



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Guiding Principles for a New Universal Service Obligation

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Executive Summary

Today the current law does not contain a comprehensive and clear definition of the USO; instead it is assumed to be made up of a collection of various legal requirements and regulations that in most instances provide only broad guidance.

A universal service obligation (USO) is a collection of requirements that ensure all users receive a minimum level of service at a reasonable price. Policymakers turn to USOs when there is a concern that without requirements, providers would choose to either cut service or raise prices in high cost areas. USOs are commonly imposed upon regulated industries throughout the world, especially industries where natural monopolies occur — including the postal, telecommunications, and electric utility industries. A USO can be served by one or several providers, and it is often the regulator's responsibility to ensure that it is being met. In the postal world, the USO plays a very important role in binding the nation together, facilitating citizen inclusion, and enabling commercial and public activities, and ensuring necessary postal service to remote areas.

Today, the U.S. Postal Service has the sole responsibility for providing required postal services in the United States; however, the current law does not contain a comprehensive and clear definition of the USO. Instead, the Postal Service's USO is assumed to be made up of [a collection of various legal requirements and regulations](#) that, in most instances, provide only broad guidance. For example, while there seems to be an understanding that access to postal services is an important component of USO, there are no requirements that state how many access points such as collection boxes or post offices must exist.

The obligations that are assumed to be part of the USO have evolved over time as mail needs have changed — both

increasing and decreasing to find the appropriate balance between needs and the costs of meeting those needs. For example, mail was once delivered only to post offices, then delivery was gradually expanded to free home delivery for cities, followed by free home delivery for rural areas. In addition, at

Highlights

The purpose of the Universal Service Obligation (USO) is to ensure that the Postal Service provides a minimum level of service to all areas of the country.

There is no set and clear definition of the Postal Service's USO; it is generally assumed to be a collection of various laws and regulations.

The rise in digital communication alternatives and the resulting decline in the need for hardcopy mail raises the question of what services should the Postal Service be obligated to provide.

The purpose of this paper is to provide a set of recommended guiding principles to help filter the abundance of conflicting information and frame the debate.

The OIG will provide additional input in a future paper — a quantitative survey that will estimate how much value stakeholders place on various levels of certain USO attributes.

one time, mail was delivered several times a day, but over time was cut back to once a day to reduce costs.¹ The rise of digital communications and e-commerce is driving a need for the next evolution of the USO. Technology has introduced numerous alternatives to hardcopy mail — including e-mails, texts, tweets, and electronic bill-pay. These alternatives have changed the need for hardcopy mail, although not eliminated it, as there are those who are unable or unwilling to use the new technology. In addition, as the need for letter mail declines overall, the demand for parcel services and e-commerce fulfillment is growing. Some people, especially those living in rural and remote areas, depend on parcel delivery service for necessary supplies such as medicines and groceries. As the need for mail services change, the question arises — what services do policymakers and the American public (both senders and receivers of the mail) now need the Postal Service to provide?

The debate behind this question has intensified as the decline in mail volume and revenue has made it difficult for the Postal Service to fund its obligations. As the Postal Service continues to lose money, parts of the USO are being debated piece-by-piece. The main focus of the debates is whether customers still need a certain level of service enough to justify the cost of providing it. One example is the ongoing debate about whether the Postal Service should continue to be required to deliver mail on Saturdays.

In its 2008 report on the USO, the Postal Regulatory Commission (PRC) recommended that policymakers should take a more comprehensive review of the USO, and this paper supports this idea. In this paper, the U.S. Postal Service Office of Inspector General (OIG) uses [lessons learned](#) from existing literature, input from experts, and its own knowledge of the Postal Service, to develop a set of guiding principles.² These guiding principles can help filter the plethora of information and stakeholder input (both senders and receivers of the mail) and help frame the debate on the USO.

¹ U.S. Postal Service, *Report on Universal Postal Service and the Postal Monopoly*, <http://about.usps.com/postal-act-2006/universal-postal-service.htm>, Appendix A, pages 6-8, 18.

² During the development of this paper, the OIG worked closely with Professor Michael D. Bradley of the Economics Department of George Washington University, an expert in postal economics. The OIG also conferred with numerous experts that represented various stakeholder groups.

The six guiding principles are:

1. First, update and clarify the purpose (policy goals), and then focus the USO on those services needed to meet those goals.
2. The USO should define the floor; the market should define the ceiling.
3. The USO should be flexible enough to enable adaptation to changing market conditions over multiple years.
4. The USO should be defined in terms of the service received and not how the service is provided.
5. The USO needs to be financially sustainable while reasonably priced.
6. The USO requirements should be transparent and measurable.

These guiding principles are designed to apply whether the USO is provided by one or by several suppliers of postal services, and whether they are funded by a statutory monopoly or by some other means.

The OIG also identified an additional type of study that may prove useful in identifying those areas where stakeholders still place value on postal services — a quantitative survey of the current value of the USO attributes. The OIG is in the process of finalizing this survey and will provide the results in a future white paper.

The OIG acknowledges that these two papers will not answer and address all the questions and issues surrounding the USO, as defining a new USO is a complicated and daunting task. It is our hope, however, that the information provided in these papers will materially contribute to the discussion on the USO and assist in developing a new definition of the USO suitable to the modern era.

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Observations

The USO has not been static over time, but instead has changed in response to the public's needs and the cost of providing the mail.

Introduction

A universal service obligation (USO) refers to a set of requirements put in place to ensure that all users receive a minimum level of service, regardless of the cost to the provider. A USO is commonly used when there is concern that absent a USO, service providers may choose to cut service or raise prices in high cost areas, leaving some populations without necessary amenities. A USO is commonly used in regulated industries — especially those with natural monopolies — to ensure that all areas of the country are served. A USO can be met by one or several providers. Most posts have some sort of USO, although some are more clearly defined than others. USOs are also commonly used in the telecommunications and electric utility industries.

In other countries, it is the responsibility of the postal regulator to ensure that the USO is being met. However, in the United States, it is generally accepted that the USO is the responsibility of the Postal Service. Currently, the postal USO is not clearly defined in legislation, but instead is only broadly defined through various forms of legislation and by convention.³ For example, while both the Postal Regulatory Commission (PRC) and the Postal Service agree that USO encompasses access, the legislation related to access is fairly general in nature and only includes language around the need for access and the prohibition against closing a Post Office solely because it operates at a deficit.⁴ There are no requirements designed to guarantee that sufficient access exists, such as a minimum number of access points. While not clearly defined, the Postal Service's USO is generally understood to include requirements that relate to attributes such as geographic scope, range of products, access, frequency and mode of delivery, pricing, and quality of service.⁵

The USO has not been static over time, but instead has changed in response to the public's needs and the cost of providing mail service. For example, prior to 1863, mail recipients had to travel to the Post Office to get their mail. Then in 1863, free home delivery for cities was introduced, followed by free home delivery for rural areas in the 1890s.⁶ After the introduction of home delivery, mail was delivered several times a day, but in 1923 mail delivery frequency was cut back to lower the cost. It officially became once a day in 1950.⁷

The rise of digital alternatives is driving the need for the next evolution of the USO. The need for hardcopy mail is declining as more and more digital alternatives become available. E-mail, texts, tweets, and the ability to do transactions digitally are all alternatives to First-Class Mail, although, not everyone is willing or able to use these new alternatives. As more and more people begin to rely on digital alternatives, there remains a subset of the population who still depend on the mail. These include those who cannot afford or do not have access to broadband and those who are unwilling to trust or unable to use digital alternatives. In addition, as the need for letter mail declines overall, the demand for parcel services is growing. And some people, especially those living in rural and remote areas, depend on parcel delivery service for necessary supplies such as medicines and groceries. As the need for mail services change, it raises the question — what services do policymakers and the American public need the Postal Service to provide?

³ For a list of legislation that references various aspects of the USO, see U.S. Postal Service, *Report on Universal Postal Service and The Postal Monopoly*, October 2008, <http://about.usps.com/universal-postal-service/usps-uso-report.pdf>, p. 9-11, and Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*, December 2008, <http://www.prc.gov/Docs/61/61628/USO%20Report.pdf>.

⁴ For a discussion of legislation that relates to access, see Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*, December 2008, <http://www.prc.gov/Docs/61/61628/USO%20Report.pdf>, p 19.

⁵ See Background Section for a more in-depth discussion.

⁶ U.S. Postal Service, *Report on Universal Postal Service and the Postal Monopoly*, <http://about.usps.com/postal-act-2006/universal-postal-service.htm>, Appendix A, pp 6-8.

⁷ *Ibid.* p. 19.

It is important to get a new definition of the USO right, and any effort to redefine the USO should be done with due diligence.

The question is rendered more urgent by the fact that the decline in mail volume and revenue has made it difficult for the Postal Service to fund its obligations. The Postal Service in recent years has proposed several changes to its services in order to cut costs. These changes, such as eliminating Saturday delivery of letters, have been met with resistance from those customers that still depend heavily on the mail.

So far, the debates have focused on individual aspects of the USO. In its 2008 report on the USO, the PRC recommended that if Congress were to reconsider aspects of the USO, that it should do so in a comprehensive manner. This paper supports the notion that now is the right time to take a comprehensive review of the USO.

Defining the requirements that make up a new USO would be a major undertaking as suggested changes are met with heated resistance and controversy. Any change to the USO will be difficult to achieve. It should be assumed that once a new definition of the USO is put into place, it would remain in place for years, if not decades. Changes to the USO requirements affect the entire country, and those who are most affected by the changes are often the most vulnerable — people with low incomes or living in remote areas that rely on mail service for necessary supplies such as medicine. Therefore, it is important to get a new definition of the USO right, and any effort to redefine the USO should be done with due diligence.

The purpose of this paper is to provide a conceptual process that can be used to develop a new comprehensive USO and provide several of the key components needed to fill in that framework. During the development of this paper, the U.S. Postal Service Office of Inspector General (OIG) worked closely with Professor Michael D. Bradley of the Economics Department of George Washington University, an expert in postal economics. This paper is the first in a set. A second paper will provide one of the key components still needed — results of a survey that is currently being conducted to estimate how much value users of the mail place on certain attributes of the USO. The OIG does not plan to present a new definition of the USO, as it believes this important decision is outside of the role of the OIG. However, it is our hope that these papers will materially contribute to the discussion on the USO and aid in the development of the new definition of the USO in the modern era.

Background

The Postal Accountability and Enhancement Act (PAEA) required the PRC to submit a report on the USO and postal monopoly within 24 months of enactment of the act.⁸ The purpose of the report was to give a comprehensive review of the USO, describe the scope and standards that currently exist, and if needed, make recommendations for change.

In anticipation of the PRC's report, the Postal Service produced its own USO report in October 2008.⁹ The PRC issued its report 2 months later in December 2008.¹⁰ Both the PRC's and the Postal Service's reports supported the idea that USO is not clearly defined, and instead is a collection of legal requirements and regulations that only provide broad guidance and are subject to interpretation. The only exception is frequency of delivery, where there exists appropriation language that requires the Postal Service to deliver mail 6 days a week to most areas of the country.¹¹ As can be seen in [Table 1](#), both agreed that the USO encompasses geographic scope, range of products, access, delivery mode and frequency, pricing, and service. In addition to these six attributes, the PRC added enforcement of the USO and the Postal Service added security. While they agreed on the first six attributes, they did not necessarily agree on scope within each attribute. The most noticeable difference was which products

⁸ Postal Accountability and Enhancement Act, Pub.L. 109-435, 120 Stat. 3198, § 702 (2006).

⁹ U.S. Postal Service, *Report on Universal Postal Service and The Postal Monopoly*, October 2008, <http://about.usps.com/universal-postal-service/usps-uso-report.pdf>.

¹⁰ Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*, December 2008, <http://www.prc.gov/Docs/61/61628/USO%20Report.pdf>.

¹¹ Public Law 109-435. December 20, 2006.120 STAT. 3243. Sec 702.

Table 1: The Postal Regulatory Commission and Postal Service Reports on USO

Attribute	Current USO		PRC Recommendations
	Postal Service Report	PRC Report	
Geographic Scope	Postal Service required, as practicable, to provide services throughout the United States and to military abroad.	Postal Service required, as practicable, to provide services throughout United States, to military abroad, and through international agreements. Obligation can vary from product to product as long as not unduly discriminatory.	No Change.
Range of Products	Market Dominant (MD).	All.	If Congress determines the USO only applies to MD, should reconsider rationale for mailbox monopoly.
Access	The Postal Service has broad discretion over types and number of facilities, but is limited in closing post offices (due to legal and regulatory constraints).	Includes time and distance needed to get to location as well as wait time. Postal Service has flexibility, but is limited in closing post offices for solely economic reasons and limitations to delivery frequency (since carriers also provide access).	Congress may want to consider putting requirements related to facility location into law, rather than appropriations.
Delivery Mode and Frequency	Only restriction is in appropriations rider to maintain delivery at 1983 levels. Type and mode of delivery is left up to discretion of the Postal Service.	Frequency is defined by appropriations language to maintain delivery at 1983 levels delivery. Mode of delivery is up to discretion of the Postal Service.	No specific recommendation, but recommend balancing all aspects of the USO.
Pricing	Some identified products must be affordable. One class of mail must have uniform price.	Affordability is met through rate constraints and uniform price requirement.	No specific recommendation.
Service	The Postal Service must provide quality service on a nationwide basis, but service up to discretion of the Postal Service (market forces ensure good service).	The Postal Service must provide quality service on a nationwide basis, but there are no substantive and enforceable service quality standards. Any changes to nationwide service are subject to public comment and PRC review.	More time is needed to determine if Advisory Opinions on Service are working.
Enforcement of USO (Complaint)	Not Included.	Interested parties have a right to file complaints that the Postal Service is not meeting the USO.	More time is needed to see if working; PRC still developing the process.
Security	Maintaining security of the mail is a function of statutory requirements and overseen by the U.S. Postal Inspection Service.	Not Included.	Not Included.

Both reports support the idea that the USO is not clearly defined and is instead a collection of legal requirements and regulations that only provide broad guidance and are subject to interpretation.

Sources: Postal Regulatory Commission's and U.S. Postal Service's Reports on the USO and monopoly.

Neither the PRC's nor the Postal Service's 2008 USO reports made sweeping recommendations, but both were issued prior to the precipitous decline in mail.

are included in the USO. The Postal Service argued that only market dominant products are covered, and the PRC argued that the USO covers all products.¹²

Regardless of the similarities and differences in the reports, neither made sweeping recommendations for change, and both supported maintaining the current loose definition of the USO. In fact, while the Postal Service said its recommendation was maintaining the status quo, in the body of the report, it suggested dropping the only specific requirement related to the USO — the appropriations rider that requires the Postal Service to deliver to most areas of the country 6 days a week.¹³ While the PRC recommended some policy issues that Congress may wish to consider, shown in [Table 1](#), it stopped short of making explicit recommendations for changes to the USO. However, the PRC made three overarching recommendations: (1) Congress review and balance all the features of the USO as part of any review process, (2) the Postal Service develop information on mailers' responses to potential service changes, and (3) there is a need to study the impact of any changes on societal benefits.¹⁴

The Postal Service did perform several surveys to address recommendation number two, when it filed its cases on eliminating Saturday delivery and rationalizing the mail processing network.¹⁵ The PRC itself initiated a report to address recommendation number three. It issued a report on the social benefits of the USO that outlined future areas of study that were needed in the United States, including a quantitative study of willingness to pay for different USO levels.¹⁶

The reports alone do not make any changes to the Postal Service's legal requirements to provide service; only Congress has that authority. They do provide two separate legal interpretations of how the current laws should be applied to the Postal Service. However, both interpretations support the notion that the USO is only made up of requirements that provide broad guidance.

It should be noted that both the Postal Service and the PRC issued their reports in 2008 as the economic downturn was just beginning, and the precipitous decline in mail volume had not yet occurred. Therefore, it is possible that if either issued a report today, the recommendations would be significantly different.

Framework for Developing a New USO

When it comes to the USO, there is both an extensive amount of information and yet not enough of the right information to determine what is the right definition of the USO. This abundance of information includes academic papers, articles on the USO in other countries and industries, surveys designed to elicit stakeholders' wants and needs, and information pertaining to how much the USO costs the Postal Service, as well as what costs it would avoid if the obligations were relaxed.

The OIG suggests that the conceptual process shown in [Figure 1](#) would be helpful to manage the influx of information. As can be seen in the [figure](#), both cost estimates of providing the USO and stakeholders' needs are essential to the development of a new USO.¹⁷ However, neither cost estimates nor stakeholders' needs are clear-cut. Cost estimates are simply that — estimates — and can vary widely depending on assumptions used. In addition, stakeholders' needs often conflict with one another. Therefore, the OIG suggests the need for a set of guiding principles, which can be used to filter the various inputs in order to create a USO that

¹² Market dominant products consist of First-Class Mail letters and sealed parcels, First-Class Mail cards, Periodicals, Standard Mail, single-piece Parcel Post, Media Mail, Bound Printed Matter, Library Mail, special services, and single-piece international mail. U.S. Postal Regulatory Commission, "Frequently Asked Questions – Postal Regulatory Commission," <http://www.prc.gov/prc-pages/ConsumerInfo/Default.aspx?section=Prfaq&AspxAutoDetectCookieSupport=1>.

¹³ U.S. Postal Service, *Report on Universal Postal Service and the Postal Monopoly*, <http://about.usps.com/postal-act-2006/universal-postal-service.htm>, p. 86.

¹⁴ Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*.

¹⁵ Postal Regulatory Commission Proceedings, Docket No. N2010-1, USPS-T-8 and Docket No. N2012-1, USPS-LR-N2012-1/26, www.prc.gov.

¹⁶ The Urban Institute, *A Framework for Considering the Social Value of Postal Services*, Final Report. Prepared for the Postal Regulatory Commission, February 2010, http://www.prc.gov/prc-docs/library/archived/Final_Report_Sent_to_PRC_Feb_3_943.pdf.

¹⁷ Stakeholders' needs include both the needs of individual users of the mail as well as the larger social benefits that may arise due to the existence of the Postal Service, such as having a government presence in most communities.

Figure 1: Conceptual Process for Developing a New USO

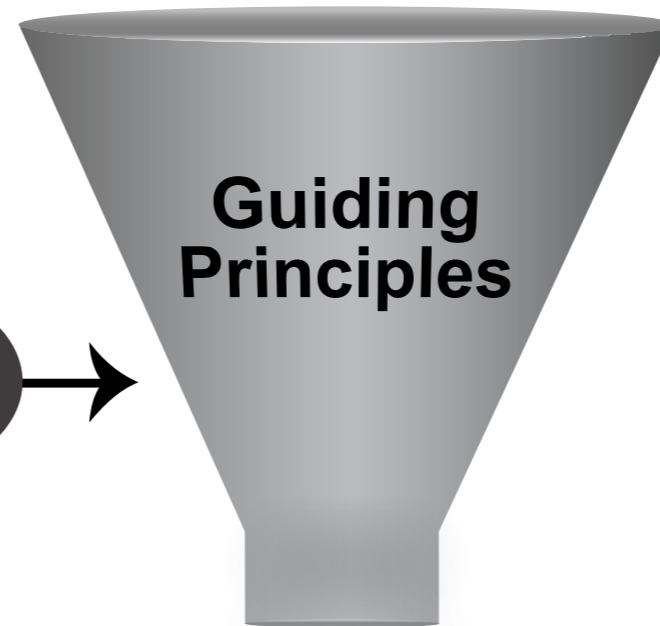
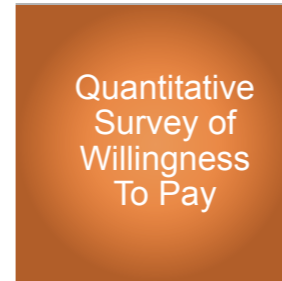
Filtering the Abundance of Information

The OIG used the insights from the lessons learned as well as knowledge about the postal market to develop a set of guiding principles that can be used to filter the abundance of information and stakeholder input and help frame the debate on the USO.

Postal Service Financials



Stakeholders' Needs and Social Benefits



Source: OIG Analysis.

is relevant and sustainable for the postal services in the United States. The guiding principles should not be developed in a vacuum; they should be developed using insights from the existing literature on the USO.

Fortunately, for several of the components in this framework, information already exists (see Figure 2). As mentioned above, cost estimates for various aspects of the USO have been developed in the past, and several surveys have been performed to elicit which services people value. There have also been other forums for gathering stakeholder input including various PRC hearings and townhalls.

There are also several components from the conceptual framework where information is needed, as shown in Figure 3. The OIG plans to provide information on these topics in a set of papers on the USO. In this paper, the OIG will present lessons learned and a suggested set of guiding principles. In its next paper on the USO, the OIG will present the results from a quantitative study on mail users' willingness-to-pay for USO attributes.¹⁸

Lessons Learned from Other Research and Experience on USO

The OIG has analyzed the existing literature and developed a set of key lessons learned that are relevant to developing a new postal USO in a rapidly changing market. The literature review included academic articles on the USO, articles on the USO in both the telecommunications market, and articles on the postal USO in other countries. Appendix A contains the full list of articles reviewed for this paper. The discussion below is not meant to reflect a detailed summary of this literature, but instead provide an overview of key points that are relevant to the development of a USO in a rapidly changing market.

We should note New Zealand Post is mentioned numerous times throughout the lessons learned. This is because New Zealand Post was successful in making comprehensive changes to its USO. Although New Zealand Post did not get all the changes it proposed to its government, it was successful in convincing the New Zealand government and public of the need for most of its requested changes.¹⁹ There are some key differences between New Zealand Post and the U.S. Postal Service. New Zealand Post is a state owned entity operating in a fully liberalized market (it has no monopoly), and is expected to be as profitable as comparable firms not owned by the government. In addition, its USO is not written in statute, but is instead a contract between the post and the

¹⁸ Quantitative surveys are discussed in more detail later in this paper and in Appendix B.

¹⁹ Paul Hodgson, Malcolm Shaw, and Helen Duignan, "New Zealand Post USO Realigned to the Digital Age," (presentation and paper at the 22nd Conference on Postal and Delivery Economics, 2014).

Figure 2: Components Where Information Exists

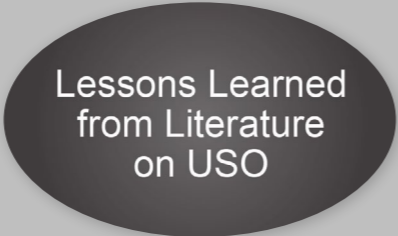

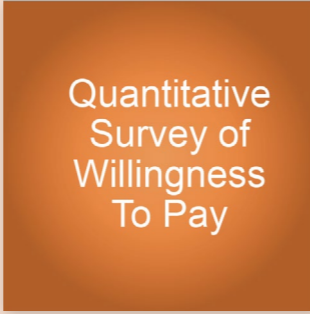
Building Block	Sample of Information that Exists
Cost Estimates of USO	<ul style="list-style-type: none"> Both the Postal Service and the PRC have estimated cost savings of moving to 5-day delivery. The OIG has estimated cost savings of moving to centralized delivery and curbside boxes.
Qualitative Survey of Consumer Needs	<ul style="list-style-type: none"> The OIG has done two surveys in its "What America Wants" white paper series. The Postal Service has done surveys in support of its effort to eliminate Saturday delivery and rationalize the mail processing network.
Other Measures of Needs and Benefits	<ul style="list-style-type: none"> The PRC did extensive outreach before developing its USO report. The PRC hired a consultant to do an analysis of the societal benefit of the USO. Stakeholders often vocalize concerns anytime the Postal Service proposes changes.

Source: OIG Analysis.

The USO in a rapidly changing market should be defined as broad, flexible, and as inclusive of technology as possible.

The need for both specificity and flexibility can be met by focusing on flexibility in the right areas.

Figure 3: Components Where OIG Will Supply Information

Building Block	Where Information will be Provided
	<p>OIG has developed and presented in this report.</p>
	<p>OIG has developed a set of recommended guiding principles in this report.</p>
	<p>OIG is in the process of implementing the survey and will release the results in a white paper in the near future.</p>

Source: OIG Analysis.

A flexible USO also allows for efficiencies, because it allows the post to change over time, as market conditions change. For example, in its request for a reduced USO, New Zealand Post requested its delivery frequency requirement be reduced to 3 days, even though it had no plans to move immediately to this level of service. Instead, the post argued that it needed the flexibility to plan for the future and that smaller incremental changes would lead to inefficiency.²³ They said that too little change in the USO would lead to uncertainty, as New Zealand Post would simply have to return for further relaxations in the USO. In addition, it may lead to duplication of effort. For example, realigning the postal network to move from 6-day to 5-day delivery would take a significant effort. If they have to redo their plans in a few years to move to 3-day delivery, those efforts would have to be redone.²⁴

²⁰ Paul Hodgson, Helen Duignam, and Malcolm Shaw, “USO Revisited in New Zealand,” (presentation and paper at 21st CRRRI Postal Service Conference, Dublin, Ireland, 2013).

²¹ For example, Australia Post is required to have retail outlet in metropolitan areas so that at least 90 percent of residences are within 2.5 km of an outlet and in non-metropolitan areas, at least 85 percent of residences are within 7.5 km of an outlet. Australian Government Department of Communications, “Frequently asked questions,” http://www.communications.gov.au/post/frequently_asked_questions#faq_3_performance.

²² James Alleman, Paul Rappoport, and Aniruddha Banerjee, “Universal Service: A New Definition?” *Telecommunications Policy*, 34 (2010), pp. 86-91.

²³ Paul Hodgson, et al., “USO Revisited in New Zealand.”

²⁴ *Ibid.*, p.13.

New Zealand government. However, there are also some similarities. New Zealand Post is the official provider of USO to all New Zealanders and is expected to fully fund its USO through its postal revenues.²⁰ A more detailed description of their proposals and the process they went through to change their USO is discussed in [Appendix C](#).

There Needs to Be Balance between Specificity and the Ability to Adjust to Rapidly Changing Market Demands

Some specificity in the USO provisions is helpful in determining when a post is meeting its obligations. For example, some postal USOs are defined to require a post office to be within a specified distance from a particular percentage of the population.²¹ While this type of specificity makes it easy to determine if the obligation is being met, it can also severely limit a post’s flexibility. The need for flexibility is becoming increasingly important as the market for communication is rapidly changing.

A 2010 article on the telecommunications industry found that a flexible USO is essential in a rapidly changing market to ensure that the USO provider can meet its goal of providing service to those who could otherwise not afford it at market price. The article argued that the USO in a rapidly changing market should be as broad, flexible, and inclusive of as many technologies as possible.²²

***A technologically-neutral
USO will allow the USO to
be sustainable for a longer
period of time.***

***There seems to be a
misperception that the
USO limits service.***

The need for both specificity and flexibility can be met by focusing on flexibility in the right areas. While the literature on the USO touted flexibility in general, the need for it was focused on two things. The first is the need to be flexible with how services are provided, which is especially important with regard to technology. The second is to ensure that the requirements of the USO only include those services, and those levels of services that are needed to ensure stakeholders' needs are being met, and the post is given the flexibility to provide additional services where the market can support them. These two areas of flexibility are discussed in more detail in the next two lessons learned.

Focusing on the Service the Customer Receives, Not How It Is Provided, Increases Flexibility

One way to give the post more flexibility while still ensuring customer needs are being met is to define the USO so that it focuses on specifying the service the customer receives, not on how the service is provided. Defining the USO so that it is technologically neutral has been discussed with regard to both the telecommunications and postal markets.²⁵

For some USO attributes, alternatives to traditional post offerings are becoming not only accepted, but also preferred. Both

New Zealand Post and Canada Post are moving toward using more customer access points that are not traditional post offices. Canada Post is moving towards using more franchises, stating that consumers often prefer the franchises for the more convenient hours, more convenient locations, and better parking.²⁶ New Zealand Post received permission to change its USO requirement on access. The requirement maintains the minimum number of access points, but New Zealand Post is allowed to use alternative methods of access to meet the requirement, including postal counters hosted in other businesses and self-service kiosks.²⁷ In their arguments, they stated that customers often find the alternatives more convenient.

A study done in the United Kingdom supports the notion that customers may be indifferent to various access options. It found that while people valued maintaining postal services for certain hours, they were indifferent to whether the service was provided by the post office or by other means.²⁸ A 2013 article on the post in France pointed out that defining access and proximity by distance was no longer necessary given that people are connected virtually. The author demonstrated that electronic alternatives have reduced the need for retail presence in the banking and retail industries, as well as for La Poste.²⁹

Even if it is unclear which alternatives might be accepted, such as hybrid mail or digital mailboxes, there is still a benefit to a USO that is focused on defining the service a customer receives not the method used to provide that service. A USO that is neutral regarding technology will allow the USO to be sustainable for a longer period of time, as it will allow the post to use digital alternatives if and when they become acceptable.

²⁵ Martin Meagli, Christian Jaag, Martin Koller, and Urs Trinker, "Postal Markets and Electronic Substitution: Implications for Regulatory Practices and Institutions in Europe," *Reinventing the Postal Sector in an Electronic Age* (2011), pp. 109-122.

²⁶ Canada Post, *Five-point Action Plan*, 2013, http://www.canadapost.ca/cpo/mc/assets/pdf/aboutus/5_en.pdf.

²⁷ Paul Hodgson, et al., "USO Revisited in New Zealand."

²⁸ Rob Sheldon and Alison Lawrence, "The U.K. Public Service Obligation: What Do the Public Think and How Do They Value it?," *Reinventing the Postal Sector in an Electronic Age* (2011), pp. 199-216.

²⁹ Claire Borsenbuerger, "Accessibility/Proximity in the Digital Age: What Does it Mean for Postal Networks and Postal Services," (presentation and paper at 21st CRRRI Postal Service Conference in Dublin, Ireland, 2013).

Figure 4: Lessons Learned from USO Literature

Lessons Learned from USO Literature

1. There needs to be balance between specificity and the ability to adjust to rapidly changing market demands.
2. Focusing on the service the customer receives, and not how it is provided, increases flexibility.
3. Posts can and do provide service beyond the USO.
4. When comparing the cost of the USO to its benefits, social benefits may be more important than the benefit to the post.
5. Quantitative "willingness-to-pay" surveys can help shed light on social benefits.
6. There needs to be a clear definition of which products are included in the USO.
7. Funding the USO can become problematic as the monopoly product declines.

While the USO should ensure stakeholders' needs are met, the requirements need to be lenient enough to allow the post to adjust to changing market conditions.

Survey respondents tend to favor the status quo, unless they believe they will incur a cost related to maintaining the status quo.

Posts Can and Do Provide Service Beyond the USO

Some confusion exists over what a USO actually represents. The USO should represent the minimum obligation the post must provide to meet stakeholders' needs. However, the post should be allowed to provide services beyond the USO requirements to meet stakeholders' wants.

There are two related themes in the literature that are related to this point. The first is that there exists a misperception that a USO can actually limit the service that will be provided. In consumer surveys, individuals often viewed a minimal standard for the USO to be worse than no standard at all. The authors of one of these surveys in the U.K. theorized that respondents assume that if a minimum standard is defined, the post will immediately move to that minimum.³⁰ In fact, posts do provide service above their USO requirements. While some posts may move toward the minimum over time, as they need to cut costs, a properly defined USO still offers more protection than no USO.

The second is that while the USO should be defined strictly enough to ensure stakeholders' needs are being met, the goal is for it to be lenient enough to allow the post to adjust over time as the market changes. Canada Post offers an example of a post that is moving toward its minimum standard, but only over time, in order to rein in costs as postal volumes decline. Canada Post's obligations have been in place since 1985 (although most recently laid out in the 2009 Canadian Postal Charter). Canada Post has the requirement to deliver to all addresses in Canada, but delivery can be to the door, a community mailbox, a group mailbox, a rural mailbox, a postal box, general delivery at the post office, or delivery to a central point in apartment/office buildings.³¹ Until recently, Canada Post delivered to the door for approximately one third of its customers. In December 2013, Canada Post issued a Five-point Action Plan that proposed eliminating delivery to the door, as well as other changes including relying more on franchise post offices and streamlining its network. Canada Post cites that all of these changes are still within and above its requirements as laid out in the Canadian Postal Service Charter.³²

When New Zealand Post requested a change in the USO from 5- and 6-day delivery to 3-day delivery, it stated that its intent was not to move to 3-day delivery immediately. Instead, it was asking for enough flexibility to allow it to continue to adjust over 10 years. In addition, New Zealand Post stated that it would provide service above the USO when there was sufficient market demand. For example, while only basic letter service is included in the USO, it would still provide premium service where there was enough market demand.³³

When discussing changes to the USO, it needs to be clear that the USO defines the minimum level of service to ensure that stakeholders' needs are being fully met, but the post is allowed to provide services beyond this minimum level.

When Comparing Costs of the USO to Its Benefits, Social Benefits May Be More Important than the Benefit to the Post

When talking about a reduction in service for the U.S. Postal Service, the focus is often on comparing the cost savings to the revenue loss associated with the change. While this is an important discussion, it is also important to look at the costs of the obligation compared to the social benefits. For example, when Ofcom, the regulator of Royal Mail, was determining what aspects of service should be included in the USO, it looked at what aspects of service were socially valuable. It viewed ensuring the financial viability of Royal Mail to be a separate regulatory problem.³⁴ As discussed in the next lesson learned, the U.K. and other countries have made significant efforts to measure the social benefit.

³⁰ Rob Sheldon and Alison Lawrence, "The U.K. Public Service Obligation" and Accent, *Postal Universal Service Obligation: Value to the Citizen, Prepared for Postwatch* (2008).

³¹ Canada Post, 2009 Canada Post Report, http://www.canadapost.ca/cpo/mc/assets/pdf/aboutus/annualreport/ar_2009-e.pdf, p. 24.

³² Canada Post, *Five-point Action Plan*.

³³ Paul Hodgson, et al., "USO Revisited in New Zealand."

³⁴ Essie Barnett and Julia Young, "A Cost Benefit Approach to Assessing the USO" (presentation and paper at 21st CRRP Postal Service Conference in Dublin, Ireland, 2013).

Willingness-to-pay surveys can tell you how much value respondents place on an attribute.

While there have been several qualitative surveys on the USO in the United States, a willingness-to-pay survey is missing and is needed.

Quantitative “Willingness-to-Pay” Surveys Can Help Shed Light on Social Benefits

There have been numerous qualitative studies in the United States that are designed to gather information on what levels of service stakeholders desire. Prior to issuing its USO report, the PRC did extensive public outreach, holding town halls throughout the country and having a formal period where stakeholders could submit written comments.³⁵ Prior to issuing its USO report, the Postal Service used focus groups to gain an understanding of what is important to its customers.³⁶ In addition, the OIG recently conducted two surveys about America’s wants and needs when it comes to postal services.³⁷

The purpose of qualitative studies is to gain insight into what aspects of service certain stakeholders value most. For example, a finding from the second OIG survey was that rural participants placed a high value on having post offices as a valued community asset, but urban participants placed more importance on convenience of accessing postal services.³⁸ While these qualitative studies can provide insight into which attributes stakeholders value, they do not measure how much value a respondent places on each attribute. There is also criticism that, absent some sort of payment mechanism, most respondents will choose the status quo, because the respondent does not think they will bear the cost of their decision.

One way to get a better idea of how much people value the level of service is to add some sort of payment vehicle to the survey, such as higher postage or asking individuals if they would be willing to pay a certain amount a month to maintain services. Then that payment vehicle can be used to estimate the respondents’ “willingness to pay” (WTP) to maintain the level of service (or gain a new level of service). These quantitative WTP surveys can provide insight to how much stakeholders value these service levels. For example, a result of a WTP survey could be that on average, stakeholders are willing to pay an additional 2 cents in postage to maintain delivery to the door. WTP estimates are helpful in that they may allow comparison between the societal value of the benefit and the cost of providing the service. They can also be used to determine which attributes are more important to maintain, as they will have higher WTP estimates.

In its report to the PRC, *A Framework for Considering the Social Value of Postal Services*, the Urban Institute recommended a quantitative WTP survey as one area of study that was needed for the U.S. Postal Service.³⁹ In addition, WTP surveys for postal USO attributes have been performed for several countries including Norway, Austria, Italy, Poland, Sweden, and the United Kingdom. The purposes of these surveys vary. The survey in Norway was used to directly compare societal benefits to the estimated cost savings.⁴⁰ In other cases, the purpose of collecting quantitative data on WTP was to determine which attributes postal customers value the most.

Appendix B contains a summary table and detailed description of six quantitative surveys done for other postal USOs. Since WTP surveys were often done hand-in-hand with more qualitative questions, there is some evidence demonstrating that respondents are more likely to accept a service decline when a payment mechanism is introduced. In the study done in Norway,

35 U.S. Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*, Docket No. PI2008-3, December 19, 2008, <http://www.prc.gov/prc-pages/library/dockets.aspx?activeview=DocketView&docketType=Single&docketid=PI2008-3>.

36 Great Lakes Marketing, *Universal Service Obligation/Monopoly Research, Summary of Focus Group Research*, October 2008, <http://about.usps.com/universal-postal-service/great-lakes-marketing-report.pdf>.

37 U.S. Postal Service Office of Inspector General, *What America Wants and Needs from the Postal Service, Summary of Focus Group Research*, Report No. RARC-WP-14-009, February 18 2014, http://www.uspsoig.gov/sites/default/files/document-library-files/2014/rarc-wp-14-009_1.pdf, and OIG, *What America Wants from the Postal Service, A Survey of Internet-connected Americans*, Report No. RARC-WP-13-009, May 21, 2013, <http://www.uspsoig.gov/sites/default/files/document-library-files/2013/rarc-wp-13-009.pdf>.

38 Ibid., p II.

39 The Urban Institute, *A Framework for Considering the Social Value of Postal Services*, pp. v, 25.

40 Henrick Lindhjem and Simen Pedersen, “Should Publicly Funded Postal Services be Reduced? A Cost-Benefit Analysis of the Universal Service Obligation in Norway,” *Review of Network Economics*, Volume 11, Issue 2 (2012).

In some countries, it is clear which products are included in the USO; in others it is not.

There must be recognition that the cost of obligations can harm the Postal Service's ability to provide service at affordable prices.

consumers chose status quo when asked what attributes were important.⁴¹ However, they moved away from the status quo and were willing to accept a lower level of service when a payment was introduced.

This is not to say that the qualitative methods of gathering input are not useful. They provide valuable insight and in fact are often done prior to WTP surveys in order to determine which attributes are most important to include. WTP surveys add another level of information. Both are needed to get a complete picture of stakeholders' needs.

There Needs to Be a Clear Definition of Which Products Are Included in the USO

For some countries, it is clear which products the USO covers. For example, in Sweden, universal service covers all postal services (letters, newspapers, catalogues, books, and parcels) for addressed items up to 20 kg.⁴² In other countries, it is not so clear. In his article on end-to-end competition in the United Kingdom, Richard Eccles pointed out that a major point of confusion in the United Kingdom is which products are actually covered by the USO.⁴³

In its proposal for a new USO, New Zealand Post stated that the USO should include those products and levels of service needed to facilitate economic and community participation. It pointed out that the USO does not need to include all services the postal service provides, specifically expedited service. The post will provide premium services when and where the market demands.⁴⁴

This is a particular area of concern for the U.S. Postal Service, since this is a matter on which where the PRC and the Postal Service clearly disagree. The Postal Service has stated that it believes the USO should only include market dominant products, and the PRC has said that it should include all products.

Funding the USO Can Become Problematic as the Monopoly Product Declines

As the volume of the monopoly product declines, and with it, a guaranteed source of revenue also declines, it becomes more difficult for providers of the USO to fund their obligations.⁴⁵ A study by Frontier Economics suggested that as postal markets open there will be a need for alternative funding of the USO.⁴⁶

New Zealand is similar to the United States in that the post is expected to fund the USO from postal revenues. In its proposal to change its USO, New Zealand Post pointed out that if the USO is funded solely by postal revenues, the services offered need to be in balance with market demand. Otherwise, the USO is not financially sustainable and will need to be externally funded.⁴⁷ It also raised the point that the higher the obligation, and the resulting cost of that obligation, the less the post is able to invest in new services and technologies.⁴⁸

41 Copenhagen Economics, *Main Developments in the Postal Sector (2008-2010) Final Report*, November 2010, http://ec.europa.eu/internal_market/post/doc/studies/2010-main-developments_en.pdf, pp. 135-150 and Appendix A.

42 Alex Kalevi Dieke, Antonia Niederpruem, and James I. Campbell, *Universal Service and Postal Monopoly in Other Countries*, November 2008, <http://www.prc.gov/PRC-DOCS/library/USO%20Appendices/Appendix%20E.PDF>, Appendix E and p. 56.

43 Richard Eccles, "The Regulatory Treatment of End-to-End Competition in the U.K. Postal Sector," (presentation at 21st CRRP Postal Services Conference, Dublin, Ireland, 2013).

44 Paul Hodgson et al., "USO Revisited in New Zealand," p. 8.

45 Monopoly product refers to those products that only the Postal Service is legally allowed to carry and deliver. While the rules are complex, in general it refers to First-Class letters.

46 Frontier Economic, *Study on the principles used to calculate the net costs of the postal USO, A Report Prepared for the European Commission*, 2013.

47 Paul Hodgson et al., "New Zealand USO Realigned to the Digital Age."

48 Paul Hodgson et al., "USO Revisited in New Zealand."

The USO should not be used to flesh out the general regulatory system for the postal market.

The Postal Service should not be forced to reduce service to the USO level in order to cut costs; the Postal Service should be allowed to provide service beyond its USO requirements.

Significant literature is dedicated to analyzing the need to fund the USO and discussing various funding mechanisms.⁴⁹ The relevant lesson for this paper is that when designing a USO it is important to recognize that obligations drive costs. Given that the Postal Service is expected to be self-funded, the costs of obligation can affect the ability of the Postal Service to provide service at affordable prices.

Guiding Principles for a New USO

The OIG used the insights from the lessons learned, as well as their knowledge about the U.S. Postal Service and the postal market to develop a recommended set of guiding principles to serve as a filter for the enormous amount of information that exists on the USO, including the often-conflicting forms of stakeholder feedback. The recommended guiding principles are shown in Figure 5 and described in more detail below. For ease of understanding, these guiding principles have been written to be consistent with the current regulatory structure, where the Postal Service is the sole provider of the postal USO and is responsible for funding its USO. However, they are equally applicable whether the USO is provided by a single state owned enterprise or by several suppliers of postal services, and whether they are funded by a statutory monopoly or by some other means.⁵⁰ In addition, to be clear, the term stakeholder refers to all users of the mail, including both senders and receivers.

First Update and Clarify the Purpose (Policy Goals) and then Focus the USO on Those Services Needed to Meet Those Goals

Before defining a new USO, policymakers need to articulate which policy goals they want the new USO to achieve. Then, after the policy goals are clear, they can focus the USO on those services needed to meet those goals. In order to maintain flexibility, the USO should include only the requirements that are essential to meeting these policy goals — both in the type of products the USO includes and the requirements surrounding these products.⁵¹ For example, if the goal is to ensure that everyone has access to at least one affordable form of communication, then the USO may only need to include basic mail services and not premium services. If one of the policy goals is to encourage commerce, then the USO should include some sort of parcel service.

The choice of the policy goals can have a substantial impact on the requirements. For example, requirements around access would vary depending on the focus of the policy goals. If policymakers determined that an important policy goal is for the Postal Service to provide a government presence in local communities, this could lead to requirements to maintain a certain number of local postal offices or keep post offices open longer hours. However, if policymakers determined that it is more important for the Postal Service to minimize costs, it would make more sense for requirements to allow the use of less costly alternatives including kiosks and postal counters in other businesses.

In addition, the process of updating policy goals can be used to clarify if the Postal Service should be required to provide services that meet societal needs beyond basic mail services, especially when those obligations have additional cost above and beyond the basic mission.⁵² For, example, currently the Postal Service is responsible for funding the delivery of pallets of groceries to rural Alaska,

Figure 5: Guiding Principles

Guiding Principles: A New USO

1. First update and clarify the purpose (policy goals) and then focus the USO on those services needed to meet those goals.
2. The USO should define the floor; the market should define the ceiling.
3. The USO should be flexible enough to enable adaptation to changing market conditions over multiple years.
4. The USO should be defined in terms of the service received and not how the service is provided.
5. The USO needs to be financially sustainable while reasonably priced.
6. The USO requirements should be transparent and measurable.

49 For example, see Oxera, *Funding universal service obligations in the postal sector*, 2007, <http://www.oxera.com/Oxera/media/Oxera/Funding-the-USO-in-the-postal-sector.pdf?ext=.pdf>.

50 Addressing these ownership and funding issues are outside the scope of this paper.

51 For clarification, products that are not in the USO will still be subject to other regulations to ensure the Postal Service is not taking advantage of its monopoly status. In addition, some aspects of the USO may apply, or at least affect, all products — such as days of delivery or requirements involving access.

52 This is in contrast to being allowed to provide services beyond mail that have the potential to earn revenue that exceed, or at least are equivalent to, the cost of providing the services.

A new USO will most likely remain in place for years, if not decades.

even though they do not actually process or transport this freight. Some, including the OIG, have questioned if extraneous societal benefits such as these should be a postal responsibility, especially since ratepayers ultimately bear the cost of these services.

The USO should not be used to flesh out the general regulatory system for the postal market. For example, a requirement of the USO has always been assumed to be that the basic letter price is affordable. The USO does not have to define how that price will be kept affordable (for example, by requiring a price cap). While there may be other regulations that ensure affordability, limiting the discussion of the USO to strictly USO regulation greatly simplifies the debate.

The USO Should Define the Floor; the Market Should Define the Ceiling

The USO should be clearly defined to be the minimum level of service that the Postal Service needs to provide to ensure that postal stakeholders' needs are being met. Since postal needs vary across the country, the USO should be set to ensure that even the most remote and vulnerable parts of the population receive an adequate level of service. In addition, the USO should not be used to limit the level of service the Postal Service provides for the sake of cost cutting.

As mentioned earlier, this is one area where confusion often exists. Therefore, a new USO should clearly communicate that it is meant to define the minimum level of service that is needed, not the maximum. The Postal Service may choose to provide service beyond its USO requirements. In fact, market demand may allow the Postal Service to earn substantial revenues from providing service beyond its USO requirements.⁵³ For example, the Postal Service is currently required to provide delivery 6 days a week in most parts of the country.⁵⁴ Even while the Postal Service is asking for this obligation to be relaxed to 5-days for letters, it is testing to see if it can earn revenues from delivery of packages on Sundays in some markets.⁵⁵

In addition, the requirements of the USO do not necessarily need to be the same for all products within the USO or even all geographic areas of the country. Since the goal is to develop a USO that meets stakeholders' needs, there may be instances where it makes sense to have different requirements to fulfill different needs. For example, it could be that rural areas have a higher value for more days of delivery, and urban areas tend to have more alternatives. If this were true, one could consider a USO that has a higher number of delivery days for rural areas.

The USO Should Be Flexible Enough to Enable Adaptation to Changing Market Conditions over Multiple Years

Changes to the USO are often controversial and difficult to pass. Therefore, it should be assumed that once a new definition of the USO is put in place it would remain in place for years, if not decades. Therefore, one goal of a new USO should be that it is defined in a manner that will remain effective over a multi-year planning horizon. This need could be met through setting the USO minimum low enough to allow the post to adjust over time, or conversely designing a USO that is reduced over time.

The USO Should Be Defined in Terms of the Service Received and Not How the Service Is Provided

The ideal USO would not preclude the Postal Service from using alternative methods to providing service, as long as it is meeting its obligations. For example, the USO could have a requirement related to retail access that allows the Postal Service to use alternatives in addition to post offices — such as contracting units, kiosks, postal lockers, postal counters in private businesses, and the Internet — when these types of access become acceptable alternatives to its customers. It is also possible that elements of the USO could, in some cases, be provided more effectively by contract labor and the USO definition should not prohibit that alternative.

⁵³ For the purpose of this paper, the discussion on providing services beyond the USO requirements refers to providing a higher level of service for its existing products. For example, delivering parcels on Sundays. The issue of whether the Postal Service should provide services beyond its current products is beyond the scope of this paper.

⁵⁴ Consolidated Appropriations Act, 2014, Pub. L. 113-76, 128 Stat. 5, Div. E, Tit. V.

⁵⁵ "Amazon starts Sunday delivery with US Postal Service," *USA Today*, November 11, 2013, <http://www.usatoday.com/story/tech/2013/11/11/amazon-sunday-delivery-usps/3479055/>.

There needs to be recognition that obligations create costs and these costs must be borne by someone. Currently, the obligations are ultimately borne by the ratepayers.

The USO should be defined in a neutral manner with regard to technology, labor, and capital acquisition. It should recognize the current service needs and anticipate future changes in those needs, as well as encourage the Postal Service to be innovative and adapt to new technologies. While it may be difficult to determine which technologies are acceptable alternatives, it is possible to develop a USO that does not discourage the Postal Service from exploring and adopting new technologies.

The USO Needs to Be Financially Sustainable While Reasonably Priced

While the goal of defining the new USO should be a USO that meets all stakeholders' needs, there must be recognition that obligations create costs, and those costs need to be borne by someone. In the United States, there appears to be little tolerance for tax dollars funding the Postal Service, so the cost of these obligations will most likely be borne by the Postal Service and ultimately its ratepayers. Therefore, the definition of the USO needs to find the right balance between providing a level of service that meets stakeholders' needs while allowing the Postal Service to be financially viable while offering products at a reasonable price. There may be instances where the social benefits for a level of service are high, but the Postal Service is unable to earn sufficient revenues to cover the cost of providing it. Policymakers will need to consider if the social benefits are high enough to justify an alternative source of funding. This is especially true if policymakers determine that a policy goal is providing a service beyond basic mail services that is so costly that no business would consider providing it. Several alternative funding options exist including tax dollars, a USO fund, or allowing the Postal Service to provide other services in order to earn additional streams of revenue. It is important to note that the availability of funds necessarily limits the USO and endangers the postal infrastructure. The cost associated with the providing the USO obligations cannot exceed the level that can be funded via the various means.

The USO Requirements Should Be Transparent and Measurable

The Postal Service, the PRC, mailers, and postal customers need to be able to understand the requirements of the USO, and they need to be able to determine if these requirements are being met. For this reason the obligations needs to be both transparent and, where practicable, measurable.⁵⁶ As noted in the Lessons Learned section, there is tension between specificity and flexibility. One advantage of specificity is that it makes it easier to develop USO requirements that are measurable and transparent. For example, it is easy to determine if the Postal Service is meeting its obligation for retail access if the USO is written with specific requirements such as having at least one Post Office within 15 miles of 95 percent of its customers. However, such a strict definition limits flexibility. A very broad USO allows for flexibility, but is not always transparent and measurable. Policymakers need to strive to define the USO in such a manner that makes the requirements transparent and measurable, but also flexible in terms of how the service is provided. As discussed earlier, focusing the specific requirements on those policy goals that are needed will also provide flexibility.

Next Steps

One of the recommendations in the PRC's report on the social benefits of the Postal Service was a need for a quantitative WTP survey.⁵⁷ While other countries have embarked on this type of survey, so far there has not been one done in the United States for the postal USO. To fulfill this need, the OIG is in the process of implementing this type of survey and will provide the results in a second paper on USO. This study will provide quantitative information on the values the mailing public places on various aspects of the Postal Service's USO.

⁵⁶ There may be some instances where putting measurable obligations into statute would lead to irrational behavior or would make the USO need to be updated on a regular basis. In these cases, it may make more sense to give the regulator the authority to determine if the obligation is being met. For example, it may be difficult to craft language around affordability that is both measurable and flexible. The requirement could focus on the need for affordability, and the regulator could be responsible for setting the rules.

⁵⁷ The Urban Institute, *A Framework for Considering the Social Value of Postal Services*.

Conclusion

Now is the right time to redefine the USO with new requirements that take into consideration digital alternatives and the declining need for hardcopy mail services. Given the abundance of information related to the USO, including the often-conflicting stakeholder feedback, redefining the USO will be a complex task. The OIG hopes that it can help ease this burden by providing a conceptual framework as well as information related to some of the key building blocks within that framework.

A new USO will need to find the right balance between specificity and flexibility. A key to finding this balance is to limit USO regulation to only those services that are needed to fulfill stakeholders' needs and fulfill the policy goals of the USO. In addition, it should be communicated that the USO defines the floor, and the Postal Service should be allowed to provide services beyond the USO requirements as the market demands. Furthermore, the requirements should be neutral with regard to technology. In other words, set the requirements to dictate what services are received, not how those services are provided.

Appendices

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Appendix A: List of Secondary Research

List of Secondary Research

- James Alleman, Paul Rappoport, and Aniruddha Banerjee, “Universal Service: A New Definition?,” *Telecommunications Policy*, 34, No. 1-2 (2010), pp. 86-91.
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Appendix B: Quantitative Studies Performed by Foreign Posts

Quantitative Studies Performed by Foreign Posts

There have been at least a handful of quantitative studies designed to elicit postal customers' value for USO attributes for other posts. These types of studies are often referred to as "willingness to pay (WTP)" studies. In at least one case, the WTP estimates were directly compared to the estimated costs savings. However, in other cases, the purpose of collecting quantitative data on WTP was to determine which attributes postal customers value the most. While qualitative studies can provide insight into what services customers value, absent some sort of payment mechanism, most respondents will choose the status quo, as there is no reason for them to voluntarily choose a lower level of service. However, when some sort of payment vehicle is introduced, valuable insight can be gained into how much value participants place on the levels of service.

Table 2 shows a summary of the various studies that have been performed in recent years. It is followed by a more detailed description of each study.

While the terminology associated with quantitative studies is not strictly defined and not always used consistently across the literature, for purposes of this report, we are using the following definitions.

- Contingent valuation (CV) refers to studies where the respondents are asked to directly state their willingness-to-pay for a certain outcome or asked a yes-no question about if they are willing to pay a certain amount for a certain outcome.
- Stated preference discrete choice experiments (SPDCE) refers to a survey technique where respondents are provided several alternatives and asked to choose which one they prefer. The willingness-to-pay estimate is then derived from their choices.

Norway

This study, done in 2011, is designed to see if the benefits of the USO outweigh the costs of supplying the USO.⁵⁸ The survey itself used contingent valuation with a payment vehicle of extra annual household tax. The survey had a net sample of 2,013 households and was done primarily over the Internet; although a small number of samples were sent by mail to include respondents that were less computer literate. Small and medium sized businesses (SMEs) were also included, via a telephone survey. The sample size for the SMEs was 375.

The survey presented three alternatives to the current USO, by varying delivery frequency and speed of delivery. The alternatives are shown in Table 3. In alternative one and two, only one element was changed. In alternative three, both delivery frequency and delivery speed was reduced. Each respondent was presented with the three alternatives as well as the status quo. First, they were asked to rank them according to their preference. Then, they were shown each alternative and the status quo and asked their household's WTP, in terms of an annual tax, to maintain the status quo.

Main Findings

The main findings were that consumers and businesses prefer to lose Saturday delivery over delivery speed. The researchers also found that the third alternative made consumers much worse off. In addition, they found that businesses valued alternatives two and three about the same. However, the authors speculated that the WTP results for SMEs for the third alternative might be inaccurate, due the fact that the alternative may have been too complicated to understand.

Regardless, the authors found that even if they dropped the SME results, their final conclusion did not change. Alternative three was the only option that would give a net welfare gain (the cost savings exceeded the consumer loss).

58 Henrik Lindhjem and Simen Pedersen, "Should Publicly Funded Postal Services be Reduced?".

Table 2: USO Quantitative Studies of Other Posts

Country	Norway	Austria and Other EU Countries*	Italy, Poland, and Sweden	United Kingdom		
Year	2011	2010	2011	2012	2009	2007/2008
Type of Survey	Contingent valuation (CV)	Stated preference discrete choice experiments (SPDCE)	SPDCE	SPDCE	SPDCE and CV	SPDCE
Method	Web-based with small sample of mailed surveys	Internet with subset of face-to-face	Phone-Post/Email/Fax – Phone	Face to face with consumers, Telephone/Internet for businesses	Phone-post/email-phone	Phone-post/email-phone
Sample	2,013 house 375 SMEs	600 house 142 businesses	Each member state 350 house 125 businesses	4,085 house 1,126 businesses	901 house 301 SMEs	552 house 300 businesses
Attribute Tested	Delivery frequency Delivery speed	Delivery frequency Post Office availability Remove bulk mail from USO (bus only)	Delivery speed Reliability Latest delivery Lost items Delivery location Price Uniform pricing Postal network Access Available services Opening hours	Service quality Delivery frequency Collection frequency Collection time Delivery times Add Weekend/night delivery Price	Value of post office network Services provided by post offices	Delivery frequency Time of delivery Collection frequency # of days to deliver Quality of service Pricing structure Post office hours Access points Parcels Registered/insured Other services
Main Findings	Both prefer to lose Saturday delivery over delivery speed. Alt 3 (lower speed/less frequent delivery) had large consumer loss, but was the only option that had overall welfare gain.	Residents have high WTP for post offices and low for 5-day delivery. Businesses have low WTP for post offices and high WTP for 5 day.	Most important attribute to both is reduction in lost letters. Delivery and access close to home and work also important. Big businesses value letter service, residents and SMEs value parcel service.	Most respondents were satisfied with current USO, but would accept lower service for low stamp price. Consumers value 6-day delivery the most, then quality of service. Businesses value M-F delivery, not Sat.	Both place high value on post office network. Large difference in value between value of network and value of services offered by post office.	Overall, similar values between residents and businesses. Placed high value on 5-6 day delivery, day of delivery standards, and 9 to 5 post office hours. Opposed distance based pricing. Small value on registered and parcels in USO.
Lessons Realized	When no cost, consumers choose status quo. Alt 3 may be too confusing.	Without cost, consumers choose status quo, WTP demonstrates differences. Explicit outcomes easier to value. Included higher WTP after pilot.	Limit attributes to not make survey too demanding. Focus on attributes experienced by customer. Future studies should test higher WTP.	Acknowledged testing seven attributes was a bit complex.	Extreme alternatives difficult to value. Willingness to Accept (WTA) results were inconsistent.	Viewed lowest standard more negatively than no standard. Large number of non-traders (wanted status quo).

* Survey for households was in Austria only; survey for businesses included other European countries.
Source: Full sources can be found in next section for each study.

Table 3: Results from Quantitative Study of USO in Norway

Options	Delivery Speed	Delivery Frequency	Consumer Loss			Cost Savings	Net Benefits
			Households	SMEs	Total		
Today's USO	≥ 85 percent of prioritized domestic mail arrive next day	6 days a week			n/a	n/a	n/a
Alt 1	≥ 85 percent of prioritized domestic mail arrive within three days	6 days a week	831	156	987	298	-749
Alt 2	≥ 85 percent of prioritized domestic mail arrive next day	5 days – eliminate Saturday	749	107	856	573	-283
Alt 3	≥ 95 percent arrive within 3 days within southern and northern Norway and within 5 days b/n the regions	3 fixed days a week	986	100	1,086	1,263	177

Lessons Realized

This study found that when participants were asked to rank USO alternatives with no payment or cost mechanism, participants always chose the current USO. They did find that the third alternative may have been too confusing for SMEs to fully understand, and suggested that future studies try out different wording and change the order of the alternatives to avoid getting results based on survey fatigue.

Austria and other EU Countries

Copenhagen Economics did a pilot survey of WTP for USO services in several countries in 2010.⁵⁹ For residents, the survey was limited to Austria, as it provided both rural and urban areas, and has remote locations where the USO may be more valued. It also had the benefit of having a higher broadband coverage, which allowed the survey to reach more people. The business survey included responses from 25 EU countries. The survey included three parts: (1) analysis of mail flow, (2) qualitative analysis of the USO, and (3) quantitative estimation of WTP for USO attributes. They used a stated preference discrete choice analysis where participants were asked to choose between two sets of USO attributes.

The survey for consumers included two attributes: delivery frequency and whether the local post office would remain open or closed. There were 600 respondents, 500 were done by Internet, and 100 were done face-to-face with participants to include those without Internet access.

The survey for businesses included three attributes: delivery frequency, if post offices would be available as they are currently or only be open in large communities, and if bulk mail should be excluded from the USO. Because this survey reached across numerous countries, excluding bulk mail from the USO would be a change for some respondents and not for others. There were 142 businesses that responded, including both small and large.

⁵⁹ Copenhagen Economics, *Main Developments in the Postal Sector*, pp. 135-150 and Appendix A.

Main Findings

WTP estimates for households and businesses are shown in Table 4 and Table 5, respectively. Households had a high WTP for maintaining local post offices and a low WTP for preserving 5-day delivery. Businesses, on the other hand, had a low WTP for maintaining post offices and a high WTP for preserving 5-day delivery. The authors concluded that since businesses supply the post with the majority of revenue, that a profit maximizing post will choose to maintain 5-day delivery over maintaining post offices, and therefore, a USO on post offices is needed to ensure consumers are protected.

The results for excluding bulk mail from the USO were not usable, as it received a negative reaction even in countries where it was already excluded from the USO. The authors theorize that the type of questioning used was too confusing for a survey, since it relies on the respondents to understand the impact of including or excluding bulk mail from the USO.

Table 4: Willingness to Pay per Household (Austria)

USO Service	WTP per letter	Statistical Significance
5 delivery days instead of 3 days	€0.17	Significant
6 delivery days instead of 5 days	€-0.04	Not Significant
Maintaining nearest post office (not Internet users)	€0.86	Significant
Maintaining nearest post office (Internet users)	€0.53	Significant

Table 5: Willingness to Pay per Business Mailers (25 EU Countries)

USO Service	WTP Price Increase	Statistical Significance
5 delivery days instead of 3 days	29%	Significant
6 delivery days instead of 5 days	11%	Significant
Post offices available as now instead of only in large communities (parcels and merchandise > 20% of mail)	3%	Not significant
Post office available as now instead of only in large communities	-3%	Not significant
Bulk mail as USO product (mailers that currently send mail with NPO*)	-1%	Not significant
Bulk mail as USO product (mailers that do not send bulk mail or do not send their bulk mail with NPO)	-6%	Variable, not relevant

*National Postal Operator.

Lessons Realized

In the qualitative section of the survey, when participants were asked what they value about the USO, they responded that everything was important. However, when participants were asked questions related to willingness to pay, residential customers placed a much higher value on maintaining the nearest post office than maintaining 5-day delivery. The authors strongly recommend avoiding questions that are more implicit in nature — such as the question about if bulk mail should be excluded from the USO, as it relies on the participant to understand how it will affect them. Instead, they recommended questions that pertain to attributes that are more directly experienced by the participants, such as delivery frequency. In addition, the pilot demonstrated that the payment mechanism contained price intervals that were too small and needed to be increased in order to better reflect what respondents were willing-to-pay.

Italy, Poland, and Sweden

Rand Europe published a quantitative study on USO attributes in 2011.⁶⁰ The countries included in the study were Italy, Poland, and Sweden. The survey used stated preference discrete choice experiments and followed a phone-post/email/fax-phone methodology. This methodology involves calling to see who is willing to respond, then sending material to those who will participate by mail, email, or fax, and finally doing the survey by phone.

The survey included 350 households in each member state, with 100 being vulnerable users (over the age of 65, had a long-term illness or disability, or low income). For each member state, there were also 125 business customers, broken down by 75 SMEs and 50 large businesses.

Their survey tested the following USO attributes separately for letters and parcels in two separate surveys:

- Speed of delivery time as measured by number of days that pass until an item is delivered, including single class services (D+1, D+2, D+3) and two-class services (D+1 and D+3), and testing a non-uniform service specification that would include D+1 locally and D+3 nationally
- Reliability — as defined by 80 percent, 90 percent, and 95 percent of mail delivered on time
- Guaranteed latest delivery time (9:00, 13:00, and 17:00)
- Percentage of lost items (none, 5 percent, and 10 percent)
- Delivery location (home, post-office box, and local postal service center)
- Package Price as percent change (-30 percent, as now, +30 percent, +50 percent, +100 percent, +150 percent)
- Price in terms of increase in price (increase by multiplier of 1.1, 1.2, 1.3, 1.4, and 1.5)

In addition, a third survey was developed to test the value of these USO attributes that were not specific to letters or parcels:

- Uniform pricing (yes or no),
- Proportion of the network covered by postal services (delivery to 100 percent, 99 percent, or 95 percent of addresses),
- Accessibility of postal points of contact / distance to post office or outlet (1 km, 3 km, 5 km, or 10 km),
- Opening hours (2, 4, or 8 hours a day), and
- Price as percent change in stamp price (-30 percent, as now, +10 percent, +30 percent, +50 percent, +100 percent).

⁶⁰ Rand Europe, *Study on Appropriate Methodologies to Better Measure Consumer Preferences*, 2011, http://www.rand.org/content/dam/rand/pubs/technical_reports/2011/RAND_TR1140.pdf.

Main Findings

With the number of attributes tested, the findings are too numerous to replicate here, but we will include the highlights. Overall, they found that there were only minor differences in how SMEs and households valued USO attributes, and recommended that regulation be focused on protecting both SMEs and households, since both are less likely to be protected under a fully liberalized market. The other main findings are

- Big businesses place more value on letter services than SMEs or households.
- Both businesses and households value parcels.
- The most important attribute for large businesses, SMEs, and households is reduction in lost letters or parcels.
- Both businesses and households place a high value on reliability.
- All businesses, especially big businesses, value speed of delivery for letter services, but households place less value on this attribute.
- Both businesses and households placed a high value on delivery to either the home or work and would need to be heavily compensated for delivery to secure cluster boxes.
- Neither businesses nor households value early guaranteed delivery (9 a.m.). They would be willing to accept a 1 p.m. delivery time, but would need to be compensated to accept a 5 p.m. delivery time.
- Businesses and households both value access to services nearer their home or work and with longer opening hours.
- Businesses and households value full coverage of the postal network, delivery to all addresses in the country.
- Businesses and households place some value on uniform pricing for letter and parcels within the country, but value is small compared to other attributes.

Lessons Realized

During the pilot test, the authors found that choice experiments were too demanding due to the number of attributes. Therefore, they dropped one, Saturday delivery, before implementing the survey. In addition, the authors also suggest focusing on attributes experienced by customers (delivery frequency) rather than the provision of the service (number of facilities). In addition, the authors recommend using a larger sample size, especially if there is need to focus on differences in preferences for different segments. Furthermore, the authors suggest testing higher WTP values in future surveys, as respondents were often choosing the highest value.

United Kingdom, 2012

In 2012, TNS-BMRB did a quantitative survey of USO attributes for Ofcom, the regulator of Royal Mail.⁶¹ The survey included 4,085 face-to-face interviews with residential customers and 1,126 phone and Internet interviews with business customers.

⁶¹ Ofcom, Universal Service Obligation, Postal User Needs 2012, *Quantitative research report*, 2012, <http://stakeholders.ofcom.org.U.K./binaries/research/post/quantitative-oct2012/report.pdf>, and Ofcom, *Review of Postal Users' Needs. An Assessment of the Reasonable Needs of Users in Relation to the Market for the Provision of Postal Services in the United Kingdom*, March 2013, <http://stakeholders.ofcom.org.U.K./consultations/review-of-user-needs/>.

Table 6: Attributes Included in the 2012 U.K. Survey

Attribute	Status Quo	Alternatives
Quality of Service of First Class Post	93% delivered next day	80% delivered next day 90% sent locally delivered next day and 90% non-local delivered in 2 days
Number of Days of Delivery and Collection	6 days a week	Monday through Friday Saturday plus weekdays
Last Collection Time at Rural and Local	3 p.m.	Noon 10 a.m.
Delivery Times	4 p.m. in rural and 3 p.m. in towns and cities	3 p.m. in rural and 2 p.m. in towns and cities 5 p.m. in all areas 6 p.m. in all areas
Additional Service	N/A	Option to choose delivery in the evening or on a Saturday for all post that does not fit in letterbox or requires a signature for a fee of £4.50
Price of First Class Stamp	60p 44p for businesses using meter or PPI	70p, 80p, 90p 54p, 64p, or 74p for businesses using meter/PPI
Price of Second Class Stamp	50p 33p for businesses using meter or PPI	60p 43p for businesses using meter/PPI

For the residential households, TNS-BMRB used a nationally representative sample of the general public aged 16 and older, along with an extra “boost” designed to target specific subgroups.⁶²

For the businesses, they used a nationally representative sample of businesses, with emphasis on making sure certain subgroups were robustly represented.⁶³

The study employed stated preference discrete choice analysis where consumers were offered seven different pairs of scenarios, and were asked to pick which scenario they preferred. The design was the same for residential and business customers.

Each scenario included seven attributes listed in Table 6.

Main Findings

More than nine in 10 businesses and residential customers found the current system tolerable. Overall, the results indicated that customers

in general would tolerate significant reductions in service to maintain prices or minimize further price increases. [Table 7](#)⁶⁴ shows the WTP values for residents and businesses for changes in the USO.

In addition, the survey captured data to monetize the value of two improvements to service. [Table 8](#) shows the results.

⁶² Included respondents over age 75, low income, no Internet access, living in England, Scotland, Wales, and Northern Ireland, living in urban, rural, and deep rural/remote locations, living on offshore U.K. islands, household bound, and disabilities. In Ofcom, *Universal Service Obligation*, p. 13-14.

⁶³ Subgroups included businesses in England, Scotland, Wales, and Northern Ireland; businesses in urban, rural, and deep-rural/remote locations; and businesses on offshore U.K. islands. Other subgroups of interest were based on number of employees, monthly postal spend, those trading from home, those for whom the post is critical to their business model, and those who use stamps versus meters and PPI. *Ibid.*, p. 15.

⁶⁴ For the last two rows in this paper, the numbers reported in the Ofcom report are different in the body of the report on page 110 and the table on page 111. The authors of this paper assume that the write up in the report is accurate, and that the WTP for delivery and collections for Mon-Fri is 14, and to maintain Sat + 4 weekdays is zero.

Table 7: Summary of WTP from 2012 U.K. Study on USO

USO Attribute	Willingness to Pay in Price Increase of First Class Letter (pence)	
	Residents	Businesses
Last collection at noon in rural/local and 6:30 p.m. at town centre	2	6
Post is delivered by 5 p.m. in all areas	4	4
90 percent of First Class arrives within 1 day locally and 2 days elsewhere	4	4
Mail delivered by 6 p.m. in all areas	4	6
Last Collection 10 a.m. at rural/local and 6:30 p.m. town centre	6	8
80 percent of First Class arrives within 1 day	8	12
Delivery and collection 5 days a week, Saturday plus 4 weekdays	12	0
Delivery and collection 5 days a week, Monday to Friday	12	14

Table 8: WTP of Improvements to Service (2012 U.K. Study)

Improvement	Willingness to Pay in Price Increase of First Class Letter (pence)	
	Residents	Businesses
Option to specify evening/weekend delivery	2	4
Delivery by 2 p.m. in urban areas and 3 p.m. in rural areas	2	2

1. Dichotomous choice contingent valuation where respondents were asked to choose between maintaining the post office and paying a tax or closing the post and not paying a tax.
2. Payment card contingent valuation where respondents were shown two options with various levels of USO attributes and then asked what was the maximum amount a month they would be willing to pay to see option one implemented.

For value of the individual services provided by the post office, NERA used a discrete choice experiment. This involved asking every respondent seven questions, each question involving a choice between two options and each option involving a different combination of services that would continue to be provided by posts offices. In each pair, one of the options would be associated with an increase in the monthly tax bill.

Lessons Realized

The authors acknowledged that testing seven attributes was a bit complex, as most surveys are limited to four or five. However, the authors theorized that since several of the attributes were similar in nature, the number of attributes was acceptable.

United Kingdom, 2009

In 2009, NERA Economic Consulting and Accent did a quantitative survey in the U.K. to determine the value for post offices overall and the value for the services provided by the post offices.⁶⁵ The survey was completed by first reaching out to participants via a phone call, then mailing or emailing survey materials to those who agreed to participate and following up with them again on the phone. The sample included 901 households and 301 SMEs.

For the value of the Post Office overall, NERA used two types of contingent valuation to get lower bound and upper bound WTP estimates. These were:

⁶⁵ NERA, *The Social Value of the Post Office Network, Report for Postcomm*, August 2009, http://www.nera.com/extImage/PUB_Postcomm_Aug2009.pdf.

Main Findings

Both residents and businesses place a high value on the existing network of post offices. While they did not find any statistically significant difference between particular groups, they found some evidence that pensionable age households have lower than average WTP and households in rural and urban deprived areas have higher than average WTP. This is thought to be due to the fact that the former had limited income.

The researchers found a large difference between the value for the network as a whole and the values associated with the specific services provided by the post office. The authors theorized that this could be interpreted to mean that consumers value the wider role played by post offices.

Table 9 displays the lower and upper WTP estimates for households and SMEs, for three things: (1) post office network as a whole, (2) post office provision of Services of General Economic Interest (SGEIs), and (3) post office provision of non-SGEIs.⁶⁶

Table 9: Main Findings from U.K. 2009 Survey

	Mean Willingness to Pay (£ / Month)					
	Post Office Network as a Whole		Post Office Provision of Services of General Economic Interest (SGEIs) ⁺		Post Office Provision of Non-SGEIs ⁺⁺	
	Lower	Upper	Lower	Upper	Lower	Upper
Households	5.9	28.6	2.6	12.2	3.4	16.4
SMES	6.6	24.6	2.4	9.0	4.1	15.5

⁺ Includes the processing of social benefit payments, the processing of licensing services, the processing of bill payments, the provision of banking and government saving services, and the provision of postal services.

⁺⁺ Includes financial services and telecommunication products, as well as the value of social role of the post office.

some respondents that were surveyed on behalf of their SME, found it difficult to respond on behalf of their company.

Lessons Realized

During the pilot NERA tested both WTP and Willingness to Accept (WTA) alternatives. WTA refers to the amount of money a respondent would have to be compensated for in order to accept a decline in service. They found that the WTA questions produced inconsistent results. Therefore, in the main survey, only WTP questions were included. They also learned that respondents found it difficult to consider the more extreme scenarios, and that

United Kingdom, 2007/2008

This study was performed by Accent in conjunction with RAND Europe, from 2007 to 2008.⁶⁷ Its purpose was to examine consumers' views of the USO in the United Kingdom. The study used a stated preference discrete choice experiment. The sample included 300 businesses and 552 residential customers, with quotas on specific demographics to obtain a minimum sample size of the vulnerable population.⁶⁸ The sample methodology employed a phone-post/email-phone (similar to the method described above in the description of the U.K. 2009 study).⁶⁹ A qualitative study was also done prior to the quantitative study and the results were used to help determine which attributes were most important and therefore should be included in the quantitative study.

The quantitative study consisted of three separate choice experiments. In addition to the attributes listed in [Table 10](#), each of the experiments included the price of First Class and Second Class stamps, in order to measure WTP.⁷⁰ For each survey respondents

⁶⁶ SGEI includes the processing of social benefit payments, the processing of licensing services, the processing of bill payments, the provision of banking and government saving services, and the provision of postal services. Non-SGEI includes financial services and telecommunication products, as well as the value of social role of the Post Office.

⁶⁷ Accent, *Postal Universal Service Obligation* and Rob Sheldon and Alison Lawrence, "The U.K. Service Obligation," pp. 199-216.

⁶⁸ Pensioners, those on low income, and the long term sick or disabled. Accent, *Postal Universal Service Obligation* p. 6.

⁶⁹ Call to find willing respondents, mail or e-mail the information, then call back to do the survey.

⁷⁰ The full list of all the variations of these attributes can be found on page 52 of Accent, *Postal Universal Service Obligation: Value to the Citizen*.

were given a choice of three options — the current USO, Alternative 1, and Alternative 2, where Alternative 1 and 2 showed varying levels of all the attributes that were included in that survey. For example, a respondent participating in experiment one would be given three choices of USO — each having a different level of (1) delivery frequency, (2) time of delivery, and (3) collection frequency.

Table 10: Attributes Included in U.K. 2007/2008 Study

	Attributes Included	Level 1	Level 2	Level 3	Level 4
Experiment 1	Delivery frequency	No minimum standard	3 times a week (M,W,F)	5 times a week (Mon - Fri)	6 times a week (Mon – Sat)
	Time of delivery	No minimum standard	Delivered by 8 a.m.	Delivered by midday	Delivered by 3 p.m.
	Collection frequency	No minimum standard	3 times a week (M,W,F)	5 times a week (Mon - Fri)	6 times a week (Mon – Sat)
Experiment 2	Letter Products	One class of service for posting letters only	Two classes of service for posting letters (as now)		
	Delivery time: One class service	No minimum standard	2 working days	3 working days	
	Quality of service: One class service	No minimum standard	80% on time	90% on time	95% on time
	Delivery Time: First-Class Service	No minimum standard	1 working day	2 working days	
	Quality of Service: First-Class Service	No minimum standard	80% on time	90% on time	97% on time
	Delivery Time: Second Class Service	No minimum standard	3 working days	5 working days	
	Quality of Service: Second Class Service	No minimum standard	85% on time	90% on time	99% on time
	Pricing Structure	Same costs for mail sent anywhere	Different costs depends on where letter sent		
Experiment 3	Post Opening Hours	No minimum standard	9 a.m. – 12 p.m. 3 days a week	9 a.m. – 5 p.m. (Mon - Fri)	9 a.m. – 5 p.m. (Mon - Sat)
	Access Points for postal services	No minimum standard	Post offices only	Some POs replaced by alternatives	
	Parcels	No minimum standard	Included in USO		
	Registered and Insured services	No minimum standard	Included in USO		
	Other services ensure the security and integrity of mail	No minimum standard	Included in USO		

Main Findings

Overall, the survey found that residential and business respondents had similar responses. The specific findings are summarized in Table 11.

Lessons Realized

Throughout the survey, the lowest level of a standard was sometimes viewed as more negative than having no standard. The authors had a theory on why this result occurred. Participants may assume that the post will go to the lowest standard if it is defined. Because they did not give the participants any instruction on how to interpret the “no minimum standard,” participants may have assumed that the post would supply more service under no standard.

There was also a large number of non-traders — respondents who always choose the status quo over the other options. This seemed to represent that there is a substantial preference for current USO.

Table 11: Main Findings from U.K. 2007/2008 Study

Attribute	Summary of Findings
Delivery Frequency	Residential customers had high value for 5- and 6-day delivery with more value on 6-day. Businesses — not possible to identify separate preferences for 5- and 6-day delivery. 3-day was more negative than no standard for both residential consumers and businesses.
Time of Delivery	Positive value for both 8 a.m. and noon. Residents positively valued delivery by 3 p.m., but not as much as noon. Businesses valued 3 p.m. the same as no standard.
Collection Frequency	No difference between 5-day, 6-day, and no standard. Both residential and businesses valued 3-day standard less than no standard (but not statistically significant).
Delivery Time	Both residential consumers and businesses place high value on inclusion of day of delivery standards (currently no standard); standards of faster delivery have higher value. Taking 5 days to deliver a mailpiece (slow) was valued worse than no standard, although value was not statistically significant.
Reliability Standards	Willing to pay more to include reliability standards with higher WTP for higher standards; WTP for 80 percent was no different than no standard.
Pricing Structure	Strong opposition to distance based pricing.
Post Office Opening	Both have positive WTP for opening hour standards (9 a.m. to 5 p.m.) Residents place higher value on being opened 6 days than 5 days; Businesses did not. Both viewed 9 a.m. to noon, three days a week more negatively than no standards.
Access Points	Not much value on standards of post office access.
Parcel Services	Low value
Registered/Insured Items	Low value
Other Services in USO	Low value

Appendix C: Case Study: How New Zealand Post Changed its USO

Case Study: How New Zealand Post Changed its USO

Overview of New Zealand Post

The New Zealand Post is a State-Owned Enterprise. While the postal market in New Zealand was opened up to competition and fully liberalized (lost its monopoly) in 1998, New Zealand Post is still the official provider of universal postal service for all New Zealanders. New Zealand Post is expected to fully fund its USO through postal revenues.

The postal USO in New Zealand is not written into legislation, and instead is handled through a contractual obligation between the post and the Government, referred to as “The Deed of Understanding.” This deed was established in 1998; highlights are shown in Table 12.⁷¹

Table 12: New Zealand USO as of 1998 Deed of Understanding

Attribute	Description
Frequency of Delivery	6-day a week for at least 95% of delivery points 5- or 6-day for 99.88% of delivery points
Delivery Points	Maintain at least 1,463,938 delivery points Not increase # of counter delivery and community boxes over 1.5% of delivery points
Access	Maintain network of 880 postal outlets and postal centres At least 240 must be post centres which provide agency and/or other services
Price	Not increase price of standard letter beyond 45 cents for 3 years (expired in 2001) Not reintroduce the rural delivery fee

Source: Paul Hodgson, et al., “USO Revisited in New Zealand.”

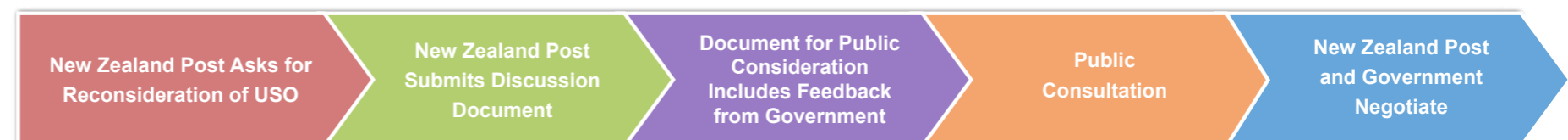
submitted a discussion document to the Government that included its proposed USO, as well as three other alternatives. With each alternative, it included an assessment of how long New Zealand Post would be able to fund its USO through its revenues. New Zealand Post purposefully kept the assessment simple, as to not allow distraction into the other areas of debate. Table 13 contains a summary of this information, and Table 14 contains a longer summary of their proposed alternative.

The Need for Change

In New Zealand, postal volumes fell considerably after 1998. From 2002 to 2013, volumes fell from 1.1 billion to 771 million mail pieces. New Zealand Post forecasted that mail volumes would continue to fall, making self-funding the USO at its 1998 levels unsustainable.⁷²

Figure 6 displays the process New Zealand Post went through to change its USO. In April 2012, New Zealand Post requested a formal review of its USO by the Minister for Communications and Information Technology. In the following June, it

Figure 6: New Zealand Post’s Process for Changing its USO



Source: Paul Hodgson, et al., “New Zealand USO Realigned to the Digital Age.”

⁷¹ Paul Hodgson, et al., “USO Revisited in New Zealand.”

⁷² Paul Hodgson, et al., “New Zealand USO Realigned to the Digital Age.”

Table 13: Summary of New Zealand Post’s USO Alternatives

Alternative	Brief Description	Assessment
Proposed	Enough flexibility to plan for 10 years Includes 3-day delivery and alternative access	Allow long term planning Rural areas have biggest impact as they have fewer alternatives
Alternative 1	Status quo	Would need annual subsidy, subsidy will grow over time
Alternative 2	Constrained response Includes 5-day and reduction in min # of access points	Would defer losses for 2 years; then would need to return for further changes
Alternative 3	No USO	Not acceptable politically; would not meet UPU obligations

Source: Paul Hodgson, et al., “USO Revisited in New Zealand.”

In January 2013, New Zealand Post issued a document for public consultation, which incorporated the feedback from Officials and the Minister. The intent was not to present a mutually agreed upon proposal, but to ensure that the proposal was realistic and met any bottom line obligations (included anything the government deemed essential). Specifically, at the government’s request, New Zealand Post put back in the requirement that it not reintroduce a rural delivery fee.⁷³

argued that the change in USO should be substantial enough to allow them to plan for the long run. This will allow them to reduce service slowly over time, giving customers time to adjust to predictable changes. Too small of a change in USO would only result in them having to come back in a few years to request additional changes. They argued that these smaller, incremental changes are disruptive and inefficient. Realigning the network is a timely and expensive process. It would be costly and duplicative to realign it to meet 5-day delivery, only to have to redo the efforts for 3-day delivery in a few years.⁷⁴

In its submissions, New Zealand Post

New Zealand Post also proposed that USO focus on the service received, not how it was provided. Specifically, they asked for flexibility for how they provide access. They were willing to maintain the minimum requirement for the number of access points, but suggested deleting the reference to brick and mortar from the requirement. Instead, they asked to be allowed to provide access through alternatives including access hosted by other businesses and kiosks.⁷⁵

New Zealand Post did acknowledge that people who lived in rural areas would feel the impact of the proposed changes more than those who live in urban areas, as they have fewer alternatives and less access to broadband. In addition, the impact would extend beyond mail service. In New Zealand, rural carriers are contract employees who are able to contract with other businesses, and often deliver other items in addition to the mail. Sometimes these items are related to mail, such as newspapers, and sometimes they are unrelated, such as groceries. Without payment from the post, the rural carriers may not be willing to carry these other goods on days that mail is not delivered. New Zealand Post argued that they should not be responsible for underwriting non-mail delivery services.⁷⁶

Public Consultation

The public consultation lasted 6 weeks, and there were around 1,500 submissions. The biggest concern raised was the move to 3-day delivery, especially in rural areas that had few alternatives. However, the bulk of the concern was for non-mail items that carriers provided in addition to the mail. There was some concern about service in urban areas, especially for the elderly and those without access to the computer.

⁷³ Ibid.

⁷⁴ Paul Hodgson, et al., “USO Revisited in New Zealand.”

⁷⁵ Ibid.

⁷⁶ Ibid.

The main input from businesses was overall support for the need to change, but they stressed that they would need enough notice to allow them to adjust. There was also support from businesses and government agencies for a higher delivery frequency to PO Boxes, to facilitate payment and communication in a low cost delivery option.

Only 1 percent of the submitters raised concerns over the proposed change to allow New Zealand Post to use alternatives other than post offices to meet the access points requirement.

The unions' submissions were focused on their claims that the loss of the monopoly had resulted in redundancy, and they suggested returning the monopoly protections to New Zealand Post.⁷⁷

Negotiation Results

After the public comment period was over, New Zealand Post went into negotiations with the Government. The one area where the Government would not concede was the need for 5-day delivery in rural areas and Post Office boxes. They also made the new USO not go into effect until July 2015.⁷⁸ Table 14 displays the final result, as well as the USO as proposed by the New Zealand Post.

Table 14: Negotiations Between New Zealand Post and Government

Alternative	Proposed	Final
Frequency of Delivery	3-day delivery to 99.88% of delivery points Not further reduce frequency to any place that had 2- or 3-day delivery as of June 2012	Not less than 3-day to 99.88% of delivery points Not less than 5-day to rural delivery and Post Office boxes, except when already receive less
Delivery Points	Minimum of 1,910,010 delivery points Increase the number of delivery points to meet market demand operationally practicable and commercially sustainable. Not increase number of counter delivery and community boxes over 3.0% of delivery points	Minimum of 1,910,010 delivery points Increase the number of delivery points to meet market demand operationally practicable and commercially sustainable. Not increase number of counter delivery and community boxes over 3.0% of delivery points
Access	No fewer than 880 service points, which include alternatives such as kiosks 240 access points must provide agency services and bill payment services when commercially effective	No fewer than 880 service points, which include alternatives such as kiosks 240 access points must provide agency services and bill payment services when commercially effective
Price	Not reintroduce rural delivery fee	Not reintroduce rural delivery fee
Product	Basic Letter Service	Basic Letter Service

Source: Paul Hodgson, et. al., "New Zealand USO Realigned to the Digital Age.," and Proposal by New Zealand Post to Minister for Communications and Information Technology, January 2013.

⁷⁷ Paul Hodgson, et al., "New Zealand USO Realigned to the Digital Age."

⁷⁸ Ibid.



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