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Foreign Postal Services Sell Many Nonpostal Products; Would The U.S. Postal Service Be Financially Stronger If It Did The Same?

Executive Summary

Electronic diversion, together with the Great Recession and its after-effects, have buffeted postal services throughout the world. Nevertheless, the majority of foreign posts in high- and medium-income countries have remained profitable in recent years, according to data from the Universal Postal Union (UPU). Meanwhile the U.S. Postal Service has racked up five consecutive years of red ink, losing $5.1 billion in 2011 alone, and it warns of worse deficits ahead.

Previous IRET studies examined three reasons why USPS is ailing financially compared to most foreign posts: limited ability to control costs because of Congressional micromanagement, the financial stress of funding extremely generous retiree health benefits, and postal rates that are low by international standards.

This paper investigates whether the Service's limited degree of nonpostal business diversification contributes to its financial problems compared to the majority of other posts. A striking fact is that many foreign posts are heavily involved in nonpostal commercial activities, while USPS remains essentially a postal operator — the largest in the world.

In a study for USPS, the consulting firm Accenture looked at 25 foreign postal services that generate about two-thirds of foreign mail volume. Diversified products contributed 63% of the foreign posts' total revenue in 2008, up from 49% in 2003. At only two-fifths of the foreign posts did diversified products contribute less than 40% of revenue in 2008. Although Accenture's numbers overstate nonpostal products because they include package services, which are considered postal products in the United States, the share of revenue foreign posts obtain from nonpostal commercial products is clearly large and growing. Several of the main nonpostal business areas that have attracted foreign posts are finance, logistics, insurance, and Internet-related services.

Accenture reported that foreign posts generally earn profits on their diversified products. Those numbers indicate that diversification is helping foreign posts' bottom lines.

Has diversification also been good, however, for mail users, taxpayers, and national economies? The evidence suggests not. Contrary to the claim that nonpostal business lines subsidize mail service, which should hold down postal rates, the relatively nondiversified U.S. Postal Service has some of the lowest

postal rates in the world while many heavily diversified foreign posts have much higher rates. When foreign posts move into nonpostal markets, they often extract large sums from postal ratepayers and the government (which ultimately means taxpayers) to cover start-up costs. An additional concern is that diversified products were significantly less profitable than mail at the foreign posts in Accenture's sample and usually earned below-normal rates of return compared to industry averages. Below-average profits suggest that when postal operators enter nonpostal commercial markets, they displace more efficient private-sector businesses, leading to less productive and vibrant economies.

The U.S. Postal Service has a long history of nonpostal commercial ventures that were abandoned after losing money, attracting few customers, or proving more trouble than they were worth. A 1998 report by the U.S. General Accounting Office increased concerns that mail users were subsidizing USPS's nonpostal business activities. It is not clear exactly why the Service has been less successful than foreign posts in nonpostal commerce, but foreign posts may be better able to manage costs because they usually face less government micromanagement of their operations. USPS's record of failure largely explains why its nonpostal presence is so small today.

USPS's past disappointments and the recommendations of a bipartisan Presidential Commission in 2003 helped persuade Congress to include language in the Postal Accountability and Enhancement Act of 2006 (PAEA, P.L. 109-435) banning USPS from introducing new nonpostal commercial products.

Nonpostal commercial products could certainly provide new revenue streams, but the added costs must also be considered. The danger is great that nonpostal commercial products would lose money and worsen USPS's financial plight.

Accenture, which is a proponent of postal service diversification in other countries, points to several non-legal barriers to diversification at USPS. Three are the Service's high operating costs, the lack of profits from the mail business to pay the initial expenses of nonpostal businesses, and postal deficits that are too large to plug except by reforming postal operations.

If USPS hopes to improve its finances through new commercial products, it should focus on innovative, value-added *postal* products. Because they directly tap into the Service's expertise and infrastructure, they are more likely than nonpostal products to help the Service and mail users without burdening taxpayers and the general economy. The Service has introduced a number of successful, innovative postal products in recent years. New and existing postal products would have better odds of success, of course, if Congress micromanaged less and gave the Service stronger cost-control tools.

For a small boost to the Service's finances, Congress should repeal a law that currently prohibits mailing packages that contain alcoholic beverages.

One nonpostal area where USPS could usefully increase its involvement is partnering with other government agencies to raise the quality or reduce the costs of government services. A straightforward rule must be followed, though, to protect the Service, mail users, and economic efficiency: the Service must receive full compensation for the extra costs it incurs in providing the government services.

Foreign Postal Services Sell Many Nonpostal Products; Would The U.S. Postal Service Be Financially Stronger If It Did The Same?

The weak economy of the last half decade and the accelerating pace of electronic diversion have challenged postal services throughout the world. Despite the strain, the majority of posts in developed countries have remained profitable, according to data from the Universal Postal Union (UPU), an international postal organization, although profit margins have fallen in many cases. While many postal administrations have lost money in occasional years, few have been in the red year after year.

The U.S. Postal Service, sadly, is one of the outliers. It has suffered five consecutive years of losses, a total of $25.3 billion through fiscal year 2011, expects a record deficit in 2012 unless Congress provides assistance, and warns of deepening losses in future years.[1]

A major reason for the U.S. Postal Service's woeful financial performance is Congressional micromanagement: Congress has enacted laws and exerted political pressure that have often slowed or stopped the Postal Service from making the kinds of operational adjustments frequently seen at foreign posts and considered vital at normal private-sector businesses. USPS's financial condition has also been undercut by the extremely expensive retirement health benefits it promises its workers and the effort that began a few years ago to put aside enough money to redeem those promises. In addition, USPS has some of the lowest postal rates in the world. Low postal rates are both a strength and weakness: they are good for customers and encourage greater mail volume but may produce less revenue than would higher rates.

A series of earlier IRET papers examined these issues.[2] This paper investigates another difference between the U.S. Postal Service and most foreign posts: the extent of nonpostal diversification. Most foreign posts have significant nonpostal operations, and a few are in such a wide range of nonpostal businesses that they have become, in effect, business conglomerates. Meanwhile, the U.S. Postal Service has concentrated on the traditional postal market of delivering letters and small packages to households and businesses, and is the world's leader, by volume and revenue. Nonpostal diversification into commercial business activities could certainly increase USPS's revenue, but would it improve or worsen the Service's bottom line? Would it help or hurt mail users? As will be seen, diversification into nonpostal commercial markets might be an instance of the proverbial move from the frying pan into the fire.

This study will also consider a different type of nonpostal diversification: assisting other government agencies in providing nonpostal government services. Cooperation with other government entities needs to be structured so that the Postal Service receives enough money to cover the extra costs, but, if that is done, cooperation has the potential to enhance the availability and quality of government services while assisting USPS financially.

In addition, this study examines two other, more conventional ways to generate extra revenue: developing new and improved postal products and repealing the current-law prohibition against mailing wine, beer, and distilled spirits. USPS's efforts to introduce new and valued postal products are commendable and could produce substantial extra income. Permitting USPS to transport liquor would also be a positive step, although care should be taken not to overstate the potential income gain.

Nonpostal products at foreign posts

Many foreign postal services sell nonpostal products, sometimes obtaining substantial income from those goods and services. As a few examples, Japan Post owns one of the biggest retail banks in the world (with over 25% more assets than JPMorgan Chase);[3] Canada Post runs an online shopping mall

(Canada Post Comparison Shopper) with "[m]illions of products & hundreds of retailers, all at your fingertips" and an electronic bill payment consolidation service (epost) that lets you "[r]eceive, pay and manage your bills in one place";[4] Germany's Deutsche Post DHL has purchased several online marketing agencies;[5] Italy's postal service, Poste Italiane, has become a conglomerate that offers, among its products, banking services, mutual funds, life insurance, logistics, Internet access, mobile phone service, and occasional passenger charters on its small airline;[6] and India Post is introducing a branded tea (Darjeeling Tea Post) that it hopes will generate revenue.[7] A new report from the Postal Service's Office of Inspector General (OIG) notes that Singapore's SingPost sells an array of nonpostal commercial products, some of which are personal loans, home loans, a bill payment service, prepaid telephone and broadband cards, and short- and long-term storage options.[8]

Foreign governments often give their postal operators considerable freedom to buy and sell other businesses, both at home and abroad. For instance, Swiss Post's business services division recently purchased a marketing software company in Ireland and partnered with another company to open a secure mail screening facility near New York City,[9] while a division of Deutsche Post DHL is closing a business unit in the United Kingdom that did not meet expectations.[10]

Foreign governments have historically let their postal operators venture farther into nonpostal areas than is true in the United States. For example, many foreign posts once ran their nations' telephone systems, although most of the phone operations have since been spun off and sometimes privatized. With traditional mail revenue declining in most industrialized nations and uncertain in many other countries, foreign posts often view nonpostal products as a way to maintain their revenues, earn profits, and preserve their relevance. The UPU strongly encourages posts to move into new markets as traditional mail becomes less critical. The head of the UPU, Edouard Dayan, wrote, "It's clear that, as physical mail volumes decline, Posts are not standing on the sidelines. They are being innovative and making strategic use of new technologies to diversify their products and services to meet customers' increasingly changing needs."[11] With regard to nonpostal products, those of most interest to foreign postal services are finance, logistics, insurance, and various Internet-related services.

In a study produced for the U.S. Postal Service and released in 2010, Accenture, a consulting firm that has advised many foreign posts on their diversification efforts, examined diversification among a group of posts that generate about two-thirds of foreign mail volume.[12] Accenture found that diversified products contributed 63% of total revenue at the foreign posts in 2008, up from 49% in 2003.[13] At only two-fifths of the foreign posts did diversified products contribute less than 40% of revenue in 2008.[14] Accenture also found that diversified products accounted for all of the foreign posts' revenue growth during the period 2003-2008.[15]

A significant caution, though, is that Accenture defined diversification broadly. It counted letter mail and some other postal products as "mail", but classified Priority Mail, Express Mail, and Parcel Post as "non-mail" and included them in its list of diversified products.[16] Accenture did not indicate how much of the "non-mail" revenue came from what are regarded in this country as postal products and how much from nonpostal products.

UPU statistics confirm that foreign posts now collect much of their revenue from nonpostal products. The UPU provides a global estimate of where its 192 members obtain their revenue, broken down into four broad product categories.[17] Table 1 shows the results for 2010 (latest UPU data). The most striking finding is that the world's posts now derive less than half their revenue (44%) from letter mail, the product category most closely associated with traditional mail service. Like Accenture, the UPU does not sharply distinguish between postal and nonpostal products, grouping parcels (postal) together with logistics (nonpostal) and perhaps including a small amount of postal business in the two other categories. Despite the uncertainty regarding the exact shares of postal and nonpostal sales, it is obvious that a substantial fraction of the revenue at foreign postal services comes from nonpostal activities.

The key to financial health, of course, is not revenue per se but net income, which is revenue minus costs. According to Accenture, diversified products were profitable for the posts in its sample, with an average EBIT margin of 4.9% in 2008.[18] (EBIT stands for earnings before interest and taxes, and Accenture expressed it as a percentage of revenue. Although EBIT is a common profit measure, it overstates true profitability because interest and taxes are very real business expenses.) Accenture also noted that because diversified-product sales grew rapidly, they "accounted for the bulk of the [posts'] profit growth" between 2003 and 2008.[19] On the negative side, diversified products were, on average, less than half as profitable as mail per dollar of sales.[20]

Table 1 Revenue Of The World's Postal Services, By Broad Product Line, Estimate for 2010

Product Category	Percent
Letter post	44
Postal parcels and logistics services	17
Postal financial services	18
Other products	21

Source: Universal Postal Union, "Development Of Postal Services In 2010; A Few Key Figures…," January 2012, accessed at http://www.upu.int/fileadmin/documentsFiles/resources/postalStatistics/brochureStatistics2010En.pdf.

Accenture furnishes some information on the profitability of several nonpostal business lines, and compares the foreign posts' profitability in those areas to their private-sector competitors. The numbers are disappointing. In logistics, document management, and retail, even the most profitable posts recorded below-average returns compared to industry benchmarks.[21] In integrated marketing and business services, the most profitable posts were barely able to beat the average rate of return in those industries.[22] Only in banking did the most profitable post earn a substantially above-average return.[23]

Has nonpostal diversification by foreign posts been a success?

On the surface, the results look promising. Some nonpostal ventures have lost money, but, on net, nonpostal business activities have improved the bottom lines of foreign postal services. That is good for the posts themselves because the extra income increases the organizations' financial security, the new activities help them remain relevant as electronic diversion reduces the importance of mail, and the expansion into new areas benefits those who work at foreign posts by creating more opportunities for career advancement. Mail users also could gain — provided the posts are willing to use profits from nonpostal activities to subsidize mail service through reduced postal rates.[24] In contrast, if nonpostal activities lose money, a concern would be that subsidies would flow in the wrong direction, with mail users forced to pay more to prop up nonpostal business lines.

On closer inspection, however, it is not evident that the potential subsidies in favor of mail users actually materialize. For example, the subsidy argument suggests that the relatively nondiversified U.S. Postal Service, lacking any substantial nonpostal-to-postal subsidies, should have higher postal rates than more diversified foreign posts, especially those that are heavily diversified. Instead, USPS has some of the lowest postal rates in the world.[25] What is happening to the potential subsidies? The answer may be that when foreign posts have lucrative nonpostal businesses, they often desire, for various reasons, to plough the earnings back into the nonpostal businesses. For example, New Zealand Post, which to its credit has low postal rates, cites the investment needs of the bank it owns to explain why it cannot divert bank earnings to support its postal operation.[26] Instead, New Zealand Post expects the postal operation to be self-supporting and is calling for changes in postal service standards similar to some being proposed in this country.

Accenture hints at another possible divergence between the interests of postal services and mail users when it cites the importance of having "a profitable mail business in order to support the funding of the new platforms."[27] The connection between postal earnings and diversification is that expansion into new areas takes money, and historically one of the easiest places to get the cash was from postal ratepayers. The history of diversification at Deutsche Post DHL provides a dramatic illustration of this. What was once Germany's staid national post has transformed itself into a giant multinational firm, with an emphasis on logistics. At the center of Deutsche Post's diversification strategy has been acquisitions, which is often the case with foreign posts. Acquisitions require substantial up-front expenditures. Accenture counted 38 significant purchases by Deutsche Post between 2000 and 2008 alone,[28] costing several billion dollars. Where did Deutsche Post amass the war chest for this acquisition binge? Back when the German mail monopoly was strong, Deutsche Post charged some of the world's highest postal rates, in effect forcing customers of its monopoly products to finance a significant chunk of the expansion. Deutsche Post also relied on German taxpayers. According to a news report, the German government has relieved the company of 37 billion euros of pension obligations since 1995.[29] Because money is fungible, the German government might as well have written assistance checks to Deutsche Post for the same amount. The company also obtained a trove of real estate from the German government, some of which it sold to raise cash.[30] Many mail users would have been better off if Deutsche Post had charged lower rates and many taxpayers would have preferred that the money sent to Deutsche Post instead went for tax cuts, but mail consumers and taxpayers were never given those choices.[31]

When a postal service enters nonpostal markets with the intention of diversifying its revenue base, it is often hoped that synergies between postal and nonpostal operations will enable the post to become a star performer in the nonpostal businesses. If that hope is realized, the overall economy will gain. A hazard, though, is that posts may prove less efficient than the private-sector businesses they displace, due to inferior product quality or higher production costs. If postal diversification reduces efficiency, productivity and people's living standards will suffer.

The below-normal profits frequently seen at the nonpostal operations of foreign postal services suggest, but do not prove, that posts have difficulty using resources efficiently in nonpostal commercial markets, which would lead to less productive and vibrant economies. Accenture believes the weak profits are temporary, something often seen at young businesses that are just starting. However, the fact that posts often enter nonpostal markets by purchasing established companies that have frequently spent years honing their operations and attracting customers undercuts the building-the-business explanation for the below-market profits. The passage of time, of course, will eventually show whether the sub-normal profits are chronic or temporary. Another concern, often raised by the foreign businesses against which posts compete, is that inefficient posts may succeed in pushing aside more productive private-sector companies because of various government subsidies, such as the cash grants mentioned above, special tax exemptions, or special government regulations favoring them over competitors.

In summary, foreign posts generally gain from diversification, but the jury is still out on whether mail users, taxpayers, and foreign economies also benefit.

Should the U.S. Postal Service emulate foreign posts?

The diversification programs of foreign posts have created interest in whether the U.S. Postal Service should pursue a similar strategy. The U.S. Postal Service is the world's largest postal operation, but it has almost no presence in nonpostal commercial markets.

A major reason why USPS is largely absent from nonpostal commercial markets today, and why there is concern whenever new initiatives are proposed, is the organization's past track record. Over the years, the Service and its predecessor, the Post Office Department, have undertaken a number of nonpostal ventures, among them a savings bank (Postal Savings System), an early form of hybrid mail (Mailgrams), and an early electronic bill payment service (USPS eBillPay). The products were generally abandoned after losing money, attracting few customers, or proving to be more trouble than they were worth. The last substantial, successful expansion by the organization into a new business area occurred nearly a century ago with the introduction of Parcel Post, which as noted earlier is now considered a postal product in this country.

Concerns about the financial soundness of the Service's nonpostal ventures mounted after the General Accounting Office (since renamed the Government Accountability Office, GAO) issued a study in 1998 regarding all new postal and nonpostal products being developed or marketed in fiscal years 1995-1997.[32] Of 19 new products, GAO discovered, "From date of product inception through fiscal year 1997, only one product reported making a profit."[33] Among the nonpostal products on the list were retail merchandise sales (profitable), several electronic initiatives (all money losers), and the processing of credit card payments (unprofitable).

The message was that nonpostal products were not helping finance the Service's core mission of hard-copy mail collection and delivery. Instead, customers within the mail monopoly were being forced to subsidize the Service's losses on nonpostal products. Several years later, David Fineman, then chairman of the Postal Service's Board of Governors, underscored that lesson when he told Congress that the agency's "e-commerce spending" as of early 2001"was $33 million annually, producing gross revenue of only about $2 million."[34] That failure was reminiscent of the Service's experience in the early 1980s with INTELPOST, an international electronic mail product. Through 1983, INTELPOST had rung up expenses of $6 million while generating cumulative receipts of less than $60,000.[35]

It is not clear why nonpostal diversification has been a financial loser for the U.S. Postal Service but generally helpful for foreign posts. However, four possibilities will be mentioned. Because the United States has historically been among the world's most entrepreneurial nations, with a large and vigorous private sector, perhaps USPS has faced tougher private-sector competition in nonpostal markets than most foreign posts. Another possibility is that private-sector businesses here may have been more diligent and successful than businesses in other countries in opposing special government-based advantages for the postal operator's nonpostal commercial ventures. Perhaps another factor is that foreign posts, unlike the U.S. Postal Service, have often entered nonpostal markets by using money from postal ratepayers and the government to acquire successful companies already in those markets. Established businesses are less likely to fail than businesses being built from scratch. A fourth possibility, and almost certainly part of the answer, is that the U.S. Congress has a tradition of micromanaging the Postal Service, which raises the agency's costs and slows its responsiveness to market conditions.[36] Many foreign governments give their posts nearly as much cost-management flexibility as private companies have.

In 2003, the bipartisan President's Commission on the United States Postal Service noted the Service's past disappointments and raised an additional concern about letting the nation's mail service enter nonpostal markets: the Service's failing attempts to score a big payday in nonpostal markets might be distracting it from its central postal mission. "[A]n important element of success," the Commission wrote, "is staying focused on your core business."[37]

Looking at the Postal Service's record of failure and influenced by the recommendations of the Presidential Commission, Congress included language in the Postal Accountability and Enhancement Act of 2006 (PAEA, P.L. 109-435) banning USPS from introducing new nonpostal products.[38] The law allowed the Service to continue selling existing nonpostal products, provided the Postal Regulatory Commission (PRC) approved them, which the regulator did in most cases.[39] PAEA also lets the

Service cooperate with other government agencies on nonpostal matters.

While preparing the 10-year strategic plan that it released in 2010,[40] the Postal Service commissioned the Accenture study to reexamine whether it should branch out into nonpostal business lines. Because current law bars such expansion, USPS could only undertake new nonpostal commercial ventures if Congress agreed to reverse the decision it made in 2006. Although Accenture is enthusiastic about the diversification efforts of foreign posts, it concluded that nonpostal diversification by USPS cannot be recommended at present. Among the major barriers Accenture identified are the following.

- Starting nonpostal business lines from scratch or acquiring established businesses requires significant up-front cash. USPS, which is losing billions of dollars yearly, does not have the money needed.

- Diversification often does not pay off for years, even if ultimately successful, but USPS is seeking changes that will deliver financial benefits quickly.

- Accenture believes the Postal Service must rebuild its postal business for diversification to be successful. One reason is that postal profits typically support the initial costs of nonpostal ventures. Another reason is that USPS's postal losses are too massive for diversification to plug much of the hole; the losses need to be corrected primarily through changes in the postal business itself. Accenture estimates that the Service would require "an E-Commerce business 8x the size of Amazon.com" to offset the red ink in the absence of postal reform.[41]

- The Postal Service's labor costs are too high. It is difficult for an enterprise to thrive in a new business area when it pays higher wages, much higher benefits, and is bound by more inflexible work rules than its competitors. Labor compensation needs to be restructured as a precondition for diversification.

The Service's OIG agrees that high wages and benefits make it "difficult for the Postal Service to compete with commercial entities" but hopes that "providing additional [nonpostal] products and services could help the Postal Service cover costs at retail units."[42] However, as long as USPS's labor costs remain so high and its work rules so restrictive, it would be difficult for new nonpostal commercial products to cover their own costs, let alone contribute toward the Service's other costs.

The financial distress of the Service's mail operation points to an additional reason, not mentioned by Accenture, to be concerned about whether nonpostal diversification is a good idea. Firms in competitive markets must often respond swiftly and skillfully to major, unexpected changes in customers' demands. For example, one of the most common short-term responses of private-sector companies to falling sales, and one of the surest ways to remain profitable, is to trim costs promptly and decisively. The Postal Service's difficulty in adjusting operations in its core market quickly enough to prevent costs from exceeding revenue suggests that the government enterprise lacks the operational flexibility and perhaps the skill set to thrive in nonpostal commercial markets, where the sales of individual firms often fluctuate dramatically from year to year and where the Service would be competing against determined, agile companies that know those markets better than does USPS.

Accenture based its recommendation solely on what would be desirable for the U.S. Postal Service. If nonpostal diversification had passed that first test, it would also have been appropriate to study whether diversification would help or hurt mail users, taxpayers, and the overall economy. As discussed above, a postal service's narrow interest may sometimes conflict with the broader public interest.

To its credit, the Service initially accepted Accenture's advice, although it was probably unexpected and unwelcome. Since then, though, the Service has sometimes wavered a bit. For instance, its *2010 Annual Report* noted that the agency is "[r]estricted to postal products" and asked Congress for legislation giving it "[f]lexibility to introduce additional products consistent with [a] broader mission."[43]

If the Service is determined to reenter nonpostal commercial markets and Congress accedes, the least risky strategy for USPS would be to partner with a company that would handle product development, maintenance, and other backroom work while USPS would be the point of contact with customers. That approach would enable the Service to minimize its start-up costs, and its losses if the undertaking fails, provided the Service does not make significant monetary guarantees to its partner. The downside is that the potential rewards would likely be small because the partner, which would be assuming most risks and expenses, would be unwilling to give USPS more of the proceeds than the value USPS is expected to add to the partnership. USPS's value in this context would probably be low. If the nonpostal commercial product were made available at post offices, sales prospects would be limited because foot traffic is sparse at most post offices and will drop further under the agency's current plan to reduce hours at about 13,000 post offices (POStPlan). Even if hours remain what they are now, many potential customers would hesitate to buy nonpostal products at post offices because numerous other establishments have longer hours and shorter lines. Further, USPS's high wages, generous benefits, and rigid work rules place it at a severe labor-cost disadvantage when serving customers, compared to private-sector businesses that pay market-based wages and benefits and have the flexibility to shift workers from task to task based on what needs doing at the moment. If the Service were to host the nonpostal commercial product on its website, the problem is that although the Service has a known and trusted name with regard to physical delivery, people shopping on the Web are used to looking elsewhere and may view the Service as old-fashioned and slow to adjust. Certainly, the Service would have difficulty matching the lightening speed with which many commercial companies on the Web respond to changes in technology and customer preferences.

Another low-risk option might be to follow the lead of some government-owned mass-transit operators and sell advertising space on postal vehicles and on the exteriors and interiors of post offices. However, the fact that few private-sector companies sell advertising space on their cars and trucks suggests there is an indirect cost, the dilution of a business's visibility and brand image, that should be weighed against the potential revenue.

It could be a game-changer if Congress were to grant the Service or its customers tax exemptions, regulatory exemptions, or other special favors on nonpostal products, or impose extra burdens on private-sector businesses selling those products, but special breaks would misallocate resources, raise fairness issues, and might have high costs for the overall economy. When the Service entered nonpostal commercial markets in the past, it was often feared that Congress would promulgate special rules putting the Service's rivals at a competitive disadvantage, and that the Service might do the same if Congress granted it regulatory powers. If Congress were now to give USPS a green light to move into nonpostal commercial markets with the admonition to generate revenue there, such fears would again be warranted.

New and innovative postal products are a better bet

For the last several years, the U.S. Postal Service has been channeling its new-product creativity and its hunt for additional revenue streams into developing new postal products, such as a growing selection of Priority Mail Flat Rate boxes, which offer customers greater convenience, Every Door Direct Mail, which simplifies procedures for small saturation mailings and should appeal to small, local businesses, Premium Forwarding Service, which allows people at a temporary address to have their mail forwarded to them in a convenient package on a weekly basis, and self-service parcel collection lockers (gopost), which customers can access 24/7.[44] If products like these prove cost effective and popular, they will benefit both the Postal Service and its customers.

The results so far are encouraging. For instance, the Postal Service credits Flat Rate Boxes with helping to maintain the popularity of Priority Mail and reports, "Since 2009… revenues for Flat Rate Boxes have increased by more than 78 percent."[45]

As a second example, Every Door Direct Mail, which allows senders to omit recipients' full names and addresses on certain saturation advertising mail (and sometimes omit names and addresses entirely), is proving to be a money-saving convenience for mailers. The Postal Service's OIG observes that simplified addressing has long been "standard practice" for postal operators "in [other] industrialized countries," where it "often accounts for significant mail volume," and that USPS has been the "sole exception" until now.[46] In a speculative, back-of-the envelope calculation, the OIG estimated that simplified address mail might eventually "improve the Postal Service's annual net income by $1.2 billion" if it becomes as popular in this country as in Canada.[47] USPS claims one mailer was so impressed with the new postal product's convenience and response rate that it gave the Service $5 million of new business as a result.[48] Some companies providing mail services, however, assert that advertising mailings which omit full addresses may damage the Postal Service's brand image in the eyes of the public and impose extra costs on the Service due to poorly prepared mailings.

Taking a page from the private sector and using some of the marketing flexibility permitted by PAEA, the Postal Service is also experimenting with short-term promotions to build interest in its products. For example, in 2009 and 2010, it ran "summer sales", with discounts for large-volume commercial mailers that registered volume increases during the sale period. In 2011, the Service again held a summer sale, with incentives that year for mailings that included mobile bar codes. Although it is uncertain whether these initiatives drove enough extra volume during the sale periods to offset the revenue lost because of the discounts,[49] these promotions generated enthusiasm, which is important in persuading customers to begin or continue using a product. The Service is running two mobile-barcode-based sales this year.[50]

Moreover, USPS has long offered postal services or ways of providing the services that some foreign posts regard as new or innovative. Consider some examples. USPS has been the world leader in worksharing, whereby mailers help with mail processing in exchange for discounts. As implemented by the Service, worksharing reduces total costs, improves product quality, and benefits both mailers and the Service. The world's postal services view small package deliveries as an exciting, high-growth opportunity. The U.S. Postal Service is a major, experienced, trusted participant in that arena, having begun Parcel Post service in 1913. USPS is certainly not alone in recognizing the usefulness of mail as an advertising medium, but it has been more diligent than many posts in developing its advertising products. Also, while the Postal Service has struck out in past efforts to develop stand-alone electronic services, it has introduced many popular electronic services that support the use of mail, such as Zip Code lookup, Click-N-Ship, and buying stamps online. Because of these Internet-based tools that improve the convenience of postal services, a recent UPU study ranked the United States ninth out of 94 countries in terms of e-service development.[51]

The development of innovative postal products is more appealing than nonpostal forays on several grounds, especially given the agency's past nonpostal experiences. It keeps the Service focused on its central mission. The products tap into USPS's expertise in delivering hard-copy mail reliably and economically. Because the products are extensions of what the Service already does, they do not require major, up-front investments. Instead, they result in more intensive use of and returns on existing infrastructure. Moreover, if the products generate interest in using mail, they may bolster sales of other mail products. An important caveat is that new postal products, like most of the Service's offerings, could be more successful if Congress let USPS better manage its costs.

Mailing wine, beer, and distilled spirits

Federal law currently prevents USPS from transporting alcoholic beverages in the mail.[52] Private-sector delivery firms, however, can carry those products. Consequently, if an individual wishes to order, for example, a case of wine from a distant grower, a private-sector delivery company can handle the shipment, assuming state and local laws allow it, but the U.S. Postal Service cannot. In a recent 12-month period, wineries' direct shipments to consumers totaled 2.75 million cases.[53] If not for the statutory barrier, the Postal Service could have captured some of those deliveries, as well as some direct-to-consumer shipments of beer and distilled spirits. Some legislative proposals, including Senate bill S. 1789 (the "21st Century Postal Service Act of 2012"), would change the law to let USPS carry alcoholic beverages.

The current prohibition makes little sense. Given that the consumption of wine, beer, and distilled spirits by adults is legal and those products can be transported safely, two of the main reasons why various products are classified as nonmailable do not apply. Since alcoholic beverages can be shipped to adults by carriers other than USPS, the current restriction selectively disadvantages USPS. There is an understandable concern in being sure that alcoholic beverages are not purchased by minors, but the Postal Service is as capable as other shippers (and local retail establishments, for that matter) of verifying that individuals taking delivery are adults. Further, if USPS were to begin delivering alcoholic beverages, its start-up costs would be negligible because it already has an infrastructure that delivers millions of small packages daily containing other types of merchandise, and it is already experienced at checking identification in connection with some of its special services. If Congress were to lift the current prohibition, it should require the Service to obey the same state and local laws regarding wine, beer, and distilled spirit shipments that other carriers must follow.

A benefit to consumers from the restriction's repeal would be that the additional competition provided by the Postal Service would lead to lower shipping rates in some cases. To be sure, alcohol abuse is a serious issue, with often devastating consequences, but the people who wish to order wine, beer, and distilled spirits from remote locations and are willing to wait several days for delivery are rarely those with alcohol problems.

The present interest in repealing the prohibition is chiefly motivated by USPS's finances. The Service would gain additional revenue if Congress let it deliver alcoholic beverages, and, more important, the Service would be expected to charge enough for this competitive postal product that it would earn a profit on the shipments it carries.[54] One should be realistic, though, about the size of the financial boost. The contributions to the Postal Service's revenue and income from allowing alcoholic-beverages to be carried in the mail could be in the millions of dollars, but relative to USPS's enormous size and its huge deficit, they would scarcely be a drop in the bucket.

Nonpostal government services[55]

An important exception to the ban on nonpostal products is that the Postal Service can partner with other government agencies in providing nonpostal *government* services. In contrast to commercial ventures, the primary motivation for government partnerships is not profits but improving the quality and convenience, or reducing the costs, of government services provided to the public. As several examples of the Postal Service's cooperative arrangements, it accepts passport applications on behalf of the State Department, sells migratory bird stamps for the U.S. Fish and Wildlife Service, has helped the Equal Employment Opportunity Commission (EEO) process complaints, participates in a program that would use letter carriers to deliver medicines in the event of a biological attack, and rents excess space to other government entities.

The Postal Reorganization Act of 1970 included a provision explicitly authorizing "[c]ooperation with other Government agencies" in cases where the Service and the other agency both "deem [it] appropriate," and PAEA left that provision in place.[56] Moreover, when the PRC developed regulations to implement PAEA's ban on new postal services, it concluded that partnerships between the Postal Service and other government agencies are not "services" within the meaning of the statute and, hence, are not subject to the nonpostal restriction.[57]

(The law plainly allows partnerships with federal agencies, and the implementing regulations seem to permit the Service to cooperate with state and local governments, as well. Several legislative and Administration proposals would remove any doubt about the latter by explicitly authorizing USPS to assist state and local governments.)

Letting the Postal Service work with other government agencies is good policy because, in addition to its laudable goals, it largely avoids the dangers encountered when the Service ventures into nonpostal commercial markets — provided one crucial rule is followed. The rule is that the Service should only enter into a partnership with another government body if the agreement pays the Service enough fully to cover its added expenses. Adequate compensation is crucial because it minimizes the risk that the Service will lose money on the activity, and that safeguards mail users from being forced to subsidize nonpostal government activities. Compensation simultaneously protects economic efficiency because another government agency will not enter into a voluntary agreement with the Service unless it thinks the partnership is worth the cost, through either monetary savings to the other agency or added benefits to the public. Unfortunately, the Postal Service sometimes lends a hand to other government agencies without insisting on reimbursement, which is unfair to mail users and omits the efficiency test that compensation would provide.[58]

Many additional opportunities exist for the Postal Service to improve the quality of nonpostal government services though better access, reduced costs, or improved product quality. For example, some possibilities for bringing government services closer to the public or otherwise increasing their convenience would be allowing post offices to conduct a limited range of DMV transactions, permitting post offices to sell state hunting and fishing licenses, and giving taxpayers the option of submitting their tax returns at a nearby post office and receiving verification there that the return was submitted. Increased accessibility would especially benefit people in rural areas, who are often far away from most government offices. A promising option for reducing fraudulent payments of government benefits would be requiring recipients of certain benefits to go to a nearby post office to verify their identity in person. As one more example, an innovative, technology-oriented idea would be allowing other government agencies to place data-collection sensors on postal delivery vehicles to help, for instance, monitor air quality, map potholes, and gather local weather data.[59]

Regrettably, the Service's high labor costs limit its ability to assist other government agencies. For instance, the Census Bureau doubted that it would have been cost effective to hire postal employees at USPS pay levels as census takers during the 2010 Census because postal workers would have cost over twice as much as other workers. Census was able to hire workers at an average cost of $15 per hour, compared to about $41 for USPS city carriers and $34 for rural carriers.[60] If USPS's labor costs were closer to those elsewhere in the economy, it could better partner with other government agencies.

The main way in which the Postal Service benefits other government agencies, of course, is through mail service that can reliably, economically, and reasonably promptly reach virtually anyone in America. Although government agencies' are reducing their mail use in some cases, such as phasing out Social Security checks in favor of electronic direct deposit, they remain among the nation's largest mail customers, including for first-class mail.[61] In a few cases, such as voting by mail, government-related mail use is actually growing.

Conclusion

If USPS had not failed in numerous past nonpostal ventures, it would have a significant presence today in nonpostal markets, much like many foreign posts. Congress was responding to those previous disappointments when it decided, by overwhelming bipartisan majorities in both houses, to bar USPS from selling new nonpostal products. Congress was also mindful of concerns that allowing the Postal Service to move into commercial markets outside its government-assigned mission of mail collection and delivery would harm the broader economy. The billions of dollars the Service is losing in the postal market do indicate the urgent need for postal reforms — less government micromanagement, a stretching out of retiree health care funding, and perhaps a special across-the-board postal rate increase — but the mammoth losses are not grounds for changing the law to let USPS expand into nonpostal markets. If anything, the sea of red ink is a warning that new nonpostal commercial ventures would probably end badly.

When looking for new revenue and income sources, the Postal Service would do better to concentrate on the postal marketplace. The Service can put its infrastructure and expertise to good use there by developing innovative postal products, with the further advantage that the products would support its central mission. Current law generally permits the Service to develop and market new postal products, subject to regulatory approval, but one useful, although minor, statutory change would be allowing the Service to deliver packages containing beer, wine, and distilled spirits. Another reasonable area for expansion is partnering with other government services to make government services more accessible and cost effective, provided the Postal Service is fully compensated for its costs. Current law and regulations arguably permit such governmental partnerships already, but legislation explicitly authorizing them would not hurt.

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This is another of a continuing series of IRET papers examining the U.S. Postal Service. IRET began its work in this area in the mid 1990s. Norman Ture, the organization's founder, believed that growth and prosperity are advanced by restricting government to a limited set of core functions. From this perspective he was concerned about the activities of government owned and sponsored businesses. The Postal Service stands out among government businesses because of its size – it currently employs about 25% of the federal government's civilian workforce. For many years – but fortunately much less so in recent years – it was also notable for aggressively trying to expand beyond its core mission into nonpostal commercial markets.

Endnotes

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13. *Ibid*., p. 17.

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15. *Ibid*., p. 19.

16. *Ibid*., p. 5. Accenture counted as mail: First Class Mail, Standard Mail, Periodicals, Media Mail, Library Mail, Bound Printed Matter, and the special services of Registered Mail, Insured Mail, Certified Mail, Delivery Confirmation, and Post Office Boxes.

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18. Accenture, "Is Diversification the Answer To Mail Woes? The Experience Of International Posts," *op. cit*., p. 22.

19. *Ibid*.

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23. *Ibid*.

24. Although subsidies from nonpostal products to mail users would be good for mail users, they would not be good for the overall economy because they would make mail look artificially cheap, which would encourage its overuse. For economic efficiency, a product should neither receive subsidies from other products nor be forced to subsidize other products.

25. See Michael Schuyler, "Why The U.S. Postal Service Is In Greater Financial Trouble Than Most Foreign Posts — The Role of Postal Rates," *op. cit*.

26. See "NZ Post Can Survive — With Changes," *New Zealand Herald*, April 27, 2012, accessed at http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10801723.

27. Accenture, "Is Diversification the Answer To Mail Woes? The Experience Of International Posts," *op. cit*., p. 8.

28. *Ibid*., p. 35.

29. Gerrit Wiesmann, Alex Barker, and Stanley Pignal, "D Post To Appeal Against EU Ruling," *Financial Times*, January 25, 2012, accessed at http://www.ft.com/intl/cms/s/0/fd1f0bfa-4776-11e1-9a92-00144feabdc0.html#axzz1kzbAKgVC.

30. The amount of state assistance in this case was atypical. The European Union (EU) places restrictions on government aid to businesses because of the anti-competitive effects. Those rules have reduced, but not eliminated, state assistance to posts within the EU. On several occasions, the EU has fined posts for receiving government money that it deemed to be illegal state aid.

31. Ratepayers and taxpayers may eventually recover what they initially paid in if (1) the nonpostal ventures prove profitable and (2) the foreign post decides to use some of the resulting income to hold down future postal rate increases and pay dividends or other compensation to the government. In the meantime, however, ratepayers and taxpayers bear the risk that they will never see their money again, because either the nonpostal ventures fail or the foreign post chooses not to repay mail users and taxpayers. In the case of Deutsche Post, German ratepayers and taxpayers seem to have recovered some of their money. Deutsche Post has not increased the postage on a standard letter for many years, and while much of that may have been due to the rate being so high to begin with, perhaps some was made possible by nonpostal profits. The government was repaid for much of its investment as a result of the proceeds it received during Deutsche Post's privatization.

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35. House Government Operations Committee, "INTELPOST: A Postal Service Failure in International Electronic Mail," House Report 98-675, April 11, 1984. The numbers were also cited in Congressional testimony by Edward J. Gleiman, then chairman of the Postal Rate Commission. See "General Oversight Of The U.S. Postal Service: Hearings Before The Subcommittee On The Postal Service Of The Committee On Government Reform And Oversight, House Of Representatives," 104th Congress, First Session, February 23; March 2 and 8; May 23; and June 7, 14, and 28, 1995 (Washington, DC: U.S. Government Printing Office, 1997), p. 204, accessed at http://www.archive.org/download/generaloversight00unit/generaloversight00unit.pdf.

36. For a fuller discussion of Congressional micromanagement, see Michael Schuyler, "Why The U.S. Postal Service Is In Greater Financial Trouble Than Most Foreign Postal Services — The Role Of Government Micromanagement," *op. cit*.

37. See President’s Commission on the United States Postal Service, "Embracing The Future; Making The Tough Choices To Preserve Universal Mail Service," July 31, 2003, p.17, accessed at http://govinfo.library.unt.edu/usps/offices/domestic-finance/usps/pdf/freport.pdf.

38. PAEA, sec. 102.

39. Postal Regulatory Commission, "Review Of Nonpostal Services Under The Postal Accountability And Enhancement Act," Docket No. MC2008-1, December 19, 2008, accessed at http://www.prc.gov/Docs/61/61647/Order_No_154.pdf.

40. See U.S. Postal Service, "Ensuring A Viable Postal Service For America; An Action Plan For The Future," March 2010, accessed at http://about.usps.com/future-postal-service/actionplanforthefuture-march2010.pdf.

41. Accenture, "Is Diversification the Answer To Mail Woes? The Experience Of International Posts," *op. cit*., p. 47.

42. OIG, "21st Century Post Office: Non-Postal Products and Services," *op. cit*., p. 7. It might be argued that postal workers have plenty of idle time at post offices with little foot traffic, which would reduce the marginal cost of offering nonpostal products at those post offices. There is some truth to that, but, as mentioned later in the text, light foot traffic few customers would also mean few sales of nonpostal products.

43. U.S. Postal Service, *Annual Report, 2010*, accessed at http://about.usps.com/who-we-are/financials/annual-reports/fy2010.pdf, p. 6.

44. Because some of these products are not letter post, the Accenture study would regard them as diversification, although they are not nonpostal diversification.

45. U.S. Postal Service, *Annual Report, 2011*, *op. cit*., p. 13. A caution is that the number overstates the Service’s net gain because some of the growth undoubtedly represents a shift from other USPS products, not an increase in total mail volume.

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55. For a fuller discussion of this issue, see Michael Schuyler, "Opportunities For The Postal Service To Deliver Nonpostal Government Services," *IRET Congressional Advisory*, No. 270, November 30, 2010, available at http://iret.org/pub/ADVS-270.PDF.

56. Postal Reorganization Act of 1970 (P.L. 91-375), sec. 411.

57. The PRC wrote, "The Commission concludes that, for purposes of this proceeding, a service is (1) an ongoing activity, (2) of a commercial nature, (3) offered to the public, (4) for purposes of financial gain." (Postal Regulatory Commission, "Review Of Nonpostal Services Under The Postal Accountability And Enhancement Act," *op. cit*., p. 2.) Because cooperative agreements with other government agencies are not commercial activities and are not primarily motivated by financial gain, the Commission ruled they are not what PAEA means by "services"; hence, the ban on nonpostal services does not apply to them. (Also see *Ibid*., p. 59.)

58. For a fuller discussion, see Michael Schuyler, "Opportunities For The Postal Service To Deliver Nonpostal Government Services," *op. cit*., esp. pp. 5-6.

59. For the papers that introduced this proposal, see Michael J. Ravnitzky, Postal Regulatory Commission, "Offering Sensor Network Services Using The Postal Delivery Vehicle Fleet," Paper and Slides, Presented at the 18th Conference on Postal and Delivery Economics, Porvoo, Finland, June 4, 2010, accessed at http://prc.gov/prc-docs/library/refdesk/techpapers/Ravnitzky%20Postal%20Sensors%20Paper%20070910-MJR-1_1306.pdf and http://prc.gov/prc-docs/library/refdesk/techpapers/Ravnitzky%20Finland%202010%20Presentation_1305.pdf.

60. Government Accountability Office, "Census Bureau and Postal Service Should Pursue Opportunities To Further Enhance Collaboration," GAO-11-874, September 2011, p. 10, accessed at http://www.gao.gov/new.items/d11874.pdf. Census did hire approximately 2,400 postal workers who were apparently looking for extra jobs at the Bureau's regular pay. (*Ibid*., p. 9.)

61. See Michael J. Ravnitzky and J.P. Klingenberg, "Government Use of the Postal System: A Valuable USO Component," Presented at the Rutgers University Center for Research in Regulatory Industries, Workshop in Regulation and Competition, 19th Conference on Postal and Delivery Economics, St. Helier, Jersey, June 1-4, 2011, accessed at http://prc.gov/prc-docs/library/refdesk/techpapers/053111%20Government%20Mail%20Paper_1851.pdf. The study found that USPS received over $1 billion annually from federal agencies during the period 1997-2010, a similar yearly amount from state agencies, and a substantial yearly amount from local governments.