Foreign Posts’ Strategies Could Inform U.S. Postal Service’s Efforts to Modernize
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What GAO Found

The foreign postal operators (foreign posts) in industrialized countries in GAO’s review have been experiencing declining letter mail volumes and have modernized their delivery and retail networks to address this challenge. As requested, GAO reviewed the innovations and initiatives that foreign posts are using and the lessons the U.S. Postal Service (USPS) might learn to help it address plummeting mail volumes and record financial losses.

This report examines initiatives foreign posts have implemented to improve mail delivery and retail networks and related results, and modernization strategies used by foreign posts that can inform consideration of proposals to improve USPS's financial condition and customer service.

GAO selected foreign posts in Australia, Canada, Finland, Germany, Sweden, and Switzerland as case studies based on characteristics, such as delivery and retail changes and country size and location. GAO reviewed foreign posts' documents, including annual reports and strategic plans related to delivery and retail network changes and innovations. GAO met with foreign post officials, toured their retail facilities, received briefings on their delivery and retail networks and other areas, and met with regulators, labor unions, and mailers to obtain their views on the effects of their posts' modernization efforts. USPS generally agreed with GAO's findings and mentioned both its own modernization efforts and the barriers it faces.

Foreign Posts’ and Partner Retail Facilities in 2009

The foreign postal operators GAO reviewed have developed alternative delivery choices for customers that, according to the posts, have reduced costs and improved customer satisfaction and service. All of these posts now offer digital (purely electronic) or hybrid mail (a blend of physical and digital) options. Some posts offer parcel pick up at retail facilities like grocery stores, which are open longer than post offices, and are often owned and operated by businesses that partner with the posts, thus reducing costs. One post allows customers to pick up parcels from a publicly-located machine, or parcel locker, that is available 24 hours a day.

The selected foreign posts have modernized their legacy brick and mortar retail networks in response to customers' changing use of the mail. For example, they have expanded retail access through alternatives such as Internet sales and partnerships with retail businesses such as grocery stores or pharmacies, while reducing the number of post-owned and -operated facilities (see figure). According to all of the posts, retail modernization has either (1) improved customer service, in some cases because the partner stays open longer, or (2) reduced operating and labor costs, by closing post-owned and -operated facilities, or both.

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Contents

Letter
Background 4
Foreign Posts Are Offering More Alternatives to Traditional Delivery in an Effort to Increase Customer Service and Convenience and Decrease Costs 6
Foreign Posts’ Modernized Retail Networks Have Increased Access to Products and Services, Improved Customer Service, and Reduced Costs 16
Strategies Used by Foreign Posts to Modernize Delivery and Retail Networks Could Help Inform USPS Modernization Efforts 25
Agency Comments and Our Evaluation 30

Appendix I Overview of Foreign Posts’ Universal Service Obligations 32

Appendix II Objectives, Scope, and Methodology 34

Appendix III Comments from the United States Postal Service 37

Appendix IV GAO Contact and Staff Acknowledgments 39

Tables
Table 1: Foreign Posts Retail Facilities in 2009 19
Table 2: Overview of Key Universal Service Standards by Country 32

Figures
Figure 1: Names of Foreign Posts and Logos Used in Report 5
Figure 2: How Digital Mail and Hybrid Mail Services Work 8
Figure 3: Digital and Hybrid Mail Services Available through Foreign Posts 9
Figure 4: Delivery Alternatives for Letters or Parcels Available through Foreign Posts 13
Figure 5: Example of DP DHL Parcel Delivery Locker in Germany 15
February 16, 2011

The Honorable Stephen F. Lynch
Ranking Member
Subcommittee on Federal Workforce,   
U.S. Postal Service and Labor Policy
Committee on Oversight and Government Reform
House of Representatives

Dear Mr. Lynch:

Foreign postal operators (foreign posts) in industrialized countries have seen mail volumes decline and electronic communication and payment alternatives (referred to as electronic substitution of mail) take the place of traditional mail. In addition, their legacy infrastructure remained larger than necessary to handle declining mail volumes. Over the past 10–20 years, foreign posts have engaged in strategic efforts to modernize their delivery and retail networks to address these challenges. For example, they are taking advantage of technological innovations and partnerships to facilitate new delivery services, such as offering hybrid mail, an electronic service combining physical and digital mail delivery options. Additionally, many foreign posts are planning to make or have already made changes to modernize their delivery and retail networks. For example, some foreign posts have installed parcel pick-up lockers in public locations as an alternative to home parcel delivery, or have transitioned from traditional post offices to partner-owned and -operated facilities. These retail and delivery modernization efforts encompass aspects of “universal service,” such as requirements related to delivery of the mail and other access to postal retail services and facilities, among other areas.¹ (See appendix I for more information on universal service.)

Similarly, the U.S. Postal Service (USPS) faces declining mail volumes and changing use of the mail. Mail volume fell from 213 billion pieces in fiscal year 2006 to 171 billion pieces in fiscal year 2010—or about 20 percent. This decline resulted from the recession as well as electronic substitution. However, USPS has not been able to cut costs fast enough or generate

¹For example, according to Deutsche Post DHL officials, the Post must maintain a minimum of 12,000 postal retail outlets, and in terms of delivery, Canada Post officials stated that Canada Post is required to deliver letters and basic parcels 5 days a week to every resident and business, among others.
sufficient net revenue to offset the lower mail volume and revenue that have occurred as customers have moved to electronic substitution of the mail. USPS has introduced a number of initiatives and efforts to reduce its costs and to try to mitigate expected future losses, but its financial condition and future viability will continue to be a concern as electronic substitution increases and mail volumes continue to drop.

Congress seeks to learn how USPS can effectively address its challenges and return to financial viability. The Postal Accountability and Enhancement Act of 2006 mandated that we report in 2011 to the President and Congress on options and strategies for long-term structural and operational reforms of USPS, including the experiences of other countries. Because of concerns about USPS’s deteriorating financial condition and future viability, we completed this work early and reported to Congress in April 2010 with options and strategies for financial viability. In that report, we discussed the challenges to USPS’s business model and options to address these challenges, including improvements to its retail, delivery, and mail processing operations. Further, we noted that we planned to address the experiences of foreign posts in a separate review. The subcommittee requested that we review foreign posts in order to learn lessons for USPS related to technological innovations, as well as cost savings and efficiencies achieved through changes in delivery and retail networks. In accordance with this request, we addressed the following objectives:

1. What major initiatives have foreign posts implemented to improve or enhance mail delivery, and what have been the results?

2. What major initiatives have foreign posts implemented to improve or enhance their retail networks and what have been the results?


4The Subcommittee on Federal Workforce, Postal Service and the District of Columbia Committee on Oversight and Government Reform, U.S. House of Representatives requested this work during the 111th Congress. In the 112th Congress, its name changed to the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, Committee on Oversight and Government Reform, U.S. House of Representatives.
3. What modernization strategies have foreign posts used that could help inform USPS and Congress as they consider proposals to improve USPS’s financial condition and customer service?

To address our three objectives, we employed a case study approach and selected from among industrialized countries six countries based on changes in delivery and retail networks, innovations and technology (from a literature review), rank of broadband usage per 100 inhabitants, nature of business or diversification, convenience and cost of travel, country population, location and size of the country, number of delivery points in 2008 (last year data were available), and 2008 mail volume (last year data were available). We used this information to select countries that have made changes to adapt to the changing use of mail and communication.

For each of the countries we selected—Australia, Canada, Finland, Germany, Sweden, and Switzerland—we reviewed foreign posts’ documents, including annual reports and strategic plans related to retail and delivery network changes and innovations. We met with the postal operators and toured their innovation centers, retail facilities, or both. We also received briefings on their retail and delivery networks, strategic planning, and other matters. We observed a number of demonstrations of the foreign posts’ innovations. In addition, we met with regulators, labor unions, and private sector mailers to gain their perspectives on the effects of the modernization efforts. Following the in-country interviews, we requested additional data and information on each foreign post’s strategies, goals, and results related to its modernization efforts. We also met with USPS officials to discuss innovations and strategies related to USPS’s retail and delivery network but we did not compare these innovations to those of foreign posts. We also did not assess whether the foreign posts’ operational changes were profitable since that information is either proprietary or not consistently reported. In 2009, we reported on USPS’s efforts to reduce costs and improve delivery efficiency. We have another ongoing review that will examine in more detail USPS’s use of and plans for retail alternatives and the challenges it faces related to implementing the alternatives. (See appendix II for more details on the scope and methodology for this review.)

We conducted this performance audit from January 2010 to February 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Declining letter mail volumes and increasing electronic substitution, which have accelerated with the recent recession, have reduced postal revenues for both the foreign posts and USPS. Additionally, foreign posts told us they, like USPS, faced high infrastructure and workforce costs. Some foreign posts began to modernize their delivery or retail networks, or both, as early as the 1990s. One of the factors precipitating these changes occurred when the European Union began to establish a timetable for the gradual ending of monopolies of letter markets, in its 1997 Council Directive.\(^6\) In 2008, the European Union directed its members to fully “open” their domestic letter markets to competition by 2010 (i.e., remove their monopoly on delivering letter mail).\(^7\) In doing so, the European Union stated that it wanted to “allow sufficient time to put in place the…modernization and restructuring measures required to ensure long-term viability under the new market conditions” of the posts.\(^8\) In all six countries we reviewed, the posts were experiencing challenges related to declining mail volumes or high infrastructure, labor, or operating costs, or both, which necessitated the need for modernization. See figure 1 for a list of the six foreign posts we reviewed, including how we identified them in this report.


\(^8\)2008/6/EC, 2008 O.J. (L52/4).
USPS is facing similar challenges as other industrialized nations’ posts. For example, USPS has a brick and mortar retail infrastructure it cannot afford to maintain. However, USPS currently manages more retail outlets—approximately 32,500—than all of the foreign posts we reviewed combined. In addition, USPS has twice as many delivery points as any foreign post we studied—USPS delivers to 151 million homes, businesses, and post office boxes. Another challenge that USPS experienced was a record loss of $8.5 billion in fiscal year 2010. Thus, as we have reported, without substantial changes to its business model, USPS’s ability to fulfill its mission through self-supporting, businesslike operations is not sustainable.\(^9\)

\(^9\)GAO-10-455.
Foreign Posts Are Offering More Alternatives to Traditional Delivery in an Effort to Increase Customer Service and Convenience and Decrease Costs

Traditional Mail Delivery and Challenges

Traditional delivery methods for foreign posts of letters, packages or parcels, and advertising mail, can include:

- post office boxes,
- carrier-to-home (to a customer's door or mail box), and
- cluster boxes (grouping of boxes for customers in a particular neighborhood, instead of individual mail boxes at a personal residence, which are often found within a housing development).

Although letter mail volumes have been decreasing, some foreign posts expect parcel volumes to strengthen as economic conditions improve, particularly with the emergence of online shopping and small business growth. According to foreign post officials we spoke with, customers have been increasingly changing the way they use and receive their mail. With increasing Internet and broadband access and related changing use of the mail, use of traditional mail has been declining as customers find more

10 In addition to delivery alternatives offered by foreign posts, foreign posts had competition for letter and parcel delivery. For example, in Sweden a private firm delivers mail and competes with Posten AB.

11 As of September 2010, in 27 of 30 Organization for Economic Co-operation and Development (OECD) countries, broadband access has been deployed to 90 percent or more of households. OECD is a unique forum through which governments of 30 democracies work together to address the economic, social, and environmental challenges of globalization.
convenient and faster ways to communicate. Several of the posts we met with said that customers were using various electronic means to conduct their daily business, such as paying bills online, sending postcards and greeting cards electronically, or receiving news and other periodicals via the Internet instead of hard copy (all referred to as e-substitution). This changing use of the mail was a primary factor driving changes in the way the posts do business. In addition, foreign post officials told us they have a significant amount of costs associated with delivering traditional letter mail and packages. Some posts have been experiencing increases in the number of delivery points every year, at the same time that mail volumes overall have been declining. Australia Post and Canada Post officials told us the number of addresses has generally grown each year by about 200,000 addresses. A few of the posts attribute a major part of their costs to delivering the mail (also known as the “last mile”).

Given all of these factors, the foreign post operators we met with have begun to focus on adjusting or downsizing their delivery networks and providing multi-channel approaches to give their customers more choices in how they send and receive mail.

Foreign Posts Have Introduced a Number of Alternatives to Traditional Mail Delivery

Hybrid and Digital Mail

All six posts we met with offered some form of digital or hybrid means of sending and receiving mail, and several of the posts reported increased customer service and satisfaction as a result of these offerings. Digital mail is communication between a sender and a recipient through completely electronic communication (this could include personal e-mail and electronic bills and other communication with businesses). While postal experts have a variety of definitions for hybrid mail, there is no consensus on the exact definition. In this report, we use the term “hybrid mail” to describe different ways of sending and receiving mail and communication using a blend or combination of electronic or digital mail and physical forms. For example, an item—a bill, letter, card, or other communication—is electronically transmitted, processed and converted

\[E\text{-substitution, according to a number of postal experts, has had one of the most significant impacts on mail volume and demand over the last decade.}\]
into a letter post item for physical delivery to the addressee. Figure 2 illustrates examples of digital and hybrid mail services, and figure 3 shows examples of their availability through the six foreign posts we reviewed.

**Figure 2: How Digital Mail and Hybrid Mail Services Work**

<table>
<thead>
<tr>
<th>Digital mail (electronic sending and receiving)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sender</strong></td>
</tr>
<tr>
<td>Sender logs into secure system maintained by postal operator using login name and password and sends electronic message.</td>
</tr>
<tr>
<td><strong>Transmission</strong></td>
</tr>
<tr>
<td>Electronic message is securely transmitted to recipient's electronic message inbox.</td>
</tr>
<tr>
<td><strong>Recipient</strong></td>
</tr>
<tr>
<td>Recipient logs into system from a computer or other device (such as an Internet-enabled cell phone) using login name and password.</td>
</tr>
<tr>
<td><strong>Electronic delivery (receipt)</strong></td>
</tr>
<tr>
<td>Recipient retrieves message electronically.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Hybrid mail (a combination of electronic and physical sending and receiving)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Digital to print</strong></td>
</tr>
<tr>
<td><strong>Sender</strong></td>
</tr>
<tr>
<td>Sender logs into secure system maintained by postal operator using login name and password and sends electronic message.</td>
</tr>
<tr>
<td><strong>Transmission</strong></td>
</tr>
<tr>
<td>Electronic message is securely transmitted to recipient's electronic message inbox.</td>
</tr>
<tr>
<td><strong>Recipient</strong></td>
</tr>
<tr>
<td>Recipient logs into system, as described above, and can choose to have postal operator print a hard copy of the message and deliver it to recipient's physical address.</td>
</tr>
<tr>
<td><strong>Physical delivery (receipt)</strong></td>
</tr>
<tr>
<td>Recipient receives physical mail piece.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Print to digital</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sender</strong></td>
</tr>
<tr>
<td>Sender prepares traditional mail and addresses it to recipient's physical mailing address.</td>
</tr>
<tr>
<td><strong>Transmission</strong></td>
</tr>
<tr>
<td>Mail is transported to a postal operator facility.</td>
</tr>
<tr>
<td><strong>Scanning</strong></td>
</tr>
<tr>
<td>Mail piece is scanned or otherwise digitized by the postal operator and securely transmitted to recipient's electronic message inbox.</td>
</tr>
<tr>
<td><strong>Electronic delivery (receipt)</strong></td>
</tr>
<tr>
<td>Recipient logs into system, as described above, and retrieves message electronically.</td>
</tr>
</tbody>
</table>

Source: GAO (analysis).
## Figure 3: Digital and Hybrid Mail Services Available through Foreign Posts

<table>
<thead>
<tr>
<th>Postal service</th>
<th>Description of digital and hybrid mail offerings by the six foreign posts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australia</strong></td>
<td>eLetter®—Australia’s eLetter business unit includes several subsidiaries that provide logistics and printing services, including hybrid mail, among others. It offers a complete mail solution from design, preparation, and addressing to delivery and archiving. eLetter includes a print and processing network across Australia, which has nationally located sites where mail is sent digitally for printing at locations closest to the final delivery points.</td>
</tr>
</tbody>
</table>
| **Canada**     | epost™—Canada Post’s free (to consumers) online bill presentation service allows customers to view, pay, and manage bills and financial documents electronically. Allows archiving for up to 7 years. The epost™ box is a secure, Internet-based service. Customers select mailers to receive bills and other documents from.  
epost™2.0—Currently under development, this service will add to the current epost™ electronic bill presentation services offered by Canada Post, including adjacent secure online services, government services, and consolidation of documents. In addition, secure delivery boxes mirroring physical mailing addresses will be introduced. Canada Post will require identity authentication before assigning a user account and entitlement to the electronic delivery box. |
| **Finland**    | Netteli—Free service offered to users to receive various types of addressed letter mail through a secure electronic postbox. Each digital mail box is linked to a single person, and letters that otherwise were received physically are now received electronically. In practice, letters are channeled to the electronic postbox in the hybrid mail process, where the print shops match all letters against a Netteli customer preference database. Matching can be done with the physical street address or some other identifier (like a social security number) that is included in the data stream for hybrid mail operators. Letters received through this service look the same in electronic format as they would in physical format, but they can include data elements that help streamline other electronic processes, such as invoice payment. Digital mail is secure since content is not transferred through the public Internet, and user identification is authenticated. Netteli also offers archiving of documents and mail for up to 7 years free of charge, and users can receive various types of letters, such as pay statements, bills, health care sector documents, and digital magazines. Netteli recipients and users can receive mail from only senders they have approved. |
| **Germany**    | E-Postbrief™—Allows customers to communicate securely via the Internet. When customers register for the service, they are required to authenticate their identity by presenting an identification card or passport. All communications sent and received via the E-Postbrief™ secure gateway are end-to-end encrypted. Cost is the same as for a letter. In cases when an E-Postbrief™ is sent to a recipient who is not registered for the service or if the sender choses this option, the E-Postbrief™ will be printed by DP DHL and delivered physically. Documents sent and signed through E-Postbrief™ are legally binding and confidential. |
| **Sweden**     | e-Letter—A hybrid mail delivery service that allows customers to e-mail letters to be delivered physically to non-e-mail recipients. Posten AB prints the letters at dedicated print locations and then delivers them physically via the post. |
| **Switzerland**| SuisseID—Offers secure identification and digital signature capabilities for its customers. Customers receive an identification card or USB device after presenting proof of identification at a Swiss Post retail office. SuisseID uses high-grade security technology for secure login and legally valid digital signatures.  
Swiss Post Box—Registered customers can have their physical mail received, scanned, and delivered by Swiss Post. Customers can choose how they would like to accept their mail. After receiving an initial scanned image of the front and back of a physical piece of mail (for example, a letter), a customer can request that Swiss Post (1) open the mail, scan the entire contents of the mail, and send the contents electronically to the customer; (2) leave the mail unopened and have the mail sent to the customer's physical address; or (3) shred the mail piece. |

Sources: GAO (analysis); logos used with permission from Australia Post, Canada Post, Itella, DP DHL, Posten AB, and Swiss Post.
A video depiction of Swiss Post Box, described previously, is available here. (Accessed on Feb. 9, 2011)

While there is no consensus on a definition of hybrid mail, there does seem to be agreement that the way customers communicate is changing, and moving more toward a digital environment. According to Canada Post officials, in order to stay relevant to customers, the Post began to make a number of revisions to its corporate plans and strategies in 2005, focusing more on electronic and hybrid options. Over the years, Canada Post has been engaged in a number of efforts to reinvent, update, and enhance customer use of the mail through digital alternatives. Canada Post officials observed that some initiatives were successful, while others failed because they may have been ahead of their time. For example, according to a Canada Post official, epost 2.0 will be an improvement on a former digital offering and will be introduced within the next 2 years. Some postal officials see digital and hybrid mail as the “new last mile” and are gearing toward incorporating more digital mail delivery options for their customers.

Foreign postal officials told us that their digital and hybrid mail options offered three benefits. First, some of the officials said these digital and hybrid mail services offer enhanced security and trust. They told us that they use their customers’ trust and loyalty in the “brand” of the postal operator to illustrate that digital and hybrid mail communications through the postal operator are secure. According to an Itella official, the biggest advantage of NetPosti was mail security. The official said that a NetPosti account was not as easily accessible as an e-mail account and its contents. The primary concern for Itella was ensuring security of the mail. Swiss Post created its Suisse ID to incorporate security encryption on the actual identification card or Universal Serial Bus (USB) used by customers to sign into their accounts. This encryption provided customers with a secure encryption whenever they logged in. Customers must have their identification verified in person at a post office before receiving the SuisseID.

Source: Swiss Post official.

13USB is a specification established by computer and peripheral (camera, mobile phone, memory, hard disk, etc.) manufacturers that enables high speed communication between the computer and other peripherals. A computer can send and receive data as well and control the operations of the various peripherals that are connected to it via the USB port.
Second, officials at three of the six posts we spoke with offered their customers who use digital or hybrid mail solutions the opportunity to archive not only their digitally transmitted mail, but other documents as well. NetPosti offered archiving of all data and documents for 7 years free of charge. Customers could also bring into their NetPosti accounts personal files, such as scanned receipts, for a fee. Swiss Post offered customers the option to archive their documents.

Third, three of the six foreign posts offered hybrid mail options combined with a “platform of services.” This platform offered integration between the sending and receipt of mail (letters, bills, cards, etc.) in a mixture of electronic and physical forms, along with other electronic capabilities such as archiving data for the customer (including the mail itself, as mentioned above), and financial services, such as bill presentment or bill pay and bill consolidation. For example, Swiss Post offered its Suisse ID customers a number of options, including bill pay and receipt, marketing services, and electronic archiving.

Posts reported that these digital and hybrid mail initiatives have resulted in increased convenience and customer satisfaction, primarily because they make mail more accessible. A number of the foreign posts mentioned wanting to be where their customers shop or work, a goal that affected posts’ decisions about where to locate services. Officials with Swiss Post stated that their products are not only about making money but also about decreasing the cost of delivering the mail, which for Swiss Post they estimated was more than 50 percent of its operating costs.

Several of the posts we spoke with have partnered with major retailers as well as individual stores and shops, such as grocery and drug stores, to provide a number of postal products and services to their customers, including parcel pick up. These stores offer more convenient locations and longer hours than traditional post offices. This partnering was part of a major transformation in the foreign posts’ retail networks, and part of an approach to provide multiple alternatives and choices for customers. In Sweden, Posten AB customers receive a notice, sent as a text message or a hard copy by the letter carrier, that they have a package available for pick up at a retail store counter convenient to them.\textsuperscript{14} They then take the paper notice to show the text to a postal retail partner outlet, such as a grocery store.

\textsuperscript{14}This requires prior registration by the customer to determine where packages will be delivered for that customer, which depends on where the recipient lives.
store, and pick up the package. Posten AB officials noted that customer service has improved, evidenced by customers' more timely pick up of these packages and parcels (reduced from an average of about 10 days to about 3), longer hours of access to these services, and an increased number of service points.

Canada Post offers a variation on alternative parcel pick up with its community boxes, similar to cluster boxes (see fig. 4). Some community boxes have parcel boxes built in. Carriers leave a note along with a key in the private box of a customer with a parcel delivery, and leave the parcel itself in the parcel section of the community box. If there is no parcel section, the carriers leave the parcel elsewhere for customer pick up (for example, at a convenient retail outlet).

Swiss Post customers can use Swiss Post’s PickPost service at no additional cost. With PickPost, customers can select a time and place most convenient for them to pick up their parcels. Customers register online and receive a personal customer number. When customers place an order, for example, for a parcel delivery, they provide the sender with the address of their chosen PickPost collection point (there are approximately 350 countrywide). The customers are then notified by text or e-mail as soon as the item has been delivered. They have 7 days to retrieve the parcel from the location.

Four of the posts we spoke with use partnerships or contracts with private sector businesses and shops to offer their customers parcel pick up. Both Posten AB and Australia Post use retail partners to offer postal products and services in place of traditional post offices. Canada Post has a network of authorized dealers it contracts with to offer postal products and services.
As mentioned previously, foreign post officials told us they improved customer service by offering parcel pick up at more convenient locations with later hours and realized some reduction in costs due to, for example, offering services and products through shops that were nonpost-owned.
This helped posts to decrease their infrastructure costs and rightsize their workforces to accommodate changes in their networks.

**Parcel Delivery Machines**

In 2002, DP DHL introduced its “Packstation,” a set of automated, stand-alone lockers where packages are sent and received, and as of 2010 had 2,500 nationwide. Packstations are typically located in high-traffic, public locations such as train stations. Fig. 5 shows an example of a DP DHL Packstation. Customers can sign up for delivery (free of charge to both the sender and the receiver) and have their identity verified in person by the Post. When customers want to receive parcels at a Packstation, they can give the Packstation as the delivery address (instead of their home address). The parcel is then delivered to the Packstation and the customers are notified via text message or e-mail that they have a package. Delivery to a Packstation eliminates the need for home parcel delivery for the postal operator and allows customers to pick up their parcels more conveniently, according to DP DHL. Packstations can also be used to dispatch small packets and parcels 24 hours a day, 7 days a week. As of the end of January 2011, DP DHL had more than 1 million registered users who could collect or send parcels. According to the DP DHL officials, self-service parcel pick up machines have enhanced customer service and convenience because customers can use them at any hour of the day. We observed a demonstration of DP DHL’s Packstation at its Innovation Center. According to DP DHL officials, DP DHL created its Innovation Center in part, for specialists from academic, industrial, and technological fields to exchange information about logistics solutions. The center offers a method for networking and development of solutions from start to finish, and visitors to the center can view DP DHL’s developments.
Swiss Post also offered a parcel locker-style delivery option for its customers. Customers could receive their parcels at a parcel box, which is a large, lockable storage box at the entrance to a neighborhood. Both DP DHL and Swiss Post noted that their parcel locker options were aimed at increasing customer service and convenience, and decreasing costs related to delivering packages (the last mile).

Perhaps one of the most dramatic examples of changes to delivery frequency and hybrid mail offerings was Itella’s Antilla Living Lab trial. Antilla is a small village in the countryside near Porvoo, Finland, where Itella was testing new ideas for service in remote areas. Changes in customers’ use of the mail and digitization, among other reasons, motivated Itella to begin this trial, which involved 124 households and 17 small companies. Mail was physically delivered to customers’ homes or businesses 2 days a week. On the 3 other days that mail was delivered, it was placed in assigned post lockers located near the Antilla village main shop. Customers received a text message daily letting them know if they had mail, so they could decide whether to travel to the postal locker and retrieve their mail. Any mail not retrieved was delivered to the customer on 1 of the 2 days when mail was delivered to the home or business. First
and second class letters were scanned and then delivered electronically to the customer’s NetPosti digital account. These letters were then placed back in their envelopes and delivered in paper form. Customers could also receive letters directly to NetPosti from selected senders digitally without having to convert the letter to physical format.

Foreign Posts’ Modernized Retail Networks Have Increased Access to Products and Services, Improved Customer Service, and Reduced Costs

All of the foreign posts we met with have modernized their legacy brick and mortar retail networks in response to customers’ changing use of the mail.

All Posts Have Increased Access to Alternative Retail Points

All of the foreign posts we met with offer increased access to retail products and services. As communication has changed and broadband usage increased, foreign posts have adapted their offerings to better fit their customers’ needs. Alternative retail points are points of service other than traditional postal retail facilities or post offices owned and operated by the postal operator. Examples include postal counters at retail partners such as a grocery store in Sweden or a pharmacy in Canada, as well as the postal operators’ Web sites, among others.
| Internet Access and New Mobile Applications | All of the posts we met with provided customer access to online services. The six posts offered a range of services on their Web sites, from sales of stamps and other products to online bill payment. Figure 6 shows Swiss Post’s online store where a customer can buy stamps and chocolate, create postcards, and perform numerous other transactions, such as subscribe to magazines and register for Swiss Post Box, described previously. |
In addition to online offerings, all six of the foreign post we reviewed have developed postal applications for mobile devices.
Foreign posts told us they have decreased operating costs (largely facility- and labor-related) by forming partnerships with private-sector entities that own and operate retail sites. As table 1 indicates, the majority of the foreign posts we met with maintained a network with a majority of partner-owned and -operated retail facilities rather than their own traditional post offices. For example, in 2009, about 98 percent of DP DHL’s retail network was owned and operated by partners.15

<table>
<thead>
<tr>
<th>Post-owned facilities</th>
<th>Post-owned (percentage)</th>
<th>Nonpost-owned facilities</th>
<th>Nonpost-owned (percentage)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia Post</td>
<td>827</td>
<td>19%</td>
<td>3,606</td>
<td>81%</td>
</tr>
<tr>
<td>Canada Post</td>
<td>3,955</td>
<td>61</td>
<td>2,548</td>
<td>39</td>
</tr>
<tr>
<td>Itella (Finland)</td>
<td>140</td>
<td>13</td>
<td>960</td>
<td>87</td>
</tr>
<tr>
<td>Deutsche Post (Germany)</td>
<td>400</td>
<td>2</td>
<td>16,400</td>
<td>98</td>
</tr>
<tr>
<td>Posten AB (Sweden)*</td>
<td>300</td>
<td>12</td>
<td>2,200</td>
<td>88</td>
</tr>
<tr>
<td>Swiss Post*</td>
<td>2,065</td>
<td>88</td>
<td>283</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Foreign posts.

Note: All percentages are rounded to nearest whole number.

*Posten AB told us its figures are approximate.

Swiss Post has a majority of post-owned facilities (per the numbers above) versus nonpost-owned facilities, primarily because Switzerland has a tradition of customers paying bills in person at a post office. Swiss Post officials said they are considering alternatives for about 420 of their post offices by the end of 2011 (for example, replacing them with retail partners).

Posten AB in Sweden has dramatically changed its postal retail network since 2001, replacing all traditional brick and mortar post-owned and -operated post offices with partner-owned and -operated retail facilities.16 In visiting a postal retail partner outlet at a grocery store in Stockholm, a sign in front clearly displayed the services offered inside (see fig. 7). Four or five of the store’s 20–25 employees were trained to work at the postal counter. One employee said he spent about 4 hours a day selling postal services and products and the rest of the time he sold nonpostal items. We witnessed him moving back and forth, like a photo counter clerk at a

15DP DHL officials told us that during 2011, the remaining DP DHL post offices will be transformed into partner outlets or Postbank finance centers.

16Posten AB has retained 300 business centers that it owned and operated, but officials told us they were in the process of changing these business centers into mail acceptance points, with no sales counters.
drugstore. If he had questions, he could call a Posten AB-operated phone assistance service line. He said he liked the work because there was little down time.

Figure 7: Posten AB Partner Outlet Showing Services Available at Grocery Store in Stockholm, Sweden

“...we want to be where the people shop...we do not want to be the last business in town.”

Source: Canada Post official.

Figure 8 depicts another example of a partnership between a postal operator and a private business.
All of the posts we interviewed reported positive results as a result of retail modernization in one or both of two key areas: (1) customer service, which has improved because, for example, the retail partner is open for more hours during a day and open on a weekend versus a traditional post office, and (2) savings in operating and labor costs achieved by closing post-owned and -operated facilities.

In Australia, 81 percent of retail facilities were owned and operated by partners and were mostly located in commercial areas. When Australia Post modernized its retail network, some post offices were moved to newer, lower-cost smaller structures, such as facilities in a commercial area “where the shoppers are.” For example, we visited an Australia Post partner’s retail facility (licensed post office) in Kilmore, Australia that was relocated from the outskirts of town to a strip mall and Australia Post officials said the move saved the Post 20 percent in operating costs.
Some foreign posts have traditionally offered banking or financial services, while others no longer do. Three of the posts that we visited were continuing or seeking to expand these services. For example, Swiss Post and Australia Post, which have traditionally offered financial or banking services, offered in-person bill paying services. Swiss Post also provided some financial services and was seeking a banking license. Australia Post provided banking services as an agent for more than 70 banks and financial institutions. Similarly, DP DHL and its partners offer banking and financial services. Other posts—Itella and Posten AB—have experienced mixed results from offering nonpostal services.

Several foreign posts made government services available. Australia Post and Itella offered government services in their retail facilities, including those in remote or rural areas where citizens may have difficulty traveling to a large city. For example, Itella offered voter registration services as well as fishing licenses. Itella and the Finnish Ministry of Justice first established a framework for the voter registration service under which local government officials could choose whether to make advance voting available in post offices in their municipalities. Itella officials reported that in 2010 Itella offered this service to 127 post offices and its goal was for 93 post offices to provide this service. Australia Post reported its identity verification service was used, for example, when applying for a government service or to open a bank account. This service was a successful revenue-generator, according to Australia Post, leveraging the trusted brand of the Post and provided a needed government service in rural areas. For example, citizens seeking to work with children could fill out an identity verification application in order to initiate a required background check. A senior official noted that services such as assisting a customer with a passport application would generally need to be provided in person, with assistance, rather than online. Figure 9 depicts a retail employee in Australia assisting a customer with questions related to nonpostal services.

17 At 850 PostBank branches, DP DHL partners offer all DP and Postbank products and services as well as customized consulting for Postbank financial services.
All foreign posts have traditionally sold postal products, such as stamps and envelopes at their retail facilities. In the past 5 years, several posts began selling other retail products as a means to increase revenue. For example, Itella exclusively partnered with a major Finnish design firm to license merchandise including designed packaging, gift wrapping, postcards, and gift items, resulting in what it reported as a successful partnership. Itella officials noted that sales of other nonpostal products, such as jewelry and candy, have not been as successful. They said selling luxury items such as jewelry required focused work by the salespeople to make the sale. In addition, they said the market for luxury items was limited. Officials reported that although candy was inexpensive, sales have not been successful because candy was available for purchase in so many other places. Figure 10 depicts nonpostal items for sale.
In Australia, officials told us some nonpostal products such as children’s books sold well. However, their future plans place less emphasis on selling products and more on selling services, including identity and financial services. Both Posten AB and Canada Post introduced alternative retail products. Canada Post officials stated they discontinued many of the sales because the products were not making money. However, a number of the services—including the selling of money transfers, wireless prepaid, and long distance services, among other government services—have been maintained and are growing.
In most cases, we were unable to determine the revenue generated from retail products and services because the information was proprietary or it was not reported.

Foreign posts have faced resistance to change and challenges similar to those USPS faces, and they have developed communication, outreach, and labor transition strategies to address stakeholder concerns and address resistance to changes.

**Strategies Used by Foreign Posts to Modernize Delivery and Retail Networks Could Help Inform USPS Modernization Efforts**

**Key Lessons of Foreign Posts’ Modernization Efforts**

1. **Strategic outreach and coordination with governments can address political resistance.** Foreign posts have developed public relations campaigns to inform both national and local government officials as well as the public about the need for modernization and the benefits of improved access to services. They have also coordinated with local governments to resolve concerns raised by communities affected by facility closures.

   For example, Sweden’s Posten AB developed a comprehensive public campaign and communication effort to inform its stakeholders of what is perhaps one of the most expansive and earliest examples of retail network transformations of any of the posts we met with. (Video of Sweden’s national campaign effort, courtesy of Posten AB.) Part of this communication effort was intended to help change the perception of “the post as a place” to “the post as a service.” Despite this extensive and planned effort, Posten AB officials said the Post’s brand and customer satisfaction ratings suffered, taking 10 years to recover.

2. **Strategic communication and outreach with mailers, small businesses, and retail customers.** Foreign posts communicated with and reached out to customers to increase acceptance of changes and to better meet customers’ needs, including providing alternatives before
implementing major retail network changes. In some cases, they have established ongoing outreach with their customers to determine how they can best serve them. In addition, when adjustments to the posts’ retail networks meant that alternative facilities would be further away for some customers than their traditional post offices, the posts emphasized that the new locations would have extended operating hours.

Posten AB and DP DHL officials, in Sweden and Germany respectively, told us they made efforts to show customers and other stakeholders that although post-owned and -operated retail facilities were closing, the new retail partnerships offered more access points and made postal products and services more convenient to obtain.

If Swiss Post planned to close, replace, or relocate a post office, the Post was required by law to attempt to reach an agreement with the affected community, according to officials. Typically, Swiss Post approached the area officials first and offered a variety of solutions, such as creating an alternative retail access point if a partner could be found. The Post negotiated with the local community on the best way to address closures or moves. Although Swiss Post owned 88 percent of retail facilities at the end of 2009, it reported that it was considering increasing the number of nonpost-owned facilities. In some cases, such as in Australia, when closures or relocation were planned, the affected community first had an opportunity to propose an alternative.

3. **A labor relations strategy can ease transition.** Foreign posts also anticipated employee resistance and developed strategies to address how changes could affect employees and to assist employees in making the necessary transition to changes in operations. For example, for retail network changes—such as closures—strategies were developed to assist employees in making the necessary transition to any downsizing. Foreign postal officials told us that although they viewed the modernization efforts as necessary, some of the labor changes were unpopular; however, they also said that support for affected employees helped alleviate some of the resistance the posts faced. In most cases, either the foreign posts negotiated changes with the labor unions or created industrial relations (labor relations) strategies to help transition the workforce, or both. For example:
• Australia Post created a labor relations policy that was central to how it managed structural change, which involved reducing excess staff. This policy was known as the RRR Agreement:18

• Redeployment to other areas of the business. Australia Post sometimes needed to retain and attract more employees in certain areas. To do this, Australia Post could redeploy an employee from one area to another job or facility.

• Retraining to provide skills required in new positions. In some cases, if employees were not redeployed, Australia Post could retrain the employees.

• Redundancy. When Australia Post needed to reduce the number of positions, it tried to obtain them through voluntary means, using incentives to encourage employees to retire.

• Itella reported a number of ways in which it supported its employees through changes in Finland:

  • Career consultants worked with employees to find new placements within Itella when they would lose their jobs.

  • Job-seeking training was provided in collaboration with the Finnish government’s employment office, which helped employees fill out job applications and search for jobs.

  • Outplacement services within Itella helped employees find new jobs in other companies or helped employees set up their own business.

  • Monetary support measures helped to alleviate the effects on the individual in case of redundancy, relocation, or a change from full-time to a part-time employment.

• Posten AB officials noted that labor was not as resistant to changes in Sweden as in some other countries, in part, because labor was

18The agreement covered Australia Post’s primary unions, which included the majority of its workforce.
represented on Posten AB’s governing board, which ultimately helped the relationship between management and labor.

Strategies Used by Foreign Posts Could Help USPS Gain Critically Needed Support as It Plans and Implements Network Modernization Efforts

USPS has taken steps to modernize its retail and delivery networks, but, as we have previously reported, it faces ongoing challenges related to legislative restrictions and stakeholder resistance to changes. Some stakeholders have been concerned about how USPS's network changes might affect jobs, services, employees, and communities, particularly in small towns or rural areas. According to some members of Congress, and others, post offices are an important aspect of small towns, providing them with an economic and social anchor. Another concern is that inadequate USPS financial resources could impede efforts to optimize postal mail processing, retail, and delivery networks by limiting available funding for transition costs. In addition, concerns have been raised about whether USPS should be allowed to introduce new products and services that are not directly related to postal activities. Some of the steps USPS has taken to modernize include the following:

1. **Issued an action plan that outlined a general modernization strategy.** USPS issued a plan on March 2, 2010, that identified modernization strategies for addressing financial challenges associated with declining letter mail volumes. Among other changes, USPS requested flexibility to

   • *Change delivery frequency.* Adjust delivery days to better reflect current mail volumes and customer usage.

   • *Expand access.* Modernize customer access by providing services “where the customers are.” Increase and enhance customer access through partnerships, kiosks, and improved online offerings, while reducing costs.

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19GAO-10-455.

• **Expand products and services.** Permit USPS to evaluate and introduce more new products consistent with its mission, and allowing it to better respond to changing customer needs.

2. **Identified the need for legislative clarification and changes.** After issuing its action plan, USPS developed legislative proposals for changes needed to implement its action plan. In September 2010, Senator Carper introduced a bill that included some of USPS's legislative proposals related to these areas.\(^{21}\) Senator Collins introduced another bill that included a provision to encourage USPS to enhance its retail presence and consider the impact of any changes to retail facilities on small communities and rural areas.\(^{22}\)

3. **Conducted initial outreach to stakeholders and is developing a more detailed long-term strategy for modernizing its retail network and services.** Senior USPS officials we met with stated that they are continuing to work on developing strategies for modernizing their retail and delivery networks. USPS plans to make these details public in early 2011.\(^{23}\) USPS has held a number of meetings to involve stakeholders in this ongoing discussion, such as a 2010 innovation symposium whose goal was to discuss potential initiatives to help address its financial sustainability. Similarly, USPS has begun a dialogue with its customers, including major mailers, through its previously mentioned innovation efforts.

As USPS moves forward with its modernization efforts, the experiences of foreign posts suggest that outreach and communication strategies will be critically important to help it address concerns raised by the public, Congress, postal unions, and the Postal Regulatory Commission. In recent testimony we discussed some of the public policy questions related to legislative proposals that require congressional decisions to determine how USPS should modernize to achieve sustainable financial viability.\(^{24}\) For example:

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\(^{22}\)U.S. Postal Service Improvement Act of 2010, S. 4000, 111\(^{st}\) Cong. (2010).

\(^{23}\)USPS officials told us they are updating their retail strategy. We have recently initiated a review that will assess these details when they become available.

• Should USPS have greater flexibility to rightsize its retail network and workforce, which may involve closing post offices and moving retail services to alternative commercial locations that are often open more days and longer hours?

• Should it retain retail facilities and provide new nonpostal products and services to help it cover costs and generate net revenues?

Foreign posts did not plan and implement changes to their networks, nor realize results, overnight. In many cases they planned for the modernization 10–20 years in advance, and were met with a great deal of stakeholder resistance. Thus, Congress and USPS urgently need to make critical decisions about actions USPS will take to restore its financial viability. In doing so, they can potentially learn from a number of strategies that foreign posts have used to modernize their networks.

We provided a draft of this report to USPS for review and comment. USPS provided comments in a letter from the Chief Financial Officer/Executive Vice President dated February 4, 2011. These comments are presented in appendix III and our evaluation of them is summarized below. USPS also provided technical comments, which we incorporated where appropriate.

USPS generally agreed with our conclusion that it must pursue modernization and that modernization could be more quickly and effectively instituted if legal and political barriers are removed. USPS suggested that we use the word “improve,” rather than “modernize”, when discussing its retail and delivery networks. USPS believes some stakeholders interpret modernize to mean automate. Further, USPS stated that many of its modernization and optimization efforts in the areas of delivery, networks, access, and products and services have been underway for some time and that political barriers have slowed these efforts. We recognize that USPS has made changes to its retail networks by transitioning to alternative retail locations, and we are evaluating these efforts in an ongoing review. However, in this report we focused not only on delivery and retail changes made by foreign posts, but also on the strategies used to address resistance to change. We thus use the term modernization to emphasize much more than automation. USPS also stated that incremental steps are not going to get the USPS where it needs to be to serve its customers in the 21st century. USPS listed some modernization efforts it described as similar to those mentioned in this report. Finally, we share USPS’s view that there is an urgent need for
actions that will restore its financial viability and modernize it to meet the challenges of the 21st century.

We are sending copies of this report to the appropriate congressional committees, the Postmaster General, the Chairman of the Postal Regulatory Commission, and other interested parties. In addition, the report will be available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staffs have any questions regarding this report, please contact me at (202) 512-2834 or herrp@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

Sincerely yours,

Phillip Herr
Director, Physical Infrastructure Issues
Retail and delivery modernization efforts of postal operators encompass aspects of “universal service” or “community service,” such as requirements related to delivery of the mail and access to postal retail services and facilities, among other areas. In the United States, annual appropriations language mandates mail delivery 6 days a week. The Postal Reorganization Act of 1970 placed requirements on delivery and retail access standards by mandating that the USPS provide “prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities” as well as “…a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining.”

Table 2: Overview of Key Universal Service Standards by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Key domestic delivery access standards</th>
<th>Key domestic retail access standards</th>
</tr>
</thead>
</table>
| Australia | • Required to provide delivery 5 days a week for at least 98% of all delivery points.  
  • Delivery address within or adjacent to city must be delivered the next business day after day of posting. | • Required to operate at least 4,000 retail outlets, of which 2,500 must be located in rural or remote areas.  
  • In metropolitan areas, at least 90% of residences shall be located within 2.5 km (1.56 miles) of a retail outlet.  
  • In nonmetropolitan areas, at least 85% of residences shall be located within 7.5 km (4.66 miles) of a retail outlet. |
| Canada | • Required to deliver 5 days a week where logistically feasible.  
  • Will deliver letters within a community within 2 business days; within a province within 3 business days; and between provinces within 4 business days. | • Required to provide retail postal outlets, including both corporate post offices and private dealer-operated outlets, which are conveniently located and operated so that  
  • 98% of consumers will have a postal outlet within 15 km (9.32 miles),  
  • 88% of consumers will have a postal outlet within 5 km (3.11 miles), and  
  • 78% of consumers will have a postal outlet within 2.5 km (1.55 miles).  
  • Maintains a federal government moratorium on the closure of rural post offices. Has a community outreach consultation process that addresses unusual cases. |
| Finland | • Required to provide delivery 5 days a week.  
  • Shall deliver 85 percent of Priority (first class) letters by the following workday and no less than 98 percent of priority letters by the second work day. | • Every Finnish municipality must have at least one postal outlet. |

1For example, see Pub. L. No. 111-117, 123 Stat. 3034, 3200 (Dec. 16, 2009).
## Appendix I: Overview of Foreign Posts’ Universal Service Obligations

<table>
<thead>
<tr>
<th>Country</th>
<th>Key domestic delivery access standards</th>
<th>Key domestic retail access standards</th>
</tr>
</thead>
</table>
| Germany | • Required to provide a minimum of one delivery per working day.  
• 80% (on average over the year) of letters must be delivered on the first working day after posting.  
• 95% (on average over the year) of letters must be delivered by the second working day after posting. | • Minimum of 12,000 fixed-location postal facilities nationwide, offering basic postal services as defined by the German Postal Act.  
• At least one post office in every town of 2,000 or more persons.  
• In towns with 4,000 or more persons, a post office must be within 2,000 meters (1.24 miles) of every mailer.  
• In rural areas, there must be at least one post office per 80 sq. km. (49.71 sq. miles). |
| Sweden  | • Required to provide delivery at least 5 days a week.  
• 85% of first class letters shall be delivered the next working day.  
• 97% of first class letters shall be delivered within 3 working days. | • Density of access points must take into account the needs of users. |
| Switzerland | • Required to deliver at least 5 days a week.  
• Home delivery required to all permanently inhabited settlements (households).  
• Will deliver 97% of the mail to its end destination in 1 day. | • Must operate a nationwide network of post offices that offer all universal services and are available to all sections of the population within a reasonable distance.  
• Mandated to take account of regional concerns in the various parts of Switzerland |

Source: Foreign postal operators.

Note: Australia Post generally refers to universal service as community service.
The objectives of our work were to describe (1) what major initiatives foreign postal operators (foreign posts) have implemented to improve or enhance mail delivery, and what have been the results; (2) what key initiatives foreign posts have implemented to improve or enhance their retail network and what have been the results and (3) what strategies used by foreign posts in their modernization efforts can help U.S. Postal Service (USPS) as it tries to improve its financial condition and customer service.

To describe the major initiatives implemented by foreign posts in mail delivery and retail networks, and the results of those initiatives, we initially reviewed documents, presentations, and articles from a variety of postal experts, trade journals, and textbooks, related to postal innovations in the digital, retail and delivery areas. We also conducted interviews with experts in the international postal field.

We then employed a case study approach to select six countries from among industrialized countries, using the following criteria:

- change in delivery frequency,
- change in retail network,
- use of innovations and technology,
- rank of broadband usage per 100 inhabitants, and
- convenience and cost of travel.

In addition to the above criteria, we also considered the following to ensure that our selection of the countries included a range of characteristics:

- country population,
- location and size of the country,
- number of delivery points in 2008 (last year data were available),
- 2008 mail volume (last year data were available), and
- regulatory framework and business model.
After applying these criteria we selected six countries—Australia, Canada, Finland, Germany, Sweden, and Switzerland—and conducted site visits to each, where we met with the foreign posts and a number of postal stakeholders to gain their perspectives on the effects of modernization efforts. These stakeholders included:

- regulatory agencies,
- private sector companies and businesses with partnerships with foreign posts,
- mailer and marketing associations,
- private sector mailers, and
- labor unions.

In addition, we observed a number of demonstrations of foreign posts’ innovations, toured their retail facilities, and received briefings on their retail and delivery networks, strategic planning, innovation strategies, and other areas.

We reviewed foreign post documentation including annual reports from 2006 to 2010, strategic plans related to retail and delivery network changes and innovations, reports on postal services and products, fact sheets on foreign post innovations and initiatives, and sustainability reports and strategic reviews. In addition, we also reviewed documentation from foreign posts’ stakeholders such as foreign post regulator studies; and position papers related to foreign posts’ modernization efforts.

We also distributed a request for information to the six foreign posts we reviewed, to gain additional information regarding goals, strategies, and results of the initiatives implemented by the posts. Some of the information we received from the foreign posts in response to our request for information was not complete, and most data we requested was not quantified by the posts. In addition, the information we received was not consistent across the six foreign posts. We did not assess whether the foreign posts’ operational changes were profitable since that information is either proprietary or not consistently reported.

To describe how the strategies used by foreign posts could help USPS, we reviewed USPS’s action plan entitled *Ensuring a Viable Postal Service for America: An Action Plan for the Future*, reports from the USPS Office of
We conducted this performance audit from January 2010 to February 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
Appendix III: Comments from the United States Postal Service

JOSEPH CORBETT
Chief Financial Officer
Executive Vice President

UNITED STATES POSTAL SERVICE

February 4, 2011

Mr. Phillip Herr
Director, Physical Infrastructure Issues
United States Government Accountability Office
Washington, DC 20548-0001

Dear Mr. Herr:

Thank you for the opportunity to review and comment on the draft report titled U.S. Postal Service: Foreign Posts’ Strategies Could Inform U.S. Postal Service’s Efforts to Modernize (GAO-11-282). The Postal Service appreciates the Government Accountability Office’s (GAO) evaluation of the strategies used by foreign posts to address mail volume decline, insufficient revenue, and legacy infrastructure challenges. We also agree with the conclusion that there is an urgent need for Congress and the United States Postal Service to make decisions and take actions that will restore the Postal Service’s financial viability and allow it to continue to evolve as a profitable, market-responsive 21st Century organization.

This report is informative and forward-looking. It supports our position that regardless of whether legislative changes such as those proposed by Senator Thomas Carper, Senator Susan Collins, and others are made, the Postal Service must tirelessly pursue modernization and adjust its business model in every way currently possible. The report does not include comparisons of the Postal Service in its analysis of the foreign posts’ activities. It is important to note that the Postal Service has been engaged for years in numerous modernization efforts. On GAO’s Highlights page, when the GAO mentions the Postal Service “modernizing” its retail and delivery networks, we recommend the wording be changed from “modernize” to “improve”. This will eliminate confusion over the word “modernize” which some stakeholders interpret to mean “automate”. As illustrated by the GAO’s earlier report on the Postal Service’s financial viability, and by the Postal Service’s 2010 Action Plan, many of the Postal Service’s modernization and optimization efforts in the areas of delivery, networks, access, and products and services, have been underway for some time.

Such efforts at the Postal Service can be found in all aspects of our organization. For example, just as foreign posts have improved their retail networks by transitioning to alternative retail locations and online applications, which provide a combination of increased hours and convenience to customers, so has the Postal Service pursued such changes. The Postal Service has sought to engage its customers in new ways.

1 Including, for example, changes to the aggressive retiree health benefits buydown schedule required by law (the 2010 payment accounted for $5.5 billion of the Postal Service’s $5.5 billion net loss) or an adjustment of the Postal Service’s overpayment into the Federal Employees Retirement System.

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stakeholders on altering the frequency of delivery to five days a week, which substantially reduces our highest cost activity and better matches costs with declining volumes. We have expanded product and service offerings to better meet evolving customer needs, such as the successful Priority Mail flat rate products.

Many of the foreign posts’ innovations and initiatives highlighted in this report were possible, at least in part, because of actions taken by their governments and regulators. To a great extent, the six foreign posts featured in the report possess the flexibility and authority to restructure their networks and workforces and introduce new products and services to meet customers’ evolving needs and interests. Aspects of the Postal Service’s modernization could be more quickly and effectively instituted if legal and political barriers are removed to provide greater flexibility.

As the report correctly notes, the measures taken by these foreign posts did not produce results overnight, and initially many of them were not popular with stakeholders. In most cases, realizing results and gaining stakeholder support has taken years, if not decades. As much as we might hope the experiences of these posts reveal surefire solutions for our specific challenges, they do not, and we appreciate GAO’s acknowledgment of that.

Incremental steps and slow processes are not going to get the Postal Service where it needs to be to serve 21st Century customers. That is why we are working hard every day to address the challenges facing us. In fiscal year 2010, we reduced expenses by $3 billion, bringing total cost savings over the last three years to $10 billion. Our workforce today is smaller—by 100,000—than it was three years ago. Closure of all Airport Mail Centers was completed in 2010 and over the next two years we plan to save up to $500 million leveraging our alternative access locations to allow for the closing of more than 2,000 of our current locations. At the same time, within current constraints, we are expanding our partnerships, alternate access (i.e., Internet, contract postal units, retail stores, stamps by mail), and products and services such as Flat Rate boxes, Carrier Pickup, and Click-N-Ship. We will continue to look for—and act on—every available opportunity to control costs and raise revenue.

We appreciate the work that the GAO has done in recent years to help inform the discussion of the Postal Service’s challenges and long-term viability. We particularly appreciate the many opportunities afforded us to discuss these issues with you and members of your staff. We are committed to working with Congress and all of our stakeholders to modernize the Postal Service, return to financial viability, and best serve our customers and the United States.

Sincerely,

[Signature]

Joseph Corbett

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4 To assist with modernization of their posts, some foreign governments have, for example: assumed legacy costs; required post competitors to contribute to universal service obligation (USO) costs; or, allowed for broad product and service offerings.
## Appendix IV: GAO Contact and Staff Acknowledgments

<table>
<thead>
<tr>
<th>GAO Contact</th>
<th>Phillip Herr, (202) 512-2834 or <a href="mailto:herrp@gao.gov">herrp@gao.gov</a></th>
</tr>
</thead>
</table>

<p>| Staff Acknowledgments | In addition to the individual named above, Teresa Anderson (Assistant Director), Tonnyé Conner-White, Elizabeth Eisenstadt, Brandon Haller, Armetha Liles, Margaret McDavid, Sarah McGrath, Joshua Ormond, and Crystal Wesco made key contributions to this report. |</p>
<table>
<thead>
<tr>
<th>GAO’s Mission</th>
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