The Postman May Not Ring at All

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Seeing Jack Nicholson on stage Sunday at the Oscars reminded us of the 1981 movie “The Postman Always Rings Twice.” The United States Postal Service is technically insolvent. Last year, the agency exhausted its borrowing capacity and failed to pay $11 billion into its retiree health plan. This year, it will not make a $6 billion contribution. While the current cash balance of $2 billion is sufficient for 10 days of operation, management forecasts a $100 million deficit by October. When payments to employees and suppliers end, so too will the mail.

Electronic substitution is the cause. Over the last six years, the volume of first-class mail — the most profitable product — has plummeted 30%. In addition to extensive use of e-mail, consumers have switched to online bill payment due to its convenience, flexibility and economy. Companies have pushed for this change too, as the cost to process an online transaction is a fraction of a paper one.

The introduction of new products and services will prolong this trend. For example, Pitney Bowes has developed Volley, an application that consolidates bills, statements and documents. Also, Intuit offers SnapTax, which allows consumers to file their tax returns through an iPhone or Android. In addition, a 3% postal rate increase in January will accelerate the decline, and the agency expects first-class mail volume to fall 6% this year.

While the Post Office has aggressively cut expenses, much more is needed. In 2011, management proposed closing 3,600 post offices, shutting down 250 processing centers and eliminating Saturday delivery, which will save $6 billion in annual costs. In addition, Congress is debating the agency’s withdrawal from the federal health care system, which will save $7 billion.

While Saturday delivery will likely end for first-class and standard mail, the Post Office will still deliver packages. This segment grew 15% over the last two years with the explosion in e-commerce, as many shippers fulfill their “free shipping” commitment with the Service’s low-cost option. Unlike traditional mail, where Congress must approve rate hikes, the agency raised parcel pricing by 9% in January.

But, strong growth in parcel cannot overcome the losses in mail. The agency estimates that packages produce just a 15% contribution margin, versus first-class and standard mail, which earn 52% and 34%, respectively. As a result, Congress must move decisively to implement a long-term solution to the Postal Service’s financial woes. If partisanship on the Hill delays action or a short-term fix is applied, a cash crunch will lead to the demise of mail in the United States.

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