



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

**Hybrid Mail Efforts
Management Advisory**

February 12, 2013

Report Number SM-MA-13-004



BACKGROUND:

A hybrid mail system is a service that allows letters to be sent in digital format and be received in hard copy. We estimate the potential hybrid mail market for the U.S. Postal Service is small- and medium-sized businesses with about 400 million mailpieces annually.

The Postal Service currently offers hybrid mail services through agreements with three affiliated partners (Click2Mail, Cardstore.com, and Premium Postcard). The Postal Service developed its own hybrid mail platform, the Direct Mail Hub, in fiscal year (FY) 2011, which focuses on small- and medium-sized business and allows users to send their customers direct mail. Our objective was to assess current Postal Service hybrid mail efforts and opportunities to improve these efforts.

WHAT THE OIG FOUND:

The Postal Service could improve its hybrid mail efforts by developing a business strategy to increase the revenue and market share of its current hybrid mail products. Specifically, we noted that Postal Service's revenue with affiliated partners dropped 58 percent, from \$11.4 million in FY 2007 to \$4.8 million in FY 2011 because there

was no strategic plan promoting hybrid mail products and the affiliated partners' agreements did not include measurable performance goals. In addition, the Postal Service's affiliated partners have a small share of the potential hybrid market for small- and medium-sized businesses, about 3 percent of the estimated \$200 million market for hybrid mail products. Management could increase revenue by offering transactional mail, which includes invoices, statements, surveys, and reminders; and addressing related privacy issues. As a result, the Postal Service may have lost \$4.1 million of potential revenue annually in FYs 2011 and 2012 and could potentially increase revenue by at least \$3.8 million annually in FYs 2013 and 2014.

WHAT THE OIG RECOMMENDED:

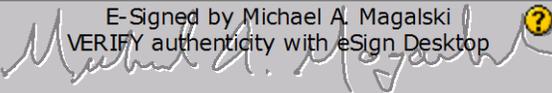
We recommended that management develop a business strategy for hybrid mail and establish measurable goals for affiliated partners to increase revenue. In September 2012, Postal Service management took partial corrective action by establishing revenue goals with the affiliated partners.

[Link to review the entire report](#)



February 12, 2013

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

E-Signed by Michael A. Magalski
VERIFY authenticity with eSign Desktop 


FROM: Michael A. Magalski
Deputy Assistant Inspector General
for Support Operations

SUBJECT: Management Advisory – Hybrid Mail Efforts
(Report Number SM-MA-13-004)

This report presents the results of our review of the U.S. Postal Service's Hybrid Mail Efforts (Project Number 12YG026DA000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Monique P. Colter, director, Supply Management and Facilities, or me at 703-248-2100.

Attachments

cc: Nagisa M. Manabe
Kelly M. Sigmon
Mary B. Fluto
Patricia M. Mason
Corporate Audit and Response Management

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Introduction

This report presents the results of our review of the U.S. Postal Service's current hybrid mail efforts (Project Number 12YG026DA000). Our objective was to assess current Postal Service hybrid mail offerings and opportunities to improve these efforts. This self-initiated review addresses strategic risks. See [Appendix A](#) for additional information about this review.

A hybrid mail system is a service that allows letters to be sent in digital format and received by the recipient in hard copy. We estimate that the potential hybrid mail market for the Postal Service is small- and medium-sized enterprises with about 400 million mailpieces annually. The Postal Service offers hybrid mail services through agreements with three affiliated partners: Click2Mail, Cardstore.com, and Premium Postcard. Under these agreements, the Postal Service receives postage revenue and a share of partners' production revenue for all customers who register with the partners through usps.com. In fiscal year (FY) 2011, the Postal Service developed its own hybrid mail platform, Direct Mail Hub, which focuses on small- to medium-sized businesses and allows users to send their customers advertising mail directly. Because Direct Mail Hub was still in early development, we focused our review on the Postal Service's three affiliated partners.

Conclusion

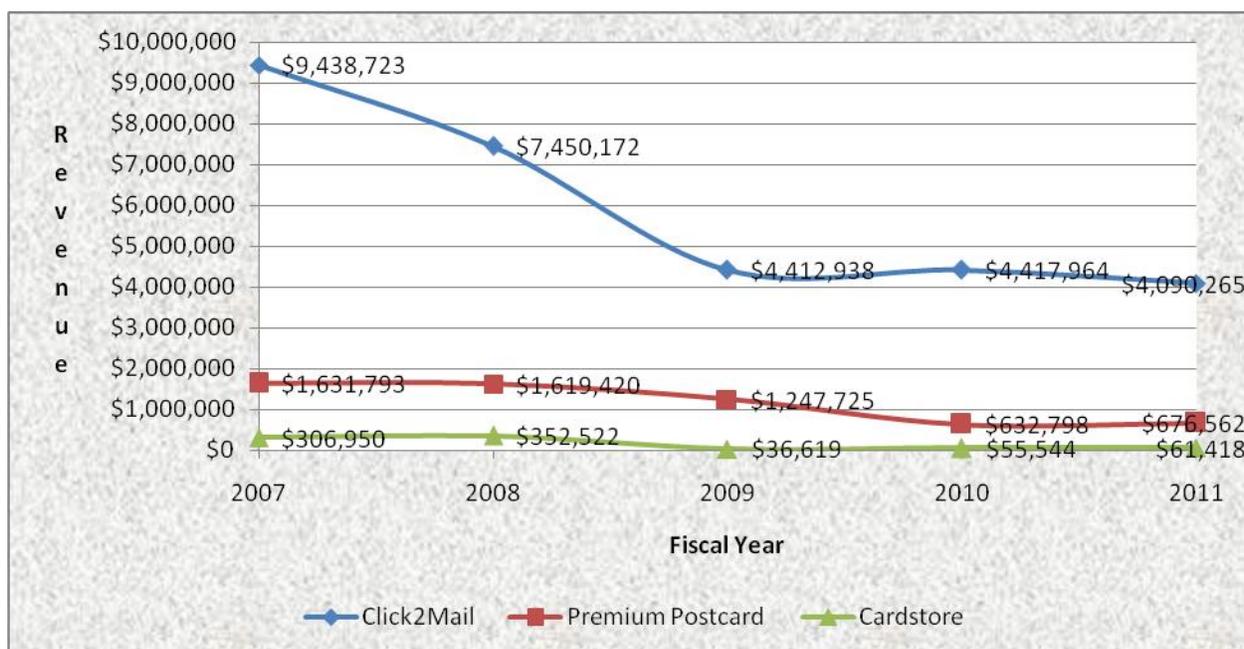
The Postal Service could improve its hybrid mail efforts by developing a business strategy to increase the revenue and market share of its current hybrid mail products. Specifically, we noted that the Postal Service's revenue with affiliated partners dropped 58 percent, from \$11.4 million in FY 2007 to \$4.8 million in FY 2011 because there was no strategic plan promoting hybrid mail products and the affiliated partners' agreements did not include measurable performance goals. The Postal Service's affiliated partners have a small share of the potential hybrid market for small- and medium-sized businesses, about 3 percent of the estimated \$200 million market for hybrid mail products. In addition, management could increase revenue by offering transactional mail, which includes invoices, statements, surveys, and reminders; and addressing related privacy issues. As a result, the Postal Service may have lost \$4.1 million of potential revenue annually in FYs 2011 and 2012 and could potentially increase revenue by at least \$3.8 million annually in FYs 2013 and 2014.

Revenue from Affiliated Partners

The Postal Service's affiliated partners' revenue dropped 58 percent, from \$11.4 million in FY 2007 to \$4.8 million in FY 2011. Click2Mail experienced a 57-percent revenue decline, from \$9.4 million in FY 2007 to \$4.1 million in FY 2011. Similarly, Premium Postcard's revenue declined 59 percent, from \$1.6 million in FY 2007 to \$676,562 in FY 2011. Finally, Cardstore.com's revenue dropped 80 percent, from \$306,950 to \$61,418 during the same period.

The decline in hybrid mail revenue from affiliated partners occurred because Postal Service officials did not have a strategic plan for promoting hybrid mail products. They were focusing on improving the Postal Service’s external website, usps.com. In addition, the affiliated partners’ agreements did not include measurable performance goals. Without a strategic plan, there is reduced emphasis on growing this business. In addition, the affiliated partners attributed this revenue loss to their products no longer being prominently displayed on usps.com. This decreased exposure may have contributed to the year-on-year reduction of traffic and revenue since FY 2008.

**Table 1: Hybrid Mail Affiliated Partners' Revenue
FYs 2007–2011**



Source: Postal Service affiliated partners’ revenue data.

Market Share Opportunities

The Postal Service has taken steps to enhance its hybrid mail solutions for advertising mail to the small- and medium-sized business market through the Direct Mail Hub. However, it could increase its share in this market by developing a strategy with its affiliated partners to offer hybrid mail products that include both advertising mail¹ and transactional mail and overcome a privacy barrier associated with transactional mail.

The Postal Service’s affiliated partners have a small share of the potential hybrid market for small- and medium-sized businesses, about \$4.8 million annually, which represents about 3 percent of the market. The Postal Service’s potential market for hybrid mail

¹ A form of direct advertising where printed materials are delivered through the mail service to a target demographic. It can include items such as coupons, fliers, circulars, and ‘pre-approved’ applications.

products — including both advertising and transactional mail components — could be about \$200 million annually.

The Postal Service could increase its share of the hybrid mail market if small- and medium-size business customers used hybrid mail for their transactions. Various foreign posts have successfully introduced hybrid mail, including transactional mail, such as invoices and statements. Transactional mail is the key to hybrid mail production due to its high volume, frequency of distribution, and importance to the senders. It is unlikely the Postal Service can increase hybrid mail revenue for small- and medium-sized business enterprises without offering solutions for correspondence and transaction mail.

Further, the ability to maintain privacy for hybrid mail content is a barrier to adoption by small- and medium-sized businesses. Privacy is very important to these firms, especially for transactional mail, because specific content is tied to the relationship between the sender and the receiver. The Postal Service is well positioned to address this concern. The Postal Service brand has an excellent reputation for protecting privacy. It has consistently rated among the most trusted federal agencies and U.S. businesses in the Ponemon Institute's annual survey of leading consumer brands.

By implementing a strategy with its affiliated partners to increase revenue and market share of small- and medium-sized businesses, the Postal Service could potentially increase revenue in the hybrid mail market. In addition, the Postal Service and its affiliated partners are well positioned to educate small businesses on the benefits and value of hybrid mail to overcome their privacy concerns. The Postal Service's Direct Mail Hub offers educational and informational advice for mailers and customers can receive online help from the three affiliated partners' websites. Each of the websites contains frequently asked questions and a place where customers can send specific questions concerning their mailings.

Without a business strategy and measurable performance goals in the affiliated partners' contracts and with the decreased prominence of the affiliated partners' products on usps.com, the Postal Service may have lost \$4.1 million of potential revenue annually in FYs 2011 and 2012 and could potentially increase revenue by at least \$3.8 million annually in FYs 2013 and 2014.²

Recommendations

We recommend the vice president, New Products and Innovation:

1. Develop a business strategy to increase hybrid mail revenue for small- and medium-sized businesses if profitable and feasible (including transactional mail) and overcome privacy concerns.

² We classify these amounts as revenue loss. Revenue loss applies to funds, such as postage, retail, sales, rent, and leases; or fees the Postal Service is entitled to receive but was underpaid or not realized because policies, procedures, agreements, or requirements were lacking or not followed. The revenue loss category may be used for historical and future periods.

2. Establish measurable goals with affiliated partners to increase revenue.

Management's Comments

Management agreed with all of the findings and recommendations. In subsequent correspondence, management stated that they agreed with our monetary impact. Regarding recommendation 1, management stated this was completed as part of a Delivering Results, Innovation, Value, and Efficiency initiative that outlines a dynamic business strategy intended to maximize their growth potential in the evolving digital marketplace. This strategy requires a much broader evaluation of the electronic and hard copy communications dynamics than what has traditionally known as hybrid mail.

For recommendation 2, management stated that they met with the three affiliates in September 2012 to establish a measurable goal of a 5 percent increase in revenue for FY 2013 and establish a process to discuss strategy and measure success at quarterly meetings. Management also made changes on usps.com in October 2012 to improve the customer experience and reduce the number of clicks to the affiliates' page. They also rotate the order the affiliates are displayed to give equal representation and chance to interact with the customer. Lastly, in December 2012 management ran an usps.com home page banner promoting the affiliates' holiday discount.

Management believed that the limited scope of our audit prevented an accurate view of the Postal Service's overarching business strategy surrounding digital and hybrid mail. They also believed that limiting the audit to their affiliated partners fell short of holistically looking at all of their initiatives encouraging digital integration with mail. See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations and management's corrective actions should resolve the issues identified in the report. Management considers their corrective actions to recommendation 1 to be completed based on the Delivering Results, Innovation, Value, and Efficiency initiative 14. This initiative generally describes the Postal Service's future efforts to grow digital and hybrid mail, but does not contain the specificity and detailed support we need to close recommendation 1.

In regards to management's statement about the limited scope of our review, we met with Postal Service management several times to collaborate on the scope and methodology used to assess their digital and hybrid mail strategy. Throughout the process, management agreed with our approach to evaluate the Postal Service's current hybrid mail products and barriers those products must overcome in order to implement a successful hybrid solution.

The OIG considers recommendations 1 and 2 significant and, therefore, requires OIG concurrence before closure. Since management implemented corrective actions to

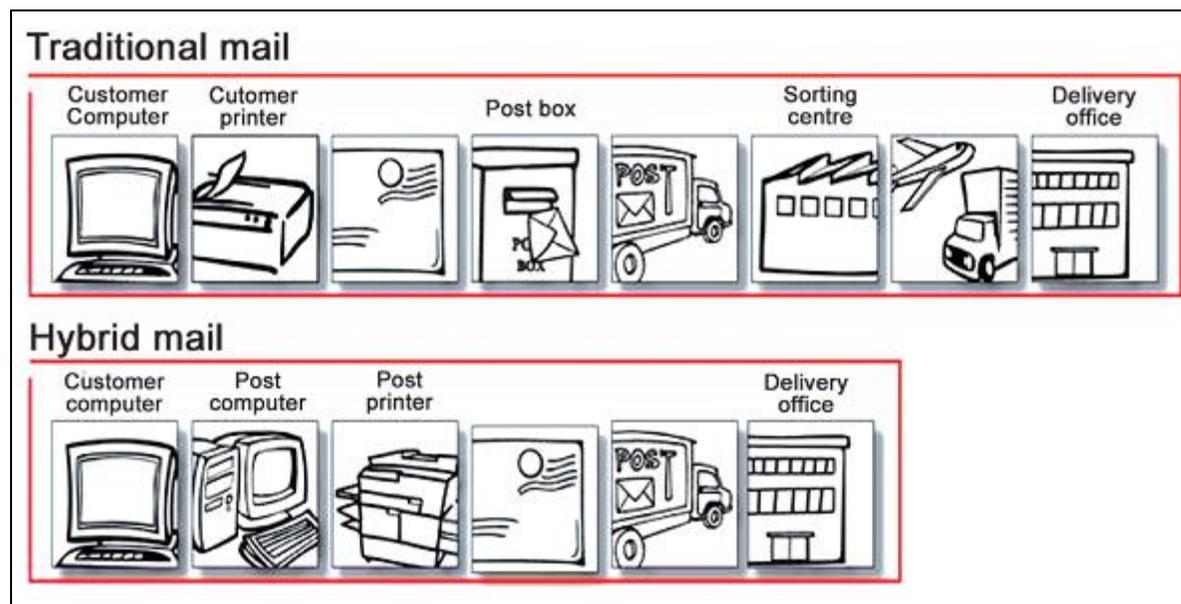
resolve recommendation 2 based on our audit, we will close this recommendation on issuance of this report. The OIG requests written confirmation when corrective actions are completed for recommendation 1. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

A hybrid mail system is a service that allows letters to be sent in digital format and received by the recipient in their physical form in an envelope. The potential hybrid mail market for the Postal Service is small- and medium-sized businesses with about 400 million mailpieces annually. See Table 2 for a visual representation of the difference between the traditional and hybrid processes.

Table 2: Traditional and Hybrid Mail Process Comparison



Source: *Hybrid Mail Strategic Overview Report*, May 2010, prepared by Triangle consultants.

The Postal Service has agreements with three affiliated partners, Click2Mail, Premium Postcard, and Cardstore.com. Under these agreements, the Postal Service receives postage revenue and a share of its partners' production revenue for all customers that registered with the partners through usps.com.

- Click2Mail began providing web browser-based tools for creating, personalizing, and proofing mailpieces and for acquiring, building, and managing mailing lists in 2003.
- Premium Postcard began in 1999 as a site that allowed consumers to send photograph postcards to friends and family. Businesses quickly realized that they could use the same process to simplify their direct mail campaigns. It offers self-service and full-service direct mail.

- Cardstore.com was launched in 1999 and acquired by American Greetings Corporation in 2010. Customers can use Cardstore.com's templates to turn their photographs into cards for birthdays, holidays, or announcements.

The Direct Mail Hub is an online platform designed to educate small businesses on direct mail and help them generate mailings from start-to-finish. The Postal Service piloted it in two markets: Raleigh, NC and Austin, TX. In August 2011, another third-party partner, DirectMailQuotes, became part of the Direct Mail Hub.

DirectMailQuotes matches a small business customer's particular mailing needs to a network of mail service providers. The Direct Mail Hub also includes the Do-It-Yourself Direct Mail Hub, which provides an online solution that guides customers step-by-step through the process of creating a mail campaign.

Objective, Scope, and Methodology

Our objective was to assess current Postal Service hybrid mail efforts and opportunities to improve them. Because the Direct Mail Hub was still in early development, we focused our review on the three Postal Service affiliated partners (Click2Mail, Premium Postcard, and Cardstore.com). To accomplish our objective, we employed a third-party contractor that focuses on supply chain and logistics operations management, including the postal and mailing industry, to assist us with this project. Specifically, we worked with the contractor to:

- Perform the research and analysis required to determine the viability of the Postal Service's hybrid mail product and service offerings.
- Identify the market for postal hybrid mail solutions in the U.S.
- Identify the Postal Service's opportunities in the marketplace.
- Identify potential revenue the Postal Service could derive by enhancing and expanding its hybrid mail products, services, and solutions.
- Evaluate the Postal Service's current hybrid mail products and identify potential new or expanded hybrid mail services.
- Identify barriers the Postal Service must overcome to implement successful hybrid mail solutions and strategies the Postal Service can use to overcome these barriers.

We conducted this review from April through February 2013 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on December 21, 2012, and included their comments where appropriate.

We assessed the reliability of the computer-generated revenue data used in our analyses by interviewing Postal Service personnel knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title ³	Report Number	Final Report Date	Monetary Impact
<i>Bridging the Digital Divide: Overcoming Regulatory and Organizational Challenges</i>	RARC-WP-12-004	11/22/2011	None
Report Results: The Postal Service has the assets and infrastructure to operate as a platform bridging physical and digital communications. Additionally, we conducted an extensive analysis of the current regulatory environment and concluded that current regulations provide a legal path for the Postal Service to operate a digital platform and offer other digital services.			
<i>Postal Service Revenue: Structure, Facts, and Future Possibilities</i>	RARC-WP-12-002	10/6/2011	None
Report Results: The Postal Service must overcome various barriers to introduce new sources of revenue: four statutory barriers, three regulatory barriers, three intuitional barriers, three political barriers, and one financial barrier.			
<i>The Postal Service Role in the Digital Age Part 2: Expanding the Postal Platform</i>	RARC-WP-11-003	4/19/2011	None
Report Results: Pairing eMailbox with hybrid and reverse hybrid mail applications can further encourage innovation to pair physical mail with its digitized counterpart and electronic mail with its physical equivalent. This hybrid focus would further enhance the value of the electronic platform and connect more people to the network. In these applications, hybrid mail employs the convenience, low cost, perceived environmental benefits, and speed of digital transmission and display with the desired appeal and familiarity of conventional letters and cards.			
<i>The Postal Service Role in the Digital Age Part 1: Facts and Trends</i>	RARC-WP-11-002	2/24/2011	None
Report Results: The Postal Service could establish an enabling platform to bridge the digital divide and allow citizens to traverse from the physical to the digital. This role may take on many different forms, but by working with leading web service providers, the Postal Service has the opportunity to shape and enforce industry standards that fill identified gaps in the digital marketplace. The Postal Service must establish a pivotal role for itself in this new emerging world to ensure its future relevance.			

³ The reports cited here are technical research papers prepared by the OIG Risk Analysis Research Center . As such, these reports do not have associated recommendations.

Appendix B: Monetary Impact

Recommendation	Impact Category	Amount
1	FYs 2011 and 2012 Revenue Loss ⁴	\$8,158,447
1	FYs 2013 and 2014 Revenue Loss	7,588,055
Total		\$15,746, 502

Monetary Impact Technical Description

The premise for the monetary impact calculations is the Postal Service's lost revenue because it does not have a business strategy for these hybrid products and the agreements with the affiliated partners do not include goals. We looked at each of the three affiliated partners, Click2Mail, Premium Postcard, and Cardstore.com. For each of them we analyzed lost postage revenue and lost production revenue separately. Therefore, we performed six identical analyses using the methodology described as follows.

In our monetary impact model, 'expected revenue' minus 'actual revenue' equals 'revenue loss.' We used FY 2007 actual revenue as the baseline for predicting 'expected revenue' for FYs 2008 through 2014. We assumed the revenue achieved in FY 2007 was indicative of the revenue which should have been achieved (adjusting for overall mail volume decreases) in subsequent years if the Postal Service had better managed the programs.

We obtained the Postal Service First-Class Mail and Standard Mail annual mail volume data for FYs 2007-2011. Using a linear regression trend line for FY 2007-2011 mail volume, we predicted mail volume for FYs 2012-2014 and calculated the apparent percentage of decreased mail volume for FYs 2008-2014.

We then applied the calculated percentage of decreased mail volume to the FY 2007 expected revenue baseline to predict the expected revenue for FYs 2008-2014. We were also able to obtain actual revenue data for FYs 2007-2011. We used the three actual revenue data points of FYs 2009-2011 for Click2Mail and Cardstore.com and FYs 2010-2011 for Premium Postcard as the basis for predicting actual revenue for FYs 2012-2014, using a linear regression trend line.

The differences between the predicted expected revenue amounts and the predicted actual revenue amounts for FYs 2011-2014 comprise the monetary impact for this audit. We categorized this amount as revenue loss.

⁴ Revenue loss applies to funds such as postage, retail, sales, rent, and leases; or fees the Postal Service is entitled to receive but was underpaid or not realized because policies, procedures, agreements, or requirements were lacking or not followed. The revenue loss category may be used for historical and future periods.

FYs 2011 and 2012 Revenue Loss	
Click2Mail	\$6,665,146
Premium Postcard	1,151,369
Cardstore.com	341,932
Total FYs 2011 and 2012 Revenue Loss	\$8,158,447
FYs 2013 and 2014 Revenue Loss	
Click2Mail	\$6,480,646
Premium Postcard	842,434
Cardstore.com	264,975
Total FYs 2013 and 2014 Revenue Loss	\$7,588,055

Source: OIG analysis as of December 2012.

The annualized revenue loss is \$4,079,224 for FY's 2011 and 2012. The annualized revenue loss is \$3,794,028 for FYs 2013 and 2014.

Appendix C: Management's Comment

GARY C. REBLIN
VICE PRESIDENT, NEW PRODUCTS AND INNOVATION



February 1, 2013

Judith Leonhardt
Director, Audit Operations

SUBJECT: Hybrid Mail Effort (Report Number SM-MA-13-DRAFT)

Management believes that the limited scope of this audit prevented an accurate view of the overarching business strategy surrounding the United States Postal Service's digital and hybrid mail strategy. Limiting the audit to essentially a review of only our affiliated partners, falls short at holistically looking at all the initiatives the Postal Service is pursuing to encourage digital integration with mail.

Recommendation [1]:

Develop a business strategy to increase hybrid mail revenue for small- and medium-sized businesses if profitable and feasible (including transactional mail) and overcome privacy concerns.

Management Response/Action Plan:

Agree: This is complete as part of a DRIVE initiative which outlines a dynamic business strategy that is intended to maximize our growth potential in today's evolving digital marketplace. This strategy requires a much broader evaluation of the electronic and hard-copy communications dynamics than what has traditionally been known as hybrid mail in the mailing industry. The onslaught of digital technology, mobile and social media to name a few, have changed consumer behavior and the value proposition of mail, adding greater importance to implementing strategies that modernize and simplify mail to maintain relevancy and increase value.

We are pursuing solutions, partnerships, and strategies that target customer segments to facilitate and increase the use of digital creation of hard copy mail through careful consideration of customer demand, market and industry dynamics, organizational core capabilities, brand impact and regulatory/legal constraints. These initiatives target enhancements in awareness, access, and ease-of-use not only for small business use of direct mail and transactional mail, but also for personal correspondence. Additionally our strategies involve creating platforms that go beyond that solutions for the creation, production and delivery of mail but also foster other valued communication methods.

475 L'ENFANT PLAZA SW, ROOM 5100
WASHINGTON DC 20260-5100
www.usps.com

An important part of our strategy is to enhance the utility of mail for consumers given the way they communicate, shop, and live in today's environment. Encouraging marketers through our mail promotions to produce mail that is more engaging and relevant and providing consumers the tools they need to interact with mail will drive long-term product value and growth. Much of the current focus is centered around mobile technology but as other technologies burst into the marketplace we will adapt programs that encourage marketers to integrate mail into campaigns leveraging this new technology.

Target Implementation Date:

Completed. This is complete as this dynamic and evolving strategy is part of DRIVE initiative Build Funnel and Drive Innovation

Responsible Official:

Vice President, New Products and Innovation

Recommendation [2]:

Establish measurable goals with affiliated partners to increase revenue.

Management Response/Action Plan:

Agree: Management met with the three affiliates in September 2012 to establish a measurable goal of 5% increase in revenue for FY13 and establish a process to discuss strategy and measure success at quarterly meetings through the year.

Management also made several changes on usps.com in October 2012 to improve the customer experience and to reduce the number of clicks to the affiliates' page. In addition, the affiliate page now rotates the order of display so no one affiliate is featured more than the other giving equal representation and chance to interact with the customer. In December 2013, management ran an usps.com home page banner promoting the affiliates' holiday discount.

Target Implementation Date:

Completed September 2012

Responsible Official:

Manager, usps.com, Retail & Digital Brand Marketing

This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act.



Gary Reblin

cc: Thomas Foti
Patti Mason
Beth Fluto
Sally Haring