



OFFICE OF **INSPECTOR GENERAL**

UNITED STATES POSTAL SERVICE

Small Business Exports

WHITE PAPER

Report Number
MS-WP-15-002

August 26, 2015





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Executive Summary

In 2013, SMEs made up more than 98 percent of the 304,000 U.S. companies exporting goods and were responsible for about 34 percent of the total value of exported goods.

Digital technologies have created a borderless, worldwide marketplace for even the smallest businesses. Global e-commerce – using the Internet to buy and sell goods and services on an international scale – is rapidly booming, as is the need for transporting those products from seller to buyer. Global e-commerce topped \$1.3 trillion in 2014 – exceeding 2013 levels by 24 percent – and is expected to grow another 20 percent in 2015. This growth has a profound effect on small and medium-sized enterprises (SME), as it allows them to participate in and help drive international trade in ways similar to their larger counterparts. SMEs are gaining unprecedented access to international customers, helping the nation’s economy in the process.

There are over 28 million SMEs operating in the U.S. today. The extent to which these SMEs are involved in international exporting, however, is divergent. On one hand, SMEs that do export are very active in the market. In 2013, SMEs made up more than 98 percent of the 304,000 U.S. companies that exported goods and were responsible for about 34 percent of the total goods export value. On the other hand, only a small portion of the 28 million U.S. SMEs export their goods (about 1 percent), suggesting there is enormous potential for export growth in this sector.

The U.S. government launched strategies to promote international trade for SMEs, revitalizing the economy in the

process. A 2010 presidential executive order¹ mandated that programs be developed to improve information and other technical assistance to first-time exporters, while helping current exporters identify new opportunities in international markets.

The U.S. Postal Service is uniquely positioned to help SMEs enter global e-commerce. It is an internationally trusted brand and has an extensive operations network and a variety of international product and service offerings. The Postal Service, however, continues to struggle to capture a greater segment of the SME export market, as it faces substantial competition from domestic and international companies.

The objective of this paper was to identify opportunities for the Postal Service to increase revenue from SME exports. We evaluated the Postal Service’s current initiatives pertaining to SME exports; interviewed subject matter experts and Postal Service officials; and reviewed corresponding market research, government data, laws, and regulations.

The Postal Service has major opportunities to increase revenue from SME exports by developing an all-inclusive “one-stop shop.” This one-stop shop (such as a website) can provide an electronic, user-friendly platform, creating a “hassle-free” experience for global consumers and SMEs. Such an online platform could provide significant benefits to two distinct SME groups:

¹ Executive Order 135434: National Export Initiative (March 2010).

A One-Stop Shop, online platform could provide significant benefits to two distinct SME groups



■ *Current SME exporters* – the online platform could make the Postal Service a more favorable shipping option, as it would increase shopper and SME efficiency by removing some barriers, such as uncertain total costs and Customs requirements. This could result in the Postal Service capturing growth from its current customers, but also possibly gaining market share from its competitors.

■ *Potential SME exporters* – the online platform could help clarify the exporting process, which could encourage SMEs that had been hesitant to enter the export market.

One way to accomplish this is by exploring partnerships, or “strategic alliances,” with other entities currently well-positioned in the information technology arena. These companies may be more responsive to market, operational, and technological changes. These alliances could result in more efficient exporting process for SME exporters, increasing Postal Service revenue in the process.

Additionally, the Postal Service has new revenue-generating opportunities by pursuing legal changes. While the Postal Service is currently prohibited² from shipping consumable alcohol both domestically and internationally, SMEs and consumers use competitors to export billions of dollars in alcohol each year. Legal changes in this area would provide the Postal Service an opportunity to capture a piece of this multi-billion dollar market, generating new revenue in the process.

The export market, including global e-commerce, is continuing to expand. SMEs, their customers, and the Postal Service will continue to be key players in this market. The Postal Service’s ability to serve SME exporters could help it capture greater market share, thereby enhancing its overall financial condition.

² 18 U.S.C Section 1716(f).

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 26, 2015

MEMORANDUM FOR: GISELLE E. VALERA
VICE PRESIDENT, GLOBAL BUSINESS

E-Signed by Janet Sorensen
VERIFY authenticity with eSign Desktop

MS

FROM: Janet M. Sorensen
Deputy Assistant Inspector General
for Revenue and Resources

SUBJECT: White Paper – Small Business Exports
(Report Number MS-WP-15-002)

This white paper presents the results of our self-initiated review of Small Business Exports (Project Number 15RG014MS000). Our objective was to identify opportunities for the U.S. Postal Service to increase revenue from small and medium-sized enterprise exports.

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

Attachment

cc: Corporate Audit and Response Management

Table of Contents

Cover	
Executive Summary.....	1
Transmittal Letter.....	3
Observations	5
Introduction	5
One-Stop Shop Online Platform	7
New Revenue Opportunities for the Postal Service	8
Conclusion	10
Management’s Comments	10
Evaluation of Management’s Comments	10
Appendices.....	11
Appendix A: Wine, Craft Beer, and Spirits Data.....	12
Wine	12
Craft Beer	12
Spirits	12
Appendix B: Management’s Comments.....	14
Contact Information	15

Observations

As exports grow, so will demand for shippers that can move these products.

Introduction

International trade has exploded as a result of rapidly improving digital technologies and platforms. Global e-commerce topped \$1.3 trillion in 2014 – exceeding 2013 levels by 24 percent – and is expected to grow another 20 percent in 2015. However, only 1 percent of America's 30 million companies export goods and services – considerably less than other developed countries. Why do so few U.S. companies take the plunge?

Experts say many companies operate as if the U.S. domestic market is both large enough and diverse enough to accommodate steady growth. However, with 70 percent of the world's buying power located outside the U.S. and middle classes emerging in highly populated countries like China and Brazil, such a parochial view may be unnecessarily limiting, and many companies could profit by expanding their target markets beyond U.S. borders.

The package delivery market is an important and growing segment of the U.S. economy because of the e-commerce boom. In 2013, U.S. businesses and consumers spent more than \$68 billion to ship packages domestically. Meanwhile, the U.S. exported \$2.34 trillion in goods and services in 2014, setting a record for the 5th straight year. Exports are a growing part of the U.S. economy and accounted for over 13 percent of our nation's Gross Domestic Product in 2014. As exports grow, so will the demand for shippers that can move these products.

Global e-commerce growth has had a profound effect on small and medium-sized enterprises³ (SME), as it allows them to participate in, and help drive, international trade in ways similar to their larger counterparts. SMEs play a vital role in both the national and global economy – a role that has become even more prevalent as buyers and sellers use the Internet and mobile devices to make easier international business connections and transactions.

A 2013 National Small Business Association (NSBA) and Small Business Exporters Association (SBEA) survey found a notable increase in the number of small business owners who reported they export their goods.⁴ Furthermore, 63 percent of small businesses that were not exporting in 2013 said they would be interested in doing so if they knew where to start. That is up from 43 percent that expressed such an interest in 2010. The survey also revealed that having limited goods to export did not deter SMEs from entering the international market, but having a lack of information and an unclear understanding of how to start exporting did. This lack of information is a barrier that businesses could easily overcome.

Significant efforts have been taken to promote and enhance international trade for both current and potential SME exporters. A 2010 presidential executive order was issued to launch a government-wide strategy to promote exporting and international trade.⁵ This order specifically mandated that programs be developed to enhance exporting assistance to SMEs by improving information and other technical assistance to first-time exporters and help overcome hurdles to entering new markets.

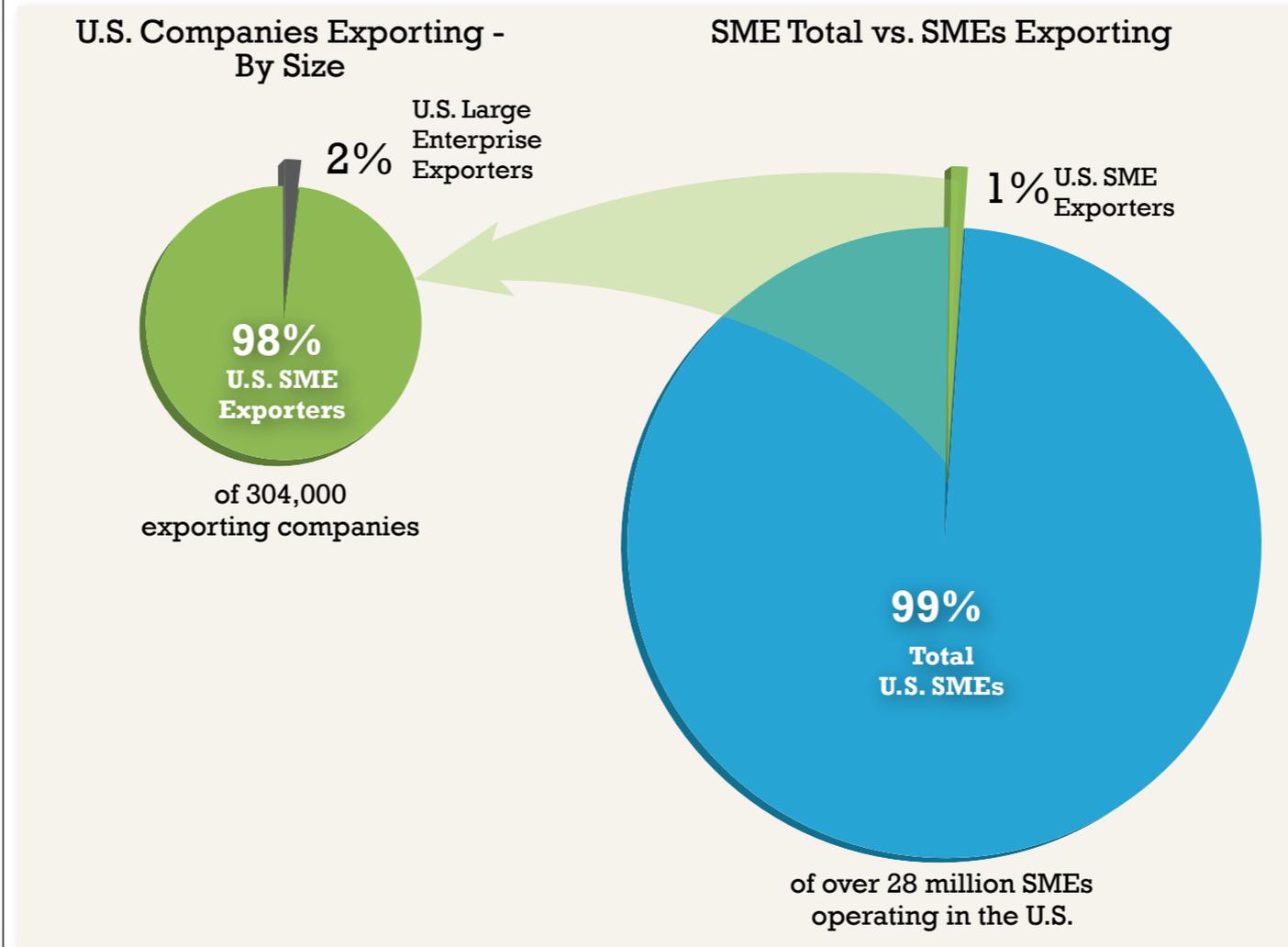
Sales from the more than 28 million SMEs in the U.S. accounted for 54 percent of all domestic sales. In 2013, SMEs made up more than 98 percent of the 304,000 U.S. companies exporting goods and were responsible for about 34 percent of the total value of exported goods. Yet SMEs have a particularly difficult time entering the export and e-commerce market. In fact, only 1 percent of U.S. SMEs exported goods in 2013 (see [Figure 1](#)).

³ The Small Business Administration (SBA) defines a small business as an independent business having fewer than 500 employees. For purposes of this report, we are using this definition for SMEs. The Postal Service, on the other hand, defines small business as those having the potential to spend \$35,000 or less per year.

⁴ NSBA and SBEA 2013 *Small Business Exporting Survey*.

⁵ Executive Order 135434: National Export Initiative (March 2010).

Figure 1: SME Exporters' Relationship to Total Number of U.S. Companies Exporting and U.S. SME Totals



Source: U.S. Postal Service Office of Inspector General (OIG) created with International Trade Administration and SBA data.

Some of the challenges facing SMEs wanting to take advantage of the international market include:

- Country-specific requirements and restrictions, such as Customs forms
- Harmonized system codes⁶
- Payment and currency exchange rates
- Technological resources, capabilities, and interfaces
- Logistics details

⁶ The Harmonized System (HS) is a multipurpose international product nomenclature, comprised of about 5,000 commodity groups each identified by a six-digit code and used to achieve uniform classification. The system is used by more than 200 countries and economies as a basis for their Customs tariffs and collection of international trade statistics. Various U.S. government agencies rely on international HS codes; businesses need to know their products' HS numbers to determine applicable import tariff rates, complete shipping documents, and so forth.

- Language barriers associated with marketing and customer service
- Risks incurred with new and unknown supply chain partners

SMEs and their customers balance a variety of factors such as price, service, tracking, and ease-of-use when selecting among the various shipping companies, including the U.S. Postal Service.

The Postal Service is uniquely positioned to help SMEs enter global e-commerce, broadening its customer service, and increasing revenue in the process. The Postal Service has an extensive infrastructure and network – a strong starting point for international shipping. Either on its own or with partners, the Postal Service could operate as a gateway for international trade for SMEs.

The Postal Service has a variety of products and services for international shipping such as Global Express Guaranteed, Express Mail International, Priority Mail International, and First-Class Mail International. The Postal Service, however, continues struggling to capture a greater segment of the SME export market, as it faces substantial competition from providers with more comprehensive offerings.

The objective of this paper was to identify opportunities for the Postal Service to increase revenue from SME exports. We evaluated the Postal Service’s current initiatives; interviewed subject matter experts and Postal Service officials; and reviewed market research, government data, and applicable laws and regulations.

One-Stop Shop Online Platform

The Postal Service has a major opportunity to increase revenue from SME exports by developing an all-inclusive “one-stop shop” online platform (website) that provides an electronic, user-friendly, and “hassle-free” experience for global consumers and SMEs. International exports entail a variety of complexities, including Customs clearance, duties, taxes, forms, and country-specific restrictions. While large U.S. exporters may have departments and resources that handle these complexities, SMEs are not likely to have these resources in-house, and thus may be more vulnerable to these barriers or friction points.

The one-stop shop⁷ online platform could help mitigate these issues as it would provide a user-friendly, hassle-free tool for handling key aspects of the exporting process including:

- Customs clearance
- Fully landed costs⁸
- Address verification
- Local language support
- Fraud protection
- Enhanced payment options

⁷ An electronic platform (or website) that offers a multitude of services to a customer. The idea is to provide convenient and efficient service and create the opportunity for the company to sell more products and increase revenue.

⁸ Fully landed costs are those that include purchase price, freight, insurance, and other costs up to the port of destination. In some instances, it may also include Customs duties and other taxes levied on the shipment.

By offering a fully landed cost option – including duties, taxes, and shipping – prior to purchase, a one-stop shop enables international SME shippers and their customers to understand the total cost of a product. Fraud protection and local language support could also increase international consumers’ confidence when conducting online transactions with U.S. merchants.

Such an online platform could provide significant benefits to the following groups:

- *Current SME exporters* – the online platform could make the Postal Service a more favorable shipping option, as it would increase shopper and SME efficiency by removing some barriers such as uncertain total costs and various Customs requirements. This could result in the Postal Service capturing growth from its current customers, but also possibly gaining market share from its competitors.
- *Potential SME exporters* – the online platform could help clarify the exporting process, which could encourage the 99 percent of SMEs that are hesitant to enter the export market.

This online platform would also enhance the experience of international customers when purchasing from U.S. SMEs. For example, the fraud protection and local language support would promote customer confidence and assurance. These collective SME and customer benefits could help increase Postal Service volume and revenue.

While large U.S. exporters may have departments that handle international customer accounts, Customs experts, and other export specialists, SMEs are not likely to have these resources in-house. This is where the Postal Service can come in – by offering global access through a one-stop shop. On the backend, the Postal Service will have to develop tools that tie the various intricacies together, such as fully landed cost calculation and other customer service-related features.

One way to accomplish this is by exploring partnerships, or “strategic alliances,” with other entities currently well-positioned in the information technology (IT) arena. These companies may be more responsive to market, operational, and technological changes. These alliances could result in a more efficient process for SME exporters and increase Postal Service revenue in the process.

For example, an IT company may have a more modern, efficient IT infrastructure and platform for handling e-commerce. A strategic alliance between the Postal Service and such a company could leverage the competencies and strengths of both: the IT company’s infrastructure and expertise and the Postal Service’s transportation and delivery network.

Overall, the one-stop shop online platform seeks to simplify the experience for global consumers and SME exporters.

New Revenue Opportunities for the Postal Service

The Postal Service has opportunities to generate new revenue by expanding its services to SMEs in the fast-growing export and global e-commerce markets. To evaluate these opportunities, the Postal Service needs pertinent data, such as SME products and shipping. However, the Postal Service indicated that it does not maintain SME exporter data.

Various government websites have surface-level export data, merely distinguishing between large businesses and SMEs, without capturing detailed information at the individual product level. Rather, data are generally maintained at the North American Industry Classification System (NAICS) code level – a government-wide harmonized nomenclature for industries. For example, one of the top NAICS categories with the most SME exporters is code 424 – “Merchant Wholesalers, Nondurable Goods⁹.” However, we could not obtain specific breakdowns by product and the SME equivalent at a sufficient level for our evaluation.¹⁰

⁹ Represents 61,807 of the 297,343 identified SME exporters (2013).

¹⁰ According to the SBA, the general NAICS code was all that was available in terms of reliable source data.

Exports by small distillers and craft breweries are booming, with craft beers by SME brewers reaching upwards of \$100 million per year in exports alone.

On the contrary, the consumable alcoholic beverage industry has detailed export product data. This industry keeps detailed statistics on volume and revenue data for wine, beer, and spirits exports. They also track the top importing (destination) countries for each alcoholic beverage category. Additionally, SMEs represent over 95 percent of the alcoholic beverage firms in the U.S. Because of this, we evaluated the possibility for the Postal Service to enter this market.

Unlike other U.S. carriers¹¹ and foreign posts, law prohibits the Postal Service from shipping alcohol. The ban applies to both domestic and international delivery because the Postal Service cannot accept alcohol for delivery, regardless of destination. Specifically, 18 U.S.C Section 1716(f) provides that:

“[a]ll spirituous, vinous, malted, fermented, or other intoxicating liquors of any kind are nonmailable and shall not be deposited or carried through the mails.”

In 2014, U.S. businesses exported over 443 million liters of wine, 140 million gallons of beer, and 78 million gallons of spirits. Exports by small distillers and craft breweries are booming, with craft beers by SME brewers reaching upwards of \$100 million per year in exports alone.

Clearly these products have value for our economy. For example, in 1 year alone (2014), wine and spirits export revenue was over \$3 billion. The Postal Service could increase both its service to SMEs and its revenue if the law were changed to permit it to ship these products (see [Appendix A](#) for additional information).

Figure 2: Top Export Destination Countries

2014 Data	U.S. Export Market Total		SMEs Exports		California Wine Exports		Craft Beer Exports	
	Destination	Percent (\$)	Destination	Percent (vol)	Destination	Percent (\$)	Destination	Percent (\$)
1	Canada	19.2%	Canada	27.0%	EU	34.8%	Canada	53.0%
2	Mexico	14.8%	China	9.0%	Canada	32.7%	Sweden	12.0%
3	China	7.6%	U.K.	8.0%	Japan	5.9%	U.K.	10.7%
4	Japan	4.1%	Mexico	8.0%	China	4.8%	Australia	5.1%
5	U.K.	3.3%	Australia	5.0%	Hong Kong	4.6%	South Korea	3.4%

Source: OIG created with data from the U.S. Census Bureau, NSBA, the Wine Institute, and CNBC. For the SME Exports column, we used 2013 data from the NSBA and SBEA 2013 *Small Business Exporting Survey* (more recent data was not available).

¹¹ Other U.S. carriers accept shipments of consumable alcohol (wine, beer, and spirits) for both U.S. import and export when the shipper and recipient are licensed to import/export alcohol.

While the Postal Service and members of Congress have made several attempts to repeal the law¹², they have not been successful. The Postal Service should continue to pursue legislative change so that it can capture revenue in this multi-billion dollar market.

Conclusion

The Postal Service has opportunities to increase revenue by expanding its services to SMEs in the fast-growing export and global e-commerce markets. The Postal Service has a major opportunity to increase revenue from SME exports by developing a “one-stop shop” that provides an electronic, user-friendly online platform and “hassle-free” experience for global consumers and SMEs. The Postal Service can accomplish this by entering into strategic alliances with business partners – leveraging its brand and world-class services with those of its partners. While a pre-Prohibition era law prevents it from shipping alcohol, the Postal Service should continue to pursue legislative change to serve its SME customers and enter into this multi-billion dollar market. The Postal Service’s ability to serve SME exporters could help it capture greater market share, thereby enhancing its overall financial condition.

Management’s Comments

Management agreed that small business exports play an important role in the mailing industry.

See Appendix B for management’s comments in their entirety.

Evaluation of Management’s Comments

The OIG considers management’s comments responsive to the issues identified in the report.

¹² A repeal was proposed through the Postal Reform Act of 2014, §1486, 113th Cong. (2014); however, it did not get final congressional approval.

Appendices

*Click on the appendix title
to the right to navigate to
the section content.*

Appendix A: Wine, Craft Beer, and Spirits Data.....	12
Wine	12
Craft Beer	12
Spirits	12
Appendix B: Management’s Comments.....	14

Appendix A: Wine, Craft Beer, and Spirits Data

The Wine Institute, Distilled Spirits Council of America, Brewers Association and U.S. government maintain data on alcoholic beverages and their sales.

Wine

U.S. wine export revenue reached \$1.49 billion in 2014 (the second highest level ever) – up 64 percent from 5 years ago. Ninety percent of wine exports came from California alone (see Figure 3).

Figure 3: Top Destination Countries for California Wine (2014)

	Destination Country	Export Revenue (in millions)
1	European Union	\$518
2	Canada	\$487
3	Japan	\$88
4	China	\$71
5	Hong Kong	\$69
6	Mexico	\$24
7	South Korea	\$22
8	Nigeria	\$22
9	Vietnam	\$20
10	Singapore	\$16

Source: OIG created with Wine Institute data.

Craft Beer

Craft beer¹³ exports, common among SME breweries, reached over \$100 million in revenue in 2014. Craft beer export volume rose 35.7 percent from the previous year. According to an industry expert, craft beer is a substantially growing segment of the market and in high demand in foreign countries.

Spirits

Total exports of American-made spirits¹⁴ continued to rise for the 5th year in a row, surpassing \$1.56 billion in revenue in 2014. Bourbon and Tennessee whiskey exports topped \$1.02 billion in revenue.

Experts attribute this steady growth and record exports to:

- A continued fascination with American whiskeys made in small U.S. distilleries.
- An improved regulatory and tax environment.

Small distiller growth has expanded grassroots and category consumer interest around the world. Between 2010 and 2014, the number of small distillers grew from 92 to over 700 (see Figure 4). Total volume has increased as well: between 2010 and 2014, total volume from SME distillers grew five times – from 0.7 to 3.5 million cases. Global consumer interest in spirits continues to create opportunities for small distillers, which, in turn, creates opportunities for any company that can provide international shipping services. The Postal Service is precluded from capitalizing on this growth market.

¹³ Beer made in a traditional or non-mechanized way by a small brewery.

¹⁴ Strong distilled liquors such as brandy, whiskey, gin, or rum.

Figure 4: Top 10 U.S. Spirits Export Markets

Country	2014 Export Revenue (in millions)	2004 Export Revenue (in millions)	% Growth
Canada	215	101	114%
UK	179	121	48%
Germany	134	82	64%
Australia	131	78	69%
France	110	28	298%
Japan	100	59	69%
Spain	83	35	140%
Netherlands	61	25	149%
Mexico	45	17	168%
Singapore	32	5	543%

Source: U.S. Department of Commerce. Compiled by U.S. International Trade Commission Free Alongside Ship (FAS) value. FAS value is the value of exports at the U.S. port, based on transportation price and including inland freight, insurance, and other charges.

Appendix B: Management's Comments

GISELLE ELISA VALERA
MANAGING DIRECTOR, GLOBAL BUSINESS
AND VICE PRESIDENT



August 19, 2015

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Final Draft – Small Business Exports
(Report Number 15RG014MS000)

Management Response:

The Postal Service agrees that Small Business Exports play an important role in the mailing industry.

A handwritten signature in black ink that reads "Giselle Valera".

Giselle Valera

cc: Sally K. Haring
Manager, Corporate Audit and Response Management
U.S. Postal Service

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