

Testimony of

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Good morning, Mr. Chairman and members of the Subcommittee. Thank you for the opportunity to testify on the revenue generation efforts of foreign posts.

Introduction

The US Postal Service today faces perhaps the greatest financial challenge in its history. Mail volume and associated revenue is in decline, impacted by the economic downturn, dramatic changes in communications technology and demographic and generational shifts. I personally do not believe that that volume will come back as the economy improves, certainly not to the levels necessary to support the costs of an ever-growing delivery network.

That situation will eventually prompt another look at Universal Postal Service in this country and how it will be funded. The Postmaster General, in his October 8 speech to the National Press Club outlined the problem and called for a national discussion on the future of mail. During that session he also discussed the need for new flexibility in the area of revenue generation. This hearing is, at least in part, a response to that call.

Within the confines of the authority they currently have, the Postal Service team has done a heroic job of attacking and bringing down costs as volume and revenues have fallen. At the same, time they have launched a number of revenue initiatives, including a “summer sale”, flat rate parcel services, and greeting card alliance with Hallmark. I understand there is now a push for a “winter sale” as well. At the same time, the Postal Regulatory Commission seems to have applied a “light hand” in its efforts to support what USPS is trying to do. This initiative and cooperation is both commendable and important as USPS goes forward.

The question at hand is, what can the USPS do on the revenue side, and how might the Congress help? I have been asked to comment on the efforts of foreign posts to generate revenues from non-postal sources and what lessons we might take from those experiences. Let me get on with that.

What Are The Foreign Post Revenue Initiatives?

Most Posts in the industrialized, developed world have made significant efforts over the last 20 years to expand their revenue bases beyond traditional mail services. Those Posts have been “corporatized”, a few have been “privatized”, most of their postal markets either have been or shortly will be “liberalized” and virtually all have very substantial commercial freedom. The efforts to generate new revenues, particularly from non-postal sources, have been driven by the threat of lost volumes from looming competition and technology substitution. What they have done specifically, can be lumped into a few common areas. They include:

- ***Logistics services – Shipping, warehousing, fulfillment, supply chain services, etc.***
- ***Financial services – retail and consumer banking, mortgages, savings and insurance.***
- ***Express and parcels – most posts previously offered some form of these services, but a number have dramatically expanded their efforts through acquisition, alliances, cross-border and global expansion.***
- ***Electronic services – Hybrid mail, epost, ISP, broadband, certification services, etc.***
- ***Retail services – virtually all posts, including USPS, have very large brick-and-mortar retail networks, and most have been a huge cost drain on the post. Foreign posts have tried to leverage the breadth and ubiquity of these networks by offering retail postal products, government and agency services, a variety of telecom products and services, as well as a host of other products to offset the cost burden.***
- ***IT services – at least two posts have created IT service companies, to provide their internal IT requirements and to offer those services in the commercial market.***
- ***Postal “value chain” expansion – a number of posts have moved beyond the traditional collection, transport and delivery of mail to offer ad mail***

support services, traditional “letter shop” services”, printing services, document management and in-house mail management.

The Results

The “results” vary from post to post, but there are some real success stories. Here is a sampling of posts and their estimated share of total revenues from sources other than traditional mail services. Some had preexisting businesses, like financial services, before the recent drive for new revenue.

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| <i>Australia</i> | <i>43%</i> | <i>Italy</i> | <i>72%</i> |
| <i>Austria</i> | <i>24%</i> | <i>Japan</i> | <i>93%</i> |
| <i>Belgium</i> | <i>21%</i> | <i>Netherlands</i> | <i>60%</i> |
| <i>Canada</i> | <i>20%</i> | <i>New Zealand</i> | <i>16%</i> |
| <i>Finland</i> | <i>47%</i> | <i>Spain</i> | <i>6%</i> |
| <i>France</i> | <i>44%</i> | <i>Sweden</i> | <i>11%</i> |
| <i>Germany</i> | <i>76%</i> | <i>Britain</i> | <i>17%</i> |

United States *17%*

The more successful posts, in terms of year to year total revenue growth, profitability, consistency, and revenue and cost per employee, are those that have adopted a more aggressive Strategic competitive position. These include in their general order of success:

The Global Players – Germany and the Netherlands, as well as the major non-postal competitors, UPS and FedEx.

The Regional Diversifiers – Austria, Finland, Sweden and France.

The Special Service Providers – Australia, New Zealand, Italy.

The National Optimizers – Belgium, Canada, Spain, Japan, Britain and the US.

Lessons Learned/Success Factors

So what might we learn from the experiences of these foreign posts? From observation of the international postal market place over the last 10 years, as well as a number of conversations with the leadership of these posts, there are some common characteristics among the more successful of the “revenue generators”:

- *There is real clarity around strategic direction and a narrow focus on the specific markets and segments they want to target. They know what they want to do and they do it.*
- *There is a strong innovation agenda within the post and a forward looking culture that embraces change. Innovation is an expectation within the organization.*
- *A positive customer experience is a real differentiator from the competition.*
- *The posts have the ability to recruit top talent and many of the key players and innovators have come from outside the traditional postal experience.*

These are conditions that are created largely by the management of the post and, for the most part, within the current capability of the USPS management.

Equally important, however, is the set of conditions put in place by the government and/or the regulatory authority.

- *The legal framework within which the public postal operator conducts business, at least among the more successful foreign posts, provides the commercial freedom of action necessary in a competitive market. Usually that includes the freedom to enter and exit markets and to operate as any*

private entity would, provided that the Universal Service Obligation is met.

- *The Regulator usually has a light and supporting hand, with its focus being on Universal Service issues, the “reserved” area and competition. There are exceptions, however.*
- *There is little political interference in basic business decisions of the post as long as they are made within the legal framework provided.*

Final Thoughts on the US Situation

Mr. Chairman, members of the Subcommittee, there are two other important factors to keep in mind in a discussion of revenue initiatives and the authority or flexibility that USPS has under the law. The first of these is the challenge of “scale”. The problem USPS faces today is measured in Billions of dollars. Finding new sources of revenue for USPS is important, but a thousand revenue projects worth \$1 million each, will generate \$1 billion. Or make it 10 projects worth \$100 million! Under the current statute, I don’t think I have heard of initiatives approaching anything like that. To have a real impact, we will have to “think big”.

The second issue is even more challenging. Unlike most of the posts I have talked about here today, there is a very strong philosophical aversion in this country to a government entity competing in private markets, with goods and services that are already available from private sources. In the past, when USPS has attempted to offer such services, there has been very strong and noisy resistance from those who see themselves in competition with the postal offering and eventually USPS will hear from some of you on the issue. I do not see that condition changing, simply because the postal problem is bigger today.

Given these two challenges, whatever revenue efforts USPS undertakes outside the traditional postal arena, will probably have to involve partnerships and alliances with private entities, where both parties can leverage the strengths of the other. In the case of the Postal Service, they have geographic reach with their retail network and they touch virtually every home in the country through

their delivery network. Opportunities might include governmental and agency services, expanded and partnered delivery options, expanded financial services availability, some role in emergency services, and a link between the ubiquitous physical presence of the USPS and emerging communications technologies and services. In any event, this will require a major effort on the part of the postal service to bring the advantages of a partnership with the postal service to the attention of potential partners.

Finally, having followed the 10-year discussion and debate that led to the passage of the Postal Accountability and Enhancement Act of 2006, I am not optimistic about the governmental conditions described previously for foreign posts, coming about anytime soon in this country. Therefore, a lot of what I have described about revenue generation by foreign posts is interesting, but unlikely in this country.

Again, thank you, Mr. Chairman, for the opportunity to testify. I will be happy to answer any questions.