

March 29, 2002

ANITA J. BIZZOTTO
CHIEF MARKETING OFFICER

SUBJECT: Audit Report – The Role of Marketing in the Postal Service
(Report Number EM-AR-02-007)

This report presents the results of our audit of the role of Marketing in the Postal Service (Project Number 00RR009RG000). The audit was self-initiated. Our overall objective was to evaluate how effective the Marketing Office was in assisting the Postal Service in maintaining its competitive position in the market and increasing revenue.

We were not able to fully evaluate the impact of the Postal Service Marketing Office on the Postal Service competitive position and revenue. The evaluation was limited because a consolidated marketing plan had not been developed since fiscal year 2000 and a system for measuring the effectiveness of advertising campaigns needed improvement. We recommended Postal Service officials develop an integrated marketing plan that is linked to the Postal Service's Strategic Plan, establish measurable advertising objectives and adequate benchmarks prior to the start of their advertising campaigns, and reevaluate targeted advertising campaigns that do not generate revenue as planned. Management agreed with our recommendations and has planned corrective actions addressing the issues identified in this report. Management's comments and our evaluation of these comments are included in this report.

The Office of Inspector (OIG) considers recommendations 1, 2, and 3 significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you or have any questions or need additional information, please contact Robert J. Batta, director, eCommerce and Marketing, at (703) 248-2100, or me at (703) 248-2300.

Ronald K. Stith
Assistant Inspector General
for Core Operations

Attachment

cc: Larry M. Speakes
John R. Wargo
Susan M. Duchek

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EXECUTIVE SUMMARY

Introduction

The audit was self-initiated and evaluated the Marketing Office's role in assisting the Postal Service in maintaining its competitive position in the market and increasing revenue. Specifically, our objectives were to determine whether the Marketing Office: (1) supported strategic goals, (2) used performance measures to evaluate the effectiveness of advertising initiatives, and (3) focused advertising on generating revenue for the Postal Service.

Results in Brief

We were not able to fully evaluate the impact of the Marketing Office in assisting the Postal Service to maintain its competitive position in the market and increase revenue. Specifically, an overall marketing plan outlining marketing strategies, tactics, and initiatives related to the Postal Service strategic plan had not been developed since fiscal year (FY) 2000. Instead, marketing strategies were based on individual business plans or briefing presentations developed by departments within the Marketing Office.

We also determined that the system used to measure the effectiveness of the Postal Service advertising campaigns needed improvement. For instance, the Postal Service had not established specific measurable objectives for the advertising message they wanted to convey. Even though the Postal Service measured customer recognition and brand awareness for commercials that were shown during advertising campaigns, benchmarks were not established for each advertising objective before the start of their campaigns. As a result, the Postal Service was unable to measure the level of change advertising campaigns had on customer awareness, knowledge, or attitudes.

Furthermore, the measurement system used to evaluate the effect of targeted advertising campaigns on increasing revenue needed improvement. Specifically, we determined

that in FY 2000 about [REDACTED] was spent on targeted advertising campaigns designed to generate sales leads and product orders; however, these initiatives only generated [REDACTED].

Summary of Recommendations

We recommended management develop an integrated marketing plan that is linked to the Postal Service's

	<p>Strategic Plan and include performance measures to assess the effectiveness of the marketing plan. We also recommended that officials establish measurable advertising objectives prior to the start of their advertising campaigns and establish benchmarks for each objective prior to beginning advertising campaigns. Finally, we recommended that officials reevaluate the use of targeted advertising campaigns that do not generate enough revenue to cover advertising expenses.</p>
Summary of Management's Comments	<p>Management agreed with our findings and recommendations. Management plans to develop an integrated marketing plan for FY 2003, which will include explicit metrics and assigned accountabilities. In addition, management has initiated actions to measure print advertising and to improve their advertising research questionnaire design. Management also plans to include pre-campaign research to their advertising research contract and plans to continue to evaluate the measured results of all their advertising. When measured results demonstrates performance below objectives, a management team will consider appropriate actions, including closing and/or modifying campaigns. Management's comments, in their entirety, are included in Appendix B of this report.</p>
Overall Evaluation of Management's Comments	<p>Management's comments are responsive to our findings and recommendations.</p>

INTRODUCTION

Background

The Postal Service's Marketing Office was composed of seven major departments at the time of our review:¹

- Advertising and Promotion
- Retail Consumer and Small Business
- Marketing Technology and Channel Management
- International Business Unit
- Core Business Marketing
- Strategic Marketing
- Pricing and Product Design

The Advertising and Promotion department is responsible for developing and managing the corporate advertising budget. All other departments build core products, develop growth markets, and leverage the retail infrastructure to accomplish the Marketing Office's goals.

In fiscal years (FY) 2000 and 2001 the Marketing Office expended over \$1.4 billion. Almost \$1 billion or 70 percent of these expenditures were for the Point of Service ONE Program, the Corporate Call Management Program, and advertising and promotion of Postal Service products and services. The balance of about \$400 million was spent on additional marketing programs, salaries, and administration support costs. See Appendix A for a listing of the Marketing departments and their respective budgets for FYs 2000 and 2001.

In May 2000, the former chief marketing officer² presented his marketing vision in a briefing to the deputy postmaster general. He defined the role of Marketing within the Postal Service as:

- Designing products and features to grow customers and revenue.
- Pricing products to retain and grow key customer segments and revenue streams.

¹The Marketing Office was reorganized prior to the issuance of this report, and is now composed of International Business, Service and Market Development, Product Development, Pricing and Classification, and Sales.

²A new chief marketing officer was appointed on September 2001 as part of a reorganization of the Marketing Office.

- Promoting the Postal Service brand to build awareness, consideration, purchases, and loyalty.
- Making services available at places customers choose to do business.

Objectives, Scope, and Methodology

Our overall objective was to evaluate the role of Marketing in assisting the Postal Service to maintain its competitive position in the market and increase revenue. Specifically our objectives were to determine whether the Marketing Office: (1) supported strategic goals, (2) used performance measures to evaluate the effectiveness of advertising initiatives, and (3) focused advertising to generate revenue for the Postal Service.

To determine whether a marketing plan supported Postal Service strategic goals, we interviewed the vice presidents and their managers from all of the Marketing departments. We examined Postal Service planning documents to include the Postal Service 2001-2005 Strategic Plan, FY 1999/2000 Marketing Plan, and each of the marketing department's business plans and briefing charts. In addition, we reviewed two Marketing studies that identified ways to improve the Postal Service's Marketing Office.

To assess advertising performance measures, we interviewed directors and managers within the Marketing Office and reviewed procedures used to evaluate the effectiveness of programs and initiatives. We obtained report cards of each targeted campaign, analysis reports from Tracker,³ market research studies from Market Tracks, sales leads and responders from the Sales Management and Revenue Tracking System⁴ and reference material from the Association of National Advertisers on "Defining Advertising Goals for Measured Advertising Results."

To determine the focus of advertising efforts on generating revenue, we reviewed budget reports and revenue figures from Postal Service officials.

³ Tracker is the Advertising and Promotions database that stores marketing campaign analysis, report cards, tasked amounts, invoices, and responders.

⁴ The Sales Management and Revenue Tracking System is the Sales department's sales leads, campaign responder status, and sales revenue tracking system.

This audit was conducted from May 2000 through March 2002 in accordance with generally accepted government auditing standards, and included such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

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

AUDIT RESULTS

Lack of a Marketing Plan Supporting Strategic Goals in FY 2001

An overall integrated marketing plan had not been developed since FY 2000. Marketing strategies were based on individual business plans or briefing presentations developed by departments within the Marketing Office. The importance of an overall marketing plan and the need for a 5-year marketing plan to ensure marketing strategies, tactics, and initiatives were aligned with Postal Service strategic goals was identified in a 1998 Postal Service sponsored study entitled, "Enhancing USPS Marketing Initiatives."

Marketing officials said they preferred to document their marketing strategies in briefings to management. The former chief marketing officer identified his general strategies for increasing net income in his briefings to management and through internal marketing meetings. His strategies were to retain core markets and customers as a foundation for growth, to grow by targeting key segments, and to leverage the retail infrastructure. In this regard, we noted that two of the seven major Marketing departments had prepared formalized business plans that identified specific tactics or initiatives for increasing revenue. The remaining five departments identified their tactics and initiatives in either briefing presentations or web-based tools prepared for management.

However, in September 2001 the Marketing Office was reorganized and a new chief marketing officer was assigned. The new chief marketing officer agreed that an integrated marketing plan was needed and a preferred method for ensuring marketing initiatives are focused on the Postal Service's strategic goals. As a result, the Marketing Office began to develop new integrated business plans during the course of the audit. Marketing officials indicated that new integrated marketing plans would ensure that marketing initiatives were aligned with Postal Service strategic goals.

Recommendation

We recommend the chief marketing officer:

1. Develop an overall marketing plan that identifies specific marketing goals, objectives and tactics, and strategies linked to the Postal Service's strategic and annual performance plans, including performance indicators that can be used to measure and assess

the outcome of each of the Marketing Office's initiatives.

**Management's
Comments**

Management agreed with the recommendation. Management stated they would develop an integrated marketing plan for FY 2003, which will include explicit metrics and assigned accountabilities. The marketing planning process will be built upon the integration of the segment, channel, and product groups to strengthen the customer and market focus of strategies in the plan. Management will continue to evaluate the results of all its initiatives. When results, as measured by program analyses, research, the sales leads tracking measurement, and internal revenue systems, demonstrate performance below objectives; marketing's management team will consider the appropriate actions, including closing down campaigns and/or modifying campaigns.

**Evaluation of
Management's
Comments**

Management's planned actions to the recommendation are responsive and meet the intent of our recommendation.

Effectiveness of Advertising on Awareness Not Measured

The Postal Service's measurement system for television and print advertising campaigns needed improvement. Postal Service officials did not establish complete measurable advertising objectives prior to the start of their advertising campaigns. The Postal Service measured the level of customer recognition and brand awareness for commercials shown during advertising campaigns. However, they did not identify the number of people that were already aware of the entire message they wanted to deliver prior to the beginning of the campaign.

Television Advertising Campaigns

According to the Association of National Advertisers, in order to effectively assess the value of advertising, an advertising objective should be specific and communicate a specific task that is to be accomplished to a given degree among a defined audience over a designated period of time. We found that the objectives listed by the Postal Service Advertising and Promotion department were too broad and general to assess the value of advertising. For example, Priority Mail was the most heavily advertised Postal Service

product on television, with more than [REDACTED] spent on television commercials. The Priority Mail campaign was designed to position the Postal Service as the shipper of choice for on-line purchases from the household. Postal Service officials listed their specific advertising objectives as:

- To enhance Priority Mail's association with eCommerce.
- To improve Priority Mail's e-image.
- To encourage e-shoppers to request Priority Mail by stressing value in having:
 - A lower price alternative.
 - The ability to choose their online shipper.

- To promote the benefits to e-shoppers and e-sellers by:
 - Extending Priority Mail's current value proposition to the Internet.
 - Strengthening perceptions of reliability, a barrier it faces between both audiences.

Using criteria established by the Association of National Advertisers, for example, these objectives could have been more effective if stated as:

- Raise the number of e-shoppers who were aware that Priority Mail was a shipping alternative from [REDACTED] over the next year.
- Raise the perception of Priority Mail as an excellent or good shipping method for e-shoppers from [REDACTED] by the end of the year.
- Increase awareness that Priority Mail is a less expensive shipping method from [REDACTED] to [REDACTED] within 6 months.

To determine if their advertising campaigns were successful the Marketing Office established measures that were designed to determine the recognition and brand awareness of target audiences during advertising campaigns. For example, Postal Service assessments of the Priority Mail campaign indicated that audiences were increasingly aware that Priority Mail was associated with Internet shipping; however, assessments also showed the awareness levels were increasing at the same rate for Postal Service's competitors. However, since benchmarks had not been established to identify the number of people who were already aware of the entire advertising message prior to the beginning of a campaign, the Postal Service was unable to determine whether increases in awareness were the result of the advertising campaign or other factors.

Print Advertising Campaigns

In addition to television campaigns the Advertising and Promotion department also used print advertising in their FY 2000 campaigns. Print advertising included ads for Postal Service products placed in magazines, newspapers, and trade publications. There were [REDACTED] advertisement insertions placed in [REDACTED] different publications in FY 2000. We found, however, that no attempt was made to measure the effectiveness of these print advertisements.

For example, the Advertising and Promotion department spent about [REDACTED] advertising on print media for eBillPay during FY 2000. The objective of the campaign was to generate product awareness, new product orders, and to drive the target audience to the Postal Service's web site, USPS.com. The Advertising and Promotion department's assessment of the advertising campaign consisted of determining whether the placement of the ads within the publications were in accordance with contract specifications. There was no attempt to measure the effectiveness of the print advertising against a target audience. As a result, Postal Service officials expanded their advertising measurement program to cover print advertising in FY 2001.

While we understand that advertising is one factor of a marketing strategy and that there are many variables that affect whether a consumer buys a product or service, it is imperative that officials measure the effectiveness of their advertising campaigns to ensure that marketing funds are spent as effectively as possible to achieve Postal Service objectives.

Recommendation

We recommend the chief marketing officer:

2. Identify specific measurable advertising objectives that define what is to be achieved prior to the start of a campaign.

Management's Comments

Management agreed with the recommendation. Management stated they have taken steps to improve the measurement of the effectiveness of advertising through its

contract with Millward Brown, an advertising research company. In the past year, management has improved the advertising research program by aligning more effectively the ongoing tracking with the advertising media plan, by adding a capability to measure print advertising, and by improving the questionnaire design. Management is undertaking a new solicitation for its contract for the advertising effectiveness, and as part of this will expand the contract to include pre-campaign research to help develop the advertising strategies and creative development.

Recommendation

3. Establish a baseline relevant to advertising objectives prior to the beginning of the campaign and compare the results at the end.

**Management's
Comments**

Management agreed with the recommendation. Management stated that through the use of the Millward Brown advertising measurement program they conduct ongoing tracking of their advertising so that they can develop pre and post campaign measurements of the various ads being run throughout the year. Using this approach, management will be able to measure changes in results, to evaluate accomplishment of the type of objectives noted as part of recommendation number 2.

**Evaluation of
Management's
Comments**

Management's planned actions for recommendations 2 and 3 are responsive and meet the intent of our recommendations.

Effectiveness of Advertising on Revenue Not Measured

The measurement system used to evaluate the effectiveness of the Postal Service targeted advertising campaigns on increasing revenue needed improvement. This occurred because Postal Service officials did not attempt to analyze their advertising campaigns to determine if they generated enough revenue to cover advertising expenses. As a result, the Postal Service may continue to spend advertising dollars on targeted campaigns that are ineffective.

Targeted Advertising Expenses Exceeds Revenue

In FY 2000, the Postal Service spent [REDACTED] [REDACTED] of their Advertising and Promotion budget on targeted advertising campaigns designed to generate sales leads and product orders. However, our analysis found that these targeted advertising campaigns only generated about [REDACTED] in revenue during FY 2000. Targeted campaigns included direct mail, emails, Internet and print advertisements, and outbound telemarketing that were targeted to individual businesses and consumers. By targeting specific individuals, the Advertising and Promotion department had, in some cases, been able to identify revenue generated from these campaigns. However, the Postal Service did not analyze this information to determine whether these campaigns were successful.

For example, of the [REDACTED], the Advertising and Promotion department spent more than [REDACTED] on seven targeted campaigns for Postal Service products during FY 2000. These targeted campaigns attempted to generate sales leads for Expedited Package Services, Global Delivery Service, and Standard Mail A.

Approximately [REDACTED] individual consumers and businesses were targeted. However, according to the Sales department, none of these campaigns had generated any revenue⁵ as of July 1, 2001.

In addition, the Advertising and Promotion department spent

⁵ Only 69 leads generated through targeted advertising were still pending with potential to create sales.

about [REDACTED] to develop orders for Small Office/Home Office/Residential Bundled Product Wave in FY 2000. The bundled product wave was a direct mail offering used to advertise stamps by mail along with a variety of other products. The Advertising and Promotion department

was only able to identify approximately [REDACTED] in revenue that resulted from this campaign. Additional revenue may have been realized; however, product sales were not tracked for several of the products offered during the campaign and was not included in the overall revenue numbers.

Recommendation

We recommend the chief marketing officer:

4. Reevaluate the value of using targeted advertising campaigns that do not generate enough revenue to cover advertising expenses.

**Management's
Comments**

Management agreed with the recommendation. Management stated they will continue to evaluate the results of all its advertising. When results, as measured by the advertising effectiveness research, the sales leads tracking measurement, and their internal revenue systems, demonstrate performance below objectives; management will consider appropriate actions, including closing down campaigns and/or modifying campaigns.

**Evaluation of
Management's
Comments**

Management's planned actions to the recommendation are responsive and meet the intent of our recommendation.

APPENDIX A

MARKETING BUDGET FOR FY 2000 AND FY 2001

The following chart shows the capital and expense expenditures for individual departments within the Marketing Office:

**Marketing Budget
(in millions)**

Marketing Departments	FY 2000 Actual	FY 2001 Actual
Retail, Consumers and Small Business ⁶	\$523.1	\$254.0
Marketing Technology and Channel Management ⁷	\$159.4	\$32.5
International Business Unit	\$32.4	\$24.3
Core Business Marketing	\$13.8	\$27.2
Chief Marketing Officer ⁸	\$7.9	\$0.4
Strategic Marketing	\$7.5	\$5.7
Pricing and Product Design	\$7.4	\$9.6
Performance Analysis and Support ⁹	\$6.4	
Marketing Integration ¹⁰	\$2.4	
Total	\$920.6	\$500.2

⁶ Part of the FY 2001 budget reductions were a result of decreases in Point of Service ONE Program costs (\$257 million).

⁷ Most of the FY 2001 budget reductions were the result of transferring the Corporate Call Management Program (\$129 million) to the Office of the Consumer Advocate.

⁸ The chief marketing officer incurred one-time expenses to relocate the Marketing Office from Washington, D.C., to Rosslyn, Virginia.

⁹ The FY 2001 Performance Analysis and Support budget was included as part of Core Business Marketing.

¹⁰ The FY 2001 Marketing Integration budget was included as part of Core Business Marketing.

APPENDIX B. MANagements COMMENTS

Anita J. Bizzotto
Chief Marketing Officer
Assistant Vice President



March 27, 2002

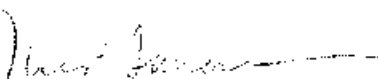
RONALD K. STITH
ASSISTANT INSPECTOR GENERAL FOR CORE OPERATIONS

SUBJECT: Draft Audit Report: The Role of Marketing in the Postal Service
(Report Number EM-AR-02-DRAFT)

We have reviewed the draft report and, as a result of the discussions between our staffs, we agree to the findings. We have attached a detailed response, indicating the commitments of Marketing to implement the recommendations and provided information on actions which have been or will be implemented.

We also have attached a copy of the draft report, indicated in yellow highlight, the areas in which we consider to be proprietary and thus exempted from release under the Freedom of Information requirements. The highlighted sections provide important competitive data on advertising spending at the product and program level and the specific objectives we set for our marketing initiatives. We are also requesting that the detailed spending information shown in Appendix A be removed, as this would be very useful to competitors, providing them information on the level and mix of the marketing resources.

Please let me know if you have any questions and if you do not accept our request for the protection of the information.


Anita J. Bizzotto

Attachment

cc: Susan Duchek

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**RESPONSE TO THE DRAFT AUDIT REPORT: THE ROLE OF MARKETING IN THE
POSTAL SERVICE (REPORT NUMBER EM-AR-02-DRAFT)**

This audit report reflects the ongoing discussions with the management of Marketing.

Summary of Recommendations: Develop an integrated marketing plan that is linked to the Postal Service's Strategic Plan and include performance measures to assess the effectiveness of the marketing plan. Also, establish measurable advertising objectives prior to the start of their advertising campaigns and establish benchmarks for each objective prior to the beginning advertising campaign. Finally, reevaluate the use of targeted advertising campaigns that do not generate enough revenues to cover advertising expenses.

Recommendation #1: Develop an overall marketing plan that identified specific marketing goals, objectives and tactics and strategies linked to the Postal Service's strategic and annual performance plans, including performance indicators that can be used to measure and assess the outcome of each of the Marketing Office's initiatives.

The CMO agrees to the findings from the audit and the recommendation. In response to the specific recommendation, Marketing has taken or will take the following actions.

The Marketing group will develop an integrated marketing plan for FY 2003 which will include very explicit metrics and assigned accountabilities. The marketing planning process will be built upon the integration of the segment, channel, and products groups to strengthen the customer and market segment focus of strategies in the marketing plan. In all strategic plans and tactical implementations, we will clearly state the objectives for the initiative and the specific means of measurement.

This plan will focus on the generation of revenues in support of the revenue plan of the Postal Service, as defined in the Voice of the Business. It also will include specific strategies to improve the reliability of mail service and increase the convenience for customers in purchasing and using our services, in support of the goals of the Voice of the Customer.

Marketing will continue to evaluate the results of all its initiatives. When results, as measured by program analyses, research, the sale leads tracking measurement, and our internal revenue systems, demonstrate performance below objectives, marketing's management team will consider the appropriate actions, including closing down campaigns and/or modifying campaigns.

Recommendation #2: Identify specific measurable advertising objectives that define what is to be achieved prior to the start of a campaign.

The CMO agrees to the findings from the audit and the recommendation. In response to the specific recommendation, Marketing has taken or will take the following actions.

It is part of our basic process that all campaigns and program initiatives will have a specific and explicit goal and a clearly defined method of measurement. These goals will include goals such as:

- Generate a specific number of responses or leads
- Achieve a specific level of awareness
- Achieve a specific level of ratings on attitudinal areas, such "the Postal Service provides a fair value for the price"

It should be noted that we will not set specific revenue objectives for advertising. Revenue objectives will be set for the integrated marketing plans of which advertising may be one of several strategies used to achieve the revenue objectives.

Marketing has taken steps to improve the measurement of the effectiveness of advertising through its contract with Millward Brown, a leading edge advertising research company. In the past year, Marketing has improved the advertising research program by aligning more effectively the ongoing tracking with the advertising media plan, by adding a capability to measure print advertising, and by improving the questionnaire design.

Currently, Marketing is undertaking a new solicitation for its contract for the advertising effectiveness, and as part of this will expand the contract to include pre-campaign research to help develop the advertising strategies and creative development.

Establish a baseline relevant to advertising objectives prior to the beginning of the campaign and compare the results at the end.

The CMO agrees to the findings from the audit and the recommendation. In response to the specific recommendation, Marketing has taken or will take the following actions.

Through the use of the Millward Brown advertising measurement program we conduct ongoing tracking of our advertising so that we develop pre and post campaign measurements of the various ads being run throughout the year. We thus are able to measure changes in results, to evaluate accomplishment of the type of objectives noted as part of Recommendation #2.

Recommendation #4: Reevaluate the value of using targeted advertising campaigns that do not generate enough revenue to cover advertising expenses.

The CMO agrees to the findings from the audit and the recommendation. In response to the specific recommendation, Marketing has taken or will take the following actions.

Marketing will continue to evaluate the results of all its advertising. When results, as measured by the advertising effectiveness research, the sale leads tracking measurement, and our internal revenue systems, demonstrate performance below objectives, marketing's management team will consider the appropriate actions, including closing down campaigns and/or modifying campaigns.

Marketing will take the needed actions to ensure that all the actions need to respond to the recommendations are taken as soon as possible and no later than the end of FY 2002.