Transactional Mail: Implications for the Postal Service

RARC Report

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Executive Summary

The Postal Service’s largest provider of revenue and contribution, First-Class Mail, is rapidly slipping away. It still generates approximately 40 percent of total revenue and about 50 percent of total contribution, but First-Class Mail’s total volume has declined to 59 billion pieces from a peak of 104 billion in 2001 — a 43 percent decline.

The implications of this decline are the subject of a two-paper series on First-Class Mail. The first paper focused on correspondence mail, a segment of First-Class Mail that has seen a dramatic decline in volume in recent years. This paper turns to volume trends in transactional mail, the largest segment of First-Class Mail, which includes bills, statements, and payments.

This paper examines the recent history of First-Class transactional mail sent and received by households. Four key interrelated factors — electronic diversion, demographic changes, the economy, and evolving security and privacy concerns — have had powerful influences on transactional mail volume trends during the past 15 years. As a result, every major subcomponent within transactional mail has experienced decline during this time. However, payments have declined more rapidly than bills and statements. The strength in demand for bills and statements may indicate that the Postal Service should continue to find ways to support and promote these uses of transactional mail.

To gauge the potential effects these factors may have on demand for transactional mail in the next 10 years, we present five hypothetical scenarios of transactional mail volume in 2026. These are based on whether a given historical trend continues, intensifies, or weakens. Each scenario indicates how a specific factor might cause transactional mail volume sent or received by households to grow or decline from its level in 2016, 24.1 billion pieces. The scenarios estimate volumes ranging from 10.3 billion pieces to as high as 26.8 billion pieces in 2026. As in our earlier paper on First-Class correspondence mail, the scenarios are intended to examine potential risks and opportunities facing transactional mail, but are not forecasts of actual future volume. In addition, the scenarios are neither mutually exclusive nor equally probable. For example, we include a scenario in which electronic diversion slows; however, we believe that it is far more likely that it will accelerate. Regardless, transactional mail volume may be unlikely to return to its peak level even under the most favorable assumptions.

While it may be impossible for the Postal Service to stop the decline of transactional mail volume, the Postal Service should continue to take efforts to mitigate it. This is essential because even if advertising and parcels grow, First-Class Mail remains vital to the Postal Service’s survival. With transactional mail being the largest component of First-Class Mail, its decline has serious implications for the Postal Service.
The continued decline in transactional mail has implications on at least three levels. First, there are obvious short- and long-term financial implications for the decline in First-Class transactional mail. The Postal Service relies on First-Class Mail to provide almost half of its funding for its operations, and it would be difficult to make up this contribution from other classes of mail. As transactional mail is the largest segment of First-Class Mail, it therefore makes up a vital part of this contribution.

Second, there are operational implications. First-Class Mail has always driven postal operational decisions, from how the Postal Service sets its service standards to the locations of its mailboxes and mail processing plants. While the Postal Service should continue adapting its network in response to changing demand, significant declines to First-Class Mail have significant consequences on the size and nature of the network. Without First-Class Mail, the remaining mail would bear the full burden of a costly end-to-end network, making it difficult to provide affordable mail services and products.

Third, there are public policy implications associated with continued declines in First-Class Mail volume. First-Class Mail has historically driven the need for a universal service obligation (USO) and the need for a legal monopoly. The increase in use of digital alternatives may actually increase the need for the USO for those households who rely solely on the mail for vital hard copy communication. However, if the mail becomes primarily a vehicle for advertising and parcels, this may lead key stakeholders as well as the public to question the need for the USO and the postal monopoly.

Lastly, this paper discusses what strategies the Postal Service is already undertaking and what future strategies the Postal Service could pursue to engage with the digital market in a way that helps to preserve transactional mail volume. Such steps are of critical importance to the mission and financial viability of the Postal Service.
**Introduction**

First-Class Mail is the backbone of the U.S. Postal Service. It is the Postal Service’s largest provider of revenue and contribution.\(^1\) Further, First-Class Mail drives the need for a universal service obligation (USO).\(^2\) Moreover, First-Class Mail was the driving consideration in the construction of the Postal Service’s unmatched physical network, a network that stretches coast-to-coast with a presence in virtually every city, town, and community in the United States. Unfortunately, total First-Class Mail volume has declined significantly over the past 15 years, from a peak of approximately 104 billion pieces in 2001 to about 59 billion pieces in 2017.\(^3\)

Within First-Class Mail, an especially important segment is transactional mail, which consists of bills, statements, payments, donations, rebates, and orders sent and received by households.\(^4\) Although the volume of this segment has declined in recent years, household transactional mail still accounted for more than 24 billion pieces in 2016, making it the largest segment of household First-Class Mail.\(^5\)

This paper is the second in a two-part series covering the risks and opportunities facing the Postal Service regarding the future of First-Class Mail. In a previous paper titled *A New Reality: Correspondence Mail in the Digital Age*, the U.S. Postal Service Office of Inspector General (OIG) discussed the future of correspondence mail.\(^6\) This paper continues the examination of First-Class Mail trends by focusing on transactional mail.\(^7\) The analysis in this paper uses data from the Postal Service’s *Household Diary Study* (HDS) weighted and extrapolated to the national level.\(^8\) While very valuable, the data from HDS do have some limitations—they only provide an estimate of mail volume sent or received by households. They do not provide any information on revenue or costs and do not include mail volume sent between businesses and government. During the analysis phase of this report, the most current HDS available was the fiscal year (FY) 2016 report.

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\(^1\) In fiscal year (FY) 2017, First-Class Mail generated $26.7 billion of revenue, which was approximately 38 percent of overall revenue. First-Class Mail also produced $14 billion of contribution, accounting for more than 50 percent of total contribution. “Contribution” is the amount by which revenue exceeds attributable cost, which the Postal Service applies to help cover its institutional costs. For more information, please see U.S. Postal Service, *Public Cost and Revenue Analysis (CRA) report*, FY 2017, https://www.prc.gov/dockets/document/103284 and U.S. Postal Service, *First-Class Mail Volume Since 1926 (Number of Pieces Mailed, to the Nearest Million)*, https://about.usps.com/who-we-are/postal-history/first-class-mail-since-1926.htm.

\(^2\) The USO mandates mail delivery to most households and businesses, six days each week, 52 weeks each year.


\(^5\) Ibid. Total First-Class Mail volume sent between households in 2016 was 46.7 billion. Household transactional mail is 24.1 billion, or 52 percent of 46.7 billion. Since the Household Diary Study (HDS) does not provide volume estimates for mail sent between non-households (businesses and government), we do not have an estimate of transactional mail as a percent of total First-Class Mail. Additionally, the figure we use here, 24.1 billion pieces of transactional mail, is different from the figure of 26.354 billion published in the 2016 Household Diary Study. This is because for our analytical purposes we considered approximately 2 billion insurance mailings (e.g., explanations of benefits) to be correspondence mail instead of transactional mail.


\(^7\) For both papers, the OIG hired RCF Economic & Financial Consulting, Inc. (RCF), a postal economics firm with over four decades of experience monitoring trends in Postal Service mail volume and their underlying causes.

\(^8\) Our analysis for transactional mail will focus on the years from 2001 to 2016. While the HDS dates back to 1987, due to changes in the survey methodology over the years, information from earlier years is not always directly comparable to data since 2001.
Historical Analysis of First-Class Transactional Mail

From 2001 to 2016, transactional mail, as well as all the major segments of First-Class Mail, declined in volume (see Figure 1). Nevertheless, in FY 2016, households sent or received about 24.1 billion pieces of transactional mail, which represented over half of all household First-Class Mail.

Figure 1: First-Class Mail Volume by Segment Sent and Received by Households (2001 — 2016)

Transactional mail has long been the largest portion of First-Class Mail sent and received by households — 52 percent in FY 2016. From 2001 to 2016, transactional mail, as well as all the major segments of First-Class Mail, declined in volume.

Note: “Other” mail consists of packages and mail for which the HDS respondent did not indicate its content.

These percentages are calculated using both the Revenue, Pieces, and Weight report (RPW) and HDS for FY 2016. The RPW details mail volume by different rate categories and lists total First-Class Mail volume, but does not provide information on the content of mail. The HDS — a survey of an annual sample of approximately 5,000 households that includes information on the number of mail pieces they sent and received — provides information about the content of mail, as well as household First-Class Mail volume. We calculated the percentages as HDS/RPW.

Households sent or received about 24.1 billion pieces of transactional mail and about 46.7 billion pieces of First-Class Mail overall in FY 2016. This means that transactional mail represented 52 percent of all First-Class Mail sent and received by households that year.
To get a better understanding of what is driving the decline in transactional mail, it is helpful to look at the volume trends of the different kinds of transactional mail — bills, statements, payments, and other. Of these, bills were by far the largest in FY 2016, accounting for 67 percent of all transactional mail received by households. While all types of transactional mail have declined since 2001, the rate of decline varies considerably among the different types, as shown in Figure 2.

This variation among segments is important, and suggests that there are areas — bill presentment in particular — in which the Postal Service still enjoys relative strength. Bill payments have declined the most among mail segments, falling from a quarter of all transactional mail in 2001 to less than one-sixth in 2016. Bill presentment, on the other hand, has experienced the lowest level of decline. Further, this finding is consistent with previous OIG work indicating that customers seem to prefer paper bills to electronic ones. This suggests that the bill presentment market is one area where the Postal Service could proactively defend First-Class Mail volume. Figure 2 traces the decline of payments, as well as statements (e.g., account information from banks) and bills (requests for payment).

**Figure 2: Composition of Transactional Mail Sent or Received by Households**

BILLS RECEIVED ARE THE BIGGEST COMPONENT OF TRANSACTIONAL MAIL

Total transactional mail declined between 2001 and 2016. However, various types of transactional mail have declined at different rates. For example, payments sent by households have dropped much more than bills received.

"Online bill payment has grown at a faster rate than online bill presentment, which has led payments made by First-Class Mail to fall more quickly than bill presentment made by First-Class Mail.”


Key Factors That Have Affected Transactional Mail

Four key interrelated factors have affected transactional mail volume in recent history: electronic diversion, the economy, age differences, and security and privacy concerns. Below, we discuss the impact of each factor on transactional mail volume.

Electronic Diversion

The primary reason for the decline in transactional mail volume over the past 15 years is electronic diversion: the replacement of physical mail with digital alternatives. Electronic diversion has exercised a profound impact on transactional mail volume for three reasons:

1. The rapid acceptance of online bill payments, which has led more and more businesses to replace mailed invoices and other documents with electronic substitutes;
2. The widespread adoption of internet access by a mainstream audience, first through dial-up and later through broadband;
3. The federal government’s phasing out of paper checks for Social Security and other benefits in favor of direct deposit, debit cards, and other payment methods, with limited exceptions.12

In 2001, online bill payments represented less than 4 percent of total bill payments. By 2016, online payments made up over 45 percent of all payments by 2016. As a result, the share of bills paid by mail shrunk from 80 percent to under 30 percent over the same period.13

We have seen how electronic diversion has had an important impact on how people pay bills, but has it changed how people receive their bills?14 It is perhaps unsurprising that online bill payers are more likely to receive bills online.15 What is noteworthy, however, is that 27 percent of households that do pay their bills online nevertheless choose to receive bills by mail. While this shows some correlation between online bill payment and bill presentment, it also indicates that even households that choose to make online payments still appear to value receiving most of their statements by mail.

Figure 3: Share of Household Bills Paid by Different Methods


“Households that choose to make online payments still appear to value receiving most of their statements by mail.”
Why do online bill payers find value in paper bill presentment? Previous OIG research has shown that consumers value the physical mailpiece as a record-keeping tool and reminder to pay. Moreover, it bears remarking that consumers do not save any money by receiving their bills digitally, whereas they save postage when they pay online.16

Finally, a household’s preference regarding bill presentment — paper or digital — reflects their overall access to the internet. As shown in Table 1, households with broadband internet access have experienced a much greater decline in the volume of transactional mail compared to households without broadband internet. In other words, households that rely solely on the mail for communications may draw greater benefit from paper bills than those with internet access.

**Table 1: Decline in Transactional Mail Sent and Received (FY 2004 to FY 2016)**

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<tr>
<th></th>
<th>Transactional Mail Sent</th>
<th>Transactional Mail Received</th>
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<tr>
<td>Households with Broadband</td>
<td>-71%</td>
<td>-41%</td>
</tr>
<tr>
<td>Households without Broadband</td>
<td>-47%</td>
<td>-27%</td>
</tr>
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**Economy**

This factor refers to the correlation between gross domestic product (GDP) and First-Class Mail volume, of which transactional mail is the largest component. Until the mid-1990s, First-Class Mail volume moved almost in lockstep with changes in real GDP. However, after the late 1990s, this relationship has changed — the decline in First-Class Mail volume continues in spite of economic growth. As seen in Figure 4, total First-Class Mail volume was strongly correlated with real GDP until the late 1990s. The relationship has not disappeared, but has weakened considerably since that time.

**Figure 4: First-Class Mail Volume and Real GDP**

A WEAKENING RELATIONSHIP BEGINNING IN THE LATE 1990s

Until the mid-1990s, First-Class Mail moved almost in lockstep with changes in real GDP. However, after the late 1990s, this relationship has changed — the decline in First-Class Mail volume continues in spite of economic growth.

Age Differences

Another key factor affecting transactional mail volume is age. Younger people send and receive far less transactional mail than older people do. Young households, those headed by someone aged 25 to 34, sent and received an average of just 2.1 pieces of transactional mail per week in 2016, less than half the 4.6-piece average volume for households headed by someone 65 and over.

To a certain extent, this reflects the fact that younger people tend to have lower incomes, fewer credit and financial accounts, and are less likely to be homeowners. However, while all age ranges are exhibiting a decline in the use of transactional mail, younger people have experienced a far greater decline in transactional mail volume than older people have experienced. This is shown in Table 2. This is likely because younger people have more fully embraced technological alternatives to the mail.

Table 2: Percentage Change in Transactional Mail Sent and Received by Age of Head of Household (FY 2001 — 2016)

<table>
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<th>Age of Head of Household</th>
<th>Transactional Mail Sent</th>
<th>Transactional Mail Received</th>
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<tr>
<td>25 to 34</td>
<td>-89%</td>
<td>-58%</td>
</tr>
<tr>
<td>35 to 44</td>
<td>-83%</td>
<td>-49%</td>
</tr>
<tr>
<td>45 to 54</td>
<td>-77%</td>
<td>-41%</td>
</tr>
<tr>
<td>55 to 64</td>
<td>-63%</td>
<td>-36%</td>
</tr>
<tr>
<td>65+</td>
<td>-47%</td>
<td>-25%</td>
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While historically there has been a difference in mail usage between age groups, the gap between them appears to be increasing. As shown in Figure 5, in 2001 all households, regardless of age, paid about 80 percent of their bills by mail. However, by 2016, households headed by people age 25 to 34 paid less than 13 percent their bills by mail. In contrast, households headed by someone 65 and over still paid close to half of their bills by mail.

Figure 5: Age Gap Widens — Bill Payment by Mail


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Age also influences whether households receive bills through the mail. Households headed by someone aged 65 and older received 90 percent of their bills by mail in 2016, while households headed by someone aged 25 to 34 received only 66 percent of their bills by mail. In addition, as seen for bill payments, this age gap has widened considerably over the years as shown in Figure 6.

**Figure 6: Age Gap Widens — Bills Received by Mail**

The key finding here is that the prominence of digital alternatives to postal products among younger age cohorts will likely lead to lower mail volume than expected from these age cohorts as they grow older. As younger people of today age, increase their incomes, open financial and credit accounts, and become homeowners, they are likely to use far less mail for these purposes than previous generations have used.

### Security and Privacy Concerns

The development of digital communication has created concerns about the security and privacy of online activities, particularly in light of recent data security failures. Breaches at corporations such as Equifax, Uber, and Yahoo demonstrate that digital information is vulnerable to tampering and theft. Security failures may lead some people to rely on the security of hard copy mail. Data from the HDS show that households that believe the internet is less secure than the mail tend to use the mail more than other households do. If digital security issues become more disruptive and more commonplace, it is possible that customers reluctant to use digital communication options would return to First-Class Mail.

Will transactional mail volumes benefit from growing security concerns? It seems unlikely. Sobering evidence of the impact of technology on transactional mail volumes comes from looking at households’ perceptions of the security of the internet versus the mail: most households believe that they are equally secure. Additionally, this perception has not changed significantly over the last five years. Therefore, it may be unlikely that distrust of digital communication will result in growing mail volume.

### Some Future Scenarios for First-Class Transactional Mail

What will be the impact of these demographic factors on future transactional mail volumes? To analyze this issue, the OIG asked RCF Economic & Financial Consulting (RCF), a postal economics firm with experience monitoring trends in Postal Service mail volume and their underlying causes, to develop five hypothetical scenarios for future transactional mail volume. The scenarios are intended to provide guidance on the potential effects of a variety of situations. They are not meant to provide actual volume forecasts. They are also not mutually exclusive; these scenarios may occur in combination, with correspondingly compounded impacts on volume. The scenarios make different assumptions about the speed of electronic diversion, the continuation of current

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trends, the impact of household age demographics, and changes in privacy and security concerns.

The five scenarios are:

1. Current Trends Continue
2. Age Differences Dominate
3. Electronic Diversion Accelerates
4. Electronic Diversion Slows
5. Privacy and Security Concerns Increase

Although RCF did not assess the probability of each scenario actually occurring, some of the scenarios are much more likely to occur than are others. For example, it is reasonable to assume that technological progress will continue and that the likelihood of electronic diversion accelerating is high. In contrast, it is far less likely that an event will occur that will significantly change consumers’ use of online communications in favor of physical mail due to privacy and security concerns.

**Current Trends Continue** assumes that household transactional mail volume continues to decline at the same rate as it has over the past 15 years. The volume projections for 2026 are made separately for each type of transactional mail (bills, statements, payments, and other) because they have experienced different trends.

**Age Differences Dominate** focuses on the growing discrepancy between the volume of mail sent and received by younger and older households. This scenario assumes that innovations in digital communication have fundamentally changed how young people use the mail, and that this change will persist as this cohort ages. This scenario assumes as these households age, they will continue to exhibit the same behavior they did when they were younger. For example, over the next decade, households headed by someone age 35 to 44 will follow the mail use trend of household heads that were age 25 to 34 in 2016; that is, they will use less mail.

**Electronic Diversion Accelerates** assumes that electronic diversion accelerates, especially for bill presentment and statements, even more than it currently is. This scenario assumes that the share of online bill presentment will increase at the same rate as the share of online bill payments has increased over the past decade. In addition, the diversion of bill payments grows at a faster rate than it has to date.

**Electronic Diversion Slows** assumes that most of the transactional mail that could be diverted has already been diverted. In other words, diversion is approaching a ceiling, and that much of the transactional mail that can be replaced by electronic alternatives has already been replaced. Consequently, there is a reduction in the decline of transactional mail volume.

**Privacy and Security Concerns Increase** focuses on the possibility of a change in customers’ perception of the security of the internet, and on how such a change in perception could increase the use of mail. This scenario assumes that the portion of the population that believes the mail is more secure than the internet, and subsequently uses more mail, doubles over the next decade. This scenario appears highly unlikely, but serves as a best-case scenario for purposes of comparison.

Figure 7 summarizes the scenarios.

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19 The varying historical patterns of the different components of transactional mail over different time-periods suggest that a continuation of trends that existed at any point in time is far from certain going forward.
These scenarios show that there is a wide range of possibilities for transactional mail volume in the future. The Postal Service faces profound shifts in macro-trends — technological, economical, and political — that are likely to continue and that raise the level of uncertainty about volume trends in the future. Moreover, they also demonstrate that even under the best circumstances, transactional mail volume will never reach its 2001 levels. Finally, if electronic diversion of bills and statements accelerates, the Postal Service could see as much as a 57 percent decrease in transactional mail volume. As such, the Postal Service needs to acknowledge this stark reality and confront what a declining transactional mail segment means for its long-term financial viability.
Keeping Transactional First-Class Mail Relevant

The scenarios demonstrate that it is clearly not feasible to develop a strategy to bring transactional mail, and all of First-Class Mail, back to its peak levels. A more realistic strategy should focus on slowing the volume decline by focusing on preserving the value of First-Class transactional mail. First-Class Mail is vital to the Postal Service’s survival, and transactional mail is the largest component of First-Class Mail. While there may be growth in other areas such as Marketing Mail and parcels, the Postal Service as we know it today cannot rely on these products alone. Continued reductions in First-Class Mail have serious implications for the Postal Service on three different levels.

First, there are obvious short- and long-term financial implications, as the Postal Service relies on First-Class Mail to provide almost half of the funding of operations. While the contribution from parcel mail is growing, it is still less than one-half of the contribution of First-Class Mail.\(^2^1\) In addition, even if the Postal Service could greatly increase its Marketing Mail volume, it takes three pieces of Marketing Mail to provide the same contribution as one piece of First-Class Mail.\(^2^2\) There is also a risk in unchecked growth of Marketing Mail — a risk of recipient pushback against an excess of advertising.\(^2^3\) Therefore, First-Class Mail volume is essential to the Postal Service’s financial health.

Second, there are operational implications, including the risk that the Postal Service’s mail processing and transportation networks might no longer match the composition of the volume to be worked. These networks were designed to fulfill the service obligations of delivering First-Class Mail, six days per week, to almost every delivery point. The obligation to provide timely First-Class Mail delivery has driven postal operations in every way, from how the Postal Service sets its service standards to where its mailboxes and mail processing plants are located. While the Postal Service can and should continue adapting its network in response to changing mail demand, the loss of First-Class Mail would have significant consequences on the size and nature of the network. Both Marketing Mail and parcel volume are heavily dropshipped, and the current network is designed to process, transport and deliver a large volume of mail from end to end.\(^2^4\) Without First-Class Mail, the remaining mail would bear the full burden of a costly end-to-end network, making it difficult to provide affordable mail services for other mail products such as Periodicals, Bound Printed Matter, Media Mail, and Library Mail. Even if the Postal Service wanted to make significant changes to its network, it would most likely be prohibitively expensive to do so, especially without the contribution from First-Class Mail.

Third, there are public policy implications associated with the continuous declines in First-Class Mail volume. First-Class Mail has historically driven the need for a USO and the need for a legal monopoly to help fund the obligation.\(^2^5\) The growth in digital alternatives does not necessarily reduce the need for a universal service obligation. In fact, it may make it more essential, as long as there are individuals who solely rely on the Postal Service to provide valuable hard copy communication. This is especially important since the use of digital alternatives is more common among higher income households. In a sense, the digital divide just creates a new class of vulnerable customers. Of course, the need for a USO is only relevant if some portion of the mail includes vital communications, such as bills and statements. If the primary use of mail is for advertising and parcels, key stakeholders may question the need for a USO and monopoly.

Clearly, the Postal Service should try to slow the decline of transactional mail, but it is not an easy task. One important aspect of the transactional mail market is that it is two-sided — it has both bill senders and household recipients — and this type of market has special characteristics. Participants in such markets are often willing to sustain losses on one side of the market to gain a desired

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\(^{21}\) In 2017, First-Class Mail contribution was approximately $14 billion, while that of packages was approximately $6 billion. Parcel contribution includes Priority, Priority Express, Retail Ground, Parcel Select, Parcel Return, Marketing Mail Parcels, Package Services, and First-Class Mail Packages. U.S. Postal Service, Cost and Revenue Analysis, FY 2017, https://www.prc.gov/dockets/document/103284.

\(^{22}\) Ibid, unit contribution of First-Class Mail is 23.5 cents and unit contribution for Marketing Mail is 7.3 cents.


\(^{24}\) Dropshipping refers to the shipment of pre-paid, presorted, and palletized mail directly to regional postal facilities nearer the mail’s final destinations. The further into the postal system mail is “dropped,” the greater the discount the Postal Service offers the mailer. Mailing Systems Technology, What is Postal Drop Shipping?, August 6, 2008, http://mailingsystemstechnology.com/article-3296-What-Is-Postal-Drop-Shipping.html.

benefit on the other. In this case, while businesses have attempted to migrate customers away from hard copy mail to electronic alternatives, they are aware that household consumers have been reluctant to give up hard copy bill presentment and statements. While mail senders are focusing on the cost of the mailpiece, household customers appear to value a hard copy record. Household bill recipients, whether credit cards customers, telephone subscribers, or some other kind of customer, clearly prefer paper billing, and bill senders have no desire to lose those customers. Therefore, bill senders may be willing to incur the added costs of paper bill delivery, relative to electronic billing, to ensure full participation of customers in their own networks. This may give the Postal Service some natural advantage in this market; although it would be unwise to presume the market is invulnerable.

If the Postal Service can increase the value of a hard copy message to the bill senders, it may influence the pace of the decline in transactional mail. In fact, the Postal Service has been engaged in strategies to increase the value of hard copy transactional mail bill senders that might be tempted to convert their customers to online billing.

Positive Steps to Addressing Declines in First-Class Transactional Mail

The Postal Service has had a two-pronged approach to its sender-focused strategy to maintain First-Class Mail volume: increase weight increments of First-Class Mail and offer promotions to build relationships with businesses. According to the Postal Service, such promotions have been successful because they have helped mailers offset their postage costs, justify their mailing budgets, and retain their mail volume.

One way that the Postal Service has attempted to do this is by increasing the allowable weight of First-Class automation presort letters. In 2012, the Postal Service introduced 2\textsuperscript{nd} Ounce Free pricing, allowing letters weighing up to 2 ounces to be priced at the 1-ounce rate.\textsuperscript{26} This change provided greater value to commercial mailers by allowing them to include an additional ounce of advertising in their bills and statements at no additional cost. According to the Postal Service, this 2\textsuperscript{nd} Ounce Free initiative kept bills and statements in the mail, reducing some amount of electronic diversion.\textsuperscript{27} Building on this approach, the Postal Service again extended the weight increments from 2 ounces to 3.5 ounces in 2017.\textsuperscript{28} However, the ultimate success of such approaches can only be judged by empirical evidence that shows an improved financial contribution from transactional First-Class Mail.

In addition, the Postal Service has issued a number of other promotions to encourage the use of First-Class transactional mail and develop relationships between the Postal Service and mail senders. For example, the Postal Service offered the Personalized Color Transpromo in 2017 to encourage mailers to invest in color print technology and test the response of their customers to personalized color transpromotional messaging.\textsuperscript{29} Participating mailers received a 2 percent postage discount for First-Class Mail automation letters sent as part of a full-service Intelligent Mail Barcode (IMb) mailing during the program period.

Another promotion offered by the Postal Service in 2017 is the Emerging and Advanced Technology promotion. This promotion encourages mailers to integrate mail with advances in mobile technology using Near Field Communication technology (NFC), Video in Print (ViP), Bluetooth Low Energy (BLE)/Beacon technology, “Enhanced” Augmented Reality, and Virtual Reality.

In an attempt to retain reply pieces that are enclosed in the envelope along with bills and statements, the Postal Service offers the Earned Value Reply Mail promotion.\textsuperscript{30} Customers who include First-Class Mail Business Reply and Courtesy Reply envelopes receive postage credit for each returned piece that is scanned in the postal network. This promotion was designed to slow down the decline of First-Class Mail by encouraging mailers to promote First-Class

\begin{thebibliography}{9}
\bibitem{pr12_016} Interview with the Postal Service, November 3, 2017.
\bibitem{pr12_016} Ibid.
\end{thebibliography}
Mail as a primary reply mechanism for their customers. In 2017, this promotion offered a 5-cent per piece rebate on all BRM/CRM pieces that met the program requirements and were returned and scanned during the promotional period.

Do No Harm

While the Postal Service has been implementing rate incentives and promotions, it should beware of activities that could actually exacerbate the decline in First-Class Mail volume. While this may seem obvious, there are times that the Postal Service may inadvertently do things that decrease the demand for First-Class transactional mail or decrease its contribution.

One potentially dangerous area for the Postal Service is its public perception. The predominant recent headlines regarding the Postal Service have been that it is in a constant financial crisis — multibillion dollar annual losses, large fixed-cost infrastructure, and unfunded pension obligations. These pessimistic headlines have plagued the Postal Service for the better part of the last decade. To the extent that such headlines give potential customers the false impression that the Postal Service is going out of business, they make the recruitment and retention of customers far more challenging, and may exacerbate volume decline. The Postal Service should continue to reinforce positive messaging about its successes to mitigate more pessimistic narratives.

Another potentially harmful set of measures include those that inadvertently blur the lines between First-Class Mail and Marketing Mail. While some letters are required to be sent by First-Class Mail, either First-Class Mail or Marketing Mail can be used to send others. It is in the Postal Service’s best interest to encourage the use of First-Class Mail as it provides three times the contribution of Marketing Mail.

Continue to Innovate

In many industries, experimentation plays an important role in figuring out what works and what does not. Although the Postal Service’s ability to conduct experimental initiatives is somewhat constrained by regulations, it could conduct fundamental, proactive market research to understand what its current customers really want and need from the mail. The goal should be to find new products and areas of opportunity and to learn why customers shift out of mail. Of foremost importance is a tolerance for failure in experimental market research, as not every promising idea will be a success.

The Postal Service agrees that there needs to be new research on bills and statements. This research can focus on the unique benefits enjoyed by First-Class transactional mail as compared to digital alternatives, benefits such as security, confidentiality, and privacy. These attributes can and should be exploited to stem the decline. Mailers also expressed eagerness for the Postal Service to do more quantitative and qualitative research on initiatives like Informed Delivery. While ideally Informed Delivery would have the effect of increasing mail volume, it is possible for it to have the opposite effect. For example, a mailer may be able to figure out how to better target customers through Informed Delivery, and decrease mail volume as a result. This could have a negative impact on volume, though not necessarily on revenue or contribution if better-targeted mail has greater value. In any case, by using experiments, the Postal Service can collect real-time research with minimal risk prior to launching such a major initiative.

The Role of Technology in Enhancing Digital Services

Making First-Class Mail relevant for the future will require developing digital and hybrid applications that extend and reinforce the value of the Postal Service’s transactional mail. With respect to transactional mail, a digital strategy could be pursued in parallel to a hard copy strategy. The Postal Service introduced Informed Delivery as part of its strategy to give recipients physical as well as digital access to their mail, as discussed in the First-Class correspondence mail paper.

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31 Ibid.
32 Ibid.
33 We heard this concern during one of our interviews with a large mailing association, November 17, 2017.
34 Interview with the Postal Service Marketing Department, November 3, 2017.
35 Interview with a large mailing association, November 13, 2017.
36 Ibid.
37 OIG, A New Reality: Correspondence Mail in the Digital Age.
Technology could play a role in enhancing digital services related to the mail. OIG research has shown that digital natives want two things: digital interaction and well-designed mailpieces. The development of promotions that fuse these two findings could help the Postal Service to keep mail relevant for this group of customers, and could pay off handsomely in slowing the decline in transactional mail volume.

**Conclusion**

Transactional mail, the largest segment of First-Class Mail, has declined significantly over the past 15 years. The importance of transactional mail and all of First-Class Mail to the Postal Service cannot be overstated. The steady decline in First-Class Mail volume has implications for the Postal Service on three levels: financial, operational, and public policy. While it may be unlikely that the volume of First-Class transactional mail will ever return to its peak levels, the Postal Service should do what it can to slow its decline. It should continue its efforts to offer promotions and rate incentives that increase the value of this mail. In addition, it should continue its efforts to seek innovative digital and hybrid applications that extend and reinforce the value of transactional mail as well as maintain its financial contribution. Such approaches may allow the Postal Service to defend one of its most important products against the challenges it faces in the digital age, keeping transactional First-Class Mail relevant to new generations of its customers.

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38 OIG research found that digital natives were interested in mailpieces enhanced with characteristics like color, high quality paper, and unique shapes, as well as mail that integrates interactive digital features, like augmented reality. OIG, *Enhancing Mail for Digital Natives*, Report No. RARC-WP-14-001, November 18, 2013, [https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-001_enhancing_mail_for_digital_natives_0.pdf](https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-001_enhancing_mail_for_digital_natives_0.pdf), pp. 10-12.
Appendix: Management’s Comments

April 5, 2018

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SUBJECT: Response to Request for Comment on Final Review Draft – Transactional Mail: Implications for the Postal Service

Thank you for the opportunity to review and comment on the Final Review Draft – Transactional Mail: Implications for the Postal Service report. This memorandum responds to the subject draft report dated March 16, 2018. The Office of the Inspector General (OIG) report sets out to examine:

1. How key and interrelated factors like electronic diversion, the economy, age differences, and security and privacy concerns have affected transactional mail volumes over the past 15 years;

2. How these factors could affect First-Class Mail transactional mail demand in the next ten years; and,

3. What future strategies the Postal Service could pursue to engage with the digital market in a way that helps to defend transactional mail volumes.

The Postal Service agrees that it is important to understand the factors driving transactional mail use and to implement strategies that have the best chance of enhancing the value of transactional mail in an increasingly digital economy. To support this endeavor, the Postal Service has conducted the Household Diary Study (HDS) survey continuously since 1987, with the aim to collect information on household use of the mail and how that usage changes over time. The survey collects household information on demographics, lifestyle, attitudes toward mail and advertising, bill payment behavior, correspondence, and use of the Internet and other information technologies. This OIG report highlights key data and trends from the Postal Service’s Fiscal Year (FY) 2016 HDS report and some steps that the Postal Service has already taken to enhance the value of transactional mail. We have the following comments on the draft report related to the three stated report objectives.

Management comments on OIG Report Objective 1. How key and interrelated factors like electronic diversion, the economy, age differences, and security and privacy concerns have affected transactional mail volumes over the past 15 years.

On page 6, the OIG reports that the correlation between gross domestic product (GDP) and First-Class Mail volumes changed after the late 1990s in that the decline in First-Class Mail volumes continues in spite of economic growth. While we agree with this observation, it is not clear how this may inform our opportunities to stem some of the volume declines.
On page 9, the OIG states that it seems “highly unlikely” that transactional mail volumes benefit from growing security concerns. However, in the next section of the report, the OIG develops a scenario where increases in household concerns about internet privacy and security causes an increase of 2.7 billion pieces in transaction mail volumes from 2016 through 2026. Though we have seen incremental increased volumes of mail related to cyber attacks and loss of personally identifiable information, the data contained in this report does not support a scenario where transactional mail would grow.

Management comments on OIG Report Objective 2. How these factors could affect First-Class Mail transactional mail demand in the next ten years.

On pages 9 through 12, the OIG report presents five scenarios for transactional mail volumes over the next ten years from FY2016 to FY2026. As the report stated on page 3, payments made by First-Class Mail fell more quickly than First-Class volumes of bills and statements. We recommend breaking out payment and bill presentment volume changes for the scenarios under which age differences dominate, electronic diversion accelerates, and electronic diversion slows.

Management comments on OIG Report Objective 3. What future strategies the Postal Service could pursue to engage with the digital market in a way that helps to defend transactional mail volumes.

On pages 12 through 17, the OIG presents a high level overview of the Postal Service’s efforts to date and presents some opportunities to be considered. For each potential opportunity, we recommend a more detailed assessment that explains how it may help mitigate the factors identified in the report.

On page 15, the report describes the 2nd ounce free initiative and how this was extended to 3.5 ounces in “201”. This implementation occurred in 2017.

On pages 15 and 16, the OIG discusses how public perception of a Postal Service in constant crisis might exacerbate volume declines in transaction mail and refers to an interview with a large mailing association as its source. This appears to be a singular occurrence; and we recommend that a more detailed and separate explanation for how public perception would impact the behavior of commercial mailers of bills and statements, and the behavior of households receiving bills and statements and making payments be included.

Again, thank you for the opportunity to comment on your report. Please feel free to contact either of us with any questions regarding these comments.

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Enell Dzuray, Jr.  
Director, Strategic Planning
We conducted work for this white paper in accordance with the Council of the Inspectors General on Integrity and Efficiency’s Quality Standards for Inspection and Evaluation (January 2012).