School of Public Policy

Study on Universal Postal Service and the Postal Monopoly

Appendix G

Section 2

Assessment of Public Needs and Expectations: Small Business and Small Nonprofit Mailers

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Contents

1 Summary

The attitudes and behavior of small businesses and nonprofit organizations as they relate to elements of universal postal service and mail monopolies can be used to inform future need for these services and policies. They can also validate assumptions about the scale and scope of the current levels of postal services.

Most small businesses and small nonprofits are single piece mailers for all intents and purposes. Over 90% send out less than 100 letters per week, and only 23% of respondents send out large mailings such as catalogs, newsletters, or solicitations. 78% obtain postage at a post office, and 50% use the post office for mailing their pieces.

Small businesses and nonprofits generally don't experience or expect much volume change. Among those who have reported change over the past three years, or project change five years from now, more respondents estimate an increase rather than a decrease, but the estimated scope of decrease is higher than the scope of increase. Internet use is expected to trigger only modest volume shifts of less than 10% by nearly half (47%) the respondents, while shifts of 10% or more is expected by 35% .

Five-day delivery would not affect 80% much or at all. Three-day delivery, however, would affect 56% significantly or very significantly.

Apparently, price is a more important factor than delivery frequency for these mailers, while the overall mail volume is rather inelastic to changes in price or delivery frequency. Closing of post offices for cost savings, however, is only supported by one in three companies even if it resulted in a reduction in rates.

If competition were allowed, more than one-half of the respondents think that rates would decrease, while only one-quarter expects increases. Respondents are split about the effect on service quality – about one-third each expect an improvement or deterioration, and nearly as many are uncertain.

2 Introduction

To assess the needs and expectations of small business and small nonprofit mailers with regard to universal postal service and the letter and mailbox monopolies, we chose to conduct a combined nationwide survey.

The survey was intended to provide an empirical perspective on attitudes towards universal service and the monopoly, and to complement the historical, legal, international, and economic analyses on these issues reported elsewhere in this study. The sample, questions, and categories were designed with this specific goal in mind. In particular, we included questions relating to range of products (e.g., classes of mail sent), access mode (e.g., where letters are mailed), delivery (e.g., inconvenience of a reduction in delivery frequency), quality of service (e.g., importance of reliability), user protection (e.g., establishment of a complaint mechanism), letter monopoly (e.g., impact of competition on postage rates), and mailbox monopoly (e.g., granting access to one's mailbox.)[1] In addition, we asked questions on possible alternatives to using postal services and the mailbox (e.g., email use and do-not-mail preferences), and on trade-offs between service levels and costs. Finally, many questions have a volume component as well.

3 Methodology and Limitations

The survey has been administered by phone to 541 randomly selected businesses and nonprofit organizations in the U.S. There is no single standard or definition in the U.S. of what constitutes a "small" business or "small" nonprofit. Thus, we decided to use several sources to define the scale and scope of the population for this purpose. First, we selected industry sectors by NAICS / SIC codes that are made up entirely or largely of nonprofit establishments for the scope.[2] Then, we set an upper limit of $25,000 annual receipts for

[1] These categories concur with the seven elements of a legal USO and the two monopolies identified in Appendix B, with the exception of uniform rates (no questions were asked on this element.) Geographic scope was not covered except by a question on travel time to the local post office, which is reported under access mode.

[2] NAICS (North American Industry Classification Standard is the current system; until 1997 the SIC (Standard Industrial Classification) system was used. Some sample database providers still use SIC

the scale, which according to Internal Revenue Service data includes the majority of nonprofits in the country.[3] Reference data for both nonprofit status and revenue is contained in the U.S. Census Bureau's Economic Census. For businesses, we included all NAICS / SIC codes except those for public administration. To set the upper limit for annual sales volume, we consulted the Small Business Administration standards, and decided on $100,000 or less for a first cut, and $750,000 for a second cut.[4]

Based on this, we draw three samples from a commercially available database of business records. Companies/organizations were called a maximum of 10 times starting October 15, 2008 until November 21, 2008.

4 Results

4.1 Corporate Characteristics

Of the small businesses/nonprofits surveyed, 66% had 1-9 full time employees.[5] 19% had no paid employees, which is typical for many small nonprofits. 78% were local businesses and nonprofits, while 21% were part of a larger regional or national corporation or organization. 29% were tax exempt nonprofits, and 70% were for-profit businesses. 71% of them have broadband Internet access.

4.2 Volume

Only 23% of respondents send out large mailings such as catalogs, newsletters, or solicitations, most of those (71%) do it infrequently (monthly or annually). 92% of them

designations. It should be noted that neither NAICS nor SIC have a separate category for nonprofits. See table in the annex for the code selection.

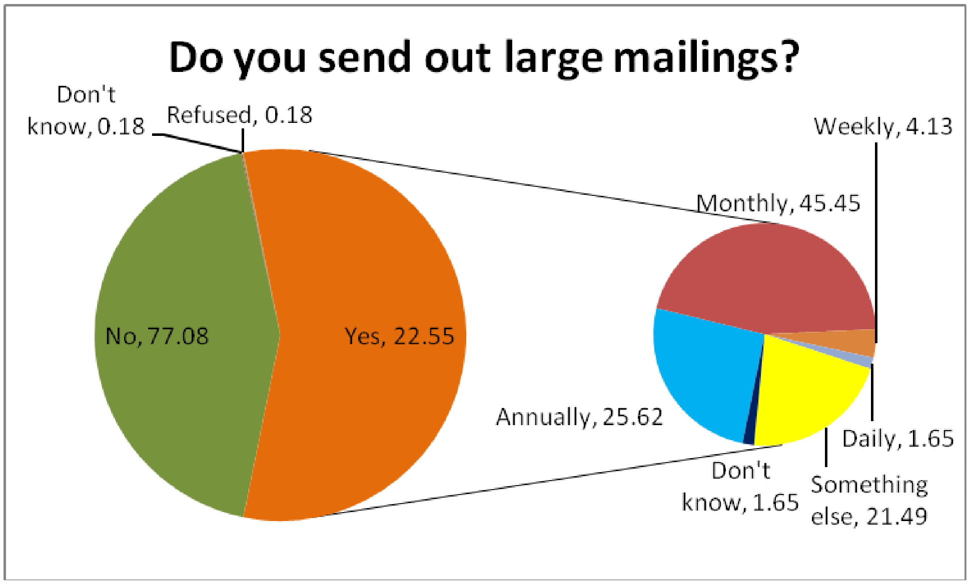
[3] See Arnsberger, Paul. *Charities and other tax-exempt organizations, 2000.* Statistics of Income Bulletin (IRS-SOI), Fall 2003.

[4] See Small Business Administration. Size Standards. Available at http://www.sba.gov/services/contractingopportunities/sizestandardstopics/index.html The results for the second cut are not included in this preliminary analysis yet.

[5] According to the U.S. Census Bureau, there are 26 million employer and nonemployer firms. Of the 6 million firms with employees, 79% of the have 0 to 9 employees (Statistics of U.S. Businesses: 2005, and Nonemployer Statistics: 2005). 49% of businesses were home-based (2002 Survey of Business Owners (released 2006), Company Statistics Series). It should be noted that it is very likely that many respondents in our survey who have 0 employees have included themselves in the 1 to 9 category.

send out less than 10,000 pieces per mailing, and most (74%) do not use a third-party mailer.

Figure G2-1: Frequency of large mailings



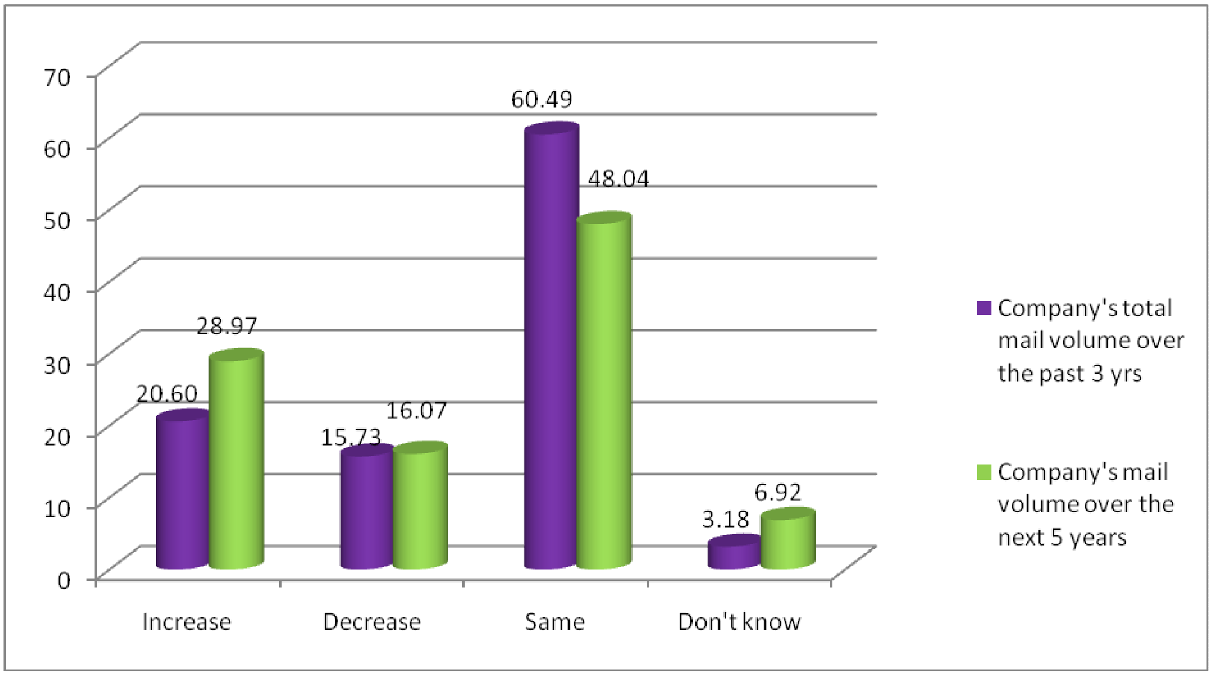
Around 90% send out less than 100 letters per week, not counting their large mailings, if any. This may explain why 78% obtain their postage directly at a post office, while only 9% have a meter and 4% have a permit.

A majority of 52% does not send parcels in any given month; 36% send between 1 and 10, and 12% send more than 10.

Over the past three years, a majority of companies/organizations report that their mail volume has remained steady. 21% saw an increase, while 16% saw a decrease. Most who reported an increase estimate it to be between 10 to 20%. Most who reported a decrease, however, estimated it to be quite substantial at 30% or more.

When asked to look ahead five years, roughly half of the respondents expect little change in their total mail volume. Somewhat surprisingly given the current economic downturn, 29% still expect an increase, while only 16% expect a decrease. Again, there is a noticeable disparity between the volume estimates. 38% of those who think it will increase have modest expectations of 10% to 20%. Yet 35% of those who think it will decrease see a 30% or higher drop.

Figure G2-2: Mail volumes over the past three years and over the next five years



The Internet is expected to change the mailing behavior somewhat over the next five years: 47% expect a volume shift of 10% or less, 15% think that between 10 and 20% will be replaced, 12% expect a more than 30% change. There is a considerable number (17%) who say they don't know what will happen to their volumes.

4.3 Access Mode

The preferred mode of sending letter mail is the post office (50%). 28% use a collection box (either on the street or in their office building), and 16% use their own home mailbox. 21% of companies/organizations rent a PO Box at their local post office.

Only 7% use a company like Mail Boxes, Etc. for renting a mailbox, receiving mail, and sending mail.

Some 63% of small businesses and nonprofits are 5 minutes or less away from their local post office. Only 11% report that it takes 15 minutes or longer to get there. The frequency of visits to the post office is rather evenly distributed between across categories, meaning roughly half the respondents go there rather frequently (15% daily and 34% at least once a week) while the other half is less likely to go (28% at least once a month and 20% less than once a month.)

There are various reasons why small business and nonprofit employees visit a post office The most frequent reason is to mail letters (78%), then buying stamps (67%), and picking up mail (61%). Mailing and picking up packages is named by half of the respondents, 54% and 47%, respectively.

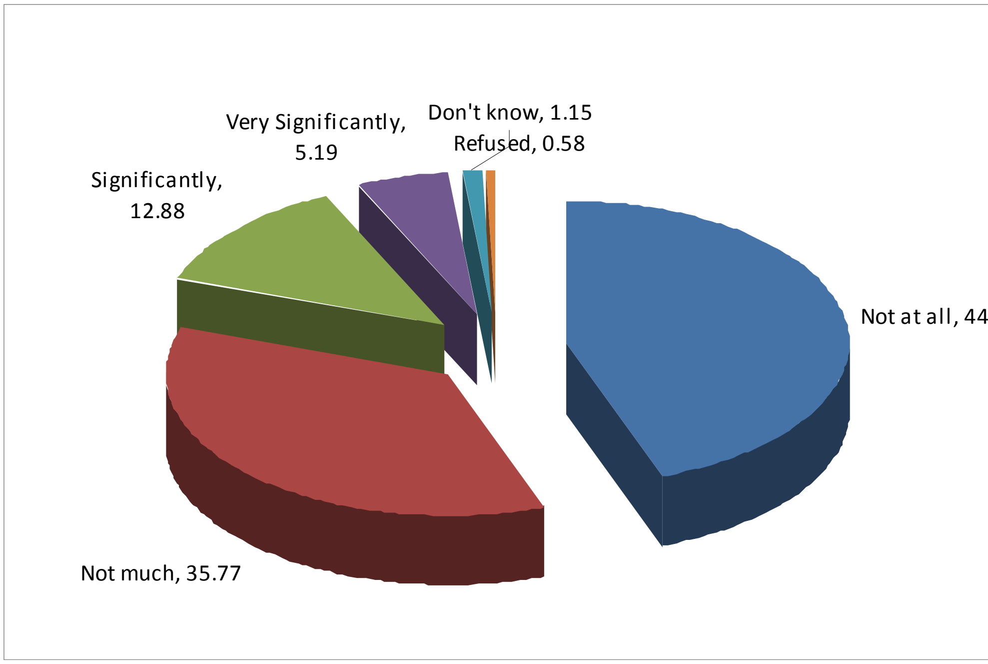
4.4 Frequency of Delivery

The USPS generally delivers mail to residential routes six days a week, and to business routes five days a week.[6] However, a reduction in frequency has been discussed. So we asked how much the company or organization would be affected if delivery of all or certain items would not occur the standard six days a week.

Overall, close to 80% would not be affected much or at all if the USPS delivered all mail only five days a week to their place of business. Only 5% would be affected very significantly.

Figure G2-3: Impact of five-day delivery to place of business

[6] We did not ask how often mail was de facto delivered to the office or location contacted, or whether they were on a residential or business route. Presumably, most of them are not on business routes.



When asked about receiving specific types of mail, the numbers vary – for most types, a majority of small businesses and nonprofits would not be inconvenienced. Receiving bills, statements, and letters one day later than currently would be inconvenient for about one-third, while advertisements would be missed by one in six. The highest inconvenience rate is for payments at 49%. A similar percentage would also like to receive packages at the current levels. A large majority of 78% would eliminate Saturday delivery, which is likely explained by the fact that many offices are closed that day anyway.

When asked about having mail that they send to customers, clients, or business partner delivered one day later, the inconvenience rates go up slightly. The highest rate, again, is for payments sent out at 51%, followed by bills at 46%, statements at about 37%, letters and packages at about 40%, and advertisements at 19%.

Finally, we asked how much respondents would be affected if the USPS delivered all mail to their place of business only three days a week. In that case, the number of those not affected much or at all changes to 40%, while 56% would be affected significantly or very significantly.

4.5 Range of Products

Small businesses and nonprofits use several classes and categories of mail, to varying degrees.

A relative majority uses the USPS to mail parcels. 49% usually use USPS, 9% use FedEX, and 18% use UPS. Asked why they use their preferred mode, 40% said it is because it is most convenient, 11% because it is cheapest, and 8% because it is most reliable. If they had to change their preferred shipper, this would be very or somewhat difficult for 29% of people, while it is not deemed very or at all difficult by 43%.

Bills or invoices are mailed by 60% of companies/organizations. Of those who do send them, 80% send 50 or less per month and only 7% send 100 or more. For postage, 80% of them use stamps most often, and 13% use meters. The Internet has not yet replaced billing in these small offices: Only 10% present more than 30% of their bills by email, while 73% issue less than 10%.Advertising and fundraising mail is sent by 29% of respondents. Of those who do send them, 70% send less than 100 pieces per month, 20% send between 100 and 500, and % send more than 1,000 pieces. For postage for these mailings, 73% use stamps, 11% use meters, 7%use permits, and 2% use a third-party mailing firm. Internet-based advertising and fundraising campaigns make up only a small percentage of their respective volumes in this category, although its use is slightly higher than for bill presentation. 6% send more than 30% of those letters by email or internet, 61% send less than 10%.

International mail is not a factor for the vast majority of small businesses and nonprofits. Only 8% regularly send letters or packages or both abroad.

4.6 Quality of Service

When asked about the value of predictability of delivery date versus delivery speed, predictability wins by more than 2 to 1. Monitoring and reporting such service performance is a job for the USPS itself, according to 34% of respondents, while 25% would prefer an independent accounting firm, and 14% favor the Postal Regulatory Commission. 21% responded that they do not know who should be responsible.

4.7 Trade-Offs between Volume, Price, and Frequency

A number of questions examined the attitudes and effects in relation to changing some variables with respect to certain others (elasticities.)

First, if the postal service had to choose between reducing delivery to five days a week or increasing rates, 67% would not be willing to pay anything more. Some 17% would accept a 2.5% rate increase, but only 6% would pay 5% or more.

Second, if the postal service chose to convert to three days of residential delivery, the mail volume of 20% of respondents would decrease while 59% do not expect any change.

Third, if the postal service chose to convert to three days of residential delivery but decreased the postage rate by 10% at the same time, the mail volume of 14% would decrease while 66% would not expect any change.

Lastly, we asked the following question: If the postal service could save 10-15 % of its total costs by reducing delivery to three days per week and closing the 10,000 smallest of the 40,000 post offices, how likely would your company be to support these service reductions if it resulted in a 10% reduction in postage rates. A slight majority answered that their company was not very or not at all likely to support this (17% and 37%, respectively.) 11% were very likely, and 21% somewhat likely supporters

Apparently, price is a more important factor than delivery frequency for these mailers, while the overall mail volume is rather inelastic to changes in price or delivery frequency. Closing of post offices for cost savings, however, is only supported by one in three companies even if it resulted in a reduction in rates.

4.8 Letter Monopoly

Rather than asking about the USPS letter monopoly directly, we asked what companies and nonprofits thought about competition by other companies. On the question whether mail service would improve or deteriorate if the law was changed to allow other companies to compete in the delivery of mail, 36% thought it would improve, 36% thought it would deteriorate, while 21% were uncertain about the effect; responding either it depends or they don't know. On the question whether postage rates would be higher or lower if there was competition, 24% thought they would rise, 53% thought they would sink, and 21% were uncertain on this.

Table G2-1: Opinions on service and rate development (% of respondents)

	Service	Rates
Increase	36	24
Decrease	36	53
Uncertain	21	21

5 Bibliography

Arnsberger, Paul. “Charities and Other Tax-Exempt Organizations, 2000.”*Statistics of Income Bulletin (IRS-SOI)* Fall 2003 (2003).

U.S. Census Bureau. 2002 Survey of Business Owners, Company Statistics Series. Washington, DC. 2006.

U.S. Census Bureau. Statistics of U.S. Businesses: 2005. Washington, DC. 2006.

———. Nonemployer Statistics: 2005. Washington, DC. 2006.

6 Technical Annex: Sample Description and Survey Questionnaire

The randomized sample consisted of the following records, with a more detailed description of the SIC codes with tax-exempt corporations in the second table below:

	Draw 1	**Draw 2**	**Draw 3**	**Draw 4**
Area	50 states	50 states	50 states	50 states
SIC included*	01-99	83, 84, 86	01-99	83, 84, 86
SIC exluded	43, 91-97		43, 91-97, 8351	
Status	All	Tax Exempt	All	Tax Exempt
Location	Single site	Single site	Single site	Single site
Receipts	$100,000 or less	$25,000 or less	$750,000 or less	$25,000 or less

* 2-digit SIC codes; draw 2 and 4 furthermore included the following 4-digit SIC: 6732, 7922 , 7997 , 8051, 8052, 8059, 8062, 8063, 8069, 8093.

SIC Code	1987 SIC Description	Status	Establishments	Receipts	Paid employees	Annual payroll
6732	Grantmaking foundations	Exempt	5,656	32,237,885		1,091,724
7922	Theatrical producers (exc motion picture) and miscellaneous theatrical services %	Taxable	5,217	7,178,240	66,175	2,044,118
		Exempt	2,273	2,811,051	47,550	889,165
7997	Membership sports and recreation clubs	Taxable	6,432	5,884,679	131,332	1,993,141
		Exempt	8,591	7,860,389	186,975	3,135,205
805	Nursing and personal care facilities	Taxable	19,641	49,532,896	1,312,703	22,358,777
		Exempt	13,657	27,819,012	745,146	13,109,351
8062	General medical and surgical hospitals	Taxable	784	34,140,320	419,865	11,535,646
		Exempt	4,626	312,376,662	4,014,735	127,846,360
8063	Psychiatric hospitals	Taxable	342	3,080,332	49,549	1,220,583
		Exempt	381	D	(100,000+)	D
8069	Specialty hospitals, except psychiatric	Taxable	219	2,925,727	42,170	1,129,579
		Exempt	333	D	(100,000+)	D
8093	Specialty outpatient facilities, not elsewhere classified	Taxable	7,504	7,196,827	89,925	2,671,388
		Exempt	8,831	18,006,616	284,244	8,713,470
83	Social services	Taxable	69,713	18,893,957	662,201	8,025,759
		Exempt	92,156	75,682,312	1,586,186	25,998,954
84	Museums, art galleries, and botanical and zoological gardens	Taxable	659	405,742	5,897	98,240
		Exempt	4,781	6,277,474	84,417	1,713,627
86	Membership organizations	Taxable	868	1,997,359	25,238	682,645
		Exempt	65,075	D	(100,000+)	D
		Total	**317,739**	(n/a)	(n/a)	(n/a)
		Exempt	**206,360**	(n/a)	(n/a)	(n/a)
Sources:	http://www.census.gov/epcd/ec97sic/E97SUSI.HTM#I79					
	http://www.census.gov/epcd/ec97brdg/E97B1813.HTM					