



Office of Inspector General | United States Postal Service

RISC Report

Maintaining Rural Retail Networks: Best Practices Abroad and their Implications for the U.S. Postal Service

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Table of Contents

Cover	
Executive Summary.....	1
Observations.....	3
Introduction.....	3
Background: Rural Trends that Affect Postal Providers.....	3
Government Policies Shape the Size and Mission of Rural Postal Networks	4
Government Subsidies for Postal Retail Services.....	6
Strategies to Reduce the Cost of Rural Retail Networks	8
Strategies to Produce More Revenue from Rural Outlets	13
Conclusion	16
Appendices	17
Appendix A: Objective, Scope and Methodology	18
Appendix B: Rural Definitional Differences Among Europe, North America, and Australia	20
Appendix C: Management's Comments.....	21
Contact Information	23

Executive Summary

Postal providers face the challenge of serving the rural parts of their nations effectively and efficiently. Urbanization is depleting rural areas of their residents, resulting in a network of post offices that are serving fewer customers. A shrinking rural customer base hurts posts that are already suffering from nationwide letter volume declines.

The U.S. Postal Service is no different than its counterparts in this way. It too is facing the challenge of sustaining thousands of outlets across rural America. The U.S. Postal Service Office of Inspector General (OIG) therefore wanted to explore how other posts had taken steps toward improving the financial sustainability of their rural retail outlets.

We selected six other postal providers to benchmark the United States against: Australia Post, Canada Post, La Poste (France), Deutsche Post (Germany), PostNord (Sweden) and Post Office Limited (United Kingdom).

All seven posts face similar rural challenges, but they do so within the constraints of different regulatory environments. The Universal Service Obligations (USOs) that govern them range from highly prescriptive to very vague. Some define a minimum number of outlets that a post must have or dictate how close those outlets must be to customers to ensure adequate rural service. As compensation for maintaining an extensive and expensive retail network, the governments of France and the United Kingdom subsidize those networks. Germany and the U.S. offer conditional subsidies but, for various reasons, the posts do not apply for them. Australia, Sweden, and Canada do not offer retail subsidies. The USO in the United States requires the Postal Service to provide rural customers with sufficient access to the postal network. However, the USO does not specify what that entails. Although the U.S. Postal Service is authorized to request a subsidy for rural operations, it has chosen not to request these funds since 1982.

In order to reduce their rural retail costs, our benchmark posts employ several strategies, including reducing opening hours and outsourcing their operations to third-party retailers. Outsourcing retail facilities is common practice in all sample countries except the United States. La Poste in France shares rural post office space with government agencies and outsources some postal operations to local

Highlights

We studied how the national posts of Australia, Canada, France, Germany, Sweden, and the United Kingdom maintain extensive networks of rural post offices.

The U.S. Postal Service, unlike most of the posts we studied, does not have a clearly defined Universal Service Obligation as it relates to the retail network.

Some governments explicitly subsidize their posts to cover the costs of rural service. The U.S. Postal Service is legally entitled to request a subsidy from Congress to help fund its network, but has chosen not to request these funds since 1982.

Posts have tried a variety of means to reduce the costs of their rural networks, including outsourcing retail outlets to third-party businesses, optimizing their retail networks, and limiting hours.

Some posts have tried to generate additional non-postal revenue from their retail networks. Revenue sources range from financial services to local and national government services.

government employees. Other posts have tried smaller programs, like operating mobile post office vans, or utilizing a hybrid carrier-clerk model where employees work the retail window for a few hours and deliver mail when the window is closed.

Some global posts leverage their large retail networks to diversify revenue sources beyond letters and parcels. Consequently, they may sell retail products, government services, digital identity verification, financial services/banking, and telecommunications services to rural customers.

Adopting some aspects of these models could benefit the U.S. Postal Service. Currently, the Postal Service maintains direct operational control over 90 percent of its retail outlets: far more than the other selected posts. In locations where customer foot traffic is especially sparse, the Postal Service could study the feasibility of additional outsourcing. Alternative retail models like mobile postal services in remote regions could also make sense. USPS could also leverage its

wide retail network to offer other government services at post office windows, as it already does by issuing passports for the U.S. State Department.

The paths taken by other posts can guide efforts in the U.S. to maintain a comprehensive postal retail network in rural America, while ensuring that the network is financially sustainable.

Observations

Introduction

The U.S. Postal Service and its counterparts face similar challenges when it comes to serving their rural customers. Rural post offices serve a small customer base, limiting their revenue potential. Yet, remote post offices serve a vital role in connecting rural citizens with government, business, and the rest of the population. Noting this essential role, many postal providers are obligated by law to provide a minimum level of retail access in rural areas, even if their rural networks lose money.

Given the similar challenges, the U.S. Postal Service Office of Inspector General (OIG) studied what other posts are doing to promote rural engagement and profitability in their rural retail networks.¹ Our goal was to apply their insights and best practices to the U.S. Postal Service as it grapples with its own challenges in serving rural America.²

The OIG selected the national postal retail providers of Australia, Canada, France, Germany, Sweden, and the United Kingdom to benchmark the U.S. Postal Service against.³ These posts were selected because they all maintain robust physical presences in rural areas despite problems with cost coverage. This white paper presents our observations on the regulatory constraints that these posts operate under, attempts to cut rural retail costs, and the ways rural networks are used to generate new sources of revenue. We also discuss the extent to which the U.S. Postal Service could follow these models.

Background: Rural Trends that Affect Postal Providers

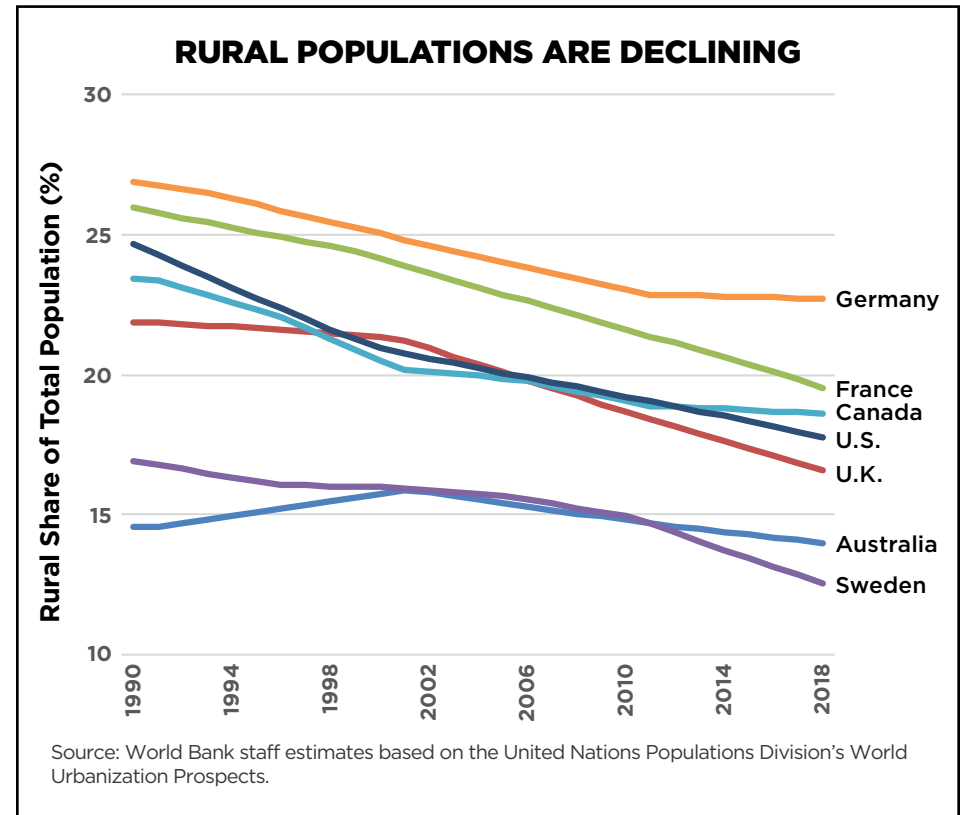
Our study showed similar demographic and economic trends affecting the rural parts of each of the benchmarked countries. Consequently, some global posts are operating in environments that are different than in decades past. These trends are also happening in the United States.

1 Each postal provider has its own definition of "rural." See [Appendix A](#) for more information.

2 This white paper is the latest in an OIG series on postal service in rural America. The first, *Rural and Urban Origins of the U.S. Postal Service*, available online at: <https://www.uspsig.gov/sites/default/files/document-library-files/2019/RISC-WP-19-007.pdf>, provided a history of how Americans accessed the mail stream during a period when much of the population lived in the countryside. The second, *Addressing the Diverse Needs and Wants of Rural America: Opportunities for the U.S. Postal Service*, available at: <https://www.uspsig.gov/document/addressing-diverse-needs-and-wants-rural-america-opportunities-us-postal-service>, examined how rural American customers currently engage with the Postal Service, and how they can be better served.

3 To complete this work, we contracted with WIK-Consult, a German consulting firm with expertise in the global postal sector. Sweden and Denmark share a single postal provider, PostNord. However, different national laws slightly change the operation of PostNord in the two countries. For the purposes of this white paper, we are only referring to the Swedish side of PostNord. <https://www.government.se/press-releases/2017/10/denmark-and-sweden-reach-agreement-on-postnord/>.

Figure 1: Rural Population Decline



One important trend is the decline of rural populations, as illustrated in Figure 1. Young people are migrating to urban centers for employment and educational opportunities. As such, rural populations are both shrinking and aging faster than national populations, foreshadowing further population declines. Rural aging also means more elderly citizens that may need special care from their governments.

Even as the rural customer base of our sample posts shrink, the size of their retail networks has not. Over the past five years, the number of postal outlets has changed by an average of less than 1 percent per year in every sample country except Canada.⁴ This stability is not necessarily by choice. Postal providers may have closed some rural locations if they had been permitted to do so.⁵ Yet, many sample posts face legal requirements to maintain large numbers of retail facilities to meet the needs of their citizenry, as we will explain in the next section on Universal Service Obligations (USOs).

Although shrinking rural populations strain the financial value of rural postal networks, the social value of those networks remains. For example, in the U.K., post offices sometimes become “the last shop in the village” after other businesses leave, making them at times the only physical outlet for providing retail, financial, or government services to those communities.⁶ In Australia, 44 percent of customer trips to rural post offices involve an action where the post is the “only option available.”⁷ In the U.S., an OIG survey found that 56 percent of rural Americans believe that the Postal Service is “very valuable to their communities.”⁸ These examples illustrate that rural post offices serve an important role for communities, sometimes beyond the provision of postal services.

Government Policies Shape the Size and Mission of Rural Postal Networks

Governments establish a set of rules for their postal providers to ensure that all citizens receive at least a minimum level of service. These rules, known collectively as Universal Service Obligations (USOs), vary in the level of specificity from one country to another. For example, some USOs explicitly mandate retail access for rural customers.

Requirements for Network Density and Access

To ensure access to the postal network, five of the six foreign USOs reference the physical proximity between customers and their nearest postal retail outlet.⁹ Proximity, within the context of USOs, is influenced by two factors: the number of outlets nationwide and the dispersion of those outlets. All else being equal, the denser the network, the greater the access to postal retail outlets. For city dwellers, physical proximity to a post office is rarely an issue. Rural residents, on the other hand, might not have the same convenience if not for the protection of the USO and related postal laws.

As illustrated in [Figure 2](#), five benchmarked countries have defined metrics for the number or proximity of postal outlets. Australia, France, Germany, and the U.K. specify a minimum number of outlets that the postal provider must maintain nationwide. Australian legislation further requires at least 2,500 postal outlets in rural and remote areas.¹⁰

4 Canada Post is the exception. According to their annual report, Canada Post went from 3,700 rural post offices in 2014 to closer to 3,100 rural post offices in 2018, despite a legal moratorium on the closure of rural post offices since 1994. The moratorium has exceptions in cases of personnel retirement, illness, or death, or infrastructure problems (e.g., fire or termination of lease). Canada Post, *Service Charter*, 2018, <https://www.canadapost.ca/cpc/en/our-company/about-us/financial-reports/2018-annual-report/corporate/service-charter.page?>

5 For example, in 2015 the French legislature noted that without its USO requirement, La Poste would only need 2,800 postal outlets, rather than the 7,600 required by the USO. French National Assembly: Finance, General Economy and Budgetary Control Committee, *Report on the Conditions for Maintain Public Services in the Territories and Potential Contributions for La Poste* (in French), Report No. 2495, January 14, 2015, <http://www.assemblee-nationale.fr/14/rap-info/i2495.asp>.

6 United Kingdom Department for Business, Energy & Industrial Strategy, “Government pledges to secure the future of the Post Office,” December 20, 2017, <https://www.gov.uk/government/news/government-pledges-to-secure-the-future-of-the-post-office>.

7 This is in comparison to 33 percent of transactions in large cities. Deloitte Access Economics, *Economic and social value of Australia Post 2018*, 2018, <https://www2.deloitte.com/au/en/pages/economics/articles/economic-social-value-australia-post.html>, p. 30.

8 USPS OIG, *Addressing the Diverse Needs and Wants of Rural America: Opportunities for the Postal Service*, Report No. RISC-WP-19-009, September 16, 2019, <https://www.uspsoig.gov/document/addressing-diverse-needs-and-wants-rural-america-opportunities-us-postal-service>

9 Sweden is the lone exception.

10 Australia Post, *Everyone Matters: Statement of Corporate Intent 2019/20 – 2022/23*, 2019, https://auspost.com.au/content/dam/auspost_corp/media/documents/statement-of-corporate-intent-2019-20-to-2022-23.pdf, p. 9.

Figure 2: Post Office Density Requirements

DENSITY REQUIREMENTS FOR POST OFFICE NETWORK, AS SPECIFIED IN THE USO							
Attribute	Australia	France	U.K.	Germany	Canada	Sweden	U.S.
Minimum Number of Postal Outlets Nationwide	✓	✓	✓	✓			
Minimum Number of Rural Postal Outlets	✓						
Maximum Distance to Nearest Postal Outlet	✓	✓	✓	✓	✓		

Source: WIK and OIG analysis.

Australia, France, Canada, and the U.K. dictate a maximum distance that post offices may be situated from customers. This requirement sets the percentage of citizens living within a certain distance from the nearest outlet. For example, Canada's Postal Service Charter requires that 98 percent of citizens have a postal outlet located within about nine miles of their home, 88 percent have a postal outlet within about three miles, and 78 percent have a postal outlet within one-and-a-half miles.¹¹ The U.K. government has set six different distance-related criteria. Some criteria are nationwide, while others are specific to rural, urban, or "urban deprived" neighborhoods that suffer from social or economic inequality.

At the other end of the spectrum, Sweden and the U.S. do not have specific density requirements for their postal retail networks. Sweden's Postal Services Act only requires that the density of access points "take account of the needs of the users."¹²

11 Canada's Postal Service Charter quotes distances in kilometers. The conversion to miles necessitated that we say "about" nine, three, and one-and-a-half miles. Canada Post, *Service Charter*, 2018, <https://www.canadapost.ca/cpc/en/our-company/about-us/financial-reports/2018-annual-report/corporate/service-charter.page?>

12 The Swedish Post and Telecom Authority (PTS), Postal Services Act, July 1, 2010, https://www.pts.se/contentassets/ff61f6e3d4174c148f712454b04b2754/postal_services_act_2010.pdf.

The U.S. Postal Service has significantly fewer post offices per resident than the other sample posts, meaning each retail outlet must serve more people, as shown in Figure 3. However, when it comes to geographic coverage, Australian and Canadian retail outlets serve much wider land areas — not a surprise, given their vast expanses of territory. At one outlet per 108 square miles, the U.S. Postal Service retail network is much denser than Australia's and Canada's but much less dense than Germany's or the U.K.'s.

Figure 3: Density of Postal Retail Networks

COMPARING RETAIL NETWORK DENSITIES			
Among posts in our sample, the Postal Service has the fewest retail outlets relative to the country's population with one outlet for every 9,346 residents. But relative to the land area, the Postal Service is in the middle of the pack with an average of one outlet every 108 square miles.			
Country	Number of Postal Outlets*	Land Area per Postal Outlet (Sq. Miles)	Population per Postal Outlet
U.S.	35,005**	108	9,346
Germany	13,011	11	6,363
Canada	6,183	624	5,803
U.K.	11,547	8	5,739
Australia	4,379	683	5,707
Sweden	1,979	86	5,114
France	17,100	12	3,914

* The total number of outlets for each post is derived from their own 2017 annual reports. Each post may include slightly different types of postal outlets in their figures.

** Includes Postal Service-managed post offices, contract postal units, village post offices, and community post offices.

Sources: OIG and WIK analysis of 2017 data from postal provider annual reports, the CIA World Fact Book, the U.S. Census Bureau, and Postal Service officials.

U.S. Postal Service: Clarifying Retail Access in the USO

The U.S. Postal Service's USO is less defined than that of its global counterparts.¹³ Title 39 of the United States Code (39 U.S.C.) states that “[t]he Postal Service shall provide a maximum degree of effective and regular postal

The U.S. Postal Service's retail network USO is less defined than that of its global counterparts.

services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities.”¹⁴

There is also no mandated minimum for post offices, nor does the USO include rules about density or proximity to customers.¹⁵ Some rural Americans live near multiple post offices while others live far away from even one.¹⁶ The outcome can be an uneven and inefficient distribution of retail access points.

Some rural Americans live near multiple post offices while others live far away from even one. The outcome can be an uneven and inefficient distribution of retail access points.

Previous OIG research noted that the USO in the United States could be more clearly defined.¹⁷ While the Postal Regulatory Commission (PRC) recommended that Congress review the USO in its entirety, it stopped short of making any specific recommendations regarding rural posts.¹⁸ If the USO were to be revisited going forward, policymakers could define number and density thresholds. Such specificity could further protect rural Americans while also providing

guidance to the Postal Service's effort to right-size its retail network.

Government Subsidies for Postal Retail Services

While many postal providers are self-funded, some governments subsidize the postal retail network, or offer the possibility of subsidies under certain conditions. Figure 4 shows which posts in our sample receive government subsidies for their rural postal network.

Figure 4: Government Subsidies for Rural Services

ONLY TWO BENCHMARKED POSTS RECEIVE GOVERNMENT FUNDING FOR RETAIL NETWORK

Receive Retail Subsidy	Retail Subsidy Available, but Post Does Not Accept It	No Retail Subsidy Available
U.K.	Germany	Australia
France	United States	Canada
		Sweden

Sources: USPS OIG and WIK analysis of Australia Post, Canada Post, La Poste, Deutsche Post DHL, PostNord, Post Office Limited, and the United States Postal Service's annual reports and websites.

Subsidies Reflect Government Expectations

In the United Kingdom and France, governments consider a dense retail postal network integral to the posts' public service mission and subsidize some of the network costs.¹⁹ In Germany, the law states that Deutsche Post may request government subsidies to fund its USO, including its retail network, but thus far

13 The Postal Service USO is not a single document. Rather, it is a collection of various legal requirements and regulations. For more information, see: USPS OIG, *Guiding Principles for a New Universal Service Obligation*, Report No. RARC-WP-15-001, November 17, 2014, https://www.uspsoidg.gov/sites/default/files/document-library-files/2015/rarc-wp-15-001_0.pdf.

14 39 U.S.C § 101 (b).

15 USPS OIG, *Guiding Principles for a New Universal Service Obligation*, Report No. RARC-WP-15-001, November 17, 2014, https://www.uspsoidg.gov/sites/default/files/document-library-files/2015/rarc-wp-15-001_0.pdf, p. 5.

16 OIG analysis from 2010 showed that, on the whole, rural America has more postal retail facilities than it needs. USPS OIG, *Analyzing the Postal Service's Retail Network Using an Objective Modeling Approach*, Report No. RARC-WP-10-004, June 14, 2010, https://www.uspsoidg.gov/sites/default/files/document-library-files/2015/rarc-wp-10-004_0.pdf.

17 USPS OIG, *Guiding Principles for a New Universal Service Obligation*, p. 19.

18 *Ibid*, p. 8.

19 This is also the case in other European countries, such as Belgium and Italy. USPS OIG, *Funding the Universal Service Obligation*, Report No. RARC-WP-16-005, March 21, 2016, <https://www.uspsoidg.gov/sites/default/files/document-library-files/2016/RARC-WP-16-005.pdf>.

it has chosen not to.²⁰ Like Germany, the U.S. Postal Service may request a network subsidy but has historically chosen not to do so.

We did not find evidence that the governments of Australia, Canada, and Sweden offer any subsidies to cover retail network costs.²¹ As previously noted, the Australian government mandates that Australia Post maintain over 2,500 rural postal outlets; however, Australia Post is expected to pick up the entire tab for rural service, which was estimated at \$125 million in Fiscal Year (FY) 2019.²²

The U.K. and French Governments Subsidize their Postal Retail Networks

Though posts are generally expected to fund their own operations, the governments of the U.K. and France subsidize their postal networks.²³ The U.K.'s Post Office Limited (POL) was allocated \$2.8 billion for updating and managing postal outlets from 2010 through 2021, including rural community branches that “could never be profitable...but which provide a valuable social purpose.”²⁴ That valuable social purpose extends beyond collecting mail and selling stamps. POL post offices also process social benefit payments, accept payments for public

utilities, and offer banking services, among other services. These public service offerings are especially useful for rural customers who may not be able to do them anywhere else.

In France, the government provides La Poste with local tax exemptions — which totaled \$190 million in 2019 — to cover the net costs of “extra” retail outlets that are required by law.²⁵ La Poste could meet its USO obligations with roughly 7,600 outlets nationwide. However, French law specifies that La Poste must operate a minimum of 17,000 outlets — far more than the amount needed for territorial coverage.²⁶ The subsidies go toward operating rural outlets, as well as some urban outlets in low income neighborhoods. The subsidies also contribute to modernization investments (for example, new computers or office equipment) and training for rural employees.²⁷

U.S. Postal Service: Government Funding and Legislation

For much of U.S. history, the government used taxpayer dollars to cover postal deficits, prioritizing better service over the necessity of covering costs.²⁸ However, the U.S. Postal Service became largely self-funded after the Postal Reorganization Act of 1970.²⁹ Nonetheless, the Postal Service has the legal

20 European Union legislation requires postal providers requesting government subsidies to first demonstrate that the costs incurred by following the USOs represent an “unfair burden” financially. The European Parliament, *Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008 amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services*, Document No. 02008L0006-20080227, February 27, 2008, <http://data.europa.eu/eli/dir/2008/6/2008-02-27>, section 26.

21 In 2017, Sweden made a one-time \$41 million “capital injection” into PostNord. It argued that the funding, which went primarily to Post Danmark, was made in Sweden's role as majority shareholder in PostNord—a private corporation. The European Commission is investigating whether the funding should be considered state aid. European Commission, “State aid: Commission opens in-depth investigation into capital injections in favor of PostNord and Post Danmark,” news release, June 14, 2019, https://ec.europa.eu/commission/presscorner/detail/en/ip_19_3008.

22 Australia Post, *Annual Report 2019*, https://auspost.com.au/content/dam/auspost_corp/media/documents/publications/2019-australia-post-annual-report.pdf, p. 138.

23 In the U.K., postal service is divided between two entities: Royal Mail and Post Office Limited (POL). Royal Mail handles delivery while POL maintains the network of physical postal retail outlets. For this white paper, we studied only POL.

24 Government of United Kingdom House of Commons Library, *Briefing Paper: The Post Office*, by Lorna Booth, Report No. 7550, April 12, 2019, <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7550#fullreport>.

25 ARCEP, France's national postal regulator, follows the “net avoided cost” methodology to determine how much tax relief to give La Poste each year. It calculates the difference between the costs that would not be incurred if La Poste did not operate this incremental network of 9,500 outlets and the revenue that would be foregone. The total tax relief cannot exceed \$199 million a year. The French and U.K. governments also need to get approval from the European Commission, which essentially verifies that the funds do not hamper competition. “Decree n° 2019-1542 of December 30, 2019 setting the reduction in direct local tax rate granted to La Poste under its territorial coverage mission” (in French), Official Journal of the French Republic, December 31, 2019, <https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000039699582&categorieLien=id>.

26 The French government pays for a “public service mission,” which is defined as the difference between the 17,000 outlets and the universal service density network requirements of 7,610 outlets, as of 2016. European Commission, “State aid: Commission approves compensation granted by France to the French post office for its territorial coverage,” news release, April 5, 2018, https://ec.europa.eu/commission/presscorner/detail/en/IP_18_2843.

27 La Poste receives other government subsidies unrelated to its retail network. Government of France and La Poste, *Business Contract Between The State and La Poste: 2018 – 2022* (in French), December 12, 2017, https://www.entreprises.gouv.fr/files/files/directions_services/services/Services_Postaux/contrat-entreprise-2018-2022.pdf, pp. 14-17.

28 USPS OIG, *Rural and Urban Origins of the U.S. Postal Service*, Report No. RISC-WP-19-007, August 26, 2019, <https://www.uspsig.gov/sites/default/files/document-library-files/2019/RISC-WP-19-007.pdf>, p. 1.

29 The 1970 Postal Reorganization Act (PRA) required the Postal Service to fund its own operations. The Act transformed the former Post Office Department into the modern Postal Service and established that it would retain all its revenue for the payment of its expenses. With the PRA's passage, the Postal Service became largely independent of taxpayer funding. The only appropriations that the U.S. Postal Service currently receives from Congress are used to fund delivery for the blind and overseas voters.

authority to request \$460 million from Congress annually to cover the costs of rural service.³⁰ The Postal Service has not requested those funds since FY 1982.³¹ When adjusted for inflation, the Postal Service has foregone a total of \$25 billion in appropriations over the 37 year period.³²

The Postal Service does not request the funds for several reasons. First, the organization prefers to be financially self-sustaining, and has sought legislative and regulatory changes to make that possible. Second, the Postal Service indicated that “(t)here is no guarantee that Congress would provide (the funds) in full or in part.” Lastly, the Postal Service states that \$460 million would not be enough to cover the total costs of the USO.

Regardless of whether it accepts the subsidy, there are other opportunities for the Postal Service to improve its rural retail finances. The following section examines how the benchmark postal providers reduce the operating costs of maintaining rural networks.

Strategies to Reduce the Cost of Rural Retail Networks

Due to USO requirements, many postal providers are unable to close money-losing post offices. Therefore, they must find ways to cut costs at these facilities. A common method abroad to cut costs is to outsource post office operations to existing third-party retailers.

Outsourcing Retail Operations is Common Among Foreign Posts

While many governments regulate the number of postal outlets, they usually do not specify that the post must run them itself. The post is given the latitude to

outsource some or all retail outlets to third parties, as long as the outlets continue to fulfill the rules prescribed by the USO. All the foreign posts in our study use some level of outsourcing to reduce the costs of rural retail services.

Directly managed postal outlets are staffed with postal employees, while outsourced postal outlets are staffed and managed by third-party businesses. These third-party businesses are independent retailers or retail chains — such as a grocery or bookstore chain — that offer postal services in addition to selling their own merchandise. Two of our sample posts, Deutsche Post and La Poste, chose to operationally separate their retail network from their delivery network as a precursor to outsourcing the retail function. Separating the networks, while not necessary to begin outsourcing, can make outsourcing easier.³³

Outsourcing can keep costs down by eliminating the need to directly maintain, operate, and staff post offices. Rather than incur those high fixed costs, the post pays the retailer based on a fee structure: either a flat fee, commissions based on customer transactions, or both. Other posts have identified that the variable costs are generally lower than what it would cost to directly manage a small rural outlet.³⁴ For example, the French parliament estimated in 2015 that outsourcing each small outlet saves La Poste \$50,000 each year.³⁵

The variable costs of an outsourced rural post office are generally lower than what it would cost to directly manage the outlet.

30 39 U.S. Code § 2401, <https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title39-section2401&num=0&edition=prelim#sourcecredit>.

31 Section 2401(b)(1) of Title 39 authorizes the Postal Service to obtain reimbursement from Congress for public service costs associated with serving communities where post offices are not self-sustaining. The Postal Service may obtain reimbursement up to 5 percent of the Post Office Department's 1971 appropriation. United States Postal Service, *Fiscal Year 2019 Budget Congressional Submission*, 2018, <https://www.prc.gov/docs/108/108499/USPS%20FY2020%20Congressional%20Submission.pdf>, pp. I-1.

32 The \$25 billion includes the total amount foregone for the years FY 1982 to FY 2019. In FY 1982, the Postal Service was entitled to receive \$250 million but in actuality received only \$12 million. Congress authorized \$100 million for postal reimbursement in FY 1983, nothing in FY 1984, and \$460 million in every subsequent year, starting in FY 1985. However, beginning in FY 1983, the Postal Service did not request any portion of the authorized subsidy. To calculate the total revenue foregone by the Postal Service, the OIG used a Consumer Price Index calculator to determine the present-day value of each annual amount (defining November 2019 as present day). We then added those inflation-adjusted annual amounts to determine the total amount foregone: \$25 billion. 39 U.S. Code § 2401, <https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title39-section2401&num=0&edition=prelim#sourcecredit>.

33 WIK asserts that having two separate networks makes it easier for a post to open, close, or relocate a facility, based on their own evolving commercial needs and operational requirements.

34 Parliament of Canada, *The Way Forward for Canada Post: Report of the Standing Committee on Government Operations and Estimates*, p.100.

35 French National Assembly: Finance, General Economy and Budgetary Control Committee, *Report on the Conditions for Maintain Public Services in the Territories and Potential Contributions for La Poste* (in French), Report No. 2495, January 14, 2015, <http://www.assemblee-nationale.fr/14/rap-info/i2495.asp>.

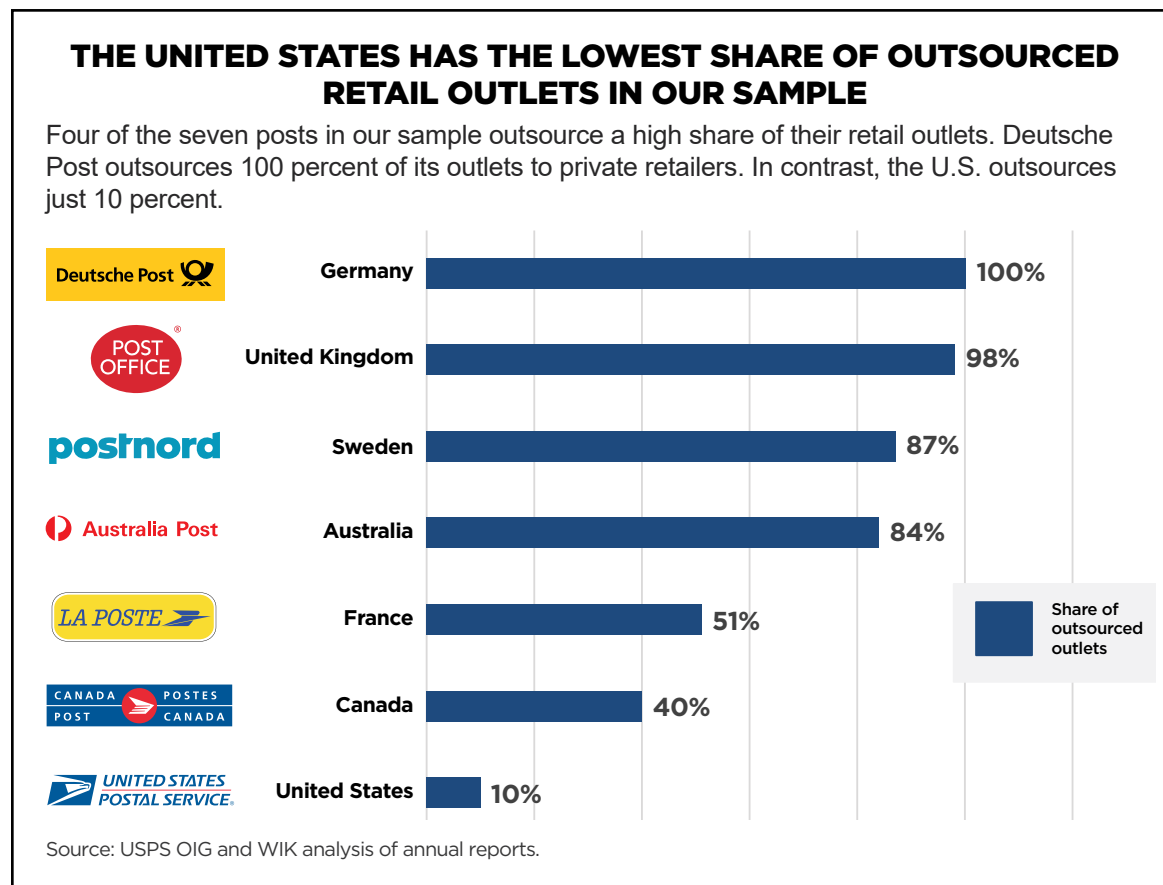
For customers, outsourced outlets usually offer longer opening hours than directly managed outlets.³⁶ For retailers, adding postal transactions generates incremental revenue and boosts their main business, since a customer that comes to buy stamps may also buy something else from them.

The international posts in our study rely heavily on outsourced postal outlets. Figure 5 illustrates the share of directly managed and outsourced postal outlets for each post. In the U.K., the portion of post offices operated by third parties has been above 90 percent since the 1960s. Deutsche Post, which outsourced only about one-third of post offices in 1997, had outsourced all of them by 2011. At the other end of the spectrum, the U.S. Postal Service is an outlier. It outsources just 10 percent of its postal outlets.³⁷

Outsourcing tends to be more widespread in rural areas. Rural post offices serve a small number of customers, meaning less revenue to cover fixed costs, so outsourcing becomes more appealing.³⁸ However, communities have often resisted the closure of their local post office.³⁹

Many posts pay low transaction fees to their franchised postal outlets, which keeps costs down; however, this may not be sustainable. For example, a 2019 survey in the U.K. showed that three out of four small retail partners earned less than the minimum wage. One-fifth of these so-called “subpostmasters”

Figure 5: Outsourcing is Common at Benchmarked Posts



36 According to Canada Post's Annual Report, their "vast network of post offices and dealer outlets ... provide convenient locations and service with many of them offering evening and weekend hours to meet the changing needs of Canadians." In the United Kingdom, Post Office Locals are smaller post office branches that are integrated into retailers, such as convenience stores, gas stations, and corner shops. Post Office Locals typically operate for longer hours than traditional post office branches, with the post office matching the opening hours of the host retailer. Canada Post, 2018 Annual Report, 2018, https://www.canadapost.ca/cpc/assets/cpc/pdf/annual-reports/2018_AR_Financial_Sections_en.pdf, p. 3, and Post Office Ltd., interviewed by WIK-Consult, July 2019.

37 The U.S. Postal Service is more willing to outsource delivery than other posts. Based on OIG analysis, contractors manage 12,000 of the U.S. Postal Service's 79,000 rural delivery routes, or about 15 percent.

38 For example, in Australia, 97 percent of outlets in remote areas are franchised, compared to 89 percent in other rural areas and 73 percent in urban areas. In France, 71 percent of rural outlets are outsourced, versus only 15 percent in urban areas.

39 Peter Andersson, "Liberalization and Market Performance: Towards Higher Efficiency in Sweden," in *Handbook of Worldwide Postal Reform*, ed. Michael Crew, Paul Kleindorfer, and James Campbell, Jr. (Northampton, MA: Edward Elgar Publishing, 2008), <https://books.google.com/books?id=wa1rAwAAQBAJ&pg=PA307&ots=BaWp6vKh0q&dq=%22sweden%22%20franchise%20post%20office&pg=PA307#v=onepage&q=%22sweden%22%20franchise%20post%20office&f=false>, p. 310; and Campbell Robertson, "A Fight for Post Offices and Towns' Souls," *The New York Times*, January 4, 2012, <https://www.nytimes.com/2012/01/05/us/arkansas-towns-with-a-post-office-and-little-else-fight-closings.html>; and Lily Kuo and Emily Stephenson, "U.S. drops plan to close rural post offices," *Reuters*, May 9, 2012, <https://www.reuters.com/article/us-usa-postal-rural/u-s-drops-plan-to-close-rural-post-offices-idUSBRE8480YV20120509>.

were considering closing branches due to falling revenue.⁴⁰ The loss of small partners means a post may struggle to find alternative ways to provide service in small villages. To mitigate this risk, POL has agreed to give subpostmasters a 10 percent increase in compensation.⁴¹

Sharing Costs with Other Government Agencies

Private retail partners are not always a viable option, making the traditional outsourcing model difficult in some locations. France's La Poste has responded to this challenge by adding government agencies to its collection of retail partners. Its two innovative approaches to government retail partnerships follow two models.

1. **The local government provides postal services** – Under this model, La Poste allows local government employees to manage “community postal agencies” out of rural town halls. The community postal agency offers limited postal and financial services and determines its own hours of operation. Customers can pick up and send mail and packages and withdraw up to \$387 per week from La Poste's banking arm.⁴² The French government finances each location with an estimated \$14,000 per year.⁴³

2. **Sharing post office space with government agencies** – Under this model, postal employees offer services on behalf of other government agencies. Agencies that lack staffing or real estate in rural areas may prefer this model. Known by their French acronym MSAP, these 500 “Public Service Houses” also allow customers to use computers, access the internet, and speak with customer service representatives about employment, health insurance, pensions, family benefits, and other services. The government contributes \$35,000 a year towards the upkeep of each MSAP.⁴⁴

Despite their multi-purpose functionality, MSAPs are not widely used by citizens. On average, MSAPs receive just 1.4 visits per day, and some are open only for an hour each day.⁴⁵

Small-scale Solutions Can Provide Basic Services and Reduce Costs

Some international posts also employ a few small-scale solutions to serve isolated customers in communities that are too small to support full postal outlets, as illustrated by Figure 6.

Britain's POL offers Home Delivery Service for very small communities with no post office nearby. Customers can order a limited range of POL products and services over the phone, then either pick them up at a community collection point at a scheduled time or get them delivered directly to their home.

40 Michael Pooler et al. “Post Office past ‘tipping point’ as reinvention fails to deliver,” *Financial Times*, May 19, 2019, <https://www.ft.com/content/cc92fe20-77e7-11e9-bbad-7c18c0ea0201>.

41 “‘Dedication of postmasters must be acknowledged,’ says Post Office,” *Post & Parcel*, November 4, 2019, <https://postandparcel.info/117289/news/post/dedication-of-postmasters-must-be-acknowledged-says-post-office/>.

42 “Opening a municipal postal agency in Avanne-Aveney,” (in French) *Macommune*, March 14, 2019, <https://www.macommune.info/ouverture-dune-agence-postale-communale-a-avanne-aveney/>.

43 “Longecourt-en-plaine opens a service point [for] La Poste municipal agency,” (In French) *Echo Des Communes*, September 13, 2019, https://www.echodescommunes.fr/actualite_3006_longecourt-en-plaine-ouvre-un-point-de-services-la-poste-agence-communale.html.

44 Association of the Mayors of France and the Presidents of Intercommunalités (AUMF), *Implementation Document for the 2017/2019 Postal Territorial Presence Contract*, (in French), January 1, 2020, <https://www.amf.asso.fr/m/document/fichier.php?FTP=620d6bc39a3cf6d6c927b139e0469a5e.pdf&id=24254>, p.5, and Court of Auditors, *Access to Government Services in Rural Areas*, (in French), March 2019, <https://www.ccomptes.fr/system/files/2019-03/20190320-acces-services-publics-territoires-ruraux.pdf>, p.104. The French Court of Auditors has a similar function as the U.S. Government Accountability Office (GAO).

45 Cour des Comptes, *The Modernization of the Postal Network*, and La Poste, *Registration Document 2017*, https://le-groupe-laposte.cdn.prismic.io/le-groupe-laposte%2Fd3941181-609b-4e8d-b399-09b8f2ab03c8_le%2Bgroupe%2Bla%2Bposte%2B2017%2Bregistration%2Bdocument.pdf, and La Poste, *Registration Document 2018: Annual Financial Report*, https://le-groupe-laposte.cdn.prismic.io/le-groupe-laposte%2F120e73e9-13a6-4268-b206-0610c867dab0_2018-registration-document-le-groupe-la-poste.pdf.

Figure 6: Overview of Smaller Initiatives to Serve Rural Customers

SMALLER INITIATIVES SERVE RURAL CUSTOMERS AND REDUCE OPERATING COSTS		
Initiatives	Countries	Description and Results
Carrier-Clerks	France	Postal employees conduct window postal transactions for one hour in the morning and two hours in the afternoon. Between the morning and afternoon shifts, the clerk will also deliver mail to several villages. In 2018, this model served 922 communities.
Home Delivery of Retail Products	United Kingdom, Germany	Rural customers with no nearby post office can order postal products over the phone. Instead of customers going out to buy products, letter carriers deliver them to the customers' homes.
Mobile Posts	United Kingdom, Germany	The U.K.'s POL provides postal services through mobile posts or vans to its rural customers on certain days of the week, currently serving 602 communities. In rural southern Germany, postal trucks sold stamps and select groceries and household goods until the trial ended in 2018.

Source: WIK and USPS OIG analysis and U.K.'s Post Office Limited's Press Office.

POL also sends retail clerks into small communities for short windows of time. A local shop, church, or café may host a postal clerk for two hours on Tuesdays and Thursdays, for example.

Finally, POL has a fleet of 61 mobile post vans that support over 600 rural communities (Figure 7).⁴⁶ For example, the van arrives three times per week for

75-minute visits — offering postal as well as banking and insurance services. In 2018, Deutsche Post piloted a similar initiative for three months in rural southern Germany.⁴⁷ Deutsche Post workers sold stamps, groceries, and other household goods out of electric vans. Despite positive customer feedback, the pilot ended in 2018 for lack of customers.⁴⁸

⁴⁶ These two data points were provided by POL's press office.

⁴⁷ Lithuanian Post is planning to introduce mobile posts to replace 300 brick-and-mortar post offices. Mobile posts are expected to cover a route of 60-80 miles per day while conducting 100-150 transactions. Lithuanian Post expects to reduce its rural workforce by 20-30 percent. European Parliament, *Postal Services in the EU*, by Copenhagen Economics, November 2019, [http://www.europarl.europa.eu/RegData/etudes/STUD/2019/629201/IPOL_STU\(2019\)629201_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2019/629201/IPOL_STU(2019)629201_EN.pdf), p. 32.

⁴⁸ Deutsche Post may test new, related services in the future. "Meine Landpost' kommt nicht mehr," *Süddeutsche Zeitung* (in German), December 7, 2018, <https://www.sueddeutsche.de/bayern/deutsche-post-lieferdienst-meine-landpost-eingestellt-1.4244675>.

Figure 7: U.K. Mobile Post Office Vans

FLEET OF 61 POL MOBILE POST OFFICE VANS SERVE 600 RURAL U.K. COMMUNITIES

The United Kingdom's Post Office Limited (POL) uses mobile post office vans to offer retail services to its most remote customers. The first photo showcases the interior of a mobile van; the second shows the exterior of a mobile van.



U.S. Postal Service: Opportunities in Alternative Retail Models and Selected Use of Outsourcing

Due to its own legal and operational barriers, the U.S. Postal Service has taken a different approach to cost-cutting in its rural retail network than most of its benchmarked counterparts. It has primarily relied on a reduction in hours of operations at small rural post offices since 2012.⁴⁹ Prior to this, the Postal Service had advocated closing 3,700 of the lowest-revenue post offices, most of them in rural America.⁵⁰ When this idea met resistance, the Postal Service pivoted to a new plan, dubbed POSTPlan.⁵¹ Under POSTPlan retail hours were reduced at approximately 13,000 small post offices, with some staying open as little as two hours a day.⁵²

As noted earlier, the U.S. Postal Service fully outsources only 10 percent of its retail outlets. There are three types of outsourced outlets: Contract Postal Units (CPUs), Village Post Offices (VPOs) and Community Post Offices (CPOs). Customers can also access postal services at two types of non-postal locations: Approved Shippers and Stamps to Go providers. Figure 8 describes these outlets in more detail.

Selectively outsourcing more retail units to private businesses could bring additional cost savings and increase access hours for customers. Such an initiative requires years of planning and communication with stakeholders, including unions and affected communities, to get their buy-in. Other posts developed their outsourcing plans over time.⁵³ The Postal Service can only achieve the full value of an outsourcing initiative by taking a similarly thoughtful approach.

49 The two other benchmark posts that maintain direct control over a large portion of their retail outlets also reduce opening hours at select locations. Canada Post cuts opening hours at its smaller rural post offices based on customer foot traffic. Small French post offices can be open as little as 12 hours a week.

50 Cezary Podkul and Emily Stephenson, "Post office closings may increase rural isolation, economic disparity," The Washington Post, February 18, 2012, https://www.washingtonpost.com/business/post-office-closings-may-increase-rural-isolation-economic-disparity/2012/02/14/gIQAQnOdJR_story.html; and Campbell Robertson, "A Fight for Post Offices and Towns' Souls," The New York Times, January 4, 2012, <https://www.nytimes.com/2012/01/05/us/arkansas-towns-with-a-post-office-and-little-else-fight-closings.html>; and U.S. Government Accountability Office, *U.S. Postal Service: Challenges Related to Restructuring the Postal Service's Retail Network*, Testimony No. GAO-12-433, April 2012, <https://www.gao.gov/assets/600/590170.pdf>, p. 9.

51 According to the Congressional Research Service (CRS), the Postal Service ended its plan for post office closures "in response to a request made by multiple U.S. Senators." Kosar, Kevin. Congressional Research Service, The U.S. Postal Service: Common Questions About Post Office Closures, June 13, 2012, <https://fas.org/srg/crs/misc/R41950.pdf>, pp. 3-4.

52 Amanda Palleschi, "USPS to Begin cutting hours at 13,000 post offices," Government Executive, August 30, 2012, <https://www.govexec.com/management/2012/08/usps-begin-cutting-hours-13000-post-offices/57766/>.

53 Government Accountability Office, *U.S. Postal Service: Foreign Posts' Strategies Could Inform U.S. Postal Service's Efforts to Modernize*, GAO-11-282, February 2011, <https://www.gao.gov/assets/520/511482.pdf>, p. 30.

Figure 8: USPS Outsourced Retail Units

TYPES OF USPS RETAIL PARTNERS

Through the Approved Postal Provider Program, private retailers offer a variety of USPS products and services. These outlets are privately managed and staffed.

Type	Description	Count of Outlets
Contract Postal Unit	Retailers that provide basic postal services and are located within the geographic service area of a traditional post office.	2,240
Village Post Office	Retailers that provide basic postal services in communities that lack a post office with full-time hours.	743
Community Post Office	Retailers that provide basic postal services in an area where a traditional post office has been discontinued.	465
Approved Shipper	Independent shipping and mailing companies that include USPS among their shipping options.	5,964
Stamps to Go	Retailers that also sell Forever Stamps.	62,000+

Sources: USPS FY 2018 annual report to Congress, the USPS website, and USPS officials.

The OIG recognizes that there may be resistance to greater outsourcing, as there was during the partnership between the Postal Service and office supply chain Staples. Staples began offering a suite of postal services at its stores in 2013, drawing backlash from the American Postal Workers Union (APWU), which represents postal clerks. The APWU argued before the National Labor Relations

Board (NLRB) that the Postal Service had violated its union contract in the way it implemented this outsourcing arrangement. The NLRB agreed, and in 2017, the Postal Service ended its presence in 500 Staples stores.⁵⁴

Alternatively, the Postal Service could study a broad set of retail models, such as partnering with local governments to share physical space and therefore costs.⁵⁵ These co-location partnerships would be especially useful in the most remote parts of the country, where there are no stores to partner with and where government's reach is weak.⁵⁶ Another option is to pilot mobile post offices for remote customers, with the goal of eventually closing some brick-and-mortar post offices. Some rural letter carriers already offer a small portfolio of retail services to customers along their routes, such as selling stamps and money orders.⁵⁷ Further exploring these opportunities could reduce costs and improve postal access for millions of rural Americans.

Strategies to Produce More Revenue from Rural Outlets

Rural retail networks can be both a financial liability and a financial opportunity for postal providers. Their physical presence in underserved areas offers a chance to enhance revenues by offering non-postal services that rural customers cannot easily access elsewhere. The extra revenue helps posts defray the networks' costs.

Some Posts are Very Diversified at the Retail Counter, Others are Not

The six benchmark posts offer a wide range of revenue-generating, non-postal services, including banking, telecom, and digital and government services. Figure 9 summarizes their range of diversification. Britain's POL is the most diversified of the six. In 2018, it received 64 percent of its overall revenue

54 Jim Kinney, "US Postal Service to stop offering services at Staples," *MassLive*, January 7, 2019, https://www.masslive.com/business-news/2017/01/us_postal_service_to_stop_offering_servi.html.

55 A 2015 OIG report suggested that the Postal Service could host health-screening kiosks in post office locations. The kiosks would be owned and operated by third parties such as the Department of Veterans Affairs. USPS OIG, *The Postal Service's Role in Delivering Wellness Services and Supplies: Issue Brief*, RARC-IB-15-004, July 22, 2015, https://www.uspsoidg.gov/sites/default/files/document-library-files/2015/rarc-ib-15-004_the_postal_services_role_in_delivering_wellness_services_and_supplies_0.pdf, pp. 15-17.

56 In 2017, the Postal Service submitted a list of postal facilities with excess space to the General Services Administration (GSA). The Postal Service said in 2019 that GSA did not respond to further inquiries about the possibility of leasing space in postal facilities for other federal government agencies. Even without GSA interest, however, the Postal Service could partner with state and local government agencies. USPS OIG, *Audit Report: Congressional Mandate on Excess Space*, SM-AR-19-001, December 14, 2018, <https://www.uspsoidg.gov/sites/default/files/document-library-files/2018/SM-AR-19-001.pdf>, pp. 12.

57 USPS, "Services Available from Rural Carriers," July 2008, [about.usps.com/publications/pub208/pub208.htm](https://www.usps.com/publications/pub208/pub208.htm).

Figure 9: Non-Postal Retail Services

SOME COUNTRIES OFFER A WIDE SCOPE OF SERVICES AT THEIR POST OFFICES							
Services	France	U.K.	Australia	Canada	U.S.	Germany	Sweden
Non-Postal Retail Products ¹	✓	✓	✓	✓	✓	✓	
Government	✓	✓	✓	✓	✓		
Telecommunications	✓	✓					
Banking	✓	✓	✓				
Financial Services ² (excluding Banking)	✓	✓	✓	✓	✓	✓	

¹ For example, greeting cards, gift cards, and prepaid phone cards.

² For example, money orders and insurance.

Sources: USPS OIG and WIK Analysis of Australia Post, La Poste, Deutsche Post DHL, PostNord Sweden, Post Office Limited, Canada Post, and the United States Postal Service's annual reports and websites.

from financial, telecom, government services, bill payments, ATM transactions, insurance, retail, and lottery.⁵⁸

Financial Services are a Major Source of Global Postal Revenue

Financial services are a major source of retail revenue for posts around the world. In 2017, financial services represented 16 percent of global postal revenue.⁵⁹ Nearly all postal providers in our study offer at least some financial services. La Poste has its own bank, while Australia Post and POL have agreements with private banks to offer banking services at post offices. POL, which partners with 28 different banks, provides cash deposit and withdrawal, money transfer services, bill payments, travel insurance, travel money cards, mortgages, personal loans, and insurance at selected branches. Australia Post has agreements with more than 70 financial institutions and performs bank transactions for them in 3,500 post offices.⁶⁰ This is important because there are 1,550 mostly rural communities in Australia with a post office but no bank branch.⁶¹

In contrast, Deutsche Post spun off its “Postbank” arm and subsequently sold its shares to Deutsche Bank.⁶² Consequently, Deutsche Post only offers limited financial services like money orders. PostNord Sweden offered payment services in a few small villages but shuttered the program in 2012 due to low usage.

While posts generally provide the same range of financial services at urban and rural locations, there are exceptions. Australia Post's more

58 Mail and parcel transactions make up 36 percent of UK POL's revenue. *U.K. Post Office Ltd Annual Report 2017/2018*, p.11.

59 This figure is even higher for two posts in our study: POL (28 percent) and La Poste (22 percent). Japan Post leads the world with 76 percent of revenue from financial services – in their case, a combination of postal banking and insurance sales. This figure was calculated by adding Japan Post's ordinary income derived from its Life Insurance business segment with the ordinary income derived from its Banking business segment. The resulting sum was then divided by Japan Post's ordinary income for FY 2018. International Post Corporation, *2018 IPC Global Postal Industry Report Key Findings*, November 2018, <https://www.ipc.be/sector-data/postal-sector/key-findings>, p. 12, and Post Office Limited, *Annual Report & Consolidated Financial Statements 2018/19*, Registered Number 2154540, September 2019, http://corporate.postoffice.co.uk/sites/default/files/2019_AnnualReport_Final_Signed.pdf, p. 9 and Le Groupe La Poste, *Consolidated Financial Statements*, December 31, 2018, https://le-groupe-laposte.cdn.prismic.io/le-groupe-laposte%2Fbbfb4535-d0e3-4af7-8933-266dc363fd2_le-groupe-la-poste-financial-consolidated-statements-31.12.2018-uk.pdf, p. 3, and Japan Post Group, *Japan Post Group Annual Report 2019*, July 2019, <https://www.japanpost.jp/en/ir/library/disclosure/2019/pdf/all.pdf>, pp. 2, 34, and 36.

60 Australia Post also offers insurance and non-bank financial services on behalf of other companies, such as Western Union, Travelex, and Mastercard. Australia Post, *Annual Report 2019*, https://auspost.com.au/content/dam/auspost_corp/media/documents/publications/2019-australia-post-annual-report.pdf, p. 43.

61 International Post Corporation, “Westpac and NAB join Australia Post in historic Bank@Post community agreement,” October 16, 2018, <https://www.ipc.be/news-portal/general-news/2018/10/16/15/16/westpac-and-nab-join-australia-post-in-historic-bankpost-community-agreement>.

62 “Deutsche Post transfers Postbank Shares to Deutsche Bank,” *Post and Parcel*, February 28, 2012, <https://postandparcel.info/45991/news/deutsche-post-transfers-postbank-shares-to-deutsche-bank/>.

than 700 Community Postal Agencies, which are mainly located in rural and remote areas, do not provide any bill payment or banking services. Community Postal Agencies only offer basic postal services like stamp sales and mail collection.

Posts Offer a Spectrum of Other Services, Such as Digital Identity Verification and Elderly Check-Ins

Another common non-postal service is digital identity (ID) verification. Australia Post, Deutsche Post, and POL allow customers to create and authenticate their online identity with their real-life identity to access government services and other services. Through Deutsche Post’s POSTIDENT portal, customers first generate a digital or physical coupon at home. They then bring that coupon into a Deutsche Post outlet where, after additional verification, they sign an electronic form to confirm the identity data. Australia Post is partnering with Mastercard on a digital identity pilot.⁶³

Our sample posts offer a variety of other non-postal services. For example, La Poste has its own telecom company, while Deutsche Post sells pre-paid phone cards. Canada Post sells migratory game bird hunting permits during hunting seasons and distributes passport application forms (which does not generate any revenue).⁶⁴ Only PostNord Sweden does not offer any non-postal services at retail locations.

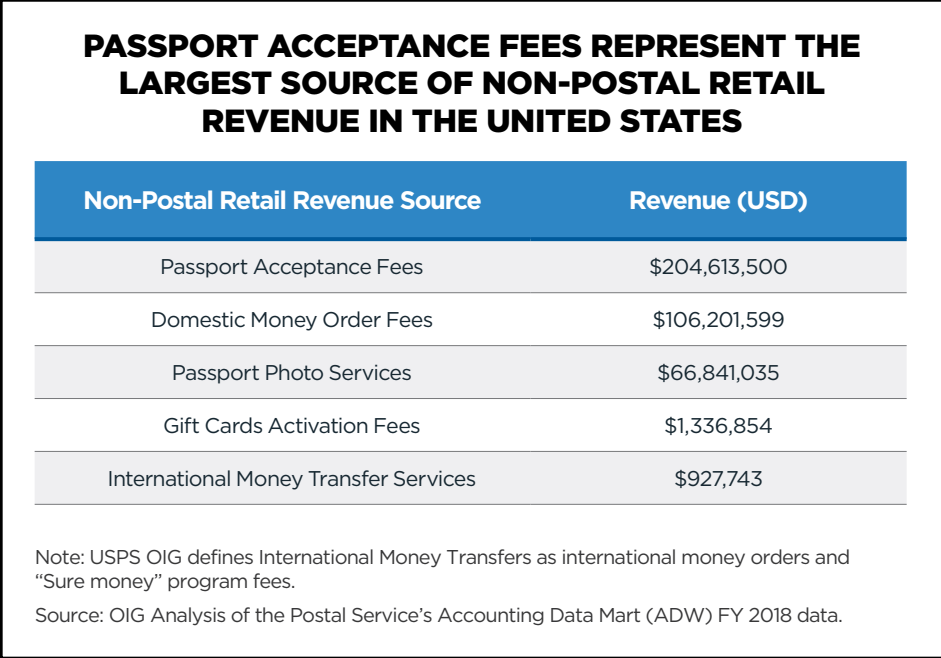
Two benchmark posts (France and the U.K.), as well as other major posts outside our study (e.g., Japan and South Korea), have also introduced social services targeted at senior citizens. Under these programs, mail carriers check in on seniors during their delivery routes and send status updates to relatives or a local health agency. Though the service is not based out of retail outlets, we are noting it here because of its relevance to rural areas. People in rural areas are disproportionately older and more isolated than the general population. While

it appears that elderly check-in programs do not generate much revenue, they address societal concerns in aging communities.

U.S. Postal Service: Opportunities to Expand Government Partnerships as Allowable

Today, the U.S. Postal Service’s most significant non-postal retail revenue comes from processing passport applications, which generated \$205 million in 2018.⁶⁵ It currently has Passport Acceptance Facilities at 4,800 of its 31,324 directly-managed retail locations.⁶⁶ Other non-postal revenue comes from the sale of gift cards, greeting cards, domestic and international money orders, passport photo services, and some limited check cashing at post offices (Figure 10).⁶⁷

Figure 10: USPS Sources of Non-Postal Retail Revenue



63 Mastercard, “Mastercard brings digital identity to real world tests,” December 10, 2019, <https://newsroom.mastercard.com/press-releases/mastercard-brings-digital-identity-to-real-world-tests/>.
64 As a follow-up to its 2016 review of Canada Post, the Canadian government asked the post to explore partnership opportunities with federal and municipal government agencies to improve overall citizen services, especially in rural and remote areas. By the end of 2019, however, Canada Post had not made visible moves toward implementing any new initiatives in rural areas.
65 U.S. Postal Service internal data.
66 “USPS Offers Passport Application Tips,” January 31, 2019, <https://uspsblog.com/usps-passport-tips/>.
67 Another retail service is the issuance of Bird Hunting Stamps (“Duck Stamps”) on behalf of the Department of the Interior, which are permits for hunting migratory birds.

The Postal Service is constrained in its ability to generate revenue from its retail outlets beyond the sale of existing postal services. Current postal law prohibits it from offering new non-postal services, with one exception.⁶⁸ The Postal Service may offer non-postal services to federal, state, and local government agencies, thereby opening some creative options to help citizens and generate revenue.⁶⁹ A strategy could be to focus on parts of the country where government services are not readily available.

Were the Postal Service to pursue the legal authority to diversify into non-postal, non-governmental options, it could consider expansion of its financial service offerings. Financial services have generated substantial revenue for other posts and has been a topic of discussion in the United States. The Postal Service already offers some financial services, such as money orders, international money transfers, prepaid debit cards, and some retail gift cards.⁷⁰

Another option for the Postal Service to consider is offering identity verification.⁷¹ According to postal officials, it is already considering some pilot opportunities in this space. The basic model calls for customers to visit post offices to receive identity verification or biometric fingerprinting that they would need to access other government services.

Conclusion

The six international posts that we studied share the same fundamental problem of preserving a financially sustainable network of physical outlets in the rural parts of their respective countries. Post offices are important means of connecting rural citizens with a communication channel, with commerce, and in some countries with non-postal services. Many countries set service thresholds for their postal retail networks through their USOs. Yet, cost coverage remains a perennial concern.

The U.S. Postal Service is no stranger to these issues. Though its USO does not dictate the size of its retail network, the Postal Service's attempts to close small rural post offices in the past have met political resistance. While there is no silver bullet for a sustainable rural network, other posts in our sample have found substantive ways to reduce network costs and generate more revenue from retail outlets. Many posts outsource a majority of their retail outlets, which saves money and allows them to still reach rural customers. Some have replaced remote post office buildings with mobile post offices that operate out of vans. Others have generated new revenue by offering postal financial services, identity verification, or services on behalf of other government agencies. These examples can guide U.S. efforts to optimize the size of its retail network while maintaining a robust physical presence in rural America.

68 The Postal Regulatory Commission has defined a "service" as an activity that is ongoing, of a commercial nature, offered to the public, and for purposes of financial gain. U.S. Postal Regulatory Commission, *Review of Nonpostal Services Under the Postal Accountability and Enhancement Act*, Order No. 154, December 19, 2008, https://www.prc.gov/Docs/61/61647/Order_No_154.pdf.

69 The OIG believes that offering services on behalf of other government agencies does not legally qualify as a "non-postal service" because it serves a governmental, not commercial, function. Regardless of the OIG's interpretation, the PRC would need to agree and approve the partnerships.

70 The OIG has published two white papers on financial services. USPS OIG, *The Road Ahead for Postal Financial Services*, RARC-WP-15-011, May 21, 2015: https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-011_0.pdf, and USPS OIG, *Providing Non-Bank Financial Services for the Underserved*, RARC-WP-14-007, January 27, 2014: https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007_0.pdf.

71 The OIG has published two white papers on digital innovation opportunities for the Postal Service, including identity authentication services. USPS OIG, *Digital Identity: Opportunities for the Postal Service*, May 29, 2012, RARC-WP-12-011, https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-12-011_0.pdf, and USPS OIG, *Riding the Waves of Postal Digital Innovation*, RARC-WP-16-014, July 20, 2016, <https://www.uspsoig.gov/sites/default/files/document-library-files/2016/RARC-WP-16-014.pdf>.

Appendices

Click on the appendix title below to navigate to the section content.

Appendix A: Objective, Scope and Methodology 18

Appendix B: Rural Definitional Differences Among Europe,
North America, and Australia 20

Appendix C: Management’s Comments..... 21

Appendix A: Objective, Scope and Methodology

Objective and Scope

The U.S. Postal Service Office of Inspector General (OIG) has developed a body of research on the Postal Service's role in rural America. In this white paper, the third in a series, the OIG looked outside the U.S. to understand how other postal operators are preserving their networks of rural post offices amid mounting financial pressures. Such strategies could prove useful in the Postal Service's own attempt to maintain its widely dispersed network of rural post offices during a period of declining letter volume.

The OIG partnered with WIK-Consult, a German economics consulting firm with experience in the global postal sector, to study the national postal providers of six countries: Australia, Canada, France, Germany, Sweden, and the U.K. For each post, we sought to understand the regulatory context in which they operate their rural retail networks, and how they have attempted to shore up the profitability of those networks.

Methodology

The first phase of this project included a review of market data and strategies from our sample posts. We selected these posts, in conjunction with WIK, for the following reasons:

- All have experienced population shifts from rural areas into cities, as well as aging rural populations.
- All have a legal obligation to provide some postal services in rural and remote areas. These services are either money-losing or produce low profitability.
- All face a decline in letter mail volume.

WIK developed a template to collect relevant data and information in a structured format. The key indicators captured on this template are listed in the next figure.

Country Research Template	
Benchmarking topics	Indicators
Country Data	<ul style="list-style-type: none">■ Territory■ Population and population density■ GDP per capita■ Internet usage and ecommerce purchases■ Definition of rural regions by statistical authorities
Postal Operator	<ul style="list-style-type: none">■ Volumes■ Revenues, costs, and profits■ Market share
Rural Presence	<ul style="list-style-type: none">■ Access points■ Delivery operations (e.g., delivery frequency, delivery offices, type of delivery, and delivery routes)■ Employment in rural regions■ Non-delivery services provided at postal facilities and by carriers in rural areas■ Postal operator's definition of rural regions
Regulatory Environment	<ul style="list-style-type: none">■ Postal USO requirements (e.g., type of postal outlets, minimum number of outlets, density criteria, delivery frequency, and service performance targets)■ Exemptions from USO requirements in rural regions■ Government subsidies and assistance■ Regulatory body or legislature's definition of rural regions

In the second phase, the OIG and WIK took a deeper dive into the strategies of three postal operators: Australia Post, La Poste (France), and Post Office Limited (U.K.). These posts were selected for a closer look based on having implemented changes or launched new rural services that may be applicable to the U.S. Postal Service. We also interviewed officials to learn more about the impact of their strategies on cost, efficiency, profitability, customer satisfaction, and competitiveness.

In the final phase, the OIG used research and interviews with the U.S. Postal Service to understand what approaches it is taking to its own rural retail network. We then used those to suggest alternatives that have shown merit for our sample foreign posts.

We conducted work for this white paper in accordance with the Council of the Inspectors General on Integrity and Efficiency, Quality Standards for Inspection and Evaluation. We discussed our observations and conclusions with management on March 2, 2020, and included their comments where appropriate.

Prior Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Addressing the Diverse Needs and Wants of Rural America: Opportunities for the U.S. Postal Service</i>	To determine what rural customers across the country need and want from the Postal Service	RISC-WP-19-009	September 16, 2019	N/A
<i>Rural and Urban Origins of the U.S. Postal Service</i>	To provide a historical perspective on the Postal Service's role in rural and urban communities	RISC-WP-19-007	August 26, 2019	N/A

Appendix B: Rural Definitional Differences Among Europe, North America, and Australia

Each postal provider has its own definition of “rural” in the context of its postal network. Consequently, the concepts of “rural areas” or “rural customers” are not directly comparable between countries.

In Australia and the United States, governments apply a combination of population indicators and distance to the nearest city to determine rurality. For example, Australia Post uses the Rural, Remote, and Metropolitan Areas (RRMA) classification to categorize its rural and urban postal outlets. The RRMA classification designates specific Statistical Local Area (SLA) units within its capital cities of at least 100,000 people.⁷² All other SLAs are designated as rural or remote, based on a score that factors in population density and road distance to the nearest urban center.⁷³

The U.S. government uses multiple definitions of “rural” across federal agencies. In the OIG’s other white papers on rural America, the OIG mainly relied on the U.S. Department of Agriculture’s definition of rurality, known as Rural-Urban

Commuting Areas (RUCA). RUCA codes use measures of population density, urbanization, and daily commuting distances. Using RUCA, rural areas are defined as small towns with populations below 10,000 and their surrounding commuter areas, as well as areas that are more than one hour’s driving distance to a nearest city.

In contrast, European countries often rely on the use of granular, local administrative units to determine rurality. France’s La Poste defines its rural outlets based on the most granular units – communities. Communities with less than 2,000 inhabitants are considered rural.

Disparities in demographic data collection among governments make it impossible to create a standard definition to apply across the board. Given that our research was qualitative in nature, the OIG felt comfortable doing broad comparisons despite the lack of perfect definitional alignment.

⁷² Australia Post, interviewed by WIK-Consult, July 2019.

⁷³ *Ibid.*

Appendix C: Management's Comments



March 23, 2020

TO: **Fredy Diaz**
Manager, Operations Central, Research and Insights Solution Center

SUBJECT: **Maintaining Rural Retail Networks: Best Practices Abroad and their Implications for U.S. Postal Service** (OIG Project # 2019RARC001)

Thank you for the opportunity to respond to White Paper Maintaining Rural Retail Networks: Best Practices Abroad and their Implications for the U.S. Postal Service (Project Number 19MG008HR000). While there were no findings or recommendations associated with this draft, Postal management would still like to comment on the content.

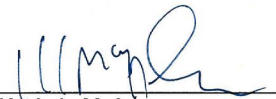
Postal management found the information in the White Paper interesting on how world-wide Postal providers face many of the same challenges in offsetting the costs of a shrinking rural customer base while still providing universal service. Management appreciates the steps being taken by its international counterparts to reduce those costs and likewise increase revenues at rural retail outlets.

While the Postal Service has already incorporated some of the same tactics outlined in the draft, some suggestions may not be applicable. For example, the White Paper proposes that USPS offer non-postal services to state and local government agencies. However, 39 U.S.C. Section 411 only authorizes provisions for services to certain federal executive agencies and does not extend that authority to state or local government under current statutory language.

Another difference that defines the direction each post has taken comes with their governing Universal Service Obligation (USO) and the level of oversight required. Postal management is bound to follow the guidelines directed by the Postal Regulatory Commission (PRC) and Congress and ultimately the constraints that fall within its USO parameters.

Although the Postal Service is limited by regulatory constraints, Management will consider the steps taken by other posts as it continues to conduct research geared towards revenue-generation and cost-reduction and ultimately a more comprehensive and financially sustainable Postal network in rural America.



Gary C. Reblin
Vice President, Product Innovation

Kevin L. McAdams
Vice President, Delivery and Retail Operations

for Steven W. Monteith
Vice President, Marketing

cc: Corporate Audit and Response Management (CARM)



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