



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

U.S. Postal Service Promotions Program

Audit Report

Report Number
CP-AR-15-005

September 28, 2015





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UNITED STATES POSTAL SERVICE

Highlights

Opportunities exist to further strengthen the management of the Promotions Program. The Postal Service has made progress developing and implementing individual promotions, however, there are no measureable targets for the individual promotions or a comprehensive strategic promotions plan.

Background

The U.S. Postal Service implemented its Promotions Program in 2011 to encourage mailers to integrate technology with the mail and build customer awareness of mail use beyond standard letter and package delivery. As a result, it promotes the value of mail and provides an opportunity for mail to remain competitive in an increasingly digital society. For example, one promotion used color messaging to create greater connection with and response from consumers and another used mobile barcodes on mailpieces that a mobile device can read.

In calendar years 2013 and 2014, the Postal Service offered 13 promotions involving about 2,600 mailers and provided over \$87 million in postage discounts. Eight of these promotions and almost \$5 million in postage discounts were for promotions that included some products which did not cover their direct costs. The Postal Service acknowledges that these discounts will not lead to cost coverage in the short term, but believes it can increase revenue in the long term by increasing the value of mail.

Our objective was to determine whether the Promotions Program is effectively managed. We also identified other potential promotion opportunities.

What The OIG Found

Opportunities exist to further strengthen the management of the Promotions Program. The Postal Service has made progress developing and implementing individual promotions, however, it has not developed a comprehensive strategic promotions plan. Since the program's inception, more promotions have been introduced building customer awareness by integrating technology into the mail. The Postal Service has focused its efforts on individual promotions to retain and grow mail volume, integrate the use of new technology, and promote the value of mail to the digital community while building new uses for mail. Further, the Postal Service conducts analysis to determine individual promotion performance. However, there are no measureable targets for the program goals, so it is unknown how individual promotions contribute to the goals.

The Postal Service does not have a comprehensive strategic plan for the Promotions Program because each individual promotion focuses on different content and outcomes. For example, some promotions focus on mail retention. By contrast, other promotions focus on integrating digital technology with physical mailpieces. However, without a comprehensive strategic plan that addresses such areas as measurable targets, promotion period, technology used, and postage discount rates, it is not possible to determine whether the results of individual promotions will accomplish the Postal Service's Promotions Program goals. We also found there may be opportunities to implement new promotions that add value and relevancy to mail.



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What The OIG Recommended

We recommended management develop and implement reportable performance metrics to track program progress and measure the long-term value of promotional mail. We also

recommended management develop and implement a strategy with well-defined documented processes to ensure major promotion program components are meeting the overall program goals by September 30, 2016.

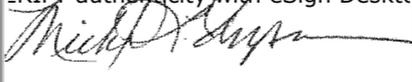
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 28, 2015

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

E-Signed by Michael L. Thompson
VERIFY authenticity with eSign Desktop


FROM: Michael L. Thompson
Acting Deputy Assistant Inspector General
for Technology, Investment and Cost

SUBJECT: Audit Report – U.S. Postal Service Promotions Program
(Report Number CP-AR-15-005)

This report presents the results of our audit of the U.S. Postal Service Promotions Program (Project Number 15TG014CP000).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

The Postal Service has not developed a comprehensive promotions plan with a well-defined documented process to explain the program strategy or establish program goals.

Introduction

This report presents the results of our audit of the U.S. Postal Service Promotions Program (Project Number 15TG014CP000). This self-initiated project was prompted as a follow-up to the U.S. Postal Service Office of Inspector General's (OIG) review of workshare discounts and automated mail processing. Our objective was to determine whether the Promotions Program is effectively managed. We also identified other potential promotion opportunities. See [Appendix A](#) for additional information about this audit.

The Postal Service offered its first promotion in 2011 to highlight the value of mail and remain competitive in an increasingly digital society. The postage discounts given for promotions represent a new way the Postal Service is exercising its pricing flexibility under the Postal Accountability and Enhancement Act (PAEA)¹ of 2006. The promotions program has three primary goals:

- Retain and grow mail volume;
- Encourage the use and integration of new technology; and
- Promote the value of mail to the digital community and build customer awareness of new uses for mail.

For example, one promotion used color messaging to create a greater connection with and response from consumers. Another promoted the use of mobile barcodes or print/mobile technology to provide convenient ways for customers to shop via their mobile device. In calendar year (CY) 2013 and 2014, the Postal Service offered a total of 13 promotions involving about 2,600 mailers and provided just over \$87 million in postage discounts.

Summary

Opportunities exist for the Postal Service to improve management of the Promotions Program, thereby improving the value of mail. Although the Postal Service has made progress developing and implementing individual promotions, it has not developed a comprehensive promotions plan with a well-defined documented process to explain the program strategy or establish program goals. The Postal Service has focused its efforts on individual promotions to retain and grow mail volume, integrate the use of new technology, and promote the value of mail to the digital community while building new uses for mail. Further, the Postal Service conducts analysis to determine individual promotion performance. However, there are no measureable targets for the program goals, so it is unknown how individual promotions contribute to them.

¹ The PAEA strengthens the Postal Regulatory Commission's (PRC) authority to serve as a counterbalance to new flexibility granted to the Postal Service in setting postal rates. The PAEA requires the PRC to develop and maintain regulations for a modern system of rate regulation.

There are no strategic plans for developing key components of the program, such as selecting a promotion period, technology used, and establishing discount rates. The Postal Service does not have a comprehensive strategic plan for the Promotions Program because each promotion focuses on different content and outcomes. For example, some promotions focus on mail retention. By contrast, other promotions focus on integrating digital technology with physical mailpieces; however, without a comprehensive strategic plan that addresses areas such as the measurable targets, promotion period, technology used, and postage discount rates it is not possible to determine whether the results of individual promotions will accomplish the Postal Service's Promotions Program goals.

A comprehensive plan for developing key program components would better identify whether the Postal Service is accomplishing its overall program goals. Key components include:

Program Strategy

The Postal Service has made progress toward developing and implementing individual promotions. Since the program's inception in 2011, more promotions have been introduced, building customer awareness by integrating technology into the mail. Each year additional technological advancements have been introduced increasing the long-term value of transactional and direct mail. For example, the 2014 Emerging Technology promotion continues the previous year's promotion strategy of encouraging mailers to integrate direct mail with mobile technology. The Postal Service has used individual promotions to guide the program towards its three primary goals. However, it does not have measurable targets for these goals or documented strategies for developing key components of the program.

The Postal Service does not have a comprehensive strategic plan for the Promotions Program because each individual promotion focuses on different content and outcomes. For example, the Earned Value Promotion is a First-Class Mail® promotion designed to retain customers by encouraging them to use First-Class reply mail as a regular part of their marketing plans. By contrast, the Mail Drives Mobile promotion targets standard mail and promotes the use of digital technology to enhance physical mailpieces. This promotion encourages business mailers to use mobile barcodes on mailpieces that a mobile device can read. The strategies are not the same for each mail class or for the application of different technologies within a mail class. Defining these strategies individually rather than having a comprehensive strategic plan currently makes more sense to the Postal Service. Without a comprehensive plan for defining measurable targets and developing program components it is unknown whether the results of individual promotions will accomplish the Postal Service's overall program goals.

Measureable Targets

The Postal Service develops individual promotions to add value and grow long-term mail volume; however, it is not possible to determine whether these goals have been achieved because there are no measureable targets that align individual promotion results with the program goals. For example, there are no targets for the number of mailers who participate in a promotion, the number of participants who continue to use a technology after a promotion has ended, or the amount of mail that uses technology.

The Postal Service measures program effectiveness by comparing participant and non-participant mail volume and evaluating participant surveys for each individual promotion. For example, the Branded Color Promotion showed that the difference between participant and non-participant average volume growth over the same time last year was higher by 5 percent in the six months prior to the promotion, 13 percent during the promotion, and 19 percent in the three months after the promotion. Another example was the Mail and Digital Personalization Promotion where the average volume growth was higher for participants by 2 percent in the six months prior to the promotion and 23 percent during the promotion. However, we determined that volume changes are not a comprehensive measure for determining overall Promotions Program effectiveness because it does not demonstrate that changes are a result of added value and not the postage discount. In addition, we found that the survey responses were not reliable because a mail service provider can respond to the survey on behalf of a participant, without having firsthand knowledge of the promotion's impact.

Also, surveys are distributed within 3 months after a promotion ends, which may not be enough time for participants to gauge the impact of the mailing. A comprehensive plan should include data regarding changes in the mailing behavior of promotion participants and reliable feedback. For example, requiring feedback for mailers to qualify for participation may help make measurement data more reliable. Without measurable targets and relevant and reliable data, the Postal Service cannot make informed decisions concerning the Promotions Program and effectively measure overall program goals.

Component Strategy

Each promotion has three key components:

- Length of time promotion will be offered
- Technology selected
- Postage discount rates to be used

However, there are no program strategies for developing these components.

Promotions are generally 2 or 3 months in length, but the Postal Service does not perform any analysis to determine how much time a promotion will need to achieve program goals. Without proper analysis, the Postal Service may not be allowing enough time to build mailers' awareness to allow them to take advantage of promotions and to make informed decisions based on return on investment information.

There is no analysis to determine whether the selected technology would add value for the mailer. For example, the Postal Service solicits ideas by researching industry trends; evaluating suggestions from senior management, Mailers' Technical Advisory Committee (MTAC) working groups², and mailers; and reviewing volume increases from previous promotions. However, it does not have a strategy for matching the technology with the broader mailing community's capabilities. The Postal Service repeated one of the promotions from 2013 in 2014 to provide mailers the opportunity to help offset their initial investment in a technology and encourage them to continue to participate. However the number of participants did not increase. The program could be more effective with as many mailers as possible participating. Without a strategy to include all mailers when selecting technology, the Postal Service limits mailer participation and the technology's ability to add value to the mail.

The Postal Service selects promotion postage discount rates without conducting a financial analysis beyond the impact to the price cap calculation. This occurred because the emphasis is to comply with the PRC³ price cap⁴ requirement for individual promotions. However, if a financial analysis were conducted before setting discount rates, the Postal Service would be able to ensure that costs of a promotion do not exceed its benefits. In 2013 and 2014 the Postal Service credited participants over \$87 million in postage discounts for 13 promotions. Eight of the 13 promotions, and almost \$5⁵ million in postage discounts, were offered on underwater products.⁶ The Postal Service acknowledges that promotions on underwater products do not lead to cost coverage in the short term; however, it also stated that these types of promotions are a long-term effort to grow revenue by increasing the value of mail. Further, the Postal Service contends that excluding certain underwater products, such as Standard Mail Flats, will effectively remove an entire customer segment that mails both products from the promotion. Without conducting a financial analysis to evaluate benefits, the Postal Service cannot effectively determine when or what promotional discounts to offer.

New Promotion Opportunities

The Postal Service may have opportunities to implement new promotions that add value and relevance to the mail. For example, as technology continues to grow, mailers will increasingly use digital enhancements as a marketing tool. The Postal Service could use this opportunity to ensure that direct mail continues to be a relevant part of the marketing mix by providing mailers with promotions that better engage today's consumers and increase response rates. Identifying useful promotions that add value may help the Postal Service enhance its brand and ensure the value and relevance of mail in the future.

Business Customers

The Postal Service has taken steps to encourage mailers to enhance the value of mail by offering discount postage promotions for mailpieces that include various innovative features. However, about 2,000 of the 2,600 (75 percent) participants that have

2 MTAC working groups are a venue for the Postal Service to share technical information with mailers and receive their advice and recommendations on mail-related products and services.

3 The PRC is an independent agency that has regulatory oversight over the Postal Service.

4 The PRC determined that the Postal Service Promotions Program should comply with Title 39 of the Code of Federal Regulations (C.F.R.), Section 3010.23, which allows calculation of the CPI rate cap to include price reductions associated with rate incentives. This price cap requirements limit discounts the Postal Service can offer in a promotion up to the consumer price index.

5 About 5.7 percent of total discounts were offered on underwater products.

6 Underwater products, which are primarily Standard Mail Flats, are mail products that do not currently cover their direct costs.

taken advantage of these promotions have been large mailers. Although Mail Service Providers⁷ do participate in promotions and represent small and medium business mailers, the average postage discount of 2 percent may not be enough to incentivize smaller mailers to participate on their own. Additionally, the duration of the promotions is about 2 months; this makes it more difficult for smaller mailers to participate because they will need more volume or additional time in order for the participation to be cost effective. Small and medium mailers may also be less likely than larger mailers to know about the promotions the Postal Service offers, as they tend to have fewer resources available to track this information and understand eligibility requirements.

The Postal Service should consider the constraints of small and medium size mailers when developing promotions. Tailoring promotions to all the mailers could increase the value of transactional and direct mail and help retain and grow mail volume.

Other Promotion Opportunities

The OIG hosted a forum and held other meetings where representatives from mailer groups and other stakeholders discussed potential new promotion opportunities. Some of the ideas discussed did not specifically meet the definition of promotions; however, we did identify three promotion opportunities that we believe could add value if properly implemented.

The OIG hosted a forum and held other meetings where representatives from mailer groups and other stakeholders discussed potential new promotion opportunities such as:

⁷ Mail service providers are hired by mail owners to perform any number of mail-related activities which may include printing, addressing, and mailing preparation.

Although we did not make a recommendation regarding specific suggestions, we are reporting the following ideas for the Postal Service's consideration.

- **Postage Meter⁸:** According to one stakeholder, meter mail makes up about 20 percent of U.S. total mail volume, compared to 30 percent in Germany and 40 percent in France. The Postal Service could consider a promotion to encourage metered mail use. Specifically, meters can provide:
 - Postage Savings – electronic scales offer precise weighing and postage meters allow customers to print the exact denomination they need.
 - Increased Security – by eliminating stamp inventories customers will never have to worry about lost or damaged stamps.
 - Customer Behavior – modern meters are computer terminals providing digital interfaces and data streams. By tracking changes in customer use, the Postal Service could target product marketing initiatives to individual users and/or segments of users thereby improving its product and service offerings to customers.
 - Increased Volume and Loyalty – research has shown that new users of metered mail increase their mail volume by more than 10 percent. Many meters are leased or rented; therefore, customers are making a long-term commitment to mail.
 - Cross-Selling Opportunities – research also shows that meter users are more likely to use a postal provider for competitive products (migrate from another carrier company account to a Postal Service meter account for packages).
- **Webkeys:** Webkeys digitally enable printed materials by integrating a USB drive that, when plugged into a computer, can initiate a user-specific experience. Some webkeys are secure, meaning that the data are locked. Online consumers can be steered toward any web-based content the designer chooses. Some webkeys allow offline consumers to view video or documents stored on the webkey's internal memory. Research found that Webkeys generate a high response rate. The information gathered during webkey interactions is usually quite rich and often includes the recipient's contact information and preferences.
- **Customized Market Mail:** Customized Market Mail, sometimes called shaped mail, is a category of mail with unique characteristics, including interesting shapes, sizes, and materials. Customized MarketMail allows advertisers to think outside of the envelope since, unlike traditional mail, irregularly shaped Customized MarketMail does not need to be enclosed in an envelope or box. One company reported that a traditional mailer saw almost double the amount of call activity after incorporating Customized MarketMail into its marketing campaign.

8 A device that allows mailers to print postage indicia directly onto their mailpieces (or onto a meter tape or labels) which they then apply to the mailpiece.

Recommendations

We recommend management develop and implement reportable performance metrics to track program progress and measure the long-term value of promotional mail; and develop and implement a strategy with well-defined documented processes to ensure major promotion program components are meeting the overall program goals.

We recommend the vice president, New Products and Innovation:

1. Develop and implement reportable performance metrics to track program progress and measure the long-term value of promotional mail.
2. Develop and implement a strategy with well-defined documented processes to ensure major promotion program components are meeting the overall program goals by September 30, 2016.

Management's Comments

Management agreed with recommendation 1 and will add specific targets to better demonstrate performance and strengthen the documentation of Promotions Program processes for development and execution.

Management agreed with recommendation 2, including an implementation date of September 30, 2016.

Management took exception to specific portions of the report because it did not reflect the efforts they already made to establish a strategy and measure individual promotion performance. Those efforts included using volume and surveys to measure the more immediate impact of a promotion, conducting research to identify technology and align promotions with specific events, and developing communication to support outreach. Specifically they took exception to:

- Our statement that eight of 13 promotions and almost \$5 million in postage discounts were offered on underwater products, stating that the PRC prevented them from excluding specific products;
- Our conclusion that the average postage discount may not be enough to incentivize smaller mailers to participate, stating that they follow PRC requirements and provide equal opportunities for all; and
- Our conclusion that they should consider the constraints of small and medium size mailers when developing promotions, stating that the promotions calendar provides different opportunities throughout the year and allows mailers to use what meets their needs. However, they agreed to work on strategies to reach additional small and medium size businesses

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report. Management agreed with our recommendations and the implementation date of September 30, 2016.

Management neither agreed nor disagreed with our findings; however, they did note specific exceptions with what we reported. Specifically, management expressed a concern that our report did not recognize the work they performed. We address these concerns below:

- We agree that the Postal Service researched various technological opportunities and aligned promotions with specific events but found there was no documented process for how they developed these key components or a demonstration of how they relate to a strategic plan. Management did not provide the OIG with information about the expected or targeted range of participation for each promotion or a documented process for analyzing advertising budgets and spend by channel.

- We agree that the Postal Service uses volume differentials, volume changes, and a survey for feedback on how to evaluate the effectiveness of a promotion. We found that survey responses were too low to accurately assess effectiveness. Further, surveys did not provide information on a mailer's return-on-investment, which can be used to assess value added. Although we agree that the Postal Service has some metrics in place to measure performance, we do not believe that the current metrics can definitively illustrate that performance is a result of added value rather than the postage discount rate.
- We agree that the Postal Service has established outreach methods to build mailer awareness about promotions but also found that there was no documented process for how to conduct outreach or how each method contributes to the strategic plan.

The Postal Service stated that the PRC prevented it from singling out or excluding any product from participation in promotions, therefore it had PRC approval to offer discounts on underwater products. We found no evidence to support the Postal Service's assertion about not excluding products and mentioned it to demonstrate the importance of developing documented practices for developing key components such as promotion period and technology and postage discount rates. It is our view that documented policies on financial analysis and measurable targets would ensure that promotions offered are done with a cost-benefit consideration and identify success or failure. Discounts offered on any underwater product should be done to show how the proposed prices will move cost coverage toward 100 percent.

The Postal Service took exception with our comment that the average discount rate may not be adequate to incentivize participation of small mailers. It was not our position that a subset of mailers be given preferential treatment, but an illustrative comment to explain why it is important to consider the constraints of certain mailers with lower participation levels and find ways to include them.

The Postal Service reviewed our observations on potential additional promotion opportunities it should consider. We did not include this as a recommendation because we agree that some opportunities may not be viable at this time. Our goal was to introduce potential ideas shared during various meetings. The OIG is encouraged that the Postal Service will consider opportunities it does not currently deem viable as technology and mail capabilities evolve.

Appendices

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Appendix A: Additional Information

Background

The Postal Service offered its first promotion in 2011 to stimulate mail volume and increase mail value. Discounts given for promotions represent a new way the Postal Service is exercising its pricing flexibility under the PAEA. The primary intent of the Promotions Program was to increase the long-term value of transactional and direct mail. The Promotions Program's strategy has focused on building awareness about the various uses of mail through technological enhancements. In 2013 and 2014, the Postal Service offered 13⁹ promotions and issued just over \$87 million in postage discounts.

Promotion ideas are generated by:

- Reviewing volume increases in the previous promotion.
- Researching trends in the industry throughout the year and how they could apply to mail.
- Evaluating suggestions from senior management, mailers, mail service providers, and industry representatives, such as the MTAC.

The Postal Service repeated four of the promotions from 2013 to 2014 to provide mailers the opportunity to offset their initial technology investment and encourage continued participation. Promotions may also be repeated based on previous year's high volume, popularity, or for customer retention purposes. In determining the discount postage rate and length for each promotion, the following factors were considered:

- The probability of customer participation;
- Mailers and the PRC's acceptance of past promotion discount postage rates;
- Survey responses from past participants; and
- Cost/revenue coverage compliance with the PRC's price cap calculation.

The Postal Service uses mail volume changes 3 months after a promotion ends and participant surveys for each individual promotion to measure the program's effectiveness. Success is determined by comparing the number of participants to non-participants for 6 months before and during the promotion period and 3 months after the promotion ends. Participation requirements are provided using multiple channels, such as webinars, MTAC meetings, and the Postal Service website. At the end of the promotion period, participants are asked to complete a survey providing information such as their motivation for participating in the promotion, impacts on their mailing behavior, adoption of best practices, and suggestions for future promotions. The intent of these surveys is to measure the impact and effectiveness of the promotions and to enhance future promotions.

⁹ In CY 2013, six promotions were offered with \$38.7 million discounts/incentives issued. In CY 2014, seven promotions were offered with \$49 million discounts/incentives given.

Objective, Scope, and Methodology

Our objective was to determine whether the promotions program is effectively managed. We also identified other potential promotion opportunities.

To describe the promotion process, status, impacts and results, we interviewed Postal Service officials at headquarters, including the vice presidents of New Products and Innovation, Mailing Services, Pricing, and Sales. Additionally, we reviewed documents the Postal Service and other mailing industry representatives filed with the PRC for the annual rate case, as well the OIG's *Mail Innovations* report and industry material about the use of technology and direct mail campaigns.

We conducted this performance audit from January through September 2015, 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 August 21, 2015, and included their comments where appropriate.

We did not assess the reliability of any computer-generated data for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Mail Innovations</i>	RARC-WP-14-014	9/23/2014	N/A
Report Results: This white paper determined that Innovative mailpieces add more value to recipients. With information being presented through various channels, mail is staying relevant while reaching out to more demanding customers.			
<i>Enhancing Mail for Digital Natives</i>	RARC-WP-14-001	11/18/2013	N/A
Report Results: This white paper determined that digital natives responded well to digital enhancements to physical mail. If the Postal Service wants to stay relevant it needs to meet the needs of digital natives by providing the enhancements they need.			
<i>U.S. Postal Service - Opportunities to Increase Revenue with Competitive Products; Reviewing Long-Term Results Could Better Inform Promotions Decisions</i>	GAO-13-578	June 2013	N/A
Report Results: The report determined that Postal Service is not currently giving the PRC data or analysis about potential long-term financial results when submitting promotions to PRC for approval but it does provide data about promotion results, as required.			

Appendix B: Management's Comments

GARY C. REBLIN
VICE PRESIDENT
NEW PRODUCTS AND INNOVATION



September 14, 2015

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report—U.S. Postal Service Promotions Program
Report Number CP-AR-15-DRAFT

The findings and recommendations outlined in this draft audit have been reviewed and a response from New Products and Innovation is as follows.

We want to thank the OIG for their review. However, we do respectfully disagree with the philosophy regarding strategy. Throughout the report, the audit noted a lack of an overarching strategic plan for developing the promotions. Though we appreciate the feedback, we believe that it is important to develop and maintain a clear and distinct strategy for each of three categories: Commercial First Class Mail, Consumer First Class Mail and Advertising Mail, and shared this approach and content in the audit kick-off meeting on February 13, 2015. Because the opportunities, markets and technologies differ for each of these three segments, the requirements for the promotions established to support each segment also differ. The promotions are engineered to support the needs and opportunities by segment.

The report also states that there are no measureable targets for promotion goals, and no understanding of how individual promotions contribute to the goals. The OIG team was provided with the data files that depict the expected and target ranges of participation for each individual promotion, and was directed to the PRC filing materials to see the level of detailed analysis that is developed, with active participation by USPS pricing and legal review in order to prepare filing materials for the intense scrutiny of the PRC review and approval process. Additionally, the USPS's goal for most promotions is to encourage growth by

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encouraging use of new techniques that will improve the mailer's ROI. For these promotions, we shared and the OIG reviewed our data which document customers that participate in promotions are in fact growing faster than those that do not participate in the promotions. We believe that this is our central goal. However, will take OIG's feedback and specifically set a definitive number for the growth expected.

Recommendations :

We recommend the vice president, New Products and Innovation: Develop and implement reportable performance metrics to track program progress and measure the long-term value of promotional mail. Develop and implement a strategy with well-defined documented processes to ensure major promotion program components are meeting the overall program goals by September 30, 2016.

We agree that the strategy and performance metrics are an important foundation for establishing and executing the Promotions Program, and that we have shown that the strategy and performance metrics are already effectively in place and are utilized on an ongoing basis to assess results, and to shape forward planning and potential future offerings. However, we will add specific targets for growth in the future to better demonstrate how successful the program has been. There is some opportunity to better document promotions processes. We can strengthen the documentation used by the promotions team for managing promotions development and execution.

On page 2 of the report, the OIG team notes that, *"There are no strategic plans for developing key components of the program, such as selecting a promotion period, technology used, and establishing discount rates."* This is inaccurate. The Promotions Team does extensive research on technology trends, marketing trends, advertising budget and spend by channel, outreach to tech providers and equipment manufacturers, as well as research on innovations and new technology used by the print industry. The team assesses these key developmental areas, and looks for ways to combine these tech and industry developments with initiatives that also leverage the unique value offering of the mail itself. The team actively solicits input and feedback from stakeholders, from the industry and through active MTAC workgroups, as well as through surveys distributed to promotions participants. The Promotions Team pools these resources and inputs to provide a comprehensive review and strategic assessment of potential opportunities prior to developing recommendations for each year's Promotions Calendar and circulating internally for critical review and feedback. Promotions are identified to align with specific periods of time, and to provide mailers with opportunities to participate throughout much of the year. For example, the Mobile promotions are aligned with the peak shopping timelines

around the holidays, while the Earned Value promotion runs at the same time each year during the spring to effectively assess year-over-year changes.

On page 3 of the report, the OIG team notes that *“we determined that volume changes are not a comprehensive measure for determining overall Promotions Program effectiveness because it does not demonstrate that changes are as a result of added value and not the postage discount.”* The Promotions Team uses much more information than merely volume changes to assess the program effectiveness, and shared all of this data with the review team. The volume assessment is only one of multiple data points that are used. Volume differentials are compared for promotions participants vs. non-participants to determine if there are changes in mailing behaviors between the groups. The team assesses participation and mailing rates compared to the target ranges established for each promotion at the outset of each promotion. In addition to objective data analysis, the team also considers more subjective responses to surveys, informal feedback from mailers and dialogue from industry workgroups, as well as assessment of mailpiece samples to construct a more broad and balanced assessment of program effectiveness. The promotions are designed to provide a small short-term financial benefit to the mailer with the expectation of continuing to generate mail volumes in the future, as mailers have the opportunity to assess the effectiveness of the implementation of the tools and technologies encouraged through the promotions. Tracking mail volume behaviors for promotion participants vs. other mailers in the period after the promotion concludes give an indication of the added value of the promotion, since mailers would not continue to mail and leverage these tools beyond the promotion period if the discount provided the only motivation for participation. The data shared with the OIG team shows the ongoing, sustained volume increases for months after the conclusion of a promotion, showing that the discount is not the singular motivator. We know from ongoing dialogue and surveys that a discount is often a good “tipping point” that encourages a mailer to try something new. If it works, they stick with it! The Color Transpromo promotion is another good proof point. The substantive investment in print technology to produce pieces that comply with the promotion requirement significantly outweighs the nominal 2 percent discount for this promotion. Mailers make the investment because of the value it creates for the mailer’s business. Reports of benefits from participants include significant reductions in call center costs and volume as a result of a Transpromo implementation of color printed data sets on legally-required billing statements. The USPS promotion has provided them with a small additional incentive to move in the direction where they can realize additional organizational value through the implementation of this technology and leveraging these capabilities in the production of their mail pieces.

Also on page 3 of the report, the OIG team noted issues with survey response reliability, and with the timeline of survey distribution following a promotion. Completion of the surveys are required for each promotion participant, though mailer response rates vary, and some are still not completed after 7-10 outreach attempts. We will work with mailers through MTAC to improve this issue.

On Page 4, the OIG team notes that *“the Postal Service may not be allowing enough time to build mailers’ awareness to allow them to take advantage of the promotions...”* There is an extensive communications plan developed to support the outreach about each year’s Promotions Calendar. As soon as there is PRC approval of the Promotions Calendar, our team immediately initiates the dialogue with the industry about the opportunities. There is outreach through Consumer & Industry Affairs, through Corporate Communications, through MTAC, through various Postal and industry publications. There are ongoing webinars for both external audiences and with the USPS Sales organization to help share information and outreach through our sales team. However, we are working on gaining approval for promotions through the PRC earlier, which would give us more time to ensure that a wider array of communications are sent out.

On Page 4, the OIG team notes that *“the Postal Service credited participants over \$87million in postage discounts for 13 promotions. Eight of the 13 promotions, and almost \$5 million in postage discounts were offered on underwater products that do not lead to cost coverage in the short term.”* The **PRC required** that the USPS not single out or exclude specific products. The inclusion of Standard Mail Flats in the promotions was at the behest of the PRC.

On Page 5, the OIG team suggests that *“the average postage discount of 2 percent may not be enough to incentivize smaller mailers to participate on their own.”* The PRC is quite clear that our pricing and promotion requirements must provide equal opportunities for all, and would not support giving a larger discount to a subset of mailers based on their size. Therefore, we do need to balance the discount to obtain optimal results.

Also, on Page 5, *“The Postal Service should consider the constraints of small and medium size mailers when developing promotions.”* The promotions calendar provides different opportunities throughout the year for mailers to apply the tools that make sense for their needs. However, we agree and continue to work on strategies to reach a wider array of small and medium businesses.

The OIG team also provided suggestions for other promotional opportunities on **pages 5-6**.

Postage Meter promotion: as information, the FCM meter price is already lower than FCM single piece rates, so we believe that other pricing incentives are in place besides a promotion.

Webkeys: this technology has been previously assessed, and not included in promotions. Once the webkey is disconnected from the mailpiece, there is no longer the connection from the physical mail to the digital experience. In addition, webkeys have historically been thick enough to present potential machinability challenges in mail processing, and might force the mailer into another mailpiece size and higher postage rate. However, the technology is getting smaller and slimmer, so may present an opportunity in the future but we are concerned with it disconnecting the tech from the mail.

Customized Market Mail: we like the suggestion to use promotions to encourage uses of effective products. These mailpieces are intriguing and can command high response rates, but they are very expensive to process and handle. We will look into this.

We want to thank the OIG for taking the time to thoroughly review the promotions and appreciate the feedback and recommendations.

This report and management's response does not contain any information that is exempt from disclosure under FOIA.



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