Parcel shipping/LTL news: Stakeholders issue comments on USPS market test for LTL-like services

Jeff Berman, Group News Editor -- Logistics Management, 4/23/2009

WASHINGTON—Earlier this month, *LM* reported that that United States Postal Service (USPS) will launch a market test next month to provide service that will resemble a less-than-truckload (LTL) network.

The USPS made this announcement in a filing submitted to the Postal Regulatory Commission. According to the filing, the LTL-like market test cannot exceed 24 months, with total revenues not anticipated to exceed $10 million. The USPS said it will leverage its national transportation network that serves its processing facilities, which are primarily comprised of approximately 440 sectional center facilities and more than 40 bulk mailing centers. USPS does not have an asset-based transportation network, as it contracts out its over-the-road trucking business.

Since the PRC initially submitted its filing, both the Public Representative for the PRC and the USPS issued comments on the LTL services endeavor.

The Public Representative for the PRC filing recommended the approval of the LTL-like market test, citing various potential benefits for the USPS, including: additional revenue to the USPS to aid in maintaining its Universal Service Obligations; providing increased economic efficiency benefits, environmental benefits, and additional shipping options for customers.

“The Postal Service is facing severe financial difficulties due to a combination of long-term and short-term downturns in the mail volumes that serve as its primary revenue source,” the PRC Public Representative said in the filing. “Any additional sources of meaningful financial contribution would help ameliorate those difficulties, provided that the revenue stems from products and services within the statutory authority granted the Service.”

While the PRC Public Representative supports the go-ahead for this market test, other comments cited areas of this effort that need to be monitored, including: the possibility of disproportionate harm from market tests in a limited geographic area; potential for legal challenges; and administrative complexities that may pose deployment risks, among others.

In its comments, the USPS said all markets in the contiguous 48 states to be considered for the market-test, and the USPS will collect data and information on various items, including: revenue generated, pallet positions available for sale and offered for sale; pallet positions sold; service performance; and effects on postal operations, among other factors.

The USPS also said that “the two key components for success will be profitability and on-time service performance.”

And it also pointed out that the USPS will not have any inherent advantages in the LTL market, given the fact that the existence of established LTL service providers “will constrain the Postal Service’s ability to fill the excess capacity in its transportation network.” It also said it is open to a large variety of mailers or traditional freight shippers negotiating individual lane agreements with the USPS up to the limit of its excess capacity.

As *LM* previously reported, when the service gets underway, the USPS plans to leverage excess capacity on its trucks moving to and from these facilities—due to a significant decline in its mail volumes—by selling that capacity on a “space-available” basis. It added that delivery unit loads will be on pallets, with exceptions on a case-by-case basis. And delivery times will range from one-to-four days, depending on origin and destination.

The original PRC filing also noted that the USPS “would accordingly be unable to set prices substantially above costs, raise prices significantly, decrease quality, or decrease output without risk of losing business to other firms in the LTL shipping market.”

An industry source whom declined to be identified told *LM* that this plan makes sense on various levels, considering the USPS has plenty of excess capacity on the roads at the moment with a network that is already delivering mail on a daily basis. And he added that if viewed as an LTL player, the USPS has a bigger LTL footprint—or network—due to its existing mail routes.

“There is no place the USPS does not go,” explained the source.

The catch for shippers, though, he explained is that they will need to determine how to get freight to and from the USPS SCFs and BMCs. This presents an opportunity for third-party integrators to take an active role in delivering and picking up freight and then collect and deliver it to a consignee.

An industry consultant said in an interview that while this effort is ambitious, it remains to be seen how truly beneficial it is for shippers.

“The USPS certainly has a good idea in trying to fill the empty space, but as this is only terminal-to-terminal’, I doubt it will be useful to any LTL shippers that are currently getting door-door service from any of the LTL carriers they use,” said Albert Saphir, president of ABS Consulting in Marietta, Ga. “And unless the USPS has space on lanes otherwise in demand for LTL (higher priced LTL lanes), I doubt they can be competitive by the time you add the pick-up and delivery cost into the mix. I would also have some reservations on transit time and reliability. This has never been a big area of expertise for the USPS, especially as there was no need for it.”