Creating Last-Mile Incentives from Inside Out

By Victor Glass Rutgers Business School Conference on Postal and Delivery Economics, 2018

Upfront Disclosures

- My background is in Telecom
- My recommendations are based on my telecom experiences
- They may not translate well to the postal industry
- My hope is that at least a few of my recommendations are novel enough to start discussions about approaches that will supplement the PRC's incentive program
- I take no position on the PRC's proposal to revise the current system for regulating rates for USPS services

Meaning of Title - Creating Last Mile Incentives from Inside Out

- Last mile is supposedly a natural monopoly; therefore, most insulated from external competitive pressures
- "Inside" means creating incentives within the Postal Service
- Done creatively, internal incentives
 - May promote the equivalent of competitive market incentives
 - ► May be a first-step towards introducing external ("Outside") competition

Proposal Outline

- Define last-mile service territories that will operate like subsidiaries
- Develop service area performance standards
- Institute a management bonus plan
- Develop a best practices simulation model
- Consider reverse auctions for operating service territories
- Consider decentralizing regulation state/federal partnership



Define Service Territories as Subsidiaries

- Many service territories can approximate a competitive internal market
- Treat as subsidiaries implies management authority to experiment with delivery and service options
- Suggest rural and non-rural service territories
 - Rural and non-rural face different challenges
 - Postal offices can be anchor institutions in rural areas
- Confine service territories to within state borders in anticipation of local regulation

Develop Service Area Performance Standards

- Link service territory performance measures to national USPS performance measures
 - Disaggregate measures to service territories
 - When aggregated, they should tie to USPS targets



Institute Bonus Plan

- Approximates equity interest
- May justify high-priced talent
- Must be revenue requirement neutral



Develop Best Practices Simulation Model

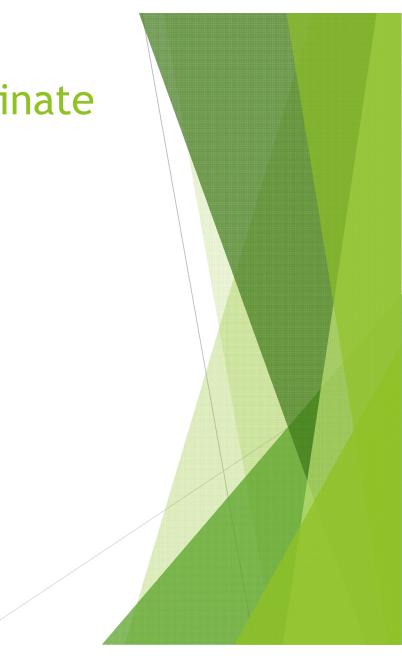
- Similar to telecom broadband simulation model
- Benefits of a simulation model
 - Another means for evaluating performance
 - Intermediate step towards subcontracting or spinning off service areas
 - Method for estimating subsidies needed for a reverse auction

Consider Reverse Auctions

- > Open service areas to private interests
- Would force PRC to weight the 9 objectives and 14 factors to evaluate bids
- Options could include
 - Subcontracting for a fixed number of years
 - Spinning off service territories

Decentralize Regulation but Coordinate with PRC

- Set up a NARUC-like- state/federal regulatory system
- Consistent with decentralizing service territories
- Move regulation close to service territory



Caveats about Telecom Transferability

- Reverse auctions in telecom were based on private entities bidding to provide service; the USPS is a public enterprise
 - > Postal Service employees may bid and assume bail-outs if trouble occurs
- Labor is much more unionized in the postal industry than in the telecom industry
 - Buy-in is critical
 - If wages are above competitive levels, outside bidders will win contracts and displace union workers
 - Union health and retirement benefits would be at risk
- Auction should include competitive services because of economies of scope; this may regulatory roadblocks

Recap

- Internal incentive building may be an alternative that hasn't been considered
- Some experiences from the telecom industry may be transferable
- However, they need to be re-evaluated based on their applicability to USPS

