



The Resource for Warehouse Logistics

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POSTAL SERVICE PROPOSALS TO ENTER WAREHOUSING AND LOGISTICS MARKET

The Postal Service is proposing to enter what it describes as "the micro-warehousing and logistics support services market." In January 2015, the OIG suggested that the Postal Service enter the "continuity shipping" market by offering "basic fulfillment services, while developing expertise in other eCommerce supply chain areas such as logistics, inventory management, product shipping, and traceability."¹ This recommendation completely ignores the fact that the Postal Service *does not have the legal authority* to enter the warehousing/logistics market -- a reality that was thoroughly discussed less than a year before in a March 2014 OIG report.² An operational test was launched in November near Chicago under questionable legal authority and with little transparency.

The Postal Service As A Competitor in the 3PL Market: The 3PL warehouse industry welcomes competition, however, the Postal Service would not be just any competitor in the 3PL/warehousing space. The Postal Service would enter this market with clear advantages derived from its unique status as a part of the U.S. government, including:

- Exempt from State and local taxes
- Exempt from many State/local statutes and regulations governing operation of motor vehicles
- Reduced liability in lawsuits
- Economies of scope by utilizing its existing space, vehicles and workforce
- Priority in bankruptcy
- Preferential access to capital
- Lack of transparency, preventing insight into cost accounting
- Preferential treatment due to the Postal Service brand derived from its governmental status

These advantages amount to hidden and indirect subsidies that do not belong in a competitive marketplace, particularly a market where the majority of companies are small or medium-sized businesses. This would distort the warehouse-based 3PL marketplace.

The Postal Service Proposal: The Postal Service views micro-warehousing and related logistics services as an opportunity to generate additional revenue that will offset losses in its postal services. Yet, the proposal is filled with inaccurate perceptions and faulty assumptions, including:

¹ Office of Inspector General, United States Postal Service, *Revenue Opportunities for Innovative Mail Services*, (Report Number FT-WP-15-002, dated January 20, 2015), page 2.

² Office of Inspector General, United States Postal Service, *Opportunities for the Postal Service - Micro-Warehousing and Other Logistics Support Services*, (Report Number MS-WP-14-003, dated March 13, 2014) page ii.

- **Low Barriers To Entry:** The Postal Service describes an asset-based logistics business model, yet justifies it based on characteristics of the non-asset-based 3PL. For example, it says there may be low barriers to entry. In reality, the barriers to entry for asset-based 3PLs are high, requiring significant up-front investments in space, equipment and advanced technological systems.
- **Purported "Gaps" in E-Commerce Fulfillment:** The Postal Service points to "gaps" in e-commerce fulfillment and end-to-end solutions that they should fill. Yet, it does not elaborate on the nature of these "gaps" and in fact, private sector 3PLs cover a wide range of services, leaving no such "gaps". Warehouse-based 3PLs serve customers from the smallest online start-ups to the largest e-commerce businesses. The industry has invested heavily in sophisticated automation and technology to meet the unique needs of e-commerce supply chains with their demand for speed, consumer customization and convenience. Distribution warehouses have become dynamic, integrated and scalable product fulfillment centers well equipped to handle small, growing e-retail businesses.
- **Mail Delivery Expertise Does Not Translate to 3PL Expertise:** Modern warehousing (micro or otherwise) is not just about filling empty space with boxes and then shipping them out to fill an order. Modern logistics presents a wide range of challenges for a warehouse-based 3PL, including: consumer demand for personalization resulting in a high-velocity environment, the need for increased visibility, accuracy and efficiency and a seamless reverse logistics process to handle the large volume of returned merchandise. The Postal Service's skills and expertise in delivering letters and parcels does not automatically qualify it to take on this role with any degree of competence.

Conclusion: Certainly the Postal Service has a role to play in the global logistics revolution. There are promising opportunities when it plays to its strengths, such as its unique first and last mile capabilities. But it seems foolhardy to try to duplicate the complex logistics networks that have developed and continue to evolve innovatively and effectively in the private sector. The Postal Service does not have the flexibility, competencies or resources necessary to do this. This proposal has the potential to be an unprecedented lose-lose: a government entity disrupting a very competitive, efficient private sector market at the same time it detracts from its core government mission and drains already scarce resources. We welcome the opportunity to have an open and transparent discussion with the USPS and its oversight bodies to discuss how the USPS can play a more productive role in the ecommerce supply chain, as a partner with the private sector, in ways that will prove beneficial to all parties.