



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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**Metro Post Same Day Delivery  
Pilot – San Francisco District**

**Management Advisory Report**

February 5, 2014

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Report Number DR-MA-14-002



## **BACKGROUND:**

In December 2012, the Postal Regulatory Commission approved pilot testing of the U.S. Postal Service's Metro Post Same Day Delivery concept in the San Francisco District's 941 ZIP Code areas. This service enables customers to order products online by 2 p.m. from partnering retailers and receive their shipments the same day between 4 p.m. and 8 p.m. Carriers use smartphones that provide audio and visual package pickup and delivery routing directions that are integrated with the Postal Service's Dynamic Routing System Google Maps<sup>®</sup> application. Retailers and customers use the Postal Service's Track and Confirm application to track their packages.

The Postal Service began the Metro Post Same Day Delivery pilot to gain a competitive edge in parcel delivery by offering customers a convenient and flexible delivery alternative. The Postal Service planned to gather sufficient data during the pilot to determine whether to continue this delivery service.

Our objective was to assess implementation of the Metro Post Same Day Delivery pilot.

## **WHAT THE OIG FOUND:**

The Postal Service did not properly implement the pilot. They did not have sufficient participation from the six selected retailers to achieve the

required daily minimum target of 200 packages per delivery day. Only 95 packages were sent by the six participating retailers over a 5-month period. Implementation in the San Francisco District was based on the expectation of agreements with several large retailers. However, only one large retailer agreed to participate in the pilot, and later withdrew prior to implementation due other operational priorities. The Postal Service was left with small local retailers that could not produce the target daily package volume. As a result, the Postal Service earned \$760 and spent \$10,288, with a net loss of \$9,528 on the pilot.

## **WHAT THE OIG RECOMMENDED:**

Postal Service Executive Vice President, Chief Marketing and Sales Office took actions during the course of our review and, therefore, this report does not contain any recommendations. Specifically, officials agreed to suspend the pilot in the San Francisco District beginning March 1, 2014 which will allow time to notify customers of the change. Officials further indicated they plan to re-initiate the program in this location when they can secure large retailers' participation. They have initiated the Metro Post Same Day Delivery pilot in the New York District where they have large participating retailers.

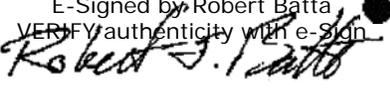
[Link to review the entire report.](#)



February 5, 2014

**MEMORANDUM FOR:** NAGISA MANABE  
EXECUTIVE VICE PRESIDENT, CHIEF MARKETING AND  
SALES OFFICER

EDWARD F. PHELAN, JR.  
VICE PRESIDENT, DELIVERY AND POST OFFICE  
OPERATIONS

E-Signed by Robert Batta  
VERIFY authenticity with e-Sign  


**FROM:** Robert J. Batta  
Deputy Assistant Inspector General  
for Mission Operations

**SUBJECT:** Management Advisory Report – Metro Post Same Day  
Delivery Pilot – San Francisco District  
(Report Number DR-MA-14-002)

This report presents the results of our review of the U.S. Postal Service Metro Post Same Day Delivery Pilot – San Francisco District (Project Number 13XG018DR001).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Rita F. Oliver, director, Delivery and Post Office Operations, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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## Introduction

This report presents the results of our self-initiated review of the U.S. Postal Service's Metro Post Same Day Delivery Pilot in the San Francisco District. Our objective was to assess implementation of the pilot (Project Number 13XG018DR001). See [Appendix A](#) for additional information about this review.

In response to increasing parcel volume and the changing needs of customers,<sup>1</sup> the Postal Regulatory Commission (PRC) approved the pilot in the San Francisco District in November 2012. The PRC based its approval on the city's population density and the number of possible delivery areas available.<sup>2</sup> Under this concept, a customer could make an online purchase from a Metro Post retailer, have it processed<sup>3</sup> by 2 p.m., and receive his or her shipment the same day between 4 p.m. and 8 p.m. in the San Francisco, CA, 941 ZIP Code areas. The Postal Service determines the required staffing and optimal routes for pickups and deliveries<sup>4</sup> from the retailers for same day delivery to the customers. It planned to gather sufficient data during the 1-year pilot to support its decision to request an extension for an additional year, establish the service as a permanent product on a quicker timeline, or terminate the test early.

## Conclusion

The Postal Service did not properly implement the pilot. They did not have sufficient participation from the six selected retailers to achieve the required daily minimum target of 200 packages per delivery day. Only 95 packages were sent by the six participating retailers over a 5-month period. Implementation of the pilot in the San Francisco District was based on the expectation of agreements with several large retailers. However, only one large retailer agreed to participate in the pilot, and later withdrew prior to implementation due other operational priorities. The Postal Service was left with small local retailers that could not produce the target daily package volume. The Postal Service earned \$760 and incurred costs of \$10,288, with a net loss of \$9,528.

Officials initiated suspending the pilot in the San Francisco District by March 1, 2014, which will allow time to notify customers of the change. Officials further indicated they plan to re-initiate the program in the San Francisco District when they can secure large retailers' participation. Officials have initiated the pilot in the New York District<sup>5</sup> where large retailers are participating. Because the pilot will be suspended, we are not making any recommendations.

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<sup>1</sup> The postmaster general stated in his February 13, 2013, testimony before the Senate's Committee on Homeland Security and Governmental Affairs that package sales increased 14 percent over the past 2 years.

<sup>2</sup> PRC order approving Metro Post market test dated November 14, 2012, Order Number 1539/Docket Number MT2013-1.

<sup>3</sup> Processing includes picking up, packing, and labeling the product and transmitting the manifest data to My Post.

<sup>4</sup> The Dynamic Routing Device will create the optimal pickup and delivery sequence for the day's deliveries.

<sup>5</sup> Management requested we perform a review of the Metro Post pilot in the New York District.

## Metro Post Same Day Delivery Pilot – San Francisco District

To gain a competitive edge in parcel delivery, the Postal Service began pilot testing Metro Post Same Day Delivery in December 2012 in the San Francisco District's 941 ZIP Code areas. The intent of the pilot was to provide customers with a convenient and flexible delivery alternative.

The pilot was designed to:

- Increase the Postal Service's parcel readiness for future online retail growth.<sup>6</sup>
- Expand available parcel delivery and shipment options for customers by giving them an easy, convenient, and secure package delivery alternative. It could also reduce customer concerns related to missed deliveries, address mix-ups, stolen packages, or weather-damaged goods.
- Provide the Postal Service with a marketing edge, using similar strategies implemented by competitors and international entities that offer same day delivery service to help increase revenue.

### Pilot Execution

Although the pilot could provide some revenue opportunities for the Postal Service, we could not evaluate these opportunities because the pilot was not properly implemented. The participating retailers did not ship the required daily minimum target of 200 packages per delivery day.

Retailers' Participation The Postal Service did not have sufficient participation from the six selected retailers. They only sent 95 packages over a 5-month period (see [Table 1](#)). PRC approval for the pilot test established a goal of 200 packages per delivery day.

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<sup>6</sup> *Readiness for Package Growth - Delivery Operations*, (Report Number DR-MA-14-001, dated December 11, 2013).

**Table 1. Retailers' Parcel Volume as of June 12, 2013**

Retailer Name	Actual Parcel Volume
[REDACTED]	80
[REDACTED]	1
[REDACTED]	1
[REDACTED]	4
[REDACTED]	8
[REDACTED]	1
<b>Total</b>	<b>95</b>

Source: OIG analysis of Postal Service Metro Post data.

Some retailers were not participating because the pilot initiative did not meet their needs in terms of online postage and signature confirmation. Regarding online postage, [REDACTED], which specializes in purchasing and reselling older, used arcade or gaming software, indicated Metro Post Same Day Delivery did not meet its need to purchase exact postage. Metro Post's use of Endicia<sup>7</sup> for same day delivery postage requires users to purchase postage in dollar increments versus the exact postage amount. Regarding signature confirmation, [REDACTED], which sells specialty gloves, indicated it would use the Metro Post Same Day Delivery service more often if signature verification were available.

The pilot's implementation in the San Francisco District was based on the expectation of agreements with several large retailers. However, only one large retailer agreed to participate in the pilot, and later withdrew prior to implementation due other operational priorities. The Postal Service was left with small local retailers that could not produce the target daily package volume. The Postal Service earned \$760 and spent \$10,288, with a net loss of \$9,528.

Officials initiated suspending the pilot in the San Francisco District by March 1, 2014, which will allow time to notify customers of the change. Officials further indicated that plan to re-initiate the program in the San Francisco District when they can secure large retailers' participation. Officials have initiated the Metro Post Same Day Delivery pilot in the New York District<sup>8</sup> where they have large retailers participating.

### Recommendations

The corrective actions already in progress should correct the issue discussed, therefore, we made no recommendations in this report.

### Management's Comments

Management reviewed a draft of this report and had no comments or concerns.

<sup>7</sup> An online application that allows retailers to prepay postage.

<sup>8</sup> Management requested we perform a review of the Metro Post Same Day Delivery pilot in New York.

## Appendix A: Additional Information

### Background

With Metro Post Same Day Delivery, a customer can make an online purchase from a Metro Post retailer, have it processed by 2 p.m., and receive his or her shipment the same day between 4 p.m. and 8 p.m. in the San Francisco, CA, 941 ZIP Code areas. Metro Post carriers and vehicles are co-located within the San Francisco Postal Service's processing and distribution center and the San Francisco District office.<sup>9</sup> The pilot process is summarized as follows:

- Customer makes an online purchase from a Metro Post retailer, including selecting delivery time and shipment cost from the delivery options on the retailer's website. The customer pays by credit card online and includes shipping instructions to the retailer.
- Upon receipt of the purchase request and payment, the retailer finalizes the order with the customer, who pays a flat rate of \$8 to the Postal Service for Metro Post shipping using Endicia or another authorized payment application. The retailer provides the Postal Service with the pickup and delivery location via My Post.<sup>10</sup>
- The Postal Service determines staffing based on the day's package volume and optimizes routes for pickups and deliveries. The Postal Service provides the retailer with the tracking number and expected delivery time, which the retailer communicates to the customer through its order confirmation process. Each carrier loads up to a maximum of 25 packages in modified minivans between the hours of 2 p.m. and 4 p.m. (see Figures 1 and 2).

**Figure 1. Minivan Outside View**



**Figure 2. Minivan Inside View**



Source: OIG photographs taken February 11, 2013.

- Next, the carrier makes deliveries between 4 p.m. and 8 p.m. For increased safety during evening delivery hours when darkness could pose a hazard, carriers use the side door of the minivan for loading and off-loading parcels and wear reflective vests for greater visibility.

<sup>9</sup> The PRC approved the initial pilot for the San Francisco District only, with plans for future locations.

<sup>10</sup> The application that local post offices rely on to pull or hold mail requests, carrier pickups, and service issues daily.

- The carrier uses the smartphone for directions and real-time tracking<sup>11</sup> (see Figure 3). The smartphone provides audio and visual package pickup and delivery routing directions, which are integrated with the Postal Service's Dynamic Routing System Google Maps® application. The carrier uses the smartphone to scan each parcel at pickup and delivery to provide real-time tracking information to the Metro Post Volume Summary dashboard. The dashboard includes the merchant's name, pickup and delivery dates, mileage, and the number of parcels delivered for each shipment and carrier location. Retailers and customers can also use the Postal Service's Track and Confirm application to track a package.

**Figure 3. Smartphone**



Source: OIG photograph taken February 11, 2013.

### Objective, Scope, and Methodology

Our objective was to assess implementation of the Metro Post Same Day Delivery pilot.

To accomplish our objective we:

- Reviewed Postal Service documentation, including applicable policies and procedures and prior reports related to the pilot.
- Analyzed available performance data for fiscal years 2012 and 2013 for the San Francisco pilot and actual implementation costs to date.
- Interviewed Postal Service Headquarters and San Francisco District officials to discuss the pilot and assess the success of the pilot in the San Francisco 941 ZIP Code areas. We also observed pilot operations from February 11-14, 2013.
- Performed test deliveries with retailers participating in the pilot and interviewed their representatives to determine usage and identify areas of concern.

We conducted this review from March 2013 through February 2014 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on January 15 and 23, 2014, and included their comments where appropriate.

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<sup>11</sup> *Delivery Data Transmission*, (Report Number DR-MA-13-003, dated August 6, 2013).

We relied on Time and Accounting Collection System data provided by Postal Service officials. We determined that the data were sufficiently reliable for the purposes of this report.

#### [Prior Audit Coverage](#)

The OIG did not identify any prior audit reports related to our objective.