

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Petition by Consumer Action

NOTICE OF THE UNITED STATES POSTAL SERVICE
OF FILING REPORT

In its initial comments addressing the Petition filed by Consumer Action on October 15, 2002, the Postal Service noted that at a later date it would file a report concerning nonpostal services.¹ The Postal Service herewith provides the attached Report on Nonpostal Initiatives.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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¹ Comments of United States Postal Service on Consumer Action Petition, at 5 (Jan. 30, 2003).

Report on Nonpostal Initiatives

Introduction

On November 14, 2002, Chairman Rider¹ informed the Postal Rate Commission of a Postal Service internal evaluation, then nearing completion, which would bear substantially on the representations in the Consumer Action Petition (Petition).² This document generally describes the results of the internal evaluation. It also summarizes the business review process, the processes for initiating new products and/or services and the procedures established to monitor and measure goals of the initiative. It also briefly describes the marketplace conditions that require a flexible and rapidly evolving approach to certain new initiatives, and addresses the evolution of nonpostal services.³

Rationale for new services

The United States Postal Service has a responsibility to create and implement new technologies to enable faster, more efficient communication to meet the changing needs of postal customers. The House Report on H.R. 17070, which was to become the Postal Reorganization Act, stated:

The Postal Service is empowered to engage in research and development programs directed toward the expansion of present postal services and the development of new services responsive to the evolving needs of the United States.

H.R. Rep. No. 1104, 91st Cong. 2d Sess. 9 (1970). As progressive as this statement was in 1970, no one could have foreseen how comprehensive the changes in postal needs would be, and how the needs have evolved in 33 years. The same House Report also noted that: "H.R. 17070 envisions a national postal service that is forever searching for new markets and new ways by which the communications needs of the American people may be served." *Id.* at 20.

To fulfill its universal service mandate and mission, the Postal Service must find ways to use existing resources to generate new revenue. This goal becomes

¹ Chairman Rider's term of office ended at the January 2003 meeting of the Postal Service's Board of Governors. In January, the Board elected S. David Fineman as their new Chairman.

² This letter was in connection with a request by Consumer Action (CA), a non-profit consumer organization, to the Commission to initiate a mail classification proceeding to investigate representations concerning a number of services being offered to the public that the Postal Service considers "nonpostal."

³ On January 30, 2003, the Postal Service filed "Comments of United States Postal Service on Consumer Action Petition." This Report is not intended to amend or alter the positions taken by the Postal Service in those Comments in any way.

even more important in light of expected losses from electronic diversion. The Postal Service must also provide the ability for customers to access its products and services wherever and whenever they consider convenient. The Internet has increasingly become the preferred method of alternative access. To accomplish these goals, and to fulfil the vision of the Congress, the Postal Service has striven to offer innovative postal services, as well as engaging in other activities that complement these services, serve the needs of customers, and otherwise maximize the value of the Postal Service's assets in a businesslike fashion.⁴

In the past, the Postal Service took the approach of building services from the bottom up, with postal ownership of all assets and management of the service supported by standard postal purchasing contracts. However, we learned that this approach to some services required an excessive commitment of capital. As a result of the recent review process, and its experience with developing new opportunities, the Postal Service recognized that new business models are essential and that these new business models must involve partnering with private sector companies to meet the quickly changing needs of customers.

The Petition lumps together a disparate array of present and former initiatives, some of which involve nonpostal services provided by the Postal Service to the public, and some of which do not provide services to the public or have never been characterized as "nonpostal" services.

Ongoing management review of e-commerce and other new services

In response to concerns raised within the Postal Service and by the Board of Governors, and as documented by the General Accounting Office,⁵ the Postal

⁴ On April 4, 2002, the Postal Service submitted to Congress a Transformation Plan. In keeping with the spirit of the Transformation Plan, the vision and goal of the Postal Service's Marketing group is to understand postal customers from their perspective, translate that understanding into meaningful business terms, standards, and performance measures that can be used for decision making, and then create, implement and ensure value for both the customer and the Postal Service. Thus, as set forth in section 2.1.2 of the Transformation Plan, *Products and Services Strategy 6: Develop New Features and Services*, the Postal Service concluded that:

Customers will continue to demand new features for existing products and new products that leverage the Postal Service's core competencies. The Postal Service has recently explored initiatives in the e-commerce area and is evaluating and reviewing each initiative for its growth potential and relevance in the marketplace. Using new criteria the Postal Service will seek opportunities that minimize direct investment and leverage its strong brand and assets. Relationships with partners will produce revenue shares commensurate with risk, value, and investment.

⁵ *U.S. Postal Service: Update on E-Commerce Activities and Privacy Protections*, Report to the Ranking Member, Subcommittee on International Security, Proliferation, and Federal Services, Committee on Governmental Affairs, U.S. Senate, General Accounting Office (December, 2001).

Service has put in place an expanded program for managing its e-commerce initiatives. In its Report, the GAO noted that in the past overall management of the USPS e-commerce program had been fragmented and inconsistent across the nine business units involved in developing and managing e-commerce and Internet-related initiatives. Report at 9. In September 2001, the Postal Service announced a major reorganization and shifted responsibility for e-commerce projects to new management and a new group called Product Development. Report at 10. That group has put in place new procedures to manage these programs. The new procedures have led directly to the restructuring of some programs, such as eBillPay, which is described in more detail below. At regular intervals, currently on a quarterly basis, the performance of these nonpostal services is reviewed by postal management and the Strategic Planning Committee of the Board of Governors, which then reports to the full Board. The Board reviews the success, or potential for success, of these services. At the time of the review, the Postal Service may determine whether to continue on the current plan, change the offering, or end the program. Many of our strategic alliances also incorporate advisory committees, consisting of postal representatives and representatives of the alliance partner, which conduct regular meetings to review fundamental business issues and to suggest changes to the service offering.

At the request of the Strategic Planning Committee and at the direction of the Postmaster General, the Postal Service also initiated the further performance review process referenced in Chairman Rider's letter to the Commission. In late 2001 and early 2002, a cross-functional team, with representatives from Marketing, Finance, Information Technology and Law, began reviewing the Postal Service's e-commerce initiatives. The performance and structure of each project was examined, as well as the Postal Service's legal obligations to contractors, suppliers, and customers. As a result of this review, it was decided to terminate PostECS, Netpost.Certified,⁶ and the Postal Service's independent Certificate Authority. Termination of the various contractual obligations necessary to end the service, and provide a reasonable transition for some customers, took several months to complete. Other services, such as eBillPay and the Electronic Postmark (EPM), were restructured in keeping with the Transformation Plan's emphasis on reducing costs and leveraging the postal brand, requiring negotiated changes in the contractual relationship between the Postal Service and its partners. Some proposed initiatives, such as Authenticated Delivery Services (ADS) were terminated. The services listed in the Petition, and changes thereto, are described at the end of this report.

⁶ Although sharing the name "Netpost" with two initiatives listed in the Petition, NetPost.Certified was a bundle of electronic messaging services provided to government agencies containing the EPM, a Certificate Authority, and messaging and security software.

Measurement for tracking the services

Balanced scorecards

Each accounting period, a balanced scorecard is prepared for program managers of certain nonpostal services. Scorecards track key performance indicators (KPIs) within four categories; Financial, Volume, Operations, and Marketing/Customer Relationships. The basis for establishing the indicators—some of which are process indicators and some of which are result indicators—is the business plan. Business plans contain a Performance Measurement and Criteria section which discusses in detail which indicators will be monitored and the importance of each.

Profit and Loss (P&L) Statements

Quarterly Profit and Loss (P&L) statements are prepared for management and the Board for certain nonpostal services. These reports provide a detailed look at expenses by type, including administrative and other overhead costs. P&L reports are akin to an income statement for these new services, showing the revenue and costs.

Discussion of Initiatives named in the Petition

The 14 initiatives listed in the Petition have been grouped below based on the type of service offered to the public. Some products are intended to enhance access to, or the utility of, postal services, such as [returns@ease](#), liberty cash cards, and packaging materials. Other activities or products leverage in a good, "businesslike," way assets acquired in the normal course of business, such as the Unisite program, the USPS First-Class Phonocard®, retail merchandise, NetPost Certified, and NetPost CardStore. Programs such as the Electronic Postmark and On-Line Payment Services provide non-traditional electronic services that take into account new customer needs in an age of changing methods of communication and commerce.

The Postal Service decides whether to request a recommended decision from the Postal Rate Commission depending on whether a change is needed in rates of postage, fees for postal services, or mail classification. For this purpose, postal services are understood to be those involving some aspect of the acceptance, carriage, delivery, or other processing of mail. No filing is made if a new service does not involve mail and thus is nonpostal. No filing is made if the service is international rather than domestic, since the Commission issues recommended decisions only with respect to domestic services. In addition, no filing is made if an innovation does not require the Postal Service to charge the public any new rates or fees, or revise any existing mail classification. As part of our review of the 14 initiatives listed in the petition, the Postal Service reconsidered whether any of them should require a rate or classification filing.

We found that many of them do not involve Postal Service charges imposed on the public, and that one is an international service. We found that several are entirely electronic or otherwise do not involve mail. The Postal Service believes that all-electronic services are not postal services. The reasons why each particular initiative was judged not to require filing with the Commission are briefly summarized in the service descriptions that follow.

Programs that enhance access to, or the utility of, postal services

- Mall Package Shipment Program

This program, currently known as the “All Malls Valet Shipping Program,” was a limited pilot test of a variation of free centralized collection service in shopping malls. In five selected malls, a postal representative visited each participating store to collect outgoing mail. The intent was to determine whether sufficient mail volume would warrant scheduling regular collection routes in malls. Because this was a collection experiment, and no fee was charged for the limited pilot test, it was not appropriate to bring it to the Commission. The Postal Service did not consider this to be a “nonpostal” service. This initiative has been discontinued due to limited use during the experiment.

- Returns@ease

Returns@ease is an umbrella name for a developmental effort to provide Internet access to the existing Merchandise Return Service. The user can go to the web site of a shipper to download a postage prepaid Merchandise Return Label. This service makes returning merchandise to the participating companies easy and convenient for customers and allows businesses to process returns online, thereby lowering costs, cutting cycle times, and providing more control on how returns are handled. It is basically equivalent to the stamps online program. It was decided that this did not require a filing with the PRC because the service is simply an access channel to an existing postal service for which the Postal Service does not charge a fee (other than the Merchandise Return Service fee previously recommended by the Commission.)

- LibertyCash

This initiative involved consideration of a stored value card for use in purchasing postage and related products. It was decided not to continue on that basis. Currently, the stored value card is being considered as a convenient vehicle for providing refunds to postal customers, although no decision to proceed has been made. This would simply be another way to purchase postage, or receive refunds, in retail outlets. Since the Postal Service does not intend to charge a fee for the card if it proceeds with the program, beyond the postage value encoded on it, the Postal Service believes that no filing with the Commission would be required.

Programs that leverage postal assets

- Unisite Antenna Program

On May 6, 1996, UniSite Alpha Inc., a wholly owned subsidiary of UniSite, Inc., as general partner, and the Postal Service, as limited partner, formed National Wireless Infrastructure, LP, a Delaware limited partnership, to market and manage antenna sites on real estate owned or leased by the Postal Service. On January 4, 1999, the Postal Service assigned its interests in National Wireless Infrastructure to Unisite and executed a Site Management Agreement. Currently Unisite's successor, American Tower, owns contractual rights to operate the remaining term of the previous antenna leases and to negotiate a limited number of new lease sites on a local basis. This project involves the out-leasing of Postal Service real property interests as part of the general goal of prudent management of assets funded with Postal Service resources. The Postal Service receives rent under its contracts and does not provide any service to the public. Moreover, the mailstream is not involved. Accordingly, there is no postal service offering to file with the Commission.

Although not mentioned in the Petition, the Postal Service also obtains revenue by selling excess real estate and equipment. For a few especially valuable locations, the Postal Service has joined with developers in various complex real estate development transactions to maximize the value of the property. These activities produce revenue but do not involve mail and are not intended as services to the public.

- Retail Merchandise

The retail merchandise mentioned in the Petition may refer to either of two separate initiatives. First, the Postal Service sells certain items in postal lobbies for customer convenience to support mailing needs. These items include stationery and packaging supplies such as padded bags, boxes, envelopes, labels and tape. Some of the packaging material and mailing products (stationery, etc.) bear philatelic images or the corporate signature, e.g., Postal Service logos. While this merchandise facilitates mailing, the completion of a mail service transaction is not required in order to purchase it. Accordingly, the Commission has not treated the sale of such merchandise as a postal service subject to recommended decisions on charges and classification. The Postal Service also offers licensed postal theme merchandise, such as toys and clothing, incorporating philatelic images or historical aspects of the Postal Service. These sales also help to realize the value of intellectual property derived from postal resources. These sales are not related to the mailstream; therefore, it was determined that they did not involve the offering of a postal service.

- NetPost CardStore

NetPost Card Store, which allows online customers to create high-quality, personalized greeting cards that are printed and mailed the next business day, is a private sector service offered by TouchPoint with Postal Service branding pursuant to a Letter Contract issued in February of 2002. The Postal Service has two roles. CardStore pays for a link on the Postal Service's Internet website, usps.com. A visitor may register with NetPost, and then proceed to CardStore's own website to do business. A card is mailed by CardStore at the appropriate rate. The website connection is conceptually similar to an out-lease of space on Postal Service real property for the transaction of private services. The initiative helps generate mail at established rates of postage. The Postal Service does not charge fees to the public for connection to CardStore, and is compensated for access to the postal website by TouchPoint. Therefore, no postal service is involved in this web-linking agreement.

As an analogous service in the "physical" world, by contract the Postal Service enables Federal Express to provide its services through drop boxes placed at post offices throughout much of the country, in exchange for a fee. This program involves granting access to postal property, enabling the Postal Service to earn a return on unused space at post offices. The service to the public involves FedEx services, sold by FedEx according to its own rate schedules.

Similarly, the Postal Service has earned revenue by making limited space in retail outlets available, for a fee, for particular vendors to distribute their merchandise. Currently, America On Line (AOL) and PC Postage vendors pay the Postal Service to place software in displays in retail lobbies. This is another example of sharing property space with a private vendor for a fee, and does not involve mail service to the public.

- NetPost Certified Mail

Like NetPost CardStore, NetPost Certified Mail is a private sector service offered by USCertified Mail through a link on the Postal Service website. It is offered pursuant to a letter contract issued in February of 2002. It allows customers to create a document on a computer and transmit it electronically to usps.com along with the mailing list. The certified mail system then verifies the mailing addresses, adds the appropriate barcode, prints and folds the letter, and completes the certification forms electronically. The link provides the Postal Service both revenue from the private operator and the benefit of convenient Internet access to mail services for its customers, thus promoting postage and fee revenue. The Postal Service does not charge the public for access to this link. Once again, no postal service is involved in this web-linking agreement.

- USPS FirstClass Phone Card®

This is a pre-paid card bearing philatelic images, sold at post office retail counters. Similar to other cards sold at private retail outlets, it enables users to place domestic and international phone calls up to the value of the card. The Postal Service and its long-distance telephone service alliance partner share revenue. Mail service is not involved, and it was determined that a Commission filing was not required.

Programs involving electronic communications

- Sure Money

Sure Money is the umbrella title for the Postal Service's international funds transfer service offered through its retail units. At this time this service is operational only for funds transfers from selected Postal Service retail facilities to Mexico, through a contractual banking partner, BBVA Bancomer. This service is exclusively for international transfers and is an all-electronic service, not involving mail. Accordingly, it was determined that it does not meet the test of a domestic postal service.

- Online Payment Services (formerly ePayments)

This is the umbrella category currently including a service and two of its features listed separately in the Petition and discussed next below.

- USPS eBillPay

First launched in April, 2000, USPS eBillPay enables customers to receive, view and pay their bills electronically via the Postal Service web site. From inception, this service was largely operated by CheckFree Corporation, with the Postal Service retaining some role relating to marketing, promotion and customer service activities. In 2001, our ongoing performance review process raised concerns about the future of the program. For instance the agreement with Checkfree included certain revenue and volume guarantees that were not being met and which would have required the payment of significant sums of money on the part of the Postal Service. The Postal Service, pursuant to its agreement with Checkfree was also absorbing significant costs to satisfy certain advertising commitments. Of greatest concern was the fact that the Checkfree initiative and its progeny (discussed below) for various reasons were not generating revenue to the extent expected.

The Postal Service successfully renegotiated its agreement with Checkfree.

Under the new agreement Checkfree assumed responsibility for marketing and operational responsibility for USPS eBillPay. Today, performance of this function is completely outsourced to CheckFree Corporation, although the Postal Service retains branding and governance responsibilities. The Postal Service receives a fee based upon the number of registered customers.

This online service is all-electronic. It does not involve the mailstream, except for any payments that are mailed at standard rates of postage. Therefore, it was determined that the service is nonpostal, and does not require a filing with the Commission. The same determination was made as to the two other services provided under a single alliance agreement, as listed below.

- USPS Send Money

USPS Send Money is a service feature available to customers wanting to send money to anyone with a transfer between bank accounts.

- USPS Pay@Delivery™

This is another feature available to USPS customers. This feature allows customers to combine US Send Money with the Postal Service's Delivery Confirmation product offering. When making a purchase online, the customer asks the seller to agree that CheckFree will hold the buyer's payment until the Postal Service has confirmed delivery of the package by scanning the Delivery Confirmation barcode. The Delivery Confirmation service involves the existing classification and fee structure already recommended by the Commission.

- USPS Electronic Postmark

The USPS Electronic Postmark (EPM) is currently under development as an out sourced all-electronic service giving customers a way to time-stamp electronic files securely. The EPM provides evidence that a document or file existed at a specific time and date and detects changes made to the postmarked document in transit. At the time of the review of e-commerce initiatives described above, the service was performed in-house utilizing purchasing contracts for technical support in integrating a postal-owned software solution into applications and for hosting data servers. It was being provided through a single commercial customer and on a test or pilot basis to the Department of the Treasury, Social Security Administration, and the Healthcare Financing Administration, as well as in connection with the PosteCS and eBillPay products.

As a result of the review, it was determined that the EPM continued to be an e-commerce opportunity that could capitalize on the Postal Service's brand equity. Accordingly, it was decided that the EPM would be outsourced so that the service would be performed entirely by an outside vendor under postal direction, policies, and branding. After an RFI was issued for the selection of a new EPM provider, Authentidate was chosen to provide the EPM on behalf of the Postal Service. The Postal Service executed a strategic alliance with Authentidate on July 21, 2002.

Once the new service is launched, the Postal Service will receive a portion of the fee charged by Authentidate. Like USPS eBillPay and its features, since this will be an all-electronic service not involving the mailstream in any way, it was determined not to be a postal service.

Conclusion

The preceding discussion explains the nature of the nonpostal services cited in the Consumer Action Petition and why the Postal Service did not request rate and classification recommendations from the Commission. It also describes how some new products and services are created, delivered, and managed through private sector revenue-sharing alliance partnerships.

The Postal Service has changed several initiatives as a result of our ongoing business review process. As described above, eBillPay and EPM have evolved into strategic alliance relationships in which the role of the Postal Service is limited to branding and governance. In a similar fashion, our ongoing business review processes have resulted in the discontinuance of several services, including PosteCS, NetPost Certified, Independent Digital Certificates and the All Malls program.

Like any venture that depends on creating value and attracting revenue, the Postal Service needs the room to try new things, spread risk, stimulate innovation, and have flexible access to marketplace skills through partnerships. As with any new business initiative, it is reasonable to expect that some offerings will meet planned objectives while others will not. Undertaking new services requires a look forward and thus involves inherent risk. Postal management processes call for creation of a business plan at the outset of new nonpostal initiatives, establishment of key performance indicators, and monitoring of the performance against these expectations.

Much of the critical commentary embodied in the Petition substantially misrepresents the status and functions of nonpostal services, as they and Postal Service policies have evolved. Nevertheless, the Postal Service understands that the Petition's representations reflect honest concerns about the effects of such services on the Postal Service and its customers. While the Postal Service

does not agree that the reporting and analytical review that the Petition proposes for the future are either required or necessary, the Postal Service reaffirms its commitment to provide the Postal Rate Commission with the information it needs to carry out its responsibilities under the statutory scheme for postal ratemaking. As with the report provided today, any disclosure of information in the future, must appropriately balance public disclosure with the Postal Service's interests and statutory prerogatives in protecting sensitive commercial information and data.

Nicholas F. Barranca
Vice President, Product Development
March 7, 2003

CERTIFICATE OF SERVICE

I hereby certify that, in accordance with section 12 of the Rules of Practice, I have this day served the foregoing document upon all participants of record.

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