



POSTAL SERVICE FOCUSING ON EXPENSIVE PRODUCTS NO ONE WANTS - INSIDE SOURCES

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The Postal Service has experienced better days. America's mail carrier recently raised the price of a first-class Forever stamp from 66 cents to 68 cents, its fifth price hike in two years. Instead of getting better service or safer deliveries for these higher prices, consumers can continue to expect chronic mail delays, brazen thefts and taxpayer bailouts.

While the agency trots out an array of excuses for its poor performance, it's clear that its priorities are misplaced. A case in point is the "Connect Local" service, which is supposed to handle small-business deliveries efficiently but is instead hemorrhaging cash.

The agency must end its money-losing programs and focus on delivering for Americans.

According to the service, Connect Local mail "allows businesses to send documents locally (to recipients in the same delivery unit) same day or next day ... target mailers include law firms, real estate firms, medical offices, and event organizers." The program was first rolled out in a market test in 2022, and it was quickly apparent that it would be costly.

Even though in its 2022 Annual Compliance Report (released in January 2023), the Postal Service deemed initial market test results "encouraging," costs exceeded revenues more than tenfold.

That is not encouraging at all. The agency also cautioned that it "does not have a method for estimating the quality of service" for its experimental products despite the apparent importance of gauging effectiveness.

Despite these red flags, the Connect Local program continued for an additional year. The service recently released its 2023 Annual Compliance Report, which contained the same disappointing results for the beleaguered "experimental" program. Costs were 37 percent higher than revenues, while volume remained stubbornly low (at 10,000 sales) despite the program being rolled out in all 50 states.

In its request to the Postal Regulatory Commission (PRC) to convert Connect Local to a permanent offering, the service noted that most initial costs are developmental. Revenues appear to outpace "attributable" costs such as receipt and delivery costs. However, the agency will likely have to continue to refine the program even after it becomes a permanent offering, mainly because these costs have risen since the start of the market test.

The PRC has fortunately pushed back on some of the rosy assessments, expressing concern that Connect Local might lead to a diversion from existing postal offerings that could result in lower revenue than anticipated. In response, the service has claimed that "the market

test hasn't shown huge volumes being diverted away from First-Class Mail Flats, Priority Mail, and Priority Mail Express."

However, if the program remains stuck at 10,000 sales annually, the result is hardly a win for the Postal Service. The agency needs cost-effective programs that respond to the needs of its consumer base. Instead, the service is devoting time, manpower, and marketing resources toward programs that serve a tiny sliver of its clientele.

Unfortunately, the PRC opted in December 2023 to prolong the market test until January 2025. From now until then, the Postal Service will inevitably try to explain away lopsided program costs and rationalize low sales as temporary.

The PRC must forcefully push back on this misguided program and deliver a reality check. If the agency continues to focus on expensive and niche programs at the expense of traditional mail routes, quality will continue to suffer, and costs will continue to increase.

Connect Local should be returned to sender so the Postal Service can return to better days.