



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

U.S. Postal Service Pilot Programs

Audit Report

Report Number
MS-AR-16-005

August 16, 2016





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UNITED STATES POSTAL SERVICE

Highlights

The postmaster general has stated that her core focus is advancing transformative strategies by accelerating the pace of innovations and creating a strategic initiative to maximize revenue and profit.

Background

Evolving customer needs, constant technological advancements, and growing competition are influencing the postal marketplace. The U.S. Postal Service is continuously seeking ways to improve operations, identify new products, and enhance existing services through innovation. It needs to successfully innovate to maintain and grow its position in the competitive domestic and international postal marketplace.

The postmaster general has stated that her core focus is advancing transformative strategies by accelerating the pace of innovations and creating a strategic initiative to maximize revenue and profit. The Postal Service reported \$3.4 billion in revenue from new products and innovations over the last 3 years and estimates continued efforts could contribute up to \$10 billion when fully implemented. Recent innovations involve digital enhancements to delivery and direct mail.

Employees, customers, and mailers all propose new ideas and innovations, which postal departments often test through pilot programs. For example, the Operations group piloted gopost® lockers for sending and receiving packages and the New Products and Innovation group piloted the Next Generation Mailbox, a larger mailbox that can hold packages for residential customers.

Our objective was to assess the Postal Service's process for developing and implementing pilot programs related to new products and services.

What The OIG Found

The Postal Service has a comprehensive process for developing and implementing pilot programs; however there is not a streamlined process conducive for the New Products and Innovation group to quickly test new ideas on a smaller scale. The Postal Service would benefit from developing a streamlined process for preparing potential pilot programs and their support structures, such as information technology system updates and engineering changes, for the more comprehensive pilot process.

The Postal Service's initial funding processes focus on high-profile ideas and projects that have the opportunity to earn the most revenue, as they have to compete with other departments for funding throughout the organization. The current process limits the Postal Service's ability to rapidly fund, create prototypes of, and test new ideas in advance of the pilot process. For example, the idea for Informed Delivery was initially developed before 2011; however, partially because of a lack of data on potential additional revenue, support for the idea wavered. As a result, it is still in the pilot testing phase.



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If the Postal Service had a streamlined process for funding, prototyping, and testing this idea prior to undergoing the full pilot process, it would have more data to support the profitability of the idea and it might have already been implemented.

In addition, New Products and Innovations has identified ideas that could be tested in early developmental stages — such as refrigerated mailboxes or computer packaging — to more quickly capture the data necessary to evaluate whether the ideas warrant full pilot testing.

Leading research shows that rapid change efforts (such as innovations and pilots) can be more timely and effective if they are granted flexibility and independence from traditional enterprise processes. Related research also notes that

companies with leaders who can fund and test new ideas through an experiment or rapid product prototype move much faster and increase the probability of success.

Developing a streamlined process to test ideas on a smaller scale may help the Postal Service prepare for full-scale pilot testing and achieve its aggressive revenue targets.

What The OIG Recommended

We recommended the Postal Service develop a streamlined pilot process to rapidly fund, create a prototype of, and test new ideas on a smaller scale.

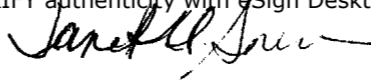
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 16, 2016

MEMORANDUM FOR: JIM COCHRANE, EXECUTIVE VICE PRESIDENT,
CHIEF MARKETING AND SALES OFFICER

E-Signed by Janet Sorensen
VERIFY authenticity with eSign Desktop


FROM: Janet M. Sorensen
Deputy Assistant Inspector General
for Retail, Delivery and Marketing

SUBJECT: Audit Report – U.S. Postal Service Pilot Programs
(Report Number MS-AR-16-005)

This report presents the results of our audit of the U.S. Postal Service Pilot Programs (Project Number 16RG007MR000).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

The Postal Service has continued various innovation efforts that include digital enhancements to delivery and direct mail. It reported \$3.4 billion in revenue from new products and innovations over the last 3 years and recently estimated that a properly executed strategy focused on shipping, mail, and assets across its four innovation platforms could contribute up to \$10 billion when fully implemented.

Introduction

This report presents the results of our self-initiated audit of U.S. Postal Service Pilot Programs (Project Number 16RG007MR000). Our objective was to assess the Postal Service's process for developing and implementing pilot programs related to new products and services. See [Appendix A](#) for additional information about this audit.

Evolving customer needs, constant technological advancements, and growing competition are influencing the postal marketplace. The U.S. Postal Service is continuously seeking ways to improve operations, identify new products, and enhance existing services through innovation. It needs to successfully innovate to maintain and grow its position in the competitive domestic and international postal marketplace.

The Postal Service has a history of contributing important innovations. The early Post Office Department had a role in developing or adopting nearly every new mode of transportation of the past 2 centuries. The Postal Service has continued various innovation efforts that include digital enhancements to delivery and direct mail. It reported \$3.4 billion in revenue from new products and innovations over the last 3 years and recently estimated that a properly executed strategy focused on shipping, mail, and assets across its four innovation platforms could contribute up to \$10 billion when fully implemented.¹ Those platforms are first mile delivery, last mile delivery, the physical network, and digital.

The Postal Service has a process for developing new ideas and innovations, which includes creating a concept and a business plan, testing, and implementation.² Departments throughout the Postal Service use this process to evaluate innovations. For this project, we focused on pilot programs that have a direct impact on Postal Service customers through improved and enhanced products or services. These projects generally fall under the Postal Service's New Products and Innovation (NPI) group. NPI's core mission is to develop products that make the Postal Service more competitive and meet the evolving needs of customers to spur revenue growth. Multiple Postal Service departments and stakeholders are involved in the innovation process during its development and implementation stages (such as generation, funding, research, prototyping, testing, evaluation, and implementation). See [Figure 1](#) for a partial list of recent Postal Service pilot programs.

The postmaster general remains committed to investing in innovations that spur growth and profitability. The Postal Service created an initiative to accelerate innovation that would maximize revenue and profit. It will be important for the Postal Service to be innovative since other private delivery companies and foreign posts are doing so to keep up with changing customer preferences and advances in technology.

¹ U.S. Postal Service publication, *A Roadmap for Postal Product Innovation*, February 24, 2014.

² Handbook F-66D, *New Products and Service and Alliances*, Chapter 4.

Figure 1: Recent Postal Service Pilot Programs

The Postal Service has a comprehensive process for developing and implementing pilot programs, however there is not a streamlined process conducive for the NPI group to quickly test new ideas on a smaller scale.

Summary

The Postal Service has a comprehensive process for developing and implementing pilot programs, however there is not a streamlined process conducive for the NPI group to quickly test new ideas on a smaller scale. The Postal Service would benefit from developing a streamlined process for preparing potential pilot programs and their support structures, such as information technology system updates and engineering changes, for the more comprehensive pilot process.

The Postal Service's initial funding processes focus on high-profile ideas and projects that have the opportunity to earn the most revenue, as they have to compete with other departments for funding throughout the organization. This current process limits the Postal Service's ability to rapidly fund, create a prototype of, and test new ideas. For example, the idea for Informed Delivery was initially developed before 2011; however, partially because of a lack of data on potential additional revenue, support for the idea wavered. As a result, it is still in the pilot testing phase. If the Postal Service had a streamlined process for funding, prototyping, and testing this idea prior to undergoing the full pilot process, it would have more data to support the profitability of the idea and might have already been implemented.

In addition, NPI has identified new ideas that could be tested in the early developmental stages — such as refrigerated mailboxes or electronics boxes³ — to more quickly capture the data necessary to evaluate whether the ideas warrant full pilot testing.

Leading research shows that rapid change efforts (such as innovations and pilots) can be more timely and effective if they are granted flexibility and independence from traditional enterprise processes. Related research also notes that companies with leaders who can fund and test new ideas through an experiment or rapid product prototype move much faster and increase the probability of success.⁴

Developing a streamlined process to test ideas on a smaller scale may help the Postal Service prepare for full-scale pilot testing and achieve its aggressive revenue targets.

Pilot Process

The Postal Service has a comprehensive process for developing and implementing pilot programs. This process has detailed steps, such as idea generation, research, funding, prototyping, testing, implementation, and evaluation; and requires the involvement of a variety of Postal Service departments, including Information Technology, Operations, Legal, and Engineering. While this process is appropriate for fully developed pilot program ideas and may be adequate for initiating pilots in other functional units across the Postal Service, it may hinder NPI's ability to quickly test new ideas on a smaller scale. This occurred because the process is not conducive for rapidly funding, prototyping, and testing new ideas on a smaller scale.

The Postal Service's initial funding processes focus on high-profile ideas and projects that have the opportunity to earn the most revenue, as they have to compete with other departments for funding throughout the organization. This may limit the ability of the NPI to fund, and subsequently test and prototype, ideas that may have a higher revenue potential in the future (versus in the shorter term).

³ A specially designed box that can be used to ship various electronic items such as laptops, tablets, and mobile phones.

⁴ Schulte, Ansgar & Potter, Kurt. *CIOs Must Drive Rapid Change and Experimentation in the Enterprise for Greater Innovation and Competitive Advantage* (2014), <http://www.gartner.com/technology/home.jsp>.

Leading practices also advocate for quicker, more flexible innovation and pilot program processes, particularly related to funding, prototyping, and testing.

NPI needs to be able to quickly and easily test new ideas before preparing full-scale pilot plans. For example, the Postal Service conceptualized Informed Delivery — using scanned images to notify mail recipients — before 2011. Early on, support for the idea wavered, due, in part, to the lack of data on potential additional revenue. NPI secured funds to test the pilot in Northern Virginia in 2013. The pilot's success helped NPI obtain approval to expand the test in New York in 2015.

In certain instances, the Postal Service has been able to more quickly advance a pilot idea from the idea/concept stage to the development and launch stages. For example, management first conceptualized the Next Generation Mailbox (hybrid mail/package receptacles) in 2013. After pilot testing in early 2015 in selected rural and suburban locations, the test was expanded nationally and testing continues. Major home improvement retail stores currently make these mailboxes available online and in stores.

NPI management recognizes that data are not always available to support new ideas' success and future revenue potential. Testing these ideas on a smaller scale could provide the data necessary to move them into the pilot process and more quickly advance them. For example, the Postal Service could test its electronics boxes in a few retail locations to determine how to best distribute them and establish their revenue potential. The data obtained from such small-scale testing could help management decide whether or not to submit the idea for a full-scale pilot.

Leading practices also advocate for quicker, more flexible innovation and pilot program processes, particularly related to funding, prototyping, and testing. Leading research shows that rapid change efforts (such as innovations and pilots) can be more timely and effective if they are granted flexibility and independence from traditional enterprise processes. This research also points out that companies with leaders who can fund and test new ideas through experiments or rapid product prototypes move much faster and increase the probability of success. For example, some research advocates funding innovations and pilot programs separately from standard, entrenched corporate funding models.⁵

Research also notes the importance of properly supporting pilot programs — for example, with technology and other staff — to promote timely testing and prototypes.⁶ This research also finds that time-consuming, rigid processes can cause significant delays if companies have to follow the same processes to develop innovations that they follow to develop traditional projects. These delays could cost the organization critical time in getting these innovations to market.

Developing a streamlined process to test ideas on a smaller scale will help the Postal Service prepare for full-scale pilot testing and achieve its aggressive revenue targets. We estimate that if the Postal Service had implemented Informed Delivery nationally in FY 2016, it would have generated \$8.35 million in additional revenue.

⁵ An example of a funding alternative would be to allocate a small percentage of the budget for funding initial experimentation and prototyping.

⁶ Leeb-du Toit, Rand & Fenn, Jackie. *Business Leaders and CIOs Must Change the Ground Rules for Disruptive Innovation to Succeed* (2013), <http://www.gartner.com/technology/home.jsp>.

Recommendations

We recommend management develop a streamlined pilot process to rapidly fund, create a prototype of, and test new ideas on a smaller scale.

We recommend the executive vice president, chief marketing and sales officer:

1. Develop a streamlined pilot process to rapidly fund, create a prototype of, and test new ideas on a smaller scale.

Management's Comments

Management agreed with our finding and partially agreed with our recommendation.

Regarding our finding, management agreed that if the Informed Delivery program had been rolled out nationally in FY 2016, the Postal Service would have potentially recognized \$8.3 in additional revenue.

Regarding our recommendation, management stated that there are always opportunities to streamline processes; however, this may require an additional investment. Therefore, management agreed to conduct a cost/benefit analysis of making such an investment. The planned completion date for this analysis is December 31, 2016.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issues identified in the report.

This recommendation requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

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Appendix A: Additional Information

Background

Evolving customer needs, constant technological advancements, and growing competition are influencing the Postal Service marketplace. Postal operators are continuously seeking ways to improve operations, identify new products, and enhance existing services through innovation to stay competitive. The Postal Service's ability to successfully innovate will be crucial to maintaining and growing its position in the competitive domestic and international postal marketplace.

The Postal Service has a development process for new ideas and innovations, which include developing a concept, creating a business plan, testing, and implementing the innovation. This process is used by departments throughout the Postal Service as they consider innovations under their purview. For this project, we focused our analysis on pilot programs that have a direct impact on Postal Service customers through improved and enhanced products or service offerings (these projects generally fall under the Postal Service's NPI group).

Multiple Postal Service departments and stakeholders are involved in pilot innovations during various developmental and implementation stages (such as generation, funding, research, prototyping, testing, evaluation, and implementation). For example, NPI gets ideas from customers, stakeholders, industry analysts, trend spotting, brainstorming sessions, and the Executive Leadership Team through national and local mailing industry meetings, workshare programs, and strategic relationships. In addition, the Unsolicited Proposal Program gives the public an opportunity to submit new technologies or ideas that would advance the mailing industry. Handbook F-66D requires ideas to:

- Align with the Postal Service mission
- Show a clear path to profitability
- Generate revenue
- Protect the postal brand and existing products or services

Postal Service pilots involve multiple legal and regulatory considerations. While the Postal Service may conduct market tests of experimental products,⁷ the product or service cannot create an unfair or inappropriate competitive advantage for the Postal Service or any mailer, particularly concerning small businesses. Furthermore, at least 30 days before initiating a market test, the Postal Service must file a notice describing the nature and scope of the market test with the Postal Regulatory Commission (PRC) and publish it in the *Federal Register*.

Objective, Scope, and Methodology

Our objective was to assess the Postal Service's processes for developing and implementing pilot programs related to new products and services. The scope of the audit was customer-oriented ideas and pilots over the last 5 years (FYs 2011-2015) and current activities. To accomplish our objective, we:

⁷ 39 CFR §3641.

- Reviewed the Postal Service's processes and procedures related to generating ideas and pilots.
- Collected and reviewed information on customer-oriented Postal Service pilot programs over the last 5 years (FYs 2011-2015) and future pilot ideas.
- Collected and analyzed Postal Service data used during the pilot process, including market research, goals, milestones, and time frames.
- Interviewed Postal Service officials at headquarters, area, and district offices for their insight and understanding of the Postal Service's pilot process.
- Interviewed select mailers and customers to capture their views on and participation in the Postal Service's pilot processes.
- Interviewed industry leaders for generating ideas and implementing pilots to determine related leading practices for obtaining ideas, and designing, implementing, and evaluating pilot programs.
- Reviewed research on leading practices for innovation and pilot programs.
- Reviewed documentation related to certain pilots that were subject to PRC regulatory oversight.
- Reviewed decision analysis reports and other financial justifications for pilot development, testing, and implementation.
- Reviewed past audit work of the OIG and the Government Accountability Office on Postal Service pilots.

We conducted this performance audit from December 2015 through August 2016 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on June 24, 2016, and included their comments where appropriate.

We assessed the reliability of Postal Service pilot program revenue data by comparing it to the Revenue, Pieces and Weight report, as well as through interviews with Postal Service officials. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Metro Post Same Day Delivery Pilot – San Francisco District</i>	DR-MA-14-002	2/5/2014	N/A
Report Results: Our report found that the Postal Service did not properly implement the pilot, as it did not have sufficient participation from the six selected retailers to achieve the required minimum daily target. We made no recommendations since corrective actions were in progress.			
<i>Nonmachinable Outside Parcels Pilot Program</i>	MS-MA-15-003	11/5/2014	N/A
Report Results: Our report found that the Postal Service did not consider about \$1 million in operational expenses when developing cost estimates for its nonmachinable outside pilot project. We recommended the Postal Service include all costs — internal and external — when evaluating the results of the pilot and before proceeding with a nationwide program. Management agreed with the recommendation.			

Appendix B: Management's Comments

JAMES P. COCHRANE
CHIEF MARKETING AND SALES OFFICER
EXECUTIVE VICE PRESIDENT



August 9, 2016

SHERRY FULLWOOD
ACTING DIRECTOR AUDIT OPERATIONS

SUBJECT: DRAFT U.S. Postal Service Pilot Programs
Project Number 16RG007MR000

The Postal Service has reviewed the findings and recommendations contained therein, a collective response is as follows:

The Postal Service agrees that if the Informed Delivery program had been rolled out nationally in fiscal year 2016, the Postal Service would potentially recognize \$8.3 million in fiscal year 2017.

RECOMMENDATION:

We recommend the executive vice president, chief marketing and sales officer:

1. Develop a streamlined pilot process to rapidly fund, create a prototype of, and test new ideas on a smaller scale.

The Postal Service partially agrees with the recommendation as there are always opportunities to streamline processes. However, streamlining such a process may require technological investment and the Postal Service will review the cost/benefit of such an investment.

Responsible Manager: CMSO, VP NPI

Target Implementation Date: Review cost/benefit by December 2016.

A handwritten signature in black ink, appearing to read "JPC", written over a light blue horizontal line.

James P. Cochrane

Attachments

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