



**OFFICE OF
INSPECTOR GENERAL**
UNITED STATES POSTAL SERVICE

**Customer
Retention**

Audit Report

Report Number
MS-AR-14-008

September 25, 2014





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The Postal Service lost

██████████ and ██████████

of revenue in

FYs 2012 and 2013,

respectively, because

commercial customers

reduced their spending

(termed churn) or left the

Postal Service altogether

(termed defection).

Background

The U.S. Postal Service has a significant customer base, ranging from residential customers to large commercial mailers. Commercial mailers account for most of the Postal Service's revenue — 71 percent (\$46 billion) in fiscal year (FY) 2013.

The Postal Service lost ██████████ and ██████████ of revenue in FYs 2012 and 2013, respectively, because commercial customers reduced their spending — termed “churn” — or left the Postal Service altogether — termed “defection.” Revenue losses from customer churn and defection have exceeded new revenue in 2 of the past 3 years.

Reasons for Churn or Defection with Percentage of Respondents Citing Reason*

Source: Interview or survey responses from 513 current and former Postal Service customers.
Note: *Total does not equal 100 percent because customers could cite more than one reason.



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The Postal Service has implemented customer retention efforts, including making changes to its Sales organization, enhancing its analytics to predict which customers it risks losing, and operating customer retention call centers.

Our objective was to evaluate the effectiveness of the Postal Service's customer retention strategies. We focused on the customer service and operational issues that hindered the Postal Service's retention efforts as they were (a) identified by customers we surveyed as key reasons they churned or defected and (b) primarily within the Postal Service's control.

What the OIG Found

While the Postal Service's revenue loss from customer churn and defection decreased by [REDACTED] from FYs 2012 to 2013, the magnitude of this problem continues to have a significant impact on its revenue and financial outlook.

Enhancements to the Postal Service's current customer retention strategies could mitigate further revenue loss. Specifically, many customers we surveyed cited service and operational issues as key factors in their decision to reduce their business with or leave the Postal Service. To address these issues, the Postal Service needs to implement an effective strategy to promote collaboration among the Sales and operations groups. This approach is in line with best-in-class organizations, which reduce churn and defection by increasing

collaboration among the sales and operations groups when handling customer problems.

We noted that limited information sharing may also be impeding efforts to retain customers. Leading practices show that retention can improve if departments effectively share information about customers at risk of reducing their spending.

Finally, the Postal Service's retention strategy does not include a process to contact former customers. Leading practices recommend reaching out to former customers to reestablish business relationships.

By addressing the issues outlined in this report, which are within its control, the Postal Service could significantly reduce churn and defection. We estimate improvements to the Postal Service's retention strategies could prevent [REDACTED] of revenue loss from customer churn and defection in FY 2014.

What the OIG Recommended

We recommended the Postal Service enhance the effectiveness of its customer retention efforts by implementing strategies to promote organization-wide collaboration for handling customer service and operational problems that could lead to churn or defection, effectively sharing information on at-risk customers, and reaching out to former customers.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 25, 2014

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

DAVID E. WILLIAMS, JR
VICE PRESIDENT, NETWORK OPERATIONS

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

E-Signed by Janet Sorensen
VERIFY authenticity with eSign Desktop

A handwritten signature in black ink, appearing to read "Janet Sorensen", is written over a white background within a rectangular box.

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

SUBJECT: Audit Report – Customer Retention
(Report Number MS-AR-14-008)

This report presents the results of our audit of the U.S. Postal Service's Customer Retention (Project Number 13RG032MS000).

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

Attachment

cc: Corporate Audit and Response Management

Table of Contents

Cover	
Highlights	1
Background	1
What the OIG Found	2
What the OIG Recommended	2
Transmittal Letter	3
Findings	5
Introduction	5
Conclusion	7
Organization-Wide Collaboration	7
Information Sharing	8
Contacting Former Customers	9
Recommendations	10
Management Comments	10
Evaluation of Management's Comments	11
Appendices	12
Appendix A: Additional Information	13
Background	13
Objective, Scope, and Methodology	14
Prior Audit Coverage	16
Appendix B: Management's Comments	17
Contact Information	22

Findings

Losses from customer churn and defection exceeded gains from new revenue in 2 of the last 3 years.

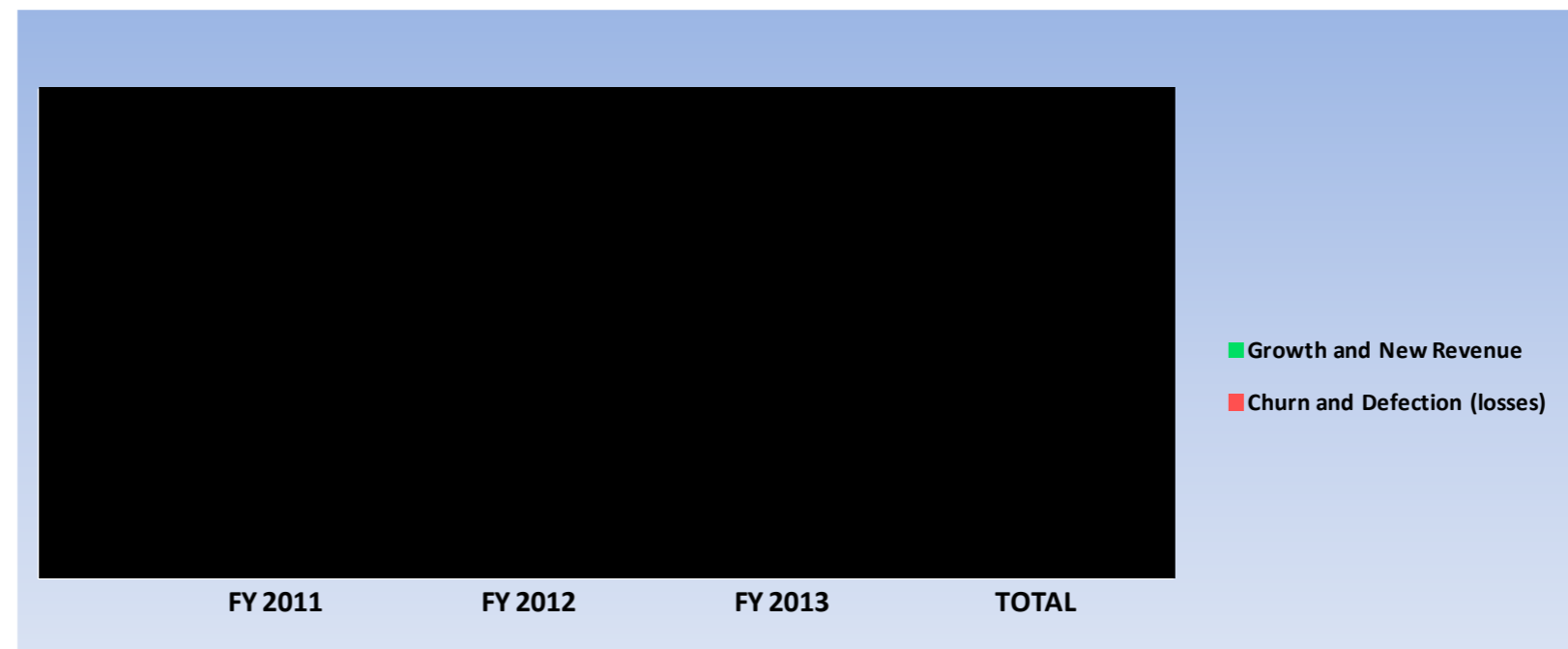
Introduction

This report presents the results of our audit of the U.S. Postal Service's customer retention (Project Number 13RG032MS000). Our objective was to evaluate the effectiveness of the Postal Service's customer retention strategies. See [Appendix A](#) for additional information about this audit.

The Postal Service has a significant customer base, ranging from residential customers to large commercial mailers. Commercial mailers accounted for 71 percent of Postal Service revenue (\$46 billion) in fiscal year (FY) 2013. These mailers include both large and small businesses that mail a broad range of products — including First-Class and Standard Mail, parcels, and periodicals — to domestic and international recipients.

The Postal Service lost [REDACTED], [REDACTED], and [REDACTED] of revenue in FYs 2011-2013, respectively, from its commercial mailers as a result of churn and defection. Customer churn is defined as customers who reduced their spending with the Postal Service, while defection is defined as customers who left the Postal Service altogether. As shown in Figure 1, losses from customer churn and defection exceeded gains from new revenue in 2 of the last 3 years.

Figure 1: Revenue Change From Existing Commercial Customers [REDACTED]



Sources: Customer Data Mart (CDM) and Postal Service officials.

Note: New Revenue is defined as increased spending by existing and new customers.

We surveyed Postal Service customers who reduced their spending or left the Postal Service altogether, and identified multiple reasons for their actions such as customer service and quality issues, operational issues (including burdensome rules and regulations), and electronic diversion. Table 1 has additional information on these survey results.

Table 1: Responses to U.S. Postal Service Office of Inspector General (OIG) Customer Survey Question Asking Why They Left the Postal Service

Question: If you have left the Postal Service what were the main reasons why (select all that apply):	Count	Percentage of Respondents Citing Reason*
Customer service/service quality	114	23.2%
Lack of resolution to issues at the Postal Service	93	18.9%
Competitor offered better value	66	13.4%
Operational issues	62	12.6%
Different product/service offerings	25	5.1%
Stopped mailing altogether	14	2.9%
Other**	117	23.8%

Source: Interview or survey responses from 513 current and former Postal Service customers.

* Customers could answer in more than one category. Percent equals the ratio of total answers.

** "Other" included responses related to the following: poor customer service, unreliable delivery, inconsistent mail pickup, rigid pricing, easier to ship with competitor, poor scanning, and difficult claims process.

Some of these factors identified in our survey are more easily controlled by the Postal Service than others. For example, customer service and service quality are more easily controlled by the Postal Service, while stopping mailing altogether is not. However, only 2.9 percent of respondents indicated that "stopping mailing altogether" was a main reason they left the Postal Service. Alternatively, when we surveyed Postal Service employees who frequently interact with customers,¹ they indicated that the "decreased demand for mailing and shipping services" was the main reason that customers left the Postal Service in the past 2 years.

In FY 2012, the Postal Service began laying the foundation for a customer retention program that mirrored industry best practices. The Sales group made organizational changes to support customer retention and developed an analytical model to predict which customers it risks losing. During FY 2013, a pilot program used output from the model to direct proactive contact with customers from customer retention call centers. The Postal Service is planning to continue its progress in retaining revenue as part of Delivering Results, Innovation, Value, and Efficiency (DRIVE)² initiative 16: Acquire, Grow, and Retain Revenue.

¹ We surveyed employees who work directly with or supervise employees that face business customers on a daily basis such as bulk mail entry unit clerks, postmasters, and Consumer and Industry Contact managers.

² DRIVE is a management process the Postal Service uses to improve business strategy, development, and execution. The initiatives include cost cutting, revenue generation, and capability enhancement.

While the Postal Service's customer churn and defection decreased over [REDACTED] from FYs 2012 to 2013, the magnitude of this problem continues to have a significant impact on its revenue and financial outlook.

Organization-wide collaboration issues may be causing service and operational problems that are driving customer churn and defection.

Retaining customers is a challenge every business faces, and research shows that defection rates can typically range from 10 to 30 percent each year.³ While the Postal Service's defection rate for its commercial customers was just below 12 percent in FY 2013, the magnitude of this revenue loss becomes increasingly important considering its current financial challenges, increasing competition in the postal marketplace, and changing customer demands. The Postal Service's ability to deploy effective retention strategies for reducing churn and defection will be important to retaining this revenue and enhancing the Postal Service's financial condition and outlook.

Conclusion

While the Postal Service's customer churn and defection decreased over [REDACTED] from FYs 2012 to 2013, the magnitude of this problem continues to have a significant impact on its revenue and financial outlook. Enhancements to the Postal Service's current customer retention strategies could help mitigate further revenue loss. Specifically, customers we surveyed cited customer service and operational issues as key factors in their decision to reduce their business with or leave the Postal Service. Addressing these issues requires effective coordination among the Sales and operations groups such as the Retail, Delivery, Human Resources, and Transportation groups. For example, best-in-class organizations take steps to mitigate churn and defection by increasing collaboration among the sales and operations groups when handling customer problems.

In addition, we noted that limited information sharing may also be impeding efforts to retain customers. Leading practices show that retention can improve if a process is established by which departments effectively share information about customers at risk of reducing their spending. Finally, we noted that the Postal Service's retention strategy does not include a process to contact former customers. Leading practices suggest proactively reaching out to former customers to reestablish business relationships.

By addressing the issues within its control, the Postal Service could significantly reduce churn and defection. We estimate improvements in these areas could prevent [REDACTED] in lost revenue from churn and defection in FY 2014.

Organization-Wide Collaboration

Organization-wide collaboration issues may be causing service and operational problems that are driving customer churn and defection. First, many of the commercial mailers responding to our confidential survey⁴ cited service and operational problems as factors in their decision to reduce their business with or leave the Postal Service altogether. Key categories that were identified in [Table 1](#) included: customer service/service quality; lack of resolution of issues at the Postal Service; and operational issues. These issues could be more easily addressed through improved organization-wide effort and coordination.

We also reviewed the DRIVE initiative 16 related to retaining revenue and found that it is primarily focused on sales employees. It does not specifically address cross-functional collaboration focused on customer retention. [Table 2](#) also shows that Postal Service employees' responses to a confidential survey highlight the impact of customer service and service quality on customer churn and defection.

³ Frederick F. Reichheld and Thomas Teal, "The Loyalty Effect," Harvard Business School Press © 2011.

⁴ Our survey included 390 email surveys and 123 telephone interviews of customers who reduced their spending or left the Postal Service in 2013. Additional information on our survey is provided in [Appendix A](#).

Table 2: Responses to OIG Survey Question to Select Postal Service Employees Asking Why Customers Left the Postal Service

Question: From your interactions with customers, please mark the top 3 reasons (with 1 being the most significant reason) why customers left the Postal Service over the last 2 years.	Clerks Count of Answers Ranking 1 or 2	Percent Clerks Answers Ranking 1 or 2	Postmasters and Consumer and Industry Contact Managers Count of Answers Ranking 1 or 2	Percent Postmasters and Consumer and Industry Contact Managers Answers Ranking 1 or 2
Decreased demand for mailing and shipping services	107	35%	641	21%
Better service quality (timeliness or consistency) from competitor	77	25%	822	27%
Better customer service from competitor	39	13%	479	16%
Pricing - More favorable rates from competitor	29	9%	317	10%
Pricing - Other (more flexible, customizable rates) from competitor	30	10%	418	14%
Better product and service offerings from competitor	28	9%	377	12%

Source: Survey responses from 206 bulk mail entry unit clerks and 1,851 postmasters and Consumer and Industry Contact managers.

Best-in-class organizations take steps to increase collaboration between the sales and operations groups to handle customer problems that could lead to churn or defection.⁵ Postal Service retention officials agreed that for the retention process to be effective, operations employees throughout the organization — such as those from retail, delivery, transportation, human resources — must be aware of their important roles in retaining customers and commit to collaboratively resolve customer issues.

While we recognize that operations employees have many priorities and goals, customer retention can improve if departments collaborate to address customer issues. We estimate that collaboratively resolving the customer issues we identified could prevent ██████████ in lost revenue in FY 2014 (and ██████████ between FYs 2012 and 2015).

Information Sharing

Limited information sharing may also be impeding efforts to retain customers. Specifically, Postal Service employees best able to resolve a customer's issues may not be aware the Postal Service risks losing that customer because analytical model data showing this risk are not shared outside of the Sales organization. For example, over 30 Postal Career Executive Service (PCES) managers we met with stated that no information about which customers were at risk of leaving the Postal Service was shared with them. As PCES managers are key to overseeing Postal Service operations and promoting quality service, the lack of information could severely hinder their ability to work with these customers and retain their business.

⁵ We commissioned primary research interviews with stakeholders at leading organizations that have direct insight into successfully determining, distributing, and monitoring revenue and sales targets at their organizations. Their research was conducted with five best-in-class organizations, four of which are in the delivery services sector. The results of their research are included throughout this report.

Likewise, often customers will let Postal Service employees know when they are considering leaving, or have decided to leave, the Postal Service. For example, 69 percent of employees who responded to our confidential survey said customers told them directly of their intentions to leave. Our survey showed, however, that a third of those employees who had knowledge that a customer was leaving did nothing with that information. While we recognize that two-thirds of the employees who responded to our survey stated they acted on this information, we still found that there is no process for the employees to share that information with those capable of resolving customers' issues.

Leading practices from best-in-class organizations show that customer retention can improve if departments effectively share information about customers at-risk of defection. So while the Postal Service's processes for collecting key information on what customers are at-risk have improved from the use of its analytical model, implementing a strategy to share this information could improve the effectiveness of the Postal Service's retention efforts.

Contacting Former Customers

The Postal Service does not reach out to former customers to reestablish business relationships. As such, the Postal Service has overlooked the benefits of contacting former customers. Best practices⁶ show doing so could help the Postal Service:

- Stop negative publicity that former customers may generate.
- Identify the reasons customers leave so it can take steps to address them.
- Renew the business relationship.

Research shows that (a) companies are twice as likely to get a former customer back as they are to obtain a new customer,⁷ (b) it costs six to seven times more to acquire a new customer than to keep an existing one, and (c) a company is four times more likely to make a sale with an existing customer than with a new prospect.⁸ Experts also recommend treating former customers as leads that deserve attention.⁹

Contacting former customers could also enhance existing processes. Postal Service officials stated they want to expand their analytical model to analyze the reasons customers left. Contacting former customers could provide these reasons. The Postal Service could also transfer information about former customers to the funnel management program—a program that provides a prioritized list of sales leads to sales personnel. We estimate implementing a strategy to contact and engage with former customers could have resulted in ██████████ in additional revenue in FY 2014 (and ██████████ in FYs 2012 through 2015).

6 Griffin, J., *Customer Loyalty: How To Earn It How to Keep It*, 2nd ed., Josey-Bass/John Wiley 2002. Chapter 3.

7 Pruden, D., *How to Win Back Lost Customers*, "Direct Marketing to Business Report, October 1995, page 7. Cited in Griffin, J. *Customer Loyalty: How To Earn It How to Keep It*, 2nd ed., Josey-Bass/John Wiley 2002. Chapter 3.

8 Dunford, A. "Customer Retention: 7 Ideas for Marketers," Rocket Watcher Startup Marketing <http://www.rocketwatcher.com/blog/2011/06/customer-retention-7-ideas-for-marketers.html>, June 2011.

9 Dunford, A. "Customer Retention: 7 Ideas for Marketers." June 2011.

Recommendations

We recommend management implement a strategy to improve the effectiveness of the Postal Service's customer retention efforts by promoting organization-wide collaboration for handling customer service and operational problems that could lead to churn or defection and effectively sharing information on at-risk customers.

We recommend the vice president, Sales, in collaboration with the vice president, Network Operations and vice president, Retail and Customer Service Operations:

1. Implement a strategy to improve the effectiveness of the Postal Service's customer retention efforts by promoting organization-wide collaboration for handling customer service and operational problems that could lead to churn or defection and effectively sharing information on at-risk customers.

We recommend the vice president, Sales:

2. Implement a strategy to improve the effectiveness of the Postal Service's customer retention efforts by reaching out to former customers.

Management Comments

Management agreed in principle with the findings and partially agreed with the recommendations. Management did not agree with certain portions of the report or the estimated monetary impact.

Management disagreed with our analysis about reasons customers left the Postal Service, stating that "stopping mailing altogether" and "decreased demand for mailing and shipping services" are two different reasons mailers may churn and defect. Management also disagreed with our finding that limited information sharing may be impeding efforts to retain customers, stating that the DRIVE process facilitates this dialogue and collaboration. Management also disagreed with our finding that organization-wide collaboration issues may be causing service and operational problems that are driving churn and defection, stating the DRIVE process and meetings between operations and marketing foster a collaborative environment. Management also disagreed with our analysis related to the information we collected from the 30 PCES managers, questioning the selection process and their direct involvement with customers.

Regarding recommendation 1, management partially agreed with our finding stating that increased collaboration would be beneficial. Management stated the Customer Retention team responds to information inputs from the Help Desk and Customer Service groups, and has a targeted implementation date to examine the feasibility of including data feeds from these groups in the retention model by September 30, 2015. Management also stated the retention model will include Business Service Network (BSN) service request data from all managed customers with a targeted implementation date of September 30, 2014. Management disagreed with our monetary impact estimate, however, questioning the use of our 16 percent factor and our survey response rate and methodology.

Regarding recommendation 2, management partially agreed with our recommendation and stated it would be beneficial for their retention program to reach out to former customers. Management stated its FY 2015 retention plans calls for Sales Retention Team sites to reach out to defected customers with a targeted implementation date of July 31, 2015. Management disagreed with our estimated revenue impact, questioning our survey methodology and calculations.

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

Evaluation of Management's Comments

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

Regarding management's comment of our categorization of "stopping mailing altogether" and "decreased demand for mailing and shipping services", we agree that they are two separate issues. We surveyed customers who had "stopped mailing altogether" believing they were in the best position to describe their reason for churn or defection. We also surveyed Postal Service employees to see how their views of root causes of churn and defection related to the mailer responses. We used the broader category of "decreased demand for mailing and shipping services", as it would encompass both those who left the mail altogether or just reduced their mailing and shipping spending.

Regarding management's disagreement with our findings that (a) limited information sharing may be impeding efforts to retain customers and (b) organization-wide collaboration issues may be causing service and operational problems that are driving churn and defection, our audit work and survey results support that some churn and defection stems from these issues. Going forward, the actions outlined by management — the DRIVE process and meetings between operations and marketing — will create a sufficiently collaborative environment as we recommended.

Regarding management's disagreement with our analysis from our interviews with the 30 PCES managers, we feel these interviews, while judgmentally selected, were reliable for our audit work. These managers oversee Postal Service operations and promoting quality service. Furthermore, we presented information on their views of information sharing internal to the Postal Service – actions that do not require direct involvement or communication with mailers.

Regarding management's disagreement with our monetary impact calculation for recommendation 1, we continue to believe the 16 percent adjustment factor is a reasonable estimate based on our survey results from which we allowed respondents to select more than one reason they churned or defected. So while we agree with management that revenue lost due to churn per customer can vary, we felt that giving respondents the opportunity to select more than one reason they churned would help normalize the responses. We also felt that the response rate was reasonable and that the additional value from adding in the specific churn and defection related-input from the additional 123 commercial customers referred to us by Postal Service officials would offset potential bias concerns.

Regarding management's disagreement with our monetary impact calculation for recommendation 2, our customer survey results showed that 94 percent stated they were not contacted when they reduced or ceased their business with the Postal Service. Furthermore, our universe of mailers was taken directly from the Postal Service's Customer Data Mart.

The OIG considers all the recommendations significant, and therefore requires - concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendices

***Click on the appendix title
to the right to navigate to
the section content.***

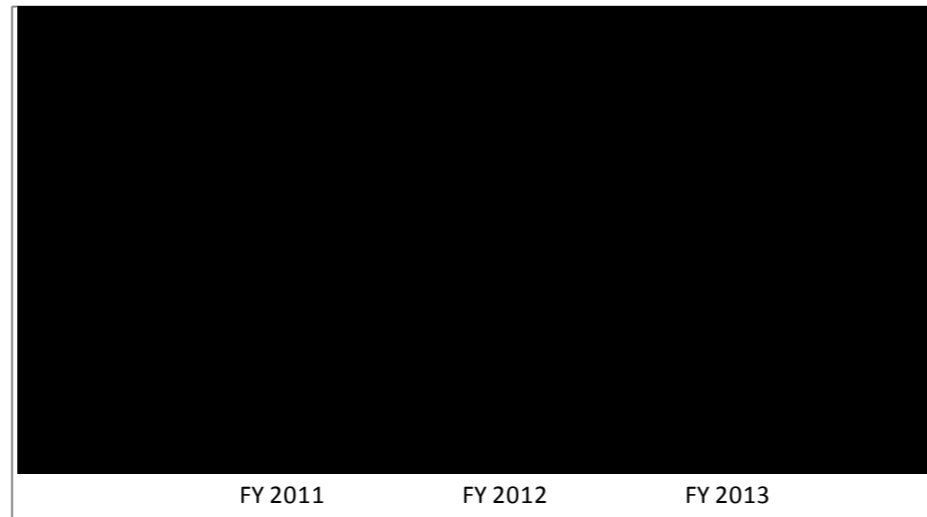
Appendix A: Additional Information	13
Background	13
Objective, Scope, and Methodology.....	14
Prior Audit Coverage	16
Appendix B: Management’s Comments.....	17

Appendix A: Additional Information

Background

The Postal Service has a significant customer base, ranging from residential customers to commercial mailers that spend millions on mailing and shipping each month. In FY 2012, the Postal Service lost nearly [REDACTED] in revenue to customers who either reduced their spending with the Postal Service or left altogether (see Figure 2).

Figure 2: Total Churn and Defection, FYs 2011 to 2013 [REDACTED]



Sources: September 2013 Year-to-Date Churn Report and Postal Service May 2013 update.

Retaining customers is a major opportunity for many companies, since research shows that defection rates can typically range from 10 to 30 percent each year.¹⁰ Research also shows that it costs six to seven times more to acquire a new customer than it does to keep an existing one, and a company is four times more likely to close a sale with an existing customer than with a new prospect.¹¹

To mitigate revenue loss from customer churn and defection, the Postal Service's Business Customer Intelligence group developed an analytical model to predict customers the Postal Service risks losing.¹² During FY 2013, data from this model were used by select Postal Service officials (for example, seven of the 67 BSN district¹³ offices and two specialized call centers) as part of a pilot program to provide proactive outreach to a prioritized list of customers the Postal Service risks losing each month. The Postal Service is expanding this program nationwide to the remaining 60 districts in FY 2014.

The Postal Service also reorganized the Sales department to increase focus on customer retention and expanded the Inside Sales group to include its own revenue retention process. For example, it created a manager, Customer Retention, to oversee retention efforts and a manager, Customer Relationship Management, to drive revenue growth with customers who have large revenue growth potential.

¹⁰ Frederick F. Reichheld and Thomas Teal, "The Loyalty Effect," Harvard Business School Press © 2011.

¹¹ Dunford, A. "Customer Retention: 7 Ideas for Marketers," Rocket Watcher Startup Marketing <http://www.rocketwatcher.com/blog/2011/06/customer-retention-7-ideas-for-marketers.html>, June 2011.

¹² *Decision Analysis Report Business Case, CDM Customer Retention*, August 10, 2012, page 1.

¹³ The BSN is a group within the Consumer and Industry Affairs Department assigned to the larger commercial accounts, and that performs such activities as responding to service requests and providing other information.

The Postal Service also focused on revenue retention as part of various DRIVE initiatives, including:

- Initiative 16: Acquire, Grow, and Retain Revenue – Nurture existing customers with key account managers and retention strategies. Increase revenue growth.
- Initiative 25: Improve Customer Experience – Optimize BSN structure to meet customer needs.

Objective, Scope, and Methodology

Our objective was to evaluate the effectiveness of the Postal Service’s retention strategies. To accomplish our objective, we:

- Reviewed the Postal Service’s customer retention strategies, targets, goals, and processes; and visited a customer retention call center.
- Reviewed confidential surveys from 1,851 Consumer and Industry Contact managers and postmasters assigned to level 18 and above post offices¹⁴ and 206 business mail entry unit clerks to determine employee engagement in customer retention.
- Reviewed confidential surveys from, or interviewed, 513 customers to determine reasons they reduced their business or left the Postal Service. More specifically, we sent surveys to 6,632 commercial customers identified in CDM as having the fastest declining FY 2013 revenue, and received 390 responses. We supplemented these survey results with interviews with 123 other commercial customers who were referred to us as part of the survey of clerks, postmasters, and Consumer and Industry Contact managers.
- Obtained and analyzed FY 2012 data from the CDM, CustomerFirst!, and Enterprise Data Warehouse (EDW) databases.
- Analyzed the Postal Service’s analytical model.
- Interviewed Postal Service Headquarters, Sales, and Operations officials.
- Interviewed members of the Mailers’ Technical Advisory Committee for their views on customer defection and retention.
- Identified current incentives for customer retention, including:
 - Management accountability (budgets and satisfaction surveys).
 - Employee incentives to work cooperatively to retain existing customers.
- Identified best customer retention practices and compared Postal Service strategies against those practices.

¹⁴ The Postal Service determines Post Office level based on factors such as workload, revenue, delivery points, and number of employees – generally, the higher the level, the larger the office.

Our analysis focused on the customer service and service-related issues that hindered the Postal Service's retention efforts, as those were (a) identified by customers from our survey as being a key reason they churned or defected and (b) primarily under the Postal Service's control. We did not focus on other causes of churn and defection such as electronic diversion or pricing regulations that were outside of the Postal Service's control.

We conducted this performance audit from August 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. We discussed our observations and conclusions with management on August 4 and 18, 2014, and included their comments where appropriate. We relied on computer-generated financial data from the EDW and Accounting Data Mart (ADM) and customer data from the CDM. While we did not assess the reliability of data in the ADM, the OIG tests financial information as part of its annual financial statement audits. We tested the data from the CDM for reliability by comparing results to financial performance reports. 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 (in millions)
<i>Business Service Network</i>	MS-AR-14-005	7/9/2014	\$764
<p>Report Results: There are significant opportunities to increase the effectiveness of the Postal Service's BSN – a network of 300 employees that supports nearly 23,000 large customers for service issues, information, and other requests. The OIG recommended the Postal Service develop a strategy to increase BSN effectiveness by reducing the time it takes to resolve requests; conducting customer outreach; enhancing the customer experience survey; and expanding the performance evaluation methodology for BSN staff. Management agreed with the findings and recommendations related to the recommendations on time needed to resolve request and performance evaluation methodology. Management partially agreed with recommendations related to enhancing customer outreach and the BSN survey. In particular, related to the recommendation on enhancing customer outreach, management disagreed with our monetary impact of \$764 million, stating that revenue generation is not a main mission of the BSN and that current staff levels are insufficient to support the level of contact we recommended.</p>			
<i>Small Business Growth</i>	MS-AR-13-009	6/20/2013	\$810
<p>Report Results: Postmasters and sales staff — the groups primarily responsible for generating revenue from small businesses — were not always effective because the Postal Service has not made generating small business revenue a high priority for these groups. Both organizational and operational issues not only hinder the effectiveness of the postmasters' and Sales staff's efforts, but also hinder the Postal Service's overall ability to generate revenue from current and potential small business customers. The OIG recommended the Postal Service develop a strategy to increase the priority that postmasters and Sales staff place on generating small business revenue. The OIG also made recommendations regarding postmaster involvement in civic organizations; Sales staff interaction with postmasters; and the availability and use of sales-related tools, market data, and training. Management agreed with the recommendation regarding the availability and use of sales-related tools, market data, and training, stating the strategies and communications for this effort should be complete by June 2014. Management disagreed with the other recommendations and the monetary impact of \$810 million, stating that since they did not agree with all the recommendations, they did not believe the revenue gain could be achieved.</p>			
<i>Package Delivery Growth</i>	MS-AR-12-003	5/4/2012	\$647
<p>Report Results: Employees responsible for providing logistic and customer support to gain or retain a customer have different goals. Sales employees' performance evaluations are based entirely on revenue generation. Operations and support employees' performance evaluations are based primarily on cost reduction – they have limited or no revenue generation incentives. The OIG recommended the Postal Service establish a strategic decision-making process for evaluating new sales opportunities, enhance the CustomerFirst! System, reassess Sales staffing levels, continue to pursue legislative change that will allow it to ship beer and wine, and evaluate offering prepayment of customs duties and taxes and a local delivery product. Management agreed with our findings and recommendations and set forth their plans for corrective actions. Management disagreed with the monetary impact of \$647 million in subsequent correspondence stating that, even with a reduced sales force, they have been able to increase sales by focusing on higher value sales and sales execution.</p>			

Appendix B: Management's Comments

CLIFF RUCKER
VICE PRESIDENT, SALES



September 19, 2014

TO: Lori Dillard, Director, Audit Operations

SUBJECT: Draft Audit Report – Customer Retention
(Report Number MS-AR-14-DRAFT)

The Postal Service agrees with the overall direction the OIG has provided through the recommendations. However the Postal Service disagrees with the estimated financial impact as well as specific portions of the report.

The following findings were discussed in this OIG report:

For example, customer service and service quality are more easily controlled by the Postal Service, while stopping mailing altogether is not. However, only 2.9 percent of respondents indicated that "stopping mailing altogether" was a main reason they left the Postal Service. Alternatively, when we surveyed Postal Service employees who frequently interact with customers, they indicated that the "decreased demand for mailing and shipping services" was the main reason that customers left the Postal Service in the past 2 years.

Management Response:

Management disagrees with the assertion that decreased demand and stop mailing are one in the same. One is an absolute while the other a partial. Some customers may discontinue parts of their mailing program but not stop mailing. The two responses are not comparable.

In addition, we noted that limited information sharing may also be impeding efforts to retain customers.

Management Response:

Management disagrees with the assertion of limited information sharing. The Postal Service has embraced a process entitled DRIVE (Delivering Results, Innovation, Value and Efficiency). This is a management process the Postal Service is using to improve business strategy development and execution. The DRIVE process is a structured approach to organizing operational and management activities that facilitates cross-functional dialogue and collaboration, provides streamlined reporting and accountability, and incorporates measurement, analysis, and evaluation of initiatives.

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Organization-wide collaboration issues may be causing service and operational problems that are driving churn and defection.

Management Response:

Management disagrees with this assessment for the reasons delineated above. Additionally, operations and marketing meet three times a week to discuss network conditions and major mailer service performance, taking proactive steps to enable customer retention and foster an environment for increased revenue.

For example, over 30 Postal Career Executive Service (PCES) managers we met with stated that no information about which customers were at risk of leaving the Postal Service was shared with them.

Management Response:

Management disagrees with the assertion of the OIG regarding information sharing. There is no indication the selection of the managers was a cross sampling of the PCES workforce and also no indication of their direct involvement with customers and thereby their ability to affect retention.

Recommendations

Recommendation 1:

Implement a strategy to improve the effectiveness of the Postal Service's customer retention efforts by promoting organization-wide collaboration for handling customer service and operational problems that could lead to churn or defection and effectively sharing information on at-risk customers.

Management Response/Action Plan:

Management partially agrees with the OIG recommendation. The Postal Service agrees with the overall direction the OIG has provided through the recommendation. However, the Postal Service disagrees with the estimated revenue impact.

While management agrees that increased collaboration would be beneficial, we disagree with the monetary impacts cited. The analysis shown in Table 1 applies a 16 percent factor on the Revenue Lost due to Churn. This 16 percent factor is based on the 16 percent subset of respondents citing rude employees/poor customer service. The Postal Service does not agree with the estimated combined revenue impact of [REDACTED] based on this approach. This is because the revenue lost due to churn per customer can have a significant variation. The Postal Service believes volumetric/correlation analysis is not an applicable measurement of customer value because it assumes customers are a commodity and they have the same spend.

In addition, the survey response rate = $390 / 6632 = 5.9$ percent. This response rate seems to be very low. There could also be some bias in the additional 123 commercial customers that were supplemented as these were referred by clerks, postmasters, and Consumer and Industry Contact managers.

Today, the Customer Retention team does respond to informal inputs from Help Desk and Customer Service groups but there is no formal intake process. In FY15, the Retention Model will include the BSN service request data from all managed customers. The Retention program also intends to examine the feasibility of data feeds from Help Desk/Customer Care systems for inclusion in the retention model.

Target Implementation Date:

BSN service request data target implementation is QTR 1, FY15. Help Desk/Customer Care system data analysis to be completed by QTR 4, FY15.

Responsible Official:

William C. Rucker, Vice President, Sales

Recommendation 2:

Implement a strategy to improve the effectiveness of the Postal Service's customer retention efforts by reaching out to former customers.

Management Response/Action Plan:

Management partially agrees with the OIG recommendation. The Postal Service agrees it would be beneficial for their retention program to reach out to former customers. However the Postal Service disagrees with the estimated revenue impact.

The Postal Service would also like to know the total number of customers which were part of the confidential survey they conducted to determine the 94 percent as the percentage of customers who were not contacted. Considering that 80 percent of the entrepreneurs (small businesses) go out of business within first 18 months (Ref: <http://www.forbes.com/sites/ericwagner/2013/09/12/five-reasons-8-out-of-10-businesses-fail/>), the Postal Service is not sure whether 94 percent of the customers can be considered as qualified leads.

The Postal Service would like to request OIG to provide details behind all the estimates used in Table 2 to arrive at the estimated revenues from Former Customers Not Contacted.

The FY15 Customer Retention plan calls for Sales Retention Team (SRT) sites to

reach out to defectors (zero spend customers determined by the retention program model).

Target Implementation Date:

Contact of zero spend customers (as determined by the retention program model – Win Back Campaigns) to begin in QTR 3, FY15.

Responsible Official:

William C. Rucker, Vice President, Sales

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:

Highlights: Please redact the [REDACTED] and [REDACTED] figures in the second paragraph under Background. The [REDACTED] figure in the first paragraph and the [REDACTED] figure in the fifth paragraph under What The OIG Found.

Page 1: Please redact the [REDACTED], [REDACTED] and [REDACTED] from paragraph 3. Also redact Figure 1 (Revenue Change From Existing Commercial Customers).

Page 3: Please redact the [REDACTED] in the first paragraph under Conclusion. Also redact the [REDACTED] in the third paragraph.


Page 5: Please redact the [REDACTED] and [REDACTED] in paragraph 2.

Page 6: Please redact the [REDACTED] and [REDACTED] in paragraph 3.

Page 8: Please redact the [REDACTED] in the first paragraph. Please redact Figure 2 (Total Churn and Defection, FYs 2011 to 2013).

Monetary Impacts: Please redact the Monetary Impacts in its entirety.

USPS Response: Please redact the [REDACTED] in the third paragraph under Recommendation 1 (page 2).



William C. Rucker
Vice President, Sales



David E. Williams
Vice President, Network Operations



Kelly M. Sigmon
Vice President, Retail and Customer Service Operations

cc: Sally K. Haring
Manager, Corporate Audit Response Management



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