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

Retail Customer Experience Program

Audit Report

July 9, 2013

BACKGROUND

The U.S. Postal Service's retail network includes 32,000 facilities and in fiscal year (FY) 2012 it had 840 million customers who conducted 1.7 billion transactions. The Postal Service's Retail Customer Experience Program — anonymous shoppers who conduct transactions at post offices and evaluate their experiences — helps identify and correct conditions detrimental to customer satisfaction that may inhibit revenue growth at larger retail facilities. The Postal Service spent $3.7 million on this contracted service in FY 2012.

Our objectives were to evaluate the effectiveness of the Retail Customer Experience Program and identify opportunities to improve customer service and generate revenue.

WHAT THE OIG FOUND:

The Postal Service has an opportunity to improve the effectiveness of the Retail Customer Experience Program by placing a greater emphasis on customer satisfaction and revenue generation. The program is a valuable mechanism for determining whether retail operations are complying with organizational priorities and understanding conditions at retail offices that may adversely affect customer satisfaction and revenue growth. However, the program scoring system focuses mainly on compliance and does not sufficiently factor in customer satisfaction and revenue growth variables.

The Postal Service can improve the Retail Customer Experience Program's effectiveness by increasing the emphasis on customer satisfaction and revenue generation variables in its scoring system. Such changes would likely improve customer satisfaction, promote customer loyalty, and correct deficiencies observed by mystery shoppers that were reported as lost revenue opportunities.

We estimate the Postal Service could generate $15.4 million in additional revenue in FY 2014 if it placed greater emphasis on revenue generation and customer satisfaction variables in the scoring system.

WHAT THE OIG RECOMMENDED:

We recommended the Postal Service place greater emphasis on customer satisfaction and revenue generation. Key considerations should include updating the scoring system to increase emphasis on the personal interaction between the window clerk and customer to improve customer satisfaction and revenue generation, reassessing the 5-minute wait time in line standard, and updating guidance to reflect the objective of the program.

Link to review the entire report

July 9, 2013

MEMORANDUM FOR: EDWARD F. PHELAN, JR.
VICE PRESIDENT, DELIVERY AND POST OFFICE
OPERATIONS

E-Signed by Inspector General
VERIFY authenticity with eSign Desktop
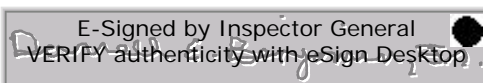
FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
 for Revenue and Performance

SUBJECT: Audit Report – Retail Customer Experience Program
(Report Number MS-AR-13-010)

This report presents the results of our audit of the Retail Customer Experience Program
(Project Number 12RG034MS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any
questions or need additional information, please contact Janet Sorensen, director, Sales
and Marketing, or me at 703-248-2100.

Attachment

cc: Megan J. Brennan
    Maura Robinson
    Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the U.S. Postal Service's Retail Customer Experience (RCE) Program (Project Number 12RG034MS000). Our objectives were to evaluate the effectiveness of the RCE Program and identify opportunities to improve customer service and generate revenue. This self-initiated audit addresses strategic and financial risk. See Appendix A for additional information about this audit.

The Postal Service's substantial retail network includes 32,000 facilities. In fiscal year (FY) 2012, the retail network had 840 million customers who conducted 1.7 billion transactions. The Postal Service's ability to facilitate positive experiences at these retail locations is important for retaining customers — customers who have an increasing number of available alternatives — and for growing revenue.

The Postal Service uses the RCE Program[1] to objectively determine whether retail officials are complying with organizational priorities and evaluate the experiences of its retail customers. This allows the agency to identify and correct conditions that are detrimental to customer satisfaction that may inhibit revenue growth. The Postal Service's Delivery and Post Office Operations group manages the RCE Program, which applies to offices that generate at least $450,000 in annual walk-in revenue or are in the top 20 percent of the highest revenue-producing offices within a district. In FY 2012, 79,350 RCE evaluations occurred at 8,048 retail offices. These offices generated $8.4 billion of walk-in revenue in FY 2012 (73 percent of the Postal Service's $11.5 billion total).

The program relies on independently contracted customers, or mystery shoppers, who visit post offices to conduct transactions. In FY 2012, the Postal Service spent $3.7 million on this contract, effective through September 30, 2013. Mystery shoppers evaluate and document their experiences across six main categories[2] by completing a standardized questionnaire that includes questions such as:

- How long was your wait time in line (WTIL)?

- Did the employee ask whether the item contained any potentially HAZMAT?

- Did the employee offer a specific product for you to mail your package?

- Did the employee greet you pleasantly, make eye contact at the beginning of the transaction, and end the transaction in a pleasant manner?

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[1] The Postal Service has had a Mystery Shopper Program in place since the 1990s and changed it to the RCE Program in 2010.
[2] The six categories are (1) WTIL, (2) Promotions and Merchandising, (3) Image, (4) Hazardous Materials (HAZMAT), (5) Product Offering, and (6) Product Explanation. Additional information on the definitions and questions included in these categories is provided in Appendix A.

- Was the interior neat, clean, and well-maintained?

The contractor compiles the results of each evaluation and uploads them into a Postal Service data warehouse.[3] The Postal Service then assesses the results and develops RCE scores based on the methodology shown in Table 1.

Table 1. FY 2012 RCE Scoring Categories

RCE Categories[4]	Weight (Percentage)
WTIL	40%
Promotion and Merchandising	25%
Image	20%
HAZMAT	15%
Product Offering	0%
Product Explanation	0%
Total	**100%**

Source: RCE program manager.

The data warehouse allows Postal Service retail officials to extract detailed reports to further analyze performance at various retail locations. For example, if the mystery shopper records that the window clerk did not offer specific products or services, the system calculates a corresponding revenue loss. The Postal Service uses RCE scores and evaluations to assess and improve retail operations.

Conclusion

The Postal Service has an opportunity to improve the effectiveness of its RCE Program by placing greater emphasis on customer satisfaction and revenue generation. The RCE Program is a valuable mechanism for determining whether Postal Service retail operations are complying with organizational priorities and understanding conditions in retail offices that may adversely affect customer satisfaction and revenue growth. However, we found that RCE Program scoring focuses mainly on compliance and does not sufficiently factor in customer satisfaction and revenue growth variables — which are the objectives of the program as described in published Postal Service guidance.[5]

The Postal Service can improve the RCE Program's effectiveness by increasing the emphasis on customer satisfaction and revenue generation variables in the RCE scoring system. Key considerations should include updating the scoring system to increase the value of RCE variables pertaining to the personal interaction between the

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[3] A data warehouse is a collection of data from many sources that is stored in a single place for reporting and analysis.
[4] Per RCE program managers, the weights assigned to these various categories are periodically re-evaluated. The most recent changes occurred in FY 2012, when management eliminated the weighing of Product Offering and Product Explanation and assigned additional weights to the other four categories.
[5] Handbook PO-209, *Retail Operations*, Section 8-2, dated May 2011.

clerk and the customer to improve customer satisfaction and promote revenue generation, reassessing the 5-minute WTIL standard, and updating RCE guidance to reflect the organizational objective of the program.

These changes would likely improve customer satisfaction, promote loyalty, and correct deficiencies observed by mystery shoppers that were reported as lost revenue opportunities. We estimate the Postal Service could generate $15.4 million in additional revenue in FY 2014 if it places greater emphasis on revenue generation and customer satisfaction variables in the scoring system. See Appendix B for monetary impact and our detailed calculations.

Retail Customer Experience Program

Opportunities exist for the Postal Service to increase customer satisfaction and retail revenue by improving the effectiveness of its RCE Program. The RCE Program is a valuable mechanism for determining whether Postal Service retail operations are complying with organizational priorities and understanding conditions in retail offices that may adversely affect customer satisfaction and revenue growth. For example, it is an objective way to determine whether clerks are asking the required HAZMAT questions, which are important for compliance purposes to help ensure the safety and security of the mail. The RCE Program also objectively collects a large amount of information on key factors such as customers' WTIL and the retail office's appearance, which leading practices show have a direct impact on customer experiences and loyalty decisions. Many successful companies rely on mystery shoppers to provide meaningful insight into their retail operations, including customer experiences and revenue-generating opportunities.[6]

We believe, however, that the Postal Service could improve the RCE Program to increase customer satisfaction and generate additional revenue. Specifically, issues related to the scoring system, the 5-minute WTIL standard, and RCE guidance may be driving operations and behavior in retail offices that are not conducive to enhancing the customer experiences and capturing revenue-generating opportunities.

Scoring System

The Postal Service can improve the effectiveness of the RCE Program by placing a greater emphasis on customer satisfaction and revenue generation in the RCE scoring system. First, the Postal Service's scoring system discounts a portion of the visit that is key to customers' overall satisfaction — the face-to-face portion of the visit. Currently, only 10 percent of the RCE score relates to the interaction between the window clerk and the customer.[7] Research from a leading customer experience organization indicates that face-to-face interaction between clerks and customers has a major impact

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[6] We gathered additional perspective on best practices throughout this report from research by leading organizations including the Temkin Group, Corporate Executive Board, Ipsos, LSA Global, CSP Business Media LLC, and Service Intelligence.

[7] This 10 percent is included in the Image category in Table 1.

on customer experiences and their loyalty and spending decisions. Specifically, positive interactions between clerks and customers can offset longer wait times. The Postal Service's *WTIL Chronicle*[8] dated May 2012, affirmed that WTIL measured alone was not predictive of actual customer engagement and loyalty. It said, "Ultimately, the feeling of being valued and treated well by the [window clerks], coupled with a reasonable WTIL, creates a positive customer experience — leading to long-term customer loyalty," and that "feeling valued and finding the [window clerk] to be pleasant and attentive can mitigate the negative effects of WTIL."

Second, the scoring system does not factor in key variables used to assess the revenue-generating and sales abilities of the clerks. RCE tracks data for key categories with a direct focus on sales and revenue generation — Product Offering and Product Explanation.[9] The RCE system takes information gathered for these two categories to calculate a 'revenue loss'[10] for each visit. None of these variables or calculations, however, are factored into the RCE scoring system. Postal Service officials stated that, historically, they have factored some of this data into the scoring system, but organizational priorities have resulted in the data being removed from the calculation. While we recognize that organizational priorities change, leading practice research indicates that incorporating some revenue-generating variables into the RCE score is important because a key purpose of retail transactions is to generate revenue — both during the immediate transaction and through a positive customer experience that facilitates future retail transactions with the Postal Service.

Postal Service RCE Program managers stated that the current scoring system reflects their desired attention on compliance with management priorities, and that senior management designated the categories and their associated weights on the overall score. The district and local officials we met with[11] correspondingly stated that they focus their management on activities included in the RCE score, particularly WTIL because it accounts for 40 percent of the score. They also stated that not meeting the WTIL standard results in failing the overall RCE evaluation, which prompts significant corrective actions.

These district and local officials, however, recognize that focusing so much attention on WTIL can be detrimental to customer satisfaction and revenue, because it may come at the expense of quality clerk-customer interactions. These officials stated that it has been their experience that these interactions tend to have a greater impact on customer satisfaction, particularly when compared to WTIL (customers who waited longer than 5 minutes would likely still leave satisfied if they felt they had been treated well and their needs had been met) and revenue-generating opportunities, because it allows clerks to

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[8] A quarterly newsletter that provides tips on how to better manage wait time. The newsletter highlights those districts that are doing particularly well within the quarter and also provides tips to decrease WTIL.

[9] The Postal Service has many products available to customers. Postal Service employees should inform customers of these products with an explanation so customers can determine whether they suit their particular needs.

[10] This loss is calculated based on whether the clerk offered the mystery shopper specific products and services.

[11] We selected districts and retail offices for additional audit work and interviews based on a judgmental sample of RCE scores (such as those that had high scores, low scores, or improved scores).

inform customers about various products and services and listen to the customers' mailing needs.

By not sufficiently factoring these types of variables into the RCE scoring system, the Postal Service may be driving operations and behaviors at local retail offices that are not conducive to enhancing customer experiences and capturing revenue-generating opportunities. While we agree that the current scoring system is useful for assessing retail operations' compliance, we believe the system could easily be modified to enhance customer satisfaction and revenue generation. Specifically, key considerations should be made for capturing and appropriately scoring the personal interaction between the clerk and the customer and the revenue-generating or 'selling' abilities of the clerk.

An available option could be allocating specific variables and weights to the compliance, customer service, and revenue-generation categories. Doing so could help align key variables with the purpose for each category (for example, scoring HAZMAT as a 'compliance' variable rather than one with a direct impact on customer service or revenue generation). This would still allow the Postal Service to focus on compliance but would also take advantage of other RCE data to increase customer satisfaction and generate revenue.

We estimate the Postal Service could have generated additional revenue of $21 million in FY 2012 and $18 million in FY 2013 if it placed greater emphasis on revenue-generating and customer satisfaction variables in the scoring system. Furthermore, we estimate this additional emphasis could generate $15.4 million in additional revenue in FY 2014. Additional information on these estimates and calculations is provided in Appendix B.

5-Minute Wait Time in Line Standard

The Postal Service can improve the effectiveness of the RCE Program by reassessing the 5-minute WTIL standard used in the RCE scoring system. This standard, which was set by Postal Service management in the 1990s,[12] may not be an appropriate threshold for evaluating RCEs throughout the country because it does not consider other factors that have a significant impact on WTIL, such as:

- Number of transactions — offices with more transactions may be at a greater-risk of exceeding the 5-minute WTIL standard.

- Types of transactions — certain transactions are much more time-intensive than others. For example, international shipment and passport transactions take longer than simple, domestic transactions. Thus, offices that conduct a large number of these time-intensive transactions are more susceptible to exceeding the 5-minute WTIL standard.

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[12] A 5-minute WTIL standard has been in place since at least 1995. Postal Service retail managers have continued to periodically evaluate this standard.

- Demographic considerations — offices where language barriers exist may also be at greater risk of exceeding the 5-minute WTIL standard.

Because these factors are more prevalent at some offices than others, the result is those offices face a higher risk of exceeding the 5-minute WTIL standard. Retail unit officials we met with in low-scoring districts echoed these concerns but also pointed out that many of their customers recognize these complexities and factor them into their expectations — meaning their customers may accept a WTIL exceeding 5 minutes, as long as their needs are met and the window clerk is courteous and helpful.

Headquarters officials recognize this issue and stated that the RCE contractor has raised concerns over universal application of the 5-minute WTIL standard. These officials also noted that having simpler transactions being diverted to alternate access channels like the Automated Postal Center may eventually result in a greater concentration of complex transactions at the retail window, which may make it even more difficult to achieve the 5-minute WTIL standard. Because these mailing and shipping complexities and other demographic changes are likely to continue, the Postal Service may want to consider revising the universal 5-minute WTIL standard. This could entail implementing a sliding standard based on a 'complexity' factor or comparing WTIL to the same period from the previous year. Doing so would allow for more equitable WTIL comparisons.

Retail Customer Experience Guidance

The Postal Service can improve the effectiveness of the RCE Program by updating its guidance to reflect the organizational intent of the program. Headquarters officials stated that the main purpose of the RCE Program is assessing compliance with organizational priorities, not enhancing customer satisfaction or revenue generation. Handbook PO-209, however, states that the "program's purpose and intent are to use it as a diagnostic tool to correct conditions detrimental to customer satisfaction and that may inhibit revenue growth." It further states that "the results are about driving behavior that will result in improved customer satisfaction and increased retail revenue." The RCE page on the Postal Service's intranet reiterates these program goals.[13] Once the Postal Service has reassessed the RCE Program, it must align its RCE guidance with the program's objectives to ensure that both program managers and field retail officials have a consistent view of the organizational objective of the program.

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[13] Postal Service intranet.

Recommendation

We recommend the vice president, Delivery and Post Office Operations:

1. Reassess the Retail Customer Experience (RCE) Program to include additional emphasis on customer satisfaction and revenue generation. Key considerations should include:

   ▪ Updating the scoring system to increase the value of the RCE variables pertaining to the personal interaction between the clerk and the customer to improve customer satisfaction and promote revenue generation.

   ▪ Reassessing the 5-minute wait time in line standard.

   ▪ Updating RCE guidance to reflect the organizational objective of the program.

Management's Comments

Management disagreed with our finding, recommendation, and monetary impact. Regarding our finding that RCE Program scoring focuses mainly on compliance and does not sufficiently factor in customer satisfaction and revenue-growing variables, management stated that, in prior years, these categories were weighted, but are no longer included. They stated that they made these changes in response to customer feedback and the changes lead to higher customer satisfaction and loyalty.

Regarding our recommendation, management disagreed that the current structure of the program hinders customer satisfaction and stated that current RCE guidance reflects the organizational objective of the program. Management stated, however, that they are currently evaluating the RCE Program, assessing the value generated by this program, and reviewing WTIL criteria.

In response to our monetary impact estimate, management disagreed with our methodology and resulting estimate. Specifically, they questioned the validity of the Postal Service data we used in our calculation and our application of a 5 percent adjustment factor. See Appendix C for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) does not consider management's comments responsive to the finding and recommendation. While we recognize that the Postal Service is currently evaluating the RCE Program and WTIL criteria, we believe it is missing an opportunity to improve the effectiveness of the RCE Program by not taking corrective actions to update the scoring system.

While management disagreed that the current structure of the program hinders customer satisfaction, we believe the current scoring structure is driving operational decisions and behaviors at local retail offices that are not conducive to enhancing customer experiences and capturing revenue-generating opportunities. For example, only 10 percent of the RCE score relates to the interaction between the window clerk and the customer — a part of the visit that leading practices show has a major impact on customer experiences and their loyalty and revenue spending decisions. Furthermore, while management raised issues about the potential customer impact of reverting back to the former scoring system, we believe options are available for improving the scoring system using data collected by mystery shoppers. Improving the scoring system could benefit both the Postal Service and its customers. We are encouraged by management's statement that they are evaluating the RCE Program, assessing its value, and reviewing the WTIL criteria. We continue to believe, however, that management needs to update the corresponding Postal Service guidance to reflect both the current status of the program and any pending modifications.

Regarding our monetary impact estimate, while management questioned the statistical validity of certain Postal Service RCE data used in our calculations, we used the same Postal Service data that Postal Service retail managers throughout headquarters and the field use when evaluating retail performance. In regard to the Postal Service's revenue loss data, management stated there is no validation that any percentage of its customers would purchase a pre-determined product or service. This consideration was a key factor in our use and application of the conservative 5 percent transaction factor in our methodology. While we recognize that universally applying this 5 percent factor has limitations, we believe that we did so in a reasonable and conservative manner.

Since management is taking partial corrective action related to evaluating the RCE Program and assessing its value, we will not pursue formal resolution and will be closing our recommendation with the issuance of this report.

Appendix A: Additional Information

Background

The Postal Service's retail network includes 32,000 facilities and hosted 1.7 billion transactions in FY 2012. The Postal Service developed the RCE Program to identify and correct conditions detrimental to customer satisfaction that may inhibit revenue growth at its larger retail facilities. Specifically, the program applies to offices that generate at least $450,000 in annual walk-in revenue or that are in the top 20 percent of the highest revenue-producing offices within a district (in FY 2012, this covered 8,400 retail units).

The RCE Program relies on independently contracted mystery shoppers who conduct mailing transactions at post offices throughout the year and evaluate their experiences. Each retail unit in the RCE Program is evaluated about eight times a year. RCE scores are then developed to assess retail performance using the methodology shown in Table 2.

Table 2. FY 2012 RCE Program Information

Category	Category Description	Scoring
WTIL	How long was the wait in line?	Up to 5 minutes: 40 points Between 5-6 minutes: 24 points Exceeding 6 minutes: 0 points
HAZMAT	Did the employee ask whether the item contained anything potentially hazardous?	Yes: 15 points No: 0 points
Product Offering	Did the employee offer specific products and services?	0 points
Product Explanations	Did the employee explain the benefits or features of the products and services offered?	0 points
Promotion and Merchandising	Were items used to advertise the organization, such as forms and shipping supplies, available and neatly displayed? Were menu boards displayed properly?	0-25 points
Image	Was the facility clean? What were the employees' attitude and behavior like?	0-20 points

Source: Postal Service *RCE Handbook* and managers.

In FY 2012, there were 79,350 RCE evaluations and the Postal Service spent $3.7 million on this contract.

Objectives, Scope, and Methodology

Our objectives were to evaluate the effectiveness of the RCE Program and identify opportunities to improve customer service and generate revenue.

To accomplish our objectives, we:

- Analyzed the Postal Service's management of the program, including oversight of contractors.

- Reviewed policies, procedures, records, and contracts related to the RCE Program.

- Analyzed data, metrics, goals, and results collected from the RCE Program and other relevant systems (such as the Enterprise Data Warehouse [EDW][14]).

- Judgmentally selected locations for additional fieldwork based on RCE scores (for example, high scores, low scores, or improved scores). This additional fieldwork entailed interviewing retail officials and reviewing key RCE documentation, such as RCE reporting and corrective action processes.

- Reviewed and evaluated actions the Postal Service has taken as a result of the program.

- Reviewed and analyzed contractor requirements, the overall process for collecting data, and performance metrics.

- Reviewed leading practices related to mystery shopper programs.

- Interviewed headquarters and field Delivery and Post Office Operations officials, Corporate Information Security Office officials, contractors, and other Postal Service officials as necessary.

We conducted this performance audit from September 2012 through July 2013 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on June 6, 2013, and included their comments where appropriate.

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[14] The Point-of-Service (POS) ONE terminal is the primary hardware and software system used to conduct sales transactions during the Post Office check-out process. POS ONE automates retail transactions, enhances customers' experience, and captures transactional data related to products and services sold. This information can be extracted through the EDW.

We assessed the reliability of RCE data by reviewing the data and the controls governing the contractor databases that collect and store the data and by interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Mystery Shopper Program (Report Number HR-MA-11-002, dated April 28, 2011). The Postal Service uses the Mystery Shopper Program as a diagnostic tool to measure conditions that impact customer satisfaction, promote safety, educate customers about products and services, and foster revenue growth. The report concluded the integrity and objectivity of the Mystery Shopper Program was compromised because information regarding mystery shop sites, as well as the dates and scenarios of scheduled evaluations, was available to anyone who accessed a contractor's website. The OIG recommended that Postal Service officials modify the Mystery Shopper Program contract and implement internal controls to ensure that advance notice of dates, sites, and scenarios for mystery shopper evaluations are not available to Postal Service employees and the general public. In addition, the OIG recommended that Postal Service officials consult with Supply Management to determine whether the Postal Service was entitled to a refund as a result of the contractor allowing unauthorized access to information regarding the Mystery Shopper Program on its website. Management agreed with the OIG's recommendations and implemented corrective action but did not seek a refund, because any damages resulting from the objectivity of the Mystery Shopper Program being compromised were immaterial.

Appendix B: Monetary Impacts

Recommendation	Impact Category	Amount
1	Revenue Loss[15]	$39,018,089
1	Increased Revenue[16]	15,436,067
Total		**$54,454,156**

To calculate the preceding monetary impact, we reviewed data in the EDW for FYs 2011 and 2012. We focused on the 'revenue loss' variable from the RCE data, which is determined when the Postal Service window clerk fails to offer the mystery shopper a product or service consistent with the 'product offering' guidance.[17]

Considering our key findings that the RCE scoring system was not sufficiently emphasizing customer satisfaction and revenue generation, we believe it is reasonable to assume that (1) comparable 'revenue losses' were occurring for other non-RCE-scored retail transactions and (2) that emphasizing these variables in the RCE score would result in the Postal Service capturing 'revenue loss' from some portion of its total visits to the retail window at mystery shopped offices.

We estimated the monetary impact associated with this 'revenue loss' factor extrapolated to a small segment of the total visits to the retail window at mystery shopped offices for FYs 2012-2014 in Table 3. The following information provides useful context regarding our assumptions and calculations:

- *FY 2013-2014 Estimates* – we calculated estimates for the average revenue loss per evaluation and total visits to the retail window at mystery shopped offices for FYs 2013 and 2014 by applying the percentage change between FYs 2011 and 2012. For example, between FYs 2011 and 2012, the average revenue loss per evaluation decreased by 8.2 percent. We used that same percentage decrease to estimate the average losses for FYs 2013 and 2014. We found this to be a reasonable way to incorporate the downward trends related to these two variables.

- *5-Percent Factor* – to recognize that many retail visits may not lend themselves to additional revenues regardless of whether the clerk asked the correct 'product offering' questions, the team judgmentally applied the average revenue loss per evalution to only 5 percent of all visits to the retail window at mystery shopped offices.

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[15] Amount Postal Service is (or was) entitled to receive but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed. May be recoverable or unrecoverable. May apply to historical events or a future period (in the sense perceived future losses may be prevented by the implementation of a recommendation).
[16] Increased revenue from existing functions or revenue generated from new sources, perhaps because of implementing a new marketing initiative.
[17] Handbook PO-209, Section 8-2, dated May 2011.

Table 3. Monetary Impact Calculation

Category	FY 2011	FY 2012	Percent Change	FY 2013 (Estimated)	FY 2014 (Estimated)
Revenue loss (from RCE)	$55,577	$53,243	-4.2%	N/A	N/A
Number of RCE evaluations (from RCE)	76,425	79,350	3.8%	N/A	N/A
Average revenue loss per evaluation	$0.73	$0.67	-8.2%	$0.62	$0.56
Total visits at retail window (mystery shop offices)	661,342,046	622,586,037	-5.9%	585,853,461	551,288,107
5-percent factor (adjustment)	N/A	31,129,302	N/A	29,292,673	27,564,405
Estimated monetary impact (average revenue loss per evaluation multiplied by 5 percent of visits to mystery shopped retail windows)	N/A	$20,856,632	N/A	$18,161,457	$15,436,067

Note: N/A is defined as not applicable.
Source: OIG analyses of RCE and EDW data.

Based on the preceding analysis, we estimated revenue losses of $20.9 million in FY 2012 and $18.2 million in FY 2013 by not having a sufficient emphasis on revenue generation and customer satisfaction in the RCE scoring system. Furthermore, we estimate the Postal Service could capture increased revenues of $15.4 million in FY 2014 by taking corrective actions based on our recommendation to increase the emphasis on revenue generation and customer satisfaction in the RCE scoring system.

Appendix C: Management's Comments

EDWARD F. PHELAN
VICE PRESIDENT, DELIVERY AND POST OFFICE OPERATIONS

UNITED STATES
POSTAL SERVICE

June 28, 2013

JUDITH LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Retail Customer Experience Program
(MS-AR-13-DRAFT)

Thank you for the opportunity to review and comment on the subject draft Audit
Report. We reviewed the report and we do not agree with your findings nor your
recommendations. In particular we are not in agreement with your finding that
Retail Customer Experience (RCE) program scoring focuses mainly on
compliance and does not sufficiently factor in customer satisfaction and revenue
growth variables.

The Office of the Inspector General keyed in on the fact that for "scoring
purposes" the "Product Offering" and "Product Knowledge" categories were not
weighted. In other words, these two categories do not impact the overall score.
In reaching this finding, the Office of Inspector General (OIG) goes on to say,
"Key considerations should include updating the scoring system to increase the
value of RCE variable pertaining to the personal interaction between the clerk
and the customer to improve customer satisfaction and promote revenue
generation."

During meetings with the OIG, it was clearly explained that in prior years, these
categories were weighted; however, based on customer feedback, we changed
this structure. The Postal Service made the decision to change based
specifically on what the customers wanted, which leads to higher customer
satisfaction and loyalty.

The Postal Service also disagrees with the finding that by changing back to a
system that our customers did not like, we would "improve customer satisfaction,
promote loyalty, and correct deficiencies observed by mystery shoppers that
were reported as lost revenue." We also disagree that by making these changes
the Postal Service would generate $15.4 million in additional revenue in 2014.

The OIG reported financial losses of $39,018,089. The methodology for
determining this "revenue loss" is not statistically valid and based on judgmental
assumptions with no basis for fact. In essence, the OIG focused on a reporting

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260-1500
202-268-5500
FAX 202-268-3331
www.usps.com

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factor within the RCE report that is demonstrated as "revenue lost". The Postal Service pointed out that this data is not random nor statistically valid based on the fact that the mystery shopper is given a specific product or service that, if offered, they would purchase that product or service. If the Sales and Service Associate (SSA) failed to offer that product or service, the shopper reported it as revenue lost. There is no validation that any percentage of our customers would purchase the predetermined product or service, the Postal Service simply wanted to measure if the product or service was being offered.

The OIG took the total revenue reported as "lost revenue" for both 2012 and 2013. For purposes of response, we will focus on 2012 data. In all of the shops performed, the reports reflected a loss in revenue of $53,243. As stated above, this number is not statistically valid because there is no determination as to what true percentage of the customer base would have purchased these products and services had they been offered.

The OIG then took the number of shops, which in this case was 79,350 and determined the average revenue loss per shop, which equates to $0.67. Next, the OIG calculated the total number of customer visits at the RCE shopped offices, which was 622,586,037 and judgmentally applied a 5% factor. There is no statistical validity to this 5% factor, they just believe it to be a fair representation of how may customers would have likely purchased the precise products and services that the mystery shopper was instructed to purchase had it been offered.

The OIG does no evaluation on the specific products or services being measured, nor do they compare to national averages on purchases of those products and services, they simply apply the 5% factor. The 5% factor reduces the category of customers who might have purchased the product or service to 31,129,302. They then multiply that "likely customer" by the rate of $0.67 to come up with a monetary loss of $20,856,632.

They then apply this same invalid set of calculations to FY13 and come up with an estimated revenue loss of $18,161,457. By combining the estimated savings of 2012 with 2013, you get an estimate of $39,018,089 in lost revenue. There is no data to support the validity of this number and therefore the Postal Service does not agree.

Basically, the same methodology was followed forward on projecting losses for 2014; however, the OIG also applied a reduction of -8.2% based on the trends between 2011 and 2012. Once again, there is no data to support the calculations being offered and the increased revenue of $15,436,067 is also invalid and the Postal Service does not agree with this projection.

Recommendation 1:

Vice President of Delivery and Post Office reassess the RCE program to include additional emphasis on customer satisfaction and revenue generation. Key considerations should include:

- Updating the scoring system to increase the value of the RCE variables pertaining to the personal interaction between the clerk and the customer to improve customer satisfaction and promote revenue generation.
- Reassessing the 5-minute wait time in line standard.
- Updating RCE guidance to reflect the organizational objective of the program.

Management Response:

USPS Headquarters Delivery and Post Office Operations is currently evaluating the RCE program and assessing the value generated by this program. The Postal Service disagrees that the current structure of the program hinders customer satisfaction. In fact, the changes were made to the measurement system based on specific input from our customers. To revert back to the system our customers did not appreciate would result in lower customer satisfaction and loyalty. We are currently looking at the wait time in line criteria. We believe that the RCE guidance does reflect the organizational objective of the program.

Target Implementation Date:

NA

Edward F. Phelan, Jr

cc: Megan Brennan
    CARM