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PACKAGE SERVICES FORUM RECAP

Executive Summary

The explosive growth of e-commerce has led to a corresponding growth in the importance of package delivery. Recognizing how important this trend is to the U.S. Postal Service, the U.S. Postal Service Office of Inspector General (OIG) has begun to examine the parcel market, issuing a number of reports assessing trends in the shipping industry and the Postal Service's state of readiness for growth in this market.

As part of this series of work, the OIG held a forum earlier this year in front of a broad audience about trends in the package services industry and how the Postal Service can best fulfill customer needs as it pursues success in this line of business. The discussion included three noted panelists from the package delivery industry and highlighted a number of themes about package services and approaches the Postal Service could consider as package services grow in importance.

This issue brief outlines the discussion, adds marketplace context, and expands on eight major themes that emerged:

1. The growth of e-commerce is driving dramatic growth in the package shipping industry, and the Postal Service has an opportunity both to meet the evolving needs of its customers and to garner significant new revenue.
2. Package shipping is a very difficult, but critical, business. Low margins, demanding consumers, and growing costs create significant challenges for providers.
3. The package shipping industry is very competitive and contains not only the Postal Service and established private delivery companies such as UPS and FedEx, but also expanding e-commerce providers, and a slew of tech-savvy newcomers all competing for a share of this rapidly growing business.
4. Participants in the package industry are often each other's customers as well as competitors. They rely on each other's services to supplement their own.
5. Consumer demand for shipping services is evolving quickly and there is a notable shift in power from providers to customers and recipients.
6. Commoditization will be a constant challenge in the package delivery market as competition increases for last-mile services. The Postal Service and other package shipping companies will need to differentiate their services and demonstrate their value.
7. The Postal Service's biggest advantage is its nationwide, last-mile delivery network. Its capability to inexpensively handle large numbers of small packages makes it a key part of the industry, one that its customers and competitors alike have grown to rely on.
8. Meeting the explosive growth, evolving operational challenges, and customer demands in the parcel delivery market will require continual innovation from the Postal Service and other participants in the industry.



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

*Promoting Integrity and Accountability
in America's Postal System*



Introduction

The explosive growth in e-commerce has led to a corresponding surge in the number of physical packages in the delivery value chain. American businesses and consumers spent more than \$72 billion to ship packages domestically in 2014, a figure that continues to increase.¹ Consumers increasingly turn to Internet retailers instead of brick-and-mortar stores for their shopping needs, seeking the lowest prices, most comprehensive selection of goods, and cheap or free shipping directly to their homes or designated delivery points. Package services are a promising and important business segment for the Postal Service. Figure 1 below shows that from 2008 to 2014 its package volume increased by

about 34 percent while the remainder of its mail volume decreased by more than 20 percent.²

In December 2014 alone, the Postal Service delivered more than 520 million packages, an increase of 18 percent over the same figure from December 2013.³ The Postal Service is emerging as a “package delivery powerhouse,” according to Harry Whitehouse, co-founder and Chief Technology Officer of Endicia. Whitehouse cites the Postal Service’s last-mile capabilities, extensive network, and low prices as major advantages in the market.⁴

As the volume of one of the Postal Service’s most important products, First-Class Mail,

has significantly declined, it is imperative that the Postal Service meet the developing demands of customers for package delivery. For younger customers with increasing levels of purchasing power, packages are the new anchor of the mailbox. Package deliveries drive their interest in and anticipation of mail.⁵

The Postal Service must also be sure to continue to effectively fill its key position in the delivery value chain — the only provider of low-cost, universal last-mile delivery. What this will require, as well as how much revenue the Postal Service can expect to earn from this line of business, remain open questions.

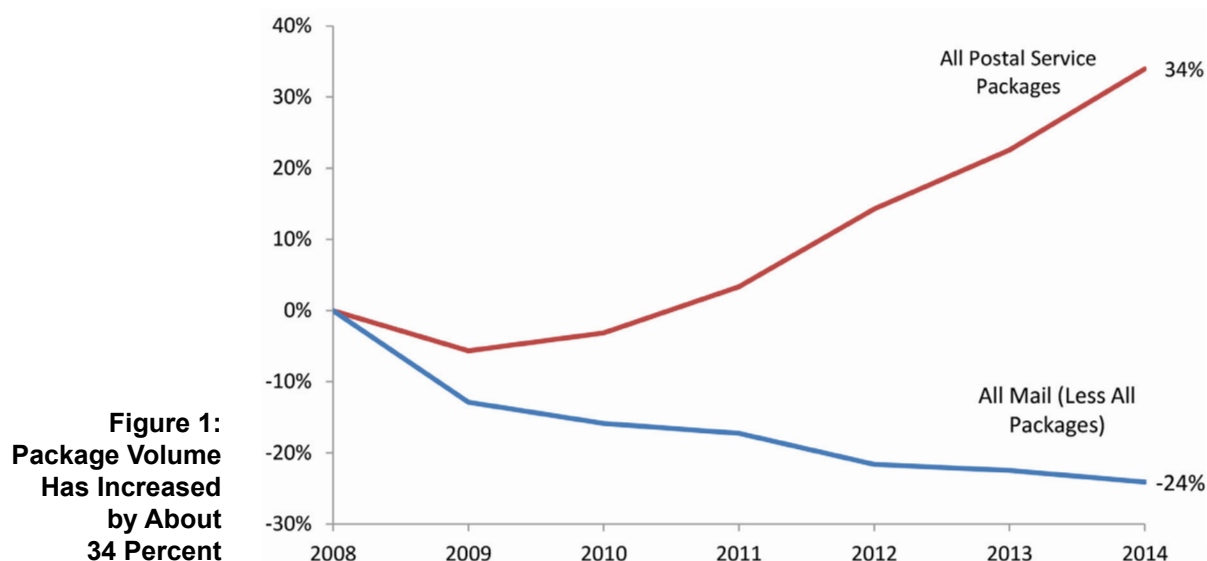
1 Seventy-two billion dollars is the combined revenue of the Postal Service’s shipping and package services, UPS’s domestic package operations, and FedEx’s domestic packages. Postal Service, *2014 Annual Report to Congress*; UPS, “U.S. Domestic Package Operations,” *Quarterly Historical Income and Operating Data*, 2014 Q4; and FedEx, “Total U.S. Domestic Packages,” *FedEx Annual Report 2014*.

2 U.S. Postal Service Office of Inspector General, *Package Services: Get Ready, Set, Grow!*, Report No. RARC-WP-14-012, July 21, 2014, <http://www.uspsioig.gov/sites/default/files/document-library-files/2014/rarc-wp-14-012.pdf>, p.7, and U.S. Postal Service, *Revenue, Pieces, and Weight Reports and Quarterly Statistics Reports (QSRs)*.

3 “U.S. Postal Service Delivers Record Holiday Season,” *United States Postal Service*, January 6, 2015, http://about.usps.com/news/national-releases/2015/pr15_002.htm.

4 “The Postal Service Emerges as Shipping Powerhouse for Small Businesses,” *Entrepreneur*, January 22, 2015, <http://www.entrepreneur.com/article/242046>.

5 OIG, *Package Services: Get Ready, Set, Grow!*, p.4.



Source: Revenue, Pieces, and Weight reports, U.S. Postal Service.

Package Services Forum

In recognition of this changing environment, the U.S. Postal Service Office of Inspector General (OIG) convened a “Package Services Forum” on February 20, 2015. We invited three experts from the field of package delivery to a panel discussion of trends in the industry, the OIG’s 2014 white paper *Package Services: Get Ready, Set, Grow!* and other developments affecting the package delivery market.⁶ The panel included Gary Reblin, Vice President of New Products and Innovation with the Postal Service, Sandy Glick, a co-founder and Vice President of SLS Consulting and a consultant to the Parcel Shippers Association, and Keith Kellison, Senior

Vice President for Global Public Affairs with United Parcel Service (UPS).⁷

The panel we assembled represents important participants in the package delivery industry. While they do sometimes compete with one another, they also rely on the services that each other can provide in order to meet the needs of their customers. This arrangement led to a frank and productive discussion of trends in the industry, one that highlighted the competing interests of the industry’s participants as well as how effectively they can work together to meet the needs of the public. This Issue Brief recaps the discussion and adds context and analysis.⁸

Prevailing Themes in the Package Delivery Market

Eight important themes emerged from the discussion. These themes define the package delivery market today, and a thorough understanding of how they apply to the Postal Service will be crucial to its success.

1. Package shipping is an important and growing market.

The clearest trend in the package market is the immense growth in package volume driven by e-commerce. This growth is fueling significant changes in demand for, and supply of, package delivery services and features. E-commerce sales reached about \$300 billion in 2014, or 6.5 percent of total retail sales that year.⁹ These figures continue to grow. Shipping and package services represent 22 percent of the Postal Service’s revenue

with volume growing by over 14 percent in the second quarter of FY 2015.¹⁰ As e-commerce continues to grow, participants in the package shipping market will need to add capacity, improve their services, and respond to the developing demands of consumers. The necessary steps will not be incremental, but rather transformational: package delivery companies, including the Postal Service, will need to transform the entire way they do business in order to keep up with the massive level of growth in this field.

This will pose substantial challenges for the Postal Service. As e-commerce volumes and densities increase, will delivery companies and e-retailers deliver more packages themselves,

⁶ Ibid.

⁷ Biographies of the panelists as well as summaries of some of their remarks may be found in Appendix A.

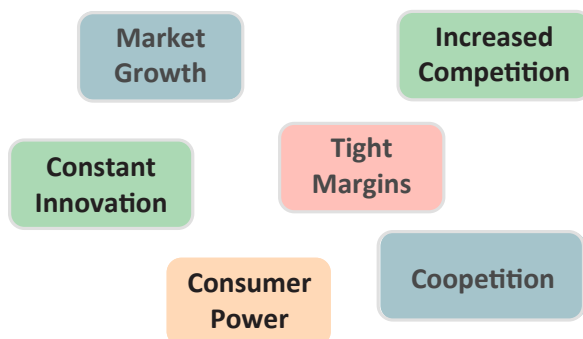
⁸ This paper provides a summary of the statements of forum participants and does not in all instances reflect the opinions of or an endorsement by the OIG.

⁹ U.S. Census Bureau, “Quarterly Retail E-Commerce Sales 4th Quarter 2014,” February 17, 2015, https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf.

¹⁰ Ira Steiner, “USPS Package Volume Up 14 Percent as Losses Continue,” *Ecommerce Bytes*, May 11, 2015, <http://www.ecommercebytes.com/cab/abn/y15/m05/i11/s03>.

Trends in the Parcel Market

Current



Future

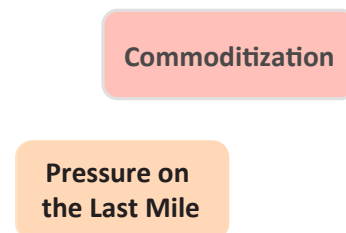


Figure 2:
Key Trends in the
Parcel Market

developing their own favorable economy of delivery density, and leaving the Postal Service with only diminishing numbers of the least profitable deliveries? Alternatively, as the massive shift from brick-and-mortar retail to e-commerce continues, could the Postal Service become a victim of its own success? As the best provider of last-mile delivery of small, lightweight packages, will it become overwhelmed as the volume of these packages continue to grow?

2. Package shipping is a difficult business. It has tight margins, and consumer surveys indicate a current preference for low-cost or free shipping over premium services like same-day or next-day delivery. Last-mile delivery of packages continues to be a challenge. The Postal Service continues to be the leader in low-cost last-mile delivery, with a nationwide network that makes it uniquely situated to meet the delivery needs of the entire industry. However, the current low price point of this service and the increasing costs of providing it may make it difficult for last-mile delivery to generate significant profitable revenue.

Many of the new packages being added to the delivery value chain are more difficult to deliver profitably. Much of the growth the industry has experienced has involved business-to-consumer delivery, rather than business-to-business delivery. This involves lighter weight parcels, lower numbers of parcels per delivery stop, and consumers returning increased numbers of purchased items to retailers.¹¹ These characteristics generally result in above-average costs and tight margins. This applies immense upward cost pressure on delivery companies' traditional business models. In a world where everyone wants "free" shipping, controlling costs is paramount.¹² It will be impossible for shippers to meet customers' needs if they cannot provide these services efficiently.

The competitive pressures to meet the best price points for its customers run contrary to the pressures of rising costs and fiduciary responsibilities. Meeting customers' stated needs is tough enough, but understanding their unstated needs, anticipating how they will grow and develop, and offering useful services that they may not yet know they need, are harder still.

Nodes of the package delivery network are getting closer and closer to each other as e-retailers work to locate their facilities in closer physical proximity to their customers.

¹¹ Regarding returns, UPS recently found that 62 percent of consumers expected to return items bought online in 2014, compared to 51 percent in 2012. "UPS gearing up for "Returns Week" in United States," *Post & Parcel*, December 30, 2014.

¹² The panel acknowledged the common expectation for free shipping. Free delivery has long been standard practice during the holidays, but, for top retailers, it is now the norm. "Free delivery creates holiday boon for U.S. consumers at high cost," *Reuters*, January 2, 2015, <http://news.yahoo.com/free-delivery-creates-holiday-boon-u-consumers-high-130740689--finance.html>.

3. Package shipping is highly competitive. It involves companies with existing networks, practices, and resources competing for their share of the market, as well as new entrants seeking to disrupt the market by leveraging resources from traditional retailers, crowdsourced labor, and consumers themselves. With so much potential revenue at stake, existing companies and new entrants alike are seeking more efficient and profitable alternatives to traditional end-to-end package delivery. Whether from traditional package delivery companies, regional carriers, new entrants to the market, or from e-retailers themselves,

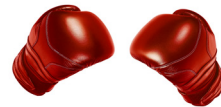
competitive pressures drive package shippers' strategies.

For example, e-retailers are investing in practices that replace traditional end-to-end pickup and delivery, including building decentralized warehouses closer to consumers. Nodes of the package delivery network are getting closer to each other as e-retailers decentralize their fulfillment centers and warehouses, locating them closer to the customers placing orders with them. This closeness not only improves time to delivery, but also improves consistency and lowers shipping costs. These e-retailers may even deliver orders to their customers themselves. However, adding

nodes to a delivery network and tailoring service more directly to individual customers increases supply chain and management costs. Effectively navigating the conflicting demands of service and cost will be a critical element of shipping companies' success in this difficult environment.

A method known as brick-and-mortar shipping from store, in which retailers ship goods to their customers from their retail stores, is becoming more and more popular. Instead of building out networks of warehouses and fulfillment centers, retailers can use the facilities they already have, facilities that are in many cases already located near their customers. Ship from

Competitors in the Parcel Market



Heavyweights:

Massive shippers accounting for the bulk of the shipping market. They tend to have a lot of experience and momentum as well as significant fixed costs.

Regional Warriors:

Shippers with strong presences in small geographic areas. They are often in the most profitable markets.

Brick-to-Ship:

Retailers with physical locations which ship directly from brick-and-mortar stores. Currently mostly work with big, hard-to-ship items, but this could change.

Internet

Powerhouses:

Huge online retailers who now use a variety of shipping mechanisms to ship their goods, but are eager to move into shipping to rein in costs.

Contract Carriers:

Carriers relying on contract workers, typically paid by the package. These services are most commonly found in high-profit locations.

Algorithm Upstarts:

Services using mobile apps supported by algorithms and flexible labor strategies to keep fixed costs low.

**Figure 3:
The Fierce
Competition of
The Parcel Market**

As the top provider of low-cost, universal last-mile delivery, the Postal Service plays a critical role in the package delivery market, a role that competitors and customers alike rely on.

store may be brick-and-mortar stores' latest attempt to compete with e-retailers by exploiting their physical network. Lacking the transportation and logistics infrastructures that e-retailers rely on, brick-and-mortar stores can leverage their stores' physical proximity to their customers to more easily provide services they demand. By shipping from their stores, they can reduce the costs of these services, helping them stay competitive and reducing their reliance on long distance package shippers.

4. Delivery companies rely on each other even as they compete for business. The panelists also discussed the implications of the Postal Service being the industry's main provider of universal last-mile service. Package delivery companies are in a complex relationship with one another, as they are often each other's customers as well as competitors. The Postal Service uses FedEx and UPS for air transportation, and the Postal Service completes final delivery of many lightweight packages for FedEx, UPS, and Amazon. In fact, the Postal Service delivers nearly two-thirds of all lightweight, business-to-consumer packages in the delivery industry to their final destination.¹³ As the top provider of low-cost, universal last-mile delivery, the Postal Service plays a critical role in the U.S. economy. However, while private companies' main goal is to make profit, the Postal Service must fulfill its Universal Service Obligation (USO) as well. The Postal Service's nationwide network was built to meet the USO, and its competitors rely on it for last-mile delivery to their customers when delivery points and routes lack the density to be profitable.

5. Consumer demand for shipping services and features is evolving and the power of recipient customers is growing. They are placing increasing pressure on e-retailers and package

delivery companies to meet their evolving demands. Consumers are starting to flex their economic muscles, demand information, and seek enhanced features and services such as directing the time and place of delivery. They want the power to exercise control over their purchases. So far, consumers demand low prices more than anything else, but this may change. Customers also want to track their shipments and control the time and place of their deliveries. Moreover, simply seeking effective ways to meet consumers' current needs may be inadequate, as these needs are changing rapidly. The nature of individuals' delivery options may change in ways unknowable at present, and customers may demand that new alternatives be offered to them in the near future. As with First-Class Mail, we expect that postal customers — whether businesses or individuals — who grow dissatisfied with their service and find suitable alternatives would be unlikely to return. The Postal Service may lose such customers if it cannot satisfy their evolving demands.¹⁴

As the package delivery marketplace continues to change, services and features that were standard in the past will not be competitive in the future. The panelists consistently mentioned that many consumers expect free shipping, to receive their orders in 2 days, and that offering modern features and services is the price of doing business (see "The Price of Doing Business" sidebar).

6. Commoditization is a constant challenge. Growing customer demands and increased competition in last-mile delivery could commoditize and weaken the Postal Service's main advantage. Although FedEx and UPS increased their prices in 2015, commoditization could result in downward pressure on shipping prices for all in the long term.¹⁵ The overall commoditization of the parcel market, spurred by

13 OIG, *If It Prints, It Ships: 3D Printing and the Postal Service*, Report No. RARC-WP-14-001, July 7, 2014, https://www.uspsoig.gov/sites/default/files/document-library-files/2014/rarc-wp-14-011_if_it_prints_it_ships_3d_printing_and_the_postal_service.pdf, p.12

14 OIG, *Declines in U.S. Postal Service Mail Volume Vary Widely Across the United States*, Report No. RARC-WP-15-010, April 27, 2015, <https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-010.pdf>, p.13.

15 UPS and FedEx increased rates by 4.9 percent and 5 percent, respectively. See, "Rate Hike May Trigger FedEx (FDX), United Parcel Service (UPS) Diaspora," *Insider Monkey*, January 5, 2015, <http://www.insidermonkey.com/blog/rate-hike-may-trigger-fedex-fdx-united-parcel-service-ups-diaspora-337282/>. Specifically, UPS and FedEx also applied dimensional weight pricing to ground packages measuring 3 cubic feet or less. See, for example, "FedEx, UPS Recalculate, Raise Rates," *DailyFinance*, December 31, 2014, <http://www.dailyfinance.com/2014/12/31/fedex-ups-recalculate-raise-rates/>.

The Price of Doing Business

Mr. Reblin told a story about needing to develop a service that a prospective customer required — but he hoped he never had to use.

A pharmaceutical company required package intercept services in case of error. The pharmaceutical company hoped it would never need to use it, and the service would be unlikely to generate much revenue. Nevertheless, having that capability was necessary to get the customer's business.

free and cheap shipping from large retailers like Amazon, could become a significant threat to traditional package shippers.

The OIG's white paper, *Package Services: Get Ready, Set, Grow!*, suggested ways for the Postal Service to avoid this scenario. Companies fight commoditization on a daily basis, and can avoid it by differentiating their products and demonstrating value to consumers. The industry is doing just that, by looking at potential ways to distinguish their services. One example that the Postal Service has been developing, the My USPS account system, would allow households to sign up for online accounts

through which they can manage their package deliveries.¹⁶ The system would allow package recipients to track their packages, have missed deliveries redelivered, and authorize carriers to leave packages at their door. FedEx and UPS currently offer similar services to their customers. However, the Postal Service can distinguish this service from its competitors' versions through measures such as leveraging its intelligent mail barcode, extensive network of retail post office locations, and last-mile capabilities.

7. The Postal Service's network is its key advantage in package delivery. The forum kept returning to the Postal Service's primary comparative

advantage in offering modern package services and features — its network. The forum stressed the balance of cost efficiency and additional services and features. In terms of the former, the postal network is cost and delivery efficient for many reasons including that it has traditionally been a shared-cost network. The Postal Service's delivery network reaches nearly every residence in the country 6 days a week. Delivering packages on these existing routes creates a natural cost advantage that all customers (both individuals and private sector companies) and the general U.S. economy benefit from. Nonetheless, measures such as grocery delivery pilots and dynamic routing for packages may be valuable in enhancing the Postal Service's existing systems.

However, the network was designed around the efficient delivery of hard-copy letter mail, not package delivery or new package services. A shift in focus from hard-copy communication toward package delivery could require changes in the way the network operates. Delivery and e-commerce companies are already highly selective about which deliveries they will make themselves and which they will enter into the Postal Service's network. Every package shipping company has access to the postal network, using it whenever it is more profitable for them.¹⁷ Such "cream skimming" varies in practice based on the structure of each company's network. However, the Postal Service's last-mile capability remains, for now, a critical asset. Its customers continue to rely on it, and frequently implore the Postal Service to ensure that its last-mile service remains strong.

A specific example of a postal customer that relies on last-mile service is Amazon. Amazon wants to accelerate the shift from traditional brick-and-mortar retail to e-commerce — and to play a dominant role in this transition.

¹⁶ Post & Parcel, *USPS Developing Mail and Package Notification Services*, May 19, 2015, <http://postandparcel.info/65152/news/it/usps-developing-mail-and-package-notification-services>.

¹⁷ A recent example is a flash-sale retailer moving the majority of its ground shipping volume from UPS to a consolidator, which then uses the Postal Service for final delivery only. "Gilt diversifies its shipping strategy," *Internet Retailer*, April 7, 2015, <https://www.internetretailer.com/2015/04/07/gilt-diversifies-its-shipping-strategy>.

¹⁸ Nonetheless, Amazon building its own sorting centers and evolving into a same-day delivery service (via AmazonFresh) could turn it into a competitor to UPS and FedEx. See, for example, "Crunch Time for FedEx and UPS as Last-Minute Holiday Shipping Ramps Up," *The New York Times*, December 21, 2014, http://www.nytimes.com/2014/12/22/business/crunch-time-for-fedex-and-ups-as-last-minute-holiday-shipping-ramps-up.html?_r=2, and "AmazonFresh Is Jeff Bezos' Last Mile Quest For Total Retail Domination," *Fast Company* August 5, 2013, <http://www.fastcompany.com/3014817/amazon-jeff-bezos>.

If Amazon succeeds, there might be enough volume for all.¹⁸ Meeting the needs of this level of volume will require extensive resources. Amazon has taken warehousing, distribution, and sorting onto itself, but enters some packages into the Postal Service for last-mile delivery. This indicates that Amazon sees the Postal Service as filling a key role, one it would rather pay for most of the time than attempt to fill on its own.

Amazon sometimes delivers its own packages where it makes sense and could expand these services in the future, so package delivery companies need to be aware of any developments and the desirable price points of such customers. However, the Postal Service's current universal last-mile delivery service remains unmatched. The Postal Service should consider that value when it prices its products. Growing revenue






from package delivery can be one key way to ensure the future viability of the Postal Service, and efforts to be competitive on pricing should not override the Postal Service's need for financial stability.¹⁹

The Postal Service's network is also a key advantage in avoiding and minimizing the impact of nondeliveries and misdeliveries Table 1 lists some of the the most common complaints about package delivery²⁰. These both frustrate the consumer and add additional costs to the package delivery company, so avoiding them is crucial. Developing the ability to deliver to consumers efficiently and consistently on the first attempt represents a major opportunity to meet an outstanding customer need. Ways to accomplish this might include alternative delivery points such as parcel lockers or giving consumers the ability to redirect

or provide specific delivery instructions. In the case of very small parcels, the Postal Service's network of mailboxes is a fundamental advantage. The potential delivery receptacle of the future, a larger and digitally enabled mailbox that can handle and secure packages, is a promising solution.²¹ Such developments share the goals of enhancing consistency, convenience, and security while also potentially adding new customized features.

8. Meeting the current challenges requires innovation. The future of package delivery may be unrecognizable from its current state; the development of new capabilities and infrastructures, driven by customer demand, will define it. As the decline in the volume of traditional hard-copy messages continues, innovation in package delivery will dominate.²²

**Table 2:
Package Delivery
Innovations**

Same-Day Delivery		Consumers receive their orders on the day that they place them. While it is not currently a heavily used product, Gary Reblin of the Postal Service believes it is necessary to offer same-day delivery as a part of a well-rounded offering of services.
Drones		Small computer-controlled machines that can fly through the air to deliver packages. They may be "based" in mobile trucks with charging stations or in local warehouses.
Parcel Lockers		Boxes with locks that allow users to safely receive parcels in convenient central areas. They are very popular in Europe.
Local Distribution Centers		Smaller warehouses located in communities that allow distributors to get items to consumers quickly.
Crowdsourced Delivery		Delivery by populace. A mobile application uses an algorithm to determine if a fellow customer is going by the house of someone with a parcel. They deliver the package for a small fee or other incentive.

Source: OIG, Package Services: Get Ready, Set, Grow!

19 This is also why the Postal Service should be sure to continue to set good terms for its negotiated service agreement contracts (NSAs) and manage them effectively. See GAO, *U.S. Postal Service: Improved Management Procedures Needed for Parcel Select Contracts*, Report No. GAO-15-408, April 23, 2015, <http://www.gao.gov/assets/670/669822.pdf>.

20 Accenture, *Global Consumer Control Findings 2014*, <http://postalvision2020.com/wp-content/uploads/2014/04/enabling-consumer-control-%E2%9080%93globalperspectives.pdf>, p.10.

21 The Postal Service is studying the delivery receptacle of the future, taking into account many factors including the size of packages and any impact on direct mail response rates.

22 For example, Canada Post is hoping that a focus on its package delivery business can offset its substantial declines in letter volume. See Barrie McKenna, "Canada Post head makes big bet on his 'winning horse,'" *The Globe and Mail*, May 24, 2015, <http://www.theglobeandmail.com/report-on-business/rob-commentary/canada-post-head-makes-big-bet-on-his-winning-horse/article24582879/>.

The number of packages weighing less than one pound is nearly equal to the number of all other packages in the postal network.

Some recent innovations include parcel lockers, customer pickup, same-day delivery, 7-day delivery, crowdsourced delivery and shipping, and ship from store, just to name a few.²³

Innovations such as these either complement traditional delivery, enhancing last-mile features and services, or supplant traditional delivery, increasing competition for the last mile.

With the pace of change in the market and the development of new technology, the Postal Service's existing strengths, though great, may not sustain it indefinitely. It must continue to monitor technological developments and seek to develop additional products and services to succeed. Technological progress has left many legacy industries flatfooted: in the United States, major taxi cab companies thought for years that their monopoly over taxi medallions and regulatory capture of city taxi regulations would ensure years of success within the status quo. Companies like Uber and Lyft disrupted this system by linking low-cost, crowdsourced labor with mobile, location-based applications and dynamic pricing. These innovations allowed the new entrants into this market to compete with existing companies by aggressively pricing their services and filling geographic gaps in coverage. The Postal Service's efforts

to develop new products and anticipate the developing needs of its customers will help it meet those needs and avoid being left behind as the industry evolves.

Delivery companies will be unlikely to succeed if they cannot keep up with the pace of package volume growth. The forum included a discussion of ways the Postal Service and other companies are meeting some of the challenges that have accompanied rapid growth in package volume. One thing the Postal Service is pursuing is an increase in its capability and automation at delivery units — the beginning of the last mile network. The Postal Service has invested in automated parcel sorters and overhead scanners. The number of low revenue packages weighing less than 1 pound is almost equal to the number of all other packages in the postal network, so it is important to process these as efficiently as possible. The Postal Service's investments in automation and scanning will help process this increased volume of lightweight packages. The scanners add capacity and help determine where the Postal Service should add labor during peaks in volume. Likewise, package delivery companies continue to invest in databases with addresses and delivery preferences, compiling the data they need to meet the needs of their

**Table 1:
Inconvenient Times and
Packages Left Unattended
Are Top Reasons for a
Poor Package Experience**

Main Reasons for a Poor Package Experience	
▪	Package delivered at inconvenient time
▪	Package left unattended
▪	Package lost or damaged
▪	Package not delivered on time
▪	Unable to receive package at home
▪	Signature required for package
▪	Inconvenient hours or location of pickup facility
▪	Package returned to sender too quickly
▪	Delivery instructions not followed

Source: Accenture, *Global Consumer Control Research Findings 2014*.

²³ Mr. Kellison noted that many consumers order online in the evening, so same-day delivery may not be realistic in that case and limited to a small audience. Next day delivery may be most realistic, logistically feasible, and likely to be offered at a reasonable price. In that light, the Postal Service is expanding its market test of same-day delivery that offers delivery between 4 p.m. and 8 p.m. if orders are placed by 2 p.m. "US Postal Service to Expand Same-Day Delivery Test," EcommerceBytes.com, January 6, 2015, <http://www.ecommercebytes.com/cab/abn/y15/m01/i06/s03>.

customers and making the data available to the right employees.

Technology and databases are necessary, but they may have limits including restrictions on sharing databases

between delivery companies. Such technology is an imperfect substitute for local carrier knowledge. The Postal Service's carriers have an immense store of tacit knowledge of their routes and consumers. Although some may view labor as

a cost when compared to technology or other substitutes, this very personal knowledge based on going to every house every day can be a profound advantage when customizing physical delivery to every individual's preference.

A Look Ahead

Package delivery is an area that merits close monitoring, one that will only grow in importance over time. The Postal Service must continue to meet the demands of its customers, develop new methods of doing so, and adapt to the changing behaviors of customer and competitor alike. There is a great deal of potential revenue at stake, and the public's needs for effective package delivery will continue to grow. Despite increased competition, it may be that there is potential room for all in this sector as package volume increases so rapidly. Amazon remains a powerhouse in the industry, able to take actions so significant that they shape the marketplace for everyone. Other major companies may have even greater effects in the future. Alibaba, China's biggest e-commerce company, claimed the title

for largest global IPO in history, at \$25 billion, last September.²⁴ Its market cap exceeds \$200 billion, at times exceed the market caps of major American retail companies, including Walmart.²⁵ Alibaba is a dominant player in e-commerce worldwide, but has not yet had a major presence in the United States. That could change. Still, threats from companies seeking to duplicate the Postal Service's main advantage — its nationwide last-mile network — are critical but do not seem imminent given the difficulty and expense required to develop and deploy such a capability.

The Postal Service must continue to leverage its network as much as it can, extracting as much value from it as possible. However, this will be necessary but insufficient: as the industry and customers' needs develop, the Postal Service

must always look ahead, finding new ways to succeed. Value-added services, quickly becoming standard in the industry, are one such possible way ahead, but remain a challenge given package delivery's low prices and increasing costs. In any event, simply trying to offer the lowest prices may be insufficient and counterproductive. Fortunately, the opportunities to earn profitable revenue are growing. Future work on this topic could examine the new and evolving trends in the industry. Critically, these must include close looks at customer preferences as they evolve. Keeping up with this subject will remain a challenge for the Postal Service, other players in the industry, and the OIG, but rarely has the Postal Service faced such an important challenge and opportunity.

²⁴ "Alibaba Claims Title For Largest Global IPO Ever With Extra Share Sales," *Forbes*, September 22, 2014, <http://www.forbes.com/sites/ryanmac/2014/09/22/alibaba-claims-title-for-largest-global-ipo-ever-with-extra-share-sales/>.

²⁵ "Alibaba Group Holding Ltd ADR," Morningstar, Inc., <http://www.morningstar.com/stocks/XNYS/BABA/quote.html>, and "Alibaba's market cap passes Wal-Mart as shares hit new high," *Fortune*, October 28, 2014, <http://fortune.com/2014/10/28/alibaba-market-cap-passes-wal-mart/>.

Panelist Biographies and Highlighted Remarks

Gary Reblin

Mr. Gary Reblin was named vice president of New Products and Innovation in December 2012. He is responsible for product development for all mail and shipping products as well as innovation as USPS integrates with emerging technologies. A 22-year postal veteran, Mr. Reblin has led many successful product and service innovations, including developing most of the popular Flat Rate and Regional Rate Products and Every Door Direct Mail. He was previously the manager of Intelligent Mail Planning and Standards, where he led the Postal Service's efforts to upgrade its technical infrastructure and develop the Intelligent Mail barcode, which has enabled the Postal Service to identify and track every piece of U.S. Mail.



In the forum, Mr. Reblin noted several changes in the package shipping market, and some of the steps the Postal Service is taking to remain competitive. He noted that e-tailers are decentralizing and locating their fulfillment centers closer to their customers. He also stated that one of the biggest trends going on in the industry right now is brick-and-mortar retail locations shipping directly from stores. He spoke about some of the Postal Service's advantages in the market, including its efficient shared-cost network and dominance in the final delivery of small, lightweight packages that make up a huge portion of its package volume. Given the development of the market and competitive pressures, Mr. Reblin said that the Postal Service does not intend to rely solely on the existing system. Offering customers the modern features and services they ask for, as well as creating new products like Sunday delivery, will help the Postal Service to compete in the dynamic package delivery market.

Sandy Glick

Mr. Sandy Glick is a co-founder and Vice President of SLS Consulting with over 20 years of consulting experience, 17 of which have been focused on postal issues. Mr. Glick is a consultant to the Parcel Shippers Association, and his clients include mailers and trade groups that use all postal products, including both mailing and shipping services. His work has included providing expert testimony before the Postal Regulatory Commission on numerous topics, including rate design, cost estimating, worksharing, mail preparation, and operational issues.



Mr. Glick discussed the difficulty companies face in the balance between achieving efficient costs and providing the services and features that customers demand. Improving the accuracy of deliveries – ensuring that consumers receive their shipments efficiently on the first try – represents a major opportunity for package shippers, and innovations such as an advanced mailbox that can store packages securely are promising ways to satisfy customers. He acknowledged that today, customers demand free shipping, but increasingly also demand additional services, and agreed with Mr. Reblin that part of package shippers' price of doing business is offering the modern features that customers demand.

Keith Kellison

Mr. Keith Kellison is the Senior Vice President for Global Public Affairs, representing UPS on Capitol Hill, with an emphasis on Postal, Alternative Fuel Vehicles, and Energy/Sustainability. In 2009, Keith assisted in establishing various programs with the US Postal Service, including SurePost and Retail, and became the primary UPS Small Package liaison with the Postal Service. In 2012, he was transferred to the UPS Public Affairs Group in Washington DC.



Consumers were a highlight of Mr. Kellison's comments as well. He noted that they want to feel in control over their purchases as they are processed and delivered, and that package shippers should take note of their ordering habits. For example, many consumers complete their online purchases in the evening.²⁶ Mr. Kellison also discussed the challenges of commoditization, which must be fought off on a daily basis, and the impact of Amazon on the industry. Amazon offers its customers competitive shipping options and enters their packages into whatever delivery network makes sense, including completing its own deliveries in certain cases. This will require for package shipping companies to differentiate their services which maybe challenging. However, with the sheer volume that Amazon purchases create, Mr. Kellison said that Amazon's success may "raise all boats" in the industry.

²⁶ Mr. Kellison noted that consumers expect the Postal Service will comply with the same customs and security requirements as the private sector. He also noted that it is important that the Postal Service ensure that parcel delivery is profitable, especially if dedicated assets are purchased to enable such delivery.

Response From USPS Management

GARY C. REBLIN
VICE PRESIDENT
NEW PRODUCTS AND INNOVATION



July 6, 2015

MOHAMMAD ADRA
ASSISTANT INSPECTOR GENERAL FOR RARC

SUBJECT: FINAL DRAFT PACKAGES SERVICES FORUM RECAP

The United States Postal Service has reviewed and acknowledges the Recap of the Package Services Forum report. We will further consider and look into the opportunities.

This report and managements' response does not contain information that should be exempt from disclosure under the Freedom of Information Act.

A handwritten signature in black ink, appearing to read "Gary Reblin", with a stylized flourish at the end.

Gary C. Reblin

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