The Postal Service and the Evolution of PC Postage

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Executive Summary

The Postal Service has long sought to promote "alternative access" to its products and services by giving customers a way to mail and ship items without going to a post office. One of the ways it has done so is by enabling customers to pay for and print U.S. postage through their home or business computers. PC Postage is used by small, work-at-home businesses mailing letters, as well as large companies shipping many thousands of packages a month.

The Postal Service relies on a small set of private companies, referred to in this paper as PC Postage providers, to build, maintain, and distribute the software that customers use to buy and print postage. These providers are the first point of contact for these customers, and are therefore conduits to about $6 billion in annual revenue for the Postal Service.

From 1920 to 1999, the primary way to obtain postage outside of a post office was through a meter. But in the 1990s, the Postal Service authorized two startups, E-Stamp and Stamps.com, to offer postage through the internet. E-Stamp went out of business as the dot-com craze was waning, but Stamps.com survived.

From 2001 to 2017 there were only three providers: Stamps.com, Endicia, and Pitney Bowes. The market consolidated in 2015 when Stamps.com purchased Endicia, its main rival. In 2018, these two entities controlled ████████ of all PC Postage customers. Postal officials state that no other companies applied to become a PC Postage provider until ████████, which became the fourth and last provider in 2017. ██ ██ ██ ██ ██

The Postal Service said the halt was due to its desire to review the onboarding process, but to date little measurable progress has been made. No one is overseeing that review and no personnel have been specifically assigned to it. The application process therefore remains closed to new providers.

Highlights

Originally a niche service for small businesses to print letter postage, PC Postage has grown into a $6 billion industry used primarily by large package shippers.

In 2018, Stamps.com and its subsidiary Endicia together controlled ██████████ of all PC Postage accounts.

The Postal Service stopped accepting new provider applicants in November 2017 to conduct a review of its onboarding process. This review has made little progress.

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While USPS created three of its own PC Postage functional alternatives, it has not widely promoted them.

The Postal Service has three proprietary alternatives that offer electronic postage. All come with no usage fees for customers. The Electronic Verification System (eVS), Click-n-Ship, and ePostage each provide postage shipping labels to different types of package customers. These solutions work well, ███

The OIG Recommends that the Postal Service:

- Complete the internal review of the PC Postage provider onboarding program by ███

- ███

- Work with the Postal Regulatory Commission (PRC) to determine if the shipper-specific ██

- Work with PC Postage providers to ███

- Assign a product manager ██

Observations

Introduction

At the dawn of the internet age, mailers were introduced to a new method of paying for U.S. postage online and printing it from their home computer. Called PC Postage, it earned headlines for the way it utilized the nascent internet to provide a valuable service. It was the first new form of postage since meters were introduced in 1920.

Over the next 20 years, PC Postage grew into a major revenue channel for the Postal Service, totaling about $6 billion in fiscal year (FY) 2018.[1] Access to this channel is controlled by a small number of authorized companies, known as PC Postage providers, whose software connects the mailers with the Postal Service. PC Postage providers have also helped the Postal Service improve its competitiveness in the package shipping industry.

As it grew in importance, the PC Postage space also changed in important ways. While it was originally focused on letters, packages dominate the space today. The average customer is also larger than it used to be. This created complexities in the triangle of relationships between the Postal Service, providers, and other entities. Some of these changes and complexities have resulted in increased costs for the Postal Service and lack of choice for its shipping customers.

History of PC Postage

Meter Fraud Prompts a Search for Alternatives

The Postal Service did not originally set out to create PC Postage. Rather, the idea was brought to the Postal Service by outsiders as a solution to a security concern involving postage meters.

In the early 1990s, the Postal Service became aware that mechanical postage meters were being tampered with, causing it to search for a more secure alternative. Two outside entrepreneurs proposed the idea of duplicating meter functionality with a home computer and printer. One of them would go on to found the first PC Postage company, E-Stamp, while the other founded Endicia.

Later, in response to a 1996 Request for Proposal, Stamps.com (then called Stampmaster) also proposed a PC Postage solution. All of the proposed solutions generated the same output: an Information Based Indicia (IBI) in the form of a barcode that could be printed on a label or directly on an envelope. The IBI is still in use today. It can be read by Postal Service scanners and contains information like the postage amount, recipient's ZIP Code, and date of printing.

There was talk at the Postal Service of building out its own proprietary PC Postage function, which the major private carriers chose to do, but the proposal was quickly abandoned. The Postal Service did not want to invest resources into creating technology that was being developed by others at no cost to them. The Postal Service and the provider industry worked very closely together from the beginning. The Postmaster General during the creation of PC Postage, Marvin Runyon, left the Postal Service in May 1998 and joined Stamps.com's Board of Directors nine months later. Shortly thereafter he became interim Board Chairman before resigning from the board in 2001.

> *There was talk of building out a PC Postage-type function internally, but the proposal was quickly abandoned.*
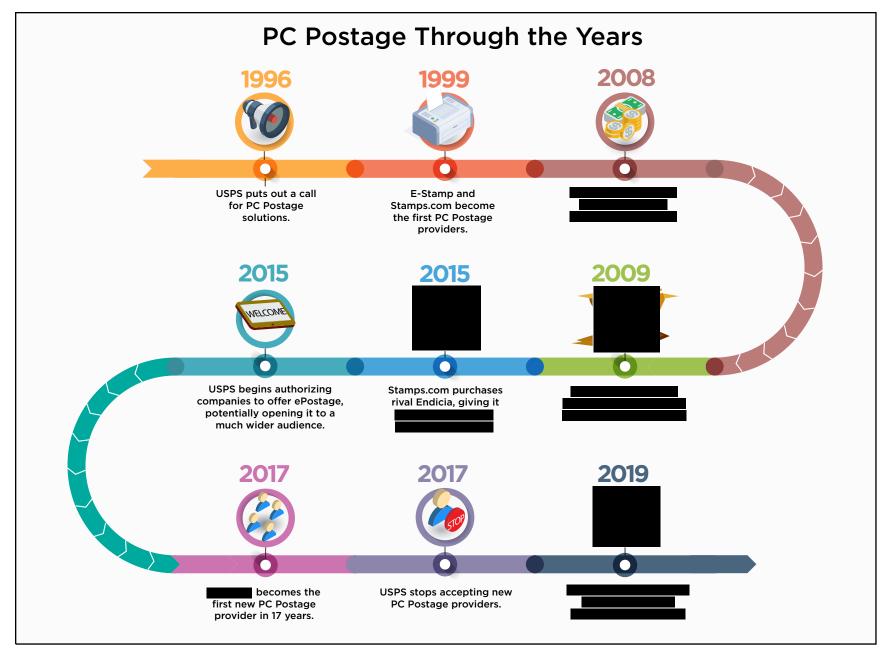
PC Postage Begins

In 1999, the Postal Service authorized E-Stamp and Stamps.com to offer their products to the public. Both companies started massive advertising campaigns to promote their products to a national audience.[2] By the early 2000s, the dot-com craze was waning and investment money for tech startups was drying up. Though there was a demand for PC Postage among small businesses and home offices, the revenue from those customers was not proving sufficient to meet PC Postage providers' financial needs.[3] E-Stamp exited the PC Postage business in 2001. Stamps.com survived largely because it had raised significant extra capital during its secondary public offering.

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1   Technically the $6 billion figure represents sales of postage through PC Postage, not realized revenue. The Postal Service does not count it as revenue for accounting purposes until the postage is used. However, the Postal Service's own financial documents refer to PC Postage sales totals as "revenue," so the OIG has chosen to use "revenue" throughout this report for consistency and clarity.

2   Stamps.com had a national television ad campaign featuring Bob Newhart and E-Stamp had a commercial during the Superbowl.

3   Stamps.com and E-Stamp each had thousands of customers.

Figure 1: Timeline of Significant Events in PC Postage

PC Postage Through the Years

1996
USPS puts out a call for PC Postage solutions.

1999
E-Stamp and Stamps.com become the first PC Postage providers.

2008
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2015
USPS begins authorizing companies to offer ePostage, potentially opening it to a much wider audience.

2015
Stamps.com purchases rival Endicia, giving it ███████████

2009
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2017
██████ becomes the first new PC Postage provider in 17 years.

2017
USPS stops accepting new PC Postage providers.

2019
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Source: OIG analysis.

NeoPost and Pitney Bowes, two large meter vendors, were also approved to sell PC Postage. NeoPost closed its PC Postage arm in 2001. Pitney Bowes moved cautiously, fearing that PC Postage could disrupt the company's existing meter business. At the time, PC Postage was targeted primarily at letters – the domain of postage meters – not packages.

Important Trends Take Hold

PC Postage started as a niche business focused on letter mail. That is no longer the case. It has evolved in important ways that have changed the nature of the Postal Service's relationship with the industry.

- **A Shift from Letters to Packages**
  When PC Postage began in the late 1990s, the mailing market looked much different than it does today. Business-to-Consumer (B2C) package shipments, a large component of the Postal Service's volume today, had a much smaller volume. PC Postage providers were primarily interested in helping customers send letters through First-Class Mail. Endicia was the first provider to focus on packages. Stamps.com mainly focused on letter mailers. That began to change as ecommerce c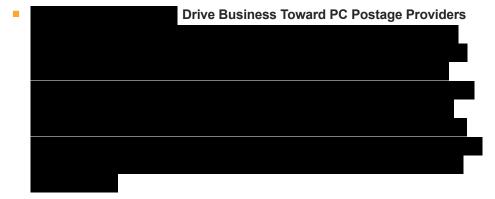ame to prominence in the 2000s. ████████ ██ ██

- **A Shift from Small to Large Customers**
  As the product profile changed from letters to packages, the typical customer for PC Postage started to change as well. The large amounts of shipping revenue being generated by ecommerce companies made them more attractive than home offices and small businesses. In a move supported by the Postal Service, PC Postage providers leveraged their technical expertise to appeal to these companies. ██████████████████████████ ██ ████████████████████████████

- **PC Postage Becomes a Major Revenue Stream**
  There has been a sharp rise in the volume and revenue passing through PC Postage. In FY 2004, it accounted for $275 million in revenue, increasing to $1.9 billion in FY 2009. That figure rose to about $6 billion in FY 2018.[6] Such rapid growth has turned PC Postage from a niche revenue channel into one of great importance.

- ████████████ **Drive Business Toward PC Postage Providers**
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Benefits of PC Postage

PC Postage has been beneficial to the Postal Service in a number of ways (Figure 2). First and foremost, it has been widely credited with helping to grow the Postal Service's package business. PC Postage providers have salesforces that can help convert some small- and medium-sized businesses from other carriers to USPS. ██ ███████ PC Postage providers often offer free postage, free trial periods, free

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4   OIG analysis of Postal Service data.

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scales, and free printers to get customers in the door and educate them about the advantages of shipping with the Postal Service.

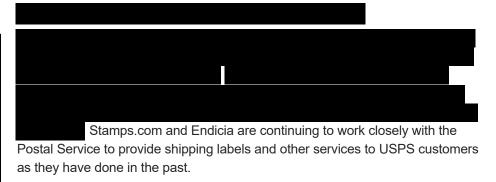**Figure 2: Benefits to USPS of PC Postage Providers**

VALUE OF PC POSTAGE PROVIDERS

PC Postage providers offer several benefits to the Postal Service and its customers.

Benefit	Value to USPS
Customer Service	Help customers resolve technical issues and offer ongoing support throughout the customer relationship.
Alternative Access	Allow customers to access postage 24/7 even when post offices are closed.
Convenience to Customer	Quick onboarding, ease of use, and tech integration for ecommerce and shipping management.
Sales and Marketing of Postal Products	Education about USPS products to encourage trial and adoption.

Source: OIG analysis

PC Postage gives smaller customers a way to access indicia and shipping labels no matter the time of day and without a trip to the post office. For larger customers, PC Postage providers offer customer service that the Postal Service does not currently offer. This includes everything from answering questions over the phone to performing complex software integration with a shipper's warehouse management system. Providers update rate tables automatically through their software and can make customers aware of how rate changes should affect their mail mix.

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████████████ Stamps.com and Endicia are continuing to work closely with the Postal Service to provide shipping labels and other services to USPS customers as they have done in the past.

Limited Number of PC Postage Providers

The rise in package shipments, especially for B2C ecommerce, has caused the PC Postage market to grow significantly since its inception. However, this has not resulted in an increase in the number of PC Postage providers. The number of providers serving this market has remained low even as the market's revenue has greatly increased.

The Number of PC Postage Providers Has Shrunk Over Time

Five companies were approved by the Postal Service to become PC Postage providers in 1999 and 2000: E-Stamp, Stamps.com, Pitney Bowes, PSI Systems (later Endicia), and NeoPost. Shortly thereafter, E-Stamp went out of business and NeoPost decided to no longer provide PC Postage. This left only three PC Postage providers. No new providers were added until ██████████ in 2017. The Postal Service says it received only one other recent applicant, but could not recall whether other companies had expressed interest in the past.

The Two Largest Providers Join Forces

Today's lack of competition can be partially traced to the consolidation of the market under the Stamps.com umbrella. ████████████████████████
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Stamps.com and its subsidiary Endicia own ▮▮▮▮▮▮▮ of all PC Postage accounts.

In 2014, Stamps.com began to expand its portfolio by purchasing ecommerce software providers ShipStation and ShipWorks.[7] Having previously focused on letters more than packages, these acquisitions gave them access to large ecommerce shipping customers. Then in 2015, Stamps.com bought Endicia, at the time the largest PC Postage provider by revenue. The consolidation effectively left only two PC Postage providers, Stamps.com/Endicia and Pitney Bowes. Stamps.com and Endicia in 2018 owned ▮▮▮▮▮▮ of all PC Postage accounts and ▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮ ▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮ Stamps.com, its subsidiaries, and its partners touch more than ▮▮▮▮▮ of all Postal Service domestic competitive revenue.[8]

When Stamps.com was still a startup, it pitched itself in part as an alternative to postage meters, a technology dominated by one company, Pitney Bowes.[9] ▮▮ ▮▮▮▮▮▮▮.[10]

The PC Postage Authorization Process is Costly and Time-Consuming

Any company that wants to become a PC Postage provider must first receive permission from the Postal Service. Once its application gets preliminary approval, it must build out its customer-facing software and services and integrate its back end with Postal Service systems before being granted final authorization. This process is long and rigorous, requiring a considerable commitment of time, money, and technical expertise. The technical requirements are spelled out in the Code of Federal Regulations (CFR). Among other things, the regulations permit the Postal Service to test and inspect a provider's records and facilities periodically to ensure compliance.[11] There are also computer security

requirements that potential providers must fulfill. These requirements were first put in place in the 1990s. When the Postal Service was writing the encryption rules, it used extremely high-end standards. They were believed to be necessary to convince stakeholders that PC Postage was secure.[12]

▮▮▮▮▮▮ the most recent provider to enter the market, spent three years meeting all of the standards. Though the approval process is intentionally deliberate, both ▮▮▮▮▮▮ and the Postal Service agree that three years was unnecessarily long, though each faults the other for most of the delays. The Postal Service said ▮▮▮▮▮▮ was, among other things, slow to respond to payment and documentation requests. ▮▮▮▮▮▮ cited a lack of institutional knowledge among postal officials about the proper onboarding procedures, likely owing to the fact that ▮▮▮▮▮▮ was the first new PC Postage provider in nearly 17 years.

▮▮▮▮▮▮ the most recent provider to enter the market, spent three years meeting all of the standards.

New Applicants are No Longer Being Accepted

That ▮▮▮▮▮▮ was the only new provider since 2000 is a testament to the high barriers in place since PC Postage's inception. But now the Postal Service has stopped accepting new applicants entirely, ensuring that the number of providers will remain very small for the time being. Officials say this is being done in order to review the onboarding procedures. ▮▮

Improving the onboarding process will, in theory, make it easier for applicants to be approved in the future. ▮▮▮

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7   It later bought two more, ShippingEasy and Metapack.
8   Postal Service data.
9   Stamps.com's then-CEO told The New York Times in 1999: ''We've learned there is a lot of pent-up demand by small business that is tired of being under the iron grip of a monopoly.'' Andrea Adelson, "Getting in on the Ground Floor in the Cyberpostage Market," *The New York Times,* February 18, 1999, https://www.nytimes.com/1999/02/18/technology/getting-in-on-the-ground-floor-in-the-cyberpostage-market.html.
10 Bill McAllister, "Their Meter is Running…PCs and the Postal Service Challenge the Mailroom Reign of Pitney Bowes," *The Washington Post*, August 11, 1996.
11 The technical rules are spelled out in 39 C.F.R. § 501.

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New Entrants Have Faced Patent Litigation

Once a company does make it through the approval process, it may be subjected to a lawsuit by one of the other providers. PC Postage has been fraught with intellectual property issues since its inception. Providers have sued one another over patent infringement. In fact, the first two PC Postage providers, E-Stamp and Stamps.com, were sued by Pitney Bowes at the outset of the industry.

The threat of lawsuits may have discouraged companies from attempting to enter the market. In the 1990s, the Postal Service created a reference book of existing patents that pertained to this space and found that there were already more than 700.

The Effects of Dominant Providers on the Postal Service

The lack of competition may be responsible for the lack of technological innovation in this space. PC Postage technology has not substantially changed over two decades. Former technologists from PC Postage providers and the Postal Service say that providers use older systems which tech companies consider outdated.

[13]

PC Postage providers charge customers a monthly subscription fee that usually starts under $20 and rises as the size of the user goes up. During the 2000s, some shippers complained about having to pay this fee to USPS-approved PC Postage providers in addition to paying for postage, especially since FedEx and

____description of confusion among some postal officials about PC Postage matches what the OIG experienced during its requests for information. In many cases, retired postal officials were able to answer OIG questions about PC Postage more effectively than current officials.

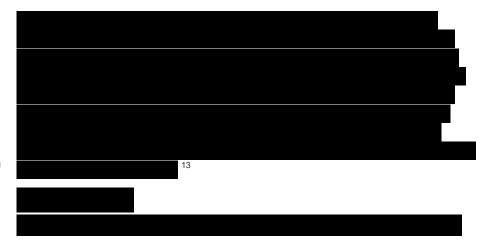Officials within these departments did not always agree on which aspects of PC Postage they are responsible for.

13 OIG interview with multiple industry stakeholders.

UPS offered their software for free.[14] ███████████████████████ ██ ██

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Source: OIG analysis of USPS data.

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Arrangements Between PC Postage Providers and Resellers

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█████████████████████████ they can hurt the Postal Service by reducing the rates that customers pay to it. In an attempt to prevent partners from undercutting its revenue, the Postal Service took the positive step in January 2019 of changing Priority Mail's pricing structure.[20] ██████
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> **..., they can hurt the Postal Service.**

Source: OIG analysis of USPS data.

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19 Postal Service analysis.
20 In January 2019, the Postal Service made the rates for Priority Mail's Commercial Base and Commercial Plus price tiers identical.█████████████████████████████████████
█████████████████ U.S. Postal Service, Price List: Notice 123, effective January 27, 2019, https://pe.usps.com/cpim/ftp/manuals/dmm300/notice123.pdf, pp. 13-14.

Customers therefore have less motivation to participate in these arrangements. The Postal Service is trying to further restrict these side arrangements, but it has not yet implemented those restrictions with its largest partners.

21 U.S. Postal Service, *Rule 39 C.F.R. Section 3050.60(f) Report for FY 2017 (Summary Descriptions)*, July 2, 2018, https://www.prc.gov/dockets/document/105682, pp. 16.12.

Figure 5: ███████████ **as Shown in NSA Worksheets**

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Imagine two companies that have Negotiated Service Agreements (NSAs) to ship their product through the Postal Service. Jill's Handbags uses PC Postage while Peter's Books uses free postage software from USPS. ████████████████████████████ ██ the NSA worksheets that USPS submits to the Postal Regulatory Commission will show the two NSAs as having identical costs.

	Jill's Handbags	Peter's Books
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Source: OIG analysis

Credit Card Fees

PC Postage customers are permitted to pay for postage by either credit card or automated clearing house (ACH) transfer.[23] While both have processing fees associated with them, ACH transfer fees are a tiny fraction of credit card fees. ███ ████████████████████████████████████

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[Text redacted].[27]

ACH is a much less expensive payment option than credit cards. [Text redacted]

Switching Customers from Credit Cards to ACH

If given the choice, customers generally prefer credit cards over ACH. Cards do not require immediate payment like ACH does, and many come with rewards like airline miles or cash back. For example, if customers had used a basic 1 percent cash-back credit card to pay for all PC Postage transactions in FY 2017, they would have earned about $60 million in cash back.

Given the customer preference, the Postal Service has long been advised to protect itself against excessive credit card fees. [Text redacted] It is common for businesses to use ACH to conduct financial transactions with trusted partners.[30] [Text redacted]

[Text redacted]

[Text redacted].

27 Postal Service data.
28 OIG analysis of Postal Service data.

30 ACH comes with some additional risk, since the merchant bears the burden in cases of payment fraud. In credit card transactions, the card companies promise to pay the merchant even in cases of fraud. [Text redacted]

ePostage, eVS, and Click-n-Ship: Alternatives to PC Postage

Twenty years ago, the Postal Service made a decision to outsource computer-generated postage. But since then it has created three of its own solutions to allow certain customers to generate shipping labels from their computers (Figure 6). Unlike PC Postage providers, the Postal Service does not charge users a fee.[34]

The first of the three internal offerings was Click-n-Ship, through which an individual can enter details about a single package on USPS.com and print out the accompanying label.[35] Then came an electronic manifest system that allowed high-volume shippers to pay for postage online for drop shipments. The Electronic Verification System (eVS) allowed large shippers to access shipping labels remotely. Then came Click-n-Ship, through which an individual can enter details about a single package on USPS.com and print out the accompanying label. Some years later, the Postal Service debuted ePostage, an eVS add-on built for small merchants selling goods through an online marketplace like Amazon or Etsy. ePostage allows the merchant to buy postage through their marketplace account, then print the labels and mail their packages.

Figure 6: PC Postage and USPS Alternatives

METHODS OF GENERATING SHIPPING LABELS ONLINE			
Along with PC Postage, the Postal Service now offers three alternative means for generating shipping labels outside of a post office.			
Category	**What it does**	**Intended Audience**	**Examples of Providers**
PC Postage	Enables mailers and shippers to print and pay for USPS postage online.	All shippers and some mailers	EasyPost, Endicia, Pitney Bowes, Stamps.com
eVS	Electronic manifesting system allows shippers to pay online for large drop shipments.	High-volume shippers	USPS, PostageMates, Neopost
ePostage	Enables shippers to buy postage through their account with a third-party platform, such as a marketplace.	Small merchants	USPS, Etsy, Shippo
Click-n-Ship	Allows customers to enter details about a single package on USPS.com and print out the corresponding label.	Individuals and very small shippers	USPS

Source: OIG analysis

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34 Large shippers do incur startup costs to integrate their systems with the Postal Service's.

USPS Offerings Have Advantages and Disadvantages Relative to PC Postage

eVS, Click-n-Ship, and ePostage have been around for years but have been limited by several factors. One is the lack of technical support from the Postal Service. Integrating a customer's back-end system with eVS is a complex process that can take a year or more.[36] As a sophisticated piece of software, it also requires diagnostic support. There is also a great deal of data to be mined and analyzed. The Postal Service is up front about the fact that it does not currently provide much help in any of these areas, as this would require additional costs on its part.[37] Customers generally need internal IT staff if they are to rely on eVS.

eVS, ePostage, and Click-n-Ship can only be used for certain types of packages. PC Postage, on the other hand, can be used for packages, letters and flats.

Another factor to consider is the difference in postage rates. By rule, eVS and ePostage customers pay Commercial Base Pricing (CBP) rates for postage, ███████ ██ Click-n-Ship customers used to pay CBP rates until the Postal Service raised it to the retail rate in 2016, ██████████████████████████████████

Despite the Postal Service publicly positioning its postage solutions as complements to PC Postage that simply address underserved segments of the market, PC Postage providers sometimes consider eVS, ePostage, and Click-n-Ship as competitors. In fact, Stamps. com's 10-K references multiple ways in which it considers the Postal Service a direct competitor.[40]

37 OIG interview with a former Postal Service executive.

39 OIG interview with Postal Service executive.

40 A) "We compete with online services available at USPS.com." B) "We compete with USPS private-labeled downloadable software and API (application program interface) solutions." C) "The USPS could introduce competitive programs or amend PC Postage requirements to make certification easier to obtain, which could lead to more competition from third parties or the USPS itself." D) "We compete with all of the alternate ways that consumers and businesses may access shipping and mailing services from the USPS, including the following: online services available at USPS.com; USPS retail locations; USPS kiosks; multi-carrier solutions; integrated web shipping solutions such as eBay/PayPal or Amazon.com; traditional postage meters; other USPS-approved PC Postage vendors; USPS permit manifesting solutions; and commercial retail locations that sell postage or shipping services (for example grocery stores, discount warehouses, small business mailing and shipping centers, office supply chains, and others)." U.S. Securities and Exchange Commission, *Stamps.com Inc. and Subsidiaries Form 10-K Annual Report for the Year Ended December 31, 2017,* February 28, 2018, https://www.sec.gov/Archives/edgar/data/1082923/000114036118010835/h10050811x1_10k.htm, pp. 9, 24, 27.

Other advantages of eVS and ePostage include: labels can be printed without an internet connection, they do not come with a monthly subscription cost, customer accounts are not charged until the package enters the mailstream, and users can integrate their back-end systems directly with the Postal Service instead of integrating with a middleman. Some customers find these internally generated products to be effective solutions but the Postal Service has not widely promoted them.

ePostage Enters a New Frontier

A recent development could open the Postal Service's ePostage offering to a larger audience. In 2015, the Postal Service licensed NeoPost, which was briefly a PC Postage provider in the early 2000s, to offer ePostage to third-party shippers. ePostage had previously only been available to shippers who were selling goods on a marketplace. This change could open ePostage up to more customers. Other shipping services companies have begun following NeoPost's lead; Shippo, PostageMates, and International Bridge received ePostage certification within the last two years. ████████████████████████████ ██ ████████████████████████████████████

Becoming an ePostage vendor may appeal to companies for whom becoming a PC Postage vendor did not. The approval process is far less onerous. ████ ██ ████████████████████████████████

OIG Recommendations

To address the various issues raised in this white paper, the OIG recommends:

Recommendation 1

The Mail Entry and Payment Technology Vice President complete the internal review of the PC Postage provider onboarding program █ ██ ████████████████████████████

Recommendation 2

The Acting Sales and Customer Relations Senior Vice President ██ ██ ████████████

Recommendation 3

The Pricing and Costing Vice President work with the Postal Regulatory Commission to determine if the shipper-specific ████████████████ ██ ████████████████

Recommendation 4

The Chief Financial Officer and Executive Vice President ████████ ██ ████████████

Recommendation 5

The Chief Customer and Marketing Officer and Executive Vice President ██ ██ ██

Conclusion

The PC Postage program spans over 20 years and has become a considerable source of revenue for the Postal Service. At the same time, it has morphed into a complex environment ████████████████████████ ██████████████████████████████. Furthermore, the Postal Service has created its own alternative offerings that generate postage shipping labels for free. In order to ensure that it is maximizing the benefits of PC Postage, the Postal Service should reexamine the program and address the areas that could be functioning better: ███████████████████████████ ██ ██

some of the issues have been alleviated. However, this is an important, complicated, and fast-moving space that requires continued evaluation and diligence.

Management's Comments

Management agreed that the Postal Service needs to give additional scrutiny to its business arrangements with PC Postage providers. However, it also felt that the white paper did not fully reflect some aspects of the shipping ecosystem that the Postal Service must take into consideration.

Management is critical of the OIG's characterization of ██████████ ██████████████████████████████████ It believes that ████████████████████████████████████

██ ██ ██ ██ ████

Management agreed with Recommendations 1 and 5. It agreed in principle with Recommendation 2 ████████████████████████████ ████████ Management said it disagreed with Recommendation 3, though it took the recommendation to be more prescriptive than the OIG intended. Management agreed with one part of Recommendation 4 ████████████████████████ ████████

Evaluation of Management's Comments

The OIG considers management's comments to be responsive. ██████ ██ ██ ██████████████████████████ Management's comments indicate that the Postal Service has reached many of the same conclusions as the OIG.

The OIG has added some clarifying language to the paper as appropriate to accommodate management concerns. In some instances, the OIG did not make the requested changes because it felt that they were unnecessary, contradicted information originally provided to the OIG, or were outside the scope of the paper.

There are also instances in which management overstates the OIG's conclusions. For example, management ████████████████████████ ██ ██ ███████████████████ As stated in Recommendation 4, the OIG wants the Postal Service ████████████████████████████████ Similarly, management's response to Recommendation 3 ██████████ ██ ██ ██ ████

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed.

Appendix: Management's Comments

SHARON OWENS
A/VICE PRESIDENT, SALES

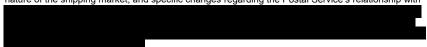**UNITED STATES POSTAL SERVICE**

May 14, 2019

FREDY DIAZ
ACTING MANAGER, OPS CENTRAL

SUBJECT: The Postal Service and the Evolution of PC Postage
             (Project No. 2018RARC011)

Postal Service Management appreciates the opportunity to comment on the revised version of the subject white paper. We appreciate the collaborative approach taken to this white paper, as evidenced by the changes OIG made since issuance of the first draft to reflect the rapidly evolving nature of the shipping market, and specific changes regarding the Postal Service's relationship with ███ ███████████████████

We do have concerns that certain aspects of the white paper do not fully reflect various aspects of the complex shipping ecosystem. Below are comments from the Postal Service regarding the contents of the report:
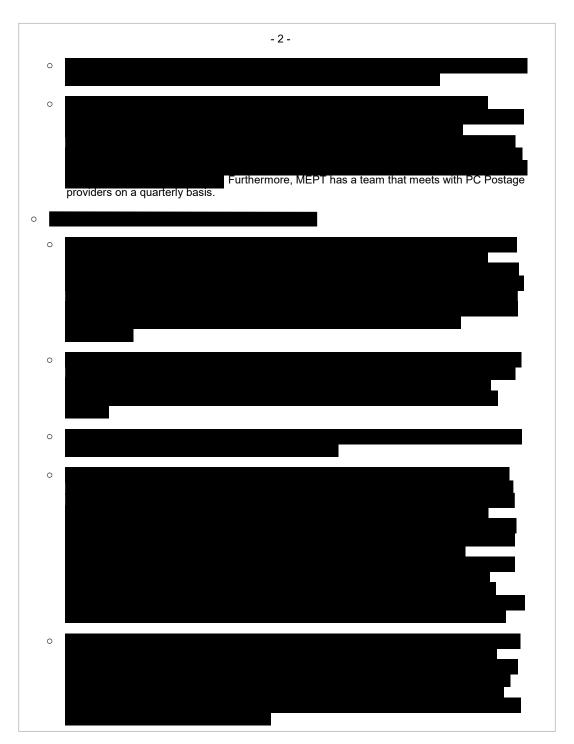
o   PC Postage provider onboarding. (*See pages ii, iii, pages 5-9.*)

   o   The onboarding process for new PC Postage providers is criticized in the report, ██ ████████████████████████████████████ However, the white paper fails to provide key context regarding the reasons the process took as long as it did.

   o   In particular, while the Report briefly acknowledges that there were issues on both sides that caused delays, ██████████████████████████ ████████

███ ███ ███ ███ ███

   o   All of these factors contributed significantly to the delay in onboarding ████████████ ████████████████████████████████████ Given this, the criticism about onboarding ████████ seems unfounded.

- ██

- ██ Furthermore, MEPT has a team that meets with PC Postage providers on a quarterly basis.

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- ACH versus credit card payment. (*See pages ii, iii, and 13-15.*)

  - The Report states that "ACH is a much less expensive payment option than credit cards" (page 20) but does not fully acknowledge the possible costs associated with ACH payment.

  - ▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮

  - Although credit card payment involves higher fees, credit card companies also assume the customer credit risk/bad debt risk and related expenses. With ACH payments, the risks fall on the Postal Service under the current PC Postage regulations.

  - ▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮

- Pros and cons of alternative to PC Postage. (See page ii and pages 15-18 and related Figures; section entitled "ePostage, eVS and Click-N-Ship: Alternatives to PC Postage".)

  - The Report criticizes the Postal Service for not widely promoting the key alternatives to PC Postage, which are eVS, Click-N-Ship, and ePostage. However, as the Report acknowledges, these payment methodologies are not a good fit for every customer and do have costs associated with start-up and maintenance.

- [REDACTED] Additionally, these alternate payment methods are not free to the Postal Service, as the Postal Service must provide sales and support services for these methodologies. In sum, PC Postage can meet different customer needs than eVS and ePostage.

- [REDACTED]

- [REDACTED]

- Page 17 states, "By rule, eVS and ePostage customers pay Commercial Base Pricing (CBP) rates for postage, while many PC Postage customers historically had access to lower rates because of arrangements between resellers and PC Postage providers." [REDACTED] In addition, as OIG recognizes, the ability of a reseller to offer lower CPP prices to PC Postage users who were only eligible for CBP prices has been eliminated with the Jan 2019 price change.

- Relationship between Resellers and PC Postage providers and value to USPS. (*See pages 1, 8, 9, 11.*)

- The paper also misses the opportunity to discuss further benefits of the PC Postage program.

- [REDACTED]

- PC Postage providers, as well as resellers, add value to USPS by offering integrations with many commonly used shipping software providers.

- In contrast to claims on page 8 that "lack of competition may be responsible for the lack of technological innovation in this space," PC Postage providers continually innovate in order to integrate with literally hundreds of existing software platforms. As noted above, PC Postage providers are continually development new functionality and keeping software current with price changes, other requirements, and changing customer needs.

The following is the response of the Postal Service to the OIG recommendation contained in the report:

Recommendation #1
Complete the internal review of the PC Postage provider onboarding program [REDACTED]

Management Response/Action Plan:
Management agrees.

- 5 -

Responsible Official:
Vice President Mail Entry and Payment Technology

Implementation Date:
11/07/2019

Recommendation #2

[REDACTED]

Management Response/Action Plan:

[REDACTED] Note, however, that we cannot verify if the industry does not fully and accurately comply with the data transmission requirements for PC Postage. We would not be able to exclude customers who previously used Retail.

Responsible Official:
Vice President Sales

Implementation Date:
11/07/2019

Recommendation #3
Work with the Postal Regulatory Commission to determine if the shipper-specific [REDACTED]

Management Response/Action Plan:
Management disagrees that filing a cost methodology change petition is necessary in this instance.

[REDACTED]

Responsible Official:
Vice President Pricing and Costing only if directed to file a costing methodology change.

Implementation Date: N/A

Recommendation #4
Work with PC Postage providers [REDACTED]

Management Response/Action Plan:

Management agrees to consider ██ ██████ studying the impact of this recommendation on customer retention.

Responsible Official:
Vice President Sales

Implementation Date:
11/07/2019

Recommendation #5
Assign a Product Manager to ██████████████████████████████████████ ██████

Management Response/Action Plan:
Management agrees

Responsible Official:
Vice President Sales

Implementation Date:
11/07/2019

Sharon Owens

Sharon Owens

OFFICE OF

INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Contact us via our Hotline and FOIA forms.
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We conducted work for this white paper in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation (January 2012).