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Report to the Subcommittee on Postal Operations and Services, Committee on Post Office and Civil Service, House of Representatives

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U.S. POSTAL SERVICE

Newly Designed Retail Store Revenues Exceed Operating Costs

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The Honorable Barbara-Rose Collins, Chairwoman
The Honorable Don Young, Ranking Minority Member
Subcommittee on Postal Operations and Services
Committee on Post Office and Civil Service
House of Representatives

This report responds to your August 4, 1993, request that we determine (1) if United States Postal Service retail stores recovered operating costs, (2) whether the stores offered any services not customarily offered in regular post offices, and (3) what procedures and criteria the Postal Service established for siting the stores. Your request was made based on concerns raised by Mail Boxes Etc. (MBE) that the Postal Service may be engaging in unfair business practices against commercial parcel and retail mail establishments by operating retail stores at a loss, offering services not found in regular post offices, and locating these stores in the same vicinity as MBE and other private retail stores.

Results in Brief

Fourteen of the 16 retail stores that had been operational for 1 year or longer at the end of fiscal year 1993 reported annual gross revenues that exceeded operating costs. Gross revenues for these 14 stores ranged from $458,000 to $9.3 million. Overall the revenues were 2.5 to 6 times greater than operating costs. Sufficient revenue and cost data were not readily available to estimate revenues and costs for the other two stores.

The Postal Service's retail stores offer the same services as those offered by traditional post offices. The retail stores do not offer many of the business and communication services that are provided by private sector establishments, such as electronic mail messaging. The differences between traditional post offices and the new retail stores are only in physical layout and appearance.

The procedures and criteria for selecting new store locations are based on customer need and convenience. According to Postal Service officials, these are the same procedures and criteria the Postal Service has used in selecting sites for traditional post offices.

Background

Under the Postal Reorganization Act of 1970, the Postal Service is required to provide a prompt, reliable, and efficient universal mail service. The Postal Service operates in an increasingly competitive environment and it

rates lower in customer satisfaction than some of its direct competitors.[1] Postal Service officials recognize that they must do a better job of increasing customer satisfaction by improving service operations. As part of its operational improvement efforts, the Postal Service reexamined its retailing efforts in the late 1980s to address customer concerns about increasingly long lines at post offices and about the lack of self-service areas to select available postal merchandise.

In September 1989, the Postal Service opened its first two prototype retail stores (initially called "Postal Store of the Future") in the Washington, D.C., area. The purposes of the prototype retail store were to test a new post office retail design that had a more appealing interior appearance than traditional post offices and to make postal services and products more readily accessible to the customer. (See app. I for a description and pictures of the store layout.) The postal store of the future concept responded to the Postal Service's desire to improve post office service time—the current goal being that customers should not have to wait in line more than 5 minutes. The retail store concept is also in accord with Vice President Gore's National Performance Review report,[2] which was intended to identify ways of providing federal services in a more timely and businesslike manner.

As of January 1, 1994, the Postal Service had 23 retail stores in operation (see app. II). Thirteen were new retail stores, four were post office renovations, and six were post office replacements. Twenty additional stores are under construction and scheduled to open in 1994 (see app. III).

Commercial parcel and retail mail services were developed by the private sector in the 1980s as an alternative to the Postal Service. These private establishments rent private mailboxes; sell stamps; and forward, pack, as well as send and receive letters and packages. In addition, many have electronic mail (E-Mail) and facsimile (Fax) machines and offer telephone answering, photocopying, and word processing services. Although these private operations may charge more than the Postal Service for comparable services, they usually offer longer business hours and other

[1]In our report to Congress entitled U.S. Postal Service: Pricing Postal Services in a Competitive Environment (GAO/GGD-92-49, Mar. 25, 1992), we discussed the direct competition the Postal Service faces from various private businesses in its parcel post, overnight delivery, and other postal markets (see chs. 2 and 3). Our report did not address the competition the Postal Service is facing in its retail operations.

[2]From Red Tape to Results: Creating a Government That Works Better & Costs Less, report of the National Performance Review, Vice President Al Gore, September 7, 1993.

convenient services not offered by the Postal Service—such as a customer call-in service to check if mail has been received.

Commercial parcel and retail mail services are either (1) independently owned and operated local establishments or (2) branches and franchises of larger organizations. A 1991 industry survey of commercial parcel and retail mail establishments reported that most of these businesses have annual gross sales ranging from $100,000 to $250,000. According to MBE officials, about 7,000 commercial stores exist across the country and about 2,000 of these stores are MBE franchises.[3]

Scope and Methodology

To determine whether Postal Service retail stores were recovering operating costs, we focused our analysis on 16 stores that had operated for 1 year or longer as of the end of fiscal year 1993. The other seven stores were opened during fiscal year 1993. All 16 stores were designated as stations or branches of a city post office. The Postal Service did not keep separate financial records for 4 retail stores, but did have separate records for 12 of the stores. These 12 stores were consolidated under city post offices that had been utilizing a system called the Standard Field Accounting System. This system records separately all revenue data produced by each station, branch, and post office, but did not record complete expense data for these units. For these 12 stores, we used revenue data generated from the financial system for fiscal year 1993. Revenue data for two of the other four stores had been manually compiled by Postal Service officials who had helped design and implement the retail store program. Data for the remaining two stores had not been manually compiled, and thus, were not available for our review. We did not verify the revenue data reported for any of the 14 stores, and we did not evaluate the adequacy of internal controls at the stores.

Because we could not readily retrieve complete data on operating costs for each retail store, we obtained from the Postal Service the number of total work hours reported in fiscal year 1993 by the 14 stores for which we had revenue data. We calculated that, on average, the cost of a work hour at a retail store was $34.53. This amount includes the salary and benefits of full-time clerks who operate the stores, which averaged $25.22 per work hour in fiscal year 1993 according to the year end National Payroll Hour Summary Report. We applied a 36.9-percent overhead rate to both salary

[3]Other franchises include Handle With Care Packaging Store; Postal Annex +; Pak Mail Centers of America, Inc.; Parcel Plus; AIM Mail Centers; Pony Mailbox and Bus. Ctr. Inc.; Shipping Connection; and Express Postal Centers.

and benefits.[4] The calculated overhead amount of $9.31 represents other personnel costs, such as workers' compensation and retirees' retirement and health benefit costs, and other operating and maintenance costs, such as rent, utilities, training, and supplies. We estimated the operating costs by mutiplying the cost of labor and overhead by the total number of work hours at each of the 14 stores. Based on this information, we estimated net revenue (gross revenue less estimated labor costs and overhead) to determine whether each store covered estimated labor and overhead expenses.

It should be noted that attempting to determine whether any particular segment of postal operations such as retail stores and post offices are generating revenues greater or less than their operating costs can be misleading. Each operation is but one, indistinguishable part of a universal service from which all other operations derive benefits. Thus, the Postal Service's retail stores, post offices, and other revenue-generating entities need to not only cover more than their direct labor costs and contribute to overhead but also must cover the vast operating costs of mail processing, transportation, and delivery operations, which support the universal mail service. The Postal Reorganization Act of 1970 requires the Postal Service to break even overall in the long term. It does not require each postal facility to be self-sustaining in order to operate. If this were the case, many rural post offices, stations, and branches would have to be closed because some of them do not generate sufficient revenues to recover their operating expenditures.

To respond to the second part of the request, we visited retail stores and post offices located in the Washington, D.C., area to observe and obtain listings of services offered. We reviewed the Postal Retail Store Design Guide to understand the planned layout of the stores and their services.

To address the last part of the request, we reviewed and discussed with Postal Service officials the siting procedures and criteria for the retail stores. We also asked the Postal Service for retail store opening dates and asked them to provide the distances between the 23 retail stores and the closest MBE stores. We used these data to address MBE's concern about Postal Service retail store siting policy. In addition, we interviewed an MBE corporate official and visited three MBE stores in the Washington, D.C., area to observe their operations and services offered. Furthermore, we obtained data from MBE corporate headquarters on the proximity and

[4]Nationally, data from the Postal Service's Financial Reporting System show that nondirect operating costs (overhead) are about 37 percent of total salaries and benefits of the workforce.

opening dates for franchise stores located near the Postal Service's retail stores for comparison with related Postal Service data.

We did our work from October to December 1993 in accordance with generally accepted government auditing standards.

Postal Retail Stores Recovered Operating Costs

In fiscal year 1993, 14 of the 16 retail stores that operated the entire year had gross revenues that were 2.5 to 6 times greater than estimated operating costs. (Complete revenue data were not available for the other two stores.) Gross revenues for the 14 stores ranged from $458,000 to $9.3 million as shown in table 1.

Table 1: Range of Gross Revenues for Postal Service Retail Stores

Dollar range	Number of stores
$458,000 to $749,999	4
$750,000 to $999,999	2
$1 million to $1.9 million	5
$2 million to $9.3 million	3

By far, the single greatest sales item at the stores was postage stamps, followed by post office metered mail (this does not include customer meter setting). These items typically accounted for over 90 percent of total sales.

Net revenues (gross revenues less estimated operating expenses, which averaged $443,000) ranged from $290,000 to $7.8 million. Five stores had net revenues of over $1 million (see table 2). Seven stores for which construction/renovation data were available generated sufficient net revenue that would have enabled the Postal Service to recover all construction/renovation costs in fiscal year 1993.[5] These costs ranged from $116,000 to $484,000.

Table 2: Range of Net Revenues for Postal Service Retail Stores

Dollar range	Number of stores
$290,000 to $749,999	6
$750,000 to $999,999	3
$1 million to $1.9 million	3
$2 million to $7.8 million	2

[5]Under Postal Service accounting procedures, construction and renovation costs are not written off in 1 year, but are depreciated over a period of years.

Same Services Were Offered in Postal Retail Stores and Post Offices

Postal Retail Stores provided the same basic services that are available in traditional post offices. These included postage sales (stamps and metered mail); overnight, second-day, and parcel delivery; packaging supplies; mailbox rentals; and money orders. The stores did not offer any electronic communication services. As shown in appendix IV, MBE offered a greater choice of products and services than are offered by post offices and retail stores. MBE core services included mailbox rentals and photocopying services with 24-hour access, shipping supplies and packaging service, postage sales (stamps/metered mail), Fax, money transfers, and ground and air shipping through the major express and parcel shippers, including the Postal Service. Other MBE services included money orders, greeting cards/post cards, notary, passport photos, and electronic mail messaging (telex, cablegrams, telegrams, mailgrams).

Site Selection Procedures and Criteria for Retail Stores and Post Offices Were the Same

Of the 23 operating retail stores, 13 are new facilities; the other 10 are post office renovations or replacements. Six of the 13 new stores are located close to an MBE store (one-half mile or less) and opened after the nearest MBE store. The other seven new stores were either opened before an MBE franchise opened or were located more than one-half mile from the closest MBE store. Of the 10 existing post offices that were converted to retail stores, MBE had 6 of its franchises within one-half mile of these postal facilities (see app. II). Proximity of commercial outlets to postal facilities is common in this industry. A recent survey by the commercial parcel and retail mail industry reported that over 50 percent of the private retail outlets were located within one mile, and 35 percent were less than one-quarter mile, from a U.S. post office.

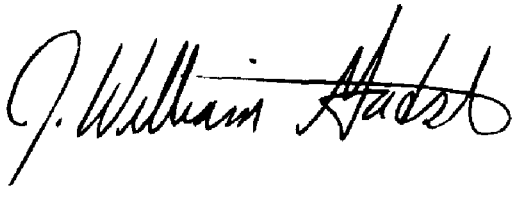
According to Postal Service officials, site selection procedures for retail stores are the same as for any post office retail operation. Site selection proposals are made by the local customer service district with input from headquarters facilities. Postal design guidelines emphasize that retail stores should be opened in commercial/retail locations where there is a concentration of general office, retail, medical, and small business establishments because they use postal services more often than government or manufacturing enterprises. For example, six of the new stores are located in shopping malls. The preferred customer mix for location of a retail store is 50 percent or greater business customers and the remainder residential customers.

Agency Comments

On January 18, 1994, we discussed a draft of this report with the Postal Service's Manager of Retail Support who is responsible for the retail stores program. The comments provided included the views of the Vice President for Customer Services and Sales and other Postal Service executives who reviewed the draft report. Their comments were considered in preparing the final report. In general, they said that they agreed with the report analysis. They added that the Postal Service, much like any other business, will be looking at new products and services to meet its customers' needs; and pursuant to customer demand, some products and services may be offered in some locations and not others.

As arranged with the Committee staff, we will distribute copies of this report to the Postmaster General, the Board of Governors of the U.S. Postal Service, the House and Senate Postal Oversight Committees, and other interested parties. Copies will also be made available to others upon request.

The major contributors to this report are listed in appendix V. If you have questions about this report, please call me on (202) 512-8387.



J. William Gadsby
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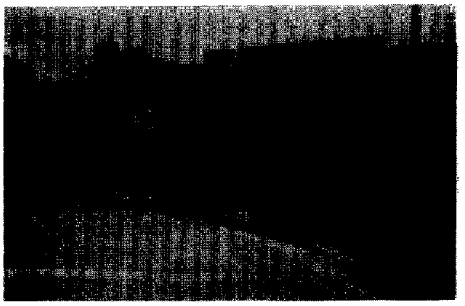
Abbreviations

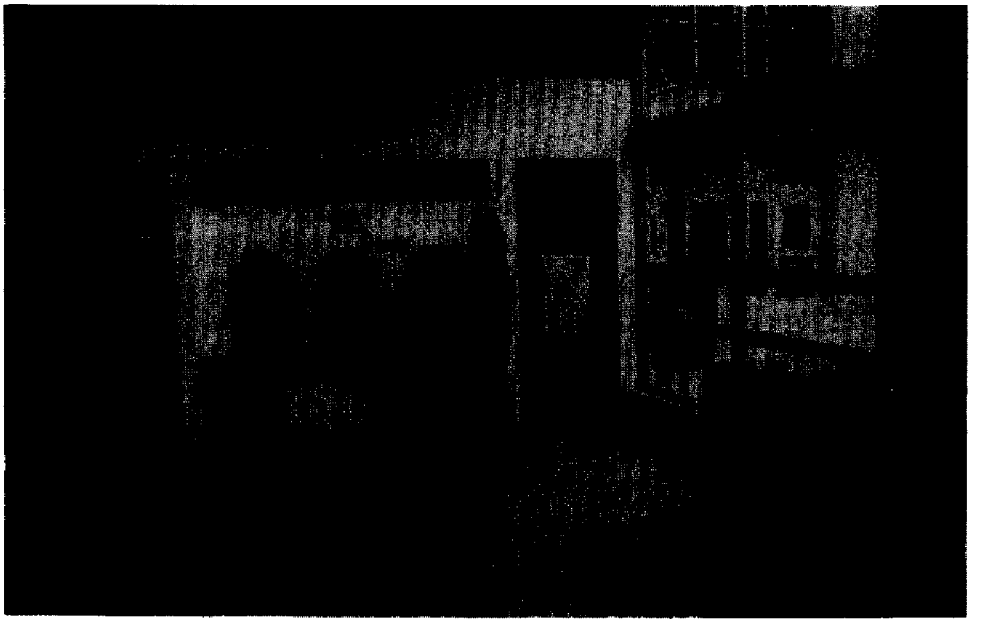
MBE Mail Boxes Etc.

Postal Service Retail Store Design

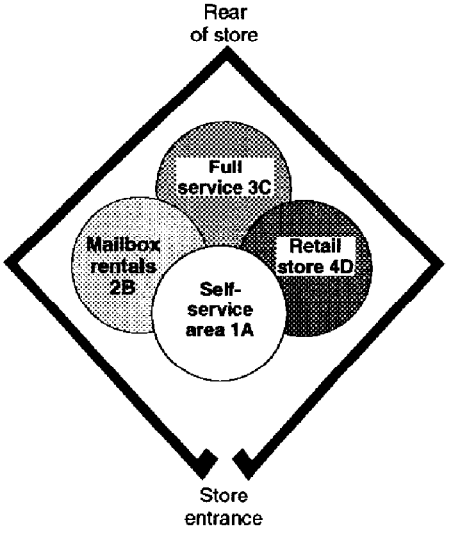
Figure I.1: Postal Service Retail Store Entrance Lobby



Outside of Entrance Lobby



1A



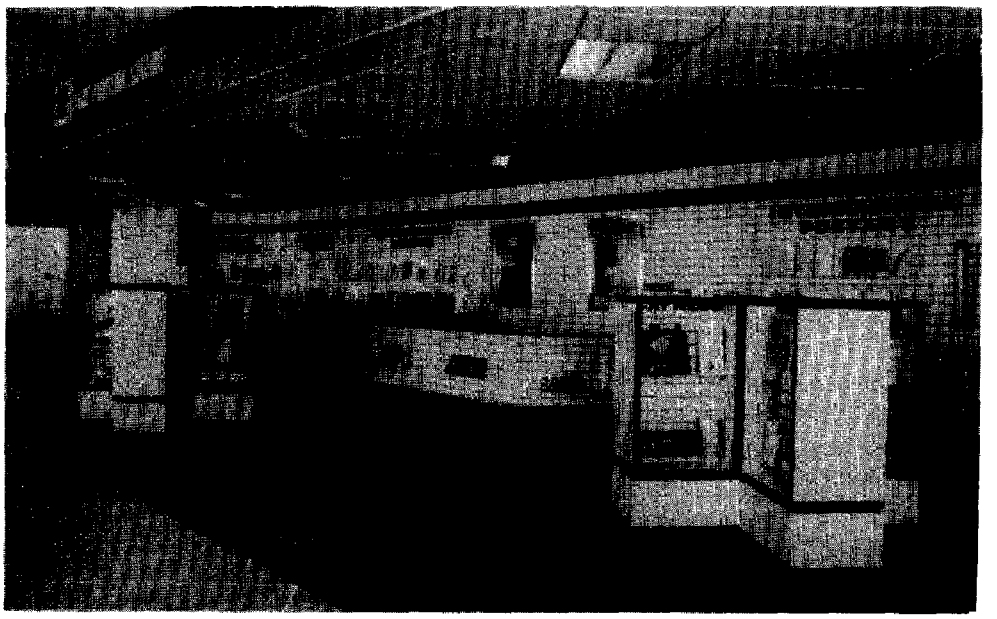
The retail stores are designed into four primary areas configured in a diamond pattern (see bottom left). Figures I.1 and I.2 show the entrance lobby, mailbox rentals, retail store, and full-service areas.

The entrance lobby (see photo 1A) is a self-service area that contains postage stamp vending machines, mail drops, and weighing devices. A second area, either on the right or left side of the store (see photo 2B), contains the mailbox rentals. A third area at the rear of the store (see photo 3C) is the full-service counter available for more complex and time-consuming transactions, such as mailing packages, certifying and registering mail, and buying other mail services. The last area opposite the mailbox rentals (see photo 4D) offers a variety of postal products including sheets and books of postage stamps, stamp collecting kits, and mailing supplies that are displayed on the walls for self-selection.

Figure I.2: Mailbox Rentals, Full-Service Counter, and Retail Store Areas

2B

3C



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Postal Service Retail Stores and Proximity of These Stores to MBE Franchises

Postal Service retail stores	Store opening/ renovation/ replacement date	Facility type	Nearest MBE (miles)	MBE opening date
Martin Luther King, Jr. Washington, D.C.	9/89	New	< .1	5/92
White Flint Post Office Kensington, Maryland	9/89	Renovation	< .1	8/93
Golden Triangle Finance San Diego, California	12/90	New	.3	11/86
Tierrasanta Post Office San Diego, California	7/91	Replacement	1.0	9/82
Southpoint Station Jacksonville, Florida	9/91	New	8.0	4/92
Martine Station White Plains, New York	10/91	New	< .1	11/89
Middlesex Essex Center Woburn, Massachusetts	10/91	Replacement	< .1	9/89
Ingleside Station Holyoke, Massachusetts	11/91	New	5.0	11/86
South County Mall Saint Louis, Missouri	1/92	Replacement	.5	11/86
Harvard Square Station Cambridge, Massachusetts	3/92	Renovation	< .1	11/88
Alton Square Mall Alton, Illinois	5/92	New	20.0	11/87
Crestwood Retail Unit Saint Louis, Missouri	5/92	New	1.0	6/86
Saint Louis Galleria Saint Louis, Missouri	5/92	New	1.5	9/86
Grand Central Station New York, New York	8/92	Renovation	< .1	8/88
Horton Plaza Post Office San Diego, California	8/92	New	< .1	11/83
Union Station Retail Unit Washington, D.C.	10/92	New	.5	5/93
Arcadia Creek Station Kalamazoo, Michigan	3/93	Replacement	3.0	9/89
Lyons Station Newhall, California	4/93	Replacement	1.0	12/89
Burlington Post Office Burlington, Massachusetts	7/93	Renovation	2.9	1/94
Escondido Post Office Escondido, California	6/93	Replacement	< .1	1/82
River Road Station Eugene, Oregon	6/93	New	< .1	4/91

(continued)

Postal Service retail stores	Store opening/ renovation/ replacement date	Facility type	Nearest MBE (miles)	MBE opening date
Postal Museum Washington, D.C.	7/93	New	.5	5/93
Braintree Post Office Braintree, Massachusetts	8/93	New	< .1	12/86

Sources: U.S. Postal Service and Mail Boxes Etc.

Postal Service Retail Stores Under Construction

Location	Location
Birmingham, Alabama	Rochester, New York
Gilbert, Arizona	Cincinnati, Ohio
Tempe, Arizona	Columbus, Ohio
Rogers, Arkansas	Wilsonville, Oregon
Irvine, California	East York, Pennsylvania
Denver, Colorado	Pittsburgh, Pennsylvania
Ellington, Connecticut	Quakertown, Pennsylvania
Fairfield, Connecticut	Providence, Rhode Island
Chicago, Illinois	St. Thomas, U.S. Virgin Islands
Buffalo, New York	Salt Lake City, Utah

Comparison of Services Provided by MBE and Postal Service Retail Stores and Post Offices

Service	MBE	Retail store	Post office
Express Mail, priority mail, parcel post	Yes. Various sources such as Federal Express, DHL, United Parcel Service, and Postal Service	Yes. Postal Service only	Yes. Postal Service only
Stamps and metered mail	Yes	Yes	Yes
Packaging supplies	Yes. Variety	Yes. Variety	Yes. Variety
Custom packaging	Yes	No	No
Gift wrapping	Yes	No	No
Photocopying (24 hrs)	Yes	Yes. Available at some locations	Yes. Available at some locations
Fax (sending and receiving)	Yes	No	No
Business cards and stationary	Yes	No	No
Mailbox rental	Yes	Yes	Yes
Envelopes	Yes	Yes	Yes
Office supplies	Yes	No	No
Western Union Service	Yes	No	No
Money orders	Yes	Yes	Yes
Laminating	Yes	No	No
Notary Public	Yes	No	No
Key duplication	Yes	No	No
Passport/ID photos	Yes	No	No
Mailboxes for sale	Yes	No	No

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