The Path Forward for the Postal Service Loyalty Program

AUDIT REPORT
Report Number 23-072-R23 | September 14, 2023

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Highlights

Background

The Postal Service's Loyalty Program helped to foster the shipping business growth outlined in the *Delivering for America* 10-year plan, with 1.2 million users and over $700 million in revenue since its inception in 2020. The goal was to offer Click-N-Ship users incentives to grow their businesses, drive customer retention, and increase the Postal Service's revenues and share of the micro business segment. However, the Postal Service found the program did not align with these key objectives, so they sunset the program in June 2023 and intend to announce a new loyalty program for January 2024. Moving forward, applying lessons learned from its prior loyalty program could help the Postal Service drive customer retention, growth, and financial stability as intended.

What We Did

Our objective was to evaluate the USPS Loyalty Program's performance, customer experience, and management. We reviewed related regulatory filings and business rules, interviewed Postal Service officials, and analyzed user feedback.

What We Found

The Postal Service has opportunities to improve the management of its future loyalty program. For its previous program, management did not set targets to measure key performance objectives, such as customer retention, attrition, or annual revenues. This occurred because officials did not employ best practices to set goals for objective attainment. Going forward, establishing targets at the new program's start would ensure that management could assess growth and other success measures.

In addition, communication and program design issues negatively impacted loyalty program customer experiences and growth. Customers expressed confusion about how to use the program's features, such as enrollment and tiers, and credit redemption and expiration. This resulted from the lack of a comprehensive communication strategy to promote awareness and functionality. For program design, customers noted that spending requirements were unattainable. Accordingly, over 90 percent of customers fell short of earning any discounts in fiscal year 2022, with approximately 70 percent spending less than the year prior. The Postal Service is modifying the pricing structure and has an opportunity to design a new program that grows its shipping business by meeting customers' needs.

Recommendations

We recommend management establish performance targets aligned with key objectives for effective program management, develop a comprehensive communication strategy that promotes awareness for customers, and conduct an evaluation of customer spending requirements and discounts.

Transmittal Letter

September 14, 2023

MEMORANDUM FOR: SHEILA B. HOLMAN
                       VICE PRESIDENT, MARKETING

[signature: Amanda H. Stafford]

FROM: Amanda Stafford
              Deputy Assistant Inspector General
               for Retail, Marketing & Supply Management

SUBJECT: Audit Report – The Path Forward for the Postal Service Loyalty Program
                 (Report Number 23-072-R23)

This report presents the results of our audit of the Postal Service Loyalty Program.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Matthew Miller, Acting Director, Sales, Marketing & International, or me at 703-248-2100.

Attachment

cc: Postmaster General
    Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the USPS Loyalty Program (Project Number 23-072). Our audit objective was to evaluate the USPS Loyalty Program's performance, customer experience, and management.

The USPS Loyalty Program, an incentive program for Click-N-Ship[1] business users, allowed customers to earn and apply discounts (or credits) toward qualifying Priority Mail and Priority Mail Express purchases. Since its inception in August 2020, 1.2 million Loyalty Program users generated over $700 million in revenue and redeemed nearly $40 million in credits. See Appendix A for additional information about this audit.

Background

In August 2020, the Postal Service's Small Business Market Strategy team launched the Loyalty Program in response to the Board of Governors' request to better serve micro and small businesses.[2] This program was designed to help these entities grow their businesses and promote Postal Service package growth, drive customer retention, and increase the Postal Service's share of this business segment.

To ensure a seamless experience, eligible customers were automatically enrolled[3] in the Loyalty Program, offering them various benefits. For instance, customers could earn $40 in credits for every $500 spent on eligible products. New customers joining the program at its inception were eligible for a one-time $40 welcome bonus, along with a $20 shipping credit to assist with pandemic-related costs. By the conclusion of 2020, the Postal Service enrolled over 600,000 customers, resulting in the issuance of $4.7 million in credits.

In 2021, to foster the shipping business growth outlined in the *Delivering for America* 10-year plan, the Postal Service aligned the Loyalty Program, a key aspect of the Delivering for Main Street initiative, with the broader *Delivering for America* plan. The Postal Service tracked the Program's enrollment

via its Get It Right initiative, which identifies core strategies to deliver valuable services to the public while being financially sustainable under the plan. The Loyalty Program was meant to position the Postal Service as the industry leader for small business solutions and, as such, encourage small businesses to grow their package business with the Postal Service.

That same year, the Postal Service implemented a new loyalty structure consisting of three tiers: base, silver, and gold. These tiers offered increasing rewards to customers based on their spending. At the base tier, customers earned $40 for every $500 spent without any annual spending requirements. Silver and gold tier customers, on the other hand, earned $50 for every $500 spent or could access commercial pricing discounts, respectively. However, silver and gold tier customers needed to meet significant annual spending thresholds.[4]

> " Since the Loyalty Program's inception, roughly 99 percent of customers remained in the base tier. "

To ensure proper tier assignment, the Click-N-Ship and Loyalty Program Application teams conducted a yearly review. This review evaluated each customer's annual spending by the end of the calendar year, resulting in their assignment to the appropriate loyalty tier. Starting January 1 of each year, customers could earn and apply credits at their assigned tier for the remainder of the calendar year.

Since the Loyalty Program's inception, roughly 99 percent of customers remained in the base tier. To enhance the program further and encourage customer growth, the Postal Service sought customer feedback through annual focus groups and surveys. These inputs assisted in devising strategies to incentivize and support customer expansion moving forward.

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1   In 2002, the Postal Service launched Click-N-Ship, a free, web-based application which allows individual or small shippers to generate shipping labels online.
2   Micro businesses ship less than ten packages per day.
3   Automatic enrollment required customers to register for a Click-N-Ship business account and purchase Priority Mail or Priority Mail Express labels.
4   The Loyalty Program's silver and gold tier customers were required to meet a $10,000 or $20,000 annual spend, respectively, on qualifying Priority Mail and Priority Mail Express purchases.

In May 2023, the Postal Service introduced a significant update to Click-N-Ship by extending commercial pricing to all users who upgraded to the enhanced software version. The goal was to enhance the Postal Service's competitiveness in the small and micro business marketplace. However, by offering commercial pricing to all customers, which was previously exclusive to gold tier customers, the Loyalty Program became obsolete. Consequently, the Postal Service decided to sunset the Loyalty Program, recognizing that it may no longer serve as an attractive incentive for customers to continue using Click-N-Ship.

Effective June 2023, customers no longer earned Loyalty Program credits. However, they will have until June 2024 to apply any remaining credits toward eligible purchases. While the process of sunsetting the current program is underway, distilling insights from lessons learned can provide opportunities to enhance the Postal Service's new loyalty program, scheduled for introduction in January 2024.

Finding #1: Program Management Needs Improvement

As the Postal Service transitions to a new loyalty program, management could benefit from several improvements and apply lessons learned from how it managed its prior Loyalty Program. First, we discovered a lack of targets to effectively measure the performance of key Loyalty Program objectives. This absence of measurable targets hinders management's ability to assess the program's effectiveness and make informed decisions. Second, the Loyalty Program's customer experiences had been adversely affected by communication and program design issues. Addressing these concerns is crucial to ensure a positive and seamless experience for future program participants.

Established Performance Targets Did Not Meet Program Objectives

Management's lack of targets for measuring key Loyalty Program objectives—including customer retention, attrition, and annual revenues—is a significant oversight as these metrics would allow management to monitor progress on stated Program objectives. While the Postal Service reported customer enrollment for its related Get It Right initiative and tracked other key performance indicators, it did not set meaningful targets to drive Loyalty Program growth. Government standards

> **"**We found that nearly 70 percent of Loyalty Program participants in FY 2022 were already Click-N-Ship customers with the Postal Service prior to the launch of the Loyalty Program, confirming that enrollment figures did not represent new customer growth.**"**

dictate that management should establish and monitor performance measures and indicators to assess a program's success.[5] Despite the availability of customer data, management did not set targets or measure customer retention, a key pillar of the Loyalty Program. We determined that the Loyalty Program's customer retention rate was approximately 60 percent from fiscal year (FY) 2021 to FY 2022, a benchmark management could have used to establish and evaluate an essential aspect of program performance.

Management previously tracked total enrollment in the Loyalty Program and has since began tracking incremental growth. Performance targets related to program enrollment (cumulative or incremental) posed two issues. First, the enrollment metric is misleading because customers are automatically enrolled in the Loyalty Program, rendering it an inaccurate representation of program participation. We found that nearly 70 percent of Loyalty Program participants in FY 2022 were already Click-N-Ship customers with the Postal Service prior to the launch of the Loyalty Program, confirming that enrollment figures did not represent new customer growth. Second, management did not track the percentage of enrolled customers actively engaged in the program. Our analysis of FY 2022 data revealed that nearly 40 percent of all enrolled customers were considered inactive as they did not make qualifying purchases. Further, approximately 70 percent of FY 2021 participants spent less in FY 2022. Of those declining accounts, 56 percent spent nothing in FY 2022. This highlights a significant gap in tracking

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5   Government Accountability Office *Standards for Internal Control in the Federal Government*, Principle 10.03 Design of Appropriate Types of Control Activities; September 2014.

active program participants and raises concerns about the program's effectiveness in driving customer engagement, such as retention and revenue growth.

We also observed a general decline in program enrollment and other metrics since the inception of the program, as shown in Table 1. Management stated that there was an absence of formalized targets at the program's initiation and a lack of comparable benchmarks. However, performance targets exist for other Postal Service programs and are supported by leading practices.

> " Loyalty Program customer experiences were significantly impacted by communication and program design issues. "

Management conducted extensive research and benchmarking of external loyalty programs and their features to help inform the Loyalty Program's design, including its reward structure. However, the Postal Service did not employ the best practices they found relating to program management, including how to establish performance targets and leverage customer data. As a result, the Postal Service did not manage its Loyalty Program in a way that effectively fostered customer engagement and growth, as the program intended. A continued absence of performance targets, particularly those aligned with key objectives, will hamper the Postal Service's ability to meaningfully assess performance under the new program and adapt to the evolving needs of consumers.

To set the forthcoming loyalty program up for success, it is critical for management to establish clear and measurable growth targets for future program objectives. These targets should align with industry benchmarks and best practices that management identifies, enabling the Postal Service to accurately evaluate program performance and respond effectively to customer demands. By setting performance targets and actively monitoring progress, the Postal Service can foster the success and long-term viability of any future loyalty program, ultimately delivering enhanced value to customers and the organization.

Ineffective Program Communication and Design Drive Negative Customer Experience

Loyalty Program customer experiences were significantly impacted by communication and program design issues. Our review of customer feedback revealed a widespread lack of awareness among customers regarding the Loyalty Program, its enrollment process, and fundamental features, such as earning and applying credits. Postal Service policy[6] mandates marketing efforts that promote knowledge of its offerings and ensure accurate customer communication. However, despite receiving consistent customer feedback, management did not take sufficient steps to employ communication strategies that addressed customers' needs, like awareness of program functionality.

Table 1. Loyalty Program Key Performance Indicators in Decline

	Enrolled Customers	Customers Issued Credits	Revenue (in millions)	Transactions (in millions)	Credits Issued (in millions)	Credits Used (in millions)	Credit Redemption Rate
FY 2021[7]	491,000	30,000	$274.4	15.8	16.8	13.8	82%
FY 2022[8]	⊕ 227,000	⊕ 13,000	⊕ $251.3	⊕ 13.9	⊕ 14.5	⊕ 14.4	99%
FY 2023[9]	⊕ 110,000	⊕ 3,000	⊕ $166.7	⊕ 8.4	⊕ 9.1	⊕ 8.9	98%

Source: OIG analysis of Loyalty Program data.

6 United States Postal Service *Administrative Support Manual*, Issue 13, Policy No. 335.1; July 1999 (updated through 2/28/23) and *Postal Operations Manual*, Issue 9, Policy No. 167.34; dated July 2002 (updated through 2/28/23).
7 FY 2021 ran from October 1, 2020 through September 30, 2021.
8 FY 2022 ran from October 1, 2021 through September 30, 2022.
9 FY 2023 ran from October 1, 2022 through June 9, 2023.

The Postal Service primarily relied on one communication channel, the Loyalty Program's webpage, to disseminate critical program information to prospective and ongoing program participants, including announcements and answers to frequently asked questions. While the webpage provided reliable information, there were significant opportunities to raise awareness amongst prospective customers and to educate ongoing participants about the future of the Loyalty Program. For example, to meet customer expectations and maximize program effectiveness, diversifying communication channels (i.e., email communications, webpage updates, social media announcements, etc.) and implementing targeted marketing strategies would have fostered program engagement through information sources that met their needs. For example, the Postal Service made recent efforts to communicate the Loyalty Program's sunset to customers through frequent and scheduled email communications in addition to webpage updates. We suggest implementing similar strategies to ensure customers are aware of the upcoming loyalty program and how to use it.

Further, the Postal Service did not accurately communicate a key program feature. Our customer feedback review noted that, starting in September 2021, customers received inaccurate information about the Loyalty Program's one-time welcome bonus that had expired in August 2021. Through May 2023, the Postal Service inconsistently communicated to customers that the welcome bonus was still available, despite its expiration almost two years prior. This discrepancy in messaging and customers' lack of program knowledge can be attributed to the absence of a comprehensive communication strategy by management to promote awareness and educate

> "Additionally, we found that over 90 percent of program participants in the base tier failed to earn discounts because their spending fell short of the required $500 threshold to earn credits."

customers about the program. By establishing a robust and proactive communication plan, the Postal Service can ensure that customers are well-informed about program details, updates, and any changes, thereby enhancing their overall experience and engagement with a future loyalty program.

In terms of design, customers raised concerns regarding the attainability of spending thresholds to receive discounts under the Loyalty Program. The program's goal was to incentivize customers to ship with the Postal Service and increase their expenditures. However, customer feedback in the base tier, which constituted over 99 percent of program enrollment, revealed that the reward structure—particularly the $10,000 and $20,000 annual spend requirements for the silver and gold tiers, respectively—were perceived as unattainable. As a result, customers were not incentivized to grow their shipping business with the Postal Service.

Our analysis of FY 2022 data supports the concerns raised. First, less than half a percent of program participants qualified for silver or gold tiers, confirming that the annual spend requirements for these higher tiers far exceed customers' actual expenditures. Additionally, we found that over 90 percent of program participants in the base tier failed to earn discounts because their spending fell short of the required $500 threshold to earn credits, as depicted in Figure 2. This significant disparity is due to a clear misalignment between the program's intended reward structure and the actual enrollment, participation, and earning patterns of customers.

Customer Expenditures Falls Short of Earning Loyalty Rewards (FY 2022)

The Loyalty Program is broken out into three tiers.

Base and Silver tier customers receive a discount for every **$500** they spend on **Priority Mail** and **Priority Mail Express**.

91.4% Did not earn a discount   **8.4%** Earned a discount

Base Tier | 99.7%
$0 *to* 9,999.99

Silver Tier | 0.2%
$10,000 *to* 19,999.99

Gold Tier | 0.1%
$20,000+

(!) **Approximately 91.4% of all the participants for FY22 spent at or below $499.99 and did not earn a discount under the loyalty program.**

Source: OIG analysis of Loyalty Program data.

To enhance the Postal Service's future loyalty program's effectiveness and meet customer expectations, it is imperative for management to undertake a thorough evaluation of the spending requirements and corresponding discounts. By establishing more realistic and attainable spending thresholds, the Postal Service can ensure a larger proportion of customers actively participate in and derive benefits from a future loyalty program. This strategic adjustment will not only bolster customer satisfaction but also drive increased engagement and expenditures, which should be fundamental objectives of any loyalty program.

Looking Forward

We acknowledge that the Postal Service is modifying the pricing design to remain competitive by extending commercial pricing to all Click-N-Ship business users. As management formulates any new loyalty program, it is crucial to consider a structure that effectively incentivizes customer growth, fosters loyalty, and remains financially feasible for both the Postal Service and its customers. By striking the right balance, the Postal Service can establish a loyalty program that is mutually beneficial and aligns with the needs and expectations of its customer base.

Recommendation #1
We recommend that the **Vice President of Marketing** establish performance targets aligned with the key objectives of a new loyalty program and establish parameters to actively monitor progress for effective program management.

Recommendation #2
We recommend that the **Vice President of Marketing** develop a comprehensive communication strategy for a new loyalty program that promotes awareness of functionality for prospective, and once enrolled, ongoing customers.

Recommendation #3
We recommend that the **Vice President of Marketing** conduct an evaluation of customer spending requirements and discounts, related to any future loyalty program, to ensure the program's design promotes customer engagement and shipping growth.

Other Matters

The Postal Service failed to report annual Loyalty Program information to the Postal Regulatory Commission (PRC), as required. Specifically, as a condition of the PRC's approval of the Loyalty Program, the Postal Service was required to report revenue and cost data to the PRC to be included in its Annual Compliance Report beginning in FY 2020.[10] Although the Postal Service recently provided program data at the request of the PRC, the response did not include revenue and cost data. We will not be making a recommendation on this issue because the Loyalty Program was sunset as of June 2023; however, we will determine if this regulatory compliance reporting issue requires further oversight.

Management's Comments

Management agreed with the finding and recommendations. Further, they acknowledge that the previous loyalty program, which was sunset in June 2023, could have been stronger. The Postal Service is determining the feasibility of a future loyalty program that they plan to implement in Summer 2024, if approved.

Regarding recommendation 1, management stated that they agree that the establishment of performance targets aligned to key objective(s), and the monitoring and tracking of performance against those targets is sound business practice. The Postal Service indicated any new loyalty program would adhere to that practice.

Regarding recommendation 2, management stated that they acknowledge the loyalty program lacked a comprehensive communication strategy and agree that any new loyalty program would have a comprehensive communication plan for acquisition and retention of program participants.

Regarding recommendation 3, management stated that there is no intention to include discounts on a potential new loyalty program and agree that any new loyalty program will include an evaluation of customer spending to ensure that the program design promotes customer engagement and volume growth.

After the receipt of management comments, the Postal Service informed us that they will complete corrective action for these recommendations by September 8, 2024.

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

Evaluation of Management's Comments

We consider management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

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

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10   Postal Regulatory Commission Order No. 5561, Docket No. CP2020-166.

Appendices

Appendix A: Additional Information

Scope and Methodology

Our audit scope was Click-N-Ship business users purchasing Priority Mail and Priority Mail Express products. The nationwide review covered transactions from April 2020 through June 2023 prior to the program's sunset. To accomplish our objective, we:

- Obtained and reviewed documentation related to the Loyalty Program, including strategic plans and objectives for the program, marketing materials related to program features, and customer correspondence about the Loyalty Program.

- Reviewed planning documentation and other information related to the Loyalty Program's history, design, and objectives.

- Reviewed regulatory filings, updates to the Mail Classification Schedule, Postal Service strategy documents, and PRC filings related to the Loyalty Program.

- Reviewed and analyzed FY 2021 and FY 2022 participant-level data.

- Reviewed academic literature surrounding best practices for loyalty programs.

- Interviewed Postal Service staff and managers.

We conducted this performance audit from March through September 2023 in accordance with generally accepted government auditing standards. We 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 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 August 17, 2023, and included their comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the Loyalty Program's internal control structure to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the following three components were significant to our audit objective: control activities, information and communication, and monitoring.

We developed audit work to ensure that we assessed these controls. Based on the work performed, we identified significant internal control deficiencies within the context of our objectives. Our recommendations, if implemented, should correct the weaknesses we identified for future programs.

We assessed the reliability of computer-generated data from the Postal Service's Application System Reporting database by reviewing the data and interviewing Postal Service officials. We assessed the reliability of staff-generated data from Postal Service employees by reviewing the data and interviewing Postal Service officials. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit within the last five years.

Appendix B: Management's Comments

![UNITED STATES POSTAL SERVICE]

September 7, 2023

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: The Path Forward for the Postal Service
Loyalty Program (23-072-DRAFT)

Thank you for providing the Postal Service with an opportunity to review and
comment on the findings and recommendations contained in the draft report – *The
Path Forward for the Postal Service Loyalty Program.*

The Postal Service acknowledges that the previous loyalty program could have been
stronger. That program was sunset in June 2023. The Postal Service is conducting
internal work to determine the feasibility of a future state loyalty program, subject to
BOG and PRC (if required) approval. Our goal is to implement that new program in
Summer 2024.

Following is management's response to the three recommendations.

Recommendation 1:
We recommend that the **Vice President of Marketing** establish performance targets
aligned with the key objectives of a new loyalty program and establish parameters to
actively monitor progress for effective program management.

> Management Response 1:
> Management agrees that the establishment of performance targets aligned to
> key objectives, and the monitoring and tracking of performance against those
> targets is sound business practice. Any new loyalty program will adhere to
> that practice.

> Target Implementation Date: TBD

> Responsible Official: Sheila Holman, VP Marketing USPS

Recommendation 2:
We recommend that the **Vice President of Marketing** develop a comprehensive
communication strategy for a new loyalty program that promotes awareness of
functionality for prospective, and once enrolled, ongoing customers.

> Management Response 2:
> Management acknowledges that the sunset loyalty program was lacking in a
> comprehensive communication strategy and agrees that any new loyalty

program will have a comprehensive communication plan for acquisition and retention of program members.

Target Implementation Date: TBD

Responsible Official: Sheila Holman, VP Marketing USPS

Recommendation 3:
We recommend that the **Vice President of Marketing** conduct an evaluation of customer spending requirements and discounts, related to any future loyalty program, to ensure the program's design promotes customer engagement and shipping growth.

Management Response 3:
There is no intention to include discounts on a potential new loyalty program. Management agrees that any new loyalty program will include an evaluation of customer spending to ensure that the program design promotes customer engagement and volume growth.

Target Implementation Date: TBD

Responsible Official: Sheila Holman, VP Marketing USPS

Shelia B. Holman
Vice President, Marketing

cc: *Corporate Audit & Response Management*
    CCMO

Contact us via our Hotline and FOIA forms. Follow us on social networks. Stay informed.

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