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Observations On Sales Of Postal-Related Products And Photocopy Services B-114874

United States Postal Service

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

OCT. 10, 1974

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ABBREVIATIONS

GAO	General Accounting Office
SCF	Sectional Center Facility

COMPTROLLER GENERAL'S
REPORT

OBSERVATIONS ON SALES OF
POSTAL-RELATED PRODUCTS
AND PHOTOCOPY SERVICES BY
THE U.S. POSTAL SERVICE 52
B-114874

D I G E S T

WHY THE REVIEW WAS MADE

The Postal Service in January 1972 began selling postal-related products and providing photocopy services in post office lobbies. It has the authority to do so under the Postal Reorganization Act.

The size of this program is small compared with revenues generated by other Postal Service programs.

For fiscal years 1974-76, the Service estimated that sales of about 15 postal-related products would gross revenues of about \$1.7 million, \$2.4 million, and \$3.2 million, respectively, and that photocopy services would gross revenues of about \$500,000 annually.

Committees and Members of Congress have expressed concern about this program's competing with stationery stores that sell the same or similar products and about its efficiency and implementation.

Several Senators and Congressmen, as well as the Chairman, House Committee on Post Office and Civil Service, have requested GAO's observations on this program. GAO, as requested, did not ask the Postal Service to review or comment formally on this report but did discuss it with Postal Service officials, who agreed with the accuracy of the facts presented. GAO's review did not include philatelic items.

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FINDINGS AND CONCLUSIONS

Competitive aspects

Because of its size and Federal charter, the Postal Service enjoys several potential competitive advantages the private sector cannot match. (See p. 9.)

Competitors recognize these possible advantages and are concerned that the Service is using them to compete unfairly. (See p. 10.)

Postal Service officials, on the other hand, claim that the sale of these products offers benefits to the Service and its customers. (See p. 11.)

GAO, however, could not quantitatively establish the extent of adverse impact, if any, on the private sector as a result of this program.

Need for management improvements

GAO's review showed that:

--There were variances in management emphasis on the sale of postal-related products between and within postal regions, primarily because of a lack of understanding of program purposes, goals, and objectives. (See p. 14.)

--Neither total cost nor profitability for the entire program could be determined. (See p. 15.)

--Promotional emphasis given the products varied widely between and within all five postal regions because of a lack of clearly defined goals and objectives and an absence of central planning, control, or guidance. (See p. 17.)

The sale of photocopy services apparently was profitable but was also being administered differently by each region. As a result, the emphasis placed on this service and contracting procedures varied widely.

These variances and the general lack of control have, in certain instances, resulted in practices at some post offices which were not authorized by headquarters officials and which were interpreted by stationers as unfair competition.

Neither impact nor market studies had been made to determine whether the (1) program adversely impacts the private sector and (2) products are accepted, needed, and salable nationally.

RECOMMENDATIONS

The Postmaster General should:

- Conduct studies to determine adverse impact, if any, on stationery stores selling the same or similar products. (See p. 13.)
- Conduct market studies to determine the acceptability of postal-related products.
- Complete cost studies to determine the program's profitability, considering both fixed and variable costs.

--Refine the reporting system to provide more timely and accurate information for making cost analyses and management decisions.

--Provide more definite guidelines and improve communications to the regions as to the goals and objectives of the program. (See p. 19.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Postal Service on June 7, 1974, issued a new policy which (1) froze the number of types of postal-related products which could be sold, (2) limited promotional activities to post office lobbies, and (3) provided for the collection of an amount equal to the sales tax in the area. (See p. 11.)

Postal officials stated, however, that other products may be sold in the future as long as they relate to improving mail service.

Postal officials believed this policy statement should result in better program control and, if properly followed, should correct or minimize the problems that GAO noted.

They said also that this was a first step in providing central direction and control and that additional steps would be taken to correct the management deficiencies noted in this report.

Also, the Service is making a detailed cost analysis of the program to identify all costs and revenues associated with selling postal-related products to determine the profitability of the products. (See p. 18.)

GAO believes that the new policy does not address the management weaknesses discussed in this report or greatly change the product line being sold. Unless the

communications and information systems are improved and provision made for followup to determine compliance, the policy will have little effect.

CHAPTER 1

INTRODUCTION

The Postal Service, as part of its continuing effort to improve mail service and to assist it in attaining self-sufficiency, began a program in January 1972 to sell certain postal-related products and to provide photocopy services. The planned benefits of this program are to:

- Generate a profit which will assist in reducing the postal deficit.
- Provide a service and convenience to the postal customer in properly preparing packages and letters for mailing.
- Expedite the handling and processing of mail by, among other things, reducing parcel damage, saving postal clerk time, and reducing the number and the amount of letters with improper postage.

The relative size of this program is small compared with revenues generated by other Postal Service programs. For fiscal years 1974-76, the Service estimated this program would generate gross revenues of about \$1.7 million, \$2.4 million, and \$3.2 million, respectively, for about 15 postal-related products and that photocopy services would gross about \$500,000 annually. The products are sold in most of the 12,750 first- and second-class post offices as well as in the 36 postal stores (see appendix) throughout the country. The Service plans to establish an additional 64 postal stores by 1979.

The Postal Reorganization Act (39 U.S.C. 101, supp. II, 1972) provides the legal authority for the sale of these products.

Members of Congress have expressed concern that this activity may be impacting on the private sector, namely stationery stores that sell the same or similar products. Congressional concern has also been expressed about the efficiency of the program and its implementation.

A list of the postal-related products, their respective selling prices, and pictures of several products being sold at the time of our review follows. Our review did not include philatelic items--another postal related product--because there was no apparent congressional concern about the sale of these items.

Products sold	Prevailing price	Regions				
		Western	Southern	Central	North-east	Eastern
Stamp affixer (note a)	\$ 9.95	<u>b</u> /X	X	X	X	X
Secretariat (note c)	29.95		<u>d</u> /D			
Mail center (note e)	59.95		D			
Desk scales	9.95	X	X	D	D	X
	4.95	X				
Pocket scale	2.00	X	X	X	D	X
Self-inking stamper	2.85 to 3.35	X	X		D	D
Ink for stamper	.80	X	X		D	D
Tray for stamper	.50	X	X		D	D
Envelope sealer	1.19	X	X		D	D
Padded mailing bags (note a)	.20 to .40	X	X	X	X	X
Clasped enve- lopes (note a)	.08 to .15	X	X			X
Mailing tubes (note a)	.65 to .75		X			
Corrugated boxes (note a)	.50 to 1.50	X	X	<u>f</u> /T	X	D
Packing ma- terial (piece)	.05 to .07	X	X	T		
Wrapping paper (piece)	.05		X	T		
Tape (note a)	.50 to .80	X	X	T		
Twine	.59		D	T		
Labels	.30		X	T		
Postal jewelry (note a)	Range to 10.00		D			
Miscellaneous (prints, mats, medals, pens, etc.)	Range to 12.00		D		D	
Parcel preparation kits (note a)	1.25		X	T	D	

a/ Product being sold comes in a variety of types and sizes.

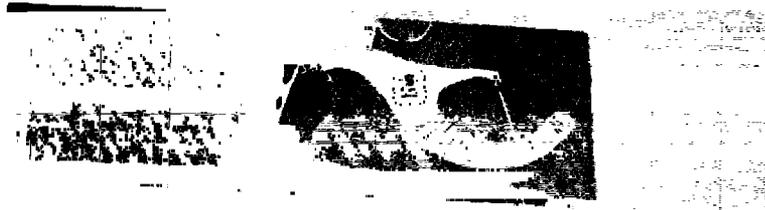
b/ X indicates product is being sold.

c/ Contains a stamp-affixing machine together with a letter opener, envelope sealer, and a storage space to hold a rubber stamp and envelopes.

d/ D indicates product has been or is being discontinued.

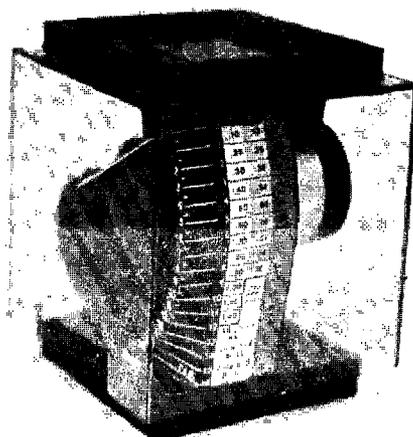
e/ Contains two stamp-affixing machines (airmail and regular mail), a desk scale, a letter opener, an envelope sealer, and two drawers to hold cash and extra stamps.

f/ T indicates product is being tested.



POCKET SCALE

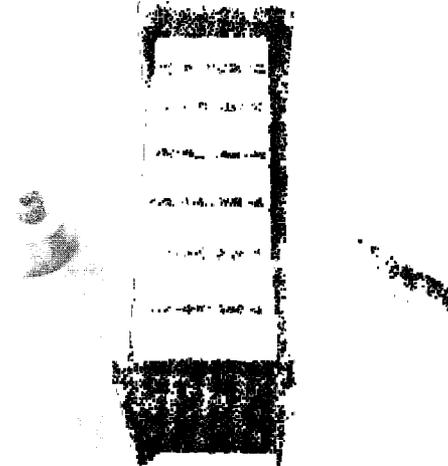
DESK SCALE



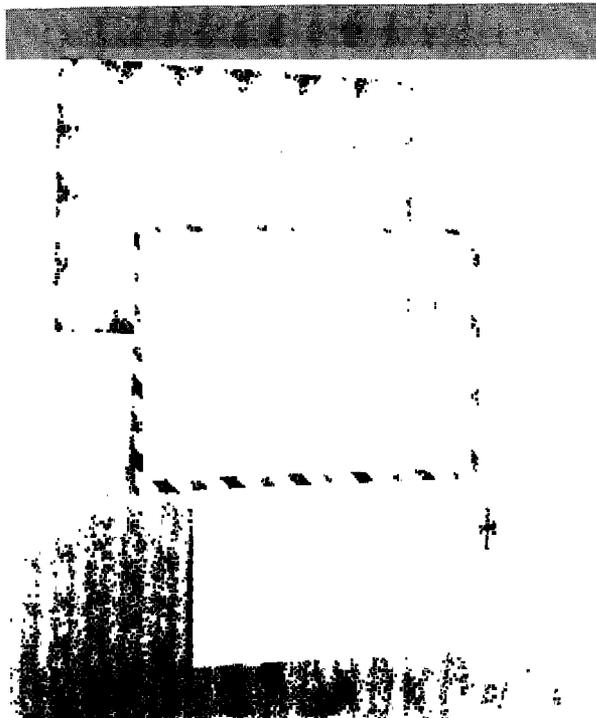
DESK SCALE



STAMP AFFIXER



SELF-INKING STAMPER,
INK AND TRAY

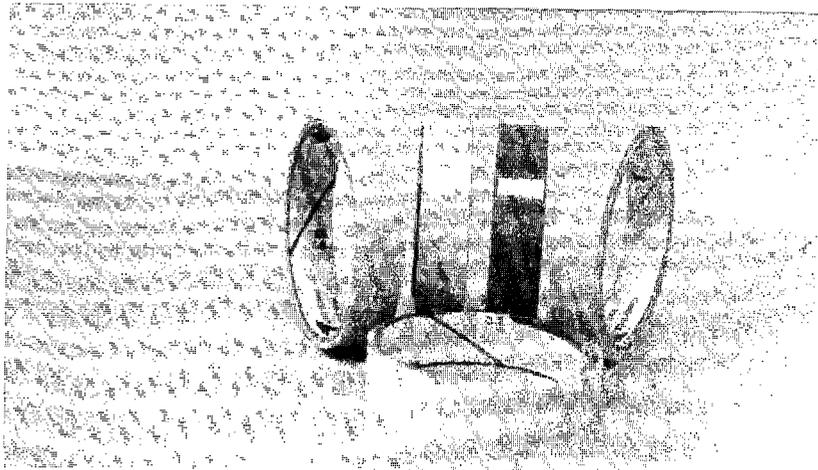
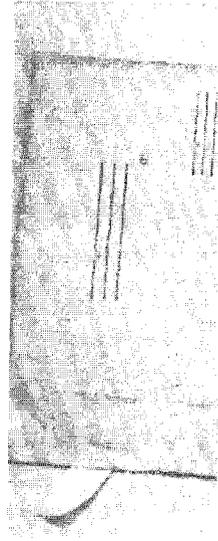


CLASPED ENVELOPES

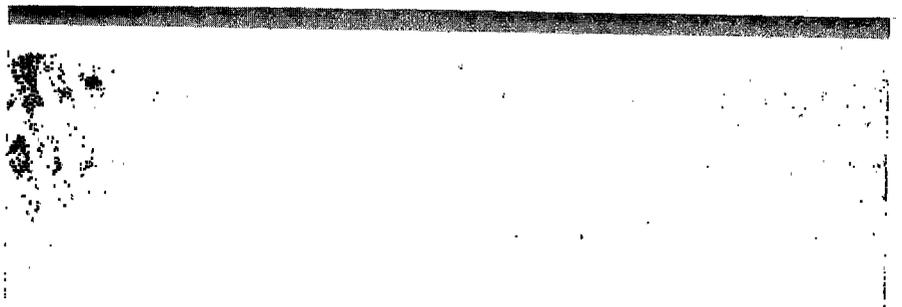


ENVELOPE SEALER

PADDED MAILING BAGS



TAPES



PACKING MATERIAL

CHAPTER 2

CRITERIA AND REVENUES

POSTAL-RELATED PRODUCTS

The Postal Service has established guidelines which specify the criteria a product must meet before it may be sold. These criteria provide that a product must:

- Improve mail service by improving the speed of mail processing, reducing damages, and making it easier and more convenient to use the mail system.
- Provide significant net revenues to the Postal Service or reduce costs, or both.
- Satisfy postal customer needs as set forth by the Postal Service while complying with the acts of the Congress.
- Meet all local standards and legal requirements in the area where the product is sold.

In addition, these guidelines provide that the product must not compete "at an advantage" with the private sector in terms of price or subject the Service to an unacceptable level of criticism from the public or the Congress. Any economic advantage accruing from the sale of the product must also exceed the cost of retraining personnel, changing mail service procedures, or relocating facilities and people necessitated by such sales.

To meet the economic requirements of these guidelines and to prevent unfair competition, the Service has provided that the products will be sold at manufacturers' suggested retail prices. The Service has also established that the product must obtain a minimum gross profit margin of 20 percent, with a preferred gross profit margin of 50 percent. It defined gross profit margin as "the difference between the cost and retail price." Postal Service policy also requires that all products being offered for sale must be approved by Service headquarters, except for those being tested for possible future sales.

The following table shows data on the sale of postal-related products for the first three quarters of fiscal year 1974 as reported by the postal regions.

<u>Postal region</u>	<u>Reported gross revenue (note a)</u>	<u>Reported gross profit (note a)</u>	<u>Number of product lines sold (note b)</u>
Northeast	\$ 178,238	\$ 94,367	11
Eastern	381,743	252,381	10
Central	344,793	218,247	c/ 11
Southern	84,974	50,270	21
Western	587,715	365,344	13
Total	<u>\$1,577,463</u>	<u>\$980,609</u>	

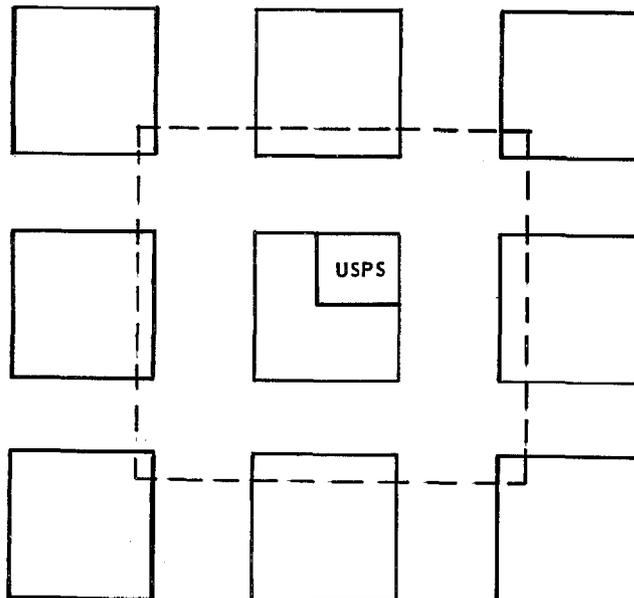
a/ Does not include the sale of miscellaneous items (such as prints, mats, medals, jewelry, etc.) or some other items because revenue data was not available.

b/ Some products being sold have been discontinued and the Service is merely selling out its current inventory.

c/ Six of these items are test items.

PHOTOCOPY SERVICES

According to postal officials, photocopy services are offered to postal customers as a service which provides the convenience of duplicating their mail. However, a policy as to where and under what circumstances a photocopy machine would be installed in post office lobbies was not established until April 4, 1974. This policy provides that the Service should charge as much or more per copy than the private sector charges for photocopy services and that the Service will not offer its copy service in direct competition with private copying service. To meet this requirement, the Service has established that the distance between the post office premises and a private service will be at least 1 block or 500 feet, whichever is greater. A block is defined as "the entire area on which the post office building is situated and the opposite sides of the streets around the building," as shown in the diagram below.



The area inside the dotted line is 1 block for purposes of establishing photocopy service. If, however, a private business introduces a photocopy service after a post office has installed its machine, the Service will not remove its machine.

The following tables present data concerning the photocopy services provided by the Postal Service during the first three quarters of fiscal year 1974. According to Service officials, the prices charged for photocopy services have not changed since the issuance of the April policy.

<u>Postal region</u>	<u>Charge per copy</u>	<u>Postal Service share of revenue</u>	<u>Number of machines</u>	
			<u>Installed</u>	<u>Anticipated</u>
Northeast	\$0.25	\$ 13,791	113	400
Eastern	.10	(a)	(a)	600
Central	.10	28,129	106	724
Southern	.10	74,000	425	725
Western	.10 or .15	<u>38,167</u>	<u>342</u>	not available
Total		<u>\$154,087</u>	<u>986</u>	

a

A few machines had been installed just before the end of the third quarter; however, neither the number of machines nor revenue data was available.

On the basis of the charges per copy, we calculated the total number of copies made and gross revenue generated by the Service photocopy machines as follows.

<u>Postal region</u>	<u>Number of copies made</u>	<u>Gross revenue</u>
Northeast	218,400	\$ 54,606
Eastern	(a)	(a)
Central	937,600	93,763
Southern	2,466,700	246,666
Western	<u>1,272,200</u>	<u>127,223</u>
Total	<u>4,894,900</u>	<u>\$522,258</u>

a

See note a above.

CHAPTER 3

COMPETITIVE ASPECTS

The Postal Service, because of its size and Federal charter, enjoys several potential competitive advantages which the private stationer cannot match. Competitors recognize these possible advantages and are concerned that the Service is using them to compete unfairly.

Postal Service officials, on the other hand, claim that the sale of these products offers benefits to the Service and its customers which make their sale desirable.

POSSIBLE POSTAL SERVICE ADVANTAGES

We found that the Service has inherent advantages which it has sometimes used in such a way that competitors have construed it to be unfair competition. For example, the Service:

- Is excluded from paying taxes a private stationery store owner may incur, such as sales, property, and income taxes. At the time of our visits, the Service was not adding to the selling price of an item a charge equivalent to the area's sales tax. As a result, the Service was selling products at prices which, in some cases, were 6 or 7 percent lower than those of private stationery stores.
- Can purchase items in a much greater quantity, obtaining the price advantages associated with volume purchases.
- Can engage in promotional activities on a much larger scale than individual stationery stores can (see ch. 4). The Service, in some cases, has used promotional techniques--such as the use of letter carriers to deliver fliers and demonstrate products--not available to the private sector.
- Has a large distribution network with "built-in" customer traffic.

Postal officials told us that they had no intention of using these advantages unfairly, and we could not quantitatively establish the extent of adverse impact on stationers, if any, as a result of this program.

Although Service guidelines stipulate a product must not compete "at an advantage" with the private sector in terms of price, we noted that some areas were selling identical products and services at prices less than those of competing stationery stores. In one region the same

product was sold for as much as \$1.25 less by the Postal Service, not including the difference of the sales tax. Also, most post offices were charging 10 cents a copy for photocopying services, while competitors were charging 15 cents or more. Only one region charged 25 cents to preclude any possibility of unfair price competition. In this connection, however, we were not able to determine price competition in most instances because products being sold, although similar, were not identical to items being sold by stationery stores. We tried to quantify sales price differences, through the use of questionnaires sent to selected stationers, (see p. 20) but were not given adequate information to make a conclusive determination about this competitive aspect.

COMPETITOR COMMENTS

Stationery store owners have expressed a great deal of concern about the sale of these products by the Postal Service. In our discussions with some of these owners and in response to our questionnaires, they cited the advantages discussed above and contended that it represented unfair competition. Officials of the National Office Products Association, which represents many of these small retailers, also expressed these same concerns.

The primary concern expressed about the program by these businessmen was not so much the degree of competition presently but what the future effect on their businesses would be if the Service should decide to increase its sales effort or expand the product line. National Office Products Association officials stated that, because the average annual profits of its member stationers were only about \$15,000, they believe that the sale of any product by the Service will have an adverse impact on stationers. Many stationery store owners stated that they believed this program is the beginning of a larger retail sales effort which may eventually drive them out of business. These owners were also upset that, in their opinion, they are in effect subsidizing--through their taxes and as postal customers--a program which is competing with them on a scale they cannot match.

Some of these owners were concerned also about the Service's decision to place photocopy machines in post office lobbies and the effect this action would have on customer traffic through their stores. They stated that their machines had been installed primarily to generate customer traffic; not necessarily to generate profits. They stated that the Service, by installing these machines in post offices, would reduce the traffic flow through their stores.

Some owners claimed, also, that the Service was charging lower prices for their service. One owner told us that he had removed his machine when he learned that the nearby post office was installing one in its lobby. He said that he could not compete with the post office and could not obtain the service on his machine that the post office could--even though they were both installed by the same company--because the company would serve the Postal Service first in view of the larger number of machines being used by the Service.

BENEFITS TO THE POSTAL SERVICE

Postal Service officials told us that, in addition to generating revenues and providing service to customers, the sale of postal-related products results in certain benefits which help to reduce mail-handling costs, such as:

- Padded mailing bags, cartons, cushioning material, mailing tubes, tape, wrapping paper, and twine, reduce damages to parcels, thereby reducing insurance claims and costs of rewrapping damaged parcels.
- Stamp-affixing machines properly affix the stamp, thereby reducing the cost of collecting postage due and speeding mail delivery. The machine also assists businessmen in quickly preparing the mail for early processing and reduces the transaction time required in selling stamps because customers will buy 100- or 500-stamp rolls instead of making many smaller stamp purchases.
- Scales reduce postal clerk transaction time in weighing letters and, because the letters are mailed with the correct postage, reduce the number of letters with improper postage.
- Rubber stamps help expedite mail handling by allowing letters to be correctly sorted when instructions are stamped on them.

AGENCY ACTIONS

As a result of congressional concern and our review, a new policy dated June 7, 1974, has been issued. This policy instructs the regions to (1) limit promotional activities to post office lobbies and (2) collect an amount equal to the sales tax in the area. It also provides that only the following postal related products will be sold.

- Padded mailing bags
- Automatic stamp affixers
- Self-inking stampers
- Parcel preparation materials (i. e., cartons, sealing tape, cushioning material, twine)
- Desk and mini scales

Other products presently being sold are to be discontinued after current inventories have been depleted.

Postal officials stated that the product line had been frozen as of the June policy but that other products may be sold in the future as long as the products relate to improving mail service. The officials stated that they do not believe the sale of postal-related products is adversely impacting the private businessman. They contend that, because the impact on the private sector cannot be conclusively demonstrated, they are not in competition with small stationery stores. They added that, if such an impact could be conclusively proven, they would consider terminating the affected product or the total program.

CONCLUSIONS

We recognize that adverse impact, if any, on private stationery stores is difficult, if not impossible, to quantitatively establish, and that there is a lack of conclusive evidence to support either position. Postal officials stated on several occasions that, before a product is offered for sale, a study is performed to determine what impact, if any, it may have on the private sector; however, contrary to this statement, they have not made such a study on any products currently being sold. On the other hand, neither private stationery store owners nor officials of the National Office Products Association could provide reliable data to show that the Service is adversely impacting on private business operations. Several Postal officials believe that, instead of adversely impacting the private sector, they were creating new markets for items that previously were not in demand.

We accept the premise that, in some cases, the Postal Service may be creating new markets because the postal-related products are impulse or convenience items purchased while making a visit to a post office. In addition, competition, in a strict sense, is a condition prevailing in a market where rival sellers attempt to increase their profits at one another's expense. However, in the absence of conclusive evidence to the contrary, we believe it is reasonable to assume that the close proximity of post offices to some stationery stores selling the same or similar products will have a competitive impact on the stores' operations and that this impact would become more acute if the Service increased its sales or product line.

We also believe that some customer traffic may be diverted from stationery stores when the Service installs photocopy machines. Again, adverse impact is difficult to establish.

With respect to the June 7 policy, we believe that it does not significantly change the product line being sold. After comparing the approved product list in the new policy with the list of products previously being sold, as shown on page 2, we noted that, with the exception of the envelope sealer and clasped envelopes all the postal-related products previously sold can still be sold under the new criteria.

In addition, the Service can choose to change its policy and increase its product line at any time it wishes.

We also believe that the Service is responsible for conclusively establishing what degree of competitive impact, if any, it is creating by engaging in the sale of products already available in the private sector. Although testimony given to congressional committees by Service officials indicated that these studies had been made, the Service was not able to produce any studies in response to our requests.

RECOMMENDATION TO THE POSTMASTER GENERAL

We recommend that the Postal Service:

- Conduct studies to determine adverse impact, if any, on the private sector, namely stationery stores, selling the same or similar products.

CHAPTER 4

NEED FOR MANAGEMENT IMPROVEMENTS

Our review showed that:

- There was a significant variance of program emphasis between regions and within regions, primarily because of a lack of understanding of program purposes, goals, and objectives.
- Neither total cost nor profitability for the entire program could be determined.
- Promotional emphasis given the products varied widely between and within the postal regions because of a lack of clearly defined goals and objectives and an absence of central planning, control, or guidance.

Photocopy services, although apparently profitable, were also being administered differently by each region. As a result, the emphasis placed on this service and contracting procedures varied widely.

These variances and the general lack of control have, in certain instances, resulted in management practices at the local levels which were not authorized by headquarters officials and which were interpreted by stationers as unfair competition.

Market studies which would indicate the economic desirability and the public acceptability of selling postal-related products and photocopy services have not been made to develop this program nationally.

DIFFERENCES IN PROGRAM EMPHASIS

The sales program is decentralized, and most of its direction originates at each of the five postal regions. (See the appendix for detailed information about the operations of this program in each region.)

There were differences between regions, as well as between the operating levels within a region, in management emphasis on the sale of postal-related products, primarily because of a lack of understanding of program purposes, goals, and objectives. Some postal officials stated that they believed the main purpose of the program was to increase revenues to help reduce the postal deficit, while others stated that they believed the primary purpose was to provide a service to the postal customer. Other officials stated that they believed the program was designed to both increase revenues and provide customer services.

For example, headquarters officials told us that if the program was not profitable it would be discontinued, regardless of the service it provided to postal customers. However, because profitability cannot be determined, as discussed below, there is a difference of opinion as to

whether the program is reducing or increasing the postal deficit. Some Sectional Center Facility officials said that, in their opinion, the program was profitable, while others stated it was not only not profitable, but was, in fact, a hindrance to mail delivery.

This lack of understanding, coupled with varying interpretations about the objectives of the program, resulted in different program emphasis by the various regions and post offices. The diverse approaches to the program were also evidenced by the different number of products being offered for sale from region to region. (See p. 2 and the appendix.)

Some regional officials told us they have decided to discontinue the sale of many products because of (1) limited storage and display space, (2) inventory control problems, (3) inadequate supply levels, and (4) the program created more work than it was worth. On the other hand, one region was planning to expand its postal-related product line to include products not yet available in the other regions.

This variance, to some extent, was also a reflection of each individual manager's belief about the general merits of the program. For example, some regional officials had reservations about certain products included in the product line and stated that the sale of these products constituted an endorsement of the product by the Postal Service. They said that this was not warranted in view of the failure to properly test the products.

With regard to testing, we noted that most products were initially sold in one region and eventually spread to the other regions, rather than being developed and tested centrally by Postal Service headquarters and then disseminated by the regions. Postal officials told us in August 1974 that, in the future, all products will be tested at the headquarters' level. They said this should correct independent testing for additional products which, we found, was still being performed by two regions.

Confusion about program policies was further exemplified by statements of officials in one region that the Postal Service logo should appear on padded mailing bags to preclude the sale of bags purchased outside normal Postal Service supply channels. Officials in another region, however, opposed the use of the logo and said they would not allow the sale of padded mailing bags if they had the logo printed on them. However, we noted that post offices we visited in this region sold bags which contained the logo.

TOTAL COST AND PROFITABILITY
NOT DETERMINABLE

The Postal Service has not determined total costs associated with the sale of these postal-related products; therefore, their profitability cannot be established. The only cost assigned to a product is the cost of purchasing it from the manufacturer. As a result, the Service has

no assurance that the program is, in fact, helping to reduce the postal deficit. A policy statement, dated November 19, 1973, provided that certain direct costs--such as distribution and handling, promotion and advertising, direct labor, and supervisory--should be considered in determining net profit; however, this has not been done.

The Postal Service, in establishing its requirement for a minimum gross profit margin of 20 percent, did not attempt to determine if such a margin was adequate to insure a reasonable net profit but merely assumed that it was. In the absence of such a study or of another method to determine total cost, there is no assurance that this margin will cover all costs associated with selling a particular product.

Although the November policy statement provided that direct costs should be determined, guidelines were not given to the regions on assigning costs to the program. Some examples of costs that are attributable to the sale of postal-related products but which have not been assigned to the program are: modification of post offices to provide for display and storage space; direct labor used in ordering, promoting, and selling the product; promotion and advertising; shipping in the form of penalty labels provided to manufacturers to mail the product to the post offices; and overhead costs.

As noted previously, this failure to fully determine costs has resulted in differences of opinion as to the profitability of the program among the various postal officials we contacted. This problem is compounded by the lack of an adequate reporting system and by problems of inventorying and accounting for the products.

Procedures for reporting revenues, product costs, and inventory levels were not consistent within or between the regions. Some postal officials told us they had no confidence in the reported data because of numerous reporting discrepancies. They said that tardy reporting by Sectional Center Facilities to their respective Postal Data Centers makes the information meaningless for quick management decisions as to the efficiency of the program. Some reports of postal product sales are not received until 45 days after the close of the accounting period, if at all.

The accountability for postal-related products also varied between the regions. Postal officials stated that tight inventory and accountability controls initially inhibited the success of the program because excessive control was time-consuming and interfered with normal postal operations. One official, however, expressed concern that relaxing individual accountability for postal products may set a precedent for relaxing accountability for postal stamps as well.

Postal officials stated that strict accountability is also difficult to maintain because of shortages in deliveries from manufacturers and pilferage of products. In addition, guidelines have not been developed on inventory levels that should be maintained.

The photocopy services offered by the Postal Service appeared to be a profitable operation. Total costs associated with this service have not been developed, and the contracts with private vendors varied considerably from region to region.

We believe, however, that the costs associated with photocopy service are minimal. The total involvement in terms of man-hours, space, and energy is small; consequently, almost all revenue accruing to the Service is profit.

PROMOTIONAL ACTIVITY VARIED

The type and amount of promotion used by the different regions and post offices was directly related to the emphasis placed on the sale of postal-related products. This occurred because of a lack of central control or uniform policy at either headquarters or the regions, creating some duplication of promotional efforts. Headquarters officials, in some instances, were not aware of the types of promotional activities carried out by regions and post offices. As noted above, the costs associated with these activities were often not available nor readily identifiable and were not considered as program costs.

The primary promotional effort centered in post office lobbies. Postal officials said that about 105 million people are potentially exposed to these products through lobby promotional material. Promotional activities in the various lobbies we visited ranged from simple manufacturer-supplied posters to elaborate display cases and posters prepared by postal employees.

In one region, some display cases being used in the post offices were built by postal employees of the particular facilities. These were not standard in design or appearance, and their costs varied from \$12 to \$23 each, exclusive of labor. Some display cases, however, were purchased commercially and were similar to those used by retail stores.

Headquarters officials are in the process of developing and purchasing display cases which will be distributed to the regions on a request basis. A postal official told us that, pending budget approval, the Service plans to purchase 11,200 of these new modular units for three of the five regions at an average cost of about \$60 each. He said that one region did not want the units and the other region had not yet been adequately surveyed. The estimated cost of this purchase would be \$670,000, almost half the total gross revenue received from this program during the first three quarters of fiscal year 1974 (see p. 7). No study was made to determine whether the cost of these cases would justify their purchase or if the magnitude of the program warranted such an expenditure.

Promotional programs were also conducted externally. In one region mail carriers delivered about 2.5-million fliers to postal

patrons describing certain retail products available at post offices. Costs for this promotion, excluding labor and handling, were about \$21,000. Other regional officials stated they have had or were planning similar distributions in the near future in an attempt to increase sales.

One region also conducted a sales-promotion contest in an attempt to increase sales of stamp-affixing machines. Monetary awards were given to Sectional Center Facility clerks selling the most products within a particular time period. A second region was planning a similar contest to promote the sale of postal-related products. However, the Postal Service's law department has concluded that sales-incentive programs cannot be lawfully implemented in the absence of agreement with the unions. Headquarters officials have told us that the regions will be notified not to engage in further contests of this type.

Postal officials in one area told us also that mail carriers were demonstrating the stamp-affixing machine while delivering the mail. Neither regional nor headquarters officials were aware of this practice and, when told about it, agreed it was not a proper procedure.

Another promotional technique, utilized by one region, was the use of paid television advertising to promote its photocopying services. This advertising consisted of several 30-second spots on four television stations--including the major networks--covering the local geographical area. Regional officials stated that the cost of this advertising was shared equally with the photocopy contractor. The Postal Service's share of \$1,000 was not charged to the program. Although advertising of this type, according to Postal Service policy, was to be approved by headquarters, headquarters officials were not aware nor did they approve of these particular television advertisements.

AGENCY ACTIONS

The information in this report was discussed with officials of postal headquarters and the five regions.

Postal Service officials told us that the June 7 policy memorandum (see p. 11) should result in better program control and, if properly followed, should correct or minimize the problems that GAO noted. They said also that this was a first step in providing central direction and control and that additional steps would be taken to correct the management deficiencies noted in this report.

The Service is making a detailed cost analysis of the program to identify all costs and revenues associated with selling postal-related products to determine the profitability of the products.

CONCLUSIONS

There is a lack of clearly defined goals and objectives and an absence of central planning, control, or guidance. Most of the ideas and products

were developed and implemented by all five regions acting independently, resulting in five different programs with (1) a variance of program emphasis, (2) duplication in testing and marketing efforts, and (3) varied promotional activities. This lack of clearly defined instructions, policies, and objectives has created inconsistencies in the program and confusion among the operating managers, resulting in the adoption of policies which were neither endorsed nor known by headquarters officials. The June policy statement does not address these management weaknesses.

According to headquarters officials, profitability and the reduction of the postal deficit is the primary purpose for the sale of postal-related products; however, this objective has not been effectively communicated to all levels of management. Furthermore, the inability to determine the total cost and profitability of the program or of a particular product is a major weakness in the program. If profitability is the purpose, the total cost of the program--including both fixed and variable costs--must be determined to decide the desirability of selling or continuing to sell some or all of these products. This is compounded by a need to establish a better reporting system which is timely and accurate. The present reporting system does not give the retail managers the information needed to effectively manage the program.

In addition, there is a need to perform market studies to determine customer need and acceptance of the products and whether the products will sell equally well throughout the whole postal system.

RECOMMENDATIONS TO THE POSTMASTER GENERAL

We recommend that the Postal Service:

- Conduct market studies to determine the acceptability of postal-related products.
- Complete cost studies to determine the program's profitability, considering both fixed and variable costs.
- Refine the reporting system to provide more timely and accurate information for making cost analyses and management decisions.
- Provide more definite guidelines and improve communications to the regions as to the goals and objectives of the program.

CHAPTER 5

SCOPE OF REVIEW

We reviewed the Postal Service program for selling postal-related products and photocopy services to determine (1) possible impact of the program on small business and (2) management efficiency in administering the program. This review excluded the sale of philatelic items. We made our review at Postal Service headquarters in Washington, D.C., Postal Service regional headquarters in Philadelphia (Eastern), New York City (Northeast), Memphis (Southern), Chicago (Central), and San Francisco (Western), and 45 postal stores or post offices in these regions. We

- evaluated appropriate policies, procedures, and contracts relating to the program;
- sent 230 questionnaires to private stationery store owners (89, or 35 percent, of which were returned) to get their comments on the impact of this program on their businesses;
- interviewed Postal Service headquarters, regional, and post office officials at selected locations; officials of the National Office Products Association, Arlington, Virginia; and the owners of 11 stationery stores in the cities we visited.

INFORMATION ON THE FIVE POSTAL REGIONS

The five postal regions have conducted different sales programs. To give the proper perspective on the extent to which each region is engaged in selling postal-related items, individual region summaries follow, preceded by a map showing the geographical area covered by each and a list of postal stores presently in each region.

POSTAL STORES AND PHILATELIC CENTERS

Southern Region (14):

Atlanta, Georgia
 Birmingham, Alabama
 Columbia, South Carolina
 Dallas, Texas
 Hollywood, Florida
 Hot Springs National Park,
 Arkansas
 Houston, Texas
 Little Rock, Arkansas
 Lubbock, Texas
 Memphis, Tennessee
 Montgomery, Alabama
 Oklahoma City, Oklahoma
 Raleigh, North Carolina
 St. Petersburg, Florida

Central Region (14)

Chicago, Illinois
 Cincinnati, Ohio
 Cleveland, Ohio
 Columbus, Ohio
 Detroit, Michigan
 Green Bay, Wisconsin
 Indianapolis, Indiana
 Kansas City, Missouri
 Louisville, Kentucky
 Minneapolis, Minnesota
 St. Louis, Missouri
 a/ St. Paul, Minnesota
 Toledo, Ohio
 Wichita, Kansas

Western Region (4):

Colorado Springs, Colorado
 Denver, Colorado
 El Paso, Texas
 San Diego, California

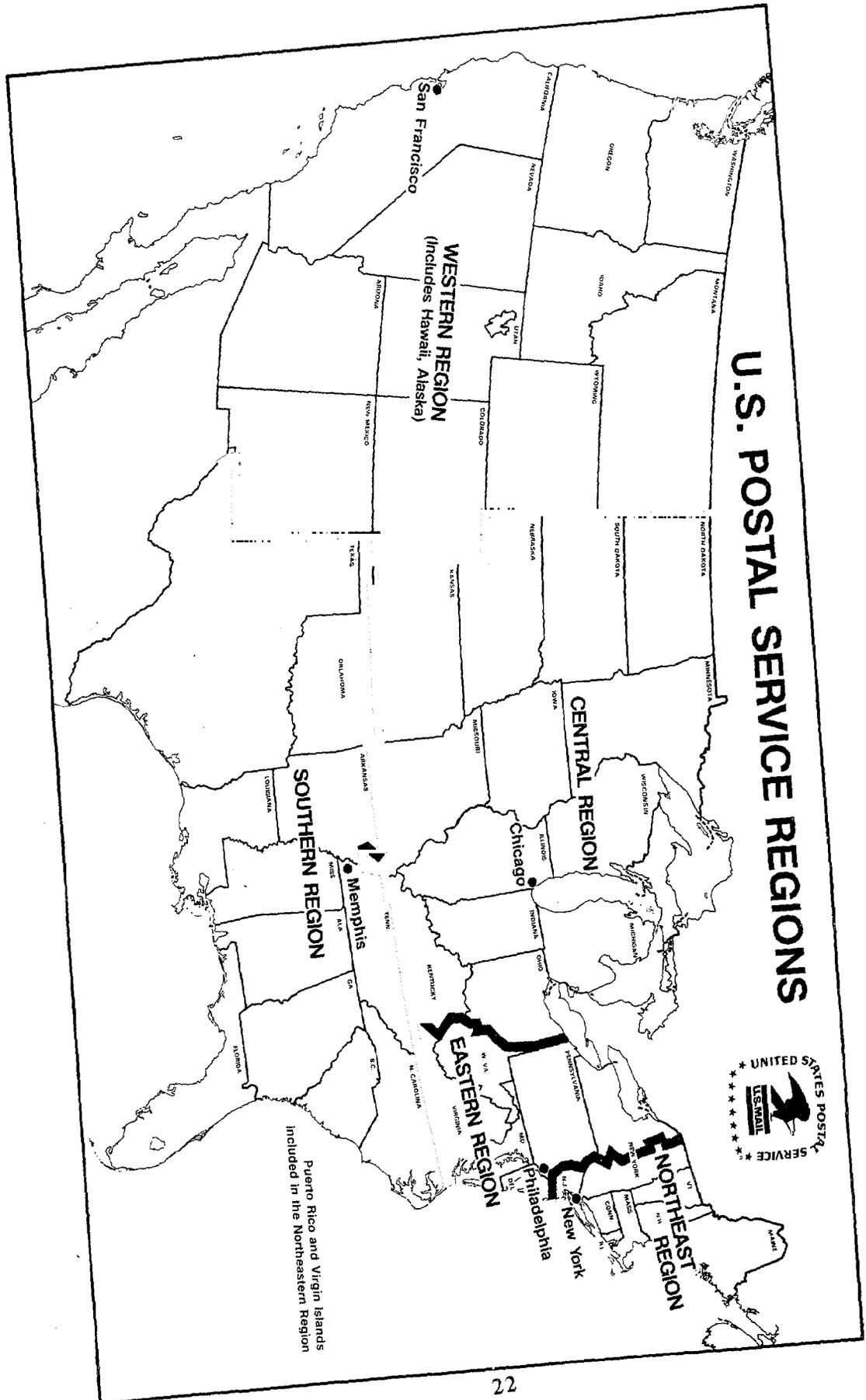
Northeast Region (2):

New York, New York
 a/ San Juan, Puerto Rico

Eastern Region (2):

Baltimore, Maryland
 Philadelphia, Pennsylvania

a/ Store located outside of postal facilities.



NORTHEAST REGION

PRODUCTS SOLD

This region was selling 11 postal-related products. Of these, eight have been discontinued and will be sold only until inventories are depleted.

A summary of the postal-related product activity for the first three quarters of fiscal year 1974 follows.

<u>Item</u>	<u>Quantity sold</u>	<u>Unit cost</u>	<u>Selling price</u>	<u>Reported gross revenue</u>	<u>Reported gross profit</u>
Padded mailing bags	288,000	\$0.07 to .125 .18	\$0.20 to .25 .30	\$72,000	\$36,000
Corrugated boxes	550	.75	1.50	825	413
Stamp affixers	10,433	4.48	9.95	103,808	57,068
Self-inking stampers	243	1.27	2.75	668	360
Ink and trays for stampers (note a)					
Desk scales	50	4.97	9.95	498	249
Pocket scales	32	1.67	2.50	80	43
Posters and reprints (note b)	200	.48	1.50	300	204
Envelope sealers	30	.98	1.98	59	30
Gift-mate (note a)			1.25		
Total				<u>\$178,238</u>	<u>\$94,367</u>

a/ No data available on the sale of these products.

b/ Sold only in the San Juan, Puerto Rico, postal store.

Regional officials stated that in the future only the first three items on the above list would continue to be sold.

The corrugated boxes were being tested in six areas. Regional officials told us that after the test was completed, product specifications would be prepared and bids requested for the supply of the product.

PROMOTIONAL ACTIVITY

Regional officials stated that promotional emphasis reflects their low-keyed sales approach to the sale of these items. Promotional material is generally supplied by the manufacturer, and display or distribution is confined to postal lobbies. However, we noted certain exceptions, such as the use of in-house posters depicting mailing bags and leaflets depicting stamp affixing machines, which were either displayed in the lobby or used as part of an overall educational program directed at large mailers.

Regional officials told us that the region spent approximately \$200 for the promotion of Gift-mate, a parcel preparation kit costing about \$1.25. The kit is geared primarily to the mailing of Christmas packages and is sold only during the Christmas season.

PHOTOCOPY MACHINES

There were 113 photocopier machines installed as of the end of the third quarter of fiscal year 1974. The region is anticipating the installation of an additional 287 photocopier machines. The charge per copy is 25 cents. Regional officials stated that this price is charged to prevent complaints about unfair competition, since it is well above the average price charged by the private sector.

Regional officials told us that these machines generated a total revenue of about \$54,606 during the first three quarters of fiscal year 1974. The Postal Service received about \$13,791 of this amount.

There are currently three photocopier companies which have letters of agreement with the region. These agreements were developed by the regional officials and include the following terms.

- The price charged per copy will be 25 cents.
- The Postal Service will receive 25 percent of the gross revenues collected.
- The vendor will furnish, deliver, and install equipment and furnish all supplies necessary.
- The vendor will perform all service and maintenance and furnish instructions to postal employees to handle minor machine problems.

- The vendor will collect all moneys, maintain meter readings, and remit a monthly check to regional officials.

A contract similar to these letters of agreement was to be submitted for bids on or about August 25, 1974. The final decision to participate in this program was to be approved by each district manager.

COMMENTS AND VIEWS OF REGIONAL POSTAL OFFICIALS

Regional officials stated that the sale of postal-related products in their region will remain "conservative." They added that, before a retail product is sold, it must be demonstrated to be truly postal-related and not to interfere with the main function of delivering the mail. Their decision to discontinue the sale of most postal-related products stems from their belief that the limited storage space, inventory control requirements, and questionable product reliability do not warrant the continuance of the other products being offered for sale.

In their opinion, the products which will continue to be sold offer a service to the customer and provide additional revenue to the Postal Service. However, neither market studies nor profitability data exists which would demonstrate whether or not the products are profitable.

Regional officials expressed concern over the lack of consistency, direction, control, and guidance from headquarters. Sectional Center Facility (SCF) officials stated that variation of program management, poor communications, and a lack of information exchange have made effective program management a difficult task at their managerial levels.

The lack of conclusive program control from Postal headquarters has prompted regional officials to formulate their own policies for the sale of postal products. Regional officials told us that some items being sold (which have been subsequently discontinued) should not be sold because this constituted an endorsement of the products, some of which were not sufficiently reliable. In addition, regional officials now require that all padded mailing bags contain the Postal Service logo, printed on by the manufacturers, to preclude the sale of mailing bags purchased outside normal Postal Service supply channels.

EASTERN REGION

PRODUCTS BEING SOLD

Regional officials reported that they offered 10 postal-related products for sale during the first three quarters of fiscal year 1974. A summary of the postal-related products activity for this period follows.

<u>Item</u>	<u>Quantity sold</u>	<u>Unit cost</u>	<u>Selling price</u>	<u>Reported gross revenue</u>	<u>Reported gross profit</u>
Stamp affixers	18,377	\$4.20	\$9.95	\$182,851	\$105,668
Desk scales	1,046	4.75	9.95	10,408	5,439
Pocket scales	1,086	.99	2.00	2,172	1,108
Self-inking stampers	317	.95	2.00	596	296
Ink and trays for stampers (note a)					
Padded mail- ing bags	733,417	.02, .06, .09	.20, .25, .30	184,203	138,813
Corrugated boxes	110	.31	.25 and .50	41	8
Clasped en- velopes	11,973	.02 and .03	.10, .12, .15	1,472	1,049
Envelope sealers (note a)					
Total				<u>\$381,743</u>	<u>\$252,381</u>

a/ No data available on the sale of these products.

The self-inking stampers, trays, ink, envelope sealer, and corrugated boxes were being discontinued, primarily because product costs were considered excessive. Regional officials told us they were not currently testing any postal related products but were considering testing self-sealing boxes.

Regional officials said that most contracts regarding the sale of postal-related products and the method of sales are executed by the region. The SCFs order the products from these contracts and maintain inventory, revenue, and cost records. The post offices in turn order the products from SCFs.

PROMOTIONAL ACTIVITY

Most promotional activity was controlled by the regional headquarters. One promotional method used by the region was the delivery by mail carriers of 2,500,000 flyers promoting mailing bags, stamp-affixing machines, and desk scales. The regional retail director said these were the only promotional costs incurred by the region. These flyers cost about \$21,125 (\$21,000 for printing and \$125 for design). The distribution costs could not be determined.

To generate greater sales of stamp-affixing machines, the regional retail division conducted a sales contest from March 2 to April 26, 1974. A cash prize of \$25 was awarded for selling 40 stamp affixers, \$50 for selling 80, and \$150 to the individual selling the most machines in the region.

In another attempt to increase the sale of postal-related products, postal officials told us that mail carriers in one area were demonstrating and selling stamp-affixing machines while delivering mail. Costs for this activity could not be determined.

PHOTOCOPY MACHINES

Photocopy machines were first installed in the Eastern Region as a test by Postal Service headquarters. Six contracts were awarded to perform the feasibility study. This test was not made to economically justify the machines or to determine market acceptance, but to test different types of equipment and the extent of needed maintenance. Twelve machines were located throughout the region without regard to possible competition with private business. The region charged from 10 to 25 cents a copy during this period.

In February 1974 the Postal Service entered into a 3-year contract with Xerox Corporation, with two additional 1-year options, to provide photocopy machines. This contract provides for the installation of about 50 machines a month. Officials anticipate a total of 600 machines will be installed in the region. Due to the recent installation of some

of these machines, data was not available on revenues or number of machines that had been installed.

According to this contract, the Postal Service will receive revenue from these machines as follows.

- 3 cents per copy for 1 to 3,000 copies per month per machine.
- 4 cents per copy for 3,001 to 5,000 copies per month per machine;
- 5 cents per copy for 5,001 and above copies per month per machine.

Xerox guarantees the Service a minimum payment of \$30 per month per machine for the first 120 days after installation. After this period, there is no guarantee and revenue is based solely on the actual number of copies made. The region charges 10 cents a copy, which is the price specified in the contract. The Service, however, can request that this price be increased.

The contract requires that the Postal Service provide space for the machines and perform certain support functions, such as providing suitable storage for supplies, clearing machine jams, collecting and accounting for total revenues, and remitting to Xerox all moneys collected less revenue due the Service as noted above. The Service must provide an employee to be trained on servicing the machines at each location.

Regional policy provides that a machine will be removed only if a competitor complains and if he had installed his machine before the Service machine was installed.

COMMENTS AND VIEWS OF REGIONAL POSTAL OFFICIALS

Regional officials stated that, although studies have not been made to determine the need for or feasibility of selling postal-related products, the primary purpose of the program is to provide customer service rather than to make a profit. They said they will sell no product believed to be in competition with private business. They said further that the sale of these selected products provides a benefit to the Postal Service as well as a service to the postal customer. Some benefits cited were that some items, such as the stamp affixers, reduced the amount of short-paid mail; others, such as padded mailing bags, reduced parcel damage and claims resulting from damaged parcels.

Regional officials told us that they attempt to control the program through approval of the product line and the way products are to be sold. Both regional office and SCF officials stated that the region exerted no pressure on SCFs or post offices to increase their product lines or individual product sales. The regional office informs SCF officials about approved products available for sale, and the individual postmasters select the products they wish to sell in their post offices.

Regional office and SCF officials told us that guidelines had not been developed on how costs should be determined and assigned to this sales program. The only costs currently assigned to the program were costs of purchasing the product. Another postal official told us that, to expand this sales operation, more personnel would be needed to handle the workload, inventory the stock, and process the purchase orders.

Some officials commented that certain costs were not being properly assigned to the retail program. One official said that total advertising costs could not be determined but that placing advertisements in postal boxes increased operating costs and these costs could not be identified. He said penalty labels were used to ship products but this cost had not been determined or charged to the program. Another official stated he would like to see the development and implementation of a uniform distribution and accounting system for the entire postal related products line.

COMMENTS OF COMPETITORS

The competitors in this region voiced concern and opposition to the postal-related product program, commonly complaining that the Postal Service was engaged in unfair competition. Two reasons cited for these complaints were that the Postal Service (1) did not charge a sales tax, which made its products less expensive and (2) had the ability to expand the product line without restriction and to make large-quantity sales and purchases. However, one competitor, dealing primarily in commercial sales and having only 1 percent of his business in retail sales, said he would welcome the Postal Service's taking that portion of his business.

CENTRAL REGION

PRODUCTS SOLD

Regional officials reported that they sold four postal products in the first three quarters of fiscal year 1974. A summary of the postal related product activity for this period follows.

<u>Item</u>	<u>Quantity sold</u>	<u>Unit cost</u>	<u>Selling price</u>	<u>Reported gross revenue</u>	<u>Reported gross profit</u>
Stamp affixers	17,900	\$4.20	\$9.95	\$176,677	\$101,497
Padded mailing bags	531,040	.04, .09, .13	.20, .30 .40	146,007	106,983
Pocket scales	12,290	1.06	1.98	22,012	9,722
Desk scales	10	4.75	9.95	<u>97</u>	<u>45</u>
Total				<u>\$344,793</u>	<u>\$218,247</u>

Regional officials have decided to discontinue the sale of desk scales. They stated that they were not convinced that the scales were accurate and expressed concern that this inaccuracy would result in letters being mailed with insufficient postage.

Regional and SCF officials were unable to give us detailed cost data for the sale of these retail items. The only costs they could directly assign to the sale of these products were the purchase costs.

Regional officials told us that seven classes of parcel preparation products--packing material, corrugated boxes, wrapping paper, tape (various types), twine, labels, and parcel preparation kits--were being tested within the region, primarily in Madison, Wisconsin. Officials stated that revenue data had not been accumulated for these test products.

Regional officials stated that a parcel-wrapping service was planned by headquarters for the Columbus area and that Cleveland postal officials plan to sell twine, tape, boxes, paper, and labels in an attempt to reduce damages and claims resulting from damaged parcels.

The regional office approves the list of retail products SCFs can sell, and new or test products must have regional headquarters approval before they can be sold.

PROMOTIONAL ACTIVITY

The promotional material used is generally provided by the manufacturer at no cost to the Postal Service and is confined to postal lobbies. However, the amount of promotional activity varies within the region. In Columbus there was little or no promotion of the postal products or photocopy service. However, in Cleveland, we saw promotional display posters in the lobbies for all products. In addition, the post offices use promotional material for photocopy service both inside the lobbies and on the exterior windows of some post offices.

PHOTOCOPY MACHINES

For the first three quarters of fiscal year 1974, regional officials reported net revenues to the Postal Service of \$28,129. These revenues were generated by 106 photocopy machines located in post office lobbies throughout the region. The charge is 10 cents a copy. This region anticipates installing an additional 618 machines, for a total of 724. In November 1973 the region entered into two contracts, for a 3-year period with two additional 1-year options, involving the Xerox Corporation and Insta-Copy Incorporated.

The revenues accruing to the Postal Service, as stipulated in the Xerox contract, are based on the number of copies made as follows.

- 3 cents per copy for 1 to 3,000 copies per month per machine.
- 4 cents per copy for 3,001 to 5,000 copies per month per machine.
- 5 cents per copy for 5,001 and above copies per month per machine.

In addition, the contract guarantees the Postal Service a revenue per machine of \$30 per month for the first 120 days after installation. After this period, there is no guarantee and revenues are based solely on actual volume. The post office can also make copies with a bypass key at 7 cents per copy.

Under the terms of the contract, the Postal Service must provide storage for supplies, load supplies, clear machine jams, maintain coin-collection records and change funds, and provide electrical power and space for the machines.

The Insta-Copy contract has three options, each of which provide a different amount of revenue to the Postal Service according to the following schedule.

	<u>Revenue to Postal Service</u>		
	<u>Option 3</u>	<u>Option 2</u>	<u>Option 1</u>
Minimum monthly guarantee per machine	\$25	\$20	\$15
First \$100 per month net revenue	20%	15%	10%
Next \$400 per month	40%	35%	30%
All over \$500 per month	60%	60%	60%

APPENDIX

Option 1 is available only in cities with populations greater than 250,000 and provided that 80 percent of the first-class post offices receive machines.

If two consecutive months' net revenue falls below \$80 a month, either party may require removal on a 60-day notice. The contract also lists certain requirements that the Postal Service must comply with under the three different options.

Postal Service Provides

Option 1	Electrical power and machine space only.
Option 2	Electrical power and space, storage for supplies, loads supplies, and clear jams.
Option 3	Same as option 2, plus collect and remit moneys.

Regional officials stated that they would remove a photocopy machine if a competitor complained, provided he had installed a machine before the Postal Service's machine was installed.

Both Xerox and Insta-Copy provide promotional material for photocopy machines. Although a regional official told us that they had refused Xerox material, we observed Xerox ads in some Cleveland post office windows.

COMMENTS AND VIEWS OF REGIONAL POSTAL OFFICIALS

Regional office and SCF officials stated that no pressure is exerted on SCFs or associate post office managers to sell postal-related products. These officials told us that all products sold and tested must be approved by the regional headquarters and each post office manager decides which products to sell. Some post offices hold postal clerks accountable for the products they handle.

Regional officials stated that sales of retail products provide benefits other than profit. One official stated that the stamp-affixing machine (1) enables businessmen to get their mail to the post office soon for early processing, (2) reduces window clerk time in the sale of stamps, and (3) insures that stamps are securely affixed to the envelopes.

Postal officials told us that the postal stores in their region sell only philatelic products and postal-related products can be purchased only at the service windows. We noted that all postal stores, except the St. Paul, Minnesota store, are located within the postal facility where postal-related products are sold.

COMMENTS OF COMPETITORS

The competitors in this region voiced concern over future plans by the Postal Service to expand its product line. They were also concerned about the number of potential retail outlets that the Service could use.

Competitors stated that the Service's postal-related products program is unfair because it is not required to pay taxes. These competitors stated that the Postal Service should devote its energy to improving mail service.

SOUTHERN REGION

PRODUCTS SOLD

This region sold 21 different product categories, which is the largest line of all five postal regions. A summary of the postal-related product activity for the first three quarters of fiscal year 1974 follows.

<u>Item</u>	<u>Quantity sold</u>	<u>Unit cost</u>	<u>Selling price</u>	<u>Reported gross revenue</u>	<u>Reported gross profit</u>
Stamp affixers	4,873	\$4.20 6.98	\$9.95 14.95	\$50,416	\$28,791
Padded mailing bags	68,052	.07	.26	17,557	13,135
Self-inking stampers	2,195	1.31	2.56	5,619	2,744
Tray for stampers	19	.26	.50	10	5
Ink for stampers	20	.46	.75	15	6
Desk scales	923	4.97	9.95	9,184	4,597
Pocket scales	959	1.06	1.98	1,899	882
Corrugated boxes	397	.31	.53	210	87
Tapes	96	.42	.66	64	23
Total				<u>\$84,974</u>	<u>\$50,270</u>

The region also sold the Mail Center, Secretariat, envelope sealers, parcel preparation kits, labels, mailing tubes, clasped envelopes, packing material, wrapping paper and twine. Revenue data for these items was not maintained.

We also noted the sale of miscellaneous items, such as prints, foil etchings, maps, place mats, oil paintings, commemorative postal medals, and letter openers. Postal jewelry, such as necklaces, tie clips, cuff links, money clips, and key chains were also sold. Regional officials said these items had been discontinued and postal stores are merely selling out their remaining inventories. Officials were not able to provide us with revenue data associated with the sale of these items.

One postal store we visited also offered a parcel wrapping service at a charge of 50 cents, regardless of parcel size. Another facility had a table on which parcels could be wrapped by customers and paper, twine, and tape were available for their use at no cost.

To maintain control over the program, all contracts are issued by the regional office and all new products are approved by the regional office. The only exception was the stamp-affixing machine which the SCFs ordered directly from the manufacturer.

Regional officials told us that they are not planning any future product expansion nor testing any new products at the present time.

PROMOTIONAL ACTIVITY

Regional officials told us that the only promotional expenditures for postal-related products are for the display cases in post office lobbies. At the time of our review, costs for these cases were not centrally recorded or known by regional officials.

Postal officials told us that stamp-affixer brochures were being sent to customers with their orders for "Stamps by Mail." Also, within the Tampa District, brochures concerning the mail center product and stamp affixer were sent with their "Stamps by Mail" flyers. In addition, we observed display posters for the stamp affixer, envelope sealer, and desk scales in post office lobbies.

Regional officials said they are considering initiating a sales campaign for their retail products, but no such campaigns were in progress at the time of our visit.

PHOTOCOPY MACHINES

Regional officials reported that 425 photocopier machines have been installed and have generated \$74,000 net revenues to the Postal Service through the third quarter of fiscal year 1974. They anticipate installation of 300 additional machines, for a total of 725. The nationwide charge is 10 cents a copy.

Regional officials told us that they paid \$1,000 for a television commercial advertising photocopier service in Tampa. The commercial was sponsored jointly with Copy Products of Florida and consisted of 30-second spots run on four television channels with an actress narrating the commercials.

The region has contracts with Xerox Corporation and Copy Products of Florida. The Xerox contract was signed in October 1973 and is a 3-year contract with two additional 1-year options. The revenue to the Postal Service, as stipulated in the contract, is based on the number of copies made as follows.

- 3 cents per copy for 1 to 3,000 copies per month per machine;
- 4 cents per copy for 3,001 to 5,000 copies per month per machine;
- 5 cents per copy for 5,001 and above copies per month per machine.

This contract provides a 120-day guarantee for \$30 per month per machine. After that, revenue is based on the number of copies made. The contract terms specify that the Postal Service must provide supply storage, load supplies, clear machine jams, maintain collection records, supply employees for training, and provide lobby space and electrical power.

The contract with Copy Products of Florida is for 48 machines in the Tampa District. This 3-year contract was signed in October 1972 and provides for revenues to the Postal Service as follows.

20 percent of gross sales from the machines for 1 to 2,000 copies per month;

22 percent of gross sales from the machines for 2,001 to 3,000 copies per month;

25 percent of gross sales from the machines for over 3,000 copies per month.

This fee applies to the average total copies per machine or to the total copies per individual machine, whichever results in the largest revenue to the Postal Service. Gross sales is defined as "being total receipts less State sales taxes required by the State of Florida on total sales."

The Postal Service is required by contract to provide lobby space and electrical power for the machine and accounting supervision for money removed from the machine by the vendor's employees.

Regional policy provides that a machine will be taken out only if a competitor complains. If no complaints are made, the machine will not be removed even if its presence violates the Service's 1-block criteria. (See p. 7.)

COMMENTS AND VIEWS OF REGIONAL POSTAL OFFICIALS

Regional officials told us that the greatest benefit of this program is profit and they expect a 40- to 50-percent gross margin on these products. They indicated that there are other benefits from the sale of these products, such as the stamp-affixing machines, which encourage postal customers to buy large rolls of stamps at one time, thereby reducing the number of individual stamp purchases and the amount of time a clerk must spend on each stamp transaction. In addition, the stamps are more firmly affixed to letters as a result of using this machine.

Regional officials stated that they have been seeking additional sources of revenue for the postal-related products program. One such potential source was through the increased use of postal stores which are considered to be extensions of window service. They told us that, originally, only postal stores were to sell postal-related products but that postal products were also being sold in many post offices.

Regional officials said that, at one time, they charged a fee equivalent to the State's sales tax but discontinued this practice because the Postal Service's Law Department informed them they were not required to collect a fee equivalent to sales taxes.

COMMENTS OF COMPETITORS

The competitors in this region voiced several comments and concerns. One of their main concerns was that the Postal Service, as a federally supported organization, does not pay sales taxes, thus giving it a competitive advantage.

In addition, they commented that the Postal Service is expanding into areas which are already highly competitive and in which it lacks knowledge. As an example, one competitor said that private businesses, banks, and libraries already provided photocopy service and there was no need for the Postal Service to provide it also. He added that the Service's 1-block rule for removal of photocopy machines was not adequate because of the high mobility of the population.

A major concern of these competitors was the possible future impact of Postal Service product sales and how far the Postal Service would expand the product line. One competitor, however, said he had no objection to the Postal Service handling the current product line items.

WESTERN REGION

PRODUCTS SOLD

This region has led the way in the sale of postal-related products, both in terms of sales and in developing and testing new products. The region reported that it sold 13 products during the first three quarters of fiscal year 1974. A summary of postal-related product activity for this period follows.

<u>Item</u>	<u>Quantity sold</u>	<u>Unit cost</u>	<u>Selling price</u>	<u>Reported gross revenue</u>	<u>Reported gross profit</u>
Stamp affixers	22,733	\$4.20	\$9.95	\$228,373	\$122,871
Desk scales (2)	1,877 (a)	5.83 2.48	9.95 4.95	16,842 (a)	8,046 (a)
Pocket scales	936	.99	1.95	1,829	851
Self-inking stampers	9,843	1.66 1.89	2.85 3.35	26,145	13,833
Tray for stampers	289	.41	.65	158	75
Ink for stampers	547	.56	.90	442	231
Padded mailing bags	529,189	.03, .07, .11	.20, .25, .30	143,274	110,650
Tape	17,159	.30	.50	9,535	4,665
Corrugated boxes	56,214	.11 and .20	.50 and .60	34,544	26,105
Miscellaneous items (note b)				<u>126,573</u>	<u>78,017</u>
Total				<u>\$587,715</u>	<u>\$365,344</u>

a/ These desk scales are incorporated in the 15 percent noted in footnote b.

b/ This line item consists of four products and revenues are about 85 percent for clasped envelopes and 15 percent for desk scales, envelope sealers, and packing material.

The amount of storage space available is a major factor in the determination of which products are sold. For example, mailing tubes are not sold by this region because they are difficult to store and some post offices do not sell corrugated boxes for the same reason.

PROMOTIONAL ACTIVITY

Promotional emphasis is varied within the region. There is some central control and funding of promotional material at the regional level; however, costs incurred for promotion of postal-related products could not be identified because they were included in an overall communications budget. Regional headquarters provided the bulk of the promotional material being used in the post offices; however, there was also a great deal of "handmade" promotional material.

A description of some of the promotional efforts commonly used by this region follows.

- A plastic 62-page looseleaf Postal Products handbook distributed to all window clerks within the region lists all services to postal customers, includes a description of products being offered for sale, and outlines product uses, prices, and possible sales approaches. It costs about 95 cents each to produce, and about 20,000 copies have been distributed throughout the region.
- A bimonthly publication entitled "Postal Retailer" costing about \$1,200 an issue is distributed to all retail sales employees. This publication describes new events on the selling of postal-related products.
- A promotion poster costing \$2.40 each and prepared by the region which was distributed to 2,000 post offices. It measures approximately 2 by 3 feet, on which five of about seven or eight appliques can be posted depicting each retail product sold by the post office.
- A plastic bag with ads printed on them distributed to the customer free when purchasing retail products. These bags, costing \$13.80 for a carton of 2,400, are ordered and purchased by SCFs.

Cases used to display products vary significantly, the most common one costing about \$22 exclusive of labor. Other types of promotional material used in post office lobbies also varied widely in the types of posters used and in the emphasis placed on promotion. Some post offices used posters created in-house by employees; others depended primarily on displays provided by the manufacturers. Some posters

prepared in-house were adapted to holidays, such as Valentine's Day and Christmas, to promote the sale of items which would aid the customer in wrapping gifts. The cost of these in-house promotional materials in terms of material and labor could not be determined.

The region also expects to use a sales incentive program similar to one which was run in 1973.

PHOTOCOPY MACHINES

The region had installed 342 copy machines in the first 3 quarters of fiscal year 1974. Regional officials estimated that these machines generated revenues amounting to about \$38,167 during this same period. The region charges 10 cents a copy in all areas except in the Portland area, where it charges 15 cents a copy.

Contracting for these machines is done at the district level, and the district seeks out and selects the best contracts available. For this reason, no projection for future installations of machines could be made, since contracting is self-initiated by the districts.

COMMENTS AND VIEWS OF REGIONAL POSTAL OFFICIALS

Regional officials said that there was no way to determine profitability of the program because no cost data were known other than the manufacturer's cost of the product. They stated that the clerks have slack time during which they have opportunities to sell postal related products. Some SCF officials disagreed, saying that clerks don't have enough slack time to sell products because increases in sales necessitated increases in personnel.

Regional officials stated that customers generated a need for the products and that, in some cases, the Postal Service was generating a new market with the retail product line.

The policy of the region is to sell products without the Postal Service logo, because regional officials did not want to appear to be endorsing these products. However, we noted that SCF's we visited were selling mailing bags with the logo on them.

According to regional officials, the regional office is responsible for procuring products and approving the sales and testing of new products. They stated that testing can be initiated without needing the approval of Postal Service headquarters. The region intended to continue selling clasped envelopes although they were omitted from the approved postal-related products listed in the headquarters June 7 memorandum. Regional officials said these items fall into the category of "parcel preparation materials" referred to in the aforementioned memo.

Comments by SCF officials were generally critical of the program, citing such problems as lack of direction, control, and communication. These officials cited as evidence that there were constant reorganizations, the program seemed to head in different directions, there was no way to determine profitability, the accounting system had been changed several times and was inaccurate, and no proper definition of goals and objectives existed. One official expressed doubt that the retail products were producing a profit if all the costs of selling these products were considered. Regional officials said that accountability for products was supposed to be loose throughout the region to allow more flexibility and to prevent being tied up in recordkeeping. However, SCF officials told us that accountability ranges from stringent to lax. Officials said that the distances in some post offices from service counters to product storage areas caused increased incidences of pilferage. In one location, a clerk checked inventory two to three times a day.

The region gives receipts with purchases, for the customer's personal record and to gain refunds when returning defective products.

SCF officials said that some postal facilities have had to be altered to provide storage or display space, since most had no provision for retail activities.

COMMENTS OF COMPETITORS

The competitors were generally opposed to the Postal Service competing with private, tax-paying businesses and voiced several concerns about the postal-related products sales. Among them was the concern that the Service could expand its product line limitlessly in the future. Some said that the Service should put its effort into improving mail service. One competitor said it became uneconomical to stock certain items since the Service began selling them; another said that the Service should sell its products in small towns where no stationary stores existed.

A photocopy company withdrew its bid to provide services to the Postal Service because it felt that the installation of machines in post offices would reduce traffic through small businesses having similar machines and thereby reduce revenues to those small businesses.

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