



Creating Last-Mile Incentives from Inside Out

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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