

# Postal Vision 2020 v2.0; USPS Strategy Opportunity as a “Platform”

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The second Postal Vision conference drew 150 attendees to Washington DC’s L’Enfant Plaza Hotel. This was two Metro stops from the real decision makers, i.e., Congress and the United States Postal Service. No one from Congress could squeeze it in but USPS’ new Digital Solutions President and Strategic Planning Manager were in attendance as well as representatives of the two primary Postal Unions for the two-day duration. The USPS, as the core of this intertwined trillion dollar business directly impacting the employment livelihood of nearly 9 million citizens, was intellectually chopped, diced, and casseroleed back together by truly some of the most intelligent, degreed and experienced academic, political, high tech consultants and association executives on this planet.

The real benefactors of this conference were the entrepreneurs in the audience. They recognize (1) Congress will never let the USPS go under, (2) USPS can only embrace digital technologies via work share contracts with the private sector, and (3) despite cascading physical mail volumes the USPS is still a \$50 billion dollar business projected to handle half the world’s mail volume by 2020.

The founder of Postal Vision 2020 and Managing Director of the consultancy URSA Major Associates John Callan in his introduction remarked that for the USPS to meet its full potential all stakeholders need heed both a call to reason and action. The USPS is a big problem affecting all Americans with no easy answers requiring mutual reason, compromise, and sacrifice. Future vision is required fueled by imagination, radical thinking, collaboration, and commitment. With that Clarian call he introduced the keynote speaker Phil Simon, author of The Age of the Platform; How Amazon, Apple, Facebook, and Google Have Redefined Business.

This “gang of four,” as Mr. Simon referred to these four companies, have developed “fundamentally new business models embraced by scores of companies.” They each represent business platforms with a bevy of integrated, consumer-oriented “planks.” These in turn are features, applications, programs, or services each enhanced by vibrant ecosystems. While rooted in emerging technologies, these firms have iconic leaders engendering a cultural mindset among employees resulting in scale, experimentation, and speed.

## **Platform as a Business Model**

These platforms hinge upon the strength of the plank ecosystems, which in turn promote external innovations from partners and developers. These third parties have both sufficient

incentives and powerful tools. Apple's financial package, which is quite similar to the other "gang members" offers 70% of the revenue stream to the developers and retains 30% for themselves. The tools are the Open Application Program Interfaces (APIs) and free software development kits (SDKs).

During the panel discussion on Platform Perspectives, moderator Jeff Jarvis remarked, "When taken over by users, the platform has arrived, such as Craig's List." In responding to the posed query of USPS' strengths, Syed Hoda, the General Manager of Cisco Systems Emerging Solutions Group, suggested the analogy of the New York City metro. As a classic metro, it is mediocre by offering no cell phone or WIFI access (when in the underground cars). And yet the metro effectively physically networks NYC. Marshall Van Alstyne, Professor at MIT's Center of Digital Business added, "Universal access and their unique security network are features if open to others potentially fit the 70-30 revenue share model. Or possibly the Skype model where basics are free and advanced features cost."

Postmaster General Patrick Donohoe in his presentation highlighted a key strength, "(USPS has the) Largest physical network in the world – facilities, routes and people though still encumbered with 1940 work rules."

### **Ground Parcel Growth Opportunity**

In detailing the physical layer international postal consultant Pierre Kacha said, "The USPS delivered 168 billion pieces, managed a data base of 138 million addresses and 228,160 delivery routes in 2011." This includes a sophisticated integration of business processes across a broad product mix. Mark Schoeman, President of Atlanta's Colography Group, addressed the trends in this physical layer. Ground parcel shipments are growing at 9+% a year, but is the least profitable segment of the UPS/FedEx product mix. DHL's parcels in the United States are all actually delivered by USPS. Unfortunately contribution from parcel business is not growing and the USPS' last mile network is its most costly operational element. So incremental volume opportunities exist to cooperate with UPS/FedEx so long as the USPS' costing model is *not incremental*, but fully costed.

Matt Swain, Associate Director of InfoTrends' Document Outsourcing, described the Digital Layer trends as 55 national posts throughout the world are offering e-services and all of this has ramped up since 2009. In the United States alone InfoTrends projects that 2 billion documents will be delivered to digital mailboxes by 2015.

### **Hybrid Mail**

The panel to discuss the Digital Layer trends included the Universal Postal Union representative. The UPU was created by the United Nations for the purpose of managing communications globally. The e-business expert from the UN, who is part of the UN's Directorate of Business Development for its 192 member countries, was Ms. Farah Abdallah. Her work responsibilities include the development of an Internet top-level domain, ".post," which will serve as a platform for the development of international hybrid postal services. These would be the integration of digital and physical networks based on identity and address management.

Management and control of intellectual property could certainly be enhanced by this global capability.

However, an interesting dichotomy is posed. While the opportunity is attractive, the questions arise as to who will control this network and whose investment is going to put it together. The USPS brand lends itself to be very trust worthy in consumers' eyes in participating in the authentication of IDs plus they have extensive experience with their own police force in dealing with ID fraud. Would the sender or receiver pay for these services? From the USPS' business model only the sender pays.

The USPS has no expertise in digital product development plus US statutes prevent the USPS from competing with the private sector. Hence, the only open venue is a work share arrangement. The UPU initiative has no doubt attracted the attention of the US Federal Communications Commission as well from a United States policy perspective.

Gene DelPolito, President of the Association of Postal Commerce, commented, "Hybrid mail has been discussed for 15 years. The USPS does not have the financial resources or the capabilities to move in this direction." Plus there is a "long history of the USPS not playing well with other children in the sand box." When a novel idea comes up, the USPS insists upon seeing perfectly predictable results from the proposal. When such is rarely available, they will not even test the idea.

One of the global leaders in hybrid print and mail was in the audience. Glenn Lombino, Founder & CEO of NYC's Digital to Print ([www.digitaltoprint.com](http://www.digitaltoprint.com)), described an example of helping a graphics design and imaging firm protect its intellectual property. DTP's proprietary software finds an unauthorized use of a branded or copyrighted image. They send a legal letter to the user to either cease and desist or pay a royalty. Mr. Lombino said that cash flow is generated from this letter in 28% of the cases.

### **Patent Potential within Postal Value Chain**

John Cronin, Managing Director of ipCapital Group, and intellectual property consultancy, has been responsible for the submission of 1% of all patents issued in the United States. His staff researched the postal patents by the dominant suppliers and showed that the USPS held 758, UPS – 1,491, FedEx – 113, and DHL – 870. Over 90% of these were issued in the last decade. The immediate conclusion drawn was that this was not very many at all. He stated that there were significant opportunities for innovation and substantial growth in patents. He described the patent potential available within the USPS value chain; postage, collection, outbound sorting, transport long haul, in bound sorting, transport distribution, and delivery.

### **Growth Ideas from Postal Regulatory Commission**

Ruth Goldway has been appointed Chairman of the Postal Regulatory Commission PRC (and Postal Rate Commission before that) by three Presidents and held this appointment longer than any other Executive Branch appointee at 14 years. In her presentation she described the "Postal Service is an enabler for the country to develop its economy and democracy." It is the bedrock of our nation as the communications/ transportation network of last resort and contributes to homeland security & civil order. The digital divide still persists with only 2/3 of the nation

having access to the Internet via broadband, fundamental need for tangible product distribution and a back-up system for low-tech households. This last point consistently shines forth during natural disasters.

Ms. Goldway suggested six complementary and supplementary strategies that the USPS could and should pursue:

1. Allow private sector more access to the network,
2. Capitalize on geographic reach of the postal network (digital is fragmented but physical mail can reach every home),
3. Leverage trusted nature of Postal Service (expand Vote by Mail service, emergency medical countermeasures, mail-in test kits),
4. Tap intellectual capital of Postal Network (national addressing system, employees' institutional knowledge, patent portfolio, hybrid mail, lessons from other national postal operators),
5. Provide customers more control over the mail (high value recycling, partnered return package pick-up & drop off points, partner with mail back repair services, enhanced merchandise return), and
6. Partnerships (federal, state, and local government agencies, credentialing services to Government customers, prize contests, retail reinvention).

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## Current Legislation

Jessica Lowrence, Postcom Executive Vice President, highlighted the two postal bills going through Congress, i.e., S1789 passed by the Senate and HR2309 going through the House. The Senate bill gives back \$11 billion in overpayment, but stipulates it may not be used for investment, only debt repayment. It limits Executive pay and forces management to contribute to their health insurance cost. They allow management to negotiate health care costs with the unions so long as the employee benefits do not fall below those offered in 1984! The Senate requires that the arbitrator CAN consider the USPS financial condition in their union negotiations (not should but CAN).

It places a 3-year moratorium on facility closures, 2-year moratorium on the 5-day service week issue, and a 1-year moratorium on rural post offices. It gives the PRC the ability to stop closures, limits their time frame for advisory opinions to 90-days, and stipulates that they conduct studies after 3 years on products "under water."

The Senate Bill creates a Chief Innovation Officer position and establishes a Strategic Advisory Commission on Solvency and Innovation. Neither of these organizational initiatives appear to report to anyone nor dictate that the USPS must follow their recommendations.

It reemphasizes that the USPS may **not** compete with the private sector. They may ship wine and distilled beverages. They must maintain overnight delivery service standards for first class mail and periodicals but make no comment on cost implications.

The differences between the House and Senate bills are such that the compromise legislation may not be resolved (and therefore become law) in this legislature according to Ms. Lowrence.

## Political Positions Expressed

Three government officials participated on various panels expressing the opinions first hand that the media has covered in depth for months if not years. Ron Bloom, recently served as Assistant to the President for Manufacturing Policy and previously as Special Assistant to the President of the United Steel Workers. He has degrees from Wesleyan University and Harvard Graduate Business School. On discussing USPS possibilities Mr. Bloom said, "USPS (postal rates are) cheaper than anyone else in the world. Austerity is not working in Europe or the US. USPS must grow! ... while also changing its cost structure."

Paul Vogel was brought out of retirement by the USPS to take over as President of USPS' newly created Digital Solutions group three weeks ago. He was managing director of their Global business from 2006-2009. His USPS career has exceeded four decades. On the Policy Direction Panel Mr. Vogel offered, "All ideas discussed (at this Postal Vision Conference) have been analyzed by the USPS ad nauseam. For example, the long life vehicles (comprising the USPS 200,000 fleet) were expected to last 18 years and are now 25 years old. The USPS does not want to pay to modify these vehicles" (for alternative Federal Agencies' shared use) as the USPS does not know how much longer they will last. "Focus groups have been in 2 session for the last five months to help USPS decide what digital services to offer." While kick starting this new enterprise, he will also be looking for a successor to his position.

Fred Rolando is President of the National Association of Letter Carriers. Participating on the panel discussion of values layer, Mr. Rolando said, "A mindset change (at USPS management level) is needed to replace revenue. Legislation does not exist to allow (expansion into new products)." "USPS does not have a business plan or a management team capable of replacing revenues." As for repurposing into different jobs, Mr. Rolando asserted, "80% (labor cost proportion of USPS total costs) is a good deal for what labor does at USPS! Normal attrition will reduce labor count adequately."

If everyone, i.e., legislators, regulators, USPS management, USPS unions, had the same objectives, priorities, and values relative to the postal needs of the United States of America, the turn around of this business would still be extraordinarily difficult. Since those shared elements do not exist, taxpayers can expect Federal bailouts to fuel proprietary agendas for years if not decades to come. In the meantime entrepreneur suppliers developing work share product enhancements to help contain USPS costs while leveraging USPS assets to preserve if not increase USPS revenue in niche applications will be appreciated and quite profitable.