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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

AUG 23 1974



Mr. Benjamin F. Bailar
Senior Assistant Postmaster
General for Administration
United States Postal Service

Dear Mr. Bailar:

As you know, the General Accounting Office has examined into certain of the new services offered by the Postal Service. These were Mailgram, Express Mail, Controlpak, and Facsimile Mail. In our draft report, which was sent to the Service for review on April 30, 1974, we expressed two concerns about the management of these programs involving:

- the adequacy of the Service's research of market potential and profitability of new services, and
- the questionable revenue potential of certain of the new services; hence, a question concerning the desirability of their continued operation.

In addition, we expressed the view that the Service needed to establish policies and procedures regarding identification of the types of new postal services that should be submitted to the Postal Rate Commission for approval and the timing of such submissions.

We subsequently had lengthy discussions on these matters with the Assistant Postmaster General, Customer Services, and the Director, Office of Product Management. These conversations caused us to reconsider certain of the positions we had taken in our draft report. We learned of relevant Postal Service actions of which we were previously unaware. Although we are unable to verify many of these actions because of a lack of documentation, we have no reason to question the assertions made by the two postal officials. It should be noted that the Director, Office of Product Management expressed to us his intent to henceforth ensure fuller documentation supporting decisions made and actions taken.

In any event, certain matters remain unresolved despite our dialogue. We desire to bring these to your attention. They involve

- our continued reservations about the revenue potential of Controlpak and Facsimile Mail, and

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- the need to establish policies and procedures regarding identification of the types of new postal services that should be submitted to the Postal Rate Commission for approval and the timing of such submissions.

LIMITED REVENUE POTENTIAL

Controlpak

At the outset, we wish to express our recognition of the fact that any analysis of the significance of Controlpak sales results to date must consider the fact that the marketing plan was not effectively executed in the field.

We have not attempted to fix responsibility for this situation. It is, in any event, a Postal Service problem. We can only assert the obvious; namely, that the best efforts of the Office of Product Management will be for naught unless there is provision for effective field support.

We believe, however, that the very concept of Controlpak is suspect, and that the program offers little promise of significant growth. Our belief is premised on discussions with Controlpak's targeted potential users. While our sampling of these users does not provide statistical certainty, we believe that the reasons advanced for nonuse makes sense and would have general application.

Thus, potential users we interviewed commented as follows.

- Credit card mailers using Controlpak under the test program were using the service for about 28 percent of their annual mailings and anticipated no significant increase in volume. On the basis of its revenue objectives, the Service must obtain 40 percent of all annual credit card mailings to achieve its objective for this type of mailing.
- Of the original 16 firms authorized to use Controlpak, 4 stated that they no longer planned to use the service. Non-users of Controlpak we interviewed indicated they would not use the service because (1) there were small mail fraud losses in competing mail services, (2) the service was too costly, and (3) it did not adequately protect against the principal cause of loss--mailbox theft.
- Dividend check mailers stated that thefts were negligible in competing mail services and, therefore, Controlpak would be too expensive because of the limited potential benefits.

--Food stamp mailers informed us that their biggest problem was mailbox theft, for which Controlpak offers no protection. In addition, the Federal Government generally replaces food stamps lost in the mail.

--Among the reasons welfare check mailers do not plan to use Controlpak is that the banks bear the loss on fraudulently cashed checks.

--Mailers of tickets informed us that mail losses were small and therefore the cost of additional security was not warranted. They added that volume was not sufficient to warrant regularly using Controlpak.

The Director, Office of Product Management agreed that the need for the benefits offered by the Controlpak probably is less compelling today than it was when the service itself and market data were first developed. He stated that

"A lot has been done through legislation, by the industry, and by the Postal Service to eliminate the more spectacular abuses."

We believe a more accurate explanation of the changed market is that potential users now generally realize that the risks of loss during that part of the mail delivery process protected by Controlpak are so minimal as to not warrant the additional costs associated with that service. We grant that you should be prepared to offer the service to mailers who, for some reason, desire to use it. But we question the wisdom of further promotion.

Facsimile Mail

We must admit to some confusion regarding the objectives of the Facsimile Mail program. We were presented with a persuasive briefing on the future potential--estimated revenues of \$3 billion--of a service involving the electronic communication of pictured material. Convincing evidence was given on the validity of the Service's estimate of market size and probable penetration. An official of A. D. Little was quoted as characterizing the Service's study as "*** one of the best pieces of work we've seen."

Within this framework, we have difficulty comprehending the objectives of the Service's current modest Facsimile Mail efforts. It apparently is not aimed at testing market potential which was purportedly identified by the study cited above. Rather, it is described as an "*** operations test with limited technical objectives." On the other hand, it is our understanding that the equipment being tested is completely unsuitable for the high-volume, high-speed operations anticipated for the future \$3 billion program.

We fail to understand what the Service hopes to achieve with its ongoing effort.

NEED FOR GUIDANCE ON
POSTAL RATE COMMISSION
APPROVAL

We believe Postal Service policy and procedures are needed for identifying the types of new postal services that should be submitted to the Postal Rate Commission for approval and the timing of such submissions.

Under the Postal Reorganization Act, the Service has the specific power to provide, establish, change, or abolish special nonpostal services. The act makes it clear, however, that changes in postal services and postal rates have to be submitted to the Rate Commission and approved by the Board of Governors before the changes can be considered permanent. Also, the act sets forth the factors to be considered by the Commission in rate and service changes.

What is not clear from the act and cannot be resolved by reference to any written Service policy guidelines is (1) which new services are required to be submitted to the Commission or what degree of change to an existing service would require submission to the Commission and (2) how long the Service can provide a new or changed service before submitting it for approval.

In a report submitted to the Subcommittee on Postal Service of the House Committee on Post Office and Civil Service, in March 1972, the Service acknowledged that Express Mail, which started in October 1970, would have to be submitted to the Postal Rate Commission and receive the approvals required under the act before it could be considered a permanent service. The Service stated that current plans were to complete all testing and develop final recommendations on Express Mail by March 1973. Similar information was provided about the testing of Controlpak and it was stated that recommendations on a course of action would follow the 1-year test which started in August 1971 and was to end in August 1972.

The Service made it clear that the Mailgram program would not be submitted to the Commission because Mailgram was a permanent service subject to continuation of a contract with a private firm.

Express Mail and Controlpak still had not been submitted to the Commission as of March 1974. A service official associated with Express Mail informed us that the Service had no overall guidelines to help decide when new products should be submitted to the Commission. He stated that Express Mail was still an experimental program and that he intended to avoid sending it to the Commission for as long as possible. An official associated with Controlpak stated that the Ser-

vice did not plan to submit this program to the Rate Commission until it became a permanent service.

Express Mail and Controlpak were undertaken in 1970 and 1971, respectively, as experimental programs. Since that time, the considerable expansion of and the tone of promotional material for both programs have implied that the programs were operational rather than experimental. This conclusion is further supported by the considerable knowledge of the programs exhibited by the business mailers we interviewed.

The expansion of the program is illustrated by Express Mail: in November 1970 it was available in 26 cities and had four service options, in January 1971 it was expanded to 35 cities, and in September 1971 the contractual options were expanded to 56 cities. As of March 1974 the Express Mail network consisted of the following:

Option 1-IV	58 cities
Option V	38 cities
Option VI	Great Britain, Brazil, and the Netherlands

Express Mail has increased from 6, 500 pieces in fiscal year 1971 to 210, 835 pieces as of June 1973.

We noted that the rates charged under these programs were established at the time the programs were introduced and have remained the same except for a change in the discount offered for eliminating pickups or delivery under the Express Mail program. Since that time, rates for other postal services have been increased.

We discussed the submission of rates for new services to the Commission with Service officials who said that the legislation regarding this matter is not clear and that a definite decision had not been made regarding the submission of new services to the Commission.

Since the new postal services discussed in this report have as their objective the delivery of mail and from that standpoint do not differ from other postal services which have been submitted to the Commission, we believe the Service needs to establish definite policies and procedures for submitting the rates for new or changed services to the Commission. We further believe that, if legislative changes are necessary, the Service should submit the proposed changes to the Congress.

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We wish to express our appreciation for the cooperation given us by your staff. We would appreciate any comments you may wish to make on these matters.

Sincerely yours,

(Signed) William J. Anderson / *for*

John Landicho
Associate Director