# OFFICE OF INSPECTOR GENERAL
## UNITED STATES POSTAL SERVICE

# The Postal Service and Its User Base

**RARC Report**

**Report Number**
**RARC-WP-16-013**

**July 18, 2016**

# Executive Summary

User engagement, platform experience, and platform value. More than Silicon Valley buzzwords, these three pillars are the basis of success for platform-based digital companies. Consider Facebook, whose user base exceeds the population of China and which accounts for 1 in every 7 minutes spent on a mobile device. Facebook purposefully promotes strong user engagement by offering free accounts, notifications, and suggestions based on user preferences. It maintains an attractive, reliable, and updated application experience on desktop and mobile interfaces. Finally, Facebook provides real value to those that pay the bills — the advertisers — through easy-to-use ad generators, advanced targeting, and analytics.

The U.S. Postal Service also serves as a platform, connecting American households and other recipients with the people that pay to reach them. The Postal Service differs from Internet companies in significant ways, but fundamentally it, too, depends on the same three pillars for revenue generation — platform experience, user engagement, and platform value. And it arguably has more at stake financially. The average annual U.S. revenue per user for Facebook is $42. The Postal Service's average revenue per household user is $179.

Lessons learned from Internet-based companies suggest that users are one of the most important aspects of a platform's value. Snapchat received a valuation of $16 billion not for any physical asset, but for the monetization potential of its massive, engaged user base. However, successful social media companies do not simply open their platforms to mass

advertising. Rather, they carefully manage the demands of both sides of the market to the benefit of the platform as a whole. Sometimes, this means favoring user preferences over paying parties. They know that network effects matter — active users generate more participation by users and ultimately payers; disengaged users cause others to disengage and leave.

## Highlights

Just like the Postal Service, digital platforms such as Facebook, Google, and Snapchat must balance the needs of two different sets of customers — in their case, users and advertisers.

These digital platforms offer valuable insights for the postal platform:

- Focus on the platform experience by maintaining good service across the platform and adapting to new needs and technologies.

- Strengthen user engagement using strategies such as rewarding recipients and promoting mail to digital users.

- Maximize the value of the platform for users and payers by building a digital feedback loop and developing standards to encourage best practices on the platform.

The lessons of digital platforms and their user bases are particularly relevant now, because as new digital alternatives have emerged, the use of mail is changing. The Postal Service is increasingly reliant on mail from businesses and other organizations to households. Mail sent from businesses and other organizations to households now accounts for 77 percent of volume, but households on average receive 22 percent fewer pieces than in 2004. Households are also disengaging from the mail as senders, sending less than half of what they used to. The experience of digital platforms suggests several strategies the Postal Service could undertake to improve the postal platform and build its user base: focusing on the platform experience, strengthening user engagement, and maximizing the value of the platform for users and payers. At a minimum, maintaining good service across the platform and adapting to new needs and technologies is important to keep users and payers participating on the platform.

To encourage use of the mail channel by those who may be using other methods of communication, the Postal Service should continue to explore new engagement strategies such as its Informed Delivery pilot, which emails households pictures of mail they will receive each day. Practices such as rewarding recipients for traveling to the mailbox and encouraging services that make the use of physical mail easy and intuitive for digital users could also improve user engagement.

Finally, platforms succeed or fail based on how well they maximize value for users and payers. The Postal Service should explore creating a digital feedback loop and information market to improve the information flow between senders and recipients. A feedback loop that allows recipients to provide advertisers with their reaction to mail pieces could be a "win-win-win" for senders, recipients, and the Postal Service by improving targeting and making mail more effective. Creating standards for mailing best practices and certifying providers who use mail in an effective and engaging way could also improve the platform experience for recipients and thereby increase the return for advertisers.

Ultimately, users and their experience and engagement matter to the Postal Service. Household recipients and mailers are the core around which the postal platform is built, and just as for digital platforms, the Postal Service's future success is dependent on its user base.

# Table of Contents

# Observations

In 2012, Facebook shocked the business community by paying $1 billion in cash and stock for Instagram, a mobile photo sharing application.[1] Snapchat, an app that allows users to send photos and videos that disappear after they are viewed, received a valuation of $16 billion last year.[2] At the time, Snapchat had 330 employees and generated less than $60 million in annual revenue.[3] These staggering assessments were based solely on the potential value of each app's growing user base — the 200 million young people that regularly access and interact with Snapchat and the 400 million worldwide users of Instagram.[4]

Snapchat's and Instagram's user bases represent one side of a two-sided market. A two-sided market occurs when a platform serves two separate but linked sets of customers. The platform provides a place for these customers to interact. Often, one set of customers are willing to pay more — sometimes the entire cost — to finance the market in order to get access to the other set of customers through the platform. The customers who pay are called the "willing subsidizing group." For Instagram, Snapchat, Facebook, and many other digital platforms, the two customer groups are users and advertisers. Users get free access and use of the service while advertisers, the subsidizing group, get an audience for their advertising.

Successfully managing a two-sided market platform requires balancing the demands of two disparate customer expectations. Users want excellent service, a high-quality product, and reasons to continue to use the platform. Subsidizers want value for their money. In the case of advertisers, they want eyes on their ads and a return on their investment.

User experience is vital for a platform's success and to ensure its value to both sides of the market. When users disengage, advertisers lose their audience and look for other venues to market their products. Fewer ad dollars can lead to lower-quality service and a downward spiral of fleeing users and advertisers. By choosing to use it or not, the user, even without paying, is ultimately in control of the entire platform.

## Users Are Critical to Facebook

The size of our user base and our users' level of engagement are critical to our success . . . If people do not perceive our product to be useful, reliable, and trustworthy, we may not be able to attract or retain users or otherwise maintain or increase the frequency and duration of their engagement. . . . Any decrease in user retention, growth, or engagement could render our products less attractive to users, marketers, and developers.

– 2015 Facebook Annual Report

## Two-Sided Markets Aren't Just a Tech Phenomenon

In the heyday of print newspapers, customers paid only a fifth of the total cost of the product; advertisers subsidized the remaining 80 percent. Similarly, broadcast television networks derived their revenue from commercials with their viewers paying nothing. Yet newspapers still catered to their readers and television networks to their viewers. They spent money on content designed to inform or entertain, but which may not have produced revenue in the short term, if at all. Instead, revenue was generated through advertising. These user-centric approaches worked for decades until the rise of alternative platforms.

Source: "Worldwide newspaper circulation revenues pass advertising for the first time," *Poynter*, June 1, 2015.

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1   Evelyn Rusli, "Facebook Buys Instagram for $1 Billion," *New York Times*, April 9, 2012, http://dealbook.nytimes.com/2012/04/09/facebook-buys-instagram-for-1-billion/?_r=0 11.
2   Rolfe Winkler and Douglas MacMillan, "Snapchat Raises $175 Million from Fidelity at Flat Valuation," *The Wall Street Journal*, March 3, 2016, http://www.wsj.com/articles/snapchat-raises-175-million-from-fidelity-at-flat-valuation-1457053070?mod=WSJ_TechWSJD_NeedToKnow.
3   Liyan Chen, "The Most Valuable Employees: Snapchat Doubles Facebook," *Forbes*, Aug 11, 2015, http://www.forbes.com/sites/liyanchen/2015/08/11/the-most-valuable-employees-snapchat-doubles-facebook/#4198e4f7f754; Ingrid Lunden and Katie Roof, "Snapchat Raised $1.8B in a Series F Round; Leaked Deck Reveals Revenues, User Numbers," *TechCrunch*, 5/26/2016, http://techcrunch.com/2016/05/26/snapchat-series-f/.
4   Arjun Kharpal, "Facebook's Instagram Hits 400M Users, Beats Twitter," *CNBC*, September 25, 2015, http://www.cnbc.com/2015/09/23/instagram-hits-400-million-users-beating-twitter.html; Alyson Shontell, "Snapchat Is a Lot Bigger Than People Realize and It Could Be Nearing 200 Million Active Users," *Business Insider*, January 3, 2015, http://www.businessinsider.com/snapchats-monthly-active-users-may-be-nearing-200-million-2014-12.

If the arrangement of serving two sets of customers across a platform sounds familiar, it should. The U.S. Postal Service also operates as a platform in a two-sided market. Senders pay the entire cost of the platform while recipients receive free mail delivery, paying with their attention rather than cash. Of course, the Postal Service is a large logistics and communications enterprise and has a very different structure than a technology firm. However, the Postal Service faces the same challenge of finding the appropriate balance between serving the two sides of its market: mailers and recipients.

There are clearly lessons and parallels for the Postal Service from the approaches digital platforms use to cater to their user base. This white paper describes the importance of a user base in a two-sided market and explores the strategies that make Internet platforms successful. Next, it examines the Postal Service's user base, defined here as the household users that receive mail and occasionally send it. Finally, this paper offers some broad suggestions for the Postal Service to improve the experience of its user base.

## The Power of a User Base in a Two-Sided Market

The role of the platform is to provide a physical or virtual way for its users and its subsidizers to interact and extract value from the interaction. A platform provides a safe, reliable meeting place. A well-functioning platform is desirable to users and valuable to subsidizers, and the user base plays an important part in determining a platform's value.

### Network Effects Make a Platform Valuable

The value of a platform increases as each new user joins, and this phenomenon of network effects is crucial to platforms' success.[5] The more buzz a social media site generates, the more a person's friends and colleagues are also drawn to use the platform, the more likely a late-adopter is to sign up. Advertisers follow the users. Network effects can also operate in reverse: networks lose value when users leave as the case of newspaper classifieds described in the box shows.[6]

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**Online Classifieds Take Over**

Classified ads in newspapers are a classic illustration of the power of the network effect. As the web provided alternative venues that were either more targeted (Match.com for personals, Autotrader.com for used cars) or cheaper (Craigslist.com), classified advertisers and buyers interested in classifieds migrated away from newspapers.

The loss of classified advertising lowered the value of the platform to the remaining users of classifieds, further driving away readers to the new platforms and reducing the value of the classified platform to advertisers. Classified revenues plummeted, dropping 70 percent from 2000 to 2010. Since classifieds historically accounted for 40 percent of newspaper revenue, the financial effects were substantial and helped destabilize the entire model of advertising-supported news. Newspapers were forced to change their business model, often increasing subscription prices, and newspaper readers lost a key subsidizing group.

Sources: Pew, *State of the News Media 2011*, and Robert Seamans and Feng Zhu, "Responses to Entry in Multi-Sided Markets: The Impact of Craigslist on Local Newspapers."

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5   Sangeet Choudary, "Reverse Network Effects: Why Today's Social Networks Can Fail as They Grow Larger," *Wired*, March 1, 2014, http://www.wired.com/insights/2014/03/reverse-network-effects-todays-social-networks-can-fail-grow-larger/.
6   Pew Research Center, "Newspapers: By the Numbers," http://www.stateofthemedia.org/2011/newspapers-essay/data-page-6/; Robert Seamans and Feng Zhu, "Responses to Entry in Multi-Sided Markets: The Impact of Craigslist on Local Newspapers," *Management Science*, 60, 2, http://pubsonline.informs.org/doi/abs/10.1287/mnsc.2013.1785.
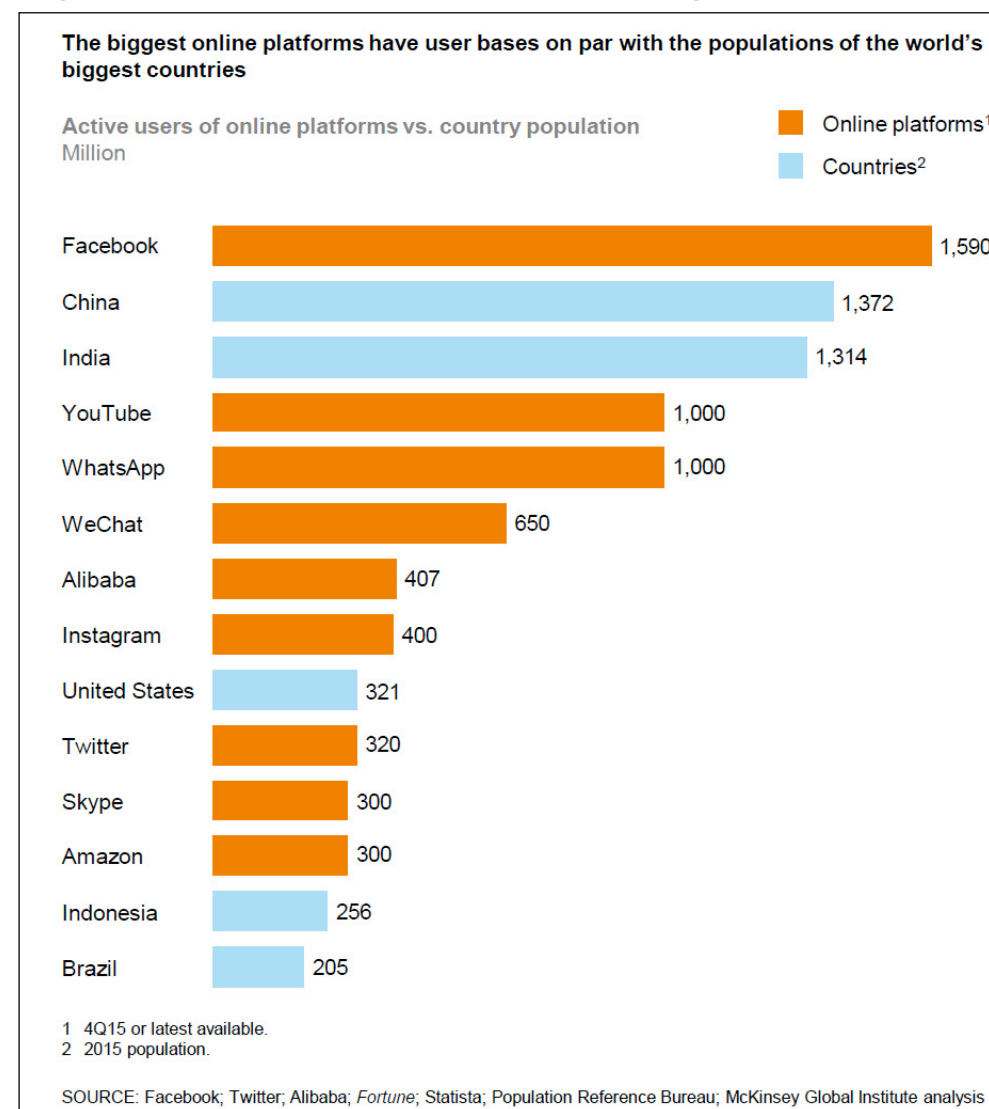
The combination of network effects and the emergence of digital platforms that operate across borders has enabled the growth of large global networks. As a recent McKinsey study notes, some platforms have amassed user bases that rival the populations of the largest countries. (See Figure 1)[7] Facebook's active users exceed the population of China. These platforms create powerful communities for exchanging information and engaging in commerce.

The Postal Service's user base is also large, even if measuring active users precisely is difficult. The Postal Service potentially serves every household and person in the United States, 321 million people, in addition to businesses and other organizations. This paper focuses on household users, who receive and also send mail.[8] Of course, businesses and organizations play an important role on the postal platform as recipients as well as senders. And, of course, individuals at home often use the Postal Service for business activities, such as freelancing. But the business-to-household mail flow is at the core of the Postal Service's business model.

## Figure 1: Global User Bases Rival Large Populations



The biggest online platforms have user bases on par with the populations of the world's biggest countries

Active users of online platforms vs. country population
Million

Legend:
- Online platforms[1]
- Countries[2]

| Platform/Country | Value |
|---|---|
| Facebook | 1,590 |
| China | 1,372 |
| India | 1,314 |
| YouTube | 1,000 |
| WhatsApp | 1,000 |
| WeChat | 650 |
| Alibaba | 407 |
| Instagram | 400 |
| United States | 321 |
| Twitter | 320 |
| Skype | 300 |
| Amazon | 300 |
| Indonesia | 256 |
| Brazil | 205 |

1  4Q15 or latest available.
2  2015 population.

SOURCE: Facebook; Twitter; Alibaba; *Fortune*; Statista; Population Reference Bureau; McKinsey Global Institute analysis

Source: McKinsey Global Institute, *Digital Globalization: The New Era of Global Flows.*

Network effects are as important, if not more important, for the Postal Service than they are for digital platforms. The physical nature of the Postal Service's network, which relies on delivery by human beings, means that it is far more costly to connect users on the postal platform than on social media sites. The costs are paid through postage on the mail pieces flowing through the network. When users and payers leave the platform, some network costs remain and must be borne by a smaller number of remaining participants, providing even more incentive to leave. By contrast, increasing volume lowers the costs for everyone. For this reason, the Postal Service should focus strategically on strengthening its user base.

### The Postal Service Generates More Revenue from Its Users than Well-Known Digital Platforms

Monetizing the user base is essential to the financial success of digital platforms, and a widely-used unit of measurement is average revenue per user or ARPU. ARPU, which is also used in the telecommunications industry, shows revenue generated at the individual user level.[9] Investors and financial advisors rely on ARPU values when setting the market valuation of a social media site. In some cases, before companies have started to monetize, valuations are based on a platform's potential ARPU, calculated using the number of users, their engagement, content, and demographics.

7   McKinsey Global Institute, *Digital Globalization: The New Era of Global Flows*, March 2016, http://www.mckinsey.com/~/media/McKinsey/Business%20Functions/ McKinsey%20Digital/Our%20Insights/Digital%20globalization%20The%20new%20era%20of%20global%20flows/MGI-Digital-globalization-Full-report.ashx, 6.
8   U.S. Census Bureau, Population Estimate, July 2015, http://www.census.gov/popest/data/state/totals/2015/tables/NST-EST2015-01.xlsx.
9   Reuters, "Financial Glossary," http://glossary.reuters.com/index.php?title=ARPU.

Figure 2 shows annualized ARPU for several digital platforms and a constructed "ARPU" for the Postal Service. Both global and U.S. measures are provided since many platforms are more mature in the United States.[10] Postal Service ARPU is calculated for the household user as the revenue from mail sent to or from households, estimated at $57.6 billion, over the user base of the total U.S. population. While the Postal Service is a physical platform with a different business model and a much higher cost structure than digital platforms, this simple calculation shows it brings in significant revenue per user despite the recent declines in mail volume. The average postal household user as a sender and recipient generates $179 in yearly revenue, almost four times more than the average Google or U.S. Facebook user.

## Figure 2: Average Revenue per User (ARPU) for the Postal Service and Selected Digital Platforms



For digital platforms, ARPU is calculated on an annual basis using 2015 revenue and active monthly users except for LinkedIn, which uses registered users, and Google, which was reported by Market Realist for 2014. Postal Service ARPU is calculated by estimating the share of 2015 revenue sent to and from households using the 2014 Household Diary Study and dividing it by the U.S. population.

Source: USPS OIG analysis of 10-K reports, 2014 Household Diary study, and Market Realist.

Household users matter for the Postal Service. The success of the postal platform depends on providing value for individual users just as the success of Internet platforms does; however, in discussions of postal issues, much less attention is paid to the postal user base.
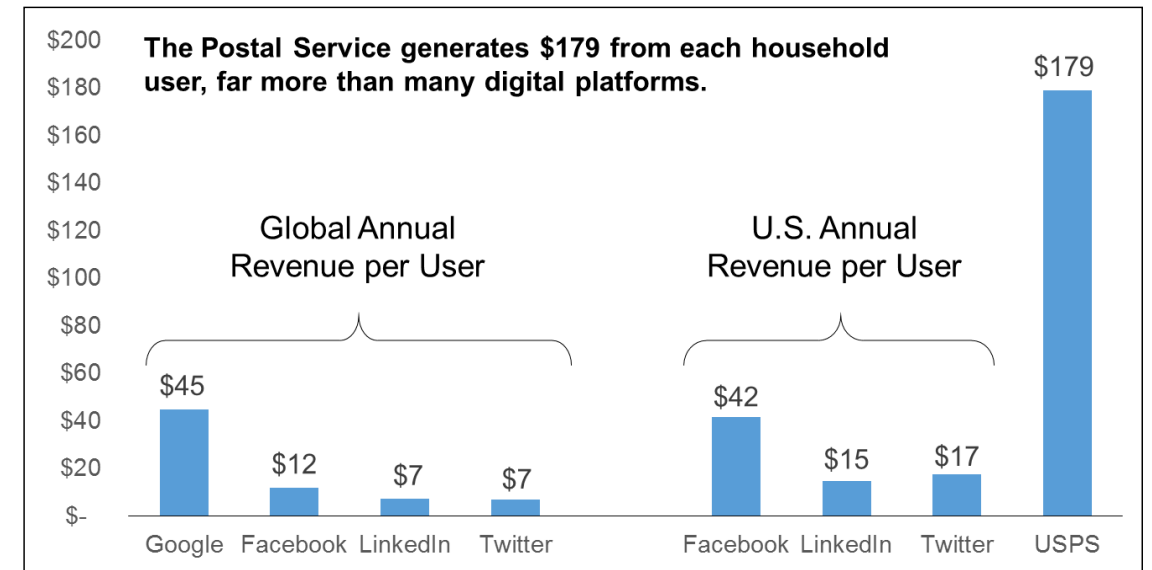
## Digital Platform Strategies

Digital platforms pay close attention to their user base, its satisfaction, and the possibilities of monetization. Their experiences adapting in a highly competitive, fast-changing environment can provide valuable lessons for the Postal Service.

### Maintaining a User Base Requires Adapting to and Anticipating User Preferences

To retain their networks of users, successful platforms focus on the platform experience. They calibrate and adjust to customer expectations and adapt to social and technological trends. When smart phones began to outpace desktops for minutes spent online, Facebook scrambled to optimize its site for use on mobile devices, lest it continue to lose users to mobile-only applications such as Snapchat or Instagram. And this strategy worked. No other social network comes close to Facebook for total number of active users, and Facebook accounts for 1 in every 7 minutes spent on mobile devices.[11]

Companies listen to user feedback while also taking chances and anticipating user desires. Before Snapchat, sharing photos and messages was a permanent commitment; hitting "send" blasted a message — and the user's control. But in 2011, Snapchat's founders recognized a need for a messaging application that would support ephemeral data, in other words, pictures that would

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10  Market Realist, "Average Revenue Per User Is an Important Growth Driver," *Market Realist*, February 11, 2015, http://marketrealist.com/2015/02/average-revenue-per-user-is-an-important-growth-driver/; U.S. Postal Service, *Household Diary Study: Mail Use & Attitudes in FY 2014*, http://www.prc.gov/docs/93/93171/2014%20USPS%20HDS%20Annual%20Report_Final_V3.pdf; Twitter, *Form 10-K*, 2015; Facebook, *Form 10-K*, 2015; LinkedIn, *Form 10-K*, 2015.

11  ComScore, *2016 U.S. Cross-Platform Future in Focus*, March 2016, http://www.comscore.com/Insights/Presentations-and-Whitepapers/2016/2016-US-Cross-Platform-Future-in-Focus, 33. Mobile includes smartphones and tablets. The figure rises to 1 in 5 minutes if subsidiaries Instagram, Messenger, and WhatsApp are included; McKinsey Global Institute, *Digital Globalization: The New Era of Global Flows*.

disappear shortly after viewing. In less than 6 months, Snapchat had 100,000 users, based entirely on word-of-mouth among students.[12] Despite being dismissed by *The New York Times* technology blog as an app for sending indiscreet photos, less than 4 years later Snapchat had upwards of 200 million users.[13] One company that did recognize Snapchat's value early on was Facebook, who, after a failed attempt to compete with a similar service, offered to purchase Snapchat in 2013 for $3 billion dollars. The offer was declined.[14]

## User Engagement Increases a Platform's Value

For platforms, there are users, and there are engaged users. Social media sites want their users to spend as much time "liking," sharing, and commenting as possible.[15] Engaged users provide more eyes on the screen for advertisers, and more importantly, content for the platform. User-generated content is vital for the success of a social media site. It is often the main reason other users sign up, log on, and keep returning. This gives an unusual amount of control to the user. Whether they realize it or not, every click they make on their favorite site helps keep it alive.

Internet platforms measure user engagement and regularly try new strategies to attract new users and to make existing users more active. Facebook is a good example of a platform that succeeds. It has the highest level of user engagement among social media platforms. The average Facebook visitor age 18 to 34 spends more than 16 hours per month on the platform, and older users are not far behind.[16]

To engage users, Facebook partners with third parties to offer games, cartoons, and tailored news content. It continually reevaluates its content and takes excruciating care over how it ranks that content in users' news feeds using feedback from users' decisions to "Like" and "Share" content and other factors such as how long they pause to read an article. Facebook regularly changes its algorithm to be more accurate — changes that can make or break companies relying on traffic from the site. Tweaks to its algorithm are carefully tested on small subsets of users before going live, and Facebook even uses panels of human testers, and more controversially, news curators for its trending stories to evaluate content directly.[17]

Facebook's drive to provide desirable content has made it a major source of news information. A 2014 Pew survey found that 61 percent of Millennials got news about politics and government in the previous week from Facebook.[18]

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### The Problem with Twitter

Twitter is not doing as well as it used to. Its user base growth has stagnated as of late 2015, causing concern for its investors. Twitter's market value even dipped below $10 billion in February and again in May 2016 — down 75 percent from its height in 2013. Some cite a confusing interface and reliance on third party apps to manage information flow. Others believe the decline in core users is mainly due to the platform's inability to control abusive "trolls," who publically bully Twitter users with harassment and threats. Whatever the reason, Twitter is trying new ways to keep and attract users, such as taking a firmer stance on abuse, changing its timeline view from strictly chronological to using an algorithm to highlight tweets users may want to see first, and even allowing users to post longer tweets.
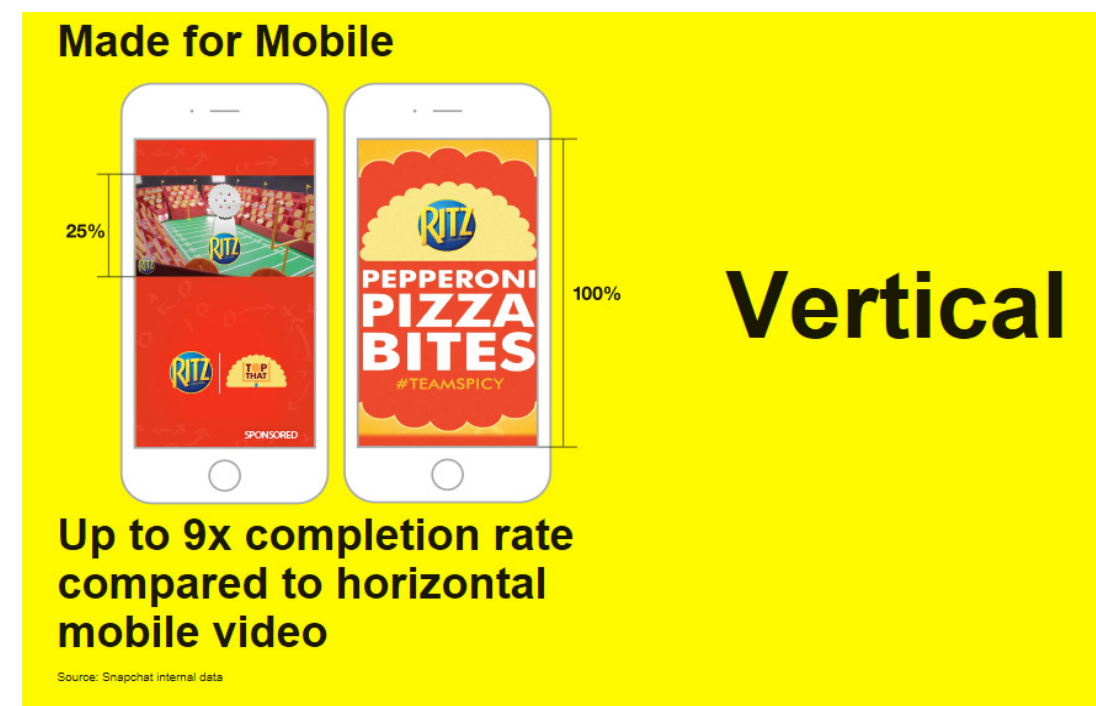
Sources: Twitter 2016 10-K and selected news articles and market information.

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12  Everette Taylor, "Snapchat – How Did Snapchat Reach a Multi-Billion Dollar Valuation?," *Growth Hackers*, 2013, http://growthhackers.com/growth-studies/snapchat; Jordan Crook, "A Brief History of Snapchat," *Tech Crunch*, October 15, 2015, http://techcrunch.com/gallery/a-brief-history-of-snapchat/.

13  Kimberlee Morrison, "Snapchat Is the Fastest Growing Social Network (Infographic)," *Adweek*, July 28, 2015, http://www.adweek.com/socialtimes/snapchat-is-the-fastest-growing-social-network-infographic/624116; Nick Bilton, "Disruptions: Indiscreet Photos, Glimpsed Then Gone," *The New York Times*, May 6, 2012, http://bits.blogs.nytimes.com/2012/05/06/disruptions-indiscreet-photos-glimpsed-then-gone/?_r=1.

14  Taylor, "Snapchat – How Did Snapchat Reach a Multi-Billion Dollar Valuation?," http://growthhackers.com/growth-studies/snapchat. Facebook later tried to build another similar product called SlingShot, but it has not succeeded. Olivia Solon, "How Facebook Plans to Take over the World," *The Guardian*, April 23, 2016, http://www.theguardian.com/technology/2016/apr/23/facebook-global-takeover-f8-conference-messenger-chatbots.

15  Appraisal Economics, *Social Media Valuation and the Value of a User*, 2014, http://www.appraisaleconomics.com/wp-content/uploads/Social-Media-Valuation-and-the-Value-of-a-User.pdf.

16  ComScore, *2016 U.S. Cross-Platform Future in Focus*, 31-2.

17  Will Oremus, "Who Controls Your Facebook Feed," *Slate*, http://www.slate.com/articles/technology/cover_story/2016/01/how_facebook_s_news_feed_algorithm_works.html; Deepa Seetharaman, "Facebook's Curators Shape 'Trending' News Feature," *The Wall Street Journal*, May 12, 2016, http://www.wsj.com/articles/facebooks-curators-shape-trending-news-feature-1463095472.

18  Jeffrey Gottfried, Amy Mitchell, and Katerina Eva Matsa, "Millennials and Political News: Social Media – the Local TV for the Next Generation?," Pew Research Center, http://www.journalism.org/2015/06/01/millennials-political-news/.

Platforms also prompt users to participate through notifications. LinkedIn™ encourages users to send a note whenever one of their contacts gets a new job or reaches a work anniversary. Facebook will notify a person of their friends' birthdays and the anniversary of their Facebook friendships. Along with the core "Like" and "Share" functions, these are mechanisms for getting people to post content to their walls. The same principle applies to the "Like" and "Repost" options on Instagram and to "Retweet" on Twitter.

Google fosters user engagement by creating a variety of useful cloud-based applications. It then connects those applications together in a web of Google products ranging from Gmail and Google Docs to Chrome and its biggest product, Google Search, which still provides more than 80 percent of Google's digital ad revenue.[19] Google's products are so well integrated that a single interaction often leads a person to another Google application.

**Figure 3: Snapchat Requires Advertisers to Use Vertical Video**



Source: Snapchat.

Sometimes engaging users may require inconveniencing the other side of the two-sided market. Snapchat requires its advertisers to use vertical videos designed to display on a mobile phone without turning.[20] Despite the convention for horizontal video, Snapchat's users regularly use vertical video when sharing on the platform.[21] For advertisers with stocks of horizontal footage, creating special video content for Snapchat can be an imposition, but Snapchat maintains that completion rates, the share of users who finish watching a video or story, are nine times higher with vertical video.[22] Snapchat even partnered with an ad agency and the news site Daily Mail to start an agency that helps advertisers with vertical videos.[23] For Snapchat, insisting on a more engaging format benefits its users, its advertisers, and the entire platform.

## Platforms Use a Variety of Strategies to Monetize Their User Base

Investors judge the business success of digital platforms by how well their user bases can be monetized. Table 1 shows how selected Internet platforms approach their user bases and monetization.[24] User and monetization strategies are strongly connected. Platforms seek to develop formats that appeal to users in the context of their experience using the platform while at the same time providing value for advertisers.

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19  Cindy Liu, *US Ad Spending: eMarketer's Estimates for 2016*, eMarketer, 15.
20  Snapchat, "Snapchat Advertising Policies," http://www.snapchat.com/ads/policies.
21  Paresh Dave, "Snapchat Drives Trend toward Vertical Videos," *The Los Angeles Time*, June 15, 2015, http://www.latimes.com/business/la-fi-snapchat-vertical-video-20150715-story.html.
22  Snapchat, "Ads," http://www.snapchat.com/ads.
23  Dave, "Snapchat Drives Trend toward Vertical Videos."
24  Selected 10-Ks, Debra Aho Williamson, *Social Advertising Effectiveness Scorecard: Industry Execs Grade the Leading Platforms*, eMarketer, October 2015; George Slefo, "Linkedin Debuts New Targeting Feature for Marketers," *AdvertisingAge*, March 01, 2016, http://adage.com/article/digital/linkedin-debuts-targeting-feature-marketers/302884/; AdRoll, *Facebook by the Numbers, 2015*, 5.

**Table 1: User Engagement and Monetization Strategies for Selected Platforms**

| Platform & Users* | Purpose | User Engagement Strategy | Methods of Monetization | Strengths for Advertisers | Weaknesses for Advertisers |
|---|---|---|---|---|---|
| **Google** **>1B users** | Business and social | Desirable web products | Display ads on search terms | Advanced targeting, huge reach | Limited customer engagement or sharing of ads |
| **Facebook** **1.6B users** | Social, business, clubs | Tailored newsfeed, notifications, friend suggestions, easy sharing of items outside the platform | Display ads in newsfeed and sidebar, carousel ads that show multiple pictures | Advanced targeting; video capability; advanced analytics; strong customer engagement | Targeting tools are difficult to use; uniformity of ads |
| **Instagram** **400M users** | Social sharing of pictures and video | Myriad photo and video enhancements | Full-screen ads, carousel ads that show multiple pictures | Beautiful imagery; strong customer engagement | Not as easy to drive actions |
| **Twitter** **320M users** | Social, Current Events, Self and Business Promotion | Current trends, notifications, follow suggestions, easy "tweeting" of items outside the platform | Promoted tweets, accounts, and trends | Real-time capabilities; willingness to experiment with ad creativity; analytics; strong customer engagement | Less information on users |
| **Snapchat** **200M users** | Ephemeral social sharing | Myriad photo enhancements, perception of privacy, replays, exclusive media content, vertical video | Sponsored story ads, full-screen ads, sponsored lenses and filters, and geofilters for individuals and businesses | Large creative palette; ads are presented as a single screen, creating more impact | No ability to target beyond geography and a few other measures; very limited analytics |
| **Pinterest** **100M users** | Curating and sharing creative interests and wish lists | Easy "pinning" of items outside the platform | Promoted pins on search terms or interest areas including rich pins with detail and cinematic pins with movement | The platform caters to people looking to purchase things so advertising fits well. | Limited targeting; limited analytics |
| **LinkedIn** **98M users** **414M members** | Professional promotion and networking | Recruitment services, relevant news and articles | Sell to recruiters, display ads, sponsored InMail and updates, premium memberships | Professional audience, targeting of industries, companies, and profiles | Limited analytics, low ability for creative, users tend not to come regularly |

\* Users defined as monthly active users.

Source: USPS OIG analysis of selected 10-Ks, news articles, and eMarketer, *Social Advertising Effectiveness Scorecard,* October 2015.

Twitter took advantage of its strengths in facilitating conversations by recently introducing "conversational ads" as shown in Figure 4.[25] These ads allow users to engage with the ad by choosing a brand message, personalizing it, and ultimately sharing it with their followers. The act of sharing amplifies the advertising campaign with no extra cost to the advertiser.[26]

Instagram has a similarly interactive style. Just as with regular Instagram pictures, users can double-click an advertising image to indicate they like it; they can also comment directly on the advertisement.[27] This opens a direct feedback loop between the user and the advertiser, which ultimately benefits both sides of the market. In a study of the advertising effectiveness of social media platforms, eMarketer found that brands liked the "combination of undiluted share of voice and a clear signal of engagement."[28]
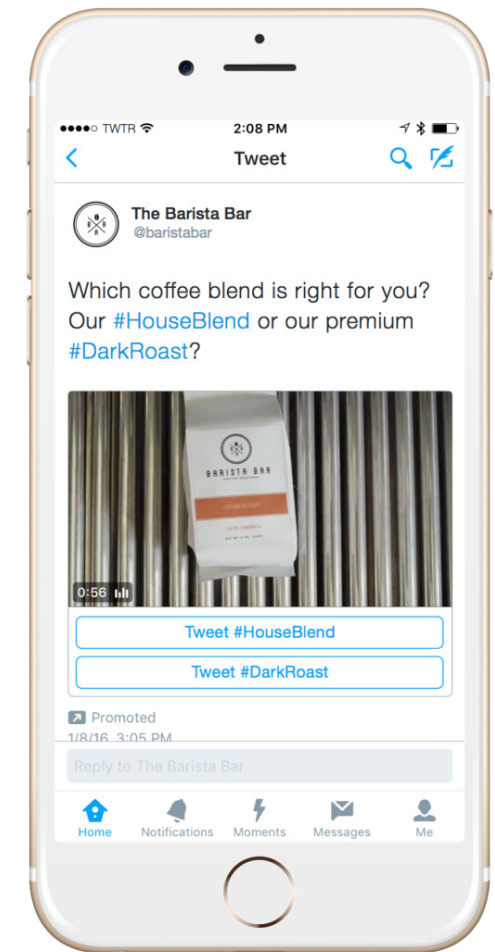
To make using the platforms easier for advertisers, many social media companies have developed application programming interfaces (APIs) and created special relationships with third-party marketing partners. These companies can schedule, publish content, and monitor analytics for advertisers, making the process of placing ads on the platform easier and more effective.[29]

## Platforms Attempt to Balance Both Sides of the Market

A careful balance must be achieved between monetizing and maintaining user engagement. It is ultimately the responsibility of the platform to ensure that both sides of the market find value in advertising. Advertisers are focused on click-through and read-and-respond rates of their ads. Users want advertising that is relevant to their interests. Successful social media companies know that users will not tolerate excessive or intrusive ads, and thus they carefully moderate the sale, type, and placement of advertising. The typical Facebook or Twitter newsfeed contains 5 percent or less sponsored content, or roughly one sponsored post in every 20.[30]

Facebook recently opened its subsidiary, Instagram, to mass advertising. Instagram caters to its subsidizers by offering the same advanced targeting of users based on age, locations, sex, and interests that Facebook does. In return, Instagram requires image and video format advertisements that enhance the look and feel of the platform in order to cater to what users expect. If a user is unhappy with a particular ad, Instagram presents an option to hide that ad.[31] This balance seems to be working — Instagram continues to grow in size and profit.[32]

**Figure 4: Twitter Conversational Ads Try to Start a Conversation**



Source: Twitter blog.

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25  Andrew Bragdon, "Introducing Conversational Ads," *Twitter Advertising Blog* (blog), http://blog.twitter.com/2016/introducing-conversational-ads.
26  Ibid.
27  Williamson, *Social Advertising Effectiveness Scorecard: Industry Execs Grade the Leading Platforms*, 11.
28  Ibid.
29  David Cohen, "Instagram Ads API Partner Program Launches," *Adweek Social Times*, April 4, 2015, http://www.adweek.com/socialtimes/instagram-ads-api/624507; Garrett Sloane, "What Snapchat's Ad API Means for Advertisers and Snapchat," January 7, 2016, http://digiday.com/platforms/5-ways-snapchats-advertising-focus-help-brands-publishers/; Lara O'Reilly, "Snapchat Is Figuring out a Move into Ad Tech," *Business Insider*, January 5, 2016, http://www.businessinsider.com/report-snapchat-to-build-or-acquire-an-api-2016-1.
30  Lizzie Plaugic, "Twitter Considers Increasing the Number of Ads in Your Feed," *The Verge*, February 12, 2015, http://www.theverge.com/2015/2/12/8025729/twitter-ads-every-twenty-tweets-dick-costolo; Vindu Goel, "Twitter's Chief Sees Plenty of Money in Tweet Flow," *Bits* (blog), *The New York Times*, February 11, 2015, http://bits.blogs.nytimes.com/2015/02/11/twitters-chief-sees-plenty-of-money-in-tweet-flow/?ref=business&smid=tw-nytimesbusiness&_r=3.
31  Instagram, "Ads on Instagram," http://help.instagram.com/1415228085373580/.
32  Saqib Shah, "Instagram Is Set to Turn a Huge Profit for Facebook This Year," *Digital Trends*, April 19, 2016, http://www.digitaltrends.com/business/instagram-huge-profit-projection-2016/.

Snapchat is also new to advertising. It was founded on the concepts of anonymity and privacy, and its founder Evan Spiegel has promised to avoid excessive targeting and respect users' privacy. "We're going to stay away from building really extensive profiles on people because that's just bad and doesn't feel very good."[33] However, Snapchat has been slowly extending its level of targeting and now permits advertisers to advertise based on some limited characteristics such as gender, type of phone, user location, and publishers or themes in its news and content section called Discover.[34] As Snapchat continues to monetize, the conflict between advertisers' demand for analytics and its principles of anonymity may cause tension.

**Figure 5: Excessive Use of Display Ads Drove Users from MySpace**



Source: Rishi Khaitan, Small Ideas blog.

Even though LinkedIn makes most of its money from recruitment services rather than its advertising programs, the platform must maintain the same balance between monetization and user engagement that advertising-dependent companies do. Users who were fed-up with LinkedIn's "add connections" service, which sends multiple invitation emails to user's address book contacts purportedly on the user's behalf, sued — and won last year. LinkedIn settled and established a compensation fund.[35] But more importantly, LinkedIn acknowledged users' needs and changed their policies accordingly.

There are many cautionary tales about social media companies that ignored the user experience in favor of aggressive advertising to the failure of the platform. A high-profile example is MySpace, the social networking leader in 2008 with 76 million unique monthly visitors, which fell to 35 million users by 2011.[36] Just as the network effect can exponentially increase user numbers, numbers can begin to fall precipitously when users see their associates disengage and leave. This user versus revenue calibration can be difficult and requires consistent updating and attention. But it can pay off: In November 2014, the slightly renamed "Myspace" boasted 50.6 million unique visitors each month, a 575 percent increase in just 1 year.[37] Myspace administrators managed this feat by revamping the site to focus on the core interest of its most loyal user base — music — and taking advantage of the user assets the network still retains such as old photos. Many users stop by to gather photos to post on newer social sites for Throwback Thursdays.[38]

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33  Garrett Sloane, "How Snapchat's CEO Plans to Conquer the Advertising World," *Adweek*, June 14, 2015, http://www.adweek.com/news/technology/heres-how-snapchats-ceo-plans-conquer-advertising-world-165339.

34  Lara O'Reilly, "Snapchat is finally learning to love the 'creepy' advertising it once said it hated," December 13, 2015, http://www.businessinsider.com/snapchatadvertisingmeasurementtargeting201512.

35  Jody Godoy, "Linkedin Pays $13M to Settle Email Harvesting Class Action," *Law360*, June 12, 2015, http://www.law360.com/articles/667138/linkedin-pays-13m-to-settle-email-harvesting-class-action.

36  Felix Gillette, "The Rise and Inglorious Fall of Myspace," *Bloomberg Business*, June 22, 2011, http://www.bloomberg.com/bw/magazine/content/11_27/b4235053917570.htm; Rishi Khaitan, *Small Ideas* (blog), January 25, 2007, http://www.itsrishi.com/archives/2007/01/25/ok-myspace-ill-go-see-smokin-aces/.

37  Mike Shields, "MySpace Still Reaches 50 Million People Each Month," *CMO Today* (blog), *The Wall Street Journal*, January 14, 2015, http://blogs.wsj.com/cmo/2015/01/14/myspace-still-reaches-50-million-people-each-month/.

38  Kimberlee Morrison, "Is MySpace Making a Comeback?," *Adweek Social Times*, January 23, 2015, http://www.adweek.com/socialtimes/myspace-comeback/613346.

## The Postal Service's User Base

The ways digital platforms treat their users and balance user and advertiser interests offer many insights relevant to the Postal Service, and these insights can be useful as the Postal Service adapts to new patterns of mail use. The presence of digital alternatives are changing behavior. The Postal Service and its users are experiencing different mail flows than they did 10 years ago. Understanding these changes is important for understanding how users are engaging with the mail and how to improve their experience. While most digital platforms study user experience at the level of the individual, postal research is often conducted at the level of the household.
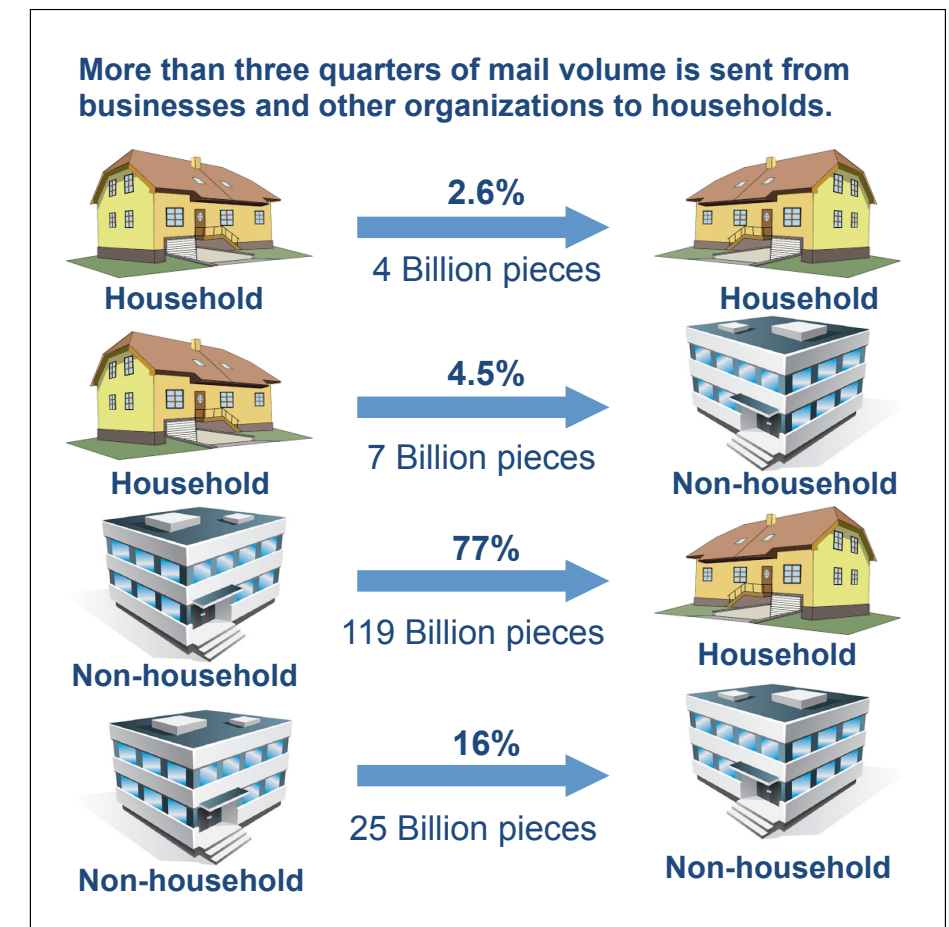
### The Postal Service Is Increasingly Dependent on Mail Sent to Household Recipients

Mail flows between households, businesses, and organizations in different directions. Households send mail to each other, as do businesses, but the largest mail flow is between businesses and households as shown in Figure 6.[39]

More than three-quarters of mail (77 percent) is sent to households from businesses and other organizations. This traffic is primarily one way. Households receive far more business mail than they send. While business-to-household mail has long been the dominant mail flow, the Postal Service is becoming increasingly dependent on it. The share of mail sent from non-households to households has grown significantly over the past 10 years. It was only 67 percent in 2004.

The growth in business-to-household mail is primarily a story of being the "least worst performer." While mail volume has declined sharply as a result of the Great Recession and electronic diversion, business-to-household mail has stayed relatively stable, declining only 14 percent between 2004 and 2014 as shown in Figure 7.[40] Every other mail flow dropped by at least 40 percent, and mail sent from households to businesses has plunged by more than half. A consequence is that the behavior of households as recipients is even more important to the Postal Service's bottom line. If households as recipients turn away from the mail channel, business senders will soon follow. Keeping household recipients engaged with the mail should be a core priority for the Postal Service.

### Figure 6: Most Mail Is Sent to Households



**More than three quarters of mail volume is sent from businesses and other organizations to households.**

| | | |
|---|---|---|
| Household | 2.6% — 4 Billion pieces | Household |
| Household | 4.5% — 7 Billion pieces | Non-household |
| Non-household | 77% — 119 Billion pieces | Household |
| Non-household | 16% — 25 Billion pieces | Non-household |

Percentages do not sum to 100 percent because of rounding.

Source: USPS OIG analysis of U.S. Postal Service 2014 Household Diary Study, Table 1.4a, Total Domestic Mail Flows.

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39  OIG analysis of U.S. Postal Service, *Household Diary Study: Mail Use & Attitudes in FY 2014*, 10, Table 1.4a.
40  Ibid.; *Household Diary Study: Mail Use & Attitudes in FY 2004*, http://www.prc.gov/docs/47/47006/Household-Diary-Study.pdf, 7, Table 1.4a. The 2014 Household Diary Study is the most recent available at the time of writing this paper.

## The Household Mailbox Is Receiving Fewer Pieces

Although the Postal Service is increasingly dependent on business-to-household mail, households are actually receiving fewer mail pieces. Mail volume has declined, while the number of households has grown.

Table 2 breaks down the contents of the average mailbox and shows how they have changed over 10 years.[41] The average household receives 22 percent fewer pieces per month than in 2004. A happy exception is packages and expedited pieces, which have increased. The increase in parcels is beneficial for the entire platform. U.S. Postal Service Office of Inspector General (OIG) research has found that parcels have become the new anchor of the mailbox for digital natives: parcels drive their interest in mail and anticipation of delivery.[42]

The growth of parcels is also advantageous because a particular area of decline is correspondence — another category that drives interest in the mail. Correspondence includes letters from friends, greeting cards, and businesses. It does not account for many pieces, and it has likely been particularly affected by electronic alternatives.

Advertising mail occupies a major share of the mailbox, accounting for 51 of 83 pieces per month or 61 percent in 2014. This share has remained relatively stable (it was 60 percent in 2004) although the number of advertising pieces has fallen. Fewer advertising pieces tend to be good for response rates and audience reaction to the mailbox. Households are more likely to say they read their advertising mail when they receive fewer pieces.[43] In fact, stated read rates — households who report they read their advertising mail as opposed to scanning it or not reading it — have climbed significantly since 2004 from 45 percent to 57 percent.[44]

### Figure 7: Business-to-Household Mail Has Been More Stable than Other Mail Flows



Mail sent from businesses and organizations to households has declined only 14 percent since 2004, far less than other mail flows.

Source: USPS OIG analysis of U.S. Postal Service 2014 and 2004 Household Diary Studies, Table 1.4a, Total Domestic Mail Flows.

### Table 2: The Average Household Receives 22 Percent Fewer Mail Pieces Each Month than in 2004

| Monthly Mail Received | 2004 | 2014 | Change |
|---|---|---|---|
| Advertising | 65 | 51 | -21% |
| Transactions | 22 | 18 | -18% |
| Correspondence | 12 | 7 | -44% |
| Periodicals | 5.0 | 3.6 | -28% |
| Packages & Expedited | 1.9 | 2.3 | +22% |
| Other* | 1.9 | 1.4 | |
| Total | 108 | 83 | -22% |

* Other includes unidentified mail and CDs/DVDs.
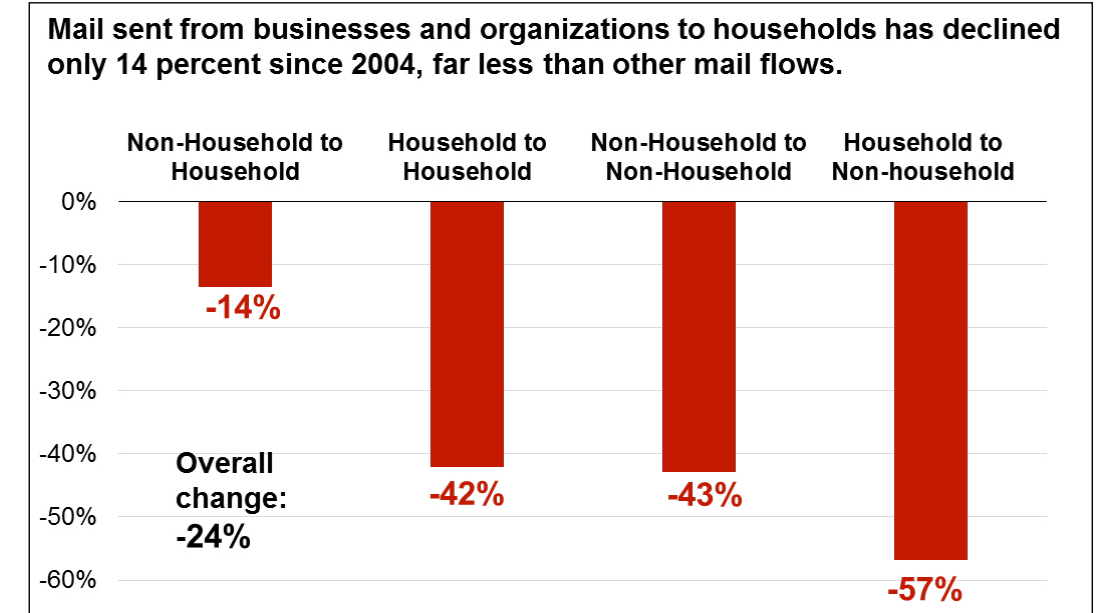Source: USPS OIG analysis of U.S. Postal Service 2014 and 2004 Household Diary Studies.

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41  OIG analysis of *Household Diary Study: Mail Use & Attitudes in FY 2014*, Tables E.1, E.6, 2.2, 5.2, A8-1, and A8-3; *Household Diary Study: Mail Use & Attitudes in FY 2004*, Tables E.1, 2.2, and 5.2. Total mail received by households was divided by the number of households used in the study for each year.
42  OIG, *Enhancing Mail for Digital Natives*, November 18, 2013, http://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-001_enhancing_mail_for_digital_natives_0.pdf.
43  U.S. Postal Service, *Household Diary Study: Mail Use & Attitudes in FY 2014*, 48.
44  Ibid., 47; *Household Diary Study: Mail Use & Attitudes in FY 2004*, 41.

Mail volume still remains correlated with income and education. Households that receive more mail tend to have higher incomes and more education. They also tend to send more mail. The number of low-volume households is growing. Nearly one-third of households now receive 12 or fewer pieces per week compared to only 12 percent in 2004.[45] Households, however, still appear to be engaged in the act of receiving mail. In an OIG-sponsored survey by Gallup, 78 percent of respondents said they checked their mail daily.[46]

## Households Are Less Engaged as Senders

The concept of mail as a two-way channel connecting senders and recipients has taken a hit for households over the past 10 years. Household senders have drastically reduced their use of the mail, sending less than half the mail they sent in 2004 as shown in Table 3.[47]

The largest decline is in the area of transactions, primarily bill payments. Transactions, which make up a significant share of high-yield First-Class Mail, have traditionally operated as a two-way channel within the mail stream. Companies send bills and statements; households mail back payments. Even in 2004, households sent nearly one transactional mail piece for every two or three pieces they received. Today, that link is broken. The average household will receive five or six transactional mail pieces before sending one in return. Bill payments are now mostly made through other channels such as online payment or automatic deductions. Only one-third of the bills households pay each month are still paid by mail.[48]

**Table 3: Households Send Far Less Mail than in 2004**

| Monthly Mail Sent | 2004 | 2014 | Change |
|---|---|---|---|
| Correspondence | 6.5 | 3.1 | -53% |
| Transactions | 9.3 | 3.3 | -64% |
| Packages & Expedited | 0.5 | 0.4 | -17% |
| Other* | 0.9 | 0.7 | |
| Total | 17 | 7.5 | -57% |

\* Other includes unidentified mail and CDs/DVDs.

Source: USPS OIG analysis of U.S. Postal Service 2014 and 2004 Household Diary Studies.

Correspondence has also declined significantly, falling 53 percent. Personal correspondence has declined more than business correspondence.[49] The decline in personal mail correspondence suggests that households are disengaging from mail as a method of maintaining and strengthening personal relationships. This shift could be a concern for the long-term vitality of the mail channel unless replaced by other forms of engagement.

As household senders use the mail less frequently for their own pieces, there is a risk that they will stop seeing the mail as an important communications channel. Of course, some of the decline in mail sent from households reflects a movement toward multi-channel communication: recipients are responding through other channels to the mail they receive. The Postal Service has emphasized that mail remains a vital part of this two-way communication. It offers discounts for colorful bills and statements that create a greater connection and response from consumers. It also uses discounts to encourage mailers to include reply envelopes in their mail pieces.[50] But finding additional ways to get households to return to the mail as senders is important. Users are more likely to value a channel that they use in both directions.

45  *Household Diary Study: Mail Use & Attitudes in FY 2004*, 12, Table 2.2; *Household Diary Study: Mail Use & Attitudes in FY 2014*, 15, Table 2.2.
46  OIG, *What Postal Services Do People Value the Most? A Quantitative Survey of the Postal Universal Service Obligation*, February 23, 2015, http://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-007_0.pdf, 41.
47  OIG analysis of U.S. Postal Service, *Household Diary Study: Mail Use & Attitudes in FY 2014*, Tables E.1, E.6, 2.2, 5.2, A8-1, and A8-3; *Household Diary Study: Mail Use & Attitudes in FY 2004*, Tables E.1, 2.2, and 5.2. Total mail sent by households was divided by the number of households used in the study for each year.
48  The share of bills paid by mail is 33.6 percent; however, most households (68 percent) sometimes use mail to pay bills. *Household Diary Study: Mail Use & Attitudes in FY 2014*, 33.
49  OIG analysis of ibid., 15, Table 2.2 and Table A8-3; *Household Diary Study: Mail Use & Attitudes in FY 2004*, 12, Table 2.2.
50  U.S. Postal Service, "2016 Promotions Update," http://ribbs.usps.gov/mailingpromotions/documents/tech_guides/2016PromotionsUpdateWebinar.pdf, 5-7.

# Improving the Postal Platform

Platforms succeed when they maximize value for users and payers. They fail if either group ceases to gain value from the platform. The challenge for the Postal Service is to optimize its role as a platform to ensure that its users continue to engage with the mail and parcel channel to the benefit of senders and recipients. The successes and failures of Internet platforms, which exist in a fiercely competitive space, suggest three strategies for maintaining a successful platform: focus on the platform experience, strengthen user engagement, and maximize the value of the platform for both sides of the market.

## Focus on the Platform Experience

Maintaining the day-to-day quality of the platform is critical for ensuring its value to both sides of the market. Because network effects reinforce the gain or loss of participants, losing some customers because of negative experiences can drive others away.

### Maintain good service at all points on the platform

Digital platforms are concerned about the experience of both users and advertisers. Poor experiences may cause them to become less engaged and even switch to alternatives. As a result, digital platforms pay significant attention to the design and operation of the platform for both sides of the market. Service is also important for the postal platform. The Postal Service has historically placed a strong operational focus on delivery, but the OIG found that the Postal Service had problems meeting its new delivery goals following the recent reduction of First-Class service standards.[51] Mailers, the Government Accountability Office, and the Postal Service's regulator have all recently expressed concern about the Postal Service's service performance or service metrics.[52]

Good service is also important at the nation's post offices even though their users typically only pay directly for a small share of network costs. A January 2015 audit by the OIG pointed out that one in five people felt they had been treated worse at the post office than at other retail locations.[53] A recent OIG white paper also found significant problems with post offices failing to answer the phone.[54] Attention to simple but challenging service issues like these can improve the health of the entire platform. One of the ways platforms fail is not to adequately share the value the platform creates between both sides of the market. If one side of a market believes they are being treated unfairly or are not seeing benefits, they will leave.[55] Even if the mail delivery channel is working for recipients, poor service in other areas can cause them to have a negative view of the entire platform.

Extensive changes to the network also require strategic thinking based on the effect on both sides of the postal market. When Instagram and Snapchat rolled out advertising to their user base to raise funds, they carefully optimized the experience for users and advertisers, considering how to make the advertising as palatable as possible. Postal network changes require similar consideration.

### Adapt to new technologies and changing user needs

In addition to encouraging excellent service, a well-functioning platform will also adapt to new technologies and changing user needs. To its credit, the Postal Service already offers many important customer services online such as Change-of-Address and Hold Mail service. In addition, My USPS, which is available on the desktop or as a mobile app, allows verified customers to manage their mail. Customers can view incoming packages, manage notifications, schedule redelivery, and provide online authorization to leave packages at the door. Customized, instantly accessible service is exactly what today's technology users expect.

51  OIG, *Management Alert – Substantial Increase in Delayed Mail*, http://www.uspsoig.gov/sites/default/files/document-library-files/2015/no-ma-15-004.pdf.
52  Postal Regulatory Commission, *Annual Compliance Determination Report, Fiscal Year 2015*, March 28, 2016, http://www.prc.gov/docs/95/95462/Final_2015_ACD.pdf, 3.
53  OIG, *Window Retail Customer Service*, January 29, 2015, http://www.uspsoig.gov/sites/default/files/document-library-files/2015/ms-ar-15-001.pdf, 1. The Postal Service disagreed with the findings of the report in part because it used customer survey data from a questionnaire that is no longer used.
54  *Passport to Excellence*, April 11, 2016, http://www.uspsoig.gov/sites/default/files/document-library-files/2016/RARC-WP-16-008.pdf, 17.
55  Geoffrey G. Parker, Marshall W. Van Alstyne, and Sangeet Paul Choudary, "6 Reasons Platforms Fail," *Harvard Business Review*, March 31, 2016, http://hbr.org/2016/03/6-reasons-platforms-fail.

The Postal Service should continue to work to transform its platform to meet user needs in a digital world. Effectively rerouting packages in transit based on the recipient's preferences would improve the e-commerce delivery experience. Providing shorter, social media-friendly alternatives to extensive addressing could make physical mail easier for today's users. Applying Internet-of-Things technology to the Postal Service's extensive physical presence could improve the customer experience and support new applications that benefit customers and even local governments.[56]

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### France's Postal Service, La Poste, Experiments with a Consumer-Based Business Model Geared to Users and Recipients

"We were really a B2B (business-to-business) company," said Olaf Klargaard, business development manager for the Digital Trust Program at Groupe La Poste. "We didn't know how to treat consumers. We didn't design our products and services for the final consumers. All was built for large issuers of mail and parcels." The digital division decided to realign its priorities with its primary offering, Digiposte. Everything Digiposte does is with the end user in mind. One Digiposte offering is a digital identity service in which a letter carrier visits a person at her home, verifies her name and address, and gives her a password to log onto a postal website. There she can create a profile that can be used on a number of other government service websites, as well as the sites of participating private companies: cable, utilities, banks, etc. She can upload personal documents onto the site that can then be sent out digitally to conduct business. "Even if this costs a few million euros," said Klargaard, "it's worth it to build up the trust in La Poste as a protector of identity and documents."

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## Strengthen User Engagement

Just like digital platform companies, the Postal Service benefits by encouraging its customers to deepen and expand their engagement with mail and parcels. The Postal Service's Informed Delivery pilot is one example. Recipients are sent an email with scanned images of the front covers of many of their mail pieces prior to delivery. Senders can link the image to a website. In March 2016, the Postal Service announced that this program will expand to the entire United States in early 2017.[57]

Informed Delivery can benefit commercial mailers because it allows users to see their mail twice and because users may be more likely to click a URL in their electronic mailbox than they are to type it into a computer after reading it on a piece of physical mail. Informed Delivery also has value for mail recipients. They can check their mail from anywhere to see if something important has arrived. They can use links to go directly to the website of products of interest.

Like the way social media platforms transitioned from a desktop to a primarily mobile focus, informed delivery transitions the postal platform from paper to a combined paper and digital view of mail. This technology jump from paper to paper plus digital must be handled with care to make sure the physical mail platform is enhanced and not supplanted by the new digital format and continues to retain its value for senders and recipients.

### *Reward recipients*

New technology and social and business patterns mean that households are less engaged in the mail as senders. This reduced engagement could have consequences for households' role as recipients. As noted above, 78 percent of consumers still check their mail daily, but the same survey found that older recipients tend to check their mailbox more frequently than younger recipients. Only 55 percent of consumers age 19 to 29 check their mailbox daily.[58] This could simply be a consequence of their

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56  *The Internet of Postal Things*, August 3, 2015, http://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-013_0.pdf.
57  U.S. Postal Service, "U.S. Postmaster General Unveils Digital Strategy to Support Mailing Industry at National Postal Forum," news release, March 21, 2016, http://about.usps.com/news/national-releases/2016/pr16_011.htm.
58  OIG, *What Postal Services Do People Value the Most? A Quantitative Survey of the Postal Universal Service Obligation*, 41.

stage in life or it could reflect an emerging change in behavior. As a result, shifting more of the value of the platform to recipients by rewarding them for interacting with the mail could benefit senders and the platform as a whole.

One way to make people look forward to picking up their mail is to include something valuable in the mailbox. The Postal Service could organize a giveaway program through which anyone with a postal address could win at random a prize or particularly valuable coupon or sample. If permitted by law, these prizes could potentially be sponsored by businesses. They would be designed to encourage households to interact with the mailbox and engage as recipients.

### *Promote mail to digital users*

Particular attention should be paid to finding ways to engage those who use primarily digital channels for communication. One area of opportunity might be collaborating with digital platforms on photo and postcard mailing. Several photo-mailing apps exist but are not widespread. Barriers such as people's lack of knowledge of many friends' home addresses and the cost and inconvenience of making micro-payments to send physical media likely discourage adoption.

The Postal Service could collaborate with social media companies to provide a hidden, confidential addressing service for photo postcards. Only the Postal Service would hold the recipient's address. To avoid the need for individuals to make micro-payments to send the photos, the Postal Service could use the same corporate sponsorship approach that Snapchat employs for its filters and lenses. Instead of charging users for customizing their photos with these filters and lenses, Snapchat instead allows advertisers to pay to sponsor them and provide them free to users. The Postal Service could work with corporate sponsors on a free postcard program for people to send notes and photos to their family and friends. Users could select an image, write a message, and select a sponsor. The image and message would be printed onto a postcard, which would also include an advertising message from the sponsor, who would pay the cost of the card and postage. The Postal Service would then deliver the card to the recipient. The whole process would take users little time and cost them nothing. In a similar effort, photo-mailing app Postagram partnered with Hyatt to offer free sponsored postcards to guests at their hotels.[59]

### Maximize the Value of the Platform for Users and Payers

Successful platforms maximize the value of the platform for both sides of the market. One way to benefit both the senders and recipients of advertising mail is to improve the targeting and format of mail pieces to make sure they interest users and pay off for advertisers. Platform experts often suggest using pricing on platforms to encourage effective targeting, for example, by ensuring that mail is affordable for mailers but not so inexpensive that the mail channel is cluttered lowering its value for senders and recipients and reducing recipient tolerance. However, pricing can be a blunt instrument and may not reflect user preferences. Moreover, the current price cap limits the Postal Service's ability to optimize the mail channel through pricing. There are, however, other options.

### *Build a digital feedback loop*

A 2013 OIG white paper explored creating a feedback loop and digital information market for advertising mail that would improve the experience for everyone on the platform. The feedback loop would allow recipients to share with advertisers their preferences for and against different types of advertising.[60] Facebook already does this, and not only does it allow the platform to command higher rates for its advertising, it enhances the experience for the user.[61]

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59  Christopher Heine, "Hyatt Hotels Combines Facebook with Snail Mail," *AdWeek*, June 27, 2013, http://www.adweek.com/news/technology/hyatt-hotels-combines-facebook-snail-mail-150791.

60  For a full description of this concept, see OIG, *Strengthening Advertising Mail by Building a Digital Information Market*, December 11, 2013, http://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-002_0.pdf.

61  Williamson, *Social Advertising Effectiveness Scorecard: Industry Execs Grade the Leading Platforms*.

Rewarding recipients would incentivize feedbacks. Users could scan mail pieces, indicate how much they liked them, and receive coupons or discounts for their responses. Participants could be given the option of choosing how much data to share with advertisers. Protecting privacy would be important. The result could be a "win-win-win" for recipients, advertisers, and the Postal Service. Recipients would receive mail they preferred, advertisers would improve targeting, the Postal Service's platform would operate more effectively.

If the Postal Service is unable to create the digital feedback loop itself, another option is for a large group of advertising mailers to come together to create a shared platform using a common code on each mail piece that recipients could scan to enter their feedback. Such a group would bring critical mass to the project, and the benefits to the postal system of better targeting would exist regardless of which organization sponsored the system.

### *Develop standards to encourage best practices*

To make sure advertisers have the right tools to access and design content for their platforms, successful social media platforms are rolling out data-rich advertising APIs to allow advertisers to place ads and analyze reaction. Advertisers can use these APIs to make placing and monitoring ads easier. Digital platforms are also forging relationships with specific third-party marketing partners that can help advertisers optimize their ads for the specific platform and improve the user experience at the same time. The existence of an API is often a signal that the platform has reached a level of maturity and makes it easier for large advertisers to include it in their media mix.

The existence of specialty tools and service providers for mail are nothing new for the Postal Service. Printers and mail houses provide mailing advice and expertise, and data experts analyze postal data for mailers. There are companies that allow mailers to prepare, print, and enter their mailings online. Some of these companies even offer APIs that allow firms to electronically connect to the entire process of printing and delivering mail.[62] However, it is not always easy for advertisers large or small to navigate the system.

The Postal Service already offers discounts for certain mailing practices such as incorporating digital features that are designed to make mail more effective.[63] Certifying experts experienced on the postal platform could take this a step further. Of course, the Postal Service cannot pick and choose third-party partners. It must remain open for all businesses to access. However, developing clear and open standards for good practice in areas such as mail design, targeting, and analytics and then certifying and listing companies who meet them might make it easier for advertisers to access and use the postal system effectively to the benefit of both advertisers and recipients.

## Conclusion

There are enormous differences between booming Internet companies and social media sites and the 200-year-old Postal Service, but at the core, they all operate platforms that must balance the needs of two separate sets of customers. As household users alter their use of the mail channel, the Postal Service should take advantage of the lessons provided by digital platforms' treatment of their user bases. The postal platform is built upon the experience of recipients and household users. If recipients stop engaging with the mail, mailers will also leave. Only the Postal Service has the ability to see the entire platform and balance the needs of both sides to maintain the platform's viability. By focusing on the platform experience, strengthening user engagement, and maximizing the platform's value for users and payers, the Postal Service can maintain and strengthen its vital communications and logistics platform.

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62  The Postal Service itself offers many APIs focused on accessing its systems including those that allow vendors to print postage.
63  U.S. Postal Service, "2016 Promotions Update."

## Management's Comments

Management agreed with the paper's general concepts of increasing the value of the mail platform for both users and mailers but also wanted to highlight elements that have been implemented or are being currently evaluated as well as items with which they did not concur.

In particular, they noted that their research suggests that, despite the fall in volume, mail engagement remains high both on average and for millennials, when heads of household are considered. Management also recommended that the OIG consider how other primarily one-way content channels, both traditional and digital, manage and engage their user and payer bases.

Regarding the platform experience, management agreed that improving service levels across the organization can improve the user experience within each channel as well as mailbox engagement and the overall impression of the Postal Service. They stated they are currently engaged in numerous activities aimed at improving user experiences.

To strengthen user engagement, management believes that the best path forward for the Postal Service is to innovate along its core areas of strength, like its extensive delivery and retail network, rather than other ventures like a photo-mailing service. They note that Informed Delivery could be the single biggest innovation in the postal platform in some time and shows their commitment to continuous improvement in this space.

They also express concern that the OIG did not consider the importance of types of mail in driving user engagement with the postal platform. Their research shows that bills and statements are the single most important mail type for households and have as much power in driving mailbox engagement as personal correspondence. It is critical for user engagement that the Postal Service protects this source of important content from substitution to paperless channels.

In terms of maximizing the value of the platform for users and payers, the Postal Service notes that is already highlighting best practices in direct mail with campaigns like Irresistible Mail and awarding trophies for the most creative mailers

See Appendix for management's comments in their entirety.

## Evaluation of Management's Comments

The OIG does not disagree that mail engagement for recipients appears to remain high on average, and it is encouraging that the Postal Service's 2016 Mail Moments Study shows that mail engagement has not declined for millennials. However, because households send less than half the mail they did in 2004, they are not engaging as much with the mail as senders. Transaction mail, including bill payments, sent by households has fallen more than 60 percent. While the Postal Service is moving away from a two-way channel model, it still has the capacity for two-way communications, and the digital platforms we examined receive significant benefits from user participation. Encouraging households to continue to participate in the mail as senders seems likely to have positive effects on their engagement as recipients. To this end, small ventures such as collaborations on photo mailing that engage those who use primarily digital channels for communication may pay off with increased engagement for households as both senders and recipients.

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EXECUTIVE VICE PRESIDENT

**UNITED STATES**
**POSTAL SERVICE**

July 14, 2016

RENEE SHEEHY
DIRECTOR, RARC CENTRAL
RISK ANALYSIS RESEARCH CENTER

SUBJECT: The Postal Service and Its User Base (Report Number RARC-WP-16-XXX-DRAFT)

Thank you for the opportunity to respond to the June 27 final review draft of the white paper *The Postal Service and Its User Base*. While we agree with the paper's general concepts of increasing the value of the mail platform for both users and mailers, we also believe it is important to highlight those elements within the report that have either already been implemented or that are being currently evaluated, as well as those items that we may not concur with.

The basis of the recommendations in the OIG report is that the Postal Service can learn from the social media platforms on how to build, maintain, and strengthen its user base (i.e., American households) as a means of maintaining the value of mail for mailers.

The impetus of the report appears to be a concern that the decrease in both volume of mail received and sent from households could weaken the mail platform. On the contrary, our research has shown that despite the fall in volume, mail engagement remains high. Eighty-two percent of American households pick up their mail at the first opportunity and spend an average of 8.4 minutes each day sorting through and reading their mail.[1]

Additionally, as the report points out, the decline in mail from households means the mail has become less of a two-way communication channel and more of a unidirectional content channel. We would recommend the OIG also consider how other primarily one-way content channels, both traditional (e.g., television) and digital (e.g., Youtube, Netflix), manage and engage their user and payer bases.

**Focus on the Platform Experience:**

We agree that improving the service levels across the organization can improve the user experience within each channel, but can also have blowback effects on mailbox engagement and overall impression of the Postal Service. That is why we are currently engaged in numerous activities aimed at improving user experiences including mapping out critical journeys for key customer segments, redesigning the entire package tracking experience, examining the holistic customer experience, constantly evaluating and improving EDDM and other direct mail solutions, and testing new product concepts like Intelligent Addressing that seamlessly blend digital and physical experiences.

Additionally, it is why the Postal Service believes it prudent to consider any changes to how individuals receive and interact with their mail (e.g., number of delivery days or mailbox location) with extreme caution. Any decreases in consumer experience related to the Mail Moment could have significant

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[1] 2016 USPS Mail Moments Study, March 2016

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impacts on the overall experience of mail as a platform and deleterious impacts on the viability of mail as a medium, and broader consumer perceptions of the Postal Service.

**Strengthen User Engagement**

As stated above, our research shows that engagement with the mail is, and continues to be, extremely strong across age groups. In contrast to OIG's findings, we find that when you consider heads of households rather than consumers (which can pick up many younger adults who are still in school or living with their parents), 89 percent of millennials pick up their mail at first opportunity, and spend on average 9.2 minutes each day engaging with their mail.[2]

The Postal Service recognizes the importance of maintaining these high levels of engagement with the mail in the face of ongoing digital transformation. However, rather than focusing on non-congruent ventures like a photo-mailing service, we believe the best path forward for the Postal Service is to innovate along its core areas of strength, like its extensive delivery and retail network. Services like Informed Delivery can help mail remain a relevant channel in the digital world, and can serve as a platform of its own for content and advertising. Informed Delivery could be the single biggest innovation in the postal platform in quite some time, and shows our commitment to continuous improvement in this space.

The other area not considered in the OIG report is the importance of types of mail in driving user engagement with the postal platform. Our research shows that bills and statements are the single most important mail type for households[3], and have as much power in driving mailbox engagement as personal correspondence[4]. It is critical for user engagement that the Postal Service protects this source of important content from substitution to paperless channels.

**Maximize Value of the Platform for Users and Payers**

Additionally, advertising mail has read and response rates orders of magnitude higher than its digital alternatives. With innovations like QR codes, digital inking, and augmented reality, direct mail can produce a 10%-30% uplift in customer conversions when paired with digital marketing efforts, according to Richard Rushing, Senior Director of Digital Strategy at Epsilon[5].

The Postal Service is already highlighting best practices in direct mailing with campaigns like Irresistible Mail, which showcases innovations in digital mail. We will be awarding quarterly trophies for the most creative mailers, culminating in an award for the most irresistible mailpiece, awarded to the Mail Owner, Agency, and Printer at 2017's National Postal Forum.

In conclusion, we agree with the OIG on the importance of maintaining a large and engaged user base for mailing services. It is a focus that has already driven significant research, testing, and innovation for services and products. We appreciate that the OIG has come to the same conclusions we have about focusing on the customer experience, mail user engagement, and value for end users and mailers.

James P. Cochrane

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[2] Ibid.
[3] USPS Online Caravan Study, June 2016
[4] USPS Consumer Bill Preferences, April 2016
[5] "Blurred Lines," DMN, 2015, http://www.dmnews.com/blurred-lines/article/335497/

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