



# OFFICE OF **INSPECTOR GENERAL**

UNITED STATES POSTAL SERVICE

## Domestic Merchandise Returns and Forwarding

### White Paper

Report Number  
MS-WP-15-001

March 9, 2015





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

## Executive Summary

***The domestic returns business is worth an estimated \$3 billion annually and is expected to approach \$4 billion by 2016.***

The package<sup>1</sup> delivery market is an important and growing segment of the U.S. economy. American businesses and consumers spent more than \$68 billion in 2013 to ship packages domestically.<sup>2</sup> As part of this package activity, merchandise sometimes needs to be returned to the merchant or forwarded to a different address designated by the recipient. A recent study conducted from April to June 2013 showed that just over 5 percent of business volume (over 500 million pieces) was returned using a carrier shipping service.<sup>3</sup> The domestic returns business is worth an estimated \$3 billion annually and is expected to approach \$4 billion by 2016.

The U.S. Postal Service is active in the returns market, having generated about [REDACTED] in returns-related revenue in fiscal year (FY) 2014. The potential of this market was recently acknowledged when the vice president, New Products and Innovation, stated, "Returns play an important role in our efforts to grow our package business."<sup>4</sup> The Postal Service has also released its new "Already There" advertising campaign aimed

at promoting the ease of its return services.<sup>5</sup> In addition, the Postal Service generated about [REDACTED] in forwarding-related revenue in FY 2014. To support this growing market, the Postal Service offers a variety of merchandise return and forwarding products and services and continues to develop additional services to keep up with eCommerce, digital innovations, and changing customer preferences.

The objective of our review was to identify opportunities for the Postal Service to grow its merchandise returns and forwarding revenue. To that end, we researched global trends, reviewed actions of foreign posts, met with Postal Service managers and returns companies, and examined prior U.S. Postal Service Office of Inspector General reports. We identified the following revenue opportunities:

- ***Digital Parcel Label*** – The Postal Service could create a digital parcel label for customers so they would not have to print out shipping labels to return items to merchants. With this technology, the customer would notify the merchant of a pending return and the merchant would send a Quick Response code (QR code) to the customer's mobile phone. The customer would schedule a carrier pickup and the carrier would scan the QR code and print a label from a handheld device. Alternatively, the customer could visit a Post Office where a clerk would scan the QR code directly from the customer's phone, print a label, and attach it to the package.

<sup>1</sup> We use the terms package and parcel interchangeably throughout this report.

<sup>2</sup> *Package Services: Get Ready, Set, Grow!* (Report number RARC-WP-14-012, dated July 21, 2014). Sixty-eight billion dollars is the combined revenue of the Postal Service's shipping and package services, UPS' domestic package operations, and FedEx's domestic packages. Postal Service, *2013 Annual Report to Congress*, UPS, U.S. Domestic Package Operations, *Quarterly Historical Income and Operating Data, 2013 Q4*, and FedEx, *Total U.S. Domestic Packages, FedEx Annual Report 2013*.

<sup>3</sup> *Business Returns Market Survey*, The Colography Group, Inc., December 16, 2013.

<sup>4</sup> Postal Service, *New USPS Return Tools*, July 16, 2014, Sales Communications – News You Can Use.

<sup>5</sup> The "Already There" advertisement was viewed at the following website on January 26, 2015: <https://www.youtube.com/watch?v=4HfHdqD-s58>.

***Innovative returns and forwarding products and services are critical pieces of a competitive package delivery program.***

- ***Warehousing*** – The Postal Service could offer a service where returns are sent to one centralized postal facility and temporarily stored until they reach a certain volume threshold. At that point the Postal Service would forward the merchandise to a location specified by the merchant. The Postal Service could market this service primarily towards small- and medium-sized businesses that lack storage space.
- ***Alternative Delivery Program*** – The Postal Service could offer a forwarding service to customers in the form of an alternative delivery option allowing them to pick up purchases at any convenient Postal Service retail facility. The Postal Service could market this product to busy customers who might want their packages forwarded to a location of their choosing, rather than wait for delivery to their home or business. This program could take advantage of one of the Postal Service’s greatest assets – its ubiquitous retail presence – and help improve its competitive position in the package business.

Innovative returns and forwarding products and services are critical pieces of a competitive package delivery program. The Postal Service is well-positioned to develop and offer each of the products and services listed above and described more fully in this report. The Postal Service has the technological expertise needed to develop a digital parcel label, unused facility space for warehousing services, and the infrastructure and flexibility to develop an alternative delivery program. These offerings could improve customer ease and convenience and help the Postal Service improve its competitive position in the delivery, returns, and forwarding markets. Specifically, if the returns-related opportunities identified above could help grow the Postal Service’s returns revenue by [REDACTED], it would result in additional annual revenue of [REDACTED], [REDACTED], respectively.

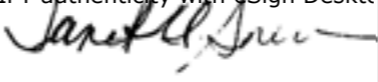
# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

March 9, 2015

**MEMORANDUM FOR:** GARY C. REBLIN  
VICE PRESIDENT, NEW PRODUCTS AND INNOVATION

E-Signed by Janet Sorensen  
VERIFY authenticity with eSign Desktop  


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

**SUBJECT:** Domestic Merchandise Returns and Forwarding  
(Report Number MS-WP-15-001)

Attached are the results of our self-initiated review of Domestic Merchandise Returns and Forwarding (Project Number 14RG029MS000). Our objective was to identify opportunities for the U.S. Postal Service to grow its merchandise returns and forwarding revenue.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Joe Wolski, director, Retail, Sales, and International, or me at 703-248-2100. Thank you in advance for your time and consideration.

Attachment

cc: Corporate Audit and Response Management

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# Observations

***eCommerce, digital innovations, and changing customer preferences are impacting the returns and forwarding marketplace.***

## Introduction

The package delivery market is an important and growing segment of the U.S. economy. American businesses and consumers spent more than \$68 billion in 2013 to ship packages domestically. As part of this package activity, merchandise sometimes needs to be returned to the merchant or forwarded to a different address designated by the recipient. A recent study conducted from April to June 2013 showed that just over 5 percent of business volume (over 500 million pieces) was returned using a carrier shipping service (an average of one of 19 outbound pieces returned).<sup>6</sup> The domestic shipping returns business currently generates about \$3 billion a year and is expected to approach \$4 billion by 2016.

eCommerce, digital innovations, and changing customer preferences are impacting the returns and forwarding marketplace. A recent survey<sup>7</sup> showed that half of online customers identified the ease of the return process as most important to them when shopping online. A presentation at the 2014 National Postal Forum<sup>8</sup> confirmed that finding, while also stating that the returns experience impacts customer behavior and recommendations.

The U.S. Postal Service is active in the returns market and generated about [REDACTED] in returns-related revenue in fiscal year (FY) 2014. In addition, it generated about [REDACTED] in forwarding-related revenue in FY 2014. It offers a variety of merchandise returns and forwarding products and services, some of which are described in [Table 1](#).

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<sup>6</sup> *Business Returns Market Survey*, The Colography Group, Inc., December 16, 2013.

<sup>7</sup> *Same Day Delivery: Not Yet Ready for Prime Time*, Boston Consulting Group, page 10, April 2013.

<sup>8</sup> *Minimizing the Cost and Effort of Package Returns*, joint presentation of Endicia and the Postal Service, March 2014.

<sup>9</sup> Postal Service management provided the returns revenue from various sources including: Corporate Business Customer Information System; PostalOne!; Retail Data Mart; and Revenue, Pieces, and Weight.

<sup>10</sup> FY 2014 special services billing determinants.

**This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the Postal Service with a need to know.**

**Table 1: FY 2014 Postal Service Return and Forwarding Products**

Product Name	Product Description	FY 2014 Revenue (in [REDACTED])
<b>Package Returns</b>		
Parcel Return Service (PRS)	A workshare returns product with the Postal Service as the first-mile carrier who consolidates return packages at postal processing facilities (Return Delivery Unit, Return Service Center Facility, and Return Network Distribution Center). A third-party delivery company picks up the packages at the postal facility and delivers them to the merchant's returns facility.	
PRS-Full Network	A ground returns option that incorporates the best features of USPS Return Services and PRS. Merchants can access the Postal Service Merchant Returns Label Tool printing technology, simplified pricing, and faster transit time. Packages are in the postal network from the customer to the merchant's returns facility. The PRS-Full Network process involves capturing pieces at upstream postal processing facilities and delivering them directly to the merchant, reducing transportation and processing costs. The Postal Service is retiring the published rates on April 26, 2015, and this product will only be available for customers under a customized Negotiated Service Agreement.	[REDACTED]
Merchandise Return Service	Merchants provide a preprinted postage-paid label to customers to return merchandise and are only charged when the labels are used.	[REDACTED]
USPS Return Services	A simplified pricing and streamlined process in which an average uniform per piece price is established. The return items bypass the postage calculation process at the Post Office and are delivered earlier to merchants.	[REDACTED]
Business Reply Mail (BRM)	BRM enables merchants to create prepaid return labels for use by their customers. Although primarily intended for letters and flats, it can be used to return parcel-shaped mailpieces shipped by First-Class Mail and Priority Mail. BRM postage is assessed only when the label is used.	[REDACTED]
Return On Your Own	Customers return packages at their own expense through the Postal Service. Registered merchants can get notified that a return package is on its way.	[REDACTED]
Return to Sender	Parcels returned to sender; products in this category include Bound Printed Matter, Standard Post, Media/Library Mail, Parcel Select, and Standard Mail Parcel.	[REDACTED]
Bulk Parcel Return Service	Allows mailers of large quantities of Standard Mail or Parcel Select Lightweight machinable parcels that are either undeliverable-as-addressed or opened and re-mailed by addressees to be returned to designated postal facilities. The mailer can pick up all returned parcels from a designated postal facility at a predetermined frequency specified by the Postal Service, or have the Postal Service deliver them in an agreed upon manner and frequency. The Postal Service has proposed revising the labeling standards for Bulk PRS.	[REDACTED]
Call Tag Return Service <sup>11</sup>	Gives customers a return shipping label generated and delivered by the Postal Service at the authorization of a merchant. This service is available for USPS Return Services and PRS labels. The return shipping labels can be delivered free of charge to the customer's address or Post Office (PO) Box, or picked up at a Post Office or Self-Service Kiosk. The merchant is charged postage when the return package is shipped.	Not applicable – this service is free to customers

<sup>11</sup> Postal Service officials stated that they are changing the name of this service to Print and Deliver Return Shipping Labels. We use Call Tag Return Service in the report, as that is the name of the product as listed on [www.usps.com](http://www.usps.com) as of March 2015.

**The Postal Service has recognized it should develop innovative returns services solutions in order to meet the needs of customers and stay relevant in the digital age.**

Product Name	Product Description	FY 2014 Revenue (in [REDACTED])
<b>Package Forwarding</b>		
Premium Forwarding Service – Residential	Provides residential customers the option to have all mail addressed to their primary address shipped to a temporary address each Wednesday by Priority Mail shipment. This service is available for a period of not less than 2 weeks and not more than 1 year.	[REDACTED] <sup>12</sup>
Premium Forwarding Service – Commercial	Provides commercial business customers the option to have the Postal Service gather incoming mail addressed to business PO boxes or business street addresses within the same servicing postal facility and dispatch the mail as Priority Mail Express or Priority Mail shipments to a new domestic address.	[REDACTED]
Package Intercept	Allows customers to redirect a domestic shipment that has not been delivered; available for packages, letters, and flats with a Postal Service tracking or extra services barcode. Items can be held at a Post Office for pickup, sent to a different domestic address, or redirected back to the sender’s address.	[REDACTED]

Source: Postal Service management provided returns revenue from various sources including: Corporate Business Customer Information System; PostalOne!; Retail Data Mart; and Revenue, Pieces, and Weight. Forwarding revenue was obtained from the 2014 special services billing determinants.  
 Note: Due to rounding, the amounts in this table may not add up to the totals.

The Postal Service has recognized it should develop innovative returns services solutions in order to meet the needs of customers and stay relevant in the digital age. The vice president, New Products and Innovation, recently noted, “Returns play an important role in our efforts to grow our package business.”<sup>13</sup> The Postal Service has also released its new “Already There” advertising campaign aimed at promoting the ease of its return services.<sup>14</sup> The Postal Service is developing a compelling suite of returns products focused on three areas:

- **Pricing** – Making returns simple, flexible, and predictably priced for shippers with roundtrip, flat-rate, and pay-as-you-go pricing models.
- **Labeling** – Simplifying labeling with labels that can be used to both send and return merchandise and on-demand return label delivery.
- **Routing** – Evolving “intelligent” returns to be location dynamic so shippers can return to any location – such as a retail store, consolidator, or warehouse – depending on their changing inventory needs.

We support the development of pricing, labeling, and routing enhancements to increase the Postal Service’s merchandise returns and forwarding revenue. Our research<sup>15</sup> shows there are additional opportunities in the returns and forwarding arena related to digital labels, warehousing, and alternate delivery (detailed descriptions of these opportunities are below). These offerings could improve customer ease and convenience and help position the Postal Service as the package carrier of choice for delivery, returns, and forwarding markets. Specifically, if the returns-related opportunities identified above could help grow the Postal Service’s returns revenue by [REDACTED], it would result in additional annual revenue of [REDACTED], respectively.

<sup>12</sup> This figure includes revenue from both the fees for forwarding mail and the application fees.

<sup>13</sup> Postal Service, *New USPS Return Tools*, July 16, 2014, Sales Communications – News You Can Use.

<sup>14</sup> The “Already There” advertisement was viewed at the following website on January 26, 2015: <https://www.youtube.com/watch?v=4HfHdqD-s58>.

<sup>15</sup> We researched global trends, reviewed actions of foreign posts, met with Postal Service managers and returns companies, and examined U.S. Postal Service Office of Inspector General (OIG) reports.



## Digital Parcel Label for Returns

A leading standard and express parcel service company in Germany is introducing a new digital parcel label in early 2015 that will eliminate the need for customers to print shipping labels. According to an executive at the company, “Nowadays many households manage very well without having their own printer. In addition the shipping of parcels is a lot more convenient and flexible if customers are not dependent on physical parcel labels.”<sup>16</sup>

The Postal Service could follow this German model and create a digital parcel label for returning packages to merchants. With this technology, the customer notifies the merchant of a pending return, and the merchant then sends a Quick Response (QR) code<sup>17</sup> to the customer’s mobile phone. The customer schedules a carrier pickup and the carrier scans the QR code and prints a label from a handheld device. Alternatively, the customer could visit a Post Office where a clerk would scan the QR code directly from the customer’s phone, print the label, and attach it to the package.

The Postal Service offers Call Tag Return Service, but this is a physical label delivered to the customer that does not offer the instant resolution of a digital solution. The digital parcel label may be more efficient and appeal to more Americans as reliance on smartphones grows. Smartphones are already extremely popular, particularly with younger Americans. A recent study<sup>18</sup> estimates that 71 percent of Americans own a smartphone. In the second quarter of 2014, 85 percent of millennials (aged 18-24) and 86 percent of Americans aged 25-34 owned smartphones. The digital parcel label could be very attractive to consumers who increasingly rely on their smartphones.

## Warehousing of Returns

Swiss Post’s YellowCube, which began operating in April 2014, is a full service logistics operation that features a fully automated storage and picking facility. YellowCube offers e-commerce businesses product storage, parcel pick up and packing, and a complete returns management system. A customer does not send a return back to the merchant but, instead, to a Swiss Post facility where the item is inspected and stored until reordered by another customer. The merchant and customer determine how they want to handle damaged merchandise, and Swiss Post follows the merchant’s directions.

The OIG identified a comparable opportunity for the Postal Service in a March 2014 report.<sup>19</sup> The report noted that such an offering could put the Postal Service’s excess facility space to good use. The OIG stated that the Postal Service could offer shipping and return services, primarily for small businesses that have inventory storage and shipping needs. The Postal Service could offer a service similar to YellowCube, with returns sent to one centralized postal facility and temporarily stored until they reach a certain volume threshold. At that point, the Postal Service would forward the merchandise to a location the merchant specifies. The Postal Service could market this service primarily toward small- and medium-sized businesses that lack storage space.

## Alternate Delivery Program

Royal Mail<sup>20</sup> has started the Local Collect program which allows small- and medium-sized businesses to offer additional delivery options to their customers. With Local Collect, when a customer places an order on a merchant’s website, the customer is offered the option to select a convenient delivery location from one of over 10,500 post office branches. The customer receives

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<sup>16</sup> Post and Parcel, *DPD Germany to Launch “Digital Parcel Label” Next Year*, October 28, 2014.

<sup>17</sup> QR codes take a piece of information from a transitory media and put it into a cell phone.

<sup>18</sup> Nielsen, *Mobile Millennials: Over 85% of Generation Y Owns Smartphones*, September 5, 2014.

<sup>19</sup> *Opportunities for the Postal Service – Micro-Warehousing and Other Logistics Support Services* (Report Number [MS-WP-14-003](#), dated March 13, 2014).

<sup>20</sup> Royal Mail is the United Kingdom’s designated universal postal service provider.

***Innovative returns and forwarding products and services, particularly related to the growing returns and forwarding segment, are critical to success in the package delivery market.***

email confirmation upon delivery to the selected branch, and has 18 days to pick up the merchandise before it is returned to the merchant. A recent study<sup>21</sup> found that 46 percent of online shoppers are more likely to use an online merchant if the merchant delivers directly to a Post Office branch. Local Collect is part of an ongoing program by Royal Mail program to improve flexibility and give shoppers greater control over the delivery of their items.

The Postal Service, with the help of merchants, could offer customers an alternative delivery option similar to Royal Mail's Local Collect. Customers could pick up purchases at any of the 32,000 retail post offices in the U.S. This product could be marketed to busy customers who might want to have packages forwarded to a location of their choosing, rather than waiting for delivery to their home or business. This program could take advantage of one of the Postal Service's greatest assets – its ubiquitous retail presence – and help improve its competitive position in the package business.

## **Conclusion**

Competition in the package delivery market continues to grow as companies aggressively fight to attract new business and increase their market share. Innovative returns and forwarding products and services, particularly related to the growing returns and forwarding segment, are critical to success in this market. As we identified earlier, the Postal Service is developing a variety of useful revenue-generating returns products focusing on labeling, pricing, and routing. There are other opportunities related to digital parcel labels, warehousing of returns, and an alternative delivery program that can help supplement these Postal Service efforts. These offerings could improve customer service ease and convenience and help the Postal Service become the package carrier of choice for delivery, returns, and forwarding markets. Specifically, if the returns-related opportunities identified above could help grow the Postal Service's returns revenue by [REDACTED], it would result in additional annual revenue of [REDACTED], respectively.

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<sup>21</sup> Hall & Partners, *Delivery Matters, Especially at Christmas*, 2014.



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**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

U.S. Postal Service Office of Inspector General  
1735 N. Lynn Street  
Arlington, VA 22209

Telephone: 703-248-2100  
[www.uspsoig.gov](http://www.uspsoig.gov)

For media inquiries, contact Agapi Doulaveris  
Telephone: 703-248-2286  
[adoulaveris@uspsoig.gov](mailto:adoulaveris@uspsoig.gov)