RISC Report

The Value of the Postal Service's Retail Network for Small Businesses

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Executive Summary

Small businesses are an important segment of the Postal Service's customer base and comprise an overwhelming majority of all businesses in the U.S. The small business segment has a strong potential to generate more revenue for the Postal Service. The number of small businesses has been growing, especially since the onset of the COVID-19 pandemic, and they are increasingly using e-commerce to reach customers. With post offices conveniently located in every community in the country, offering a bevy of affordable mailing and shipping products and services, the Postal Service is uniquely positioned to be the choice of small businesses.

In this paper, the U.S. Postal Service Office of Inspector General (OIG) sought to identify the products, services, and outreach offered to small businesses through the Postal Service's retail network of post offices and assess how these offerings are perceived by the small business community. Additionally, this paper offers some ideas for new retail products and services that could meet the emerging needs of small businesses.

The Postal Service's Delivering for America 10-year plan, released in March 2021, acknowledges the need to improve how the retail network serves small businesses. Some relevant initiatives have already been introduced, including USPS Connect Local, which offers businesses affordable same-day or next-day shipping to local addresses, helping them compete with larger retailers and meet customer expectations for speedy delivery.

The Postal Service has an opportunity to further grow in the small business space and ensure that the retail network offers the products and services that businesses need to succeed.

The OIG interviewed small businesses, small business associations, and experts who work with the sector to learn about their challenges and needs. Interviewees also shared with the OIG potential ways to increase the value of the retail network for small businesses. The OIG's findings include:

- The Postal Service can meet the emerging needs of small businesses by helping them address evolving consumer expectations for fast delivery and provide convenient return options. This could entail solutions, such as e-commerce fulfillment, that enable prompt and easy delivery to local customers.

- The agency could standardize its small businesses marketing across the retail network, more proactively reach out to local small business organizations, and take steps to improve the lead submission process.

- The Postal Service could collect stronger data on its small business customers by segmenting more data sources by customer type (business versus residential) and business size and standardizing the definition of a small business across data sources.

- Providing additional services at post offices, such as small business consultants and enhanced self-service options, could make the retail network more valuable to small business customers.

As the Postal Service develops its strategies for engaging with small businesses, enhanced data, additional services, and further outreach to small businesses, along with initiatives already in progress, such as USPS Connect, can position the Postal Service for continued success serving this segment.

Observations

Introduction

The small business segment in the United States is growing significantly and represents an opportunity for the Postal Service to draw in new customers and additional revenue. With post offices located in every community in the country, the Postal Service is uniquely positioned to be the shipping and mailing partner of choice for small businesses. Small businesses tend to visit post offices more frequently than other carriers' retail locations, drawn by convenience and low shipping costs. Some of these customers find shortcomings in the postal retail experience, however, reporting greater satisfaction with recent visits to UPS and FedEx stores than with visits to post offices. (Post offices are the Postal Service's retail locations and all interactions and transactions in a post office are part of the postal retail experience.)

As it develops strategies for meeting the needs of small businesses and improving its outreach to this segment, the Postal Service can benefit from a strong understanding of these customers. This includes how these customers use post offices, the potential gaps these customers perceive in the postal retail network's products and services, and how the Postal Service might enhance the value of post offices for small businesses.

The objective of this paper is to identify the products, services, and outreach offered to small businesses through the Postal Service's retail network and assess how these offerings are perceived by the small business community. Additionally, this paper offers some ideas for new retail products and services that could meet the emerging needs of small businesses. Our analysis focuses on the products, services, and assistance available to small businesses either directly

through the retail network or enabled by close proximity to the retail network (for example, carrier pickup services) and on the needs and perceptions of micro and small businesses with fewer than 50 employees.[1]

The Importance of Small Businesses to the Postal Service

Small businesses play an integral role in the U.S. economy and their significance as engines of local development is growing. They are also an important segment of the Postal Service's customer base and present a valuable opportunity for revenue growth.

Small Business Footprint in the American Economy

Small businesses comprise an overwhelming majority of all businesses in the U.S., employ a large share of the private sector workforce, and serve as an engine for job creation. Definitions of what exactly constitutes a small business vary, complicating comparisons among different data sources, but some trends are clear. According to the most recent Small Business Administration (SBA) data from 2018, which defines a small business as one with fewer than 500 employees, there were 32.5 million small businesses in the United States, compared to just 20,516 large businesses.[2] They account for more than 98 percent of employers in most industries.[3] The SBA reports that small businesses employ just under half of the country's private sector workforce and have accounted for two out of every three jobs added in the last 25 years.[4] According to 2018 SBA data, 81 percent of the 32.5 million total small businesses have a single business owner serving as the only employee.[5] (See Figure 1 on the size of small businesses.) Many small businesses do not need a physical storefront; roughly half operate out of a home.

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1   The Postal Service does not have an agency-wide definition of "small business" and different USPS data sources use the term differently. For this paper, the OIG is following the usage in the USPS Brand Health Tracker survey, which defines "small business" as one with 6-49 employees and "micro business" as one with 1-5 employees.
2   Small Business Administration, *Frequently Asked Questions*, December 2021, https://cdn.advocacy.sba.gov/wp-content/uploads/2021/12/06095731/Small-Business-FAQ-Revised-December-2021.pdf.
3   Small Business Administration, *2021 Small Business Profile*, https://cdn.advocacy.sba.gov/wp-content/uploads/2021/08/30143723/Small-Business-Economic-Profile-US.pdf.
4   Small Business Administration, *Small Business Facts: Small Business Job Creation*, April 2022, https://cdn.advocacy.sba.gov/wp-content/uploads/2022/04/22141927/Small-Business-Job-Creation-Fact-Sheet-Apr2022.pdf.
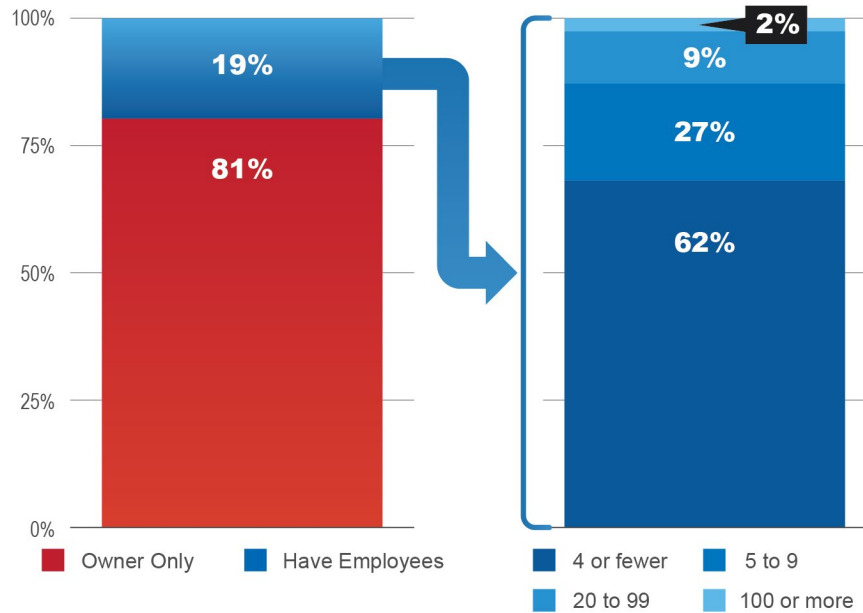5   Small Business Administration, *Frequently Asked Questions*, December 2021, https://cdn.advocacy.sba.gov/wp-content/uploads/2021/12/06095731/Small-Business-FAQ-Revised-December-2021.pdf.

FIGURE 1: THE SIZE OF SMALL BUSINESSES

Source: Small Business Administration and Census Bureau Data.

Interest in starting a small business has been on the rise, fueled most recently by the COVID-19 pandemic. Entrepreneurship has become increasingly attractive to the Millennial and Generation Z demographics, which are increasingly turning their "side hustles" into full-fledged businesses. There were 3.5 million new business applications submitted in 2019, 4.4 million submitted in 2020, and 5.4 million in 2021.[6]

The COVID-19 pandemic has accelerated the expansion of e-commerce. During the pandemic, e-commerce sales increased by at least 44 percent each quarter from the second quarter of 2020 through the first quarter of 2021, and have continued to grow since then, albeit at a slower pace.[7] Growth in e-commerce has created new opportunities for entrepreneurs to launch small businesses without a physical retail storefront. Brick-and-mortar businesses are also increasingly developing a presence online, in addition to selling their products in-store. In a 2021 survey, 41 percent of American consumers reported purchasing more from small businesses than they did before the pandemic.[8]

Small Businesses and the Opportunity for Postal Revenue Growth

Maximizing the revenue from small businesses is especially important given the financial situation of the Postal Service and the decrease in sales at post offices. In 2021, the Postal Service reported a net loss of $4.9 billion.[9] Retail counter sales at USPS-managed post offices have decreased by a third between fiscal years (FYs) 2004 and 2020 from $14.7 billion to $9.9 billion. Forty-two percent of post offices did not generate sufficient retail revenue in FY 2019 to cover the cost of operations.[10] Increased revenue from small businesses can help the Postal Service manage these financial issues and make retail locations more cost-effective. With the continued expansion of e-commerce and the proliferation of home-based businesses selling products online, the sector has a strong potential to generate more revenue for the Postal Service. The Postal Service, however, must compete for small business customers with other carriers who are likewise drawn by the strong profit margins and potential for growth that characterize this segment.[11]

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6   The business application data reported by the United States Census measures applications for EIN numbers for business-related purposes. See U.S. Census Bureau data at: https://www.census.gov/econ/currentdata/dbsearch?program=BFS&startYear=2004&endYear=2022&categories=TOTAL&dataType=BA_BA&geoLevel=US&adjusted=1&notAdjusted=1&submit=GET+DATA&releaseScheduleId=.

7   Jessica Young, "US ecommerce grows 6.7% in Q1 2022," *Digital Commerce 360*, May 19, 2022, https://www.digitalcommerce360.com/article/quarterly-online-sales/.

8   Sendinblue and CITE Research, *Small Businesses & the Pandemic: A Survey of Consumers in the US, UK, France and Germany*, June 2021, https://www.sendinblue.com/wp-content/uploads/2021/06/Sendinblue-Global-Survey-Report-.pdf.

9   U.S. Postal Service, "U.S. Postal Service Reports Fiscal Year 2021 Results," November 10, 2021, https://about.usps.com/newsroom/national-releases/2021/1110-usps-reports-fiscal-year-2021-results.htm.

10 U.S. Postal Service Office of Inspector General, *Revenue and Costs in the Retail Network*, Report No. RISC-WP-21-003, April 12, 2021, https://www.uspsoig.gov/sites/default/files/document-library-files/2021/RISC-WP-21-003.pdf.

11 Thomas Black, "FedEx faces big changes as its new boss confronts higher costs, angry drivers," *American Journal of Transportation*, June 22, 2022, https://ajot.com/news/fedex-faces-big-changes-as-its-new-boss-confronts-higher-costs-angry-drivers.

Initiatives for Small Businesses in the Postal Service's 10-Year Plan

The Postal Service's March 2021 *Delivering for America* 10-year plan included several small business-related objectives. The plan calls for the transformation of postal retail units into "hubs for local business growth." It mentions investing $4 billion in post offices to provide a world-class customer experience. This effort would include developing access to expert shipping and mailing solutions consultants that can help local businesses connect to their community and quickly move and market their products. The plan stated that USPS will provide small businesses "a second storefront to elevate their brand and services in the local community such as pop-up kiosks." The Postal Service also wrote that it will leverage the retail network for package returns, with convenient features such as printing, packing, pickup, and package-less returns, and will improve parcel locker services to meet increased e-commerce customer delivery needs.

Some other initiatives in the plan relevant to small businesses include: providing a "shared footprint" to boost brand presence, including digital signage at post offices; "innovative value-added services and toolkits" for shipping, including enhanced returns and co-branded packaging; and "expert support to guide businesses to success," including marketing and sales support.[12] As of August 2022, the Postal Service was discussing strategies to help achieve the goals of the 10-year plan by improving marketing and outreach to small businesses and providing additional business-related services through the retail network.

The Needs of Small Businesses in Mail, Shipping, and Logistics

As e-commerce drives increased consumer demands for fast, reliable, and affordable shipping and easy returns, small businesses need to deliver on these expectations. With post offices located in every community in the country, the Postal Service's retail network is uniquely positioned to help address these demands.

Meeting Evolving Consumer Expectations for Fast Shipping

When buying products online, consumers increasingly demand fast, low-cost shipping options. Large retailers use warehouses or storefronts around the country to provide next-day or same-day delivery of many products, and customers value these rapid shipping options. A 2022 survey reported that 49 percent of consumers will pay a premium to buy online with same-day delivery from a retailer whose store they could drive to in 10 minutes or less.[13] Small businesses struggle to provide the same rapid shipping options to their customers because they typically only fulfill orders from one location, which increases delivery distance, time, and costs. These businesses are interested in fulfillment services that would allow them to offer same-day or next-day delivery of goods in their local areas, and in the use of warehousing space to store products for quick delivery.[14]

Providing Convenient Return Options

In addition to customer expectations for rapid shipping, small businesses must meet customers' growing demand for frictionless product returns. As e-commerce has grown, returns have increased, with U.S. customers returning more than 21 percent of online purchases in 2021, up from 18 percent the previous year.[15] User-friendly return policies can improve customer retention and referrals. About half of U.S. online shoppers in a 2019 survey reported that they avoid buying from online retailers who do not offer free returns. Roughly the same number reported that physically shipping their returns was the single greatest challenge when returning online goods.[16] There is a growing trend of giving customers more

12 U.S. Postal Service, *Delivering for America*, March 2021, https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf.

13 Deloitte, *Consumer Preferences Embrace a Mix of Physical and Digital*, https://www.deloittedigital.com/content/dam/deloittedigital/us/documents/offerings/offerings-20220125-insightiq-ccia-consumer-preferences-embrace-a-mix-of-physical-and-digital.pdf, pp. 6-7.

14 Data from AYTM small business survey, November 2020: https://aytm.com/surveys/603024/stat/69f2ef379b450400a98d5b26e044294e#charts.

15 Around $23 billion of the online purchases returned in 2021 were deemed fraudulent. See: National Retail Federation, "Retail Returns Increased to $761 Billion in 2021 as a Result of Overall Sales Growth," January 25, 2022, https://nrf.com/media-center/press-releases/retail-returns-increased-761-billion-2021-result-overall-sales-growth.

16 James Melton, "If retailers don't offer free returns, they could lose a lot of customers," *Digital Commerce 360*, January 16, 2019, https://www.digitalcommerce360.com/2019/01/16/most-shoppers-wont-buy-from-e-retailers-that-dont-offer-free-returns/.

return options, for example returning via carrier pickup or returning directly to a retail location.

Reliable Service and Convenience

Small businesses need a reliable way to ship products to customers and, due to their limited time and capacity, want a quick and convenient retail experience. Unfortunately, while post offices may often be the closest option and offer competitive prices, many businesses find the retail experience lacking.

What the USPS Retail Network Offers Small Businesses

The Postal Service's extensive, nationwide network and competitive prices have traditionally been the factors that attract small business customers.
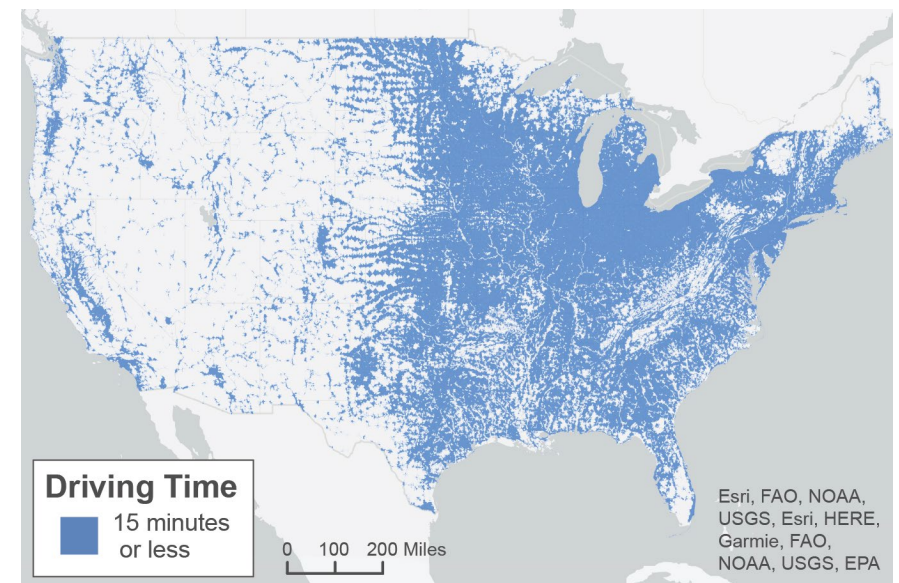
A Ubiquitous Retail Network

The USPS retail footprint distinguishes itself from other carriers, with more than 31,000 post offices serving every community in the United States, compared to around 2,000 FedEx stores and 5,250 UPS stores.[17] It is the largest retail network in the U.S. by number of physical locations, operating nearly as many retail locations as Starbucks, McDonald's, and Walgreens combined.[18] When asked, small and micro businesses said that they were more likely to choose USPS because its post offices are in convenient locations or because it offers more competitive prices.

The postal retail network has a particular value for small businesses in rural areas that may not have convenient access to other logistics services. According to a 2022 report by the U.S. Federal Reserve Banks, around 16 percent of small businesses surveyed are based in rural areas, while a small business association's 2022 survey of people who founded businesses during the pandemic found that 24 percent were located in rural areas.[19] Given the lower density of FedEx and UPS retail locations in the U.S. compared to post offices, many rural communities may be a long distance from another carrier's retail location but have a local post office that provides a connection to the USPS network. Nationally, post offices are, on average, 4.7 miles apart. Even in very rural areas, a post office is on average only 8.1 miles from the next closest branch, meaning most Americans are in reasonable driving distance from a postal retail location.[20] (See Figure 2.)

FIGURE 2: AREAS WITHIN A 15-MINUTE DRIVE FROM THE NEAREST POST OFFICE

Driving Time
■ 15 minutes or less

0   100   200 Miles

Esri, FAO, NOAA, USGS, Esri, HERE, Garmie, FAO, NOAA, USGS, EPA

Source: USPS OIG.

17 FedEx, "FedEx Office Grows Retail Presence With 2,000th Store," April 2, 2019, https://newsroom.fedex.com/newsroom/fedex-office-grows-retail-presence-with-2000th-store/ and list of UPS Store locations at: https://locations.theupsstore.com/.

18 U.S. Postal Service Office of Inspector General, *Revenue and Costs in the Retail Network*, Report No. RISC-WP-21-003, April 12, 2021, https://www.uspsoig.gov/sites/default/files/document-library-files/2021/RISC-WP-21-003.pdf, pp. 3 and 8.

19 Ann Marie Wiersch et al., *Small Business Credit Survey*, Federal Reserve Banks, https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/2022-sbcs-employer-firms-report, p. 25 and "SBE Council Survey Of Founders Of Small Businesses Created During The Pandemic," Small Business and Entrepreneurship Council, March 2022, https://sbecouncil.net/wp-content/uploads/2022/03/SBE-Council-Small-Business-Research-New-Business-During-Pandemic-FINAL.pdf, p. 55.

20 U.S. Postal Service Office of Inspector General, *Revenue and Costs in the Retail Network*, Report No. RISC-WP-21-003, April 12, 2021, https://www.uspsoig.gov/sites/default/files/document-library-files/2021/RISC-WP-21-003.pdf, p. 8.

Retail-Based Products, Services, and Assistance for Small Businesses

According to Postal Service survey data, the most common reason small businesses visit post offices is to ship or return packages or documents. They may also go to post offices to access in-person assistance with USPS products and services, drop off advertising mailings, or access mail at a PO Box. Small business customers were more likely to choose UPS or FedEx – competitors to the Postal Service – because their locations had specific mailing and shipping products, more convenient hours, or more knowledgeable retail associates. It is noteworthy that UPS and FedEx stores generally offer products and services that post offices do not, including copy and print services.

Shipping and Returns

The retail network is a convenient channel for small business and non-business customers to access USPS' shipping products and supplies. Shipping is the most common reason small businesses visit a post office. Post offices remain the most popular retail shipping option for small and micro business, with 66 percent of micro businesses and 63 percent of small businesses in the second quarter of FY 2022 reporting visits to USPS retail locations at least two to four times a month. Only 49 and 52 percent of small buisness respondents reported visiting UPS and FedEx this often, as shown in Figure 3.

There are several options for small business customers to use technology to complete part of a retail transaction online to save time and skip the line. For example, they can pay for shipping and create labels at home or in their office using the Click-N-Ship service or use the self-service kiosks available in some post offices. Small businesses who use Click-N-Ship can benefit from its integration with the USPS Loyalty Rewards program, which allows users to earn credits for future shipments.

Businesses can also pick up free shipping supplies in post offices. Free offerings include convenient flat-rate boxes that reduce the need to measure and weigh packages before sending. Businesses can order these free products in advance to ensure their availability.

FIGURE 3: SMALL BUSINESSES CONSISTENTLY CHOOSE USPS OVER ITS COMPETITORS

Percentage of small business customers who visited a retail location 2+ times over the past month, by brand, by fiscal quarter
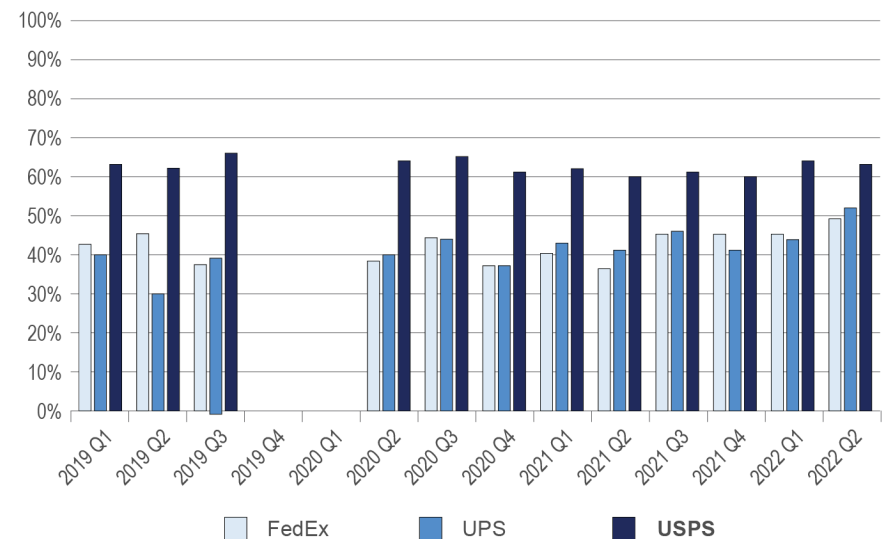
Source: USPS data. The survey was not conducted for two quarters because of the COVID-19 Pandemic.

The retail network allows for convenient return options after a package arrives at its destination. Businesses can provide a return label with the original shipment or electronically send return labels to customers. Customers can then drop off these returns at the nearest post office or arrange for carrier pick-up.

Label Broker is a service that allows customers to print shipping labels at post offices. A small business unable or unwilling to print out a shipping label at home can use a Label Broker QR code to have a clerk print the label at a post office. A customer returning an item can use this service to get the return label at a post office. (See Figure 4.)

FIGURE 4: LABEL BROKER

Source: USPS.

Small businesses can also benefit from services not accessed directly within a retail location but enabled by the local presence of a post office. This includes package pick-up, by which carriers collect packages for shipment at a storefront or at a home address.

In-Person Assistance

Post offices provide in-person information about postal products and assistance in accessing those products. Clerks field questions and can advise small business customers on the postal products and services that best meet their needs. Newer small businesses may come to a post office to learn more about the shipping process, creating an opportunity for postal employees to educate these businesses on the range of USPS products and services. This retail-based assistance can benefit customers who may be less comfortable searching for such information online or who simply prefer an in-person customer service experience.

Local Advertising

Post offices also enable small businesses to reach potential customers through Every Door Direct Mail (EDDM), an advertising tool offered by the Postal Service. EDDM allows businesses to drop printed marketing material at a post office and saturate a local market.[21] This service, which other carriers do not offer, takes full advantage of the Postal Service's mail routes. Using an online tool, customers can tailor their EDDM mailing to specific routes based on their location and desired customer demographics. Customers pre-pay the postage and drop their EDDM material at a post office retail counter. USPS.com further supports small businesses by providing a list of companies that can help small businesses craft their mailings. Postal Service employees told the OIG that EDDM is particularly popular with local small businesses including pizza shops, other restaurants, and landscaping businesses.

PO Box Mail Receiving and Address Services

Small businesses may also visit postal retail locations to access mail receiving and address services through PO Boxes. These are particularly valuable for small businesses that operate out of a home and do not want to list a home address on their website. The Postal Service offers a total of more than 21 million PO Boxes across its retail network. In FY 2021, businesses of all sizes rented around 250,000 PO Boxes, providing USPS with more than $125 million in revenue.

Recent Efforts to Enhance the USPS Retail Network

In 2022, the Postal Service began implementing two initiatives that address some of the needs of small businesses and touch on the small business-related aspects of the 10-year plan.

USPS Connect Local

The Postal Service is currently rolling out USPS Connect Local, a small business-related component of the 10-year plan. The agency began the rollout

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21 This paragraph refers to EDDM Retail. Larger mailers can drop EDDM mailings directly at a larger USPS processing center through the EDDM Business Mail Entry Unit (BMEU) service.

in February 2022 and plans to complete it nationwide in September 2022. This product (part of a broader bundle of offerings branded as USPS Connect) offers small and medium-sized businesses an option for same-day or next-day shipping to local addresses, helping them compete with larger retailers and meet customer expectations for delivery speed. The product takes advantage of the ubiquitous postal retail network to offer quick local delivery.

FIGURE 5: USPS CONNECT MAILING BAG

USPS **CONNECT**
Local

REUSABLE MAILING BAG
FOR DOMESTIC USE ONLY

UNITED STATES
POSTAL SERVICE

TRACKING

VISIT US AT USPS.COM®

Source: USPS.

When a customer drops off a package at a post office, the normal shipping process will send it to a processing facility and then to the delivery unit, even if that package was destined for a local address served by the same delivery unit that received that package. Connect Local shortens the processing time for local shipments by skipping the processing unit and sending the package directly from the post office that received the package to the local recipient. A customer in any location can use Connect Local to drop off a package at the receiving dock of a post office 30 minutes before the dock closes in the evening for next-day delivery. In select locations, a customer can drop off packages before 7:00 AM

for same-day delivery. Sunday delivery and pickup options are also available in select locations.

Customers can process Connect Local orders through Click-N-Ship and print prepaid shipping labels; they also have the option to arrange for carrier pickup (for next-day shipments) or delivery confirmation. Notably, there is no minimum package volume for USPS Connect Local; a business could send just one package and take advantage of the competitive rate, as low as $3.95 for shipping. Free flat-rate USPS Connect Local bags, boxes, and envelopes are available via Click-N-Ship. (See Figure 5 for an example of USPS Connect Local packaging.)

The Postal Service is also introducing a Connect Local Mail product that offers the same features as the package product but is designed for businesses that need to send time-sensitive hard copy documents. The Postal Service considers Connect Local Mail an alternative to courier services and said that real estate and financial companies are the primary users.

USPS Connect Returns

Another part of the USPS Connect bundle, USPS Connect Returns is designed to increase the convenience for customers of returning online purchases by allowing customers to drop off packages at any post office or collection box or arrange for package pickup. If a customer decides to return an order, a business can provide a return label directly to the customer. The label includes a QR code that the customer can scan, taking the customer to a website where they can find a local post office or schedule a pickup for the return shipment. A customer can print a return label at home or have the label printed at participating post offices by scanning a QR code through the Label Broker program. The Postal Service began rolling out Connect Returns in February 2022. In September 2022, customers will be able to print return labels at self-service kiosks in post offices.

Connect Returns responds to small business customers' desire for better return options. In a USPS survey for the second quarter of FY 2022, 47 percent of micro businesses and 43 percent of small businesses reported that USPS provided the return services they needed. Only 27 percent of all business respondents said that the Postal Service was their preferred carrier for fulfilling customer returns.
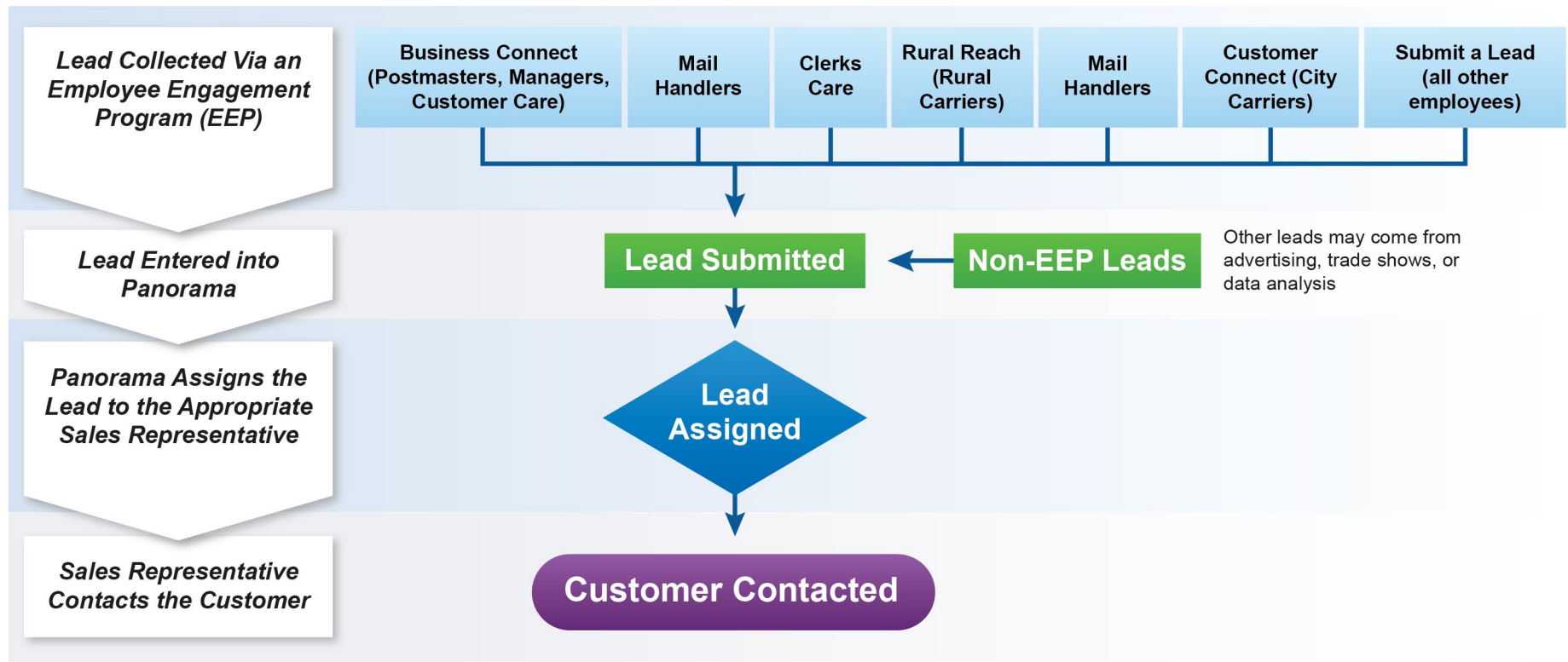
Outreach to Small Businesses by the Retail Network

The Postal Service depends on its employees, including clerks and carriers, to identify and market to small businesses.

Employee Engagement Programs

A primary formal means of identifying and connecting with local small businesses are the six employee engagement programs (EEPs). There is an EEP dedicated to the employees of each of the major postal labor unions, for example, the union representing clerks (APWU) and the union representing city carriers (NALC). The EEPs encourage employees to engage with local businesses and submit leads to generate new shipping and mail revenue for the Postal Service. Employees fill out lead cards with information about the business, including the postal products and services they might need, and enter the lead into a USPS customer relationship management database called Panorama. The USPS Inside Sales team (described below) can then review the leads and follow up with businesses. (See Figure 6 for a diagram of the agency's process for handling business leads.)

FIGURE 6: HOW USPS COLLECTS LEADS AND CONTACTS NEW CUSTOMERS

Lead Collected Via an Employee Engagement Program (EEP)	Business Connect (Postmasters, Managers, Customer Care)	Mail Handlers	Clerks Care	Rural Reach (Rural Carriers)	Mail Handlers	Customer Connect (City Carriers)	Submit a Lead (all other employees)

Lead Entered into Panorama — **Lead Submitted** ← **Non-EEP Leads** — Other leads may come from advertising, trade shows, or data analysis

Panorama Assigns the Lead to the Appropriate Sales Representative — **Lead Assigned**

Sales Representative Contacts the Customer — **Customer Contacted**

Source: USPS OIG.

Currently, the Postal Service is encouraging employees to market Connect Local and set a goal of collecting 5,000 Connect Local leads through the EEPs by the end of FY 2022. The team developed an employee lead submission card that highlights this new delivery option (see Figure 7). Employee leads generated more than 22 percent of all Connect Local signups.

FIGURE 7: USPS BUSINESS LEAD CARD

Source: USPS.

Finding new small businesses in a community is not always easy, especially for home-based businesses that are difficult to discern from residential customers. Postal employees may identify new businesses in different ways, depending on their roles. Clerks and carriers may recognize a potential home-based business, for example, based on the volume of parcels sent or received or conversations with the customer. Applications for PO Boxes are another potential way to recognize a home-based business. Customers applying for PO Boxes must indicate whether the box is for a business, providing an opportunity for employees to talk to that customer about USPS products and services.

Together, the six EEPs have generated $11 billion in revenue since 2003. The EEP that has been most successful is Customer Connect, the EEP for city carriers, which has generated more than $3 billion since 2003. Clerks Care, the EEP for clerks, has generated $1 billion in revenue since 2013.

Employees do not receive financial incentives for generating leads but may receive non-financial forms of recognition, such as a letter from a USPS executive or an article in USPS News Link, a USPS-focused newsletter with national readership.

How Business Lead Development Specialists Support Employee Engagement Programs

Business lead development specialists set goals for lead generation in their districts and create various non-financial incentives to encourage employees to meet those goals. One business lead development specialist arranged a "Summer Leads Olympics" where local post offices competed for medals awarded to those who brought in the most leads. The winners of challenges like this are featured in communications to the rest of the district.

Business lead development specialists also support the EEPs by encouraging employee participation in regular biweekly training. This training aims to ensure that employees – including postmasters, clerks, carriers, and mail handlers – are familiar with the latest USPS products and services, understand how to submit leads, and are aware that doing so is important to the Postal Service's revenue growth. In addition, training focuses on how to communicate with businesses in general, but most businesses with which these employees interact are small

businesses. The material for this training is provided by the USPS Small Business Market Strategy team.

The Role of the USPS Inside Sales Team

The USPS Inside Sales team is responsible for making sales calls to businesses that spend ▮▮▮▮▮▮▮▮ on mail and parcels each year. Team members review leads submitted through the EEPs and contact these businesses to pitch USPS products and services, including shipping and advertising services. The team explains how these tools can help a business grow and assists businesses with their marketing, including message development, selecting mailing features and format, and measuring the results of marketing mailings. After this initial engagement between Inside Sales and a business customer, the Postal Service's Customer Retention Team is responsible for further assistance. In addition to the EEPs, leads come to Inside Sales from other sources, such as the USPS.com website and lists of potential business customers pulled from a business analytics database.

About ▮▮▮▮▮▮ of the leads received by Inside Sales come from the EEPs and roughly ▮▮ percent of those leads turn into sales. The most common reasons that a lead does not turn into a sale are the customer not returning calls from the sales team and lack of interest by the customer.

Connecting to Small Businesses Through Local Outreach

Postal employees also engage with local businesses through community events and local business forums. Post offices may organize "Grow Your Business" days, a Postal Service promotional initiative where postmasters, business lead development specialists, or other customer-facing employees can meet with business owners to promote USPS products and answer questions. One postmaster told the OIG that a presentation to a group of small businesses located in the same building quickly grew the mail and parcel volume for that address from several pieces a day to multiple containers of mail a day. In larger communities, Postal Customer Councils, a USPS program aimed at fostering collaboration between local USPS managers and local businesses, provide information, training, and assistance on postal products and services available to businesses.

Opportunities to Better Leverage Retail Services Provided to Small Businesses

OIG research yielded several ideas for improving the Postal Service's understanding of and outreach to its small business customers, and for enhancing the services offered to small businesses at post offices.

Strengthening the Retail Network as a Sales Force

The OIG found that the marketing approach to the small business community varies among post offices. For example, there are variations in the extent post offices use marketing material. Interviews with Postal Service personnel suggested that some customer-facing employees may not be aware that this material is available. The Small Business Market Strategy team, which oversees the EEPs, told the OIG there is an opportunity to improve its outreach by standardizing how the Postal Service markets to small businesses. As of August 2022, the team told the OIG they were discussing a new small business marketing and outreach strategy.

Interviewees representing small businesses encouraged the Postal Service to more proactively reach out to local small business groups, as the leaders of these groups tend to be volunteers who do not have time to initiate such outreach themselves. Other groups that could help post offices identify and engage with local businesses are local chambers of commerce and community colleges. Coworking spaces are an increasingly popular resource for small businesses and could be an effective place to market postal products and services.

There may also be opportunities for improving the way clerks and carriers input leads into the Panorama customer relationship management database. The Panorama system has been separate from the interfaces that clerks and carriers use for their daily tasks (the point-of-sale system for clerks and mobile scanning devices for carriers). This can add to the workload of already busy frontline employees. In July 2022, the Postal Service updated the mobile delivery devices that city carriers use so they can enter leads directly in these devices. The agency said it would make this feature available to rural carriers in January 2023. An interviewee told the OIG that the Postal Service could make it easier for

clerks to submit leads by allowing information to be inputted directly into the point-of-sale system.

Enhancing the Customer Experience

USPS data suggests that there is room to improve the retail experience of small business customers visiting post offices.

Overall retail customer satisfaction, as tracked by the Postal Service's point-of-sale survey, has stayed strong and relatively stable over time. From FY 2019 through FY 2021, customer satisfaction generally hovered between 84 percent and 89 percent, although it dipped to 80.2 percent in December 2020, at the height of the COVID-19 pandemic. "Wait time acceptability" was a major reason for the decrease in customer satisfaction. In contrast, respondents over this period increasingly said that post office staff were "knowledgeable," "worked efficiently," "treated with courtesy," and had a "positive attitude;" these were the key positive drivers of customer satisfaction. This data, however, does not differentiate between small business customers and other customers.

FIGURE 8: SMALL BUSINESSES' RETAIL EXPERIENCE WITH USPS IS LESS POSITIVE THAN WITH COMPETITORS

Percentage of small/micro business customers who reported a "good" or "excellent" retail experience during the past month, by brand, by fiscal quarter
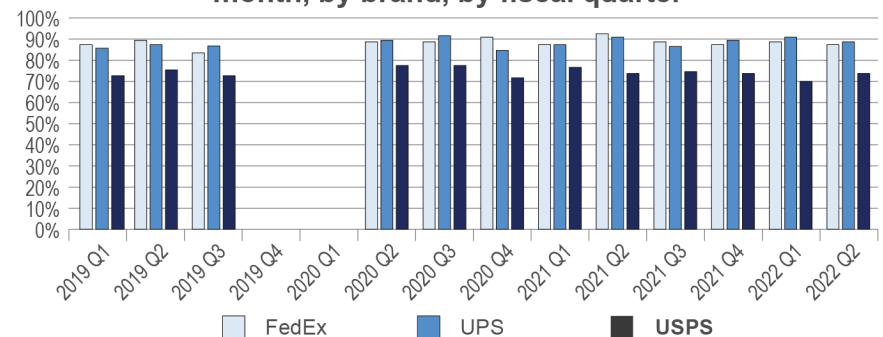
Source: USPS Brand Health Tracker survey data. The survey was not conducted for two quarters because of the COVID-19 pandemic.

The Brand Health Tracker (BHT), another USPS survey that does segment business customers and business size, suggests that there are shortcomings in the post office experience. The BHT asks a specific set of questions to micro and small businesses, defined as having 1 to 5 or 6 to 49 employees, respectively. These questions ask customers about their experience visiting USPS retail locations, and their experiences with competitors such as UPS and FedEx. Although small businesses visit USPS more often than its competitors, the BHT reported that micro and small business are less satisfied with the experience at post offices than at UPS and FedEx locations. Figure 8 shows that their satisfaction with post offices has lagged competitors' retail satisfaction from FY 2019 through the beginning of FY 2022. Businesses perceive USPS as less reliable and trustworthy than UPS and FedEx. While small businesses still choose to visit the post office more frequently than other carriers' retail locations, since 2019 small business customers have been consistently less likely to report a positive experience at a post office versus UPS and FedEx retail locations.

Making Retail Facilities More Appealing

A sense of connection between a retail location and the local community can make the retail experience more appealing, especially among younger business owners who want their visit to feel more real and authentic. While there are post offices that display locally themed art or are in historically significant buildings, many post offices currently have a plain look and feel that does not highlight the local community. Younger customers also look for technology to be integrated with the retail transaction, personalizing and simplifying the retail experience. Interviewees also told the OIG that post offices can have unclear signage and not enough informational material that is useful to customers.

The state of neglect and disrepair of some post offices makes them less welcoming to small businesses and customers in general. USPS OIG audits have documented cases in which the Postal Service was not consistently adhering to building safety, security, and maintenance standards.[22] Keeping facilities clean and safe is an essential step toward increasing foot traffic and strengthening the USPS brand by providing a comfortable and inviting retail experience.

Improving the Understanding of Small Business Customers

The only USPS data source focused on how small business customers use the retail network is the BHT, a quarterly survey which asks customers about their use and perception of post offices and shipping and mailing products. The Postal Service segments BHT data by business size. Other sources of data on usage and perception of the retail network are not segmented by customer type (business or residential) or business size. The OIG identified several opportunities to better understand small business customers by gathering more data.

Segmenting Retail Data by Customer Type

The Postal Service collects limited data on the use and perception of its retail network by small business customers. For example, retail volume and revenue data do not distinguish between residential and business customers. USPS collects qualitative and quantitative data at the business level for customers that hold a business account with USPS. However, the data does not include small businesses without business accounts or that conduct their transactions with USPS through their local post office or a third-party shipper. Finally, data about retail transactions does not differentiate between business customers and personal transactions. USPS-managed post offices accounted for about $10.5 billion of the Postal Service's $77 billion in revenue in FY 2021.

The Postal Service tracks customers' satisfaction with their post office retail experience via point-of-sale surveys. Customers who conduct a transaction at a post office are asked to take this survey, which is linked via barcode at the bottom of each receipt. Customers can also scan a QR code in the post office to access a customer satisfaction survey, even if they did not make a purchase. The survey asks questions about the timeliness and availability of services, conditions of the facility, and perceptions of employees, but respondents do not specify whether they are a small business or another type of customer. In FY 2021, the Postal Service received more than 2.2 million responses to this survey.

Point-of-sale survey data could be more beneficial to the Postal Service's efforts to serve small business customers if the survey asked respondents whether they

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22 U.S. Postal Service Office of Inspector General, *Facility Condition Review-Capping Report,* Report No. SM-AR-18-005, June 21, 2018, https://www.uspsoig.gov/sites/default/files/document-library-files/2018/SM-AR-18-005.pdf.

are business or residential customers. More broadly, the Postal Service could consider a process for labeling all transactions as "business" or "non-business," for example by having clerks ask customers whether they are conducting a business transaction. This would provide a wealth of new information on how small businesses use post offices.

Creating a Standard Definition of Small Business

The Postal Service does not have a standardized definition of a small business. In a discussion with the OIG, the USPS Small Business Market Strategy team stated that defining what constitutes a small business is an important challenge for the Postal Service. Definitions of a small business can be based on number of employees, revenue, or other factors. A working definition of the small business segment could help the Postal Service identify small business customers and measure how they use and perceive their local post offices. This could help the agency gain a deeper understanding of small business needs and wants from the retail network and develop a targeted strategy on how to better serve this segment, tailor its marketing, and make stronger business decisions.

Taking Advantage of Other Data Sources

One of the problems facing USPS in the small business sector is identifying who its small business customers are and who their target customers in the small business sector should be. While the Postal Service currently uses a commercial business analytics database to find small business customer leads, using other data sources could further enrich their business customer data. Other sources to help identify small businesses in local communities could include business registration records at secretaries of state, the SBA's database of businesses receiving SBA-backed loans, local chambers of commerce, and partnerships with tax and payroll processors.

As the Postal Service continues to develop its market segmentation for small businesses, new products and services are a ready-made opportunity for better data collection on the small business market. For example, data from USPS Connect Local could provide valuable insights into what retail and shipping services small businesses need from their local post office.

Enhancing Post Office Services for Small Businesses

The Postal Service set goals for improving the value of the retail network for small businesses and is implementing some initiatives that expand the range of products, services, and assistance available to the small business sector. In addition, the OIG collected several ideas for improving post offices from small businesses, small business associations, and other interviewees.

Small Business Consultants

Post offices could benefit from having a small business consultant or specialist onsite on certain days in selected locations, as USPS retail employees do not always have the expertise or the time to help small businesses address problems. The services provided by these consultants could include distributing informational material about USPS offerings, teaching customers the best way to package their products or create a promotional mailing, and helping them optimize their shipping experience as their volume grows. For example, a small business customer with a growing number of shipments could stop by to learn about volume discounts, manifest mailing systems, or other solutions that may benefit their business. These consultants may be most appropriate for larger post offices in communities with significant numbers of small businesses. Post offices could also offer a virtual option allowing a small business to contact a specialist from a post office via videoconference. The presence of these specialists can help reinforce to business customers that the post office is a place to receive informed advice and assistance from experts in postal products and services.

The Postal Service is aware of the potential value of small business consultants and referred to the concept in the *Delivering for America* 10-year plan, although there is currently no specific program in place.

Expanded Self-Service Options and Integration with Digital Channels

To make the retail experience more convenient, the Postal Service could enhance the integration of retail services with digital access channels. One option is the greater provision of self-service kiosks. These currently exist in only around

2,200 post offices (out of more than 31,000) but offer the ability to pay for and print shipping labels and stamps and to compare postage rates for different products. Most are available 24 hours a day. Using these kiosks can save time by eliminating the wait for service at a retail window. In the Q2 2022 BHT results, 53 percent of small businesses said they have never used a USPS self-service kiosk and 32 percent of those who had not used one said that there was not a self-service kiosk at their post office. Postmasters told the OIG that space limitations were the primary reason that post offices did not have self-service kiosks. (See Figure 9 for an image of a self-service kiosk.)

FIGURE 9: USPS SELF-SERVICE KIOSK

Source: USPS.

There may also be opportunities to enhance the functionality of self-service kiosks and provide greater access to products and services outside normal business hours. The Austrian post, for example, has piloted an area of a post office that is accessible 24 hours a day with kiosks that allow users to induct parcels into the postal network. The 24-hour area also includes other resources such as a packing table, a photocopier, and an ATM. A similar initiative at USPS locations could attract small business customers who may struggle to find time to visit retail locations during the workday.

Micro-Fulfillment Services

The Postal Service could leverage unused space in post offices to offer fulfillment services. For such an offering, the Postal Service could accept inventory from small businesses and store it at postal facilities across the country. When a customer places an order for one of the products, the post office could quickly get it to a carrier for local delivery. Offering fulfillment services would require the Postal Service to further develop its inventory and order management expertise, potentially drawing lessons from the successful fulfillment of COVID-19 home tests.

One potential source of additional space at post offices could be a reworking of PO Box areas. Instead of every customer having a static box, these areas could function more like parcel lockers. An automated system would tell customers which box had their mail or parcels, meaning empty boxes would not take up space. The Saudi Arabia post implemented a system like this. Such a solution could reduce the number of PO Boxes needed at a post office, creating space to store inventory for rapid fulfillment. There could also be opportunities to optimize the usage of space in delivery units that is currently used for only short periods of the day by carriers before and after delivering to their routes. The USPS Retail and Postal Operations team told the OIG that it is exploring ways small businesses could use excess space in post office lobbies.

Additional Services of Interest to Small Business Customers

In addition to mailing, shipping and logistics services, there are other services post offices could offer that would increase their value to small business customers:

- The BHT reported interest among small business customers in notary services, copy centers, and package wrapping centers. The current regulatory framework includes some restrictions on the Postal Service's ability to offer non-postal services, but the Postal Regulatory Commission has explicitly authorized USPS to provide notary and photocopying services. More expanded copy center and package wrapping services may or may not be permissible depending on the specifics of such an offering.

- High-speed internet access at post offices could benefit some small businesses, especially in areas with poor broadband access.[23]

- The Postal Service could partner with small businesses to promote their brands and products in post offices. USPS could negotiate agreements to allow businesses to display their products at local postal facilities. Space could be rented for a year or more, or for a much shorter period of time. For example, Swiss Post allows businesses to advertise in post offices and use dedicated post office space to promote their products.

- Other ideas from people the OIG interviewed include parcel pick-up lockers and non-bank financial services.

Post offices could also offer some government services of value to small businesses. There are existing examples of post offices offering federal government services, with the notable example of the Postal Service's partnership with the State Department to accept passport applications through the postal retail network. Postal reform legislation passed by Congress in April 2022 now allows for the provision of services offered by other levels of government, specifically state, local, and tribal governments. For example, interviewees told the OIG that a partnership with the Small Business Administration (SBA) could be fruitful, potentially including the provision of written information for small businesses or hosting SBA employees who could visit post offices to answer questions or present on topics of interest to small businesses. The Postal Service Retail and Post Office operations team told the OIG that it is waiting on guidance from USPS on how to move forward with further government partnerships.

Conclusion

The small business segment represents an opportunity for the Postal Service to draw in new customers and additional revenue. With post offices in every community providing access to affordable products and services and in-person customer assistance, USPS is already the primary mailing and shipping provider for many small businesses. To grow its share of this market, however, the Postal Service must meet the emerging needs of this segment, including

affordable same-day and next-day shipping, local fulfillment and logistics, and technology to simplify and accelerate retail transactions and operations. According to the Postal Service, the agency is currently discussing strategies to improve marketing to small businesses and expand the services available through the retail network.

The *Delivering for America* 10-year plan contains several goals related to meeting the needs of this segment through the retail network, including more convenient shipping and return options, promoting small businesses through initiatives such as digital signage and co-branded packaging, and expert support to help small businesses thrive. In 2022, the Postal Service began rolling out USPS Connect Local, an element of the 10-year plan which appeals to small businesses by leveraging the retail network to facilitate same-day or next-day local shipping. This offering helps meet small businesses' desire for rapid delivery options.

Postal Service data on small business perceptions and post office usage is currently limited by a lack of segmentation by business versus residential customers and by business size in most postal data sources. This makes it more difficult for the agency to develop a comprehensive strategy to reach the small business segment, understand their needs, and tailor its marketing to these customers. To support its decision making, USPS could improve its ability to collect and segment retail data (revenue, volume, and customer satisfaction and perception) by business size. Enhanced data, additional logistics services, and further outreach to small businesses along with initiatives already in progress, such as USPS Connect, can position the Postal Service for continued success serving small businesses.

Summary of Management's Comments

Postal Service management stated its appreciation of the content in the paper and agreed that small businesses are an important segment of the Postal Service's customer base.

Management stated that it was important to understand which business segments (micro businesses, small businesses, or larger businesses) were being referred to

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23 USPS Office of Inspector General, *Next Generation Connectivity: Postal Service Roles in 5G and Broadband Deployment*, Report No. RISC-WP-20-007, September 14, 2020, https://www.uspsoig.gov/sites/default/files/document-library-files/2020/RISC-WP-20-007.pdf.

in the data included in this report. Management presented the section on USPS Connect Returns as an example.

Management commented that it conducts several types of customer surveys to assess its retail performance including its point-of-sale survey and the Brand Health Tracker. Management explained that the point-of-sale survey measures performance against a specific transaction and the Brand Health Tracker measures performance over a period of time. Management also stated that the chart in Figure 8 was confusing and that the chart did not identify the data used.

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

Evaluation of Management's Comments

The OIG appreciates management's comments and provides the following response.

Regarding management's comments about the importance of understanding which business segments the data in this white paper reference, the OIG has indicated the business segments associated with the data sources cited throughout this white paper. For example, in the USPS Connect Returns section,

which management referenced in its comments, the OIG appropriately labels the segment for each statistic featured, stating "47 percent of micro businesses and 43 percent of small businesses reported that USPS provided the return services they needed" and "only 27 percent of all business respondents said that the Postal Service was their preferred carrier for fulfilling customer returns."

Regarding Figure 8, the data used in that chart is attributed to the Brand Health Tracker (BHT) in the paragraph following Figure 8 on page 13. This paragraph discusses BHT survey results which relate to differences in customer satisfaction between USPS and its competitors. It states that:

"Although small businesses visit USPS more often than its competitors, the BHT reported that micro and small business are less satisfied with the experience at post offices than at UPS and FedEx locations. Figure 8 shows that their satisfaction with post offices has lagged competitors' retail satisfaction from FY 2019 through the beginning of FY 2022."

For further clarity, the OIG amended the source attribution in Figure 8 from "USPS data" to "USPS Brand Health Tracker survey data."

Appendices

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

Appendix A: Additional Information

Objective(s), Scope, and Methodology

The objective of this white paper was to identify the products, services, and outreach offered to small businesses through the Postal Service's retail network and assess how these offerings are perceived by the small business community.

The scope of this white paper was the products, services, and assistance available to small businesses directly through the retail network or enabled by close proximity to the retail network.

To accomplish our objectives, the OIG conducted desk research on the trends affecting small businesses and the products offered to small businesses by the Postal Service, as well as the marketing, sales, and data strategies used to reach them.

The OIG also interviewed organizations that represent small businesses or provide logistics services to them and Postal Service personnel familiar with USPS's small business strategy. The full list of interviews follows:

- Representatives of the Small Business and Entrepreneurship Council;

- The Post and Parcel Lead Consulting Managing Director of Accenture;

- A Research Economist from the Small Business Administration;

- The Vice President of Government Relations and Public Affairs of the National Association for the Self-Employed;

- The Executive Director of the Next Gen Chamber of Commerce;

- The CEO of Escher Group;

- Representatives of several small businesses; and

- Postal Service personnel familiar with USPS's small business strategy or that provide support to small business customers.

This research was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation. We discussed our observations and conclusions with management on September 9, 2022 and included their comments where appropriate.

Prior Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
From Home Office to Post Office: Improving Microbusiness Engagement with the U.S. Postal Service	Assess microbusinesses' engagement with the Postal Service, including their spending on and usage of postal products.	RISC-WP-19-008	September 4, 2019	$0

Appendix B: Management's Comments

UNITED STATES
POSTAL SERVICE

September 28, 2022

CARRIE FOX
DIRECTOR, OPERATIONS CENTRAL
RESEARCH AND INSIGHTS SOLUTION CENTER

SUBJECT: Management Response: The Value of the Postal Service's Retail
Network for Small Businesses– White Paper (2022RISC004)

Thank you for the opportunity to review and comment on the Office of Inspector
General's (OIG's) white paper: *The Value of the Postal Service's Retail Network for
Small Businesses*.

Postal Management appreciates the comments outlined in the White Paper and
agrees that small businesses are an important segment of the Postal Service's
customer base. The fact that Post Offices are present in more than 30,000
communities across the country not only offers it an opportunity to better support this
segment of customers but it also affords the Postal Service another avenue to grow
revenue.

The report refers to market share percentages as they relate to micro-business, small
business and medium/large business. When reviewing the data in the report
however, it is important to understand which segment is being referenced. The *USPS
Connect Returns* section is one such example.

The Postal Service conducts several types of customer surveys to assess
performance in retail, two of those being the point-of-sale survey and the Brand
Health tracker. The point-of-sale survey measures performance against a specific
transaction, whereas the Brand Health Tracker measures performance over a period
of time. In the section *Enhance the Customer Experience*, the chart in Figure 8 is
confusing as it does not identify which survey the data is being pulled from, point-of-
sale or Brand Health Tracker. This is an important distinction as performance against
one specific transaction could vary widely from performance over numerous
transactions across a period of time.

The Postal Service is committed to serving the needs of the American Marketplace,
and continues to identify new ways to serve small businesses.

Sheila Holman
Vice President, Marketing

cc: *Manager, Corporate Audit Response Management*

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INSPECTOR
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UNITED STATES POSTAL SERVICE

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