OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Revenue Plan and Sales Targets

Audit Report

Report Number
MS-AR-14-007

September 8, 2014

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Highlights

The Postal Service revenue plan could be more aggressive to better promote growth and reflect increases in sales targets.

Background

Each year the U.S. Postal Service establishes various financial projections. One key projection is the revenue plan, which reflects the expected revenue generated by the Postal Service from all sources and channels. The revenue plan was set at $67.7 billion in fiscal year (FY) 2014.

The Postal Service's Sales organization also establishes a sales target for new sales. While this is a component of the overall revenue plan, it is tracked separately and is specific to the Sales organization. This target was set at [redacted] in FY 2014.

Our objective was to identify industry best practices and to evaluate the Postal Service's revenue plan and sales targets, including how they are determined, distributed, and monitored.

What the OIG Found

Based on our review and research of best practices, the Postal Service can improve how it determines, distributes, and monitors its revenue plan and sales targets to drive greater revenue performance and promote a focus on revenue generation. Specifically:

- The Postal Service revenue plan could be more aggressive to better promote growth and reflect increases in sales targets. While the FY 2014 revenue plan reflected higher revenue growth, the revenue plans for FYs 2012 and 2013 were below the prior year's actual revenue. The Postal Service has aggressively cut expenses, but continuing to set bolder and more aggressive revenue plans could improve revenue performance.

- Not all Postal Service employees have a specific revenue goal in their individual pay for performance measures. Leading organizations distribute revenue goals to all operational employees.

- Targets for individual sales staff do not reflect local conditions such as the type of customers and local economy. Instead, the Postal Service's sales targets are distributed equally based on the position held by the salesperson. For example, the FY 2014 sales target for all shipping solutions specialists is [redacted], regardless of any other factors — either internal or external — that might affect sales opportunities. Best practices of leading organizations include a robust account management and territory segmentation process that considers a variety of internal and external factors.

- The Postal Service does not have a system to reconcile the estimated revenues recorded by the Sales organization with actual realized revenues. Best-in-class organizations have information systems that allow them to track revenue associated with customer accounts from initiation of the sales cycle to realization of revenue.

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What the OIG Recommended

We recommended the Postal Service develop a strategy that emphasizes revenue generation throughout the organization by creating more aggressive revenue plans that integrate forecasted sales growth. We also recommended management establish individual revenue-related performance measure for operational employees covered by the pay for performance program. Finally, we recommended management develop strategies for determining and distributing customized sales targets as well as reconciling estimated sales revenue with actual realized revenue.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 8, 2014

MEMORANDUM FOR: WILLIAM C. RUCKER III
VICE PRESIDENT, SALES

SHAUN E. MOSSMAN
VICE PRESIDENT, FINANCE AND PLANNING

VINAY K. GUPTA
DIRECTOR, COMPENSATION AND BENEFITS

E-Signed by Janet Sorensen
ERIFY authenticity with eSign Deskt

FROM: Janet M. Sorensen
Deputy Assistant Inspector General
for Revenue and Resources

SUBJECT: Audit Report — Revenue Plan and Sales Targets
(Report Number MS-AR-14-007)

This report presents the results of our audit of the U.S. Postal Service's Revenue Plan and Sales Targets (Project Number 13RG027MS000).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

The sales target represents specific amounts of new sales the Postal Service's Sales organization plans to achieve during the fiscal year.

Introduction

This report presents the results of our audit of the U.S. Postal Service's Revenue Plan and Sales Targets (Project Number 13RG027MS000). This audit was self-initiated. Our objective was to identify industry best practices and to evaluate the Postal Service's revenue plan and sales targets, including how they are determined, distributed, and monitored. See Appendix A for additional information about this audit.

Each year the Postal Service determines various financial projections, including its revenue plan and sales targets. The revenue plan represents the organization-wide revenue projection. Select information about the revenue plan is as follows:

- *Determining*: Management estimates mail volume according to mail class,[1] using the most recent quarter's actual mail volume, revenue, and other economic measures. These estimated mail volumes are multiplied by the expected average revenue for each mail product to determine the total revenue plan for the year. Additionally, headquarters product managers[2] incorporate any planned initiatives that would impact revenue. The fiscal year (FY) 2014 revenue plan is $67.7 billion. Once revenue and mail volumes are projected, expenses are projected. The expense projections include operating budgets for about 32,000 field offices and other costs, such as headquarters' administrative and program costs.

- *Distribution and monitoring*: The revenue plan is subsequently distributed to the field offices and monitored at the unit, district, area, and headquarters levels through the *Financial Performance Report* (FPR).[3]

The sales target represents specific amounts of new sales the Postal Service's Sales organization plans to achieve during the fiscal year. This target was [redacted] in new sales for FY 2014. Select information about the sales targets is as follows:

- *Determining*: Sales management determines sales targets using past sales performance and expected growth based on an assessment of current market conditions.

- *Distribution*: Sales targets are distributed to individual Sales employees at the beginning of the fiscal year.

- *Monitoring*: The Postal Service uses various weekly and monthly reports[4] to monitor progress toward sales targets.

These financial projections, calculated independently of each other, are the basis for measuring sales and revenue performance. See Appendix A for additional information about these processes. The Postal Service's challenging financial condition and outlook make it increasingly important that these projections be effectively determined, distributed, and monitored.

We benchmarked the processes for determining, distributing, and monitoring sales targets and the revenue plan against those of five best-in-class organizations,[5] four of which are in the delivery services sector.

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1 Examples of mail classes are Express Mail, First-Class™ Mail, Priority Mail, Standard Mail, and Package Services.
2 Headquarters product managers include the managers of Retail, Commercial, and Marketing.
3 A report prepared after general ledger processing is completed. The FPR shows items such as current and year-to-date revenue and expenses and is included in the Accounting Data Mart (ADM), the repository for all accounting and finance related data for the Postal Service.
4 These reports include two spreadsheets. One includes sales targets for each Sales employee and his or her corresponding progress toward meeting those targets. The other summarizes sales results at the area level for the week, quarter-to-date, and year-to-date.
5 We commissioned a study of leading organizations that have direct insight into successfully determining, distributing, and monitoring sales targets and revenue plans at their organizations. We have included the results of this research throughout this report, as appropriate.

The Postal Service can improve how it determines, distributes, and monitors its revenue plan and sales targets to drive greater revenue performance and promote a focus on revenue generation throughout the organization.

Conclusion

Based on our review and research of best practices, the Postal Service can improve how it determines, distributes, and monitors its revenue plan and sales targets to drive greater revenue performance and promote a focus on revenue generation throughout the organization. Specifically:

- The Postal Service revenue plan could be more aggressive to better promote growth and reflect increases in sales targets. While the 2014 revenue plan reflected higher revenue growth, the Postal Service's revenue plan does not always sufficiently integrate the growth forecasted by the Sales organization. Postal Service revenue plans were below the prior year's actual revenue in 2 of the last 3 years. Additionally, although the Postal Service has aggressively cut expenses, continuing to set bolder and more aggressive revenue goals could improve revenue performance.

- Not all Postal Service employees have a specific revenue goal in their individual pay for performance (PFP) measures. Leading organizations distribute revenue goals to all operational employees.

- Targets for individual sales staff do not reflect local conditions such as the type of customers and local economy. Instead, the Postal Service's sales targets are distributed equally based on the position held by the salesperson. For example, the FY 2014 sales target for all shipping solutions specialists (SSS) is [redacted], regardless of any other factors — either internal or external — that might affect sales opportunities. Best practices of leading organizations include a robust account management and territory segmentation process that considers a variety of internal and external factors.

- The Postal Service does not have a system to reconcile the estimated revenues recorded by the Sales organization with actual realized revenues. Best-in-class organizations have information systems that allow them to track revenue associated with customer accounts from initiation of the sales cycle to realization of revenue.

Revenue Plan

The Postal Service has a detailed process for determining, distributing, and monitoring its revenue plan:

- Using recent performance history and current economic measures to determine the plan.

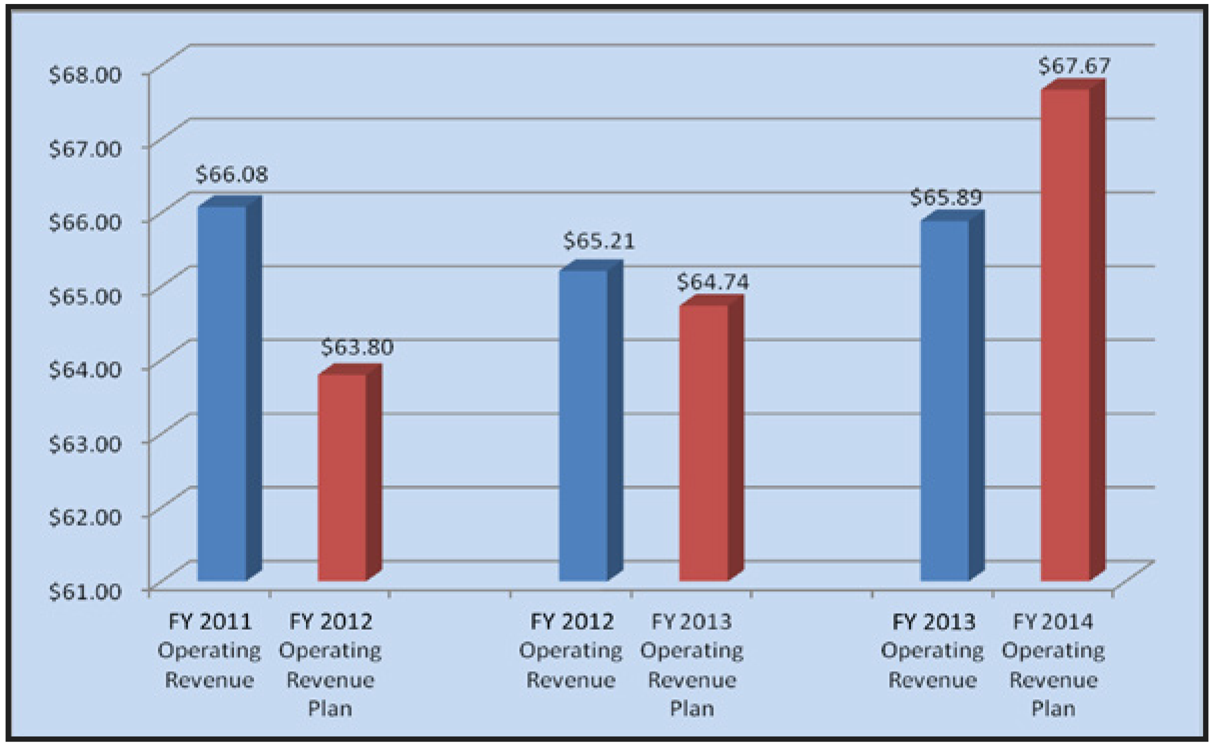
- Distributing the plan to the field at the beginning of each fiscal year.

- Continually monitoring performance at the unit, district, area, and headquarters levels.[6]

Based on our review and research of best practices, we found these procedures are generally sound. However, the Postal Service revenue plan could be more aggressive to better promote growth and reflect increases in sales targets. While the 2014 revenue plan reflected higher revenue growth, the Postal Service's revenue plan does not always sufficiently integrate the growth forecasted by the Sales organization. Postal Service revenue plans were below the prior year's actual revenue in 2 of the last 3 years, despite sales targets increasing by [redacted] each of the last 3 years. (See Figure 1 and Figure 4).

6 Additional information on this process is provided in Appendix A.

Figure 1. Revenue Plan Compared to Prior Year's Actual Revenue, FY 2011 through FY 2014 (in Billions)



Source: FPR data from the ADM.

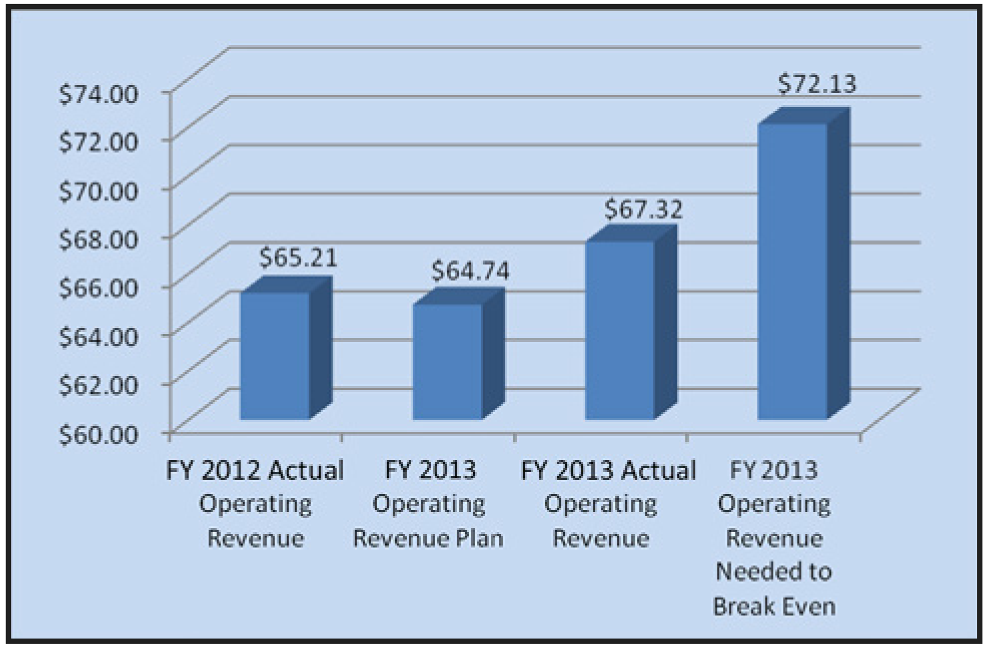
While we recognize the uncertainty of how other factors occurring during that time (such as a slow economy, increasing competition, and changing customer preferences) would impact the Postal Service's revenue plans, the fact that these revenue plans were below prior year results did not reflect an emphasis on overall revenue growth. According to the *Postal Service's FY 2013 10-K Report*, it generated operating revenue of $67.32 billion,[7] which was more than both the operating revenue plan and the prior year actual operating revenue.

In FY 2013, the Postal Service would have needed to generate revenue of $72.13 billion to break even (see Figure 2).[8] It will be critical for the Postal Service to establish aggressive revenue plans in the future to help cover its operating expenses — particularly as the Postal Accountability and Enhancement Act of 2006 allows the Postal Service to retain earnings in years when revenue exceeds costs.[9] While we recognize the Postal Service established a more aggressive revenue plan in FY 2014 — this plan is $1.78 billion more than the actual FY 2013 revenue — this is the only time in the past 3 years that the revenue plan exceeded the previous year's actual revenue. Furthermore, the Postal Service aggressively cut nearly $9 billion in expenses in FY 2013. Continuing to set bolder and more aggressive revenue plans, similar to the Postal Service's aggressive expense reduction efforts, could improve revenue performance.

7 This amount reflects a change in accounting estimate related to the recording of revenue for the Forever Stamp, which is not reflected in FPR data.
8 This amount includes expenses related to retiree health benefit premiums, prefunding of retiree health benefits, and workers' compensation.
9 Public Law 109-435.

For additional details on each Postal Service area's FY 2013 actual, planned, and prior year's operating revenue, see Appendix C. See Appendix D for additional details regarding each district's operating revenue performance for FYs 2012 and 2013.

Figure 2. Select Revenue Performance Information, FYs 2012 and 2013 (in Billions)



Sources: Postal Service FY 2013 10-K report and FPR data from the ADM.

Revenue-Related Performance Measure

Another way the Postal Service could facilitate revenue growth is through its PFP program. While operating income and revenue have been included as one of the corporate performance measures for all Postal Service employees covered in the PFP program,[10] only certain employees have specific revenue-related performance measures associated with their organizational unit.[11] In FY 2013, 45 percent of the organizational units did not have a revenue-related performance measure.[12] While some of these units may be focused on operational functions, having a revenue performance measure would emphasize the importance of providing best in class service to Postal Service customers to retain and grow revenues.

Best-in-class organizations incentivize revenue generation for both the sales staff and operations teams. These organizations employ volume-growth-linked compensation across the entire operations workforce, from delivery drivers to upper-level management. A former manager at one of the benchmarked organizations noted, "Everyone in the organization had some compensation based around volume growth." Linking bonus plans to volume growth mitigated potential conflicts of interest between Sales and Operations, which increased the drive to deliver on complex customer demands at all levels of the company. Incentivizing operations to generate revenue is one of the most effective ways to achieve revenue goals.

10 Corporate performance measures apply to all employees in the PFP program and are the same for all employees. In FY 2013, operating income was included as one of the corporate performance measures and in FY 2014, operating income and total revenue were included.
11 Units are certain organizational distinctions such as area Human Resources, District Finance, Plant Maintenance, and International Service Center. Additional information on these units is provided in Appendix B.
12 Unit performance measures apply to the 46,444 field and field-related employees and are tailored to the employee's specific unit.

By aligning the goals of the entire organization to attaining revenue, best-in-class organizations are able to deliver consistent revenue growth. Broadening awareness of revenue-generation goals throughout the organization, with a specific focus on enhancing competitive positioning to drive total revenue growth, should help all Postal Service employees understand the link between Sales and Operations.

Sales Targets

The Sales organization has procedures for determining, distributing, and monitoring sales targets, including:

- Analyzing past sales performance and current market conditions to determine sales targets.
- Distributing sales targets to Sales employees at the beginning of each fiscal year.
- Monitoring performance weekly and monthly.[13]

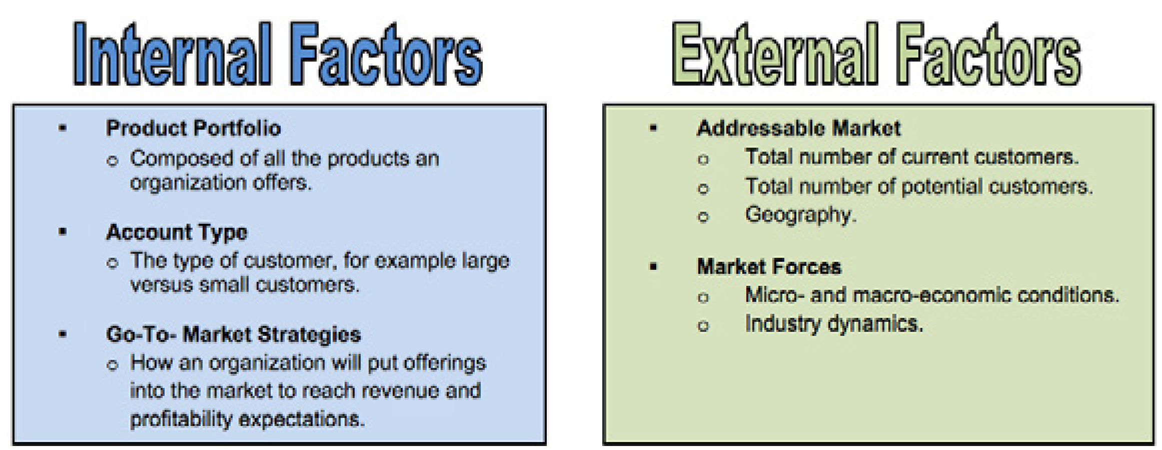
Based on our review and research of best practices, we found these procedures are generally sound. However, the Sales organization could be more effective by customizing how it determines and distributes sales targets to individual Sales employees and monitoring revenue by tracking actual revenue and comparing it to estimated sales revenue.

Determining and Distributing Customized Sales Targets

Currently, sales targets for individual sales staff do not reflect unique local sales conditions (such as the type of customers, local economy, and geography). Instead, sales targets are distributed based on the position held by the sales employee. For example, the FY 2014 sales target for all SSS is [redacted], regardless of any other factors — either internal or external — that might affect sales opportunities. Management stated that these targets represent the minimum sales expected for that year, and that these targets are reasonable for all SSSs due to the many opportunities available in each market.

The best practices of leading organizations, however, include a robust account management and territory segmentation process that considers a variety of internal and external factors when determining and distributing customized sales targets for individuals. As shown in Figure 3, specific factors could include the product portfolios, economic conditions, and addressable market:

Figure 3. Internal and External Factors Affecting Sales Targets



Source: U.S. Postal Service Office of Inspector General.

13 See Appendix A for additional details on these procedures.

Determining and distributing customized sales targets that better reflect local sales conditions should prompt increased sales in locations with higher growth potential and result in more objective monitoring and assessment of individual Sales staff performance based on these local factors.

Reconciling Estimated Sales Revenue With Actual Realized Revenue

The Postal Service does not have a system to reconcile the estimated revenues recorded by the Sales organization with actual realized revenues. That is, the Postal Service is unable to compare actual revenue from a customer with estimated revenue for that customer as initially recorded by Sales employees. The Postal Service has recognized this issue, and the Sales organization is working to replace the CustomerFirst! system[14] for FY 2015 with one that would assist with the reconciliation.[15] Furthermore, an organizational initiative called *Achieve 100% Customer and Revenue Visibility*[16] seeks to improve revenue system reporting capabilities, including linking revenue to customers. However, until such a system is implemented, there is a risk that an individual Sales employee would achieve his or her sales targets without actually generating the revenue that was estimated.

Best-in-class organizations have information systems that allow them to track revenue associated with customer accounts from initiation of the sales cycle to realization of revenue. All five benchmarked organizations use account numbers to track progression toward sales targets and to reconcile gaps between estimated and realized sales revenue. In particular, one benchmarked organization has the ability to “track every shipment at every stage right back to the sales people” and determine in near real-time when sales efforts result in actual revenue.

Developing a strategy to monitor progress toward sales targets against realized revenue should enable the Postal Service to more effectively track revenue by customers and also to more objectively monitor and assess Sales staff performance. This monitoring could eventually be used to better align the Sales staff compensation program with leading practices that incorporate a variable incentive component.

14 The system used by Sales staff to manage business customer accounts and service requests.
15 Decision Analysis Report (DAR) Business Case, CustomerFirst! Replacement, January 2, 2014. The Investment Review Committee recommended approval of funding for CustomerFirst! replacement on January 15, 2014. The new system is expected to be fully integrated by September 30, 2014.
16 Management officials have developed multiple initiatives as part of the Delivering Results, Innovation, Value, and Efficiency (DRIVE) process it is using to improve business strategy, development, and execution. The initiatives include cost cutting, revenue generation, and capability enhancement.

Recommendations

We recommend the Postal Service develop a strategy that emphasizes revenue generation throughout the organization by creating more aggressive revenue plans that integrate forecasted sales growth.

We recommend the vice president, Finance and Planning, in coordination with the director, Compensation and Benefits:

1. Develop a strategy that emphasizes revenue generation throughout the organization by creating more aggressive revenue plans that integrate forecasted sales growth.

2. Establish individual revenue-related performance measures for operational employees covered by the pay for performance program.

We recommend the vice president, Sales:

3. Develop a strategy for determining and distributing customized sales targets.

We recommend the vice president, Sales, in coordination with the vice president, Finance and Planning:

4. Develop a strategy for reconciling estimated sales revenue against actual realized revenue.

Management's Comments

Management disagreed with all of the findings and recommendations.

Regarding recommendation 1, management disagreed with our assertions that the annual revenue plans are not sufficiently aggressive and do not reflect increases in sales targets. Management stated that each year the Postal Service's revenue planning/forecasting process factors in a variety of considerations including pricing assumptions and marketing and sales initiatives for growing revenue. Management also stated that even with its aggressive revenue and sales growth targets, the Postal Service faces numerous obstacles that will offset these gains, including a price cap on roughly 75 percent of its revenue; significant volume loss in First-Class Mail; revenue and volume loss from potential pricing changes for its competitive products (which make up 25 percent of revenue); and significant revenue loss from customers stopping or reducing their mailings with the Postal Service for other reasons.

Regarding recommendation 2, management disagreed that all operational positions should have a revenue component in their individual PFP (unit) measures. Management believes that the total revenue goal is appropriately accounted for in corporate-level employee performance measures.

Regarding recommendation 3, management stated that the Postal Service employs a smaller sales force than most leading organizations and that the other factors we mentioned do not adversely affect sales opportunities. Management also stated that lead generation and workload distribution models balance opportunities among Sales personnel.

Regarding recommendation 4, management stated that the Postal Service has made ongoing improvements to systems and infrastructure that support customer account and revenue information, which has provided more accurate reconciliation capabilities. See Appendix E for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments unresponsive to the findings and recommendations.

Regarding recommendation 1, management disagreed with our assertion that the annual revenue plans are not sufficiently aggressive. We recognize the progress the Postal Service has made in that its FY 2014 revenue plan reflected higher revenue growth, particularly compared to the plans for FYs 2012 and 2013, both of which were below the prior year's actual revenue. We continue to believe, however, that bolder, more aggressive revenue plans are needed going forward. Management's response included a detailed discussion on pricing constraints – the price cap for market-dominant products and price sensitivities for its competitive products – and the impact of customer churn and defection. While we recognize these challenges, we believe the Postal Service has opportunities to aggressively increase revenue plans without making significant pricing changes. Such opportunities include providing reliable delivery service, enhancing its customer service, or more actively selling its products and services.

Regarding recommendation 2, management disagreed that all operational positions should have revenue in their individual PFP unit measures. We continue to believe that giving employees a specific individual revenue-related performance measure would help grow awareness of the importance of revenue generation throughout the organization.

Regarding recommendation 3, management stated that the Postal Service employs a smaller Sales force than most leading organizations and, therefore, the local conditions we mentioned in our work would not adversely affect sales opportunities. We continue to believe that these local conditions should play a role in determining and distributing sales targets as it could prompt increased sales in locations with higher growth potential and result in more objective monitoring and assessment of individual Sales staff performance. Furthermore, our benchmarking study highlighted one leading organization with a Sales force smaller than that of the Postal Service and which has effectively set targets for individual Sales staff consistent with our recommendation. This company allocates targets based on a segmentation process that includes external factors such as industry growth, the customers covered, and the economic dynamics of the geographic region.

Regarding recommendation 4, management stated that the Postal Service has made ongoing improvements to systems and infrastructure that support customer account and revenue information, which has provided more accurate reconciliation capabilities. As we noted in the report, the Postal Service still lacks the capability to fully reconcile estimated sales revenue to actual realized revenue. We continue to believe that developing a strategy to monitor estimated sales revenue against actual realized revenue should enable the Postal Service to more effectively track revenue by customers and to more objectively monitor and assess Sales staff performance.

We view the disagreements on recommendations 1 through 4 as unresolved but do not plan to pursue them through the formal audit resolution process. We will consider the recommendations closed with the issuance of this report.

Highlights

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Appendices

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Appendix A: Additional Information

Background

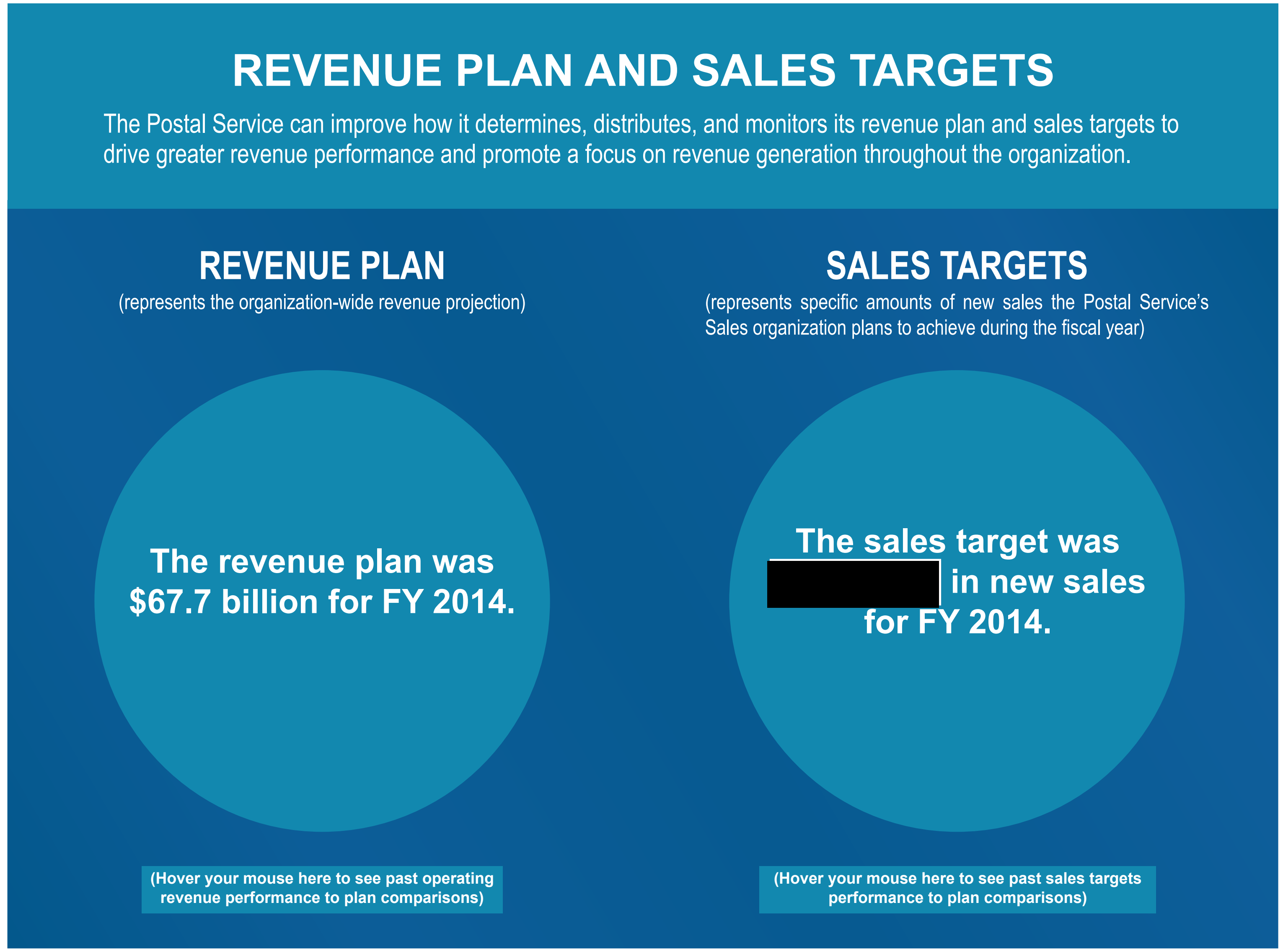
Revenue Plan

The Postal Service has a detailed process for determining, distributing, and monitoring its revenue plan for the upcoming fiscal year, which includes components in headquarters, areas, and districts. To start the revenue planning process, the Revenue and Volume Forecast group collects the most recent quarter's actual revenue and volume from the Statistical Program group[17] and updates the volume projection model[18] for the upcoming year. The Revenue and Volume Forecast group then uses this model to estimate mail volume according to mail class. These volumes are then multiplied by the expected average revenue for each mail product to determine revenue projections for the upcoming year. Managers in the Finance Department then present these projections to headquarters' product managers[19] for review and discussion. During their review, product managers incorporate any planned initiative that would impact revenue.

The Finance Department then incorporates the resulting revenue projections into the integrated financial plan (IFP),[20] which it forwards to the executive leadership team[21] (ELT) for review and approval. The ELT presents its approved plan to the Board for review and approval. In September, while the IFP is in the preparation and approval process, the revenue plans (with specific targets to various revenue channels and organizational levels) are distributed to each area. Area managers review these revenue plans and discuss them with various district, sales, marketing, and headquarters managers. The revenue plans are subsequently distributed to the field through the FPR, located in the ADM.[22] The plans included in the FPR are adjusted, if necessary, based on the final IFP approved by the Board. Figure 4 provides the actual operating revenue compared to the operating revenue plan for FYs 2012 and 2013, along with the operating revenue plan for FY 2014.

17 The Statistical Program group provides statistically reliable, accurate, and timely estimates of revenue, volume, cost, and transit time for domestic and international mail.
18 The volume projection model is an econometric model, which uses economic measures such as retail sales, employment, investment, postal prices, and the consumer price index.
19 Headquarters product managers include the managers of Retail, Commercial, and Marketing.
20 The IFP is an executive summary document that includes the operating, capital investment, and financing plans for the fiscal year. The IFP provides management and the U.S. Postal Service Board of Governors (Board) with a basis for assessing the Postal Service's estimated business needs and results. It allows them to continually monitor, evaluate, and decide on issues relating to the Postal Service's financial and operational conditions throughout the fiscal year.
21 The ELT consists of Postal Service senior executives: the postmaster general (PMG), deputy PMG, chief operating officer, chief information officer, chief financial officer, general counsel, chief marketing and sales officer, and chief Human Resources officer.
22 The repository for all accounting and finance data for the Postal Service that is a part of the Enterprise Data Warehouse (a single repository for managing the Postal Service's corporate data assets).

Figure 4. Revenue Plan and Sales Targets



Revenue performance is monitored at various levels within the Postal Service, primarily through use of the FPR. Field budget personnel at the district, area, and headquarters levels perform budget evaluations of their respective offices to determine whether a variance to budget is evident. Area managers are required to submit field variance reports to Corporate Accounting, explaining any variance, plus or minus, that is greater than $1 million. Corporate Accounting reviews the reports and follows up on any discrepancy or unusual item with the respective area office.

Sales Targets

The Sales organization is tasked with expanding the Postal Service's customer base and growing revenue. It determines annual new sales targets using past sales performance history and expected growth, which is based on an assessment of current market conditions. Each year, the Sales organization develops a sales strategy document that discusses the economic environment and how it plans to meet its sales targets. Figure 4 provides the actual sales compared to targets for FYs 2012 and 2013, along with the targets for FY 2014.

The Sales Performance Management team is responsible for distributing and monitoring sales targets. After the team determines the sales targets, it captures the data in a monthly score card spreadsheet and distributes it to the field. The Sales organization monitors progress toward reaching sales targets at both the employee level and organization levels weekly and monthly through various reports, including a monthly scorecard that tracks the number of sales, total sales amount, and average sales amount for each Sales employee. The Sales organization also added a quarterly sales target for each Sales employee in FY 2014 to more evenly spread sales throughout the year. The Postal Service also developed a Sales Management Process (SMP) to provide a roadmap for the Sales team to strengthen effectiveness using some proven best practices of private industry. The SMP includes four core activities:

- Biweekly Plan and Review – this allows management to review Sales staff performance to improve sales and revenue results.
- Biweekly and As Needed Sales Coaching – this provides feedback to help Sales staff improve sales results.
- Semiannual Sales Review – this allows each level of Sales management to provide written feedback to each direct reporting Sales employee to ensure understanding of all assigned action items.
- As Needed Target Review – this is designed to help the Sales employee return to an acceptable level of overall sales performance.

Objective, Scope, and Methodology

Our objective was to identify industry best practices and to evaluate the Postal Service's revenue plan and sales targets, including how they are determined, distributed, and monitored. To accomplish our objective, we:

- Analyzed FPR data to determine the operating revenue plan and actual revenue performance for FY 2011 through FY 2014.
- Reviewed sales documents to determine the sales targets and actual sales figures for FY 2012 through FY 2014.
- Held discussions with Postal Service officials (Sales and Finance) to determine procedures for determining, distributing, and monitoring sales targets and the revenue plan.
- Benchmarked how leading organizations and Postal Service competitors determine, distribute, and monitor sales targets and the revenue plan.
- Analyzed the benchmarking study results to determine which best practices may apply to the Postal Service.
- Reviewed the Postal Service's PFP program and metrics to determine how revenue performance is incorporated.
- Reviewed DRIVE Initiative Number 30, *Achieve 100% Customer and Revenue Visibility.*
- Reviewed the January 2, 2014, DAR Business Case, *CustomerFirst! Replacement*.

We conducted this performance audit from June 2013 through September 2014, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on July 29, 2014, and included their comments where appropriate. During our review, we relied on computer-generated FPR data from the ADM. While we did not assess the reliability of data in the ADM, we tested the financial information as part of our annual financial statement audits. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
Revenue Performance to Plan for Fiscal Years 2012 and 2013	MS-WP-14-001	2/27/2014	None
Report Results: The Postal Service exceeded its revenue plans in FY 2013 across most channels and organizational levels. Most notably, the Postal Service exceeded its national operating revenue plan by $1.2 billion that year ($65.9 billion in actual revenue compared to a $64.7 billion plan). While we consider these results encouraging, the revenue plan for FY 2013 was below actual revenue generated during FY 2012. Going forward, the Postal Service's challenging financial outlook will continue to necessitate an aggressive revenue strategy — both in terms of revenue plan and actual performance. This report did not contain any findings or recommendations.			
U.S. Postal Service Budget Formulation and Execution Process	DP-MA-13-002	8/7/2013	None
Report Results: The Postal Service's budget formulation and execution process has sufficient documented measures in place for the execution and monitoring of budget performance. The Revenue and Volume Forecast group initiates the budget process by developing revenue and mail volume forecasts for the upcoming fiscal year. It calculates these forecasts using changes in demand for postal products, to current laws and regulations, and in assumptions about the current economic outlook. This report did not contain any findings or recommendations.			

Appendix B: Units in the Pay For Performance Program, Fiscal Year 2013

Unit Name	Was Revenue Included as a Unit Performance Measure?
Area Human Resources	No
Area Finance	No
Area Marketing	Yes
Area Manager, In-Plant Support	No
Area Distribution Networks Office	No
Area Maintenance	No
Area Delivery Point Sequence	No
Area Manager Operations Support	Yes
Area Vice President	Yes
Area Retail	Yes
Area Consumer and Industry Contact Manager	Yes
Area Global Account Manager	Yes
Area Global Account Specialists	Yes
Area Sales Analysis Specialists	Yes
Area Business Service Network Specialist	Yes
Area Small Business and Mail Acceptance	Yes
District Leadership	Yes
District	Yes
Postal Career Executive Service Post Offices	Yes
Manager Customer Services Operations	Yes
Manager of Post Office Operations	Yes
District Manager, Operations Program Support	No
District Human Resources	No
District Finance	No
District Marketing	Yes
District Consumer and Industry Contact Manager	Yes
District Time and Attendance Collection System	No
District Statistical Programs	No
District Retail	Yes
District Business Service Network Representative	Yes
District Bulk Mail Entry Unit	No
Executive and Administrative Schedule 26-21 Post Office	Yes
Executive and Administrative Schedule 20-18 Post Office	Yes

Executive and Administrative Schedule 16-11 Post Office	Yes
Executive and Administrative Schedule A-E Post Office	Yes
Customer Service Delivery and Retail 22 + Above	Yes
Customer Service Delivery 22 + Above	Yes
Customer Service Retail 22 + Above	Yes
Customer Service Delivery and Retail 21 + Below	Yes
Customer Service Delivery 21+ Below	Yes
Customer Service Retail 21+ Below	Yes
Manager Shipping and Mailing Solutions (Area)	Yes
Manager Shipping and Mailing Solutions (District)	Yes
SSS	Yes
Mailing Solution Specialists	Yes
Business Solutions Specialists	Yes
Sales & Contract Analysts	Yes
Postal Career Executive Service Processing and Distribution Center (P&DC)	No
P&DC/Facility; Executive and Administrative Schedule	No
Plant Manager, In-Plant Support	No
Plant Manager, In-Plant Support Without Surface Visibility	No
Plant Transportation and Networks Systems	No
Plant Transportation and Networks Systems Without Surface Visibility	No
Plant Maintenance	No
Manager Distributions Operations	No
National Distribution Center	No
Priority Mail Processing Centers/Labor Distribution Code	No
Air Mail Center	No
Surface Transfer Centers (Hub and Spoke Program) Without Surface Visibility	No
Surface Transfer Centers (Hub and Spoke Program)	No
Remote Encoding Center	No
International Service Center	No
Postal Police Officer	No
Headquarters Equal Employment Opportunity	No

Source: National Performance Assessment system.

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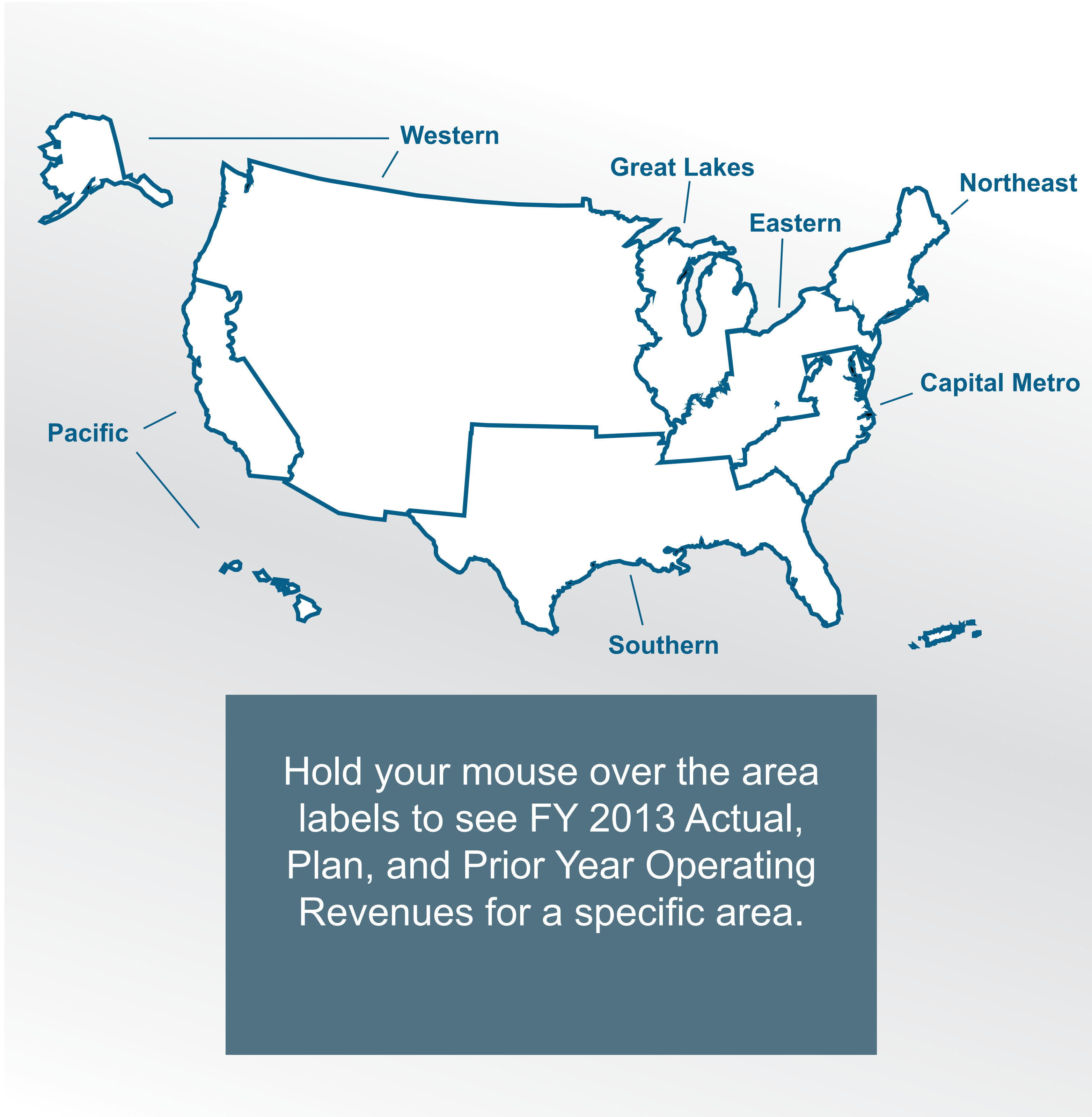
Appendix C: Operating Revenue by Area

Figure 5. Operating Revenue by Area



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Appendix D: District Operating Revenue Performance, Fiscal Years 2012 and 2013

District	FY 2012			FY 2013		
	(In Millions)[1]					
	Plan Revenue	Actual Revenue	Difference Between Actual and Plan	Plan Revenue	Actual Revenue	Difference Between Actual and Plan
Northland	$2,240.15	$2,320.49	$80.34	$2,276.15	$2,472.07	$195.92
Central Pennsylvania	$2,062.14	$2,153.05	$90.91	$2,109.95	$2,280.67	$170.72
Central Illinois	$2,583.47	$2,723.77	$140.30	$2,689.95	$2,849.05	$159.10
Lakeland	$3,873.66	$3,723.18	($150.47)	$3,732.99	$3,839.83	$106.83
Salt Lake City	$938.12	$967.08	$28.97	$979.57	$1,085.82	$106.25
Dallas	$1,867.86	$1,896.07	$28.21	$1,864.18	$1,947.06	$82.89
Hawkeye	$1,019.22	$1,042.56	$23.34	$1,025.26	$1,107.58	$82.32
Greater Indiana	$1,234.19	$1,311.97	$77.78	$1,313.22	$1,371.34	$58.12
Sacramento	$1,236.56	$1,303.65	$67.09	$1,312.38	$1,366.99	$54.61
Chicago	$612.02	$618.21	$6.20	$608.82	$658.72	$49.90
San Diego	$734.45	$800.03	$65.58	$803.48	$844.55	$41.07
Mid-Carolinas	$687.29	$759.83	$72.54	$752.90	$792.32	$39.43
Arizona	$1,051.28	$1,101.17	$49.89	$1,104.17	$1,141.74	$37.57
Cincinnati	$2,005.58	$1,974.54	($31.04)	$1,950.93	$1,986.71	$35.78
Santa Ana	$1,220.77	$1,270.45	$49.68	$1,317.21	$1,351.27	$34.06
Triboro	$501.83	$528.36	$26.53	$540.92	$573.67	$32.75
Gulf Atlantic	$1,081.70	$1,099.54	$17.84	$1,118.75	$1,151.29	$32.54
Portland	$710.25	$733.56	$23.32	$741.33	$772.67	$31.34
Long Island	$1,069.04	$1,039.60	($29.44)	$1,030.15	$1,061.00	$30.85
South Florida	$982.55	$1,084.61	$102.06	$1,078.57	$1,107.42	$28.85
Atlanta	$1,513.87	$1,535.82	$21.94	$1,359.55	$1,385.18	$25.63
Northern Ohio	$857.67	$905.80	$48.13	$906.86	$930.84	$23.98
Dakotas	$488.31	$519.07	$30.76	$517.06	$539.81	$22.74
Fort Worth	$490.95	$527.91	$36.96	$532.77	$555.33	$22.55
Suncoast	$1,478.86	$1,537.67	$58.81	$1,528.13	$1,549.63	$21.51
Northern New Jersey	$1,088.44	$1,149.26	$60.82	$1,137.45	$1,157.77	$20.32
Sierra Coastal	$642.83	$668.24	$25.41	$676.41	$692.38	$15.97
Alabama	$563.27	$584.79	$21.53	$583.58	$597.56	$13.97
Colorado/ Wyoming	$726.66	$767.56	$40.90	$769.79	$782.50	$12.71
Northern New England	$731.27	$746.82	$15.55	$755.65	$767.01	$11.36
Richmond	$583.34	$586.84	$3.49	$587.31	$597.84	$10.53
Mid-America	$744.21	$788.31	$44.09	$788.61	$797.10	$8.49

1 Ranked in descending order based on FY 2013 performance to plan.

District	FY 2012			FY 2013		
	(In Millions)[1]					
	Plan Revenue	Actual Revenue	Difference Between Actual and Plan	Plan Revenue	Actual Revenue	Difference Between Actual and Plan
Tennessee	$842.39	$849.92	$7.53	$861.84	$869.29	$7.44
Seattle	$919.90	$930.71	$10.82	$937.28	$942.56	$5.28
Mississippi	$288.57	$268.98	($19.59)	$270.01	$275.24	$5.23
Greater Michigan	$578.21	$614.19	$35.99	$613.71	$618.86	$5.16
Albany	$636.78	$660.99	$24.21	$668.49	$673.01	$4.53
Alaska	$147.72	$151.45	$3.73	$151.84	$154.80	$2.96
Louisiana	$425.86	$435.33	$9.47	$438.03	$440.34	$2.31
Baltimore	$713.24	$712.76	($0.48)	$705.99	$707.92	$1.93
Western Pennsylvania	$718.98	$724.26	$5.28	$727.13	$728.47	$1.34
Caribbean	$178.54	$179.76	$1.22	$180.69	$180.70	$0.01
Honolulu	$189.14	$202.22	$13.08	$207.22	$206.24	($0.98)
San Francisco	$468.52	$472.01	$3.49	$455.02	$453.53	($1.50)
Northern Virginia	$520.46	$552.23	$31.77	$550.43	$548.14	($2.28)
Central Plains	$1,319.54	$1,363.10	$43.56	$1,334.15	$1,331.47	($2.68)
Bay-Valley	$669.86	$680.08	$10.23	$686.82	$683.16	($3.65)
Greater South Carolina	$693.09	$768.49	$75.40	$757.74	$752.78	($4.96)
Greensboro	$708.81	$727.32	$18.51	$735.61	$730.49	($5.12)
Westchester	$273.66	$287.09	$13.43	$292.30	$285.53	($6.78)
Capital	$525.39	$474.15	($51.23)	$480.19	$470.86	($9.33)
Oklahoma	$683.36	$699.99	$16.63	$694.79	$685.28	($9.51)
Connecticut Valley	$1,560.32	$1,518.88	($41.44)	$1,517.90	$1,504.21	($13.70)
Detroit	$1,093.71	$1,080.91	($12.80)	$1,074.57	$1,057.94	($16.63)
New York	$493.68	$512.17	$18.49	$519.21	$501.95	($17.26)
Appalachian	$760.90	$750.05	($10.85)	$751.84	$729.02	($22.82)
Arkansas	$405.51	$396.15	($9.36)	$363.29	$334.49	($28.80)
Nevada-Sierra	$408.12	$437.69	$29.57	$439.17	$410.35	($28.81)
Houston	$822.41	$832.08	$9.67	$831.03	$801.82	($29.22)
Gateway	$1,280.20	$1,346.53	$66.33	$1,334.67	$1,304.69	($29.98)
Greater Boston	$1,025.20	$996.65	($28.55)	$999.78	$965.73	($34.05)
Rio Grande	$976.30	$960.03	($16.28)	$988.61	$948.74	($39.87)

District	FY 2012			FY 2013		
	(In Millions)[1]					
	Plan Revenue	Actual Revenue	Difference Between Actual and Plan	Plan Revenue	Actual Revenue	Difference Between Actual and Plan
Western New York	$488.14	$501.53	$13.39	$505.14	$463.99	($41.15)
South Jersey	$1,280.16	$1,152.90	($127.27)	$1,161.13	$1,117.68	($43.45)
Kentuckiana	$883.53	$890.53	$7.00	$901.21	$857.59	($43.62)
Los Angeles	$1,231.59	$1,174.54	($57.05)	$1,109.34	$1,063.52	($45.82)
Philadelphia Metropolitan	$1,319.27	$1,344.35	$25.07	$1,324.21	$1,266.93	($57.28)

Source: FPR data from the ADM.

Appendix E: Management's Comments

UNITED STATES POSTAL SERVICE

August 27, 2014

JANET M. SORENSEN
DEPUTY ASSISTANT INSPECTOR GENERAL
REVENUE AND RESOURCES

SUBJECT: Revenue Plan and Sales Targets (Report Number MS-AR-14-DRAFT)

The following findings were discussed in this OIG report:

The Postal Service revenue plan could be more aggressive to better promote growth and reflect increases in sales targets. While fiscal year (FY) 2014 revenue plan reflected higher revenue growth, the revenue plans for FY2012 and FY2013 were below the prior year's actual revenue. The Postal Service has aggressively cut expenses, but continuing to set bolder and more aggressive revenue plans could improve revenue performance.

Management Response:
Management disagrees with the assertion that the annual revenue plans are not sufficiently aggressive and don't reflect increases in sales targets. Every year, the Postal Service embarks on a revenue planning/forecasting process that starts with a macro-economic based product-level forecast. This preliminary forecast includes the latest pricing assumptions for both our market dominant products and our competitive products. This initial forecast is then reviewed with the Marketing Intelligence team to layer in marketing and sales initiatives that seek to grow our total revenue. The final Integrated Financial Plan (IFP) plan is then discussed and approved with the Executive Leadership Team in consultation with the Board of Governors that take all of these issues into account.

Even with these aggressive revenue and sales growth targets, the Postal Service faces numerous obstacles that will offset these gains:

1. The Postal Service is constrained by a price cap on roughly 75 percent of its revenues that, combined with significant volume losses in First-Class Mail, provided considerable pressure in growing revenue over the past few years.

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2. The remaining, roughly 25 percent, of USPS revenues are in the competitive product space. While the Postal Service has experienced market share increases across the package portfolio over the past few years, any significant pricing actions, by virtue of its competitive nature, could be met with significant volume and revenue loss.
3. While the Sales team focuses aggressively on new sales and retaining existing customers, the USPS still loses several billion dollars annually to customers who stop mailing, move volume to competitors, or lower their annual package and ad spend (commonly referred to as churn and defection). While the Sales team has put systems and processes in place to address this issue over the past few years, this issue still challenges the USPS every year.

Not all Postal Service employees have a specific revenue goal in their individual pay for performance measures. Leading organizations distribute revenue goals to all operational employees.

<u>Management Response:</u>
Management does not agree that some Postal Service employees do not have revenue goals in their pay for performance objectives. Management does agree that some positions do not have revenue in their individual pay for performance (unit) measures, however, all Postal Service employees have revenue (total revenue) as part of their corporate indicators. The Postal Service has assigned a revenue target to all employees as a corporate indicator with a weighting of 10 percent. In addition, these corporate indicators carry a greater weight (60 percent) than the unit indicators (40 percent) for all field employees. Management believes that revenue is appropriately accounted for in all employees performance measures and continually monitors the weightings of these goals every year.

Targets for individual sales staff do not reflect local conditions such as the type of customers and local economy. Instead, the Postal Service's sales targets are distributed equally based on the position held by the salesperson. For example, the FY2014 sales target for all shipping solutions specialists is [redacted] *regardless of any other factors — either internal or external — that might affect sales opportunities. Best practices of leading organizations include a robust account management and territory segmentation process that considers a variety of internal and external factors.*

<u>Management Response:</u>
Management disagrees with the assumptions made regarding Postal Service sales targets. The Postal Service employs a smaller sales force than most leading organizations. The result is lower market penetration and therefore other factors do not adversely affect sales opportunities. The Postal Service does employ both lead generation and workload distribution models to balance opportunities between sales personnel.

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The Postal Service does not have a system to reconcile the estimated revenues recorded by the Sales organization with actual realized revenues. Best-in-class organizations have information systems that allow them to track revenue associated with customer accounts from initiation of the sales cycle to realization of revenue.

Management Response:
Management disagrees that the Postal Service does not have a system to reconcile Sales revenues with actual realized revenues. The Postal Service has made ongoing improvements to systems and infrastructure that support customer account and revenue information. This increased visibility to customer revenue information has provided more accurate reconciliation capabilities.

Recommendation 1:
Develop a strategy that emphasizes revenue generation throughout the organization by creating more aggressive revenue plans that integrate forecasted sales growth.

Management Response/Action Plan:
As stated earlier, management disagrees with the need to include more aggressive revenue plans that integrate forecasted sales growth as it already does this as part of its annual revenue planning process. Management believes that given the constraints around pricing, market competition, and volume loss the current revenue plans are very aggressive and are a continual source of focus for the Finance and Marketing and Sales group, as well as with the Executive Leadership Team and the Board of Governors.

Recommendation 2:
Establish individual revenue-related performance measures for operational employees covered by the pay for performance program.

Management Response/Action Plan:
As stated earlier, management disagrees with the recommendation to establish individual revenue-related performance measures for operational employees as all employees in the Postal Service have an element of revenue performance in their pay for performance targets. In addition, Finance, HR, and Operations are continually monitoring the weighting of the unit PFP measures on an annual basis and will add and remove unit indicators to reflect the changing nature of our business.

Recommendation 3:
Develop a strategy for determining and distributing customized sales targets.

Management Response/Action Plan:
As stated earlier, management disagrees with the recommendation for customized sales targets. The Postal Service employs both lead generation and workload distribution models to balance opportunities between sales personnel. The Postal Service believes this is the correct strategy for the limited sales force.

Recommendation 4:
Develop a strategy for reconciling estimated sales revenue against actual realized revenue.

Management Response/Action Plan:
As stated earlier, Management disagrees that the Postal Service does not have a system to reconcile Sales revenues with actual realized revenues. The Postal Service has made ongoing improvements to systems and infrastructure that support customer account and revenue information. This increased visibility to customer revenue information has provided more accurate reconciliation capabilities.

FOIA Exemptions:
Given the commercially sensitive nature of many of the figures included in this audit, the Postal Service requests that the following be redacted from the final report:

Overview Memo:
Please redact the [redacted] figure in the second paragraph and the [redacted] figure for the shipping solutions specialists.

Page 1: Please redact the number [redacted] from the phrase "target was [redacted] in new sales for FY2014.

Page 3: Please redact the [redacted] sales targets statement at the end of the page.

Page 7: Please redact the [redacted] shipping solutions specialist sales target.

Page 12: Please redact Figure 5 (Actual New Sales Revenue to Sales Targets, FY2012 through FY2014 (in Billions).

Page 18-21: Please redact Area level Revenue targets (Figures 6-12).

Appendix D: Please redact the appendix in its entirety.

William C. Rucker
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cc: *Sally K. Haring, Manager, Corporate Audit Response Management*

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