



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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**Opportunities for the Postal Service –  
Micro-Warehousing and Other  
Logistics Support Services**

March 13, 2014



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**MS-WP-14-003**



March 13, 2014

**MEMORANDUM FOR:** NAGISA M. MANABE  
CHIEF MARKETING AND SALES OFFICER AND  
EXECUTIVE VICE PRESIDENT

E-Signed by Janet Sorensen   
VERIFY authenticity with eSign Desktop  


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

**SUBJECT:** Opportunities for the Postal Service – Micro-Warehousing  
and Other Logistics Support Services  
(Report Number MS-WP-14-003)

Attached are the results of our review of Opportunities for the U.S. Postal Service – Micro-Warehousing and Other Logistics Support Services (Project Number 13RO008MS000). The Postal Service's extensive reach and high level of brand recognition allow customers to trust in its capabilities; therefore, the Postal Service's existing owned space and infrastructure could provide residential and business customers with micro-warehousing and other logistics support services opportunities, such as fulfillment and distribution activities. If the Postal Service can capitalize on this environment, it can serve the public while increasing its revenue through these new services.

If you have any questions or need additional information, please contact Joshua Bartzen, acting director, Sales and Marketing, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

## Micro-Warehousing and Other Logistics Support Services

### Executive Summary

Micro-warehousing<sup>1</sup> and other logistics support services are part of a \$27 billion market, which is continually growing. These services provide end-to-end logistics solutions and offer supply chain capabilities for business customers, including returns and inventory management (such as storage of goods), distribution services, order processing, and packaging of goods. International posts and U.S.-based private sector companies operating in this market tend to offer a wide range of services. In a prior U.S. Postal Service Office of Inspector General (OIG) report,<sup>2</sup> we noted gaps in e-commerce fulfillment and end-to-end solutions, particularly for small businesses. While many companies offer services for warehousing, pickup, and pack and ship operations, smaller businesses are more challenged in integrating these various services.<sup>3</sup>

Foreign posts have been involved in these areas for several years — and since 1997 in Deutsche Post's case — but the U.S. Postal Service's participation in the warehousing and logistics market has been limited to researching opportunities for product diversification due to legislative constraints and its current financial position. However, if the Postal Service were given the opportunity, research has shown that warehousing and logistics services can provide a new means of generating significant revenue. Foreign posts<sup>4</sup> we researched generate up to 53 percent of their total annual revenue from logistics-based services, including

#### Highlights

*The Postal Service has an opportunity to generate additional revenue by offering micro-warehousing and other logistics support services.*

*Its extensive processing, retail, and transportation network – combined with its significant shipping capabilities – could likely meet customers' demands for one-stop micro-warehousing and logistics solutions to support e-commerce. Foreign suppliers selling goods in the U.S. via e-commerce could be particularly well served by the Postal Service's entry into this market.*

*Several foreign posts have established themselves in this market and are showing significant profitability. In one case, up to 53 percent of annual revenue is acquired through logistics services, including warehousing.*

*The Postal Service will face challenges in capitalizing on this niche market, primarily due to legal constraints and its financial condition. However, its extensive network and shipping capabilities leave it well-positioned to consider entering the micro-warehousing and logistics support services market.*

<sup>1</sup> We consider micro-warehousing a service available to local businesses and others involved in e-commerce to expedite the movement of goods from businesses to consumers.

<sup>2</sup> OIG report, *The Postal Service Role in the Digital Age, Part 2: Expanding the Postal Platform* (Report Number [RARC-WP-11-003](#), dated April 19, 2011) pages 18 and 30.

<sup>3</sup> OIG report, *Virtual Post Office Boxes*, (Report Number [MS-WP-13-002](#), dated April 17, 2013) page 10.

<sup>4</sup> Deutsche Post DHL, Japan Post, Swiss Post, China Post Group, Groupe La Poste, and Canada Post.

warehousing. If the Postal Service could attain 5 percent of the U.S. micro-warehousing and logistics support market, it could potentially generate \$1.35 billion of revenue annually.<sup>5</sup>

The Postal Service's platform is well-positioned to serve as a one-stop solution to connect distributors and customers, both physically and electronically. The Postal Service could, for example, offer a suite of services to smaller companies with goods that do not sell quickly and require long-term warehousing. This service would also be particularly beneficial to foreign businesses offering goods in the U.S. via e-commerce as it would allow them to store and ship their merchandise quickly and inexpensively. All of these businesses could benefit from the Postal Service's storage options, shipping capabilities, and its far-reaching physical and transportation network. Further, recent network consolidation efforts have left a significant amount of unused space at post offices and mail processing facilities nationwide that could be used for warehousing services.

The Postal Service currently faces challenges in establishing micro-warehousing and other logistics support services. First, the Postal Accountability and Enhancement Act of 2006 prohibits the Postal Service from providing new nonpostal services that did not exist as of January 1, 2006.<sup>6</sup> However, legislation introduced in the Senate in August 2013 would authorize the Postal Service to expand its nonpostal services if these services meet certain criteria such as, utilizing the Postal Service's processing, transportation, delivery, or retail networks or its technology.<sup>7</sup> In addition, legislation introduced in the House of Representatives in July 2013 would specifically allow the Postal Service to offer warehousing.<sup>8</sup> Second, the Postal Service's structure as a self-funding organization creates financial challenges that many foreign posts do not have, as they are to some extent financially supported by their governments, or receive subsidies from other services offered by their post which could be used to support micro-warehousing.

Though the logistics market is highly competitive, with many established providers, it continues to quickly change and expand in new ways. Micro-warehousing may be seen as the tip of the iceberg when considering the plethora of logistics support services offerings that could work in conjunction with this service. Using the excess space from network consolidation efforts and potential implementation of the virtual Post Office box (which provides customers with an address to which they can redirect mail and parcels),<sup>9</sup> the Postal Service has an opportunity to generate additional revenue and diversify its portfolio of services. Diversification alone will not resolve the Postal Service's financial situation; but it can play an important role in the long-term sustainability of the organization.

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<sup>5</sup> We did not calculate the amount or availability of space required by the Postal Service to attain this market share.

<sup>6</sup> Postal Accountability and Enhancement Act (Public Law 109-435, December 20, 2006).

<sup>7</sup> Postal Reform Act of 2013 (S. 1486), August 1, 2013.

<sup>8</sup> Innovate to Deliver Act of 2013 (H.R. 2690), July 17, 2013.

<sup>9</sup> OIG report, *Virtual Post Office Boxes* (Report Number [MS-WP-13-002](#), dated April 17, 2013) page 2.

**TABLE OF CONTENTS**

Introduction ..... 1

Micro-Warehousing ..... 2

Foreign Posts’ Logistics Services..... 4

Challenges Facing the Postal Service..... 7

Conclusion ..... 8

## Introduction

The U.S. Postal Service has an extensive processing, retail, and transportation network, as well as significant shipping capabilities. It also has a presence in most towns in the U.S., and an excess of about 280 million square feet of space at mail processing facilities and post offices nationwide. Much of this surplus interior space is contiguous with active postal operations and, therefore, cannot be sold or given away. But the Postal Service could consider alternative uses for its surplus space to generate additional revenue. A 2010 presidential memorandum<sup>10</sup> supports this approach, calling for better use of federally owned real property assets and reduced maintenance costs for unneeded and underused federal buildings. Current law prohibits the Postal Service from providing new nonpostal services that did not exist as of January 1, 2006.<sup>11</sup> However, legislation introduced in the Senate in August 2013 would authorize the Postal Service to expand its nonpostal services if they meet certain criteria, such as utilizing the Postal Service's processing, transportation, delivery, or retail network or its technology.<sup>12</sup> In addition, legislation introduced in the House of Representatives in July 2013 would specifically allow the Postal Service to offer warehousing.<sup>13</sup>

Revenue generated in the U.S. warehousing and storage industry in 2012 was estimated to be \$27 billion<sup>14</sup> and the industry is expected to experience modest growth over the next 2 years.<sup>15</sup> Warehouse and storage facilities primarily store general merchandise, refrigerated goods, and other products. Due to the growth of e-commerce, warehouse designs continue to evolve to meet the changing requirements of the industry.

By broadening its revenue stream to include warehousing services for small businesses — known as micro-warehousing — the Postal Service would follow the examples of some foreign posts. The Postal Service, with its nationwide operations, extensive infrastructure, and shipping capabilities, could offer various options to help smaller companies. Because it has a presence in most towns in the U.S., it could provide the

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<sup>10</sup> Presidential Memorandum, Disposing of Unneeded Federal Real Estate, June 10, 2010.

<sup>11</sup> Postal Accountability and Enhancement Act (Public Law 109-435, December 20, 2006). This prohibition holds true regardless of whether the nonpostal service is offered at a postal facility or at one the Postal Service leases. If these micro-warehousing and other logistics support services are considered to be postal services, then the laws governing the Postal Service's general powers would be relevant.

<sup>12</sup> Postal Reform Act of 2013 (S. 1486), August 1, 2013.

<sup>13</sup> Innovate to Deliver Act of 2013 (H.R. 2690), July 17, 2013.

<sup>14</sup> Revenue generated by the U.S. Warehousing and Storage Industry is overshadowed by the global warehousing and storage industry, which experienced a significant growth in the past 5 years and is forecasted to reach an estimated \$709.7 billion in revenue in 2017. Warehousing & Storage Industry Profile, June 3, 2013, and *U.S. Census Bureau News*, June 6, 2013.

<sup>15</sup> Warehousing & Storage Industry Profile, downloaded, June 3, 2014.

warehousing space a small business may need to house merchandise in local markets. Further, the Postal Service could provide value by meeting customers' demands to receive goods more quickly and inexpensively. Foreign suppliers operating in the U.S. via e-commerce could be particularly well served by the Postal Service's entry into this market.

The Postal Service also has a trusted and well-known brand. Its reputation could be a competitive advantage in the fragmented warehousing industry where the 50 largest companies generate about 40 percent of revenue.<sup>16</sup> In addition, there may be a low barrier to entry into this market that could benefit the Postal Service. Exporters, manufacturers, or local merchants could lease warehouse<sup>17</sup> space and distribute goods themselves or could choose to use warehousing logistics services, allowing the Postal Service to receive products, and inspect, palletize, store, and maintain inventory.

Through network consolidation efforts, the Postal Service is currently studying existing facilities to determine how to best optimize and consolidate operations. This may result in additional excess facility space. This analysis will determine whether it would be financially feasible to retain the remaining unoccupied properties and repurpose them or more advantageous to out-lease or sell them. Legal requirements and financial challenges limit what the Postal Service can do with its property but it will have opportunities to use some of this space productively. With that in mind, the Postal Service should consider whether it makes economic sense to retain some of this excess property for potential micro-warehousing services. The Postal Service could also evaluate the viability of leasing additional facilities for micro-warehousing in areas where it currently lacks a presence.

As reported in its 2013 *Annual Report to Congress*,<sup>18</sup> the Postal Service has 320 mail processing facilities; 35,434 post offices, stations, and branches; 211,684 vehicles; and 491,017 career employees. These attributes will appeal to companies wishing to use the last mile reach of the Postal Service and could certainly be an asset in gaining customers for a micro-warehousing service.

## Micro-Warehousing

Micro-warehousing and logistics support services are part of a large and growing market made necessary by the needs of a thriving small business population. These services are end-to-end solutions that offer supply chain capabilities for business customers, including returns and inventory management (such as storage of goods), distribution services, order processing, and packaging of goods. International posts and U.S.-based private sector companies operating in this market tend to offer a wide range of services.

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<sup>16</sup> Warehousing & Storage Industry Profile, June 3, 2013.

<sup>17</sup> A structure or room for storing merchandise or commodities.

<sup>18</sup> Postal Service, fiscal year 2013, *Annual Report to Congress*.

Large manufacturers typically conduct their own in-house warehousing operations. However, in a prior U.S. Postal Service Office of Inspector General (OIG) report<sup>19</sup> we noted that there were gaps in e-commerce fulfillment and end-to-end logistics solutions, particularly for small businesses. While many companies offer services for warehousing, pickup, and pack and ship operations, smaller businesses are more challenged in integrating these various services. Micro-warehousing could potentially help fill that void for smaller-scale operations.

The Postal Service could capitalize on its extensive network and excess facility space to store and process warehoused goods for individual or business customers. In accordance with the presidential memorandum issued in June 2010, the Postal Service could make better use of the federal government's real property assets and reduce costs associated with maintaining unneeded and underused federal buildings through these warehousing and inventory processing activities. Facilities with a considerable amount of space could be redeployed for micro-warehousing. Much of this surplus space is contiguous with active postal operations and, therefore, cannot be sold or given away because of mail security issues. The Postal Service could expand its services to this area to help it generate more revenue. Further, by providing valuable short- or long-term space for micro-warehousing, the Postal Service could more quickly and less expensively move goods as consumers dictate. This would allow the Postal Service to effectively deploy or redeploy excess space resulting from network optimization efforts and use the current address management system as a means to generate revenue. The Postal Service could also consider leasing space to best meet the demand for micro-warehousing.

A number of U.S. companies offer similar micro-warehousing services for a fee, integrating with major parcel shipment companies such as FedEx and United Parcel Service. To participate in this flourishing area, the Postal Service could offer:

- Storage, shipping, and return services for other businesses.
- Use of excess space at its various postal facilities nationwide.
- Use of its network of post offices and processing facilities to offer business customers a complete end-to-end logistics solution.

The Postal Service is well-positioned to serve as a one-stop solution to connect distributors and customers, both physically and electronically. In conjunction with virtual PO box services, the Postal Service could offer space rental and shipping and return services, primarily for small businesses that have inventory storage and shipping needs. The businesses would pay a fee to the Postal Service to receive and store their inventory at various postal facilities and would use a virtual PO box account to direct the

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<sup>19</sup> OIG report, *The Postal Service Role in the Digital Age, Part 2: Expanding the Postal Platform* (Report Number [RARC-WP-11-003](#), dated April 19, 2011) page 10.



Postal Service to ship inventory from the storage facility to customers. The Postal Service could also manage returns for these businesses via the virtual PO box. International businesses offering goods online in the U.S. could particularly benefit from the storage options and capabilities of the Postal Service and its far-reaching network. If the Postal Service could attain 5 percent of the U.S. micro-warehousing and logistics support market, it could potentially generate an additional \$1.35 billion of revenue annually.

### Foreign Posts' Logistics Services







A number of foreign postal organizations have partnered or coordinated with private logistics companies to capitalize on the increasing demands of e-commerce.<sup>20</sup> Their experiences could be instructive to the Postal Service if it considers using its ubiquitous delivery network and excess capacity to enter the warehousing market.

In response to the expanding needs of businesses and customers, many major foreign posts have established and are continuing to strengthen value-added logistics operations. Among the major foreign postal organizations, Deutsche Post DHL, Japan Post, Swiss Post, China Post Group, Groupe La Poste, and Canada Post get a significant portion of their total annual revenue through logistics activities, including warehousing services. [Table 1](#) describes some of the major foreign posts and the approximate percentage of total revenue they acquired by providing logistics services.

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<sup>20</sup> OIG report, *The Global Logistics Revolution: A Pivotal Moment for the Postal Service* (Report Number [RARC-WP-13-010](#), dated June 3, 2013) page 18.

**Table 1: Logistics Market in Foreign Postal Organizations**

Postal Organization		Logistics Company	Approximate Percentage of Total Revenue From Logistics	Logistics Offered
Deutsche Post DHL		DHL	53%	Warehousing, distribution, managed transport, and other value-added services, as well as business process outsourcing, supply chain management, and consulting solutions.
Japan Post		Japan Post Sankyu Global Logistics Company, Ltd.	18%	Consulting services for corporate logistics, information processing, transportation, storage, freight handling, distribution processing, and packaging.
Swiss Post		PostLogistics	14%	Both standardized and tailored logistics solutions for transporting goods and warehousing logistics.
China Post Group		China Post Logistics	14%	Storage, packing, distribution, processing, sorting, transportation, and information services.
Groupe La Poste		Sofipost, Neolog, Orium, and Morin Logistics	10%	Sorting the mail for transportation, procurement logistics, and reverse logistics.
Canada Post		SCI	2%	Business-to-consumer, business-to-business, and field-service logistics.

**Source:** Decision Analysis Partners' research provided to the OIG based on available annual reports.

**Note:** Total revenue includes traditional postal offerings like mail, parcels, and Express Mail, as well as logistics services. Figures are conservative. Posts may also offer services that could be considered logistics under a broader definition.

Deutsche Post DHL accumulated the highest percentage (53 percent) of its total annual revenue through warehousing, distribution, managed transport, and value added services, such as business process outsourcing, supply chain management, and consulting services. Deutsche Post DHL remains the global market leader in contract logistics, with a 7.8 percent market share in 2011. It led the market in key regions (North America, Europe, and Asia Pacific) while rapidly growing in other markets (Brazil, India, China, and Mexico).

Another example of foreign posts' involvement in the warehousing/logistics sector is Japan Post's partnership with Sankyu Inc. to jointly establish Japan Post Sankyu Global Logistics Company Ltd. The partnership provides a wide variety of international logistics services ranging from small-lot to large-lot cargo. It offers these services to domestic and overseas customers, primarily in Japan, China, and other countries in Asia.

In response to recent logistics outsourcing needs, Japan Post Sankyu Global Logistics Company Ltd. began providing third-party logistics services in an integrated manner. These services range from optimized logistics plans to the building and operation of logistics systems, as well as consulting services relating to logistics improvements. Additionally, the company offers a total logistics solution composed of a consulting service for corporate logistics, information processing, transportation, storage, freight handling, distribution processing, and packaging.

Even foreign posts that have gained a smaller percentage of their total annual revenue through logistics activities continue to see the potential in providing warehousing/logistics solutions. Canada Post, through its operating entity, the SCI Group, offers expertise in business-to-consumer, business-to-business, and field service logistics. SCI Group generated \$162 million in revenue by helping Canadian businesses reduce costs and improve services through the design, implementation, and operation of efficient supply chain solutions. This represents 2 percent of Canada Post's annual revenue.

In conjunction with Canada Post, SCI Group's future strategies include the expansion of proven capabilities in focused services, such as e-commerce fulfillment, reverse logistics, product life cycle solutions, and specialized transportation services. Leveraging the scale and reach of Canada Post will also allow SCI to increase overall market share within Canada.

These examples of successful foreign posts moving into the rapidly evolving logistics market suggest the Postal Service could benefit from similar diversification. It could partner with private businesses as a way to quickly jump into the logistics field. In addition to raising revenue from logistics offerings, the Postal Service's entry into this flourishing market could have the added benefit of increasing mail and parcel volumes. However, legislative constraints, paired with the Postal Service's rigid organizational

structure, could make it more difficult to successfully capitalize on peripheral business opportunities like logistics.<sup>21</sup>

## Challenges Facing the Postal Service

Accenture analyzed the Postal Service's portfolio diversification in 2010.<sup>22</sup> Its report noted the Postal Service's lack of diversity and identified several challenges it will need to overcome in order to offer a wider variety of products and services. For example, some foreign posts, such as Japan Post, China Post Group, and Groupe La Poste are to some extent financially supported by their governments, or receive subsidies from other services offered by their post, affording them the time and resources to build their businesses and relationships without relying on immediate returns. Foreign posts tend to generate below average profitability compared to industry benchmarks. However, as a self-funding organization, the Postal Service does not have the flexibility to operate at a loss as it is developing a new business sector.

Further, diversification of the Postal Service's products and services may prove difficult due to its current financial condition, which results from a decrease in mail volume, high labor costs, and limited access to cash for acquisition or investment. While diversification alone cannot resolve the Postal Service's immediate financial shortfall, it will likely need to play a greater role in sustaining the organization so that it can continue to fulfill its universal service obligation.

If the Postal Service chooses to move into warehousing, it could also be challenged in its selection of warehouse design and management – two important elements of successful warehousing and e-commerce ventures, according to industry experts. Partnering with outside businesses offers advantages such as lower startup costs and access to logistics expertise, but the Postal Service's need to maintain the security of ongoing operations might complicate partnership efforts. It might need to modify facilities and, potentially, add additional space to accommodate employee access, shared space, and information technology (IT) issues. The Postal Service has established a cross-functional team<sup>23</sup> to address how to generate future return on investment, considering these challenges.

Finally, for the Postal Service to position itself for success in the warehousing industry, it will need to make major alterations to its business model to fund new platforms. Support from various stakeholders and legislative changes are essential to allow the necessary time and resources for these changes to take shape.

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<sup>21</sup> OIG report, *The Global Logistics Revolution: A Pivotal Moment for the Postal Service* (Report Number [RARC-WP-13-010](#), dated June 3, 2013) pages 18 and 20.

<sup>22</sup> Postal Service, *Is Diversification the Answer to Mail Woes? The Experience of International Posts*, February 2010.

<sup>23</sup> Consisting of Operations, Facilities, Postal Inspection Service, Delivery, Retail, IT, Labor, Finance, and Maintenance.

## Conclusion

Opportunities exist for the Postal Service to offer warehousing and other logistics support services, thereby generating additional revenue. Its far-reaching processing, retail, and transportation networks, along with its significant shipping capabilities could be leveraged to provide additional value to customers. The Postal Service could offer warehousing services for the storage and processing of inventory. Foreign suppliers could especially benefit from the Postal Service's presence in most towns and its potential to be a one-stop micro-warehousing and logistics solutions provider, delivering goods quickly and inexpensively to the customer. Exploring these opportunities involves challenges, including, potentially, legislative changes; however, diversifying into the logistics marketplace could help ensure the long-term sustainability of the Postal Service and provide new services to its customers.

As evidenced by the actions of several foreign posts, acquiring or partnering with existing logistic providers can be a highly successful diversification strategy. Partnering with logistics experts may ease the Postal Service's transition into the logistics market and allow it to offer services more quickly and with reduced financial risk. The Postal Service could create a viable logistics platform by pairing its partners' strengths with its unmatched first- and last-mile capabilities.