A Research Proposal: How can the United States Postal Service Respond and Recover From a Decade of Decline?

Victoria E. Ayers
Johnson & Wales University - Providence, VEA717@jwu.edu
A Research Proposal: How can the United States Postal Service Respond and Recover From a Decade of Decline?

Victoria Ayers

Johnson & Wales University

Feinstein Graduate School, MBA Program

Author Note

Submitted for course RSCH5500

Professor Martin Sivula, Ph.D.
Abstract

The purpose of this proposal is to identify the various financial struggles the United States Postal Service is currently facing. The interpretation of the related literature reveals some of the issues which the Postal Service is currently facing. Through the analysis of articles addressing the present and past volumes of mail and the recent usage of postal facilities it is evident that there is still a need for the USPS to survive. This proposal examines the current actions taken to save the United States Postal Service from their financial turmoil and also presents the results of past actions. It is evident that more serious action needs to be taken along with help from Congress in order to address the numerous issues. Proposed are the assessment of attitudes and needs towards the USPS from households, small and large businesses, and postal employees themselves, while also assessing the current level of service that is required from the USPS. The various researches identify the continuous downward spiral in which the United States Postal Service has fallen. The Method section provides potential data collection and analysis procedures for the assessment.
How can the United States Postal Service

Respond and Recover From a Decade of Decline?

I. Statement of the Problem

The United States Postal Service is in extreme financial turmoil due to the failure of adapting to new technological advances that have changed the way the Americans operate from paying their bills to communicating with friends and family. The use of the Internet and mobile devices has had a direct effect on the volume of first-class mail. First class mail consists of mostly letters, bills, and post cards that require very little labor to transport, making it the most profitable mail type. Technology has replaced the need to purchase a stamp to send a letter, it is much easier, faster, and cheaper to simply email or pay bills online. The volume of first class mail has fallen 25% since 2006 (Knowledge@Wharton, 2012) and according to Boston Consulting Group they predict there will be a 35% decline from 2009 to 2020.

Another issue the USPS faces is the fact that it is a quasi-governmental structure that is self-financed receiving a small amount of federal dollars; the USPS relies almost entirely on revenue from mail services to cover its costs. Between 2009 and 2011 the postal service lost more than $17 billion on its operations as mail volumes decreased from 177 billion pieces to 168 billion and the future is only looking worse (Knowledge@Wharton, 2012). Back in 2006 Congress passed a law requiring an annual prepayment of retiree health benefits of $5.5 billion a
year for the next 10 years, this was passed before the recession hit (Sanborn, 2011). This resulted in an immediate financial drain on the USPS. At the same time the USPS had labor contracts that prohibited the service from laying-off employees making it difficult to cut labor costs, which account for about 80% of the USPS total operating expenses (Knowledge@Wharton, 2012).

The United States Postal Service has had many dramatic changes outlined in order to improve their financial situation. They planned on closing thousands of rural post offices, moving from 6 days a week to only operating 5, and closing half of its nearly 500 mail-processing facilities (Sanborn, 2011). However many communities see their local Post Office as an important local institution that characterizes their city or town. Politicians from these rural areas will not let the USPS close their local post offices without a fight, causing the USPS to backtrack on many of their plans. According to a professor at Wharton University, he believes that the USPS should be privatized stating: “It makes no sense having congressman deciding that a post office can’t be closed in some small town. FedEx doesn’t deal with that. UPS doesn’t deal with that.” Although this statement brings up a point that privatizing the USPS could potentially save the USPS financially, it would hurt the thousands of workers that the USPS employs. Privatizing the Postal Service would not only cut thousands of jobs nationwide, but would also change the current ways in which the Postal Service is currently operated and change the current pay and decent benefits the Postal Service currently provides to its Federal employees.

If the USPS does not implement successful, dramatic, and forceful action there is no doubt that the organization will fold. They are increasingly loosing money and mail volume each year and without immediate action there will surely be no existence of the United States Postal Service.
II. Background Literature Related to the Problem

The enactment of the Postal Accountability and Enhancement Act in 2006 tasked the Postal Regulatory Commission to provide a report on universal service and the postal monopolies within two years. The Commission consulted with the public through several different mechanisms. For two years (2006-2008) the Commission collected data and feedback from the public about their attitudes towards level of service of the USPS. Their first mechanism was through public docket. Most comments were provided from the employees of the Postal Service and people with a significant interest in the industry, as in stakeholders. As stated in their findings, “The written comments reflect the interest in maintaining universal service as it exists, and providing the Postal Service with the flexibility to adapt to changing conditions as well as continued support and retention of the postal monopolies” (Blair, 2008). The Commission also held four public hearing in order to consult and reach out to stakeholders, the Commission mailed letters inviting Federal agencies to attend. A consensus was developed, “Nearly all of the organizations and individuals affirm the need for continued universal service provided by the Postal Service. Most organizations and individuals expressed no desire for any change in the current universal service standard” (Blair, 2008).

The Commission also received information on the needs and expectations from households across the U.S. in regards to their use of mail, the post office, and delivery. The survey was conducted by phone to a random sample of 791 households. Although the results were uneven, in general households do not favor losing their local post office, nearly half of respondents oppose or strongly oppose to replacing their post office with a service at a nearby
store in the neighborhood (Blair, 2008). Findings proved that nearly all households receive bills through the mail, but more frequently households are paying the bills online. There is an obvious trend approaching, the use of electronic alternatives are decreasing mail volumes. On the brighter side of things, the Commissions found that 68% of households would not mind reducing the number of delivery days from 6 to 5 days per week, 95% would not object to have advertising mail delivered in three days or less, and 71% of households still use the USPS to ship parcels (Blair, 2008).

On behalf of the Commission, George Mason University conducted a national phone survey to assess the needs and expectations of small businesses and small nonprofit mailers. 444 randomly selected small businesses and nonprofits were surveyed. “78% obtain postage at a post office, and 50% use the post office for mailing their pieces. Closing of post offices for cost savings is only supported by 1 in 3 companies” (Blair, 2008).

The research conducted from 2006-2008 by the Postal Regulatory Commissions proves that although some small businesses and households are opposed to the closings of local post offices, in general the entire spectrum of stakeholders, households, and small businesses widely supports the USPS. The findings conclude that the current level of service is as expected from mail users and Postal monopolies will continue to be supported. Businesses and households are willing to adapt to the necessary changes the USPS needs to make in order to stay afloat (Blair, 2008).

In April 2011 the Household Diary Study was conducted, surveying a sample of 5,200 households to answer a questionnaire and keep a diary of the mail sent from and received at their
residences. The results: mail received was 128.3 billion pieces and mail sent was 18 billion pieces, for the first time the research indicated that fewer than 50% of all bills were paid by mail (Mazzone & Pickett, 2011). First-Class mail fell 6.6% in 2010; the trend started in 2005 and has continued to significantly decrease ever since. One of the main contributors to the decline was a 3.1 billion piece reduction in First-Class Single-Piece letters and cards that was driven in part by continuing electronic diversion of the mail (Mazzone & Pickett, 2011). Another detrimental factor was the economic recession; the total mail volume dropped 12.7% in 2009, which was the largest decline since the Great Depression (Mazzone & Pickett, 2011). “The 2007-2009 economic recession was followed by a weak recovery that adversely affected mail volumes well into fiscal year 2010. In addition, the migration of transaction and correspondence mail to the Internet and other electronic alternatives continued to reduce mail volumes as well” (Mazzone & Pickett, 2011). Between 2001 and 2010, the total mail volume fell 17% as the U.S. population and households grew by 9% during that same time period (Mazzone & Pickett, 2011).

The Household Diary also studied the use of the 36,222 locations of actual Post Offices throughout the United States. Over 64% of all U.S. households patronize the post office at least once a month and over 52% visit the post office three or more times a month (Mazzone & Pickett, 2011). Even though there is a continued availability of alternatives to the postal services, an in-person visit to the post office seems to remain stable. Despite the significant decrease of mail volumes, people continue to walk in and use the many services that the post office provides.

Due to the continuing financial decline of the USPS, The Boston Consulting Group was hired by the United States Postal Service to develop a forecast of the future of the USPS in the
next ten years. Between October and December of 2009, on behalf of the USPS The Boston Consulting Group conducted a projection of mail volumes through 2020. BCG has a unique methodology to develop such projections, through segmentation, best-estimated view, industry research, and aggregate review they were able to develop significant results.

Segmentation enabled BCG to model the interplay of the sender and receiver patrons that will impact mail over the next decade, they conducted 50 deep interviews with a selection of the USPS largest customers chosen by USPS themselves (The Boston Consulting Group, 2010). Mail Service Providers such as finance, credit card companies, catalog publishers, direct mailers, and publishers were recognized as decision-makers within their company’s communication strategies, which is why they were chosen for the survey. The interview questions focused on the future use of mail and its alternatives. Results form the surveys demonstrate that many plan to aggressively move significant volumes of mail to other channels (The Boston Consulting Group, 2010).

In addition to consulting with big industry players, BCG also conducted two consumer surveys: an internet-based survey to develop a view on the 74% of households with Internet access, and a phone-based survey for the other 26%. The samples were selected to be a representative of the demographic profile of the United States. BCG asked consumers how their use of alternatives to mail would change if senders addressed the current issues they had with alternatives. BCG was then able to create a linkage between consumer concerns and the actions the senders are planning on implementing to address these concerns. The sender feedback resulted in concerns about the cost of sending mail and the cost of processing mail responses.
Senders are implementing diverse tools to move away from physical mail, they are even
discussing fees for paper correspondence in the near future (The Boston Consulting Group,
2010). In the long term, senders are eager to be the first market with new technology that will
differentiate them: mobile technology will emerge as a key platform in the next decade, which
will contribute to the elimination of mail. Senders also recognize the concerns that consumers
have, results from the surveys show that consumer concerns consist of online security, ability to
recall past statements, and having alerts when bills are due (The Boston Consulting Group,
2010). “We see these pieces disappearing because senders are addressing these concerns” (The
Boston Consulting Group, 2010).

The results from the several means by which BCG came up with projections for the next
decade show a decline in volume to roughly 150 billion pieces in 2020 from 177 billions pieces
in 2009 (The Boston Consulting Group, 2010). They project increasing losses growing year after
year caused by sharply declining volumes on an increased cost base, along with a shift away
from highly profitable First-Class Mail due to the online diversion of bills, invoices, statements,
and payments (The Boston Consulting Group, 2010). The projections for the next 10 years is a
steady decline, there is a rapid shift from profitable First-Class Mail to less-profitable Standard
Mail, and the increasing amount of losses will be approximately 15 billion by 2020 (The Boston
Consulting Group, 2010).

This past April (2012) the United States Government Accountability Office developed a
detailed report requested by Homeland Security and Governmental Affairs. The report includes
three key points: past actions USPS has taken to reduce excess capacity, USPS plan to
HOW CAN THE USPS RESPOND AND RECOVER

consolidate its mail processing network, and the key stakeholder issues and challenges USPS faces in consolidating its mail processing network. Through secondary research the GAO discussed the means by which the USPS made changes to consolidate since 2006 and the results thereafter. In order to gather information from stakeholders, the GAO interviewed USPS officials and reviewed stakeholder testimonies. Since 2006 the USPS has taken actions to reduce its excess capacity, however the gap between expenses and revenues has grown significantly since 2006 (United States Government Accountability Office, 2012). Whenever USPS proposes a change to the nature of postal services that affects services on a nationwide basis, USPS must request an advisory opinion on the change from Postal Regulatory Commission, which can be a lengthy and difficult process.

From fiscal year 2006-2011, USPS data showed that it reduced mail processing and transportation costs by $2.4 billion or 16 percent by reducing the number of mail processing work hours, facilities, and employees (United States Government Accountability Office, 2012). Specifically USPS data showed that it eliminated 36 percent of its total mail processing work hours, 32 percent of its mail processing facilities, and 20 percent of its full-time mail employees (United States Government Accountability Office, 2012). In addition to USPS’s cost savings from reducing work hours and work force, USPS took some actions to close facilities and realign its transportation network. During this period USPS reported that it focused on three core initiatives that together saved about 114 million. The core initiatives include: Closing excess Remote Encoding Centers and Airport Mail Centers, in fiscal year 2006 there were 12 Remote Encoding Centers and by 2011 there were only 2, saving about $10.3 million. In fiscal year 2006 there were 77 Airport Mail Centers and currently there is only 1 remaining, saving about $108.
million (United States Government Accountability Office, 2012). The second initiative: Consolidating Area Mail Processing operations, completing 100 consolidations from fiscal year 2006-2011 saving $167 million. Finally the third initiative: Transform the Bulk Mail Center network, improving transportation utilization and properly aligning work hours with workload saving about $129 million (United States Government Accountability Office, 2012). Even though these initiatives have been somewhat successful the USPS stated the “Excess capacity continues and structural changes are necessary to eliminate it” (United States Government Accountability Office, 2012). The three main reasons for continuation are: accelerating declines in mail volumes, continuing automation improvements, and increasing mail preparation and transportation by mailers (United States Government Accountability Office, 2012).

The USPS’s plan to consolidate its mail processing network includes several initiatives. In December 2011 USPS asked PRC to review and provide an advisory opinion on its proposal to changes its delivery service standards by eliminating overnight delivery service for First-Class mail and Periodicals, which would save approximately $2 billion annually if fully implemented (United States Government Accountability Office, 2012). Under this plan 42% of First-Class mail that is currently delivered within 1 day would be delivered within 2 to 3 days. The plan also includes details on facilities, staff, equipment, and transportation that USPS would eliminate as a result of the change in delivery service standards. In February 2012 USPS sent out a press release stating they would be closing 223 processing facilities during the summer and fall of 2012, depending on a final decision to change service standards (United States Government Accountability Office, 2012). The USPS stated “consolidating its network is unachievable without relaxing delivery service standards.” The USPS estimated that it could consolidate 223
HOW CAN THE USPS RESPOND AND RECOVER

processing facilities, remove 35,000 mail processing positions, downsize from 8,000 pieces of processing equipment to 5,000 pieces, and reduce facility-to-facility trips by 25% (376 million trips) based on if proposed changes in First-Class and Periodical delivery service standards are actually implemented efficiently (United States Government Accountability Office, 2012).

However, implementing new delivery standards and consolidation is just one part of the USPS’s overall strategy, on the revenue side USPS cannot increase mail prices so therefore USPS announced a 5-year business plan in February 2012 to achieve financial stability by saving $22.5 billion in cost savings by 2016 (United States Government Accountability Office, 2012). USPS initiatives to save $9 billion in network operations (consolidating its mail processing and transportation networks), $5 billion in compensation and benefits, and $8.5 billion through legislative changes (moving to a 5-day delivery schedule and retiree health benefits.) Moving to a 5-day delivery system would save about $3 billion annually and would reduce mail volume by less than 1 percent. This 5-year plan would also reduce the overall size of the postal workforce by roughly 155,000 career employees and half of which will be eligible for retirement by 2016 (United States Government Accountability Office, 2012).

The USPS’s plan to change its current mail processing methods comes with several challenges and potential problems from stakeholders and employees. Some business mailers have expressed concern that reducing mail processing facilities as a result of eliminating overnight delivery service could increase costs for business mailers who will have to travel further to drop off their mail. USPS employee associations believe that the proposed mail changes would reduce mail volume and revenue making the USPS’s financial condition even
HOW CAN THE USPS RESOND AND RECOVER

worse (United States Government Accountability Office, 2012). The USPS also faces two major challenges internally for the implementation of their plan and Congress needs to execute legislative action in order to address them. The two areas of concern: Lack of flexibility to consolidate workforce due to the 85% of employees who are covered by a collective bargaining agreement containing employment protection such as no-layoff provisions. Secondly, the resistance to facility closures due to opposition from Members of Congress, affected communities, and employees (United States Government Accountability Office, 2012).

As of April 2012, the House of Representatives passed bills to help USPS achieve financial stability, which include provisions that could affect USPS’s ability to consolidate its mail processing network. However pending legislation originating in the Senate includes provisions that would delay the 5-day delivery plan by 2 years requiring USPS to consider downsizing rather than closing facilities (United States Government Accountability Office, 2012). This delay would make it very difficult for USPS to save the goal of $22.5 billion by 2016. On the other hand the Senate bill includes a requirement for arbitrators to consider USPS’s financial situation and allow USPS to use surplus pensions to pay for employee buyouts of up to 25,000 for as many as 100,00 postal workers making it easier to reduce the workforce in facilities targeted for closure (United States Government Accountability Office, 2012). Essentially without congressional action to help USPS address its financial problems, USPS will be limited in their success and may even fall further into debt.

In a quantitative and qualitative market research study conducted by Gregory Whiteman and Elmore-Yalch (2012), they assess customers’ reaction to the proposed changes in service
standards for First-Class Mail and Periodicals before the Postal Regulatory Commission. The purpose of this study is to provide an assessment of the qualitative reactions of both consumers and commercial organizations to the proposed changes to service standards and second, based upon the quantitative market research, the estimated volume and revenue impact of changing service standards. The postal service sponsored the qualitative research using 18 focus groups with consumers and small organizations and 17 personal in-depth interviews with larger organizations mail (Whiteman, 2012).

The most substantial finding concerning the changes to service standards among focus groups and IDIs was that most consumers and small commercial organizations said that changes to the First-Class Mail and Periodicals service standards would have a limited impact on their mailing behavior and their use of the internet as an alternative to mail (Whiteman, 2012). Most said that they would easily adapt by mailing earlier than they do now. Most consumers are unaware of what the current First-Class Mail service standards even are (Whiteman, 2012). Overall the qualitative focus group research shows that most consumers and commercial organizations will accept the service standard changes if it is necessary to help the Postal Service regain its financial stability (Whiteman, 2012). Many small businesses and consumers want to see the Post Service survive and understand the need for that type of business decision; it was said many times during the research, “the Postal Service has to do what it has to do in order to survive” (Whiteman, 2012). In the IDIs with National and Premier account customers, customers indicated they would be able to adapt to the proposed service standards changes after hearing the full proposal and the reason for it, customers accepted it because it is necessary to help solve the Postal Service’s financial concerns (Whiteman, 2012). When focus groups were asked the simple
question whether the Postal Service should adopt the proposed changes or not, about 80% of the consumer and small commercial customers said yes (Whiteman, 2012). However the qualitative research does indicate that customers could make changes to their mailing practices by diverting mail volume to the Internet or competitive shipping companies. Some customers explained that although they could adapt to the change in service standards, they might accelerate their shift of communication to the Internet (Whiteman, 2012).

During in-depth interviews with larger commercial organizations, after they learned about the proposed reason for the changes in service standards, the executives accepted it in order to help the Postal Service regain its financial stability (Whiteman, 2012). Many said the Postal Service was too important to risk not supporting the necessary steps to ensure its continued operations (Whiteman, 2012). However the larger business customers generally do not support a reduction in service, while most said they would be able to adapt, they also will continue to shift hard copy mail to electronic communications, taking advantage of its greater convenience and lower cost (Whiteman, 2012).

Through the analysis of several different primary sources, it is evident that the constantly changing world caught up to the United States Postal Service. They were not prepared to adapt to the new and changing technologies that enabled almost every transaction to be completed through the Internet, and society is only advancing further. The USPS is in an immense amount of debt and the only way they can revive themselves is if Postal Regulatory Commission approves their plans to move forward and downsize, change their current level of service, and close numerous facilities. Unfortunately, taking these actions is the only way the USPS can
survive which will in turn hurt the thousands of federal employees that will loose their job; it truly is a loose-loose situation. The future does not look very bright for USPS as a business and the predictions for the next 10 years are not in their favor. Immediate action needs to be implemented in order to save the Postal Service starting with help from Congress, which can be an extremely difficult challenge.

It is obvious that small and large businesses as well as households across America still utilize the USPS and depend on them. Even though more and more transactions and means of communication are shifting to the Internet, it is evident that there is still a need for post offices. The United States Postal Service is not only an important business to our society, but also a valuable asset to America. The foundations of USPS were written in the Constitution, it has been a part of our nation since it’s founding. Seeing the Postal Service fall to pieces would be disheartening and depressing for the communities across America and for our nation as a whole.
HOW CAN THE USPS RESPOND AND RECOVER

III. Method

Sample:

In the sample there is to be total of 200 Postal Employees: 50 Postmasters (28 men and 22 women), 50 clerks (21 men and 29 women), 50 mail handlers (38 men and 12 women), and 50 mail carriers (25 men and 25 women) ages ranging from 18 to 64. One Postmaster, one clerk, one mail handler, and one mail carrier was randomly selected from each of the 50 states to participate in an over the phone questionnaire. After obtaining informed consent from each participant the same structured questionnaire was given to each participant.

Instrumentation:

A questionnaire is constructed to obtain opinions and attitudes of Postal Employees regarding: the current financial situation, the USPS response to the situation, the purposed changes to address the financial problems, and their suggestions on how to improve the financial predicament. The questionnaire contains ten direct and clear questions. At the end, there is a brief section to collect demographic information regarding age, sex, income, level of education, and size of family. The person executing the questionnaire is to use paper and pen or a computer (whichever they preferred) in order to record responses from the participants. There is also a timer utilized in order to time the duration of the responses.

Data Collection:

The questionnaire is to be verbally given to each participant over the phone; the times are to be pre-established in order to accommodate the participant. Although conducting 200 over the
phone questionnaires will be time consuming; it is the best way to improve the reliability of the questionnaire. There were 20 people distributing the questionnaire to the participants therefore each person made 10 phone calls. The people distributing the questionnaire were research students from Johnson & Wales University who voluntarily took part in conducting the questionnaire. Before the questionnaire begins there is a brief introduction read to the participant stating the purpose of the survey (what we hope to find) and the importance of their honest answers. Then follows specific directions on how to answer the questionnaire. The directions allow for one minute to think about each question and 2 minutes to give an answer. The first 5 questions address a certain problem or issue pertaining to the financial decline of the USPS as in why they believe the problem developed and escalated so quickly. The last 5 questions pertain to the participants’ personal opinions as to how they feel about the purposed and implemented changes, and what they think should be done in order to improve the current situation. Following the 10 questions, there is a brief demographic identification section. Once the questionnaire is concluded, the participants are thanked and the phone call is over.

Data Analysis:

In order to analyze the data, there is first a preliminary analysis aided by descriptive statistics (frequencies of responses, means and standard deviations) in order to evaluate the results of the questionnaire. The responses were categorized into each position of the USPS employee (Postmaster, clerk, mail handler, and mail carrier). There will be several tables, graphs, and charts constructed in order to obtain an in-depth understanding of the results and the generalized feedback pertaining to each USPS position through the use of inferential statistics. Tables, graphs, and all statistics will comply with the current American Psychological Association manual (currently 6th edition).
References


