

THE UNITED STATES POSTAL SERVICE: PROFIT, VALUE CREATION, AND FINANCIAL SERVICES

ASSIGNMENT QUESTIONS

Question 1: What do the USPS's financials tell you about whether or not (a) it creates economic value, (b) is more or less efficient than UPS or FedEx, and (c) needs to reexamine its business model? Explain your answer."

Question 2: What positive externalities does USPS produce, and how has the value of these externalities changed over time?"

Question 3: Explain how you would calculate the economic value created by the USPS, taking into account the positive externalities it produces."

Question 4: What capabilities and competencies does the USPS have that would enable it to create economic value by offering financial services? Would creating economic value this way "fit" with the USPS's overall purpose, culture, and history? Why or why not? Explain.

Question 5: If the USPS were to begin offering financial services, how would it impact its revenue, the consumer surplus it creates, and the positive externalities associated with its operation? Discuss potential impact on each of these three value components.

Question 6: Should the USPS begin offering financial services? Why or why not?

Exhibit 1: Statement of Operations

United States Postal Service			
Statement of Operation			
(in millions)	Year Ended September 30,		
	2014	2013	2012
Revenue			
Operating revenue	\$ 67,764	\$ 67,195	\$ 65,079
Other revenue	66	123	144
Total revenue	67,830	67,318	65,223
Operating expenses			
Compensation and benefits	46,000	46,708	47,689
Retiree health benefits	8,685	8,450	13,729
Workers' compensation	2,554	1,061	3,729
Transportation	6,586	6,735	6,630
Other operating expenses	9,353	9,174	9,187
Total operating expenses	73,178	72,128	80,964
Loss from operations	(5,348)	(4,810)	(15,741)
Interest and investment income	24	24	25
Interest expense	(184)	(191)	(190)
Net loss	\$ (5,508)	\$ (4,977)	\$ (15,906)

Source: 2014 10-K; See accompanying notes to the financial statements.

Exhibit 2: Balance Sheets

United States Postal Service		
Balance Sheets		
(in millions)	September 30, 2014	September 30, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,906	\$ 2,326
Restricted cash	246	312
Receivables, net	930	984
Supplies, advances and prepayments	122	122
Total current assets	6,204	3,744
Property and equipment, net	16,338	17,512
Other assets	420	385
Total assets	\$ 22,962	\$ 21,641
Liabilities and Net Deficiency		
Current Liabilities:		
Compensation and benefits	\$ 1,506	\$ 1,529
Retiree health benefits	22,417	16,766
Workers' compensation costs	1,320	1,322
Payables and accrued expenses	2,023	1,913
Deferred revenue-prepaid postage	3,064	2,993
Customer deposit accounts	1,191	1,229
Other current liabilities	1,221	1,131
Current portion of debt	9,800	9,800
Total current liabilities	42,542	36,683
Workers' compensation costs, noncurrent	17,102	15,918
Employees' accumulated leave, noncurrent	1,982	1,982
Other noncurrent liabilities	1,467	1,681
Noncurrent portion of debt	5,200	5,200
Total liabilities	68,293	61,464
Net Deficiency:		
Capital contributions of the U.S. Government	3,132	3,132
Deficit since 1971 reorganization	(48,463)	(42,955)
Total net deficiency	(45,331)	(39,823)
Total liabilities and net deficiency	\$ 22,962	\$ 21,641

Source: 2014 10-K; See accompanying notes to the financial statements.

Exhibit 3: Information Sources

About the USPS	
Main	http://about.usps.com/
Financials	http://about.usps.com/who-we-are/financials/welcome.htm
History	http://about.usps.com/who-we-are/postal-history/welcome.htm
5-Year Plan	http://about.usps.com/strategic-planning/five-year-business-plan-2012-2017.pdf
2014 10K	http://about.usps.com/who-we-are/financials/10k-reports/fy2014.pdf
The United States Postal Service: An American History 1775-2006	
PDF	http://about.usps.com/publications/pub100.pdf
Smithsonian National Postal Museum	
Main	http://postalmuseum.si.edu/
Commentary	
Heritage Foundation	http://www.heritage.org/research/reports/2013/10/can-the-postal-service-have-a-future
Heritage Foundation	http://www.heritage.org/research/reports/2011/09/youve-got-no-mail-is-the-end-near-for-the-postal-service
Economic Policy Institute	http://www.epi.org/publication/heritages-ruinous-recommendations-postal/
Slate	http://www.slate.com/articles/business/crosspollination/2014/03/postal_banking_usps_can_and_should_start_offering_financial_services.html
USPS Newsroom	http://about.usps.com/news/national-releases/2012/pr12_023.htm
Forbes	http://www.forbes.com/sites/adamhartung/2011/12/06/why-the-postal-service-is-going-out-of-business/
Minyanville	http://www.minyanville.com/business-news/editors-pick/articles/postal-service-usps-post-office-post/8/3/2012/id/42951
Financial Services (USPS Office of Inspector General)	
Financial Services - White Paper	https://www.uspsoig.gov/sites/default/files/document-library-files/2014/rarc-wp-14-007.pdf
The Road Ahead	https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-011.pdf
PEW Conference on Financial Services and the USPS	
Main	http://www.pewtrusts.org/en/about/events/2014/financial-services-and-the-post-office
Important Concepts (Wikipedia)	
Market	https://en.wikipedia.org/wiki/Market_(economics)
Public Goods	http://en.wikipedia.org/wiki/Public_good
Merit Goods	http://en.wikipedia.org/wiki/Merit_good
Consumer Surplus	https://en.wikipedia.org/wiki/Economic_surplus