postal Service to offer products and services that may help facilitate international small business commerce. While technology has helped facilitate a connection between buyers and sellers globally, there are still many challenges that technology cannot address in completing an international small business transaction. The Postal Service could leverage its relationships with foreign posts, its role as a trusted provider, and its expansive network to offer products and services that could address such challenges. The Postal Service has the opportunity to not only help facilitate growth in international eCommerce, but also to boost the national and global economy. We suggested the Postal Service further explore the opportunities to determine the feasibility and benefit of providing additional services to support international small business commerce.			

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Advertising Program</i>	MS-AR-13-002	1/4/2013	\$7

Report Results: This audit report discussed how the OIG evaluated the oversight of the Postal Service’s advertising program. The Postal Service spent \$147 million on advertising in FY 2011. The Postal Service was not adequately monitoring its two largest advertising contracts, which threatened the effectiveness and integrity of its advertising program. We recommended the Postal Service establish a clearly defined process to perform contractor evaluations; appropriately review, certify, and maintain invoices; track contractor labor costs; and appropriately allocate advertising costs. We reported \$7 million of questioned costs and \$380.4 million as disbursements of risk. Management agreed with the findings and implemented OIG’s recommendations.

Appendix B: Management's Comments

PERFORMANCE AUDITS - MANAGEMENT RESPONSE

April 6, 2016

Laurie Dillard
DIRECTOR, AUDIT OPERATIONS

SUBJECT: International Marketing (Report Number MR-AR-16 DRAFT)

The Postal Service agrees with the paper's general assessment of having a comprehensive international marketing strategy which includes specific actions for promoting customer awareness.

We disagree with the financial impact analysis. Domestic ROAS results are not predictive of international ROAS.

Recommendation:

We recommend the Postal Service develop a comprehensive marketing strategy for its international products and services to include specific actions for promoting customer awareness.

Management Response/Action Plan:

The Postal Service agrees with the paper's general assessment of having a comprehensive international strategy. Effective marketing is a key component to any corporation's success in the marketplace.

Current strategies include promoting international products with marketing collateral in the form of print, direct mail, digital, search and social media. Sales enablement tools were developed to provide the USPS sales force with engaging, strategic tools, which help facilitate richer conversations with potential and current business customers. We also enhanced usability functionality on Global Sales Application (GSA) mobile App, which is specifically targeted for global sales team.

USPS believes the marketing strategies/tactics we have employed to date has been productive. We have focused on doing targeted marketing and had strong results. For example during FY15 a lead generation direct mail campaign to get international shippers interested in the benefits of Priority Mail Express International resulted in twice as many leads as projected. However, a more comprehensive approach is a valid recommendation.

While promoting international services is important, it is also important that the services provided meet customer needs/expectations. The Postal Service has been focused on improving service and visibility for its international services to be able to meet the high expectations of international commercial customers. Over the past several years, the Postal Service has worked to improve our international services in areas so we can be more competitive on price, service, and visibility and transit times.

April 2017

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PERFORMANCE AUDITS - MANAGEMENT RESPONSE

Target Implementation Date:

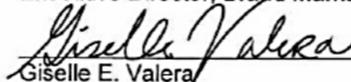
Specific actions for promoting customer awareness of international products and services will be included in the Postal Service marketing strategy for FY17.

Responsible Official:

Christopher J Karpenko
Executive Director, Brand Marketing



Christopher J Karpenko
Executive Director, Brand Marketing



Giselle E. Valera
Vice President, Global Business

cc: *Manager, Corporate Audit Response Management*



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