



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Mailed Samples Market

Audit Report

Report Number
MS-AR-16-004

June 1, 2016





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Rising postage costs and new marketing alternatives, such as distributing samples in stores or at other venues like conferences or trade shows, drove declines in mailed samples.

Background

Product samples are trial-size products that companies give to consumers with the hope of securing a later sale. Common types of mailed product samples include health, beauty, cleaning, and other household goods.

Historically, the U.S. Postal Service had a greater position in the samples market than it does now, as companies generally had a positive view of the value of mailed samples compared to other marketing opportunities—the potential revenue from attracting and retaining customers by putting a tangible sample in their hands outweighed the related postage and product costs. However, rising postage costs and new marketing alternatives, such as distributing samples in stores or at other venues like conferences or trade shows, drove declines in mailed samples.

To reinvigorate this source of revenue, the Postal Service introduced new sample programs including Sample Showcase® in 2011 and Simple Samples® in 2013. However, these attempts to regain a foothold did not succeed. The Postal Service discontinued the Sample Showcase program in 2014, and is evaluating whether to continue the Simple Samples program.

As samples can be mailed across various mail categories, tracking information on related volumes and revenues is difficult for the Postal Service to collect—Postal Service systems only identified 444,938 mailed samples generating \$188,070 in revenue in fiscal year 2015.

Our objective was to evaluate the effectiveness of Postal Service attempts to grow product sample mailings and identify opportunities for improvement.

What The OIG Found

The Postal Service's efforts to increase sample mailings were not effectively aligned with the needs of sample mailers. Sample mailers explained they need more cost-effective ways to reach targeted customer segments than the Postal Service offers.

The marketplace has changed since the Postal Service implemented its sample programs. Market conditions now favor using targeted customer segments, social networks, and mobile devices; promoting collaboration; and creating more innovative designs.

The Postal Service may have opportunities to offer products and services that allow marketers to cost-effectively promote products through mailed samples. For example, the Postal Service could develop an online platform to connect sample product manufacturers and consumers. It could also collaborate with industry officials to develop innovative and cost-effective mailing sample solutions.

What The OIG Recommended

We recommended the Postal Service evaluate the feasibility of developing new products and services, such as an online samples platform, that would allow it to tap into the current samples market.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

JUNE 1, 2016

MEMORANDUM FOR: GARY C. REBLIN
VICE PRESIDENT, NEW PRODUCTS AND INNOVATION

E-Signed by Janet Sorensen 
VERIFY authenticity with eSign Desktop


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

SUBJECT: Audit Report – Mailed Samples Market
(Report Number MS-AR-16-004)

This report presents the results of our audit of the Mailed Samples Market
(Project Number 16RG003MR000).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

The Postal Service estimated a \$500 million mailed samples market in 2007. Research by the Postal Service, Promotion Marketing Association, and Opinion Research Corporation highlighted key benefits of samples, including that sample distribution was a large and growing industry, and that it offered the potential for millions of dollars of new revenue.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's efforts to expand the mailed samples market (Project Number 16RG003MR000). Our objective was to evaluate the effectiveness of Postal Service attempts to grow product sample mailings and identify opportunities for improvement. See [Appendix A](#) for additional information about this audit.

Businesses use a variety of mechanisms to advertise and promote their products and services, including television, radio, electronic communication, and direct mail. Businesses spent about \$188 billion on these efforts in 2014. About \$20.7 billion of that went to the Postal Service in revenue from direct mail – the delivery of advertising material (such as circulars, product samples, coupons, or catalogs) to mail recipients.

This project focused on a particular subset of direct mail – product samples. Product samples are trial-size products that companies give to consumers with the hope of securing a later sale. Common types of mailed product samples include health, beauty, cleaning, and other household goods.

Historically, the Postal Service had a greater position in the samples market than it does now, as companies generally had a positive view of the value of mailed samples compared to other marketing alternatives—the potential revenue from attracting and retaining customers by putting a tangible sample in their hands outweighed the related postage and product costs.

The Postal Service estimated a \$500 million mailed samples market in 2007. Research by the Postal Service, Promotion Marketing Association, and Opinion Research Corporation highlighted key benefits of samples, including that sample distribution was a large and growing industry, and that it offered the potential for millions of dollars of new revenue.¹ We also recently reported growth in the continuity shipping market² that can rely on the use of product samples for marketing and promotional purposes.

Rising postage costs and new marketing alternatives, such as distributing samples in stores or at other venues like conferences or trade shows, drove declines in the mailed sample market. The Postal Service responded by introducing the following sample programs to help grow this market:

- **Sample Showcase®:** In 2010, the Postal Service notified the Postal Regulatory Commission (PRC) of its intent to conduct a market test of an experimental product, initially called the “Samples Co-op Box.” This product would contain an assortment of product samples from multiple consumer packaged goods (CPG) companies.³ After PRC approval, the Postal Service implemented the test, replaced the name with Sample Showcase, and licensed the use of the “Sample Showcase” box to an online sample management company.⁴
- **Simple Samples®:** Started in 2013, this program presented four sampling options to product marketers under a simplified pricing structure.⁵ Samples could be targeted to individual names and addresses or delivered to every door within designated postal routes and ZIP Codes. Costs per piece ranged from 26 cents for small samples going to every door to 40 cents for

¹ See additional information on this research in [Appendix A](#).

² *Revenue Opportunities for Innovative Mail Services* (Report Number FT-WP-15-002, dated January 20, 2015).

³ CPG companies sell the type of goods consumed every day by the average consumer. These goods typically need to be replaced frequently.

⁴ The Sample Showcase co-op box was a Postal Service-branded parcel box designed to contain product samples and other advertising material from companies that wished to advertise their goods and services.

⁵ Options included letters, automation flats, marketing parcels, and Parcel Select lightweight.

The Postal Service's efforts to increase sample mailings were not effectively aligned with the needs of sample mailers. Sample mailers explained they need more cost-effective ways to reach targeted customer segments than the Postal Service offers.

targeted, larger packages. The program also included a sample promotion that gave brands a 5 percent discount if they mailed Standard Mail regular and nonprofit marketing parcels from August 1 through September 30, 2013.

- **Samples Pilot:** The Postal Service partnered with a CPG company in 2015 to pilot a targeted sample box. The target audience included families with children living at home and an annual income of at least \$50,000 who recently submitted a change of address order with the Postal Service. The pilot program ran from January 5 to February 6, 2015, and 16,912 sample boxes were delivered to households in the Atlanta and Chicago areas.

As samples can be mailed across various mail categories, tracking information on related volumes and revenues is difficult for the Postal Service to collect—it only identified 444,938 mailed sample pieces generating \$188,070 in revenue in fiscal year (FY) 2015. The Postal Service's New Products and Innovation group is responsible for the various sample product offerings.

Summary

The Postal Service's efforts to increase sample mailings were not effectively aligned with the needs of sample mailers. Sample mailers explained they need more cost-effective ways to reach targeted customer segments than the Postal Service offers.

The marketplace has changed since the Postal Service implemented its sample programs. Market conditions now favor using targeted customer segments, social networks, and mobile devices; promoting collaboration; and creating more innovative designs.

The Postal Service may have opportunities to offer products and services that allow marketers to cost-effectively promote products using mailed samples. For example, the Postal Service could develop an online platform to connect sample product manufacturers and consumers. The Postal Service could also collaborate with industry officials to develop innovative and cost-effective mailing sample solutions.

Mailed Product Samples

The Postal Service's efforts to grow product sample mailings were not effectively aligned with the needs of prospective sample mailers. Sample mailers we spoke with⁶ cited the need for more cost-effective ways to reach targeted customer segments than the Sample Showcase, Simple Samples, and Samples Pilot provide.

- **Sample Showcase:** This program was discontinued in 2014 when the agreement between the Postal Service and the sample management company expired. No mailings ever took place under the agreement. According to a study the Postal Service commissioned, mail service providers (MSP)⁷ were not interested in concepts that reduce the need for their services, including co-mingled boxes. CPG companies were typically not interested in co-mingled boxes because they did not want to diminish the impact of their brand on the recipient.
- **Simple Samples:** From its inception in 2013 through December 2015, this program generated less than \$1 million in revenue. While Simple Samples allowed for targeted sampling, it was priced too high to attract sample mailers. The Postal Service still offers this program, but is evaluating whether to continue it.

⁶ We interviewed 10 stakeholders involved in the domestic mailed-sample industry, as well as two officials involved in mailed samples from foreign posts.

⁷ MSPs perform mailing-related services for companies or organizations interested in using the mail to reach their customers. Specific services include designing, printing, transporting, or otherwise preparing mailings to qualify for Postal Service postage discounts.

Although the Postal Service's recent efforts to grow the mailed sample market did not perform as hoped, sample mailers stated they remain optimistic about the effectiveness of mailed samples.

- Samples Pilot: The pilot program ran from January 5 to February 6, 2015, and 16,912 sample boxes were delivered to households in the Atlanta and Chicago areas. The CPG company eventually decided not to move forward with the program, stating that it was too expensive.

Mailers noted that companies have a variety of marketing and advertising mediums to select from and that cost is a major factor in deciding which mediums to use. These mailers stated that rising postage costs made mailed samples less cost-effective than the alternatives, which (a) drove out existing mailed samples and (b) hindered new market entrants.

Mailed Sample Growth Opportunities

Although the Postal Service's recent efforts to grow the mailed sample market did not perform as hoped, sample mailers stated they remain optimistic about the effectiveness of mailed samples. They repeatedly recognized the positive returns they can achieve when compared to other marketing alternatives—the potential revenue opportunity from attracting and retaining customers by putting a tangible sample in their hands can offset the related postage and product costs. They believe – and recent research supports this conviction – that the following market characteristics and trends may provide a growth opportunity for the mailed sample market:

- U.S. millennials – young adults who are currently between ages 18 and 34 wield \$1.3 trillion in annual buying power.
- Pull strategy (opt-in) – marketers offering to send samples direct to specific consumers who opt-in online or who sign-up for consumer promotions and other marketing programs.
- Targeting – marketers are continually looking for cost-effective ways to target their products, messages, and brands to specific customers.
- Social networks – they are becoming unique touch points to engage communities (such as on product sample offerings) and develop innovative ideas.
- Social commerce – provides an online platform that enables consumers to not only buy and test products through social media but also share their feedback, thus creating a powerful sales and media channel.
- Mobile devices – shoppers are increasingly engaging with digital touch points – often their smartphones – to research purchases. More than \$1 trillion of total U.S. retail sales in 2015 were influenced by mobile devices.
- Innovative design – mailpiece designs continue to technically innovate and evolve, and can incorporate interactive digital features.
- Collaboration – like-minded companies are sometimes aligning their interests, resources, and marketing to accomplish much more than they could do on their own.

The Postal Service should adapt its product sample efforts to take advantage of these current market conditions. It could evaluate developing an online samples platform and coordinate with mailers to develop other innovative, cost-effective sample solutions.

The Postal Service could develop an online platform to bring together companies with product samples and potential consumers.

Online Platform

The Postal Service could develop an online platform to bring together companies with product samples and potential consumers. Singapore Post offers an online platform, known as the Sample Store, which links companies and consumers. Companies pay a nominal fee to offer their products to Sample Store members and agree to use Singapore Post to ship samples. Consumers access the Sample Store and select samples from the “stores” that interest them. Samples are limited to one per household, and are only sent to members who have expressed interest in receiving the product. The Sample Store also offers social media account management and performance reporting services for a fee.

The Sample Store incorporates key digital aspects. First, Sample Store Mobile allows members to perform the following functions using their smartphones:

- Redeem free samples.
- Share preferred samples with friends via Facebook, Twitter, or email.
- Search for samples by brand or category.
- Post product sample reviews.
- Receive review reminders.
- Keep track of order status.

Second, the program emphasizes the use of social media integration through the following:

- Blogs – brands⁸ select from a pool of bloggers employed by the Sample Store to review their products and publish those reviews on the site.
- Instagram – Instagram users generate word of mouth to get the brand’s products trending by reviewing the product and posting those reviews.
- Influencers – in-house editors and beauty influencers⁹ review brands’ products and publish those reviews on the site.

Singapore Post has been pleased with the performance of its Sample Store. The venue has 180,000 members and is growing at the rate of 20,000 to 30,000 members each year. Worldwide brands such as Bayer, Biore, Nestle, and Nivea have already participated. On average, Sample Store gets about 150,000 unique page views monthly, excluding other social media platforms such as Facebook and Instagram. It generates an average profit margin of about 20 percent.

⁸ A brand is a trademark or distinctive name identifying a product, service, or organization.

⁹ Influencer marketing (also influence marketing) is a form of marketing that has emerged from recent practices and studies. It focuses on specific key individuals rather than the target market as a whole. It identifies the individuals with influence over potential buyers, and orients marketing activities around these influencers. Influencers may be potential buyers themselves, or they may be third parties. These third parties exist either in the supply chain (retailers, manufacturers, etc.) or may be so-called value-added influencers (such as journalists, academics, industry analysts, and professional advisers).

Offering this type of online platform could benefit the Postal Service, as it aligns with many of the current market conditions described above: pull strategy, targeting, social networks, social commerce, and mobile devices.



Offering this type of online platform could benefit the Postal Service, as it aligns with many of the current market conditions described above: pull strategy, targeting, social networks, social commerce, and mobile devices. An on-line platform similar to Sample Store would enable CPG companies to target their sample mailings to the consumers who have indicated some interest in those products, thus improving the return on investment and appeal of mailed samples.

The Postal Service would, however, have to consider various regulatory aspects of such an offering—mainly, whether it would be considered a non-postal product that would be subject to PRC approval.¹⁰

¹⁰ The Postal Accountability and Enhancement Act of 2006 (PAEA) prohibits the Postal Service from offering non-postal products, except those already offered as of January 1, 2006. After that date, the Postal Service can only offer — with PRC approval — non-postal products and services that include delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, and transportation or other ancillary functions. The PRC also considers whether there is a public need for the service, whether the private sector can meet the public need, and whether the product would be a competitive or non-competitive Postal Service before granting approval.

The Postal Service could also expand the sample market by reaching out to sample mailers and CPG companies to gain a greater understanding of their sample efforts.

We estimate adopting product sample efforts that align with current market conditions could help the Postal Service capture \$44.1 million in additional revenue in FY 2016 through FY 2018.

Partner With Stakeholders

The Postal Service could also expand the sample market by reaching out to sample mailers and CPG companies to gain a greater understanding of their sample efforts. In 2012, the Postal Service commissioned research¹¹ to learn how participants in the sample market view sampling through the mail and to measure their interest in some sampling concepts. The research concluded:

- MSPs would like to promote sampling because it is a viable, high-margin product for them that has the potential to keep their hard-copy industry relevant in an era that is increasingly digital.
- CPG value the opportunity to promote trial products among their target audience.
- MSPs and CPG companies want innovative campaigns that push the boundaries of what can be delivered to the mail box.
- CPG companies are also interested in “owning the mail moment,” and not sharing it with other brands.¹²

Stakeholders we recently spoke with also suggested:

- Ensuring costs are predictable and low enough to create a reasonable return on investment.
- Making mail classifications more flexible to encourage mailed sample products, including content restrictions and packaging requirements.
- Permitting samples of Other Regulated Material, such as perfume and shaving cream, to be sent as marketing parcels.¹³
- Encouraging incentives like coupons in sample mailings that would allow manufacturers to collect data on consumer behavior.

Since companies believe that samples are an effective way to market their products, the Postal Service has to convince decision-makers that mail can be a viable distribution method for their samples. This collaboration could help drive the creation of sample product offerings that align with current market conditions. The Postal Service could proactively work with the product sample industry to encourage sampling in a way that provides value to the manufacturer and appeals to the consumer. Innovative solutions could include encouraging new sample delivery package design and fostering partnerships between CPG companies, MSPs, and marketers.

¹¹ *Sampling Through The Mail*, prepared for the Postal Service by Great Lakes Marketing, Research, November 2012.

¹² The mail moment is the highly interactive daily ritual that consumers devote to opening their mail and discovering what it offers. The mail moment provides marketers with the unique opportunity to get their messages noticed and their offers considered.

¹³ Other Regulated Material is a limited quantity of a hazardous material that presents a limited hazard during transportation due to its form, quantity, and packaging.

Recommendation

We recommend management evaluate the feasibility of developing new products and services, such as an online samples platform, that would allow the Postal Service to tap into the current samples market.

We recommend the vice president, New Products and Innovation:

1. Evaluate the feasibility of developing new products and services, such as an online samples platform, that would allow the U.S. Postal Service to tap into the current samples market.

Management's Comments

Management agreed with our finding, but disagreed with our recommendation and financial impact estimate.

Regarding our finding, management agreed with our general assessment that the Postal Service's efforts to increase sample mailings were not effectively aligned with mailers' needs for more cost-effective ways to reach targeted customer segments. They also agreed there is interest and opportunity in the mailed samples market. Management also stated the Postal Service has worked with the sampling industry over the last several years to develop samples-oriented solutions based upon the industry's input and needs. Management stated the samples mailing community has not embraced these solutions, as it is still not cost-effective for them to leverage the mail as part of their sampling programs.

Management also stated that samples are typically mailed at the most inexpensive rates published, and that the Postal Service loses money on each product mailed at these rates. Management concluded that growing the samples market means growing a negative contribution and net loss for the Postal Service. Management stated that while sample mailers continue to seek lower cost solutions, there is no lower cost or lower-priced product within the Postal Service.

Regarding our recommendation, management stated that the development of an online platform would require extensive legal and supply management activities in addition to seeking the Postal Regulatory Commission's approval to promote a product that generates a net loss. Management also stated that assessing the development of such an online tool would only serve to further the Postal Service's net losses on this product.

Regarding our financial impact estimate, management stated that our estimated \$44.1 million revenue opportunity over the next 3 years translates to a net loss to the Postal Service because of the negative product contribution in the mailed samples rate category. Management also stated that this estimate considers only revenue potential and did not consider development costs, the service or support resources necessary to maintain the solution, or the legal and contracting activities that would be necessary to pursue this action. See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments unresponsive to the recommendation.

Regarding management's disagreement with our recommendation, we recognize the challenges management identified in developing new samples-oriented products and services, including the online platform. In particular, we agree that actions should not be implemented that are expected to have long-term negative contributions and net losses for the Postal Service. We continue to believe that the changing samples market characteristics and trends may provide a growth opportunity for the mailed sample market. Examining the feasibility of the online platform could be beneficial, as it aligns with many of the current market conditions described above in our report: pull strategy, targeting, social networks, social commerce, and mobile devices. Ignoring these types of mailing marketing opportunities for extended periods of time could have detrimental long-term effects on industry views of mailed samples as a worthwhile marketing alternative.

Regarding management's disagreement with our \$44.1 million financial impact, this estimate was used to reflect the potential revenue opportunity associated with the online platform. We did not estimate any costs related to its development or evaluation, and fully expected these costs to be considered as part of "evaluating the feasibility" of developing new products and services as worded in our recommendation.

We view the disagreement on the recommendation as unresolved, but do not plan to pursue it through the formal audit resolution process. We will consider the recommendation closed with the issuance of this report.

Appendices

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Appendix A: Additional Information

Background

Businesses use a variety of mechanisms to advertise and promote their products and services, including television, radio, electronic communication, and direct mail. Businesses spent approximately \$188 billion on these efforts in 2014.¹⁴ Eleven percent of this expenditure (\$20.7 billion) was on postage for direct mail – the delivery of advertising material (such as circulars, product samples, coupon envelopes, or catalogs) to mail recipients. This project focused on a particular subset of direct mail – product samples. The Postal Service estimated a \$500 million mailed samples market in 2007. These samples cross a variety of Postal Service product lines – including letters, flats, and parcels – and must meet Postal Service size and preparation requirements.

Postal Service research in 2009 and 2010¹⁵ showed mailed samples was a large and growing industry, and that it offered the potential for millions of dollars of added revenue. Specifically, the research indicated:

- Mail is highly effective for inducing sampling at the point of use – in home.
- 92 percent of consumers reported purchasing a product after trying a sample.
- 69 percent of consumers said samples influence purchases more than TV or radio advertisement.
- Sample Showcase could generate \$68.2 million in revenue by FY 2014.
- A sample website could result in \$18 million in revenue per year from incremental shipping and cross selling, but would serve primarily as a way to build a sampling presence to connect with brands and consumers.

Further research showed the importance of samples to both consumers and companies. According to a poll from the Promotion Marketing Association, 75 percent of consumers become aware of a product through a company sending a sample. A more recent poll lead by Opinion Research Corporation for the Postal Service, found that 81 percent of consumers who received a sample said they would purchase the product while 61 percent said they were more likely to try a product if they sampled it first.¹⁶

To take advantage of this opportunity, the Postal Service introduced the Sample Showcase, Simple Samples, and Sample Pilot to grow the mailed product samples market. The Postal Service's New Products and Innovation group is responsible for the various sample product offerings. The Brand Marketing group markets product sample mailings.

Objective, Scope, and Methodology

Our objective was to evaluate the effectiveness of Postal Service attempts to grow product sample mailings and identify opportunities for improvement. To accomplish our objective, we:

- Reviewed the Postal Service's market research on product samples, as well as operational data including volumes, revenues, and related performance information.

¹⁴ U.S. Postal Service, *The Household Diary, Mail Use and Attributes*, 2014.

¹⁵ *Sample Mail Product Program, Program Update*, August 3, 2010, and *Sample Mail Product Program Market Opportunity Summary*, September 9, 2009.

¹⁶ Hunting 4 Freebies, *How to Use Product Samples for Effective Direct Marketing*, July 26, 2013.

- Reviewed PRC regulations and documentation pertaining to the use and profitability of product samples.
- Interviewed Postal Service officials in New Products and Innovation and Brand Marketing to gather information on the overall product samples market and the Postal Service's efforts and programs aimed at growing this business.
- Researched articles, white papers, and studies related to product samples.
- Interviewed 10 stakeholders involved in the domestic mailed-sample industry to obtain their views on the Postal Service's offerings and service in this area, as well as their assessment of the overall samples market.
- Interviewed an official from Singapore Post's Sample Store to gather information about the post's programs. Sample Store is Singapore's first online sample platform.
- Interviewed officials from Swiss Post to gather information about its mailed product sample offerings and services.
- Identified opportunities for the Postal Service to grow the mailed product samples business by adapting its efforts to take advantage of current market conditions.

We conducted this performance audit from October 2015 through May 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 April 19, 2016, and included their comments where appropriate.

We reviewed sample-related data from the Postal Service's PostalOne database, and interviewed Postal Service officials knowledgeable about the data. Based on these interviews, we determined that certain sample volume and revenue data may not be complete as mailers self-report this information. We recognized these issues in the draft and determined the other background data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>U.S. Postal Service: Overview of Initiatives to Increase Revenue and Introduce NonPostal Services and Experimental Postal Products</i>	GAO-13-216	1/15/2013	None

Report Results: This report described the non-Postal Services grandfathered after the enactment of the PAEA, experimental postal products offered since enactment of PAEA, and discretionary services the Postal Service performed for other federal agencies. This report also described initiatives (including both non-Postal Services and experimental postal products) the Postal Service was pursuing to generate additional revenue, the status of those initiatives, and the reasons the Postal Service decided not to pursue other identified revenue-generating initiatives it had identified.

Appendix IV contained descriptions of ongoing Postal Service initiatives as of November 2012, including the Samples Co-Op Box. This initiative was aimed at increasing the use of mail to deliver product samples. It was a follow-up to the Sample Co-op boxes the Postal Service initiated as an experimental product. Appendix II provided additional information about Samples Co-Op boxes.

Appendix B: Management's Comments

GARY C. REBLIN
VICE PRESIDENT
NEW PRODUCTS AND INNOVATION



May 11, 2016

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report—Mailed Samples Market
(Project Number 16RG003MR000)

Recommendation :

We recommend the vice president, New Products and Innovation:

1. Evaluate the feasibility of developing new products and services, such as an online samples platform, that would allow the U.S. Postal Service to tap into the current samples market.

We agree that there is interest and opportunity in the marketplace regarding the provisioning of sample products and materials to potential prospects and customers.

In the background and the summary of what the OIG found, the report states that the Postal Service's efforts to increase sample mailings were not effectively aligned with the needs of sample mailers, and in the next sentence, notes that the mailers need more cost-effective ways to reach customer segments.

The Postal Service has worked with the industry over the last number of years to develop, pilot, and roll out a variety of samples-oriented solutions for the industry, based upon their input and needs. In each instance, the Postal Service identified and incorporated the lowest-cost product offerings available to facilitate active use by mailers, yet the samples mailing community has not embraced or expanded use of these products stating that even with our lowest-priced product offerings, it is still not cost-effective for them to leverage the mail as part of their samples programs.

As discussed in our meeting on April 19, 2016, samples are typically mailed at the most inexpensive rates published, generally as a Commercial Standard Parcel with the lowest rate cell at \$0.54 per piece and up depending on the weight and depth of entry. The fiscal year 2015 Cost Coverage Reports show that the cost coverage for Standard Mail Parcels is now at 72.81 percent, which means the Postal Service loses nearly \$0.30 cents for every

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WWW.USPS.COM

dollar of postage paid for products mailed at these rates—i.e., a negative contribution and net loss to the USPS for all volume mailed within this rate category.

There are other products available that do not cause a net loss to the Postal Service, but each comes at a higher price point than Standard Parcels. The sample mailers are seeking a lower cost solution, but there is no lower-cost or lower-priced product within the US Postal Service. Growing this market means growing a negative contribution and net loss for the organization. As stated by our top leadership again at this year's National Postal Forum, the Postal Service is striving to drive Profitable Revenue. This audit report notes a real opportunity in the market, but considers only the revenue potential, rather than the net contribution that would be realized through its implementation, which would result in net loss—not profitable revenue.

The audit report goes on to recommend the development of an online platform to connect sample product manufacturers and consumers. This would require extensive legal and supply management activities in addition to seeking the Postal Regulatory Commission's approval that would, in effect, be used to promote an "underwater" product and grow the use of net-loss contribution product. The audit report estimates a \$44 million revenue opportunity over the next three years. However, this translates to a \$12 million loss to the US Postal Service because of the negative product contribution in this category. This also does not consider the development costs to create an online platform or to service/support it, nor the extensive resources that would be required to support the legal and contracting activities that would be necessitated in order to pursue this solution. Trading "up" to parcel products with positive net contribution would drastically reduce the participation of the mailing community, and thus the potential revenue estimates noted in this analysis, as the mailers are not leveraging the existing Standard Parcels product, currently priced at nearly the same amount as a first class letter, noting that it is too costly. There is no product offering available at either a further-reduced price point, or that costs less for the Postal Service to service. As such, management disagrees with the monetary impact and with the recommendation to further assess the development of an online tool, since it can only serve to further our net losses on this product.



Gary C. Reblin



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