



# **Summary of Focus Group Discussions on the Future of First-Class Mail**

## **Management Advisory**

**April 20, 2012**

**Prepared by Office of Audit  
Report Number: MS-MA-12-001**



April 20, 2012

**MEMORANDUM FOR:**

Patrick R. Donahoe  
Postmaster General

A rectangular box containing a handwritten signature in black ink that reads "Darrell E. Benjamin, Jr." with a small yellow question mark icon in the top right corner.

**FROM:**

Darrell E. Benjamin, Jr.  
Deputy Assistant Inspector General  
for Revenue and Systems

**SUBJECT:**

Management Advisory Report – Summary of Focus  
Group Discussions on the Future of First-Class Mail  
(Report Number MS-MA-12-001)

To evaluate the current and future states of First-Class Mail<sup>®</sup>, the U.S. Postal Service Office of Inspector General coordinated focus groups with high-volume First-Class mailers and mail service providers whose clients include high-volume First-Class mailers. The purpose of the focus groups was to assess mailers' current usage of First-Class Mail, explore their attitudes toward existing rates and service standards, and determine how they might respond to changes in First-Class Mail rates and the existing pricing structure. This management advisory report summarizes key points from the focus group discussions and provides our observations and suggested strategies for improving volume, based on the focus group discussions.

Attachments

cc: Paul E. Vogel  
Corporate Audit and Response Management

## Summary of Focus Group Discussions on the Future of First-Class Mail

### Introduction

First-Class Mail is the cornerstone of the U.S. Postal Service's product line, both in terms of revenue generation and customer recognition. Current and projected declines in First-Class Mail, coupled with the Postal Service's inability to successfully reduce costs at the same rate or generate additional revenue to offset the loss, have put the Postal Service's financial condition and outlook at risk, in both the short- and long-term. While the Postal Service has made efforts to reduce costs and increase revenue, fundamental changes to its business model will likely take a significant amount of time – time the Postal Service does not have, given its current financial situation.

One of the major reasons for the Postal Service's financial crisis is the sharp decline (25 percent since 2006) in First-Class Mail over the last several years.<sup>1</sup> Experts' projections for the future of First-Class Mail is cause for even further concern, as they estimate that mail volume will continue to decline significantly until 2020 and beyond.<sup>2</sup> The decline in First-Class Mail is primarily due to the availability of cheaper and more accessible electronic alternatives, as well as customers' changing needs and behaviors.<sup>3</sup> This shift was further accelerated by the economic recession and sluggish economic recovery. See [Appendix A](#) for additional information about the First-Class Mail® decline and its effect on the Postal Service's financial condition.

To evaluate the current and future states of First-Class Mail, the U.S. Postal Service Office of Inspector General coordinated focus groups with high-volume First-Class mailers and mail service providers whose clients include high-volume First-Class mailers. The purpose of the focus groups was to assess mailers' current usage of First-Class Mail, explore their attitudes toward existing rates and service standards, and determine how they might respond to changes in First-Class Mail rates and the existing pricing structure. See [Appendix B](#) for additional information on our objective, scope, and methodology.

This management advisory report summarizes key points from the focus group discussions and provides our observations and suggested strategies for improving volume, based on the focus group discussions. [Appendix C](#) provides a detailed summary of the focus group discussions and highlights the key points discussed.

---

<sup>1</sup> U.S. Postal Service, *Plan to Profitability: 5 Year Business Plan*, February 16, 2012, slide 3, [http://about.usps.com/news/national-releases/2012/pr12\\_0217profitability.pdf](http://about.usps.com/news/national-releases/2012/pr12_0217profitability.pdf).

<sup>2</sup> Boston Consulting Group, *Projecting US Mail [V]olumes to 2020 Final Report – Detail*, March 2, 2010, page 8, <http://about.usps.com/future-postal-service/bcg-detailedpresentation.pdf>.

<sup>3</sup> McKinsey & Company, *USPS Future Business Model*, pages 2-5, March 2, 2010, <http://about.usps.com/future-postal-service/mckinsey-usps-future-bus-model2.pdf>.

## Summary of Focus Group Discussions

Overall, focus group participants indicated that there is very little the Postal Service can do to prevent the steep decline of First-Class Mail. In fact, the most senior levels of corporate management have already made decisions to move to electronic means as quickly as possible. The internal and external challenges facing First-Class Mail, coupled with the uncertainty in mail delivery times as a result of service standard and operational changes, and overall postage costs, prompt companies to try to drive this expense out of their budgets. Mail overseers within companies are generally charged with taking money out of their postal budgets to be spent elsewhere in the organization for marketing and/or new electronic initiatives. Once the postage budget is diverted to other investments, companies do not want to move those expenses back without compelling reasons.

Focus group participants did, however, identify several mechanisms to potentially slow the rate of decline over the next several years. These mechanisms mainly focus on making it easier for mailers to do business with the Postal Service. Specifically, mailers indicated they would be less likely to move away from the mail, or may not move away as quickly, if the Postal Service were to make changes that create a greater sense of certainty and stability in the Postal Service's future. For example, mailers would feel a greater sense of confidence in the Postal Service if it were able to make effective operational changes, such as optimizing the retail, mail processing, and delivery networks; successfully securing congressional action; and overhauling its compliance regulations. Additionally, mailers said they would have an increased sense of security – and, therefore, would be more willing to do business with the Postal Service – if it were to develop and implement predictable pricing policy and rule changes, as well as reliable delivery service standards.

Recent actions with respect to Postal Inspection Service investigations and compliance have left a “bad taste” in the mouths of a large segment of high-volume mailers. Specifically, mailers stated that the techniques the Postal Service has adopted — using the Postal Inspection Service to enforce compliance — make mailers feel like “guilty parties” and further deteriorate their relationship with the Postal Service. Additionally, mailers feel that sometimes non-compliance was merely the result of a unique situation (such as the inability to change addresses without customers' consent or the need to protect an abused spouse's privacy), rather than the intent to avoiding making correct payments. The Postal Service's lack of understanding and inability to work with mailers on these situations reinforces an adversarial, rather than a collegial, business relationship.

Focus group participants overwhelmingly concluded that if the Postal Service wants to remain viable in the long-term and wants to keep their business, it will have to produce an alternative electronic service, namely a Postal Service-sponsored electronic mailbox. As one of the most trusted governmental entities, participants believe the Postal Service is in the best position to create such a service. Mailers communicated a strong desire to partner with the Postal Service in the development of a secure electronic mailbox and a willingness to share the results of existing research, provide information technology

resources to aid in the speed of development, and share the “postage” savings (contribute investment dollars) they would accrue from transitioning First-Class Mail bills, invoices, and statements to the electronic platform. Mailers, however, stressed that time is of the essence in this arena, so the Postal Service should act quickly to announce its intentions to enter this market.

Focus group participants agreed that the Postal Service’s future lies with online and electronic options, which is what the Postal Service should be investing in for its long-range survival. In short, the Postal Service should focus on becoming a 21<sup>st</sup> Century communications provider, not just the Postal (mail) Service. See [Appendix C](#) for details about the focus group discussions.

### **Suggested Strategies for Improving Mail Volume and Revenue**

During the course of these discussions, mailers and mail service providers suggested the following overall strategies for improving mail volume and revenue. To sustain operations in both the short- and long-term and continue to provide effective service to mailers and all postal customers, the Postal Service should:

1. **Heed mailers’ and mail service providers’ call for more effective customer communications** – The Postal Service should address the uncertainty and anxiety that mailers have about the longevity of the Postal Service, including its programs and initiatives.
2. **Work in partnership with various segments of mailers** – The Postal Service needs to understand the realities of compliance and develop a viable solution that does not penalize mailers for abiding by their industry’s legal requirements to use certain classes of mail. As discussed above, mailers feel that sometimes non-compliance was merely the result of a unique situation, such as a legal prohibition against the mailer changing a customers’ address without consent, rather than intentionally violating policies. The Postal Service should attempt to understand and work with mailers in these special circumstances to create collegial business relationships.

Additionally, the Postal Service should work with mailers to correct the negative image that has developed from past inconsistent application of compliance rules by different Postal Service personnel. Working with mailers to undo the collateral damage left in the wake of prior Postal Service actions could have a favorable effect on mailers’ senior management, which currently has a negative view of the Postal Service.

3. **Take actions to create greater certainty and stability in the Postal Service’s decisions and future operations** – The Postal Service should step in to facilitate better and more stable planning for mailers regarding plant consolidations, 5-day delivery, and reduced service standards. Mailers want time to plan for and implement these types of changes, as there is a direct cost to the mailers in responding to changes and backtracking by the Postal

Service on decisions, which will add unnecessary costs to doing business with it.

4. **Become the U.S. Communications Service** – The Postal Service still plays a vital role in transporting physical communications and there is opportunity for the Postal Service to reinvent its role in the transport of electronic or virtual communications. The next logical stage is for the Postal Service to harness the power of online communications mechanisms. The Postal Service should take advantage of mailers' willingness to invest both time and resources to develop a secure digital mailbox.

Time is of the essence on this initiative, as current electronic mailbox providers are pressuring large mailers to contract with them. The Postal Service will need to quickly announce its intention to enter this market before mailers make contracts and information technology changes that are difficult and costly to reverse. In fact, one mailer said that, as a result of the focus group discussion, he was going to postpone making a decision that week on the subject.

## Appendix A: The Postal Service's Financial Condition

### Background

The Postal Service has been facing a financial crisis for the last several years and its outlook is not expected to improve in the near future. In fiscal year (FY) 2011, the Postal Service posted a net loss of \$5.1 billion, which would have actually exceeded \$10.5 billion, had Congress not passed a last-minute measure to delay an annual payment to the federal government of \$5.5 billion.<sup>4</sup> The Postal Service has been unable to cut costs quickly enough to keep pace with declining mail volume and revenue or generate additional revenue to offset the loss. The Postal Service reduced operating expenses by 6.4 percent, from \$75.4 billion to \$70.6 billion, between FYs 2010 and 2011. However, the Postal Service's operating revenue decreased by 2 percent during this same period.<sup>5</sup>

The declining volume of First-Class single-piece mail has been particularly alarming, as it is the Postal Service's most profitable product and is decreasing at a rapid rate. Standard Mail is also growing at a slower pace than projected.<sup>6</sup> Three interrelated factors are causing the recent First-Class Mail volume loss: electronic diversion, weak economic activity, and new business practices.

***Three interrelated factors are causing the recent First-Class Mail volume loss: electronic diversion, weak economic activity, and new business practices.***

### The Postal Service's Financial Condition

The FY 2011 loss followed losses of \$8.5 billion in FY 2010, \$3.7 billion in FY 2009, \$2.8 billion in FY 2008, and \$5.3 billion in FY 2007. Congress also reduced the Postal Service's FY 2009 annual payment to the Postal Service Retiree Health Benefits Fund by \$4 billion; otherwise, the total loss for that year would have been \$7.7 billion.<sup>7</sup>

In its annual financial report for FY 2011, the Postal Service reported that it will not be able to avoid a cash flow shortfall.<sup>8</sup> The Postal Service also stated that it expects to default on the \$5.6 billion prefunding payment to the Postal Service Retiree Health Benefits Fund (the Fund) due by September 30, 2012, as well as the deferred payment from FY 2011, which is due by August 1, 2012.<sup>9</sup> Even if Congress were to eliminate the Postal Service's obligation to make the FY 2011 and 2012 payments into the Fund, the Postal Service will still reach the \$15 billion debt ceiling in October 2012, thereby exhausting its external funding ability.<sup>10</sup> With little time left to make significant changes before its financial obligations are due, the Postal Service is in a position where it could be forced to choose between defaulting on a mandated government payment, failing to

<sup>4</sup> U.S. Postal Service, *Report on Form 10-K*, page 15 (November 15, 2011).

<sup>5</sup> U.S. Postal Service, *Report on Form 10-K*, page 16 (November 15, 2011).

<sup>6</sup> U.S. Postal Service, *Report on Form 10-K*, page 17 (November 15, 2011).

<sup>7</sup> U.S. Postal Service, *Report on Form 10-K*, page 84 (November 15, 2011).

<sup>8</sup> U.S. Postal Service, *Report on Form 10-K*, page 6 (November 15, 2011).

<sup>9</sup> U.S. Postal Service, *Report on Form 10-Q*, page 7 (February 9, 2012).

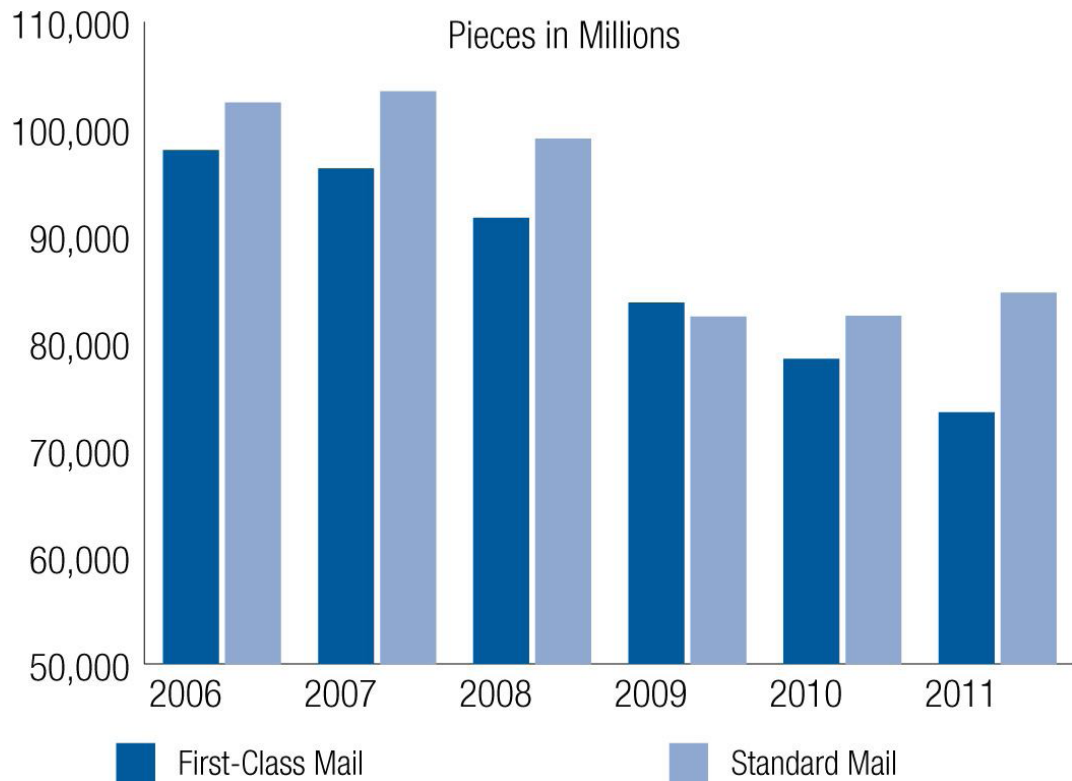
<sup>10</sup> *Ibid.*

pay its creditors, and failing to pay its employees. Each of these options carries its own set of consequences.

### Mail Volume Declines and Mail Mix

Total mail volume declined 1.7 percent between FYs 2010 and 2011, which included a First-Class Mail volume decline of 6.4 percent. Since its revenue peak in 2007, First Class Mail volume has declined 23.7 percent, with a revenue decline of 16.2 percent. Standard Mail® revenue also grew at a lower-than-expected rate of 2.9 percent from FY 2010 to FY 2011.<sup>11</sup>

**Figure 1: Trends in First-Class and Standard Mail Volume, FYs 2006 – 2011**



+

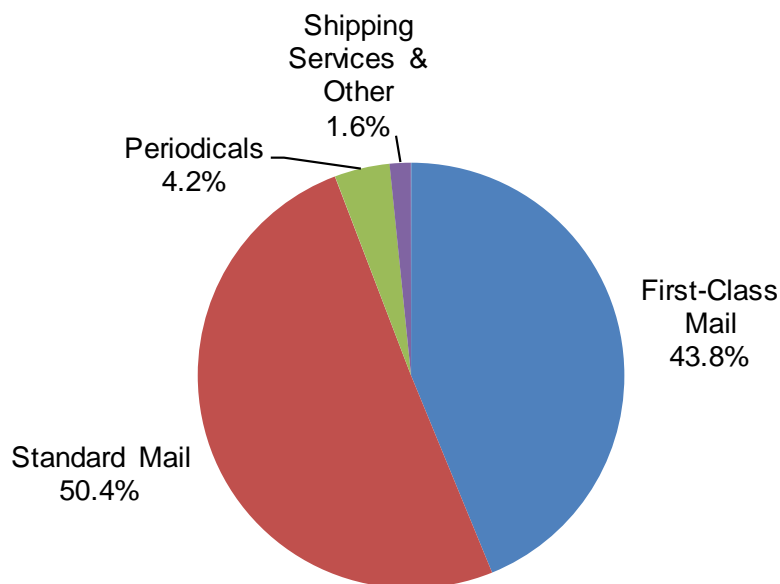
Source: U.S. Postal Service, *Report on Form 10-K*, page 18, 2011.

In FY 2011, First-Class Mail and Standard Mail were the two largest mail products, accounting for 94 percent of volume. First-Class Mail accounted for 44 percent of total mail volume, 49 percent of total revenue, and 67 percent of total contribution. During that time, Standard Mail received by households accounted for 50 percent of total mail volume, 27 percent of total revenue, and 24 percent of total contribution. The following pie charts break out total mail volume and revenue by product categories.

<sup>11</sup> U.S. Postal Service, *Report on Form 10-K*, page 17, November 15, 2011.

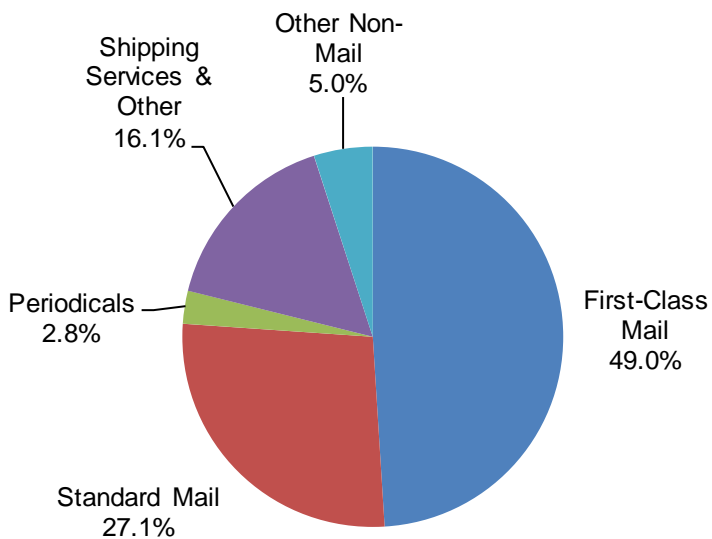


**Figure 2: The Mail Today – FY 2011 Volume by Mail Segment (168 billion)<sup>12</sup>**



Source: U.S. Postal Service, *Plan to Profitability: 5 Year Business Plan*, slide 8, February 16, 2012.

**Figure 3: The Mail Today – FY 2011 Revenue by Mail Segment (\$66 billion)<sup>13</sup>**



Source: U.S. Postal Service, *Plan to Profitability: 5-Year Business Plan*, slide 8, February 16, 2012.

<sup>12</sup> Volume includes total mail only, not ancillary and special services.

<sup>13</sup> Revenue includes mail and ancillary and special services.

Because First-Class Mail generates the highest contribution, its significant decline directly correlates to a significant decline in net profit. In addition to an overall decrease in mail volume, some of the First-Class Mail decline may be attributed to a shift from First-Class to Standard Mail.

Standard Mail volume surpassed First-Class Mail volume for the first time in FY 2005.<sup>14</sup> The Boston Consulting Group projected a rapid mix shift from very lucrative First-Class Mail to less-profitable Standard Mail.<sup>15</sup> A decreasing level of differentiation between Standard Mail and First-Class Mail has made it easier for mailers to switch to Standard Mail when First-Class Mail delivery is not required. One reason for this lack of differentiation is improvement in service. Interviews with postal experts in July 2011 suggest that, at that time, Standard Mail was receiving much better service due, in part, to excess capacity because of the decline of mail volume throughout the mail system. In some cases, by using drop ship services, mailers could get service levels equal to or even better than First-Class Mail, at greatly reduced prices.<sup>16</sup>

Even with an economic recovery, business mailers will use Standard Mail because of the lack of cost-justified differentiation in service relative to First-Class Mail. Slow employment growth will provide a small stimulus to First-Class Mail volume growth. The effects of this meager stimulus will be inadequate to offset the loss of volume to electronic media. First-Class Mail volume will continue to decline for the foreseeable future.

The Postal Service recognizes the permanent decline in mail volume and in its annual financial statement, stated:

“Volume and revenue continue to be lost to electronic alternatives and it is not expected to return because the movement constitutes a fundamental and permanent change in mail use by households and businesses.”<sup>17</sup>

The Postal Service’s financial dependence on First-Class Mail has been precarious for the last 16 years, as expanded use of the internet has made First-Class Mail less relevant to mailers. The focus group discussions with First-Class mailers and mailer service providers emphasized the point that, in order to remain relevant, necessary, and financially solvent in the long-term, the Postal Service must move toward and fully embrace electronic postal products.

---

<sup>14</sup> *Postal Service Revenue: Structure, Facts, and Future Possibilities*, page 4 (Report Number RARC-WP-12-002, dated October 2011).

<sup>15</sup> Boston Consulting Group, *Projecting US Mail Volumes to 2020*, page 2 (March 2, 2010), <http://about.usps.com/future-postal-service/gcg-narrative.pdf>

<sup>16</sup> *Postal Service Revenue: Structure, Facts, and Future Possibilities*, page 4 (Report Number RARC-WP-12-002, dated October 2011).

<sup>17</sup> U.S. Postal Service, *Report on Form 10-K*, page 33, November 15, 2011.

## Appendix B: Objective, Scope, and Methodology

We commissioned the Colography Group to assist in planning and coordinating with the focus groups, securing an independent moderator, and managing discussion results.<sup>18</sup>

The focus groups consisted of three panels, one on each of 3 days from January 24-26, 2012, in Ft. Lauderdale, FL. Participants on 2 of the days represented high-volume First-Class mailers in the fields of financial services, telecommunications, health care, insurance, utilities, and entertainment. Participants on the 3rd day represented mail service providers serving high-volume First-Class mailers. Most participants were senior level executives with a long and varied tenure in the mailing/communications industry and within their own companies.

Major topics of discussion included:

- The overall communication landscape within the companies.
- Current First-Class Mail usage and motivations.
- The companies' current communications strategies.
- Expected future First-Class Mail usage.
- Participating companies' potential response to changes in the current pricing structure.
- The perceived role for the Postal Service in providing electronic mailings.

We conducted this review from January through April 2012, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We did not discuss our observations and conclusions with management prior to the release of this report.

---

<sup>18</sup> The Colography Group is a research and consulting firm that specializes in providing market intelligence to transportation companies, multinational shippers, legal and financial institutions, and governments in the U.S. and abroad.

## Appendix C: Focus Group Discussion Details

The focus group discussions covered three main topics: (1) current and projected First-Class Mail usage, (2) future expectations for First-Class Mail usage and potential opportunities for the Postal Service, and (3) the perceived role of the Postal Service in providing electronic mailings. This appendix provides a summary of focus group discussions in each of these areas.

### Current and Projected First-Class Mail Usage

Use of First-Class Mail has changed over the last several years, which is a primary reason for mail volume and revenue decline. Additional challenges to First-Class Mail usage have perpetuated this decline, which leaves the Postal Service with only a handful of options to slow the decline.

### First-Class Mail Composition and Trends

#### *Transactional Mail*

The majority of First-Class Mail is transactional mail, including bills, invoices, statements, and incoming payments. Ten years ago, nearly 100 percent of outgoing transactional mail was sent via First-Class Mail.

Focus group participants reported that today, between 70 and 80 percent of outgoing transactional mail is sent via First-Class Mail, with the remainder being sent or retrieved electronically.<sup>19</sup> According to the focus group participants, outgoing transactional mail accounts for upwards of 90 to 95 percent of their total First-Class Mail volume. Other financial communications, such as dunning notices, rebates, and legal documents, make up the remaining portion.

Focus group participants indicated that, generally, they continue to use First-Class Mail for transactional purposes because they are legally required to do so. Use of First-Class Mail for other purposes, particularly for acquisition or retention purposes, is more discretionary and dependent on the circumstances, such as the nature of the intended recipients, the size of the mailing, or the amount of postage.

On a per-piece basis, focus group participants estimated that outgoing transactional mail costs between \$0.45 and \$0.50, with postage accounting for approximately 75 percent (\$0.36 to \$0.37 cents) of the cost. While outgoing electronic transactional mail typically follows the same preparation path, focus group participants estimated that the per-piece price for electronic bills is between “pennies” and \$0.13. In any case, electronic bills are perceived to be a fraction of the cost of paper bills.<sup>20</sup>

---

<sup>19</sup> These figures are based on responses from focus group participants only; they are indicative of the direction of trends, but may or may not be representative of the universe of First-Class mailers generally.

<sup>20</sup> The infrastructure investments required to produce and store electronic bills are neither well-documented nor adequately allocated. Focus group participants assumed that cost savings associated with electronic bills, however, would likely include the printing, materials, postage, and possibly labor.

According to the focus group participants, transition to electronic payments – bill payments from the mailers’ customers to the mailers – has been more rapid. Per the focus group participants, incoming payments sent via First-Class Mail has dropped to as low as 40 to 50 percent of the total payments they receive. Consumers are using a variety of payment methods, especially online banking or direct electronic payment through the company’s website, rather than sending in checks via First-Class Mail.

### ***Marketing Mail***

Over the past 10 years, mailers have shifted from using First-Class Mail for marketing purposes to using Standard Mail, according to participants representing both mailers and mail service providers. While participants largely identified this as a cost-reduction measure, they also indicated that the value of First-Class Mail for marketing purposes has changed – First-Class Mail no longer has the cachet it once had.

The economic downturn and earnest desire to reduce postage costs have made it mandatory for non-transactional First-Class Mail users to make the “business case” for using First-Class Mail instead of Standard Mail. Mailers are able to accommodate this change by making internal mail preparation and production modifications to allow for longer delivery times.

### **Challenges to First-Class Mail Usage**

Among focus group participants, there was universal agreement that the two main factors propelling diminishing First-Class Mail for transactional usage are customer preference and company cost savings. However, other internal and external challenges drive customers away from First-Class Mail toward other modes of communication, including electronic and less expensive mail classes. Most focus group participants agreed that the combination of these forces will contribute to at least a steady, and potentially precipitous, decline in First-Class Mail volume in the next 3 to 5 years.

**External Challenges** – The most notable external challenges driving customers away from First-Class Mail, according to focus group participants, include:

- **Concern with the Postal Service’s future status:** Lack of congressional action, backtracking on previous action, and the political and regulatory environment under which the Postal Service exists, makes large volume mailers uncomfortable and reluctant to respond to or plan new mail initiatives.
- **Challenges with running an efficient business:** The Postal Service struggles to respond to business setbacks or market changes in a timely manner the way the private corporations can, in part because of legal, regulatory, and congressional constraints. Thus, the Postal Service has not been able to optimize its retail network, close plants, reduce delivery days, or control pricing, like other businesses. These pressures and constraints make mailers and mail service providers question whether the Postal Service can survive in the long-term.

- **The need for predictable policy and rule changes:** Focus group participants expressed reluctance to implement rule and policy changes – even those that might be beneficial to them – because they were concerned they would evaporate or change shortly after implementation. According to some large mailers, it takes several months to change ingrained behaviors and even longer to plan for and execute new policies and procedures in their own organizations, as these changes take time and money. Mailers also said they were slow to take advantage of new programs, such as the “second-ounce rides free” incentive, for fear that it will disappear the next year once their internal customers have grown accustomed to the “new mail.”

#### **Repercussions of Postal Service compliance and “revenue protection”**

**initiatives:** Recent actions with respect to Postal Inspection Service investigations and compliance have left a “bad taste” in the mouths of a large segment of high-volume mailers. Focus group participants contended that revenue collection actions have spurred mailers to divert as much mail as possible and to engage in as few mailings as possible in order to avoid the headaches that can result from the repercussions

*Revenue collection actions have spurred mailers to divert as much mail as possible to avoid the headaches that can be caused from the repercussions of non-compliance.*

of non-compliance. A loss of confidence in their mail being accepted as prepared and charged accordingly, compounded by the inconsistent enforcement standards, has left some wanting to avoid the issue altogether. Focus group participants stated that the feeling of being treated as “guilty parties” rather than partners is very much evident. Mailers feel that sometimes non-compliance was merely a result of a unique situation (such as the inability to change addresses without customers’ consent or the need to protect an abused spouse’s privacy), rather than intentionally avoiding correct payments. The Postal Service’s lack of understanding and inability to work with mailers on these situations reinforces an adversarial, rather than collegial, business relationship.

- **Rising postage costs and changing service performance:** Mailers claim that discount levels that the highest volume First-Class Mailers receive today are significantly smaller than they were 10 years ago. Concurrent with higher postage is the prospect of diminished service standards. Any other business would typically reward its best customers – not with more regulation and more work, as is the case, but with greater price reductions and better performance as volume increases.

**Internal Challenges** – The most notable internal challenges driving customers away from First-Class Mail, according to focus group participants, include:

- **Mailers’ view of the Postal Service:** Based on the perception of significant risk and the cost of compliance in dealing with the Postal Service, senior executives stated that they and their leadership would rather use other forms of communication, if at all possible. The cost of postage is highly visible, most often accounting for the

largest share of mailing budgets. Postage is a real, unavoidable out-of-pocket cost that can only be reduced as the volume of mailings is reduced. The cost of postage, coupled with unexpected compliance costs and inconsistently applied mail enforcement standards, have left mailers vulnerable to unacceptable risks. Thus, mailers indicated that they would prefer to invest capital in electronic-related assets, rather than upgrading or maintaining mailing equipment.

- **Shift to less expensive mail classes and/or fewer mailings:** Aside from mail that is legally required to be sent via First-Class Mail, many pieces are now being sent Standard Mail, including marketing pieces. Additionally, stand-alone marketing pieces might now be placed as inserts in other pieces of First-Class Mail to reduce overall mail volume and total package costs.
- **Push for e-communications:** All mailers and mail service providers are exploring numerous ways of using electronic communications, as they are viewed as significantly less expensive than traditional paper mail and customers often prefer an electronic communication method. Top management has already made the decision, taking into account customers' preferences, to move everything to electronic means as quickly as possible. The driving force behind the migration from First-Class Mail to electronic is much broader than the question of whether to use the Postal Service – it is based on an overall corporate goal to implement electronic services in all areas of the company.
- **Sustainability initiatives:** Several participants indicated that their companies are currently engaged in sustainability/green initiatives and increasing paperless electronic communications is consistent with that goal.
- **Reevaluations of short- and long-term postal investments:** Many companies are questioning whether or not it is worth investing in new First-Class Mail mailing equipment with a 5- to 10-year life span and determining the point at which they might transition internal First-Class Mail production to a third party. Engaging in this type of planning now calls into question the speed with which First-Class Mail pieces will diminish. In the interim, some mailers may move their First-Class Mail volume to mail service providers, rather than invest in new equipment; however, this also reduces their capital investments in equipment that will commit them to paper mail in the long term.

## **Future Expectations for First-Class Mail Usage and Potential Opportunities for the Postal Service**

All focus group participants agreed that their organizations will likely remain in the mail business for the foreseeable future. Mail volume will continue to diminish, but there is an expectation that some “residual” First-Class Mail will continue to exist, as there will always be some customer “holdouts” who want to continue receiving paper mail. While the advent of 100 percent electronic communication is not imminent, all focus group participants envisioned a point in the future when the continued use of paper communications, and thus mail, will cease to make economic sense. Consequently, how outgoing First-Class Mail is prepared and deposited in the mailstream is likely to change once volume declines to a point where it is no longer efficient to run mail preparation departments internally.

*All focus group participants envisioned a point in the future when the continued use of paper communications, and thus mail, will cease to make economic sense.*

The decision of whether companies will increasingly rely on electronic communication has already been made at the most senior levels of corporate management. The question is no longer “if” but “when” and “how” this change will occur. Therefore, all focus group participants believe that outgoing and incoming transactional First-Class Mail will continue to decline.

### **Anticipated Rate of Decline**

There was some disagreement among focus group participants as to the speed with which companies will adopt electronic options. Some argue that it will be slow and steady, while others contend that it could be swift and dramatic, especially if security protocols, privacy concerns, legal constraints, and electronic enforcement provisions are adequately addressed.

#### **Slow and Steady**

Those focus group participants that believe the decline will be slow and steady stated they believe that outgoing and incoming electronic adoption has reached a plateau. They believe that natural maturation of the population and internal organizational e-initiatives will continue to fuel the transition to electronic means, but the annual rate of the change has tapered to single digits.

#### **Swift and Dramatic**

The focus group participants who believe the decline will be swift and dramatic forecast that “major triggers” are likely to hasten the decline in the next few years. Triggers or precipitous events may include removing First-Class Mail legal and Postal Service requirements, having a “trusted” and well-known secure electronic mailbox provider available, experiencing another anthrax incident, and/or having significant congressional



action with respect to the Postal Service take place, such as a change in the number of delivery days. They believe that any of these could spur the rapid adoption of electronic alternatives.

Nearly every participant imagines even more dramatic reductions in their outbound mail if laws are changed with respect to First-Class Mail. This could include the rapid adoption of Standard Mail for all, or the vast majority, of transactional pieces.

### [How the Postal Service Could Slow the Rate of Decline](#)

Some mailers and mail service providers indicated that the Postal Service's introduction of more creative, integrated mail and/or electronic applications could slow the pace with which First-Class Mail volume declines. Applications designed to make mail work in concert with technology, such as Quick Response (QR) codes, demonstrate that mail can be a powerful tool in generating revenue. There is little interest in merging First-

*Mailers would rather have the Postal Service improve its working relationship with them than make mail class changes.*

Class Mail and Standard Mail or attempting to implement greater distinctions between these two classes. Focus group participants did not see either of these options as sufficient to stave off further First-Class Mail declines.

Instead, participants indicated that they would rather have the Postal Service improve its working relationship with them than make mail class changes. Specifically, they identified three operational improvements the Postal Service needs to make:

- Get its house in order, including closing post offices, optimizing the retail network, taking on the unions, instituting layoffs, and imposing other cost reductions.
- Make regulatory changes, including moving First-Class Mail from the market-dominant category to the competitive class and getting Congress to act on the Postal Service's financial crisis in order to remove uncertainty.
- Review and potentially overhaul compliance regulations, including developing a business case that proves that the cost of compliance is worth the investment and potential revenue protection. Also, the Postal Service should streamline forms, reduce staff accordingly, and/or train them to be more consistent in their interpretation and enforcement of compliance rules.
- In short, mailers and mail service providers want it to be easier to do business with the Postal Service. They want the Postal Service to be more proactive about gaining a more complete understanding of commercial business operations and industry-specific rules. In turn, Postal Service rules and regulations should better reflect operating realities and not arbitrary compliance requirements.

## Perceived Role for the Postal Service in Providing Electronic Mailings

All focus group participants agreed that the Postal Service's future lies with online and electronic options, which is what the Postal Service should be investing in for its long-range survival. In short, the Postal Service should focus on becoming a 21<sup>st</sup> Century communications provider, not just the Postal (paper mail) Service. Within the

***Mailers believe that the future of First-Class Mail lies in the Postal Service's ability to provide this electronic mailbox – and to do so soon.***

postal industry, there is a definite need for a secure, electronic digital mailbox for e-bill presentment and, for some, electronic payment. Currently, there is no reliable way for consumers to store their bills digitally without having to invest the time to set up their own

household management systems or importing data into some unfamiliar programs. Mailers believe that the future of First-Class Mail lies in the Postal Service's ability to provide this electronic mailbox – and to do so soon.

## Vision for Electronic Mailbox

Mailers and mail service providers expressed a strong need for a reputable organization to provide a secure "virtual" mailbox that is akin to the physical mailbox. Most envisioned that it would only receive First-Class Mail, although others believed it could receive marketing communications if separated from bills and other "important" communications. With its position as one of the most trusted organizations, mailers and mail service providers view the Postal Service as the best, and really only, organization positioned to create an electronic mailbox that would be widely accepted and trusted. Focus group participants indicated they would want the electronic mailbox to be aligned with a physical address and the operating vendor to verify the authenticity of the mailbox holders – that is, give them all of the legal protections associated with the physical mailbox today, as well as the enforcement authority for "misbehavior." Ideally, the secure electronic mailbox would be an end-to-end e-bill and/or e-pay solution, enabling consumers to retrieve their bills and pay them using a single log-in and password for consumer convenience and ease of use. Some mailers like this "two-way" solution, while others do not want the Postal Service to be part of the electronic payment process. This is particularly true for the banking participants who feel that their current operations are not only adequate, but likely to be superior to what the Postal Service would offer. These details could be worked out as development proceeds.

***With its position as one of the most trusted organizations, mailers and mail service providers viewed the Postal Service as the best, and really only, organization positioned to create an electronic mailbox that would be widely accepted and trusted.***

Mailers would be instructed by their customers to send their bills to this digital mailbox. Consumer adoption would be predicated on having all or most of their billers (electric company, telephone company, credit cards companies, banks) willing to send their bills electronically via this source. By doing this, mailers believe they will get over the critical

hurdle of electronic bill presentment because one source can be used by their customers for all of their bills, rather than having to go to various websites, as customers currently do.

### Advantages of Postal Service Providing Electronic Mailbox

The Postal Service offers many more advantages than lesser-known companies, such as Zumbox or Doxo, including:

- **Trustworthiness** – the Postal Service brand connotes trustworthiness to the American public.
- **Security** – the Postal Service’s current security protocols and law enforcement capabilities could be transferred to the virtual mailbox.
- **Address authority** – currently the Postal Service is perceived as the only authoritative source for physical addresses and could easily become the only authoritative source for secure electronic addresses.
- **Mail protection** – If the Postal Service were able to provide a means of communicating with recipients electronically, regardless of physical location or address, it would assist healthcare and insurance firms to satisfy their regulations and reduce the costs associated with non-deliverable mailings that are returned to them.

### Potential Mailer Coordination

Mailers communicated a strong desire to partner with the Postal Service in the development of a secure electronic mailbox. They expressed a willingness to share the results of existing research, provide information technology resources to aid the speed of development, and share the “postage” savings (contribute investment dollars) they would accrue in transitioning First-Class Mail bills, invoices, and statements to the electronic platform.

In part, mailers’ desire to have a Postal Service-provided digital mailbox stems from the fact that the Postal Service would have “instant credibility” and could assume some of the risk with transmissions (in the same way they do for physical mail). Moreover, they believe that companies currently offering electronic mailbox options have some limitations.

Although Postal Service ownership of this electronic mailbox is especially important to mailers and mail service providers, they believe it is best that the Postal Service partner with a more tech-savvy organization that has knowledge and experience in developing and implementing such technology.