



Create Enhanced Payment Systems and Commercial Credit Options

Report Recap

The October 2001 report of the Mailing Industry Task Force (MITF) recommended that the Postal Service and the industry work together to develop and deploy enhanced payment systems and commercial credit options. To accomplish those objectives, the Task Force suggested that the Postal Service 1) upgrade its postage payment systems to offer single-source access and transaction tracking, 2) provide business mailers with more flexible payment terms to enhance competitiveness, and 3) explore at-home payment options.

The Task Force concluded that the work being done by another Task Force work group on the development of consumer gateway services would include consideration of at-home services such as payment. Task Force members agreed that citizen mailers' interests could be well-served by enhanced payment systems, through the growth of volume and revenue to ensure the continued viability of affordable universal service.

The Enhanced Payment and Credit Vision

Last fall, the Task Force observed that — as competition from the Internet and alternative channels grew — the mailing industry needed to evaluate payment options for its channel. The Postal Service operates on the basis of payment in advance of service. Extension of credit and flexible payment terms, for example “30 days same as cash,” are common business practices across other industries, as noted by the Task Force. In light of the legal requirement for prepayment, the Postal Service faces a challenge as it tries to make payment as easy as possible for its customers.

Progress To Date

Enhanced Payment System Principles. The Task Force and its committee agreed that the enhancement of Postal Service payment systems would incorporate several strategic principles in order to realize appropriate levels of value for customers. The principles include a stimulus for volume growth, ease of use, flexibility, opportunity for choice, a national scope, availability to mailers of all sizes and classes, competitiveness, openness to the entire postal supply chain, security, a customer-centric focus, cost-effectiveness and be collaborative in nature, with payment options and centralized accounts as features. “Mutually beneficial opportunities that will accommodate our customer needs and stimulate volume growth for the Postal Service need to be explored and tested,” said Deputy PMG John Nolan.

The Task Force endorsed a Postal Service plan for a new payment system, *PostalOne!*, around the following attributes: a national permit number to establish one account for multi-site mailers; a streamlined, on-line process to establish and modify accounts; enhanced postage payment process; electronic acceptance, integrated with the payment process; and comprehensive on-line reporting. A goal, the Task Force suggested, should be for the Postal Service to value all customers as customers, and not as individual or multiple permit holders. The Postal Service's *PostalOne!* technology could become the platform for an enhanced payments system.

Commercial Credit Options. Some members of the Task Force stated that USPS pre-payment requirements had limited the business of some mailers. Those members determined that financial instruments such as surety bonds, letters of credit, or equalized payments, as identified in the MITF report, perhaps could be utilized in the future to enhance competitiveness and offer customers greater payment flexibility. Unless such instruments prove self-financing, however, the Postal Service would have to also address the effects of diminished cash flow associated with such instruments.

Several payment concepts are under consideration for proof-of-concept testing by the Postal Service.

The first is the use of a PIN-based debit card, which would be used to pay postage at selected large Business Mail Entry Unit pilot sites. PIN-based debit cards are a safe, secure alternative to cash, and can be used for both bulk mail payments and trust

fund deposits. The Task Force believes this test may start later this spring, after the Postal Forum. If implemented, the test would include business mailers who already use PIN-based debit cards for purchasing.

The other proof-of-concept tests, if implemented, would involve third-party financial intermediaries that would be set up in the Postal Service's Centralized Account Processing System (CAPS). Participation in CAPS is restricted to businesses that purchase at least \$50,000 in postal services annually and mail from at least three permit locations. One test would focus on Business Reply Mail for mailers too small to be a CAPS participant. In this test, CAPS-eligible third parties could contract with smaller mailers to allow them to access the third party's debit account, improving the performance of the smaller mailers' BRM programs by eliminating any chance that those mailers might not have sufficient funds to cover their BRM replies. A second test would allow third-party intermediaries selected by CAPS-enrolled mailers to offer those mailers credit terms, with the Postal Service debiting the third parties for the mailers' postage.

Planned Actions

The Task Force intends to pursue the following:

- Prioritize elements of an enhanced payments system, so that those elements deemed most important have planning and resources for full consideration directed towards them first.
- Assist the Postal Service, if necessary, in rolling out the PIN-based debit card test for BMEUs.
- Assist the Postal Service, if necessary, in developing two third-party intermediary tests, using the CAPS system, after obtaining feedback on the test concepts at the April National Postal Forum.

Task Force Process

The Task Force created a committee to comprehensively review the recommendation and its proposed initiatives that included representatives from ADVO, Coldwater Creek, American Express, Capital One, Computer Services Corporation, the Department of Defense, DST Output, Fingerhut, J.C. Penney, McGraw Hill, Pitney Bowes, Time Inc., Relizon, R.R. Donnelley and SBC Service Communications. Co-chaired by Gary Mulloy, the Chairman and CEO of ADVO and Bob Pedersen, Vice President, Treasurer of the U.S. Postal Service, the committee was assisted by a team of postal payment specialists. During meetings in Windsor, Connecticut and Washington, DC, the committee focused its attention shaping the processes for modernizing the Postal Service's payment systems, and determining what options and flexible payment opportunities existed and where the Postal Service might wish to test them.