

GAO

Report to the Chairman, Subcommittee
on the Postal Service, Committee on
Government Reform and Oversight
House of Representatives

November 1998

U.S. POSTAL SERVICE

Development and
Inventory of New
Products





General Government Division

B-278754

November 24, 1998

The Honorable John M. McHugh
Chairman, Subcommittee on the Postal Service
Committee on Government Reform and Oversight
House of Representatives

Dear Mr. Chairman:

This report responds to your request for information on new Postal Service products. Over the past few years, the Postal Service's introduction of new products¹ has stirred controversy. Some Members of Congress have said that the Service is unfairly expanding its product line to compete in nonpostal-related markets and have introduced legislation to curtail such activity. Some private sector companies have also complained about the Service's entry into nontraditional postal markets. They were concerned that the Postal Service could use its governmental status to an unfair advantage when introducing products that compete with private sector companies. In examining these concerns, you requested that we review several issues related to the Postal Service's development and marketing of new products and provide information on expenses and revenues associated with new products the Service introduced in recent years. You indicated this information would be useful to the Subcommittee in its deliberations to reform the U.S. Postal Service.

As agreed with the Subcommittee, this report addresses the following objectives:

- Identify the statutory and regulatory authorities and constraints covering all major groups of new products.
- Identify the potential impact that enactment of H.R. 22² and the Postal Service's proposed reform legislation could have on new products.
- Provide information on the Postal Service Marketing Department's new product development process and determine, for three selected products, how closely that process was followed.

¹For purposes of this report, a product is defined as a commodity, a service, or a concept that is expected to result in a commodity or service.

²H.R. 22 was legislation considered during the 105th Congress to fundamentally modernize and reform the U.S. Postal Service. A similar bill (H.R. 3717, 104th Cong. (1996)) was introduced in the 104th Congress.

- Provide information, including financial data, on all new postal³ and nonpostal⁴ products the Service marketed and/or had under development during fiscal years 1995, 1996, and 1997.

Results in Brief

The statutory and regulatory authorities governing the Postal Service provide the Service broad latitude to develop and market a wide variety of new products, including both postal and nonpostal products. Under these broad authorities, the Service has developed an array of new products, such as Global Priority Mail and prepaid phone cards. Our analysis shows that the Service is subject to at least three constraints in developing and marketing new products. First, since it is the underlying statutory mission of the Postal Service to provide postal services to bind the nation together, the Service needs to be able to explain how any new product it develops will further that mission. Second, under its statutory authority, before marketing (including test marketing) a new domestic postal product, which necessarily involves classification⁵ of mail, the Service must request a recommended decision from the Postal Rate Commission (PRC) regarding the propriety of the Service's proposed classification, rates, or fees for the new product. Prior to issuing its recommended decision, PRC is required to hold hearings on the Service's proposal. The Postal Board of Governors, however, may reject or modify PRC's recommended decision. The Service is not required to request a recommended decision from PRC in the case of nonpostal products, such as telephone cards and retail merchandise. Third, the Service's ability to market new products can be constrained or influenced by congressional oversight, restrictions imposed during the appropriations process, or other legislative actions.

Adoption of either H.R. 22 or legislative changes offered by the Postal Service would amend the Service's current statutory authority to develop, test, approve, and market new products. H.R. 22 would place new restrictions on the introduction of new, nonpostal products and international postal products. For example, the Service would be restricted to introducing new, nonpostal products through a for-profit corporation created and owned by the Postal Service. However, H.R. 22 would provide the Service with broader latitude to test market

³There is no statutory definition of a postal product. However, court and administrative decisions have held that products are considered to be postal in nature if they involve an aspect of the posting, handling, or delivery of mail.

⁴Nonpostal products include, for example, retail merchandise and most of the Service's new electronic initiatives.

⁵Classification refers to a grouping of mail matter for assigning it a specific rate or method of handling.

experimental postal products.⁶ For example, market tests of new postal products could be conducted for as long as 2 years and generate \$10 million in revenues per year without prior PRC approval and could be extended to a third year with PRC's approval. Larger scale market tests, with up to \$100 million in annual revenues, would also be permitted under rules adopted by PRC. The Postal Service's proposed legislative changes would also provide the Service with broader latitude to test market experimental postal products. Under the Service's proposed changes, it would be able to test market experimental domestic postal products without having them reviewed by PRC first. Under the Service's proposal, it could also continue to develop, test, approve, and market new capital,⁷ philatelic,⁸ international, and nonpostal products without having them reviewed by PRC.

In 1996, to facilitate the Service's goal of initiating and growing new businesses, the Service's Marketing Department established the New Business Initiatives and Products Group, which implemented a new product development process. Known as the *CustomerPerfect!*_{sm}⁹ new product development process, it is intended to ensure effective management control through a formalized system of checks and balances that require top management buy-in at four critical stages: (1) concept stage, (2) business plan stage, (3) test stage, and (4) implementation stage. Our review of three judgmentally selected products showed that in developing these products, the Marketing Department's New Business Initiatives and Products Group generally followed the *CustomerPerfect!* new product development process. The Service provided explanations, in all cases, for any deviations from the process.

Information and financial data we gathered on new products show that during fiscal years 1995, 1996, and 1997, the Service marketed, or had under development, 19 new products that had been publicly announced. Three of these new products involved strategic alliances¹⁰ with other businesses, such as the Service's alliance with SmarTalk Teleservices, Inc. to market FIRSTCLASS PHONECARDTM. As of July 1998, the Service had

⁶Experimental postal product is a term used in H.R. 22 that generally equates to a new postal product.

⁷Capital products are generally limited to infrastructure improvements, such as buildings and equipment.

⁸Philatelic products are stamps and related merchandise that incorporates stamps.

⁹*CustomerPerfect!* is the Service's Malcolm Baldrige Award criteria-based management system. The *CustomerPerfect!* management cycle of planning, implementation, and review consists of activities intended to give direction to the organization and to build and sustain improved performance against set goals.

¹⁰A strategic alliance is an agreement between two or more parties for sharing the risks of a project, including revenues and expenses.

discontinued 5 of the 19 new products for various reasons and was considering discontinuing another. Total revenues and expenses for the 19 products, from inception through fiscal year 1997, as reported by the Postal Service and unaudited by us, were \$148.8 million and \$233.5 million, respectively. During the first 3 quarters of fiscal year 1998, Service officials stated that 4 of the 19 new products had produced revenues that exceeded expenses. In this regard, it may not be reasonable to expect all new products to become profitable in their early years, because new products generally take several years to become established and recover their start-up costs. Appendix III contains an inventory that provides summary background and financial information about the Service's 19 new products.

Background

The Postal Service is an independent establishment in the executive branch. The Postmaster General, Deputy Postmaster General, and nine presidentially appointed members of the Postal Board of Governors direct the operations of the Postal Service. The Postal Service is to operate in a businesslike manner and is to break even in the long term. An independent Postal Rate Commission was established to, among other things, regulate the Postal Service's adherence to ratemaking standards and to ensure that it does not take advantage of its monopoly on the delivery of letter mail.

Since the creation of the General Post Office in 1775, the core business of the U.S. Postal Service has been the collection and delivery of letters and packages to the households and businesses of the nation. Today, however, the Service sees its core business threatened by the advent of the electronic age. The Service believes that its role as provider of universal postal service at uniform rates faces competition significantly more challenging than the competition from past eras—most notably the telegraph and the telephone.

In 1997, former Postmaster General Marvin Runyon, in testimony before your Subcommittee, said the electronic rival the Postal Service currently faces goes far beyond anything faced before. He stated that computers, telephones, television, and electronic funds transfers are being brought together with a rapidly evolving communications network, and this network promises one day to link nearly every home and business in the nation with the capability to rapidly trade messages, money, and multimedia content.

According to the Postal Service, this new communications network—e.g., the Internet and its World Wide Web, e-mail, electronic commerce, and electronic data exchange—is fundamentally altering consumers’ choices and expectations. More importantly, because of these new choices, the Service is concerned that future First-Class Mail revenues will decline due to the electronic diversion of mail. In fact, the former Postmaster General was so concerned about this prospect that he testified before the Subcommittee that if a significant amount of First-Class Mail gravitates to alternative sources of delivery, this could jeopardize the Service’s core business, which is the financial bedrock of universal service.

It is against this backdrop that the Postal Service began, in the mid-1990s, focusing resources on the aggressive development and introduction of new products—primarily nonpostal products. This move, however, has created controversy. Some Members of Congress and some private sector companies have said that the Postal Service is unfairly expanding its product line to compete in nonpostal-related markets, and they have manifested their concerns in various forms. For example:

- Representative Hunter introduced a bill (H.R. 3690) on June 20, 1996, to prohibit the Service from making available to the public any commercial nonpostal service that it did not have available on January 1, 1994. H.R. 3690 was not enacted and was reintroduced as H.R. 198 on January 7, 1997. H.R. 198 was referred to the Committee on Government Reform and Oversight with no further legislative action.
- Representative Northup sought to stop the Postal Service from expanding one of its international mail services—Global Package Link—through an amendment to the Fiscal Year 1998 Treasury, Postal Service, and General Government Appropriations bill. Although the proposed amendment did not become part of the Fiscal Year 1998 Appropriations Act, the conferees agreed to study the issue.¹¹ Additionally, the Conference Report accompanying the act included a request that the Postal Service report on its nonpostal activities.¹²

New products originate from several different sources within the Postal Service organization, and various review and approval processes are used for the introduction of new products—the source and type of approval process used generally being related to the type of product. New products

¹¹We issued a report on Global Package Link service in June 1998. See *U.S. Postal Service: Competitive Concerns About Global Package Link Service* (GAO/GGD-98-104, June 5, 1998).

¹²The Postal Service issued its report responding to the conferees’ request on February 27, 1998.

typically fall into one of the following major groups—capital, philatelic, postal, and nonpostal products.

Scope and Methodology

To identify the statutory and regulatory authorities and constraints covering all groups of new products, we researched and analyzed applicable sections of the U.S. Code, Postal Service regulations, PRC regulations, and relevant court and administrative opinions and decisions. Additionally, we reviewed H.R. 22 and the Postal Service's proposed reform legislation to determine how existing statutory and regulatory authorities and constraints governing new products may be affected by enactment of either of these legislative proposals.

To document the Marketing Department's *CustomerPerfect!* new product development process, we interviewed marketing and finance managers responsible for the development and oversight of the process. To track the flow of three judgmentally selected products¹³ through the process, we worked primarily with the program managers responsible for those products. In all cases, we obtained, where possible, documentation to corroborate oral statements. This documentation included, for example, copies of draft and approved Business Proposition Statements, copies of draft and approved Business Plans, documents provided to top management and the Postal Service's Board of Governors, financial information about the three new products, and summary information about contracts and contractors. We did not independently verify the accuracy of the financial data provided or validate the Service's claim as to how much of its annual revenues were at risk to electronic diversion.

We gathered pertinent information from the Service's Finance Department to develop profiles, including financial data, on the remaining new products the Service marketed and/or had under development during fiscal years 1995, 1996, and 1997 and that had been publicly announced as of November 1997. Included in the information we gathered were Business Proposition Statements, Business Plans, documents provided top management and the Board of Governors, and financial information about each new product. We reviewed and analyzed the information gathered and summarized the results of that work in appendix III. Clarification

¹³Of the Postal Service's 19 new products, 11 were under the purview of the Marketing Department's new product development process. From those 11, 3 were selected for more in-depth review—the Service's phone card business (FIRSTCLASS PHONECARD™), the Service's remittance processing business (REMITCO), and the Service's Electronic Postmark™ System. This selection was made in concert with the Subcommittee staff and provides coverage of products in varying stages of completion.

questions were addressed either by Finance officials or the program manager responsible for a particular product. As with the three products we reviewed in detail, we did not independently verify the accuracy of the financial data provided on the remaining products in appendix III. The inventory of products in appendix III is limited to products marketed and products under development that have been publicly announced by the Service. It does not include products under development that have not been publicly announced because of the proprietary nature of the Service's research and development effort. To help ensure that all new products were identified, we researched the Service's electronic database of press releases, speeches, and testimonies to identify announcements concerning products under development.

We conducted our review at Postal Service Headquarters in Washington, D.C., between November 1997 and July 1998 in accordance with generally accepted government auditing standards.

We requested comments on a draft of this report from the Postal Service, and the Service's comments are discussed at the end of this letter.

Statutory and Regulatory Authorities and Constraints Governing the Postal Service's Ability to Market New Products and Recent Reform Proposals

The Postal Service has broad statutory authority to develop, test, approve, and market a variety of new products, including new capital, philatelic, domestic and international postal, and nonpostal products. However, our analysis shows that the Service is subject to at least three constraints. First, since it is the underlying statutory mission of the Postal Service to provide postal services to bind the nation together, the Service needs to be able to explain how any new product it develops will further that mission.¹⁴ Second, under its statutory authority, before marketing (including test marketing) a new domestic postal product, which necessarily involves classification of mail, the Service must request a recommended decision from PRC regarding the propriety of the Service's proposed classification, rates, or fees for the new product. Prior to issuing its recommended decision, PRC is required to hold hearings on the Service's proposal. The Governors of the Postal Service may approve, allow under protest, reject, or modify PRC decisions as provided for in statute.¹⁵ Finally, the Service's ability to market new products can be constrained or influenced by

¹⁴The Service's basic mission is to provide postal services to bind the nation together and provide those services in a prompt, reliable, and efficient manner, at reasonable rates, to all communities and patrons. See 39 U.S.C. 101.

¹⁵39 U.S.C. 3625(a).

congressional oversight, restrictions imposed during the appropriations process, or other legislative actions.

Adoption of H.R. 22 or legislative changes offered by the Postal Service would amend the Service's current statutory authority to develop, test, approve, and market new products. H.R. 22 would place new restrictions on the introduction of new, nonpostal products and international postal products. For example, the Service would be restricted to introducing new, nonpostal products through a for-profit corporation created and owned by the Postal Service. However, H.R. 22 would provide the Service with broader latitude to test market experimental postal products. For example, market tests of new postal products could be conducted for as long as 2 years and generate \$10 million in revenues per year without prior PRC approval and could be extended to a third year with PRC's approval. The Postal Service's proposed legislative changes would also provide the Service with broader latitude to test market experimental postal products. Under the Service's proposed changes, it would be able to test market experimental domestic postal products without having them reviewed by PRC first.

Current Statutory and Regulatory Authorities and Constraints Governing the Postal Service's Ability to Market New Products

The Postal Reorganization Act of 1970¹⁶ provides the Postal Service with broad statutory authority to develop, test, approve, and market new products. With respect to the Postal Service's general duties, the act directs the Service to plan, develop, promote, and provide adequate and efficient postal services at fair and reasonable rates and fees.¹⁷ In addition, it specifies that it is the Service's general duty to "receive, transmit, and deliver . . . written and printed matter, parcels, and like materials and provide such other services incidental thereto as it finds appropriate to its functions and in the public interest."¹⁸

In more specific terms, the act also provides the Postal Service authority to develop a variety of new products. With regard to new capital products, the Service has authority under the act to determine the need for post offices, postal and training facilities, and equipment and to provide such offices, facilities, and equipment as it determines are needed.¹⁹ The act also provides the Service with the specific power to provide philatelic

¹⁶Pub. L. No. 91-375, 84 Stat. 720, as amended and codified in Title 39 of the United States Code.

¹⁷39 U.S.C. 403(a).

¹⁸*Id.*

¹⁹39 U.S.C. 404(a)(3).

services.²⁰ With regard to new international products, the act has been interpreted by the courts as providing the Service, with the consent of the president, the authority to establish international products.²¹ Finally, with regard to nonpostal products, the act provides the Service with the specific power to “provide, establish, change, or abolish special nonpostal or similar services.”²² These provisions do not contain any specific limitations or constraints on the Postal Service’s authority to develop, test, approve, and market these products except for the requirement to obtain presidential consent with regard to international products. Nevertheless, our analysis shows that the Postal Service is subject to at least three constraints that affect postal operations, including the development and marketing of new products.

First, the act sets forth the mission of the Service to provide “postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people.”²³ In addition, it directs the Service to provide postal services in a prompt, reliable, and efficient manner, at reasonable rates, and to all communities and patrons. Therefore, when the Service develops any new product, it needs to be able to explain how that new product will further its underlying statutory mission. For example, in response to recent questions from Congress regarding its marketing of new retail products with postal themes, such as neckties, T-shirts, greeting cards, and other gift items, Postal officials justified these nonpostal products as being needed to help provide the necessary revenues to operate its basic functions and obligations.²⁴ However, more recently, the Postal Service acknowledged growing concerns in Congress and in the private sector about its marketing of these retail products, and it decided to end the sales of apparel merchandise at post offices.²⁵

Second, under its statutory authority, before marketing a new domestic postal product, which necessarily involves classification of mail, the Service must request a recommended decision from PRC regarding the

²⁰39 U.S.C. 404(a)(5).

²¹See *UPS Worldwide Forwarding, Inc. v. USPS*, 66 F.3d 621 (3d Cir. 1995) (interpreting 39 U.S.C. 407(a)).

²²39 U.S.C. 404(a)(6).

²³39 U.S.C. 101(a).

²⁴Report on Postal Service Activities-In Compliance with the Conference Report on Public Law No. 105-61 (Feb. 27, 1998).

²⁵The Postmaster General announced this change in policy on June 24, 1998. The Service plans to continue such sales through mail order catalogs, its Web site, at special events, and at the Postmark America store in the Mall of America in Minnesota.

propriety of the Service's proposed classification, rates, or fees for the new product. The requirement to request a recommended decision from PRC before marketing a new product applies, however, only to new domestic postal products.²⁶ Therefore, the Service may introduce new capital, philatelic, international, and nonpostal products without first requesting a recommended decision from PRC. Although there is no statutory definition of a postal product, court and administrative decisions have held that a product is considered to be postal in nature if it involves an aspect of the posting, handling, or delivery of mail.²⁷

With regard to new domestic postal products, the act also requires that PRC provide an opportunity for a hearing on the record for the Service, mail users, and a PRC officer representing the interests of the general public prior to PRC issuing its recommended decision.²⁸ Under its regulations, PRC provides general rules of practice for these proceedings and special rules and expedited proceedings for recommended decisions, such as decisions on (1) experimental products, (2) market tests of new products, and (3) new products that are to be marketed for only a limited amount of time.²⁹ The Postal Service's Board of Governors may approve, allow under protest, reject, or modify PRC decisions as provided for in statute.

Third, the Postal Service's ability to market new products can be constrained or influenced by congressional oversight and other congressional action. The act provides for congressional oversight of the Postal Service. This oversight responsibility resides primarily with the Senate Committee on Governmental Affairs and its Subcommittee on International Security, Proliferation and Federal Services; and with the House Committee on Government Reform and Oversight and its Subcommittee on the Postal Service. These Committees and Subcommittees periodically hold oversight hearings on postal operations, at which time the Postal Service may be asked to justify any new product being developed or marketed. Additionally, other congressional action, including restrictions imposed during the appropriations process and other types of legislative action, can constrain or influence the Postal Service's new product activities.

²⁶See 39 U.S.C. ch. 36; *UPS Worldwide Forwarding, Inc. v. USPS*, 66 F.3d 621 (3d Cir. 1995); PRC Opinion, "Provisional Packaging Service," MC97-5 at note 1 (March 31, 1998).

²⁷See *National Association of Greeting Card Publishers v. USPS*, 569 F.2d 570, 596 (D.C. Cir. 1976); PRC Order No. 1145, "Complaint of Coalition Against Unfair USPS Competition," C96-1 (Dec. 16, 1996).

²⁸39 U.S.C. ch. 36.

²⁹See 39 C.F.R. Part 3001.

Current Authorities and Constraints Would Be Affected by the Adoption of H.R. 22

On January 7, 1997, the Chairman, Subcommittee on the Postal Service, introduced H.R. 22 in the 105th Congress to reform the laws that govern the Postal Service. H.R. 22 followed up on a similar bill (H.R. 3717, 104th Congress (1996)) introduced by the Chairman in the 104th Congress. The most recent version of H.R. 22 was agreed to by the Subcommittee on the Postal Service on September 24, 1998. H.R. 22—currently entitled the Postal Modernization Act of 1998—would amend the Service’s current statutory authority to develop, test, approve, and market new products in a number of ways.

First, H.R. 22 would provide, for the first time, statutory definitions for the terms postal products and nonpostal products. A postal product would be specifically defined as “any service that provides for the physical delivery of letters, printed matter, or packages weighing up to 70 pounds, including physical acceptance, collection, sorting, or transportation services ancillary thereto.” A nonpostal product would be defined as “any product or service offered by the Postal Service (or that could have been offered by the Postal Service under section 404(a)(6), as last in effect before the date of enactment of the Postal Modernization Act of 1998) that is not a postal product.”

Having specifically distinguished between postal and nonpostal products, H.R. 22 would place additional constraints on the introduction of new, nonpostal products. Under H.R. 22, the Service would be restricted to introducing new, nonpostal products through a private, for-profit corporation funded through revenues derived from the Service’s competitive products and loans obtained on the credit of the corporation itself. The corporation would be owned by, but separate from, the Postal Service and would be subject to the same corporate laws as any other similar private company. Furthermore, nonpostal products that the Service first offered to the public between January 1, 1994, and the date of enactment of H.R. 22 would be transitioned into the private corporation, following a schedule and procedures established by PRC.³⁰ Nonpostal products first offered to the public prior to January 1, 1994, could continue to be produced or discontinued by the Service directly (but not established or changed). PRC would not, as under current law, be involved in reviewing the establishment of new nonpostal products.

Under H.R. 22, for the first time postal products would be specifically divided into separate “competitive” and “noncompetitive” categories. Competitive products would include those postal products facing full

³⁰Under H.R. 22, the Postal Rate Commission would be renamed the Postal Regulatory Commission.

competition within the marketplace. As specified in H.R. 22, competitive activities would be, to the maximum possible extent, on the same terms and conditions as those faced by private sector competitors.

After establishment of initial rates (referred to in H.R. 22 as baseline rates) based on a recommended decision by PRC, the Postal Service would have discretion to set prices for competitive products as it deems appropriate, as long as (1) each of these products was priced to cover its own costs, and (2) the competitive products collectively made a specified contribution to the overhead of the Postal Service. PRC would do annual audit reviews of competitive products to ensure that prices were set in accordance with the law.

Noncompetitive products would include those products such as First-Class Mail and other classes of mail for which there are few practical or legal alternatives to the Postal Service. After establishment of baseline rates based on a recommended decision by PRC, rates for noncompetitive products would be established using a price “cap” regimen, based on the consumer price index less a “productivity offset,” which PRC will determine every 5 years. Once the cap is established, the Postal Service may adjust prices on an annual basis within specified limits.

International postal products would be grouped into the competitive or noncompetitive categories, as appropriate, and would, for the first time, be treated the same as any other postal product with regard to PRC involvement and oversight.

H.R. 22 would provide the Service with broader latitude to test market experimental postal products. Under H.R. 22, experimental postal products could be tested in the marketplace without having to meet the specific price cap/competitive category requirements the bill would impose. Specifically, the proposal would authorize market tests of experimental noncompetitive and competitive postal products for as long as 2 years and for \$10 million in revenues per year without prior PRC approval. Market tests could be extended to a third year with PRC’s approval. Larger scale market tests, generating up to \$100 million in annual revenues, would also be permitted under rules adopted by PRC. The Postal Service would be required to provide to PRC (1) notice prior to the initiation of any market tests; and (2) annually, information regarding costs, revenues, and quality of service on its market tests of new products. PRC would have the authority to review market tests through annual audit, to review market tests upon complaint, or to stop market tests that do not

meet established criteria. After completion of the market tests, the Service would be required to either discontinue the test or follow the requirements for its permanent placement in either the competitive or noncompetitive postal product categories.

Current Authorities and Constraints Would Be Affected by the Adoption of the Postal Service's Proposed Legislative Changes of May 7, 1997

In response to the introduction of the original version of H.R. 22, the Postal Service presented to the Subcommittee on the Postal Service its own legislative proposal for postal reform on May 7, 1997. The proposal, referred to as the Postal Pricing Reform Act of 1997, would allow the Postal Service to test market experimental domestic postal products without having them reviewed by PRC first. The Postal Service believes that the existing system is unduly inhibiting, potentially too lengthy, and inadequate to accommodate the needs of a modern Postal Service.³¹

The proposal provides for the Postal Service to test market experimental, domestic postal products without first requesting a recommended decision from PRC on product classification and rates or fees. After an experimental product has been in existence for 3 years or has actually generated \$100 million of annual revenue, the Postal Service could either discontinue the experiment or request a recommended decision from PRC. The Service could continue to offer experimental products while PRC was conducting hearings.

Under the Service's proposal, the Service could continue to develop, test, approve, and market new capital, philatelic, international, and nonpostal products without having them reviewed by PRC. Finally, the proposal does not appear to affect current distinctions between postal and nonpostal products set forth in administrative and court decisions.

³¹Decision of the Governors of the USPS on the Recommended Decision of PRC, C96-1 at 9-10 (April 8, 1997).

The Marketing Department's *CustomerPerfect!* New Product Development Process and Illustrative Examples of Three Products Under The Purview of That Process

The Service's Marketing Department is one of the primary players in the introduction of new products. Since June 1996, the Marketing Department has relied on a formalized review and approval process to govern the introduction of its new products. The process, referred to as the *CustomerPerfect!* new product development process, is based on the Malcolm Baldrige Award criteria and incorporates many aspects of the Service's review and approval process for capital projects. As part of our overall review of the Marketing Department's new product development process, we traced the movement of three products through that process, and we found that they generally followed the tenets of the *CustomerPerfect!* new product development process.

The Marketing Department's *CustomerPerfect!* New Product Development Process

During the early 1990s, Postal management recognized that the Postal Service was facing a future of growing competition across many of its product lines. In particular, managers believed that the emerging electronic communications industry had the potential to seriously erode the Service's First-Class Mail base—the financial bedrock of universal service. Faced with this perspective, management developed the corporate goal of initiating and growing new businesses, particularly in the electronic communications arena, in order to ensure its commercial viability as a service provider for the worldwide movement of messages, merchandise, and money.

To carry out its goal of initiating and growing new businesses, the Service turned primarily to its Marketing Department, which began developing concepts for new products. To oversee this work, Marketing established a New Business Initiatives and Products Group. Additionally, to facilitate the process of developing and introducing new products and to ensure effective management control, the Service developed a formalized system of checks and balances that requires top management buy-in at critical stages of the development process. This system of checks and balances, adopted in June 1996, is known as the *CustomerPerfect!* new product development process. This process is also used to review the performance of products and terminate those that do not perform to Postal Service expectations.

As an additional check to ensure that the new product development process is followed, top management established a Business Evaluation Group in the Finance Department. In addition to helping the Marketing

Department oversee the process, the Business Evaluation Group is to validate the financial feasibility of new products and provide the Board of Governors with an independent financial assessment of each new product. The Business Evaluation Group reports directly to the Chief Financial Officer/Senior Vice President.

Under the new product development process, new products initiated by the Marketing Department's New Business Initiatives and Products Group go through four distinct stages: the (1) concept stage, (2) business plan stage, (3) test stage, and (4) implementation stage. During each stage, there are specific review and decision points for top management. Additionally, the Board of Governors must approve the Business Plan, product testing and results, and product implementation (rollout).

The purpose of the concept stage is to generate ideas for new products that are consistent with the Service's strategic plan³² and *CustomerPerfect!*. The Marketing Department prepares a Business Proposition Statement during this stage that outlines such things as the business objective for the new product, the market situation, and a revenue forecast. If the Chief Marketing Officer approves the Business Proposition Statement, then the new product proposal advances to stage 2—the business plan stage.

In the business plan stage, a preliminary Business Plan is prepared that includes detailed sections on customer requirements, the target market and strategy for entering that market, the organization and management structure for the business, financial projections, and critical success factors and measures of success. In developing the preliminary Business Plan, a cross-functional team is assembled to achieve consensus on the product assumptions needed to build the preliminary Business Plan. Team members, selected on the basis of skills needed, are drawn from various postal headquarters departments, such as Marketing, Finance, Legal, and Purchasing; and Field Operations. Any issues the cross-functional team cannot resolve by consensus are settled by the Chief Marketing Officer.

After the preliminary Business Plan is developed, the Chief Marketing Officer solicits feedback from individual members of the Management Committee, which comprises the Postmaster General, Deputy Postmaster General, Chief Operating Officer, Chief Financial Officer, and Chief Marketing Officer. Following review and approval by the Management

³²Under the Government Performance and Results Act of 1993, agencies are to develop strategic plans in which they define their missions, establish results-oriented goals, and identify strategies they will use to achieve those goals.

Committee, the Marketing Department conducts a proof of concept operations test with a vendor to validate the new product concept. If the operations test indicates that the new product concept is valid and ready for market testing, then the Chief Marketing Officer presents the preliminary Business Plan to the Strategic Planning Committee of the Board of Governors for review. With the Strategic Planning Committee's approval, the Chief Marketing Officer presents the preliminary Business Plan to the Board of Governors. If the Board approves the preliminary Business Plan, then the proposed new product moves to stage 3—the test stage.

The purpose of the test stage is to test and evaluate the new product in the marketplace. Postal field operations participate with cross-functional team representatives to establish the scope of a limited market test and the measures of success. Following the limited market test, the Chief Marketing Officer reviews the test results and determines the need for an expanded test. If the Chief Marketing Officer determines that an expanded test is warranted, then a proposal for a major market test is prepared. That proposal is then to be reviewed and approved by the Management Committee, Strategic Planning Committee of the Board of Governors, and the Board of Governors. Following Board approval, the new product is tested in a major market. After the major market test, the process requires a thorough review of the results by the cross-functional team and Chief Marketing Officer. If this review determines that the established measures of success have been met, the new product proceeds to stage 4—the implementation stage.

The first step in the implementation stage is for the Marketing Department to update and finalize the Business Plan on the basis of the results of the major market test and feedback from the individual members of the Management Committee. After a final review and approval of the market test results and Business Plan by the Management Committee, Strategic Planning Committee of the Board, and the Board of Governors, the new product is rolled out to the target market, which, in most cases, is the nation.³³ After a new product is rolled out, it is to be tracked continuously against the Business Plan and subjected to annual performance reviews by the Marketing Department. On the basis of the results of the annual performance reviews, the Marketing Department is to make improvements to the new product as indicated.

³³Products such as Dinero Seguro (electronic money transfers to Mexico) are available only in selected U.S. markets.

Appendix I lists the major events during each of the four stages of the new product development process.

Three Examples of Products Under the Marketing Department's *CustomerPerfect!* New Product Development Process

As part of our overall review of the Marketing Department's new product development process, we traced the movement of three products—FIRSTCLASS PHONECARD™, REMITCO, and Electronic Postmark™ System—through that process, primarily to determine how closely they followed prescribed steps. The Postal Service had partially developed all three products before the *CustomerPerfect!* new product development process was implemented in June 1996. Prior to that date, the products followed developmental steps similar to and later incorporated into the new product development process.

FIRSTCLASS PHONECARD™ is the name of the Postal Service's prepaid phone card, which can be purchased at postal retail outlets and from postal vending machines. REMITCO is the Postal Service's remittance processing business. REMITCO extends the Postal Service's business of delivering payments, such as credit card and utility payments, to the actual processing of checks being mailed from customers to businesses. Electronic Postmark™ is the Postal Service's electronic version of its traditional postmark. The Electronic Postmark™ System applies the digital signature of the Postal Service to an electronic transaction, states the time and date it is applied, and displays notification to the recipient if the transaction has been tampered with.

Although all three products were moved into the new product development process in June 1996, the products entered different stages of the new process and progressed at different rates. FIRSTCLASS PHONECARD™ entered the new process at the test stage and has since progressed to the implementation stage. At the end of fiscal year 1997, FIRSTCLASS PHONECARD™ was the only product to have achieved national rollout under this process. REMITCO and Electronic Postmark™ System entered the new process at the business plan stage, although REMITCO is the only one of the two that has progressed to the test stage. In general, we found that each of the three products followed the tenets of the new process. However, proof of concept operations tests were not done for FIRSTCLASS PHONECARD™ and REMITCO, although the process called for these tests. According to Postal officials, such tests were unnecessary because the product concepts had already been validated by various private sector companies.

Appendix II contains a more detailed discussion of each product, including information on the origin and development of the product; the short- and long-term goals for the product; and our assessment of how closely the product followed the new product development process, as well as the Postal Service's rationale for any deviations from the new process.

Inventory of New Postal Products

Appendix III contains an inventory and summary information about each publicly announced new product the Postal Service marketed and/or had under development during fiscal years 1995, 1996, and 1997—excluding capital and philatelic products.³⁴ Table 1 summarizes the financial performance of each new product and the 19 products in total, from product inception through fiscal year 1997, and for the first 3 quarters of fiscal year 1998.

³⁴As noted earlier, products under development that had not been publicly announced are not included in the inventory.

Table 1: Summary Financial Data on New Products Marketed and/or Under Development During Fiscal Years 1995, 1996, and 1997 (Exclusive of Capital and Philatelic Products)

Product	Profit (loss) in millions	
	Product inception through fiscal year 1997	First 3 quarters of fiscal year 1998
FIRSTCLASS PHONECARD™	(\$3.0)	\$3.9 ^a
REMITCO	(6.1)	(6.3)
Electronic Commerce Services ^b	(20.3)	^c
Global Priority Mail	(5.4)	(0.6)
Global Package Link	(1.1)	(0.2)
Retail Merchandise	3.3	5.0
PostOffice Online	(0.8)	(4.5)
WEB Interactive Network of Government Services	(4.0)	(1.1)
Deliver America	(3.2)	^c
Information Based Indicia Program	(3.1)	(1.8)
Customer Initiated Payment System	(1.3)	^c
Unisite Antenna Program	(1.6)	0.1
LibertyCash	(6.4)	(1.9)
Dinero Seguro	(10.5)	(5.4)
Sure Money	(0.5)	(0.5)
Delivery Confirmation	(2.9)	9.6
Provisional Packaging Service	(2.6)	^c
Fastnet	(11.7)	^c
Global e-Post	(3.5)	^c
Total	(\$84.7)	(\$3.7)

Note: Figures in table are as reported by the Postal Service and unaudited by GAO.

^aDoes not include any proceeds from the sale of the FIRSTCLASS PHONECARD™ business to SmarTalk Teleservices, Inc.

^bIncludes Electronic Postmark™ System and Certificate Authority System.

^cReported no financial activity during first 3 quarters of fiscal year 1998.

Source: U.S. Postal Service.

The information displayed in appendix III provides (1) a description of each product, (2) a history of each product, (3) financial data from inception of product through fiscal year 1997, and (4) fiscal year 1998 financial data—through quarter 3—for each product. Highlighted below are some of our observations concerning the inventory listing.

-
- Of the 19 new products listed, 11 were at least partially developed under the Marketing Department's *CustomerPerfect!* new product development process and 8 were not.
 - Three products—FIRSTCLASS PHONECARD™, Dinero Seguro, and Unisite Antennas—involved strategic alliances with other entities.
 - Of the 19 new products listed, 5 had been discontinued as of July 1998, and the Service was considering discontinuing 1 more—Customer Initiated Payment System (CIPS). Additionally, the Service was awaiting a decision from its Board of Governors on whether or not to proceed with its Provisional Packaging Service (formerly known as pack-and-send).
 - Of the 19 new products listed, 10 were started before fiscal year 1996, 6 were started in fiscal year 1996, and 3 were started in fiscal year 1997.
 - From date of product inception through fiscal year 1997, only one product reported making a profit—retail merchandise. Total revenues and expenses reported for the 19 products, through fiscal year 1997, were \$148.8 million and \$233.5 million, respectively, resulting in a net loss of \$84.7 million. In this regard, it may not be reasonable to expect all new products to become profitable in their early years, because new products generally take several years to become established and recover their start-up costs.
 - During the first 3 quarters of fiscal year 1998, 13 of the 19 products listed had financial activity. Four of the 13 reported net profits, and 9 reported net losses for the period. Total revenues and expenses for the 13 products during the first 3 quarters of fiscal year 1998 were \$117.8 million and \$121.5 million, respectively, resulting in a reported net loss of \$3.7 million.

Agency Comments

We requested comments from the Postmaster General on a draft of this report. On October 27, 1998, the Postal Service's Chief Marketing Officer/Senior Vice President provided comments on the draft report. He said that the Service was in agreement with the information presented. He provided some technical updates, which we incorporated into the report where appropriate.

We are sending copies of this report to the Ranking Minority Member of your Subcommittee; the Chairman and Ranking Minority Member of the Subcommittee on International Security, Proliferation and Federal Services, Senate Committee on Governmental Affairs; the Postmaster General; and other interested parties. Copies will also be made available to others upon request.

Major contributors to this report are listed in appendix IV. If you have any questions about the report, please call me on (202) 512-8387.

Sincerely yours,



Bernard L. Ungar
Director, Government Business
Operations Issues

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Abbreviations

CIPS	Customer-Initiated Payment System
IBIP	Information Based Indicia Program
PIN	personal identification n'umber
PostECS	Postal Electronic Courier Service
PRC	Postal Regulatory Commission
USPS	United States Postal Service
WINGS	WEB Interactive Network of Government Services

Major Events During Each Stage of the Marketing Department's *CustomerPerfect!* New Product Development Process

Concept Stage

- Generate an idea for new product that is consistent with the Service's strategic plan and *CustomerPerfect!*
- Prepare a Business Proposition Statement for the new product idea.
- Present the Business Proposition Statement to the Chief Marketing Officer for Review and Approval.
- Move the new product idea to the business plan stage following the Chief Marketing Officer's approval.

Business Plan Stage

- Prepare a preliminary Business Plan for the new product and solicit feedback from the individual members of the Management Committee.
- Present the preliminary Business Plan to the Management Committee for review and approval to proceed with an operations test.
- Conduct a proof of concept operations test to validate the new product concept and its readiness for market testing.
- Provide operations test results to the Chief Marketing Officer for review and approval.
- Present the preliminary Business Plan, including operations test results, to the Board of Governors' Strategic Planning Committee and then to the Board of Governors for their sequential review and approval.
- Move the new product to the test stage following approval by the Board's Strategic Planning Committee and the Board of Governors.

Test Stage

- Perform a limited-scope market test of the new product.
- Evaluate limited-scope market test results and present results to the Chief Marketing Officer for review and decision on whether to proceed with a major market test.
- Present a proposal for a major market test to the Management Committee, the Board's Strategic Planning Committee, and the Board of Governors for their sequential review and approval to proceed with the major market test.
- Conduct the major market test and evaluate the results against measures of success. Submit results for the Chief Marketing Officer's review.
- Move to the implementation stage following determination by the Chief Marketing Officer that measures of success for the major market test were met.

Implementation Stage

- Finalize the Business Plan on the basis of major market test results and feedback from individual members of the Management Committee.

Appendix I
Major Events During Each Stage of the
Marketing Department's *CustomerPerfect!*
New Product Development Process

-
- Present the finalized Business Plan and results of the major market test to the Management Committee, the Board's Strategic Planning Committee, and the Board of Governors for their sequential review and approval.
 - Roll out new product to target market following review and approval of the major market test results and Business Plan by the Management Committee, the Board's Strategic Planning Committee, and the Board of Governors.
 - Track the new product continuously against the Business Plan, perform annual reviews, and improve the product as indicated.

Illustrative Examples of Three Products Under the Purview of the *CustomerPerfect!* New Product Development Process

As part of our overall review of the Marketing Department's new product development process, we traced the movement of three products—FIRSTCLASS PHONECARD™, REMITCO, and Electronic Postmark™ System—through that process, primarily to determine how closely those products followed prescribed steps. Our discussion of each product includes information on the origin and development of the product; the short- and long-term goals for the product; and our assessment of how closely the product followed the new product development process, as well as the Postal Service's rationale for any deviations from the process. In general, we found that each of these three products followed the tenets of the *CustomerPerfect!* new product development process.

FIRSTCLASS PHONECARD™

FIRSTCLASS PHONECARD™ is the exclusive brand name of a phone card offered through a strategic alliance between the U.S. Postal Service and SmarTalk Teleservices, Inc. Phone cards are a way of paying for telephone service in advance by establishing a prepaid account with a card issuer. Phone cards provide customers with a convenient way of making calls when away from the home or office.¹

The Postal Service entered the phone card business about 3 years ago as a way of increasing revenues and providing customers with a convenient, reliable, and trusted means for purchasing and using phone cards. The Service's short-term goal for the FIRSTCLASS PHONECARD™ is to provide a reliable service and make the business profitable. Its long-term goal is to become a leading retailer in the phone card industry. The FIRSTCLASS PHONECARD™ initiative has generally followed the *CustomerPerfect!* new product development process.

History of FIRSTCLASS PHONECARD™

According to Postal officials, the genesis of the Postal Service's entry into the phone card business was in July 1995, after American Express Telecom, Inc., approached the Service about forming a strategic alliance to market phone cards. In August 1995, the Service signed an agreement with American Express to test market phone cards in 712 postal facilities in 7 geographic areas—Columbus, OH; Albuquerque, NM; San Diego, CA; Miami, FL; Salt Lake City, UT; San Antonio, TX; and Providence, RI. According to postal officials, the test market locations were chosen

¹To use a prepaid phone card, the cardholder calls the card issuer's toll-free number, inputs his/her personal identification number (PIN), and inputs the telephone number he/she wishes to reach. The card issuer's computer times the call and deducts the charges from the cardholder's account.

Appendix II
Illustrative Examples of Three Products
Under the Purview of the *CustomerPerfect!*
New Product Development Process

primarily because of their high concentrations of target consumers;² and secondarily because the Service had already slated these areas for increased advertising budgets, which could be used, in part, to promote phone card sales.

In May 1996, the Service and American Express expanded the test to 5 more geographic areas—Atlanta, GA; San Francisco, CA; Orlando, FL; New York, NY; and Washington, D.C.—which brought the total number of postal facilities selling phone cards to about 1,200. In November 1996, following approval by the Board of Governors, the Service and American Express signed an agreement establishing a strategic alliance for marketing phone cards nationwide. In essence, the terms of the alliance provided that the revenues and expenses were to be shared equally between the two parties. Since the alliance agreement was signed, an additional 10,500 postal facilities have begun selling phone cards, bringing the total number of facilities selling phone cards to about 11,700 at the end of fiscal year 1997. The number of locations selling phone cards has increased only slightly since that time. In August 1997, the Service and American Express also began implementing a plan for marketing phone cards in as many as 4,000 postal vending machines.³

Also, in August 1997, SmarTalk Teleservices, Inc., approached American Express to discuss acquiring its subsidiary, American Express Telecom, Inc., which included FIRSTCLASS PHONECARD™. SmarTalk also wanted to establish a strategic alliance with the Postal Service for continuing the FIRSTCLASS PHONECARD™ business. SmarTalk offered \$34 million for the FIRSTCLASS PHONECARD™ business, which was to be split equally between the Postal Service and American Express. According to Postal officials, American Express was interested in SmarTalk's offer because it was in the process of consolidating operations and reducing its secondary business ventures. According to Postal officials, the Service was also interested in SmarTalk's offer for a number of reasons. First, SmarTalk's offer seemed reasonable when compared to other buy-outs in the industry. Second, the terms of the proposed new alliance agreement with SmarTalk were more favorable to the Service than the terms under the alliance with American Express had been. Third, in a J.P. Morgan study commissioned by the Postal Service in late 1996 to evaluate potential phone card partners, SmarTalk ranked third among the top seven candidates. The

²Target consumers included such groups as college students, foreign/domestic tourists, small business owners, military personnel, seniors, and people relocating.

³At the end of fiscal year 1997, the Service was marketing the FIRSTCLASS PHONECARD™ in about 2,000 postal vending machines.

Service believed, on the basis of the results of that study, that SmarTalk would make a good strategic alliance partner. Subsequently, on December 8, 1997, the Board of Governors voted to accept SmarTalk's offer; and on December 22, 1997, the Service, American Express, and SmarTalk signed the transition plan agreement for the FIRSTCLASS PHONECARD™ business. The transition to SmarTalk began in January 1998 and was completed in June 1998.

**Short- and Long-Term
Goals for the FIRSTCLASS
PHONECARD™ Business**

The Service's short-term goal for the FIRSTCLASS PHONECARD™ is to provide a reliable product to customers and make the business profitable. Its long-term goal is to grow revenue annually at a rate of at least 15 percent and become a leader in the phone card industry. According to Postal Service data, through fiscal year 1997, the FIRSTCLASS PHONECARD™ business had performed substantially below expectations—operating at a net loss. However, for the first three quarters of fiscal year 1998, the FIRSTCLASS PHONECARD™ business was operating at a net profit. Overall, Postal Service data show that the FIRSTCLASS PHONECARD™ business has covered all start-up costs and contributed a net profit to the Postal Service.

A Business Plan prepared by the Marketing Department in August 1996 for FIRSTCLASS PHONECARD™ projected a \$35 million profit for the Service in fiscal year 1997. The Postal Service's share of the revenues and expenses was projected to be \$90 million and \$55 million, respectively. The actual performance in fiscal year 1997 was quite different—the Postal Service's share of the revenues and expenses was \$10 million and \$12.4 million, respectively, resulting in a net loss for the year of \$2.4 million. Postal officials attributed the differences between projections and actual performance to overly optimistic projections. For fiscal year 1998, the Service has established a Postal Service revenue goal of \$32.3 million. The Service has not established a specific net profit goal for fiscal year 1998; however, it expects the business will operate at a profit. Through the first three quarters of fiscal year 1998, the FIRSTCLASS PHONECARD™ business had achieved \$11.9 million of its \$32.3 million revenue goal for the year and was operating at a net profit of \$3.9 million.⁴

The Postal Service acknowledges that achieving its long-term goal will be a formidable task—it has more than 500 competitors in the phone card industry. Other companies in the phone card business range from small

⁴No proceeds from the sale of the FIRSTCLASS PHONECARD™ business to SmarTalk are included in the amounts shown.

operations to large international companies, such as American Telephone and Telegraph, Sprint Communications Company, and MCI Telecommunications Corporation. According to International Telecard Association data, phone card sales in the United States totaled \$1.1 billion in 1996.⁵ The Postal Service expects phone card sales in the United States, according to a study by J.P. Morgan, to reach more than \$3 billion annually by the year 2000.

**FIRSTCLASS
PHONECARD™ Initiative
Generally Followed the
CustomerPerfect! New
Product Development
Process**

The FIRSTCLASS PHONECARD™ initiative, under the guidance of the Marketing Department, began in 1995, about 1 year before adoption of the *CustomerPerfect!* new product development process. During this time, the initiative went through development phases similar to those of the new product development process. The FIRSTCLASS PHONECARD™ went through a concept and business plan phase and entered a test phase with phone cards being test marketed in about 1,200 postal facilities. The test at 1,200 postal facilities occurred under the direction of the former Chief Marketing Officer, although no proof of concept operations test was done during the business plan phase to validate the FIRSTCLASS PHONECARD™. According to postal officials, a proof of concept operations test was considered unnecessary because the concept had already been validated by numerous private sector companies, including American Express and SmarTalk, who were already successfully marketing phone cards.

The new product development process was implemented in June 1996, and the FIRSTCLASS PHONECARD™ was officially placed in the test stage of that process. Two major events have occurred with phone cards since that time, and both events were approved by the Service's top management and its Board of Governors. First, the FIRSTCLASS PHONECARD™ entered the implementation stage, and its national rollout began. Second, American Express Telecom, Inc., was sold to SmarTalk, and a new strategic alliance was formed between the Postal Service and SmarTalk for continuing the FIRSTCLASS PHONECARD™ business.

At the end of fiscal year 1997, FIRSTCLASS PHONECARD™ was the only initiative under the purview of the new product development process to have reached the implementation stage and national rollout. According to postal officials, the results of the FIRSTCLASS PHONECARD™ business

⁵The International Telecard Association is a voluntary association of companies and individuals in the phone card industry.

will be evaluated annually and adjustments made to ensure continued product improvement and profitability.

REMITCO

REMITCO is the Postal Service's new remittance processing business. REMITCO extends the Postal Service's business of delivering payments, such as credit card and utility payments, to the actual processing of checks being mailed from customers to businesses.

At present, the Service has one remittance processing facility, which is located on Staten Island in New York City. That facility is operated for the Postal Service by a private company—REMITCO Management Corp.⁶ The Postal Service's short-term goal is to make the Staten Island remittance processing facility profitable. The Service's long-term goal is to protect First-Class Mail volume by encouraging businesses to allow customers to pay their bills via mail instead of electronically. Thus far, REMITCO has generally followed the steps incorporated in the *CustomerPerfect!* new product development process.

History of REMITCO

According to the Postal Service, REMITCO was conceived as a way to slow the public's move toward electronic bill payment by developing a remittance processing service that would support customers who want to continue paying their bills with paper checks via mail while, at the same time, offering the businesses that receive those payments a convenient, economical, and high-quality alternative to in-house remittance processing.

According to Postal officials, the concept of processing remittances became a reality for the Service in December 1996, when it signed a contract to take over and operate American Express' remittance processing facility on Staten Island in New York City. This facility had been operated in-house by American Express to process incoming payments from its high-dollar credit card customers in the Northeast. The Staten Island project is serving as the Service's first test of its new REMITCO remittance processing business—a business the Service hopes to expand nationwide by eventually opening numerous facilities throughout the nation.

⁶The Postal Service's remittance processing business is named REMITCO. REMITCO Management Corp. is the name of the private sector business hired by the Postal Service to manage and operate its Staten Island facility.

Appendix II
Illustrative Examples of Three Products
Under the Purview of the *CustomerPerfect!*
New Product Development Process

According to Postal officials, because the Postal Service did not want to manage the day-to-day operations of a remittance processing facility, it contracted with REMITCO Management Corp. to run the Staten Island facility. REMITCO Management Corp. began processing American Express remittances at the Staten Island facility on May 15, 1997.

The REMITCO Management Corp. consists of approximately 95 employees. Many of REMITCO's employees are former American Express remittance processing employees who worked at the Staten Island facility. There are no Postal Service employees doing remittance processing.

The operation of the Postal Service's REMITCO business is straightforward. For example, when consumers in the Northeast mail their American Express credit card payments to an American Express post office box in New York City or Newark, NJ, the Postal Service identifies and separates the mail containing those payments at the originating mail processing facility. It then transports that mail, along with other mail, to its postal facility in New York City or Newark, NJ. From there, a private courier transports the mail containing the payments to the Staten Island REMITCO facility. At the facility, REMITCO employees utilize automated equipment to open the mail, record the payments, and prepare bank deposit statements. The batched checks are then taken by private courier to American Express' bank for deposit.

According to Postal officials, REMITCO will help improve and protect its First-Class Mail-based remittance stream—one of its core businesses. By protecting the First-Class Mail-based remittance stream, Postal officials believe REMITCO will also save postal jobs tied to the processing and delivery of that mail.

In 1997, the Postal Service delivered about 15 billion First-Class Mail-based remittances from consumers to businesses. Those payments generated nearly \$5 billion in postage revenue for the Service. In recent years, however, Postal officials have become concerned that new information technology is fundamentally altering consumers' choices and expectations for paying their bills. The former Postmaster General voiced these concerns in testimony before the House Subcommittee on the Postal Service on April 24, 1997, when he noted that computers, telephones, and electronic funds transfers are offering consumers attractive alternatives to paying bills through the mail. He stated that electronic alternatives take “. . . dead aim on (the Service's) most critical market: First-Class Mail.” Further, he stated that “one fourth of (the Service's) business—indeed, the

core (of the Service's) business and the financial bedrock for universal service—is bills, payments, and statements.” He concluded that the Service is already seeing substantial diversion of bill payments from the First-Class Mail stream to other electronic methods of bill paying—even though that medium is still in its infancy.

Postal officials point to two developments that they believe are signaling serious trouble for First-Class Mail volume. First, they estimate that \$6 billion of the Service's \$33 billion First-Class Mail revenue is at risk of being lost to electronic diversion of mail. Second, they note that the Service's share of the correspondence and transactions market decreased from 77 percent to less than 59 percent between 1991 and 1996 as a result of electronic diversions. Postal officials believe that the Postal Service, through REMITCO, can slow the diversion of First-Class remittance mail to electronic diversion.

Postal officials stated that some private sector companies have expressed concern that the Service is competing with them head-on—but with an unfair advantage. According to Postal officials, these competitors believe that the Postal Service provides faster delivery of remittances to REMITCO than to private sector processors. Postal officials stated, however, that the same procedure used to identify and separate REMITCO's mail containing payments early in the mailstream and transport that mail to REMITCO is applied to all businesses that have a minimum number of mailpieces at a processing facility each day. The number of mailpieces can vary by location and time but is generally around 250 pieces.

Short- and Long-Term Goals for REMITCO

The Postal Service's short-term goal for REMITCO is to increase its customer base to a level that will produce a net profit from the Staten Island operation.⁷ The long-term goal is for REMITCO to be a national network of payment processing centers that will help protect First-Class Mail volume by encouraging businesses to allow customers to continue paying their bills via mail instead of switching to electronic payments.

At present, the Postal Service's REMITCO operation on Staten Island is processing remittances for three businesses—American Express; Public Service Electric and Gas of Metro Park, NJ; and Mellon Bank Credit Card

⁷Total revenue for fiscal year 1997 was \$1.4 million, and start-up and operating expenses were \$6.3 million.

of Wilmington, DE.⁸ The Service is targeting, as potential customers, businesses that receive 10 million remittances or more annually and do their own remittance processing. Examples include credit card companies, utilities, communications companies, mortgage companies, insurance companies, and large retailers.

The Service estimates that for the Staten Island facility to become profitable, it must process about 60 million remittances annually. As of the end of fiscal year 1997, the facility was processing at the rate of about 50 million pieces annually. Officials hope that within 5 years, the facility will be processing approximately 186 million remittances annually for about 30 customers at a net profit of approximately \$6 million per year. Through fiscal year 1997, however, REMITCO reported a net loss of about \$6.1 million.

The Postal Service has stated that it plans for REMITCO to eventually become a national remittance processing network. The preliminary Business Plan projected that within 5 years the Service would be operating about 20 REMITCO facilities near major remittance processing markets throughout the country.⁹ It also estimated that within 5 years REMITCO could contribute between \$300 million and \$350 million in revenue and \$70 million to \$80 million in profit to the Postal Service each year. According to Postal officials, if those aspirations are realized, REMITCO will have achieved its long-term goal of protecting First-Class Mail as the preferred method of paying bills.

Postal officials noted that of the 15 billion First-Class consumer-to-business remittances delivered in 1997, approximately 11 billion—about 73 percent—were processed in-house. This percentage is declining as the market consolidates and more companies outsource remittance processing. The Service is targeting 1 billion of the 11 billion consumer-to-business remittance payments that are currently processed in-house. The target group is companies with high-volume remittances because the Service believes it can offer a lower cost alternative. The Service is not targeting remittances processed by third-party processors such as banks.

⁸REMITCO began processing remittances for Public Service Electric and Gas in April 1998 and Mellon Bank Credit Card in June 1998.

⁹According to Postal officials, the number of anticipated processing facilities has since been revised to about 10.

**REMITCO Generally
Followed the
CustomerPerfect! New
Product Development
Process**

REMITCO was conceived in June 1995, a year before the inception of the *CustomerPerfect!* new product development process. Nonetheless, REMITCO followed steps later incorporated in the new product development process and was officially moved under that process in June 1996.

REMITCO, a Marketing Department product, went through a concept phase, which began in June 1995, similar to the new product development process. During the summer and fall of that year, ideas regarding the feasibility and marketing of the business were formulated and a Business Proposition Statement was prepared. In December 1995, the Chief Marketing Officer reviewed and approved the statement, and REMITCO moved into a preliminary business plan phase. At the outset of that phase, representatives of the various postal departments involved in bringing a new product to market—such as marketing, legal, finance, and information systems—worked together to achieve a consensus on assumptions for a Business Plan.

In June 1996, REMITCO was officially placed in the business plan stage of the *CustomerPerfect!* new product development process. Although the business plan stage of the new product development process calls for a proof of concept operations test with a vendor, Postal officials explained that this step was not undertaken because retail remittance is a well-established service in the private sector. A preliminary Business Plan was presented to the Strategic Planning Committee on April 1, 1996, and the Board of Governors approved proceeding to the test stage on November 5, 1996.

The test stage of the REMITCO project began in December 1996, when the Service was awarded a contract by American Express to process remittances at its Staten Island processing facility. That same month, the Service contracted with REMITCO Management Corp. to operate the facility—in effect, a major market test of the REMITCO concept. Evaluation of the test was scheduled to be completed in October 1998 by a cross-functional product team. With the Chief Marketing Officer's approval of the test results, the Business Plan is to be finalized and REMITCO is to be presented to top management for approval. The plan is to then be presented to the Board of Governors.

If the Board approves the Business Plan, the Service could either begin an expanded major market test at additional sites or move REMITCO to the implementation stage and begin a national rollout of REMITCO before the

end of 1998. According to Postal officials, results of the rollout will be checked against the Business Plan through an annual review process, and continuous improvements will be made.

Electronic Postmark™ System

An electronic postmark is an unmodifiable time and date stamp attached to an electronic communication—such as e-mail. In the case of a Postal Service-applied electronic postmark, the associated communication is digitally signed. The digital signature enables the Service to determine if there has been any unauthorized access or modification to the electronic message after it was postmarked.

The Electronic Postmark™ System was developed under the Postal Service's electronic commerce services research initiative. The electronic commerce services research initiative was discontinued at the end of fiscal year 1997 following the development of the Electronic Postmark™ System and the Certificate Authority System.¹⁰ The Postal Service continues work on both the Electronic Postmark™ System and the Certificate Authority System.

The Service's short-term goal for its Electronic Postmark™ System is to refine the product through operations testing and begin marketing. The Service's long-term goal is to elevate the public's acceptance of the Electronic Postmark™ System to the same level as the postmark for traditional mail.

Prior to June 1996, activities associated with developing the Service's Electronic Postmark™ System were approved under the capital projects review and approval process. Since June 1996, Electronic Postmark™ System activities have been under the Service's *CustomerPerfect!* new product development process.

History of Electronic Postmark™ System

The Postal Service's Electronic Postmark™ System prototype originated from a research initiative known as electronic commerce services. That research effort began in fiscal year 1993 and was discontinued at the end of fiscal year 1997. According to Postal officials, the electronic commerce services research initiative was discontinued after it met its objectives, i.e., the successful development of two new electronic capabilities—the Electronic Postmark™ System and the Certificate Authority System. The

¹⁰The Certificate Authority System authenticates or certifies the identity of customers sending and receiving electronic messages.

electronic commerce services research initiative was the Service's first endeavor in the electronic commerce arena.

The Postal Service views its entry into the electronic commerce market as an extension of its core business—the delivery of traditional mail. According to Service officials, electronic mail has the same attributes as traditional mail, but because of security concerns, electronic mail has not gained wide acceptance in the legal and business community—especially for legal and financial transactions.

The Service believes that its Electronic Postmark™ System will help bring the level of acceptability of electronic mail up to that of First-Class Mail. The Service recognizes that some private companies are already marketing electronic postmarking services. However, the Service believes it is in the best position to serve the public's need for an independent, third-party agent offering secure electronic mail. According to the Postal Service, the public has trusted the Service with the security of its traditional mail for over 200 years. Postal officials believe that with Postal-backed electronic services, the public will have the same high level of trust and confidence in the security of the Service's electronic mail that it does with the Service's traditional mail.

**Short- and Long-Term
Goals for Electronic
Postmark™ System**

The Service's short-term goal for its Electronic Postmark™ System is to complete operational testing, make refinements to the product as called for by the operations tests, and build a solid case for a substantial investment to build and deploy an Electronic Postmark™ production system. The Service expects to begin wide-scale marketing of its Electronic Postmark™ System within the next 2 years. Additionally, the Service plans to explore the feasibility of licensing private companies to use its Electronic Postmark™ System.

The Service's long-term goal is to elevate the level of acceptance of its Electronic Postmark™ System to the same level as its traditional postmark. No specific time frames have been established for this goal. According to Postal officials, the speed at which this occurs will be dictated not only by advancements in electronic technology but also by the courts, which must decide issues relating to the legal acceptability of digitally signed electronic documents in lieu of traditional "hard-copy" documents.

Activity on Electronic Postmark™ System Has Been Limited Under the *CustomerPerfect!* New Product Development Process

As noted above, the Service's Electronic Postmark™ System was initiated under the umbrella of its electronic commerce services research initiative. The concept of electronic commerce services was conceived in 1993, about 3 years before the *CustomerPerfect!* new product development process was implemented. During that period, the electronic commerce services research initiative was under the capital projects review and approval process—a process used to monitor the development of capital projects, such as the upgrading of postal equipment and the construction and renovation of postal facilities.

According to Postal officials, there are many similarities between the new product development process and the capital projects review and approval process. Consequently, the electronic commerce services research initiative, between 1993 and 1996, went through stages similar to the concept stage and business plan stage of the new product development process. For example, a capital projects decision analysis report was prepared for the electronic commerce services research initiative, which is very similar to the preliminary Business Plan required during the business plan stage of the new product development process. Also, the Board of Governors approved the electronic commerce services research initiative, just as the Board must approve new products under the new product development process. According to Postal officials, when the initiative was discontinued at the end of fiscal year 1997, the Service had spent \$20.3 million on electronic commerce services. Of that amount, \$3.2 million was spent on the Electronic Postmark™ System.¹¹

With the implementation of the new product development process in June 1996, the electronic commerce services research initiative was moved from the capital projects review and approval process to the business plan stage of the new product development process. It remained at that stage until it was discontinued in September 1997.

According to Postal officials, the Electronic Postmark™ System is to be moved under the auspices of another Postal Service initiative, PostOffice Online, after some limited market testing later in 1998 under Postal Electronic Courier Service (PostECS), a joint project involving the U.S. Postal Service, Canada Post, and LaPoste (France). PostECS is an electronic service designed to replace traditional international faxes and overnight courier services. The U.S. Postal Service joined the PostECS project with Canada Post and LaPoste in early 1998.

¹¹The remaining \$17.1 million was spent developing the Certificate Authority System.

Appendix II
Illustrative Examples of Three Products
Under the Purview of the *CustomerPerfect!*
New Product Development Process

After successfully testing its Electronic Postmark™ System capability under PostECS, the Service plans additional testing under its PostOffice Online initiative. PostOffice Online, currently in the test stage of the new product development process, is a service designed to help small businesses move money and messages and sell merchandise conveniently and securely over the Internet. PostOffice Online began market testing in March 1998. A classification case was filed on July 15, 1998, with PRC for Mailing Online Services—a component of PostOffice Online. A more detailed description of PostOffice Online can be found in appendix III.

Inventory of New Products Marketed and/or Under Development During Fiscal Years 1995, 1996, and 1997 (Exclusive of Capital and Philatelic Products)

Name of product	Description of product	History of product
<p>FIRSTCLASS PHONECARD™</p> <p>(This product is discussed in more detail on pages 26-30.)</p>	<p>Prepaid telecommunications card. The FIRSTCLASS PHONECARD™ is the brand name of a prepaid phone card available to the public through a strategic alliance^p between the Postal Service and SmarTalk Teleservices, Inc. The FIRSTCLASS PHONECARD™ can be purchased at postal retail units and from postal vending machines throughout the U.S. At the end of 1997, the FIRSTCLASS PHONECARD™ was available in \$10, \$20, and \$50 denominations, and the per-minute rate for domestic calls was 39 cents. In April 1998, the Service lowered its per-minute rate and added a \$100 phone card. The new per-minute rate ranged from 25 cents for the \$100 card to 33 cents for the \$10 and \$20 cards. International rates varied by country.</p>	<p>In July 1995, American Express Telecom, Inc., approached the Postal Service about forming a strategic alliance to market phone cards. In August 1995, the Postal Service and American Express entered into an agreement to test market phone cards. Following the market test, the FIRSTCLASS PHONECARD™ was made available nationwide. At the end of 1997, the FIRSTCLASS PHONECARD™ was being sold in about 11,700 postal retail units and in about 2,000 postal vending machines.</p> <p>At the end of 1997, SmarTalk Teleservices, Inc., acquired American Express Telecom, Inc., including the FIRSTCLASS PHONECARD™ business, for \$34 million and formed a new strategic alliance with the Postal Service for continuing the business. The \$34 million from the sale of the business was split equally between the Postal Service and American Express.</p> <p>The FIRSTCLASS PHONECARD™ business is sponsored by the New Businesses Marketing Group and has been monitored under the <i>CustomerPerfect!</i> new product development process since adoption of that process in June 1996. At the end of 1997, this was the only product to have achieved national rollout under the new product development process.</p>

**Appendix III
Inventory of New Products Marketed and/or
Under Development During Fiscal Years
1995, 1996, and 1997 (Exclusive of Capital
and Philatelic Products)**

Inception date	Financial data from inception of product through FY 1997			Revenue goal for FY 1998 ^a (millions)	FY 1998 financial data through quarter 3		
	Revenue (millions)	Expenses (millions)	Profit (loss) (millions)		Revenue (millions)	Expenses (millions)	Profit (loss) (millions)
FY 1995	\$11.1	\$14.1	(\$3.0)	\$32.3	\$11.9 ^c	\$8.0	\$3.9 ^c

(continued)

**Appendix III
Inventory of New Products Marketed and/or
Under Development During Fiscal Years
1995, 1996, and 1997 (Exclusive of Capital
and Philatelic Products)**

Name of product	Description of product	History of product
REMITCO (This service is discussed in more detail on pages 30-35.)	<p>Remittance processing. REMITCO is a Postal Service business managed by the REMITCO Management Corp. REMITCO extends the Service's role beyond mail delivery to the processing of remittance documents. Remittance processing involves opening return envelopes and extracting bill payments, processing the checks and depositing them into business recipients' bank accounts, and electronically transmitting remittance records to the business recipients.</p> <p>As potential REMITCO customers, the Service is targeting businesses that receive 10 million remittances or more annually and do their own remittance processing. Examples include credit card companies, utilities, communications companies, mortgage companies, insurance companies, and large retailers.</p>	<p>In 1995, American Express decided to outsource its in-house remittance processing operation located on Staten Island in New York City. The Postal Service was the successful bidder on this project and in December 1996 signed a contract with American Express. In turn, the Postal Service contracted with REMITCO Management Corp. to manage and operate the Staten Island facility.</p> <p>The Postal Service assumed the lease on the Staten Island facility from American Express on July 15, 1997, and has spent approximately \$2 million on improvements. The facility is owned by the New York Port Authority.</p> <p>REMITCO began processing American Express remittances on May 15, 1997. Since then it has started processing remittances for Public Service Electric and Gas of Metro Park, NJ; and Mellon Bank Credit Card of Wilmington, DE. Ultimately, the Service hopes to have a nationwide network of about 10 other similar processing facilities.</p> <p>REMITCO is sponsored by the Service's New Businesses Marketing Group and has been monitored under the <i>CustomerPerfect!</i> new product development process since adoption of that process in June 1996.</p>

**Appendix III
Inventory of New Products Marketed and/or
Under Development During Fiscal Years
1995, 1996, and 1997 (Exclusive of Capital
and Philatelic Products)**

Inception date	Financial data from inception of product through FY 1997			Revenue goal for FY 1998 ^a (millions)	FY 1998 financial data through quarter 3		
	Revenue (millions)	Expenses (millions)	Profit (loss) (millions)		Revenue (millions)	Expenses (millions)	Profit (loss) (millions)
FY 1995	\$1.4	\$7.5	(\$6.1)	N/A	\$2.3	\$8.6	(\$6.3)

(continued)

**Appendix III
Inventory of New Products Marketed and/or
Under Development During Fiscal Years
1995, 1996, and 1997 (Exclusive of Capital
and Philatelic Products)**

Name of product	Description of product	History of product
<p>Electronic Commerce Services (includes Electronic Postmark™ System and Certificate Authority System)</p> <p>(Electronic Commerce Services initiative discontinued 9/97)</p> <p>(Electronic Postmark™ System is discussed in more detail on pages 35-38.)</p>	<p>Value added services for electronic transmissions. The electronic commerce services initiative was a research effort initiated by the Postal Service to develop value added services for electronic transmissions. Through this research, electronic commerce services developed two new electronic commerce systems—the Electronic Postmark™ System and a Certificate Authority System. The Electronic Postmark™ System applies an electronic time and date stamp and the digital signature of the Postal Service to an entire electronic transaction, and displays notification to the recipient if the transaction has been tampered with. The Certificate Authority System authenticates or certifies the identity of customers sending and receiving electronic messages.</p>	<p>The initial research under the electronic commerce services initiative began in FY 1993. With the development of two new electronic systems—the Electronic Postmark™ System and the Certificate Authority System—this research initiative was completed. Plans are to integrate these two new systems into Postal Service products and possibly commercial vendor products for testing during 1998.</p> <p>The Postal Service was to begin testing its Electronic Postmark™ System in October 1998. The first tests are to be done under PostECS (Postal Electronic Courier Service), a joint project involving the U.S. Postal Service, Canada Post, and LaPoste (France). PostECS is an electronic service designed to replace international faxes and overnight courier services. The U.S. Postal Service joined PostECS in early 1998.</p> <p>The principal sponsor of the electronic commerce services initiative was the Service's Technology Applications Group. The initiative began about 3 years before adoption of the <i>CustomerPerfect!</i> new product development process. Funding for the initiative was approved under the capital projects review and approval process. Future activities associated with the Electronic Postmark™ System and Certificate Authority System are to be governed by the new product development process.</p>
Global Priority Mail	<p><u>Expedited international delivery service for documents, correspondence, and merchandise.</u> Conceptually, Global Priority Mail is the Service's domestic priority mail service elevated to an international level. Priority Mail is First-Class Mail that receives special handling for a premium price. Global Priority Mail is available for mail sent from the U.S. to any 1 of 33 destinations.^e</p>	<p>Global Priority Mail evolved from an earlier pilot program launched in March 1995 known as WorldPost Priority Letter Service. WorldPost Priority Letter Service officially became Global Priority Mail in March 1996. Global Priority Mail is an expedited international service for documents, correspondence, and merchandise being sent to designated countries. The service features a 4-business-day delivery standard to designated countries for a premium price.</p> <p>Global Priority Mail is sponsored by the Service's International Business Unit and is not under the purview of the <i>CustomerPerfect!</i> new product development process.</p>

**Appendix III
Inventory of New Products Marketed and/or
Under Development During Fiscal Years
1995, 1996, and 1997 (Exclusive of Capital
and Philatelic Products)**

Inception date	Financial data from inception of product through FY 1997			Revenue goal for FY 1998 ^a (millions)	FY 1998 financial data through quarter 3		
	Revenue (millions)	Expenses (millions)	Profit (loss) (millions)		Revenue (millions)	Expenses (millions)	Profit (loss) (millions)
FY 1993	0.0	\$20.3	(\$20.3)	N/A	N/A	N/A ^d	N/A
FY 1995	\$23.6	\$29.0	(\$5.4)	\$27.5	\$18.9	\$19.5	(\$0.6)

(continued)

**Appendix III
Inventory of New Products Marketed and/or
Under Development During Fiscal Years
1995, 1996, and 1997 (Exclusive of Capital
and Philatelic Products)**

Name of product	Description of product	History of product
Global Package Link ^f	<p>Expedited international package delivery service for high-volume U.S. mailers. Global Package Link is an expedited international parcel delivery service offered by the Postal Service to U.S. mailers who send at least 10,000 parcels per year to 1 or more destinations covered by the program. To participate in the program, U.S. mailers must agree to link their information systems with those of the Postal Service so the customer and the Service can generate reciprocal data concerning the parcels, meet certain shipping preparation requirements, and designate the Postal Service as the carrier of choice^g for each country to which the Global Package Link parcels are being sent.</p>	<p>Global Package Link evolved from an earlier pilot program launched in November 1994 known as International Package Consignment Service. International Package Consignment Service officially became Global Package Link in November 1995. The initial work on the program began in FY 1995. According to Service officials, Global Package Link was designed as a parcel delivery service that would make it easier and more economical for direct marketers to export bulk shipments of merchandise internationally. In 1998, Global Package Link service was available to 11 destinations.^h Global Package Link parcels are generally scheduled for delivery in 3 to 10 business days, depending on the destination.</p>
Retail Merchandise ⁱ	<p>Marketing merchandise displaying stamp images or Postal Service symbols. Retail merchandise marketed by the Service contains either a stamp image, heritage logo, or the logo of a core service—e.g., Priority Mail. Examples of retail merchandise marketed by the Service include T-shirts, beverage mugs, neckties, greeting cards, and stationery. As of July 1998, such merchandise was being sold in all 500 postal stores^j and in about 25,000 of the Service's 33,000 traditional retail units. Merchandise may also be ordered from a Postal Service catalog or through the Service's Web site. However, in June 1998, the Service announced plans to curtail its retail merchandising activity. The Service will no longer sell apparel merchandise in post offices, although such merchandise will still be available at the Postmark America Store in the Mall of America and through catalog and web site programs and special events. Stationery, greeting cards, packaging products, and a limited line of collectables will continue to be sold at retail units.</p>	<p>The Service's centralized retail merchandise program started in early FY 1997 with the emphasis primarily on postal stores. According to Postal officials, the program quickly expanded to the traditional postal retail units because of the positive feedback from customers. Prior to FY 1997, merchandise was marketed on a decentralized basis. According to Postal officials, merchandise marketed in this manner was generally associated with a special event, such as the unveiling of a new stamp. Under the decentralized program, each postmaster could decide what merchandise, if any, to market.</p> <p>Retail merchandising is sponsored by the Service's Retail Group and is not under the purview of the <i>CustomerPerfect!</i> new product development process. However, retail merchandise does follow a modified retail product development process.</p>

**Appendix III
Inventory of New Products Marketed and/or
Under Development During Fiscal Years
1995, 1996, and 1997 (Exclusive of Capital
and Philatelic Products)**

Inception date	Financial data from inception of product through FY 1997			Revenue goal for FY 1998 ^a (millions)	FY 1998 financial data through quarter 3		
	Revenue (millions)	Expenses (millions)	Profit (loss) (millions)		Revenue (millions)	Expenses (millions)	Profit (loss) (millions)
FY 1995	\$77.5	\$78.6	(\$1.1)	\$47.5	\$20.3	\$20.5	(\$0.2)
FY 1997	\$25.9	\$22.6 ^k	\$3.3	\$79.3	\$31.5	\$26.5 ^k	\$5.0

(continued)

**Appendix III
Inventory of New Products Marketed and/or
Under Development During Fiscal Years
1995, 1996, and 1997 (Exclusive of Capital
and Philatelic Products)**

Name of product	Description of product	History of product
PostOffice Online (formerly known as DeskTop Post Office)	Internet-based postal services. PostOffice Online is a service designed to help small businesses move money, messages, and merchandise conveniently and securely over the Internet. Conceptually, PostOffice Online customers will be able to (1) pay for their mailings and print postage using their personal computers; (2) buy mailing products and supplies on-line; and (3) contact the Postal Service and request parcel pickup service, or check to see if a particular package has been delivered. Customers will also be able to design their own newsletters or advertisements and send them to the Postal Service electronically. At that point, the Service will assume responsibility for printing the documents and delivering them to the addresses the customer chooses. Also, as part of PostOffice Online, the Service will test its Electronic Postmark™ System. However, the Service does not plan to conduct these tests until after the Electronic Postmark™ System has been successfully tested under PostECS—Postal Electronic Courier Service. PostECS is a joint project involving the U.S. Postal Service, Canada Post, and LaPoste (France). PostECS is designed to replace international faxes and overnight courier services. (The Electronic Postmark™ System is discussed in detail on pages 35-38 and in summary form in this appendix under "Electronic Commerce Services.")	The PostOffice Online project began in July 1997. It is an umbrella electronic initiative that combines some of the Service's new ideas with some of its prior research work in the electronic arena. For example, the ability to send newsletters and advertisements electronically to the Service for preparation and delivery began as a research and development project known as NetPost, and the Electronic Postmark™ System began as part of a research initiative known as electronic commerce services. (See discussion on pages 35-38.) Market testing of PostOffice Online began in March 1998 with 50 customers in Tampa, FL. In May 1998, the test was expanded to include about 50 customers in Hartford, CT. An updated version of PostOffice Online has been developed based on experience from these tests. The Electronic Postmark™ System portion of the test is not scheduled to begin until later in 1998—following its initial test under PostECS. On July 15, 1998 the Service filed a classification case with PRC for a component of PostOffice Online—Mailing Online Services.
WEB Interactive Network of Government Services (WINGS) (Project discontinued 2/98)	Internet-based information on government services and products. WINGS was designed to provide one-stop shopping for federal, state, and local government information and services. Conceptually, using a portable computer connected to the Internet or a public kiosk located in high-traffic areas, such as post office lobbies, libraries, shopping malls, and grocery stores, the public could (1) locate needed government information and services, and (2) transact government business. Examples of the types of information and services that were to be available under WINGS included (1) motor vehicle registration, (2) tax forms and answers, and (3) change of address notices. Anticipated revenues were to come from fees paid by the agencies participating in WINGS.	The Postal Service began a 6 month operations test of WINGS in May 1996 in North Carolina. No fees were charged participating agencies during the operations test. WINGS was discontinued at the end of its operations test because of (1) lower-than-anticipated public demand for the service, (2) agencies' reluctance to participate in a consolidated interagency information program, and (3) a new direction for electronic commerce services. WINGS was sponsored by the New Businesses Marketing Group and was monitored under the <i>CustomerPerfect!</i> new product development process following adoption of that process in June 1996.

**Appendix III
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Under Development During Fiscal Years
1995, 1996, and 1997 (Exclusive of Capital
and Philatelic Products)**

Inception date	Financial data from inception of product through FY 1997			Revenue goal for FY 1998 ^a (millions)	FY 1998 financial data through quarter 3		
	Revenue (millions)	Expenses (millions)	Profit (loss) (millions)		Revenue (millions)	Expenses (millions)	Profit (loss) (millions)
FY 1997	\$0.0	\$0.8	(\$0.8)	N/A	\$0.0	\$4.5	(\$4.5)
FY 1996	\$0.0	\$4.0	(\$4.0)	N/A	\$0.0	\$1.1	(\$1.1)

(continued)

**Appendix III
Inventory of New Products Marketed and/or
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Name of product	Description of product	History of product
Deliver America (Project discontinued 6/97)	Interactive catalog shopping through kiosks. Conceptually, through kiosks connected to the Internet, customers could have electronically ordered stamps, postal-related retail merchandise, and U.S. Mint collectible coins and have the merchandise delivered by the Postal Service to the address(es) of their choice. Plans were to expand available merchandise, after an initial test period, to include sportswear, business supplies, and housewares. The project, however, was discontinued before any tests were conducted.	The idea for the Deliver America kiosks originated in FY 1995. The project was put "on-hold" for several months due to the reassignment of resources. No market tests were conducted. The Deliver America initiative was subsequently discontinued in June 1997. Deliver America was sponsored by the New Businesses Marketing Group and was monitored under the <i>CustomerPerfect!</i> new product development process following adoption of that process in June 1996.
Information Based Indicia Program (IBIP)	<p data-bbox="342 854 930 1283">Electronic Postage Using Personal Computers. To print electronic postage using a personal computer, a customer purchases postage on-line through an established account with the Postal Service. The value of the postage is then downloaded and secured in an electronic vault that is connected to the personal computer. With the required software, indicias can then be printed directly on a mailstrip or the mailpiece, and the amount of the postage is automatically deducted from the electronic vault. Each indicia produced in this manner contains a digital signature that makes counterfeiting, without detection, difficult. On August 25, 1998, the Service announced that it had approved, for market testing, a system for printing electronic postage that would not require a vault attached to the customer's computer.</p> <p data-bbox="342 1308 930 1413">In April 1998, this service was available, only on a test basis, in the Washington, D.C., metropolitan area. The Postal Service expects to expand this service to other geographic locations during the latter part of 1998.</p>	<p data-bbox="946 854 1537 1121">The initial research for the project began in FY 1996, following our report¹ on weaknesses in the Service's postage meter program. In May 1994, we reported that the Service incurred revenue losses stemming from criminal tampering with postage meters, counterfeiting of indicia, and criminal use of lost and stolen meters to produce meter indicia for which postage was not paid. In response to that report and its own investigation, the Service initiated the Information Based Indicia Program to enhance its postage metering revenue security.</p> <p data-bbox="946 1146 1537 1331">After successfully meeting laboratory conditions for secure postage, the Postal Service began market testing products to print Information Based Indicia in March 1998. On March 31, 1998, at the National Postal Museum in Washington, D.C., the first letter bearing approved personal computer-generated postage was produced.</p> <p data-bbox="946 1356 1537 1541">The Information Based Indicia Program is sponsored by the Service's Retail Group, which manages all postage metering. Although this product is not sponsored by the New Businesses Marketing Group, it has followed the <i>CustomerPerfect!</i> new product development process since adoption of that process in June 1996.</p>
Customer-Initiated Payment System (CIPS)	<p data-bbox="342 1556 930 1875">Payment alternative for recurring bills. CIPS is another way for consumers to pay recurring bills. Conceptually, under CIPS, consumers who choose to participate in the program will receive a prebarcoded post card with a unique identification number—instead of a courtesy reply envelope—along with their monthly statements from participating companies. Consumers drop their prebarcoded cards in the mail, and the Postal Service initiates the payment. Financial institutions are then electronically instructed via the automated clearinghouse network to debit the customer's account and credit the invoicer's account—thus paying the bill.</p>	<p data-bbox="946 1556 1528 1770">The research work on CIPS began in FY 1996. At the end of 1997, no customer tests had been conducted on CIPS. The Postal Service had been unsuccessful in its efforts to convince large private sector companies to participate in the program. The Postal Service is considering terminating this program because of difficulty in getting a major company to participate in the program.</p> <p data-bbox="946 1795 1528 1898">CIPS is sponsored by the New Businesses Marketing Group and has been monitored under the <i>CustomerPerfect!</i> new product development process since adoption of that process in June 1996.</p>

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Inception date	Financial data from inception of product through FY 1997			Revenue goal for FY 1998 ^a (millions)	FY 1998 financial data through quarter 3		
	Revenue (millions)	Expenses (millions)	Profit (loss) (millions)		Revenue (millions)	Expenses (millions)	Profit (loss) (millions)
FY 1995	\$0.0	\$3.2	(\$3.2)	N/A	N/A	N/A	N/A
FY 1996	\$0.0	\$3.1	(\$3.1)	N/A	\$0.0	\$1.8	(\$1.8)
FY 1996	\$0.0	\$1.3	(\$1.3)	N/A	\$0.0	\$0.0	\$0.0

(continued)

**Appendix III
Inventory of New Products Marketed and/or
Under Development During Fiscal Years
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Name of product	Description of product	History of product
Unisite Antenna Program ^m	Wireless communication towers on postal property. Through a strategic alliance between the Postal Service and Unisite Incorporated, 150 communication towers are to be built on postal property and then leased to wireless carriers. Under the strategic alliance agreement, the Postal Service contributes the land and Unisite Incorporated contributes its construction and marketing services. Revenues and expenses are to be essentially shared equally between the two parties.	The first antenna constructed under the Unisite Antenna Program became operational in June 1996. Constructing antennas on postal sites led to unexpected public criticism of the program. Because of this, the Postal Service put its plans on hold to expand the program beyond the original 150 sites. At the end of 1997, 15 antenna sites were operational. The Unisite Antenna Program is sponsored by the Service's Facilities Group and is not under the purview of the <i>CustomerPerfect!</i> new product development process. The approval for the program was granted under the rules governing the Service's contracting authority.
LibertyCash (formerly known as LibertyCard)	Stored-value card. LibertyCash is a Postal Service stored-value card that can be used to pay for all postal products and services. The card can be filled in amounts of \$5 to \$300 at the retail unit or over the telephone. The card is replaceable if lost or damaged. The customer selects his/her own personal identification number. Market test locations include about 2,800 post offices in Indiana, Colorado, Wyoming, Florida, Nevada, Northern California, and Minneapolis/St. Paul, MN.	Exploratory work on the LibertyCash card began in FY 1995. Following an operations test in late 1996, the Service began market testing the card in 1,222 postal retail units in May 1997. In August 1998, the Service expanded its market test to include an additional 1,600 retail units, bringing the total to about 2,800 post offices. LibertyCash is sponsored by the New Businesses Marketing Group and has been monitored under the <i>CustomerPerfect!</i> new product development process since adoption of that process in June 1996.

**Appendix III
Inventory of New Products Marketed and/or
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1995, 1996, and 1997 (Exclusive of Capital
and Philatelic Products)**

Inception date	Financial data from inception of product through FY 1997			Revenue goal for FY 1998 ^a (millions)	FY 1998 financial data through quarter 3		
	Revenue (millions)	Expenses (millions)	Profit (loss) (millions)		Revenue (millions)	Expenses (millions)	Profit (loss) (millions)
FY 1996	<\$0.05 ⁿ	\$1.6	(\$1.6)	N/A	\$0.1	\$0.0	\$0.1
FY 1995	\$0.1	\$6.5	(\$6.4)	N/A	<\$0.05 ⁿ	\$1.9	(\$1.9)

(continued)

**Appendix III
Inventory of New Products Marketed and/or
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and Philatelic Products)**

Name of product	Description of product	History of product
Dinero Seguro	<p>Electronic money transfers from the U.S. to Mexico. Dinero Seguro, which means "safe money," is an electronic version of a Money Order that can be used to transfer money from designated U.S. locations to Mexico. At the end of 1997, Dinero Seguro was available at about 870 postal retail units in California, Texas, and Illinois. As part of a Dinero Seguro transaction, the customer is given a confirmation number and a prepaid phone card good for one 3-minute call to Mexico. The customer can then use the phone card to inform the person in Mexico that the money has been sent and pass along the confirmation number. The transferred funds can then be picked up from any one of the more than 1,300 Bancomer Bank branches in Mexico. This service is provided through a strategic alliance^b between the U.S. Postal Service and Bancomer Bank.</p>	<p>The idea for Dinero Seguro originated in 1989. However, it was not until FY 1996 that the Service began an earnest effort to market Dinero Seguro. According to Postal officials, the Service thought it was inappropriate to enter this market before 1996 because of the ailing financial condition of the market leader. According to Postal officials, the Service did not want to be perceived as contributing to the market leader's financial woes.</p> <p>The Service decided to move forward with Dinero Seguro in 1996 following the market leader's financial recovery. In May 1996, the Service began an operations test and shortly thereafter began test marketing Dinero Seguro in three states with significant Mexican-origin populations. Plans to further expand Dinero Seguro have been put on hold pending further review by the Service.</p> <p>Dinero Seguro is part of an umbrella initiative known as Money Mover. Money Mover covers the Service's international and domestic money order business and its new electronic money-by-wire service—Sure Money.</p> <p>Dinero Seguro is sponsored by the New Businesses Marketing Group and has been monitored under the <i>CustomerPerfect!</i> new product development process since adoption of that process in June 1996.</p>
Sure Money	<p>Electronic money transfers from the U.S to El Salvador, the Philippines, and the Dominican Republic. This service was not available at the end of 1997. Rather, it was awaiting the results of the Dinero Seguro tests. Sure Money provides the same service as Dinero Seguro, except in this case, the money is transferred to El Salvador, the Dominican Republic, or the Philippines.</p> <p>A domestic version of this money-by-wire service is also planned. The domestic version will allow immediate money transfers between post offices, stations, and branches within the United States. Plans call for testing to begin in 1999.</p>	<p>Sure Money was designated a potential Postal Service product in FY 1997. Assuming favorable outcome of the Dinero Seguro tests, Postal officials expect to test market Sure Money in early FY 1999. This schedule may be affected, however, by the outcome of the Postal Service's review of its Dinero Seguro program.</p> <p>Sure Money is part of an umbrella initiative known as Money Mover. Money Mover covers the Service's international and domestic money order business and its planned domestic electronic money-by-wire service.</p> <p>Sure Money is sponsored by the New Businesses Marketing Group and has been monitored under the <i>CustomerPerfect!</i> new product development process since adoption of that process in June 1996.</p>

**Appendix III
Inventory of New Products Marketed and/or
Under Development During Fiscal Years
1995, 1996, and 1997 (Exclusive of Capital
and Philatelic Products)**

Inception date	Financial data from inception of product through FY 1997			Revenue goal for FY 1998 ^a (millions)	FY 1998 financial data through quarter 3		
	Revenue (millions)	Expenses (millions)	Profit (loss) (millions)		Revenue (millions)	Expenses (millions)	Profit (loss) (millions)
FY 1996	\$1.5	\$12.0	(\$10.5)	N/A	\$4.6	\$10.0	(\$5.4)
FY 1997	\$0.0	\$0.5	(\$0.5)	N/A	\$0.0	\$0.5	(\$0.5)

(continued)

**Appendix III
Inventory of New Products Marketed and/or
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1995, 1996, and 1997 (Exclusive of Capital
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Name of product	Description of product	History of product
Delivery Confirmation (formerly known as Track-and-Trace)	<p>Tracking mail as it moves through the mailstream and notifying shippers upon delivery. This service is designed to provide the date of delivery or attempted delivery for Express Mail, Priority Mail, and Standard Mail (B)—parcels, bound printed matter, and library mail. This service was included in the rate filing approved by the Board of Governors in July 1998. It is designed to meet expedited and package shippers' need for delivery status information. To support this service, a new data acquisition and communications infrastructure is being implemented. A major component of this implementation is the deployment of hand-held scanners to all delivery employees. This deployment is expected to be completed by February 1999. To help ensure that a high level of service is provided to customers who purchase the service when it becomes available, a national delivery confirmation operations test was started in late 1997. The revenues to date are associated with the test customers.</p>	<p>The Postal Service began offering a limited delivery confirmation service for Express Mail in 1991. In February 1996, the Board of Governors approved \$60.5 million for track-and-trace research and development testing, and in May 1997, it approved \$704.3 million to implement the delivery confirmation system infrastructure.</p> <p>Delivery Confirmation was initially sponsored by the Postal Service's Comprehensive Interactive Information System Management Group, which is now the Information Systems Group in Expedited/Package Services. Delivery Confirmation is not subject to the <i>CustomerPerfect!</i> new product development process. Project funding, however, was approved under the Service's capital projects approval process—a process similar to the new product development process.</p>
Provisional Packaging Service (formerly known as Pack-and-Send)	<p>Packaging service. Under this proposed service, the Postal Service will, for a fee, prepare customers' packages for shipment and enter them directly into the mailstream.</p> <p>In April 1998, PRC approved a 2-year test of this service; and as of July 1998, the Service was awaiting a decision from its Board of Governors on whether or not to proceed with its packaging service.</p>	<p>Following an initial test in 1993, the Postal Service expanded testing in 1996 to about 20 Post Office Express units located in supermarkets and other high customer traffic locations. The packaging service was suspended following a PRC decision in February 1997 that the service was subject to PRC classification and rate-setting procedures.</p> <p>On July 30, 1997, the Postal Service filed a request with PRC to offer a provisional packaging service. PRC approved a 2-year test, but it encouraged the Board of Governors to reconsider the public interest before marketing this service. In particular, it asked the Governors to consider "the financial consequences of entering into competition with the thousands of existing owner-operated small businesses that currently provide packaging services, and to consider what measures the Postal Service might implement to mitigate the potential harm to individual private businesses." As of October 1998, Provisional Packaging Service was on hold pending further evaluation.</p> <p>Provisional Packaging Service is sponsored by the Service's Marketing Systems Group and is not under the purview of the <i>CustomerPerfect!</i> new product development process.</p>

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Inception date	Financial data from inception of product through FY 1997			Revenue goal for FY 1998 ^a (millions)	FY 1998 financial data through quarter 3		
	Revenue (millions)	Expenses (millions)	Profit (loss) (millions)		Revenue (millions)	Expenses (millions)	Profit (loss) (millions)
FY 1991	\$0.1	\$3.0	(\$2.9)	N/A	\$28.2	\$18.6	\$9.6
FY 1993	\$0.8 ^o	\$3.4	(\$2.6)	N/A	N/A	N/A	N/A

(continued)

**Appendix III
Inventory of New Products Marketed and/or
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1995, 1996, and 1997 (Exclusive of Capital
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Name of product	Description of product	History of product
Fastnet (Project discontinued in early 1996)	Overnight package delivery service in selected metropolitan areas. Fastnet was an overnight delivery service available in selected geographic locations for parcels originating and destinating within the same area. Fastnet service was available in Austin, TX; Baltimore, MD; Buffalo, NY; Columbus, OH; Hackensack, NJ; Indianapolis, IN; Jacksonville, FL; Las Vegas, NV; Miami, FL; Minneapolis/St. Paul, MN; Orlando, FL; San Diego, CA; and Tampa, FL.	Beginning in 1995, the Service test marketed Fastnet in 13 selected geographic locations. At the conclusion of the test in early 1996, the Service discontinued Fastnet because the results fell short of expectations. Fastnet was sponsored by the Service's New Businesses Marketing Group and was discontinued before the Group adopted the <i>CustomerPerfect!</i> new product development process.
Global e-Post ^P (Project discontinued in late 1996)	International E-mail to hard copy delivery system. Under the Global e-Post concept, a mailer would prepare data and transmit it to the Postal Service, which would then route the electronic transmission to a partner postal administration in the destination country. At the destination foreign postal facility, the transmission would be matched with stored templates, printed, placed in envelopes, and delivered through the foreign postal system.	In April 1996, the Postal Service conducted an operations test of Global e-Post in Anaheim, CA. In that test, Xerox Corporation electronically sent, through the U.S. Postal Service, a letter to the German Postal Administration that was downloaded, printed, and delivered to more than 10,000 business addresses in Germany. The project was discontinued later in 1996 so available staff could be devoted to higher priority projects. Global e-Post was sponsored by the Service's New Businesses Marketing Group. Global e-Post began before adoption of the <i>CustomerPerfect!</i> new product development process. However, the project was discontinued under the <i>CustomerPerfect!</i> new product development process.

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Inventory of New Products Marketed and/or
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Inception date	Financial data from inception of product through FY 1997			Revenue goal for FY 1998 ^a (millions)	FY 1998 financial data through quarter 3		
	Revenue (millions)	Expenses (millions)	Profit (loss) (millions)		Revenue (millions)	Expenses (millions)	Profit (loss) (millions)
FY 1995	\$6.8	\$18.5	(\$11.7)	N/A	N/A	N/A	N/A
FY 1996	\$0.0	\$3.5	(\$3.5)	N/A	N/A	N/A	N/A

N/A means not applicable.

Note: The financial data displayed in this matrix were provided by the U.S. Postal Service. According to Postal officials, expenses reported include one-time nonrecurring start-up costs. Other information is based on interviews with Postal officials and documentation provided by the Service, e.g., Business Proposition Statements, Business Plans, and documents provided to top management and the Board of Governors. We did not independently verify the accuracy of the financial data.

^aAnnual revenue goals are established only for products and services that have moved past their initial pilot project status.

^bA strategic alliance is an agreement between two or more parties for sharing the risks of a project, including revenues and expenses.

^cThe Postal Service is amortizing its \$17 million share of the sales proceeds over the 4-year life of the strategic alliance with SmarTalk. No proceeds from this sale are included in the amounts shown.

^dAbout \$300,000 was spent on Electronic Postmark™ System during the first 3 quarters of fiscal year 1998.

^eGlobal Priority Mail service is available to Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Iceland, Ireland, Luxembourg, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Australia, China, Hong Kong, Japan, New Zealand, The Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam, Canada, Brazil, Chile, Israel, Mexico, and Saudi Arabia.

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^fGlobal Package Link was the subject of another GAO report. See U.S. Postal Service: Competitive Concerns About Global Package Link Service (GAO/GGD-98-104, June 5, 1998).

^g"Carrier of choice" means that Global Package Link customers agree to use the Postal Service as their carrier unless the parcel recipient specifically chooses another carrier.

^hIn 1998, 11 destinations were covered by the program—Canada, China, Japan, Mexico, Brazil, Chile, Hong Kong, France, Germany, Singapore, and the United Kingdom.

ⁱRetail merchandising was the subject of a Postal Service report prepared in response to a House Appropriations Committee request on this activity. The report, dated February 27, 1998, was addressed to the Chairman of the House Committee on Appropriations.

^jA postal store is a retail unit, with extended hours, designed to make postal services and products more readily accessible to the customer.

^kExpenses for retail merchandise reflect inventory in retail units awaiting sale.

^lSee GAO report, Postage Meters: Risk of Significant Financial Loss But Controls Are Being Strengthened (GAO/GGD-94-148, May 26, 1994), for additional details.

^mAdditional information concerning the Postal Service's Unisite Antenna Program can be found in a report prepared by the Postal Service's Office of Inspector General—(CAG-AR-98-001, Apr. 1998).

ⁿBecause this figure is less than \$50,000, it is not included in the financial data discussed elsewhere in this report.

^oRevenues from market tests conducted prior to 1997 could not be collected because there was no dedicated account identifier code in place.

^pClosely associated with Global e-Post was International Data Post, which was a consortium of several European countries and the U.S. Postal Service to establish a network among various postal administrations to make it possible to e-mail personal correspondence to foreign postal administrations that, in turn, would deliver hard copies of the correspondence to the intended recipient. That concept has not yet materialized.

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