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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT
DIVISION

B-207206

MAY 3, 1982

The Honorable William V. Roth, Jr.
Chairman, Committee on Governmental
Affairs
United States Senate



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Dear Mr. Chairman:

Subject: Allegations that the Postal Service
Is Entering into Unfair Competition
with Private Postage Stamp Vendors
(GGD-82-73)

Your letter of December 11, 1981, asked us to look into allegations made by the President of the National Association of Postage Stamp Vendors that the Postal Service was entering into unfair competition with private postage stamp vendors.

We reviewed Service records and discussed the installation of postage stamp vending equipment in nonpostal locations with Service headquarters officials in the Delivery Services Department and the Customer Services Department. Our findings have been orally reported to your office and, as agreed, summarized in this report.

POSTAL SERVICE POLICY

Since 1964 when the Post Office Department installed its first Self-Service Postal Center at the Wheaton Plaza Shopping Center in suburban Maryland, its policy has been to supplement traditional postal retail service when warranted with vending equipment located at points other than those in postal facilities. Equipment is installed only where customer demand exists. On December 11, 1981, the Assistant Postmaster General, Delivery Services Department, modified the policy stating that no deployment of vending equipment of any type will be made in stores already served by private stamp vendors. The Assistant Postmaster General also stated that no attempt should be made to solicit stores to convert from private vendors to Service vending equipment. This policy was effective immediately, but any equipment already deployed could remain in place.

Currently, the Service's primary focus is the replacement of obsolete equipment, generally in postal facilities, and the deployment of booklet vending machines which sell \$2 worth of

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stamps in each transaction. Private vendors generally use equipment that dispenses small numbers of single stamps for more than the face value of the postage. The Service said that it does not have any plans to buy a significant number of single-stamp vending machines for installation in nonpostal locations.

POSTAL SERVICE STAMP
VENDING EQUIPMENT

Much of the Service's existing equipment is over 10 years old and no longer satisfactory for its needs. During fiscal year 1982, the following procurement is planned:

- 3,000 booklet vending machines--2,500 to replace obsolete equipment and small stamp vendors in postal facilities; 500 for deployment in new locations of which no more than 200 will be placed in nonpostal locations.
- 2,000 small currency changers for installation along with the booklet vending machines.
- 500 small stamp vendors to replace obsolete machines in postal facilities.

The booklet vending machines have been purchased from an American and a Canadian firm. The Service chose the Canadian firm, Opal Manufacturing, Ltd., because it has a proven product with a patented reliable dispensing mechanism. The Opal machine is assembled in Canada, but a large portion of its component parts are manufactured in the United States.

The Service maintains that the thrust of its stamp vending machine program is to replace obsolete equipment and allow limited expansion in nonpostal, retail service locations to satisfy expressed customer needs. It believes the booklet vending equipment serves a different market and will not compete directly with the small, single-stamp machines maintained by private vendors. Service equipment is normally located in large shopping centers or central business districts where they meet customer needs by eliminating or deferring a visit to a post office.

According to Service officials, the "ruckus" over this matter occurred when, due to the massive growth of the Houston, Texas, metropolitan area, the Service gave special attention to its growing need for postal retail service. As part of a program to meet this urgent need, the Service placed vending equipment in a number of drugstores and grocery and discount stores where in some instances private vendor equipment was already located. After Service equipment had been installed, one of the grocery store owners ordered the private vendor to remove his machine. The Service then began to receive many complaints about unwarranted incursion into the private sector. Service officials stated

that their efforts were not an attempt to take business away from the private vending industry, but were rather an attempt to provide additional retail service points in rapid growth areas. This adverse reaction prompted the issuance of the December 11, 1981, policy statement.

Since the policy of not deploying equipment in stores already served by private vendors has been in effect, various vending equipment such as postal commodity machines, booklet vendors, and changers have been placed in shopping malls, grocery stores, schools, banks, and other locations. Service information compiled for us shows that as of March 1982, about 84 vending machines were installed after the effective date of the policy in places other than those with private machines.

CONTRACT TO SELL STAMPS AT FACE
VALUE WITH A FEE PAYABLE TO
THE PRIVATE VENDORS

For about the last three years, the National Association of Postage Stamp Vendors and the Service have been negotiating to formulate a plan where the private vendors could vend stamps to the public at face value.

Initially, the Association approached the Service with the idea of purchasing stamps at less than face value and then, through their network of private machines, selling them at the same price the public would pay at the post office. The Service's Legal Department determined that the Service could not sell stamps at a lesser amount than they sold them to anyone else but that it would be allowable to pay the vendor a percentage of the gross sales of stamps that were sold through private machines.

A contract was drawn up, but in June 1981, the Assistant Postmaster General, Customer Services Department, informed the Association that the Service could not identify any economic benefits which would justify undertaking a national commercial face value vending program. The Service also concluded that the potential level of improved service did not outweigh the additional postal costs and other attendant problems. For example, to administer many small contracts with vendors the Service would need staff, periodic onsite audits of vendor purchases, sales and inventory records, and special accounting systems to document vendor purchases, sales, and fees.

However, on March 2, 1982, the General Manager, Central Region, was notified that the Postmaster General has authorized a test in his region of face value vending through private stamp vending machines operated by a private vendor. On March 17, 1982, Contract #CNCA-82-0002 was entered into by the Service with a private vendor. The test which began on April 1, 1982, will involve about 100 machines. The stamps to be sold are to be purchased from a single postal facility specified in the contract,

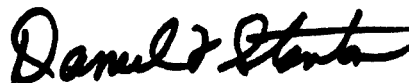
and the private vendor will make periodic reports of sales to the Service. The vendor will be paid a sales fee (15 percent) by the Service on the basis of gross sales. The results of this test will determine whether the Service develops a national face value vending program. According to the Service, the major tangible benefit that could result from this test would be the reduction of post office window service hours.

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A draft of this report was reviewed by Postal Service officials. As agreed, copies are being sent to the Postmaster General and the officials directly responsible for the stamp vending machine program.

We would be pleased to meet with you should you have any questions on the report.

Sincerely yours,



W William J. Anderson
Director