OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Establishing New Retail Access Points

Audit Report

**Report Number
MS-AR-17-002**

December 12, 2016

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Highlights

The U.S. Postal Service's retail network is larger than McDonald's, Starbucks, and Walmart combined—with over 46,000 physical retail access points. These access points are locations where customers can purchase Postal Service products.

Background

The U.S. Postal Service's retail network is larger than McDonald's, Starbucks, and Walmart combined — with over 46,000 physical retail access points. These access points are locations where customers can purchase Postal Service products. They include traditional brick-and-mortar post offices and alternate access points such as self-service kiosks, contract postal units, community post offices, village post offices, and USPS approved shippers.

Population shifts, business growth, and technological developments continue to impact customer preferences and the Postal Service's retail footprint. The Postal Service recognizes the importance of cost-effectively aligning retail access points with these changes because it costs the Postal Service at least twice as much to collect one dollar of revenue at a Post Office compared to most alternate access points.

The Retail and Customer Service Operations group and other headquarters and field staff are involved in establishing new retail access points. Headquarters manages this program and evaluates proposals from the field for new post offices, contract postal units, and village post offices based on financial and service considerations. Field staff members are tasked with submitting evaluation proposals for alternate access points to headquarters based on identified needs.

The Postal Service opened 591 new retail access points in fiscal year 2016 — 102 contract postal units, 16 village post offices, and 473 approved shippers. Recent events, however, may limit future openings — on July 8, 2016, arbitration between the Postal Service and the American Postal Workers Union resulted in a 1 year moratorium on opening any new approved shippers, contract postal units, and village post offices.

Our objective was to evaluate the Postal Service's process for establishing new retail access points.

What the OIG Found

The Postal Service needs to improve its process for establishing new retail access points. The Postal Service does not always factor in its entire retail network or those of its competitors when assessing the need for new retail access points. Its assessment is not comprehensive because it does not have robust data analytics capabilities to evaluate new retail access point proposals. It also lacks a centralized system for tracking and recording the proposals, related documentation, and decisions. In addition, Postal Service policies for establishing retail access points do not reflect current best industry practices.

Leading practices emphasize the importance of advanced data analytics capabilities (such as location analytics that helps identify potential expansion opportunities based on local demographic, economic, competitive, and customer data) and updated policies when considering new retail access points.

We recognize the challenges and sensitivities faced by the Postal Service when attempting to optimize its retail network. Ongoing issues related to the Postal Service's data analytics capabilities and policies, however, could delay program improvements and negatively impact retail financial and operational performance and the customer experience.

What the OIG Recommended

We recommended management develop comprehensive data analytic capabilities across all retail channels to evaluate proposals for new retail access points; develop a centralized system for tracking and recording new retail access point proposals, key documentation, and decisions; and update existing policies for evaluating the need for new retail access points.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

December 12, 2016

MEMORANDUM FOR: KELLY SIGMON
VICE PRESIDENT, RETAIL AND CUSTOMER SERVICE
OPERATIONS

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 – Establishing New Retail Access Points
(Report Number MS-AR-17-002)

This report presents the results of our audit of Establishing New Retail Access Points
(Project Number 16RG008MS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any
questions or need additional information, please contact Joe Wolski, director, Retail,
Marketing and International directorate, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

Introduction

This report presents the results of our self-initiated audit of establishing new retail access points (Project Number 16RG008MS000). Our objective was to evaluate the U.S. Postal Service's process for establishing new retail access points. See Appendix A for additional information about this audit.

The Postal Service has the country's largest retail network—larger than McDonald's, Starbucks, and Walmart combined—with over 46,000[1] physical retail access points (see Table 1). These access points are locations where customers can purchase Postal Service products. They include traditional brick-and-mortar post offices and alternate access points such as self-service kiosks (SSK),[2] contract postal units (CPU),[3] community post offices (CPO),[4] village post offices (VPO),[5] and Postal Service approved shippers (approved shippers).[6]

Table 1. Total Retail Access Points, Fiscal Year (FY) 2016

TYPE	NUMBER	NEWLY ADDED IN FY 2016
Post Offices	31,585	0
CPUs	2,396	102
CPOs	489	0
VPOs	857	16
SSKs	2,837	0
Approved Shippers	8,253	473
Total	**46,417**	**591**

Source: Postal Service Address Management System and Retail and Customer Service Operations staff.

This vast retail network helps the Postal Service meet its universal service obligation[7] by providing customers access to essential postal services, meeting changing customer demands, and generating revenue.

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1   This total number of physical retail access points does not include roughly 20,000 Stamps to Go® locations, such as at grocery or other retail stores, that provide customers access to stamps.
2   SSKs are placed in select Post Office lobbies to handle limited transactions related to packages, letters, and stamps.
3   CPUs are post offices located inside retail establishments and operated by the retailers' employees.
4   CPOs are contract units that provide service in small communities where an independent post office has been discontinued. A CPO bears its community's name and ZIP Code™ as part of a recognized mailing address.
5   VPOs are operated by the management of convenience stores, gas stations, local businesses, or government agencies such as libraries.
6   Approved shippers are private retailers who provide mailing and shipping services to their customers (services for the Postal Service and competitors, i.e., FedEx®, UPS®).
7   39 U.S.C. 101 and 403, states that the Postal Service shall serve as nearly as practicable the entire population of the United States.

The Postal Service's Retail and Customer Service Operations group leads the organization's efforts to establish new retail access points by developing the overarching retail strategy and overseeing the implementation of the Postal Service's key strategic initiatives[8] related to transforming retail access. Other Postal Service Headquarters and field staff play key roles in supporting and implementing these efforts.

The Postal Service has various processes for evaluating the need for new access points.

The Postal Service has various processes for evaluating the need for new access points. For example, headquarters staff initiates the evaluation for SSKs; field staff typically initiate consideration of specific CPOs or CPUs; and private retailers propose to become approved shippers. Headquarters and field staff consider various financial, economic, customer accessibility and convenience, and demographic information when evaluating these proposals. Postal Service policy[9] states that a community's current and future needs should be considered, to the extent possible, when a specific site is selected for a new or relocated retail facility.

Population shifts, business growth, and technological developments continue to impact customer preferences and the Postal Service's retail network.

Population shifts, business growth, and technological developments continue to impact customer preferences and the Postal Service's retail network. The Postal Service has made significant strides to enhance its digital retail access points such as USPS.com and various mobile applications. At the same time, the Postal Service continues to recognize the importance of cost-effectively aligning its physical retail footprint with these changes and other financial considerations because it costs the Postal Service about 77 cents to generate a dollar of revenue at VPOs, while it costs about 2.7 cents to generate one dollar of revenue at approved shippers (see Table 2). The Postal Service has tried to emphasize more cost-effective retail channels.

Table 2. Cost per Revenue Dollar Comparison across Various Retail Channels

RETAIL ACCESS POINT*	COST PER $1 OF REVENUE
VPOs	■
Post Offices	■
CPUs	■
SSKs	■
Approved Shippers	■

Source: Postal Service Retail Channel Cost Model.

* CPO's cost per $1 of revenue was unavailable.

While many customers welcome new retail locations, the decision to add new access points can nonetheless be controversial. On July 8, 2016, arbitration between the Postal Service and the American Postal Workers Union resulted in a 1 year moratorium on opening any new approved shippers, CPUs, and VPOs.

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8 The Postal Service's Delivering Results, Innovation, Value and Efficiency (DRIVE) program is designed to improve business strategy development and execution. DRIVE Initiative 3 has nine roadmaps for optimizing retail channels and access points, simplifying retail products and services, and enhancing the customer's experience.
9 Postal Operations Manual (POM) 9, Section 121.

Summary

The Postal Service needs to improve its process for establishing new retail access points. The Postal Service does not always factor in its entire retail network or those of its competitors when assessing the need for new retail access points. Its assessment is not comprehensive because it does not have robust data analytics capabilities to evaluate new retail access point proposals or a centralized system for tracking and recording the proposals, related documentation, and decisions. In addition, Postal Service policies for establishing retail access points do not reflect current best industry practices.

Leading practices emphasize the importance of advanced data analytics capabilities (such as location analytics that helps identify potential expansion opportunities based on local demographic, economic, competitive, and customer data) and updated policies when considering new retail access points.

We recognize the challenges and sensitivities faced by the Postal Service when attempting to optimize its retail network. Ongoing issues related to the Postal Service's data analytics capabilities and policies, however, could delay program improvements and negatively impact retail financial and operational performance and the customer experience.

Process for Evaluating New Retail Access Points

The Postal Service has various processes for evaluating the need for new retail access points. Shortcomings in these processes, particularly those related to limited data analytics capabilities and outdated policies, may inhibit the Postal Service's ability to cost-effectively align its retail network with changing customer demands.

The Postal Service does not always factor in its entire retail footprint or competitors' retail locations when assessing the need for new retail access points. For example, Postal Service management stated they review proposals for new VPOs and approved shippers without taking into consideration its retail footprint or competitors' retail locations. This is somewhat problematic given that the majority of new retail access points added in FY 2016 (489 of 591) were approved shippers and VPOs.

These omissions occurred because the Postal Service does not have data analytics and systems to support the process. First, the Postal Service does not have robust data analytic capabilities across all retail channels to evaluate proposals for new retail access points. It has developed advanced capabilities for its SSKs and CPUs—a Geographic Information System (GIS) model for CPUs and comprehensive quantitative analysis for SSKs. But, it does not have comparable analytic capabilities for CPOs, VPOs, approved shippers, or post offices.

Second, the Postal Service lacks a centralized system for tracking and recording new retail access point proposals, key documentation, and decisions. For example, retailers wishing to participate in the approved shippers program must first submit inquiries and proposals to the Postal Service. But, the Postal Service does not have a system to track and record the proposals, key documentation relating to them, or subsequent evaluations and decisions (deciding to approve or reject the proposal, and the basis for the decision).

Leading industry practices note the importance of advanced data analytics capabilities and emphasize the importance of using data to drive decisions regarding establishing new retail access points. The Harvard Business Review stated that failing to use location analytics could cause a major competitive gap.[10] Furthermore, these leading practices emphasize the need for centralized

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10 Harvard Business Review, *How Location Analytics Will Transform Retail*, March 12, 2014.

The Postal Service does not always factor in its entire retail network or those of its competitors when assessing the need for new retail access points.

Postal Service does not have robust data analytic capabilities across all retail channels to evaluate proposals for new retail access points.

systems to track and record key actions and information so organizations can carefully monitor their decision-making throughout the entire process: receiving proposals, evaluating, decision-making, and post-implementation performance reviews.

Postal Service staff members recognize the shortcomings in their data analytics and systems, stating they plan to continue developing related enhancements including adding all retail access points in their CPU GIS model. However, until corrective actions are taken, the Postal Service will be challenged in effectively evaluating the need for new retail access points.

Policies

The Postal Service's policies related to new retail access points are outdated and do not reflect current industry best practices. Its policies largely pertain to opening post offices—actions the Postal Service is rarely pursuing—and do not significantly address alternative access points. Furthermore, Postal Service staff at headquarters and in the field[11] acknowledged that these policies are not being followed. In general, they explained, the organization's approach to considering new alternative access points is more ad hoc than formal.

The Badlands Post Office in Williston, ND, which was opened in 2014, is an example of how the Postal Service was not following policy or incorporating advanced data analytics. Propelled by a massive oil boom, North Dakota's Bakken region experienced significant population growth, which stressed the state's existing Postal Service retail window resources and infrastructure. If the Postal Service followed its policy and incorporated advanced data analytics, it may have identified the need earlier.[12]

Leading organizations establish high-level, organization-wide policies when evaluating new retail access points.[13] Since corporate policies and local knowledge are both critical, the Postal Service must incorporate formal policies to enhance its decision-making process.

We recognize the challenges and sensitivities the Postal Service faces when attempting to optimize its retail network. But, ongoing issues relating to its data analytics capabilities and policies could delay program improvements and negatively impact retail financial and operational performance and the customer experience. Postal Service management have informed us that they are in the process of developing new policies to formalize current procedures.

The Postal Service's policies related to new retail access points are outdated and do not reflect current industry best practices.

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11 We interviewed key headquarters personnel, along with seven area marketing managers and 14 district managers, who all said the policies did not reflect current practices. Representatives from each area were interviewed. District staff were judgmentally chosen for interviews based an analysis of walk-in-revenue.

12 *North Dakota Postal Service Operations* (Report Number DR-AR-15-004, dated March 31, 2015) – noted that Postal Service management actions to add a retail unit (Badlands) in Williston and additional retail outlets and SSKs in the state helped improve conditions and address growing service challenges.

13 *Performance Standards (GIPS®)*, United States Investment Performance Committee, July 2013.

Recommendations

We recommend management develop comprehensive data analytic capabilities across all retail channels to evaluate proposals for new retail access points; develop a centralized system; and update existing policies.

We recommend the vice president, Retail and Customer Service Operations:

1. Develop comprehensive data analytic capabilities across all retail channels to evaluate proposals for new retail access points.

2. Develop a centralized system for tracking and recording new retail access point proposals, key documentation, and decisions.

3. Update existing policies for evaluating the need for new retail access points.

Management's Comments

Management disagreed with the characterizations made in the report, and emphasized the importance of having the flexibility to quickly adapt to a changing and dynamic retail landscape. They stated that increasing brick and mortar locations or contractual agreements may not be as effective as supporting their current infrastructure or enhancing their digital capabilities. Management also stated the Postal Service needs to meet the needs of the customer in ways that are most relevant to them, and does not agree that the only way to do this is by establishing more physical access points. Management agreed with all recommendations.

Regarding recommendation 1, management agreed to utilize the same analytics and GIS modeling across all retail channels. Management noted that this will be supplemented with a Market Analysis Summary which will cover revenue, operations, customer demographics, and Competitive/USPS footprints. The target implementation date is December 31, 2017.

Regarding recommendation 2, management agreed to establish a repository for field initiated requests for additional retail access points. The target implementation date is June 30, 2017.

Regarding recommendation 3, management agreed to update the current policies and procedures that are out of date. The target implementation date is December 31, 2017.

See Appendix B for management's comments, in their entirety.

Evaluation of Management's Comments

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

Regarding management's comment that they disagree with the characterizations made in the report, our intentions were not to suggest increasing the number of brick and mortar locations, but instead focus on the need to enhance the Postal Service's ability to evaluate the need for new retail access points. The shortcomings in these Postal Service processes for evaluating the need for new retail access points that we reported—particularly those related to limited data analytics capabilities and outdated policies— may inhibit the Postal Service's ability to cost-effectively align its retail network with changing customer demands.

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

Appendices

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Background

The Postal Service consistently makes changes to the size of its vast retail network. Table 3 shows the changes in retail access points from FY 2014 through FY 2016.

Table 3. Number of Postal Service Retail Access Points – FY 2014 Through FY 2016

Retail Access Point	FY 2014	FY 2015	FY 2016
Post Offices	31,662	31,606	31,585
CPUs	2,660	2,504	2,396
CPOs	560	536	489
VPOs	767	874	857
SSKs	2,838	2,838	2,837
Approved Shippers	6,175	7,817	8,253
Total	**44,662**	**46,175**	**46,417**

Source: Postal Service FY 2015 Annual Report, Address Management System, and Retail and Customer Service Operations Group staff.

The Retail and Customer Service Operations Group is leading the Postal Service's overall efforts to establish new and varied retail access points, while other headquarters and field staff are involved in this process. The Postal Service has developed individual processes to use when evaluating the need for a new retail access point (see Table 4).

Table 4. Processes for Evaluating the Need for New Retail Access Points

Retail Access Point	Strategy	Status
Post Offices	District conducts self-study every 5 years, including assigning a district coordinator to monitor potential retail expansion.	No longer being implemented.
CPUs	Private business owner makes request to Postal Service district. After review, the district forwards potential options to headquarters staff for review using GIS data and other tools. The Postal Service has set a $100,000/year revenue target for each new CPU proposal.	Active and locally initiated.
CPOs	Private business owner makes request to Postal Service district. After review, the district forwards potential options to headquarters staff for review using GIS data and other tools. There is no revenue target.	Active and locally initiated.
VPOs	District can establish new VPOs based on local needs without headquarters' approval. The Postal Service has set a $2,000/year revenue target for each VPO.	Active and locally initiated.

Retail Access Point	Strategy	Status
SSKs	Headquarters initiates assessment with area's cooperation to determine SSK locations. The approval is based on several indicators including type and number of transactions, and availability of physical space.	SSK deployment is pending financial approval.
Approved Shippers	Private business owner makes request to headquarters. Headquarters staff review large multi-location requests and forwards small business requests for district's review. The approval is based on need with no revenue target.	Active and locally initiated.

Source: OIG conclusions based on Postal Service criteria reviews and Postal Service management interviews.

Objective, Scope, and Methodology

Our objective was to evaluate Postal Service's process for establishing new retail access points. To accomplish our objective, we:

- Reviewed Postal Service policies and processes for establishing retail access points.

- Obtained and documented Postal Service definitions for retail access points, criteria, standard operating procedures, and assessment documentation.

- Reviewed data provided by the Postal Services to determine the number of retail access points opened or closed between FY 2014 and FY 2016.

- Interviewed Postal Service Headquarters Retail Operations and area and district management to determine whether the guidelines and procedures were being followed and are optimal for today's business environment. Representatives from all seven Postal Service areas were interviewed. District offices for interviews were judgmentally selected based on an evaluation of walk-in-revenue in each district.

- Obtained and reviewed status document for DRIVE 3.

- Reviewed business journals and other literature to determine best practices, including information from Harvard Business Review, Forbes.com, Corporate Executive Board Risk Management Leadership Council, and United States Investment Performance Committee.

We conducted this performance audit from December 2015 through December 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 October 25, 2016, and included their comments where appropriate.

We used data from the Postal Service Enterprise Data Warehouse dashboard and the Contract Postal Unit Technology and Address Management systems for the period of FY 2014 through FY 2016. We did not directly audit the systems, but assessed the reliability of systems' data by reviewing existing information about the data and the systems that produce them, and interviewing agency officials knowledgeable about the data. We also analyzed the data, compared it to published reports, and followed up with Postal Service management when discrepancies were found. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
Delivering Results, Innovation, Value, and Efficiency 3 – Optimize Retail Platform	To determine whether DRIVE Initiative 3 used established DRIVE project management processes.	CP-AR-16-008	7/13/2016	None
Retail Opportunities for the U.S. Postal Service	To review opportunities to optimize retail opportunities for post offices.	MS-WP-15-004	9/8/2015	None
Oversight of the Approved Shippers Program	To determine whether there was adequate oversight of the Approved Shippers Program and evaluate whether the new Staples Approved Shipper Agreement is consistent with others in the program.	SM-AR-15-004	5/26/2015	$53
North Dakota Postal Service Operations	To assess selected Postal Service operations in North Dakota.	DR-AR-15-004	3/31/2015	None

Appendix B: Management's Comments

KELLY M. SIGMON
VICE PRESIDENT, RETAIL AND CUSTOMER SERVICE OPERATIONS

UNITED STATES POSTAL SERVICE

November 28, 2016

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Establishing New Retail Access Points
             (Report Number MS-AR16-DRAFT)

With more than 46,000 physical access points, the Postal Service already commands one of the largest retail network in the nation. This number does not include the over 62,000 locations that sell postage stamps through our Stamps to Go program. As the report highlights, the Postal Service remains committed to providing universal service to the American public through a variety of retail channels, both physical and digital.

The Postal Service disagrees with the characterizations made in this report.   It is critical for the Postal Service to have the flexibility to quickly adapt to a changing and dynamic retail landscape. In many instances, increasing brick and mortar locations or adding to the number of contractual agreements may not be as effective as supporting current infrastructure or enhancing our digital capabilities. Furthermore, the Postal Service has invested in advanced analytics, website applications and Geographic Information System (GIS) modeling to assist with evaluating the need for new access points. Currently, the Postal Service uses locally initiated approach, which is evaluated by the Area and Headquarters using the tools mentioned in the previous paragraph.

In today's dynamic retail environment, it is more important now more than ever that the Postal Service meet the needs of our customers in ways that are most relevant to them. Management does not agree that the only way to do this is by establishing more physical access points.

Recommendation #1:
Develop comprehensive data analytic capabilities across all retail channels to evaluate proposals for new retail access points.

Management Response/Action Plan:
Management agrees to utilize the same analytics and GIS modeling across all retail channels. This will be supplemented with a Market Analysis Summary which will cover revenue, operations, customer demographics and Competitive/USPS footprints. The OIG has recognized these tools as an effective means for evaluating proposals of new retail access points.

Target Implementation Date:
December 2017

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Responsible Official:
Vice President Retail and Customer Service Operations

Recommendation #2:
Develop a centralized system for tracking and recording new retail access point proposals, key documentation, and decisions.

Management Response/Action Plan:
Management agrees to establish a repository for field initiated requests for additional retail access points.

Target Implementation Date:
June 2017

Responsible Official:
Vice President Retail and Customer Service Operations

Recommendation #3:
Update existing policies for evaluating the need for new retail access points.

Management Response/Action Plan:

Management agrees to update the current policies and procedures that are out of date.

Target Implementation Date:
December 2017

Responsible Official:
Vice President Retail and Customer Service Operations

Kelly M. Sigmon
Vice President
Retail & Customer Service Operations

cc: David E. Williams
    Manager, Corporate Audit Response Management

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