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REPORT TO THE CONGRESS



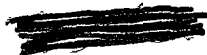
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Airmail Improvement Program Objectives Unrealized

B-114874

United States Postal Service

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



AUG. 6, 1973

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114874

To the President of the Senate and the
Speaker of the House of Representatives

This is our report entitled, "Airmail Improvement Program
Objectives Unrealized."

We made our review pursuant to the Budget and Accounting
Act, 1921 (31 U.S.C. 53), and the Postal Reorganization Act of
August 12, 1970 (39 U.S.C. 2008).

Copies of this report are being sent to the Director,
Office of Management and Budget; the Postmaster General; and
each member of the Board of Governors of the United States
Postal Service.

A handwritten signature in cursive script that reads "James B. Axtell".

Comptroller General
of the United States

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

AIRMAIL IMPROVEMENT PROGRAM
OBJECTIVES UNREALIZED
United States Postal Service
B-114874

D I G E S T

WHY THE REVIEW WAS MADE

The United States Postal Service's Airmail Improvement Program objectives are to arrest and reverse the decline in airmail volume, and thus increase revenues, by offering improved service. This was the first program for which the Service established delivery standards.

GAO made this review to determine if the objectives were being achieved.

FINDINGS AND CONCLUSIONS

The Service established the Airmail Improvement Program without making a market study to determine whether the program would be economical. (See p. 5.)

Of the 173 large business mailers GAO questioned, only 4 had increased their use of airmail because of the improved service.

The mailers said that airmail use was not increased because:

- Overnight delivery service was not needed.
- First-class mail goes by air and is cheaper than airmail.
- Business mail was deposited too late to qualify for the improved service. (See p. 6.)

The Service initiated the Airmail Service Test to measure actual

delivery time against the established goal of next-day delivery of 95 percent of the airmail letters meeting certain conditions and addressed to designated major cities within a 600-mile radius. (See p. 6.)

The test showed that next-day delivery was generally being achieved. These results were misleading, however, because the test letters, which bore identifiable markings, were given preferential handling. (See p. 7.)

Two tests by the Service's Inspection Service using unmarked test letters showed that the program was meeting its next-day delivery goal only 76 to 80 percent of the time. (See p. 7.)

The Service is currently using the Origin and Destination Information System to measure the delivery time for actual airmail letters.

Tests using the above-mentioned system showed that, for the last 4 months in calendar year 1972, airmail letters that qualified for next-day delivery received next-day delivery from 48 to 79 percent of the time. (See p. 8.)

Because of declining airmail volume and the increased costs associated with the Airmail Improvement Program, GAO questions whether the program objective of increasing the revenue from airmail will be achieved.

Airmail volume decreased from 1,457.4 million pieces in fiscal year 1971, when the program was initiated, to 1,359.6 million pieces in fiscal year 1972. The Service's budget estimates for fiscal year 1974 show an estimated volume of 1,399.6 million pieces of airmail, or about 58 million pieces less than when the program was started. (See p. 8.)

The Service has incurred millions of dollars of additional costs in operating and promoting the program. (See p. 8.)

RECOMMENDATIONS

The Service should:

- Reevaluate the Airmail Improvement Program to determine whether it could be modified to better meet customer needs and, in turn, to increase participation or whether it should be curtailed.

- Conduct adequate market studies before undertaking service improvement programs to insure that anticipated additional revenues will be sufficient to recover all costs associated with providing the service.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Service concurred with GAO's recommendations and stated it was examining possible program modifications and making surveys to determine customer needs. (See p. 15.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is being sent to the Congress because it has been interested in the quality of mail service since the establishment of the Service under the Postal Reorganization Act. The Service has acknowledged the need to reevaluate the Airmail Improvement Program.

CHAPTER 1

INTRODUCTION

The Postal Service's airmail volume declined from about 2 billion pieces in fiscal year 1967 to about 1.5 billion pieces in fiscal year 1971. According to the Service, this decline resulted largely from a misunderstanding¹ by mailers that no time advantage results from using airmail service because first-class mail also moves by air.

The Service's financial reports show that attributable costs of providing airmail service exceeded airmail revenues by \$15.4 million in fiscal year 1971. Attributable costs consist of (1) costs, such as mail processing and transportation costs, which vary with changes in mail volumes and (2) fixed costs which are specifically related to a type of service, such as airmail.

During the Postal Rate Commission hearings, the Service argued that an increase in volume not only will increase revenues but also will decrease unit-attributable costs--the assumption being that airmail service has an elastic demand and that its attributable costs are subject to economies of scale.

In April 1971 the Service established the Airmail Improvement Program to arrest and reverse the decline in airmail volume. One of the program's specific objectives was to increase airmail volume by about 20 percent of the amount it had declined from 1967 to 1971. The program was to achieve this objective by improving airmail service and by publicizing the merits of the service.

The Service's goal for improved airmail service to designated major cities is next-day delivery of 95 percent of ZIP-coded airmail letters that are (1) deposited before 4 p.m. at specified collection points in the designated

¹The Service expressed the opinion that mailers were unaware of the preferential handling given to airmail letters and that such letters were transported by air on a priority basis whereas first-class mail goes on the aircraft when space is available.

cities and addressed to other designated cities within a 600-mile radius and (2) placed in airmail slots in local post offices before 3 p.m. or in the main post office before 5:30 p.m. In the designated cities, white-top collection boxes were located in business areas; at shopping centers; along arterial streets; and outside post offices, stations, and branches. The Service's goal for improved airmail service to most other cities is the delivery of airmail letters within 2 days after they are mailed.

The Service selected the cities for next-day-delivery service on the basis of availability and convenience of air transportation. The Service did not consider airmail volume in making its selections.

At the outset of the program, the Service established 25,000 city pairs on the basis of combinations derived from about 450 origin and 650 destination cities. A city pair consists of an origin city--where airmail letters are mailed--and a destination city--where airmail letters are sent. As of September 1972, the Service had reduced the number of city pairs to 13,209 (derived from 439 origin cities and 466 destination cities). The Service dropped cities from the program because of insufficient airmail volume and inadequate flight schedules.

CHAPTER 2

AIRMAIL IMPROVEMENT PROGRAM OBJECTIVES UNREALIZED

MARKET STUDY NOT MADE BEFORE ESTABLISHING AIRMAIL IMPROVEMENT PROGRAM

The Service established the Airmail Improvement Program without making a study of the potential demand for improved airmail service to determine whether the program would be economical.

Our discussions with 173 large mailers in 29 States and the District of Columbia indicated that the improved service might not be what mailers need and that use of the service might not generate sufficient revenues to offset its cost.

Information from the 173 large mailers on how much they spent for first-class postage in fiscal year 1971 indicated that 46 had spent over \$1 million, 28 had spent between \$500,000 and \$1 million, 84 had spent between \$50,000 and \$500,000, and 15 had spent less than \$50,000.

We asked each of the mailers whether (1) they were aware of the Airmail Improvement Program, (2) they were using the improved airmail service, and (3) they had increased or planned to increase their use of airmail because of the improved service. Most of the mailers said that they were aware of the improved service and that they had become aware of it at the outset of the program through the Service's monthly "Memo to Mailers."

Of the 173 mailers, 83 were depositing their ZIP-coded airmail letters in white-top collection boxes by 4 p.m. thereby qualifying for the improved service. However, of the 173 mailers, only 10 stated that they had increased or may increase their use of airmail. Of the 10, 4 stated that they had increased their use of airmail because of the improved service, 2 stated that they had increased their use of airmail because of the poor service afforded first-class mail, and 4 stated that they would increase their use of airmail if the Service demonstrated that it was actually providing improved airmail service.

The primary reasons given by the 163 large mailers who had not increased or did not plan to increase their use of airmail were:

- Overnight delivery was not needed.
- First-class mail goes by air and first-class mail rates are less than airmail rates.
- Mail was being deposited after 4 p.m. and thus did not qualify for the improved service.

Although the information from the 173 large mailers did not provide a statistically valid basis for projecting the demand for the improved service or for determining the type of service desired, we believe that it does indicate a need for a market study.

MISLEADING AIRMAIL DELIVERY PERFORMANCE RESULTS REPORTED BY THE SERVICE

Although the Service reported test results which showed that the next-day delivery goal was generally being achieved, these results were misleading because the test letters, which bore identifiable markings, were given preferential handling at mail-processing facilities. The Service's tests using unmarked test letters or actual airmail letters showed that the next-day-delivery goal was not being met as frequently as the Service had reported.

In April 1971, shortly after the Airmail Improvement Program was established, the Service started weekly tests, later called the Airmail Service Test (AST) Program, to measure actual airmail delivery time against the established goal of next-day delivery of 95 percent of the airmail addressed to designated cities within a 600-mile radius.

Test procedures provided for measuring the time from deposit of a letter in a white-top collection box until it was sorted into a mail carrier's case for delivery. About 12,300 to 19,600 test letters were mailed daily. Each test letter had the date of mailing stamped beneath the return address and was deposited in a white-top collection box so that it would be picked up at the 4 p.m. collection. The stamped date made it easy to identify the test letters, and

the letters were afforded priority handling at mail-processing facilities. The collected test letters, after being post-marked, were placed in pouches having special labels with red lines drawn through them. These pouches received expeditious handling so that the test letters would be delivered in time to meet the next-day-delivery goal.

The destination post offices recorded the date and time the test letters were mailed and the date and time they were received and sent the information to Service headquarters where it was analyzed, consolidated, and used in preparing weekly statistical reports on the quality of airmail service. These reports for the 12-month period ended September 1972 showed that next-day delivery was being achieved almost 95 percent of the time.

These test results were brought to the attention of the Congress and the public by various means. For example, the Postmaster General's Annual Report for fiscal year 1971 stated that the Service was close to achieving its goal of next-day delivery for 95 percent of the airmail letters addressed to designated cities within a 600-mile radius. Service officials, in testifying at hearings on May 24, 1972, before the Subcommittee on Treasury, Postal Service, and General Government of the House Committee on Appropriations, stated that the Service had been consistently achieving next-day delivery for better than 90 percent of the airmail which qualified for the improved service.

During its "Serving America" campaign, which it started in May 1972 to promote its services and products, the Service distributed literature which stated that airmail letters qualifying for the improved service almost always received next-day service to most major cities.

Because the AST program used marked test letters which were given priority processing, it did not accurately measure the quality of the service provided under the Airmail Improvement Program.

During the week of March 20, 1972, the Service's Inspection Service used 8,807 unmarked airmail letters to measure delivery performance to 76 of the designated major cities. Also, during the week of July 17, 1972, it used 8,815 unmarked test letters in another test. On the basis of its

first test, the Service concluded that the program achieved its next-day delivery goal 80 percent of the time; on the basis of its second test, it concluded that the program met the goal 76 percent of the time. The Service ended the AST program in September 1972.

The Service is currently using its Origin and Destination Information System (ODIS) to measure the delivery time for airmail letters. This system measures the delivery time of a letter between the date it is postmarked and the date it reaches a delivery point--usually the last mail-processing point before delivery to the customer. ODIS reports show that, for the last 4 months in calendar year 1972, 48 to 79 percent of the letters that qualified received next-day delivery.

ECONOMIC BENEFITS FROM AIRMAIL IMPROVEMENT PROGRAM QUESTIONABLE

Because of the declining volume of airmail and the increased cost associated with the Airmail Improvement Program, it is questionable whether the program objective of increasing the revenue from airmail will be achieved.

The Airmail Improvement Program was to increase airmail volume which would, in turn, increase revenue. At the time the program was established in fiscal year 1971, airmail volume was about 1,457.4 million pieces. During fiscal year 1972, airmail volume declined to 1,359.5 million pieces. The Service's budget estimates for fiscal year 1974 show an estimated volume of 1,399.6 million pieces of airmail, about 58 million pieces less than the volume when the program was started.

The Service also incurred substantial costs in its effort to improve airmail service. Although some of these costs, such as those for testing and advertising, may be one-time costs, the increased costs for priority processing and improved transportation will continue to be incurred.

Testing

We estimate that the AST program cost about \$4 million from its inception until it ended in September 1972. Although the program helped the Service to identify those

cities where quality control procedures had to be improved to meet the one-day delivery goal, it represented a significant additional cost that would have to be recovered if air-mail letters were to favorably contribute to the Service's financial position.

We computed the total cost for the test program by applying the estimated cost of a test letter (68 cents) to the total number of test letters (5,849,518) mailed during the program. Our estimated cost of a test letter was based on information derived from a cost study by the Service's internal auditors and on information obtained from the Postal Rate Commission's Chief Examiner's decision on proposed increases in postage rates issued on February 3, 1972.

Advertising

As of January 1, 1973, Service headquarters had incurred advertising costs of about \$678,000 in promoting the Air-mail Improvement Program. The five postal regions also incurred minor costs.

Under its "Serving America" campaign, the Service shipped (1) large service modulars advertising next-day-delivery service for airmail to 9,000 major post offices for display in lobbies and (2) smaller displays, hanging mobiles, signs, and pamphlets to thousands of smaller post offices to promote the improved service. The Service also ran airmail promotional ads in business magazines. For these promotional materials and services, the Service paid \$324,000 to an advertising firm.

In addition, the Service distributed two advertising pieces to business mailers to encourage them to convert about 66 million pieces of first-class mail to airmail.

For the first mailing, the Service sent an 11- by 15-inch advertising piece to 1.2 million business mailers which explained the benefits of using airmail. The second advertising piece, which resembled an airline ticket, was sent to 939,100 business mailers and contained the same message as the first advertising piece.

The Service incurred the following costs for the two advertising pieces.

	<u>First mailing</u>	<u>Second mailing</u>
Volume	<u>1,200,000</u>	<u>939,100</u>
Costs:		
Printing and art work	\$105,500	\$ 83,800
Mailing list rental	36,500	28,200
Delivery (estimated by the Service)	<u>60,000</u>	<u>40,000</u>
Total	<u>\$202,000</u>	<u>\$152,000</u>

White-top collection boxes

At the end of June 1972, the Service had 6,456 white-top airmail collection boxes in use. According to Service officials, these collection boxes were regular blue mailboxes, most of which were purchased new for use in the Airmail Improvement Program. The Service officials informed us that the initial cost of each box was \$45 and that subsequent modifications to the boxes, painting the tops white and affixing an airmail decal to each box, cost about \$11,000. On the basis of this information, we estimated that the airmail collection boxes cost \$302,000.

Air taxi service

In July and August 1971 the Service began providing air taxi service between 71 of the designated major cities under the Airmail Improvement Program because it considered the airline flight schedules inadequate to meet the program's next-day-delivery goal.

The Service procured the air taxi service under 39 contracts at a cost of about 80 cents for each ton-mile of airmail. The Service estimated that the air taxi service would cost \$5.9 million a year. Although the air taxi service provides for transporting airmail under the Airmail Improvement Program, the flights transport other classes of mail. Service officials could not tell us how much of the annual cost of \$5.9 million applied to the Airmail Improvement Program but supplied us with a study which showed that about 17 percent of the mail being transported by the air

taxi service was airmail. On the basis of this study, we estimated that the cost of the air taxi service applicable to the Airmail Improvement Program was \$1 million a year.

Other costs

The Airmail Improvement Program also resulted in additional costs for special collections and for preferential sorting and dispatch at mail-processing facilities in both origin and destination cities. Service officials were unable to provide us with estimates of these costs.

CONCLUSIONS

We believe that the failure to make a market study before instituting the Airmail Improvement Program contributed to the program not meeting its stated goals. The need for such studies before starting a service improvement program is increased because of the intent of the Postal Reorganization Act (39 U.S.C. 101) that the Service be self-sustaining by 1984.

The program should be reevaluated to provide the type of service customers want and to bring program costs in line with expected revenues.

RECOMMENDATIONS TO THE POSTMASTER GENERAL

We recommend that the Service:

- Reevaluate the Airmail Improvement Program to determine whether it could be modified to better meet customer needs and, in turn, to increase participation or whether it should be curtailed.
- Conduct adequate market studies before undertaking service improvement programs to insure that anticipated additional revenues will be sufficient to recover all costs associated with providing the service.

AGENCY ACTION

The Postmaster General, in commenting on our draft report (see app. I), said that he concurred with our

recommendations and that the Service was examining possible modifications in collection cutoff times, in the definition of qualified mail, in the selection of city pairs, and in transportation patterns. He stated that surveys were being made to determine customer needs.

CHAPTER 3

SCOPE OF REVIEW

We examined the Airmail Improvement Program policies, procedures, and practices at Postal Service's headquarters offices in Washington, D.C., and also examined legislation, statistical and financial reports, internal audit reports, and other pertinent reports relating to the program. We interviewed Postal Service officials and selected large mailers in 29 States and the District of Columbia. We performed our work from March 1972 through February 1973.



THE POSTMASTER GENERAL
Washington, DC 20260

June 4, 1973

Dear Mr. Neuwirth:

Thank you for the opportunity to comment upon your draft report on the Airmail Improvement Program.

We agree that it would have been better to have undertaken more research before establishing the program in April 1971 and that the test letter system used initially to monitor the program was inadequate. We also agree with the draft's major recommendations, and actions are under way along the lines they suggest.

The program is being subjected to a continuing evaluation and we are examining possible modifications in collection cut off times, in the definition of qualified mail, in the selection of city pairs, and in transportation patterns. We also have surveys in progress to determine customer needs. And, as the report notes, we are now monitoring the program through a statistical sampling of actual mail rather than using test letters.

We appreciate having your views on the program and your staff has been very helpful in discussing various technical details of the report.

Sincerely,

A handwritten signature in black ink, appearing to read "E. T. Klassen". The signature is written in a cursive style with a large initial "E".

E. T. Klassen

APPENDIX II

PRINCIPAL MANAGEMENT OFFICIALS OF
 THE UNITED STATES POSTAL SERVICE
 RESPONSIBLE FOR THE ACTIVITIES
 DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
POSTMASTER GENERAL:		
Elmer T. Klassen	Jan. 1972	Present
Merrill A. Hayden (acting)	Oct. 1971	Dec. 1971
Winton M. Blount	Jan. 1969	Oct. 1971
DEPUTY POSTMASTER GENERAL:		
Vacant	Oct. 1972	Present
Merrill A. Hayden	Sept. 1971	Sept. 1972
Vacant	Jan. 1971	Sept. 1971
ASSISTANT POSTMASTER GENERAL, BUREAU OF OPERATIONS (note a):		
Frank J. Nunlist	Apr. 1969	June 1971
SENIOR ASSISTANT POSTMASTER GENERAL, MAIL PROCESSING GROUP (note a):		
Harold F. Faught	Aug. 1971	Present

^aEffective July 1, 1971, responsibilities for the administration of the Airmail Improvement Program were transferred from the Assistant Postmaster General, Bureau of Operations, to the Senior Assistant Postmaster General, Mail Processing Group.

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