



November 9, 2009

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report – Revenue Generation Efforts in Supply Management
(Report Number CA-AR-10-001)

This report presents the results of our audit of Revenue Generation Efforts in Supply Management (Project Number 09YG007CA000). Our objective was to assess how the U.S. Postal Service is leveraging its buying power to generate revenue. This audit is self-initiated and addresses Postal Service strategic risk issues. See [Appendix A](#) for additional information about this audit.

Conclusion

Supply Management's primary objective is lowering costs through effectively managing the supply stream, not generating revenue. However, the Postal Service is seeking to generate revenue wherever it can and has asked that all Postal Service organizations take an innovative approach to revenue generation. Seeing suppliers as potential customers and offering them Postal Service solutions to meet their needs adds value to the supply chain. While there are guidelines on pursuing revenue generation in supplier relationships, we found that several Supply Management portfolios have revenue-generating efforts underway that leverage its significant buying power. One promising collaborative effort is the Supplier Sales Lead Program (SSLP). We are also providing, for your consideration, the results of a benchmarking effort we commissioned to identify best practices in revenue generation via supply management.

Supplier Sales Lead Program

Supply Management launched the SSLP in December 2007. The objective of this initiative is to evaluate opportunities for reinvigorating supplier sales leads in the context of competitive product segments and leveraging existing relationships with Postal Supplier Council (PSC) members to generate sales revenue. Our discussion with members of the SSLP¹ disclosed that all participants consider the SSLP to be an excellent program. However, the program had grown stagnant until recently and not all portfolios are participating. SSLP participants were receptive to our feedback and currently have specific efforts underway to reach out to the supplier community regarding Postal Service products. We believe the Postal Service can achieve further success by continuing to increase management support for SSLP and expanding the

¹ We met with Postal Service and supplier participants.

program to all Supply Management portfolios. See [Appendix B](#) for our detailed analysis of this topic.

Other Revenue-Generating Efforts in Supply Management Portfolios

Our audit identified several successful revenue-generating efforts in various Supply Management portfolios:

- The Mail Equipment Portfolio generates revenue by ensuring the Postal Service receives royalty payments for technologies developed by its contractors.
- The Transportation Portfolio has efforts underway to generate revenue from advertisements posted on transportation trailers.
- The Supplies Portfolio licensed cluster box units (CBU) to protect the Postal Service's intellectual property rights. In FY 2008, the intellectual property license for CBU equipment generated \$627,000.
- The Services Portfolio has partnered with one of its major suppliers regarding the use of Parcel Select for all Postal Service orders and for potential use of Parcel Select for all of the supplier's orders. In addition, the Services Portfolio generated \$12.4 million in recycling revenue in FY 2008.
- Supply Management Operations realizes a return on investment for the Postal Service by selling and recycling surplus, obsolete, and excess assets along with being a source for service parts for foreign posts. Investment recovery revenue totaled approximately \$2.2 million in FY 2008.

While Supply Management personnel believe revenue-generating efforts were highly worthwhile, they felt efforts could be enhanced to ensure they are applied judiciously and evenly. Currently, there are no policies or guidelines to encourage appropriate revenue-generating partnerships with suppliers. As a result, revenue-generating efforts can be inconsistently applied and not fully implemented. See [Appendix B](#) for our detailed analysis of this topic.

Best Practices in Private Industry Study Results

We contracted with NGI Solutions (NGIS) to identify private sector and foreign post best practices for leveraging the supplier base to generate revenue. NGIS suggests the following practices are key to the success of supply management revenue-generating activities:

- Define revenue-generating objectives and guidelines with care.

- Clarify the roles and responsibilities of Supply Management and business owners with respect to revenue generation.
- Differentiate among key suppliers.
- Know supplier market as well as the suppliers do.
- Look for win-win situations and build partnerships with suppliers.
- Invest wisely in Supply Management human capital.

In general, we found that Supply Management embraces these concepts. We will provide the full report to Supply Management leadership separately for further consideration. You can find our detailed analysis of these best practices as they relate to current Supply Management policies and procedures in [Appendix B](#).

We recommend that the vice president of Supply Management, in coordination with the vice president, Sales:

1. Increase support for the Supplier Sales Lead Program and evaluate the feasibility of expanding it beyond just the suppliers on the Postal Supplier Council and into all Supply Management portfolios.
2. Consider establishing and implementing policies and procedures to encourage effective and appropriate revenue-generating efforts. These procedures should promote the following best practices:
 - Identify key suppliers who may also be key customers based on market and Postal Service business objectives.
 - Review supplier segmentation to ensure that it is a living process that enhances potential revenue generating activities.
 - Explore best practices and opportunities to generate revenue via supply chain partnerships.

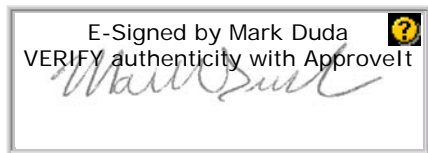
Management's Comments

Management generally agreed with the findings and recommendations. Management pledged to continue to support and expand the SSLP. Management suggested that, in lieu of establishing policies and procedures, they would distribute our report throughout the Supply Management Portfolios to share the successes and examples set by current efforts and to encourage further collaboration with suppliers. Management expects to complete these actions by December 9, 2009. See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations, and management's corrective actions should resolve the issues identified in the report. We encourage management to monitor these efforts and continue to support supplier collaboration.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Judy Leonhardt, director, Supply Management, or me at (703) 248-2100.



Mark W. Duda
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Joseph Corbett
Susan M. Plonkey
Mark A. Guilfoil
Dwight D. Young
Craig D. Partridge
Paula S. Garner
Susan A. Witt
Bill Harris

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Supply Management, an area of the Postal Service, works proactively with internal and external business partners to integrate supply chains and deliver best value solutions that are timely, cost effective, and operationally efficient. These efforts include combining strategic and tactical buying, supplying processes, and managing customer and supplier relations so they further the business and competitive interests of the Postal Service.

Supply Management established a PSC in September 2005. One of the PSC's main objectives is to solicit ideas from membership to drive innovation and improvements that are mutually beneficial to both suppliers and the Postal Service. The PSC membership currently consists of 89 suppliers and various Postal Service managers. The full council meets annually and holds quarterly meetings with the PSC's Board of Advisors, which includes 17 suppliers and a management committee comprised of Postal Service managers.

The March 2007 Supply Management 3-Year Strategic Plan included a goal to develop revenue-generating opportunities. The plan stated that Supply Management would look further to identify opportunities that contribute to Postal Service revenue. To meet this goal, Supply Management planned to focus on revenue-generating opportunities that included: partnering with Sales and others to identify revenue-generating opportunities, increase use of volume rebates, and increase licensing of its intellectual property. As a result of these efforts, the Supply Management portfolios generated over \$13 million revenue in FY 2008. Revenue data for FY 2009 was not yet available.

In May 2008, the Postal Service introduced a new pricing policy that allows it to adjust prices for shipping services – Express Mail®, Priority Mail®, Parcel Select®, Parcel Return Service, and International Mail. For the first time, Postal Service pricing includes commercial volume and contract prices, rebates, online price reductions, and other new incentives. The pricing structure led to an opportunity to work collaboratively with the PSC to generate revenue.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess how the Postal Service is leveraging its buying power to generate revenue. To accomplish our objective, we reviewed the Supply Management 3-Year Strategic Plan to identify Supply Management opportunities that contribute to Postal Service revenue. We interviewed portfolio and select category management center (CMC) managers and the Supply Chain Management Solutions Group manager to discuss Supply Management's efforts to leverage Postal Service buying power to generate revenue. We interviewed Postal Service sales managers regarding potential efforts to leverage buying power to generate revenue. In addition, we interviewed

Postal Service personnel and suppliers on the SSLP to discuss revenue generation initiatives and to obtain their thoughts about the program. Furthermore, we interviewed the project lead of the SSLP to discuss SSLP revenue-generating initiatives, challenges, and needs. We assessed the challenges the Postal Service has faced in their efforts to generate revenue through purchase leveraging and identified relevant best practices in the revenue-generating initiatives used by best private sector firms and foreign posts via NGIS.

We conducted this audit from January through November 2009 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on September 4, 2009, and included their comments where appropriate. We did not rely on computer-generated data to support our audit findings.

PRIOR AUDIT COVERAGE

We did not identify any prior audits or reviews related to the objective of this audit.

APPENDIX B: DETAILED ANALYSIS

Supplier Sales Lead Program

Supply Management launched the SSLP in December 2007. The objective of this initiative is to evaluate opportunities to reinvigorate supplier sales leads in the context of competitive product segments and to leverage existing relationships with PSC members to generate sales revenue. The SSLP initially started with 20 members. The membership included 11 participants from the Postal Service, eight of whom came from Supply Management, and nine PSC suppliers. The SSLP is led by a representative from Supply Management. The objective of the team was to get ideas from the suppliers and Postal Service officials regarding potential collaborative revenue-generating efforts and to target the shipping and marketing decisionmakers at the PSC. This would allow the team to introduce the target audience to the new flexibility in Postal Service products and services in a cooperative setting.

Our discussion with the members of the SSLP disclosed that all believe the SSLP is an excellent program. Members credit the SSLP with providing opportunities to grow business for the Postal Service and its supplier community, expanding knowledge of the services provided by the Postal Service, and offering opportunities to strengthen contacts within both the Postal Service and the vendor community. However, the program had grown stagnant until recently and not all Supply Management portfolios are participating. At the time our audit began, the SSLP had not had any activity since meeting in March and September of 2008.

As we conducted our audit and received favorable feedback concerning the SSLP, we shared it with both Supply Management and Sales. The SSLP met in April 2009 to review its current status and determine how to proceed based on recent feedback received from the vice presidents of Supply Management and Sales and the president of Mail and Shipping Services. The SSLP will develop criteria to review and select suppliers for further research and review, and further analyze, and refine that list to identify the suppliers with the greatest opportunity for revenue-generating collaboration. Based on the PSC's enthusiastic reception of the program, we believe that increased support and expansion of the SSLP to all Supply Management portfolios can provide a venue for sharing revenue-generating best practices.

Other Revenue Generating Efforts in Supply Management Portfolios

The primary objective of the five Supply Management portfolios is to lower costs, not to generate revenue. There is also, a strong philosophy apparent in industry and in Supply Management that revenue-generating efforts in the supply chain have the potential to create negative public perceptions and stray greatly from the primary mission of the Supply Management organization. However, the Postal Service is seeking to generate revenue wherever it can, and Supply Management recognizes there is also value in seeing suppliers as potential customers and offering them Postal

Service solutions to meet their needs. We held discussions with portfolio managers to discuss revenue-generating initiatives in their portfolios and received the following information:

- **Mail Equipment Portfolio**

The Mail Equipment Portfolio anticipates royalty payments of 2 percent from the Flats Sequencing System and 10 percent from the Remote Encoding System should the supplier use the components or software for those systems on any other commercial venture. In addition, the portfolio has repair contracts with a few suppliers that do not have repair facilities in the U.S. One example provided was a repair contract with Dunker Motors that has resulted in revenue from the repair of automatic tray handling systems.

- **Transportation Portfolio**

The Transportation Portfolio has identified revenue-generating opportunities with highway contract route suppliers from sharing revenue from advertisements on the suppliers' trailers. The portfolio is piloting this program through a value engineering change proposal in the Denver Area.

- **Supplies Portfolio**

The Supplies Portfolio, in conjunction with a cross-functional purchase team, developed a license to protect Postal Service intellectual property rights pertaining to CBU delivery equipment. By licensing intellectual property, the Postal Service is welcoming competition for the commercial sales portion of CBU equipment and controlling equipment standardization. In FY 2008, the intellectual property license for CBU equipment generated \$627,000 and has the potential to provide \$2 million in revenue each year.

- **Services Portfolio**

The Services Portfolio has partnered with W.W. Grainger, one of its major suppliers, regarding the use of Parcel Select to ship products to Postal Service clients. The portfolio has worked with W.W. Grainger as one of the Postal Service's national suppliers since 2001. The Postal Service is currently using Parcel Select for all of its shipments and is considering implementing it into Grainger's distribution network. This effort is directly attributed to the collaborative efforts of the portfolio, the Great Lakes sales team, and representatives from Grainger's program management and logistics departments. Currently, W.W. Grainger is using the Postal Select to send more than 550,000 packages containing parts and equipment to Postal Service customers each year.

In addition, the Postal Service updated its waste, trash, and recycling services contracts in FY 2004 to reduce trash removal costs and receive maximum recycling rebates for recyclable items. Since that time, the Services Portfolio has been actively partnering with the Environmental Policies and Program Office to

increase recycling revenues. The Postmaster General established an objective of generating \$40 million in recycling revenue by FY 2010. In FY 2008, these efforts generated \$12.4 million in recycling revenue.

- **Supply Management Operations**

Supply Management Operations generates revenue by selling and recycling excess supplies, equipment, and real estate through contracts with investment recovery suppliers. Revenue generated through these contracts has exceeded \$2 million annually for FYs 2008 and 2009. Excess service parts and excess mail processing equipment are sold to foreign posts.

Best Practices in Private Industry Study Results

We contracted with NGIS to identify private sector and foreign post best practices for leveraging supplier base to generate revenue. To accomplish its task, NGIS performed interviews, literature research, and benchmarking and interviewed JBG Corporation, Jacobs Corporation, IBM Corporation, Bank of America, Danaher Corporation, Siemens Corporation, Canada Post Corporation, Booz Allen, and Accenture, and other selected individuals who were knowledgeable about supplier partnerships and supply chain management in the postal marketplace. As a result of this research, the following are key to successful supply management revenue-generating activities:

- **Define Revenue Generating Objectives and Guidelines With Care**

A clear policy framework with respect to generating new revenue is critical within a successful supply management organization. The perception of supply management revenue-generating efforts is key to their success. One way to mitigate the potential for negative perceptions of these efforts is to have clear guidelines as to the scope of appropriate revenue-generating activities. Multiple interviews revealed that suppliers were sensitive to being “leveraged.” None of the best practice companies interviewed had explicit revenue goals. However, best practice companies have clearly defined policy goals regarding revenue generation that include supply chain collaboration.

Clear roles and responsibilities should serve as a basis for building revenue-generating collaboration. One strategy for avoiding the strains that leveraging can create in supplier relationships is to build joint efforts that create value for customers.

- **Differentiate Among Key Suppliers**

A robust supplier segmentation methodology is necessary to appropriately focus attention and resources. Supplier segmentation allows supply-based strategies to be differentiated and optimized for purchasing and revenue-generating opportunities.

- **Know Supplier Market as Well As The Suppliers Do**
Differentiating among suppliers is critical to being able to develop acquisition strategies that fit the market and the needs of the business. Multiple leading supply chain experts suggest analyzing supplier markets to understand issues pertinent to timing, leverage, and pricing advantage. The Postal Service should not limit market analysis to the market role the supplier plays for the Postal Service but also include an understanding of how the supplier's own supply market might include Postal Service products.
- **Look for Win-Win Situations and Build Partnerships**
Collaborative efforts with suppliers have the best potential for fostering revenue-generating opportunities. Joint planning on how to serve the needs of both the Postal Service and the supplier offer opportunities to identify potential revenue generation from the supplier relationship. The companies interviewed sought to move away from traditional purchasing concepts and focus on building partnerships in the supply chain.
- **Invest Wisely in Supply Management Human Capital**
As appropriate analysis of supplier markets is key, it is also critical that Supply Management staff have the experience and capacity to use relevant analytical tools and techniques to perform their jobs effectively and efficiently. The critical variable for a highly successful supply management organization is their people and their knowledge of the business of suppliers.

APPENDIX C. MANAGEMENT'S COMMENTS

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



October 23, 2009

LUCINE M. WILLIS

SUBJECT: Draft Management Advisory – Revenue Generation Efforts in Supply Management
(Report Number CA-AR-09-DRAFT)

Thank you for the opportunity to review and comment on the subject management advisory report. It was good to see the various successful revenue-generating efforts being accomplished within the organization. Management agrees with the intent of these recommendations, and will continue to look for ways to support generating revenue for the Postal Service. We agree with the benchmarking report that careful consideration is needed to not "leverage" our suppliers into quid pro quo purchase arrangements and anti-competitive situations. That is partially why the Supplier Sales Lead Program strategic initiative was developed and is being carefully implemented. Overall, the recommendations below and benchmarking information will be assessed as we continue with our support of revenue generating efforts and the Supplier Sales Lead Program.

The OIG recommended that the Vice President, Supply Management, in coordination with the Vice President, Sales:

Recommendation 1: Increase support for the Supplier Sales Lead Program and evaluate the feasibility of expanding it beyond just the suppliers on the Postal Supplier Council and into all Supply Management portfolios.

Management Response: We agree that continued support for the Supplier Sales Lead Program is necessary in order to achieve desired objectives of providing cost solutions to our suppliers and generate revenue for the Postal Service. Our plan for expansion of the Supplier Sales Lead Program to all Supply Management portfolios is to provide a list of the top fiscal year 2009 key suppliers for Sales to review and compare with the Postal Service's preferred mailers and current leads. Should a sales relationship need to be built, Supply Management would be available to assist in those instances. Target completion date is December 9.

Recommendation 2: Establish and implement policies and procedures to encourage effective and appropriate revenue-generating efforts. These procedures should promote the following best practices:

- Identify key suppliers who may also be key customers based on market and Postal Service business objectives.
- Review supplier segmentation to ensure that it is a living process that enhances potential revenue generating activities.
- Explore best practices and opportunities to generate revenue via supply chain partnerships.

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260-6200
202-268-4040
FAX: 202-268-2755
WWW.USPS.COM

Management Response: We agree with the intent of this recommendation to encourage effective and appropriate revenue-generating efforts and to promote the best practices, however, establishing and implementing a specific policy on Revenue Generation would not be advantageous. The concept of Supply Management "seeing suppliers as potential customers and offering Postal Service solutions" and having "sales calls" coming from Supply Management has its concerns, as mentioned in the benchmarking report. Although, encouraging the portfolios to continue collaborating with their suppliers and finding inventive ways to provide cost solutions and generate revenue for the Postal Service is beneficial.

What we would like to present as an alternative to establishing and implementing policies and procedures, is to agree to communicate this report and the benchmarking report by cascading to all Managers in Supply Management within 30 days from receipt of final report. This alternative will further the knowledge of the Supplier Sales Lead Program and the identified successful revenue-generating efforts to all Supply Management portfolios. Within the cascade we would encourage continued collaboration with suppliers and request the Portfolios and Category Management Centers to continually submit articles regarding any successful revenue-generating efforts in our Supply Management News U Can Use Newsletter. Target completion date is December 9.

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt, 202 268-4833.



cc: Joseph Corbett
Susan M. Plonkey
Mark A. Guilfoil
Dwight D. Young
Craig D. Partridge
Myrna J. Murphy
Paula S. Garner
Bill Harris