

Stamps.com: Barcode Inspector Software Provides Insight into Reseller Spread Magnitude and USPS Per Package Revenue Loss; Use of Multicarrier Software Platform Results in Postage Being Purchased for ~2% to 31% Below CBP Rates

Please note this article has been updated to reflect a revised revenue analysis chart on Page 5.

Reseller Discount Update

We recently worked with Yousuf Lodhia, the founder of Micronite Inc., a software company located in Roseville, California. Mr. Lodhia has developed a program called the [Barcode Inspector](#) that can decode the Information-Based Indicia (IBI) embedded in USPS barcodes and extract several key pieces of information, including the price that a PC Postage provider or postage reseller paid for postage. We tested Micronite's software by printing various shipping labels on different software platforms, results of which we have shared below.

Rate basics. The [Mailing Standards of the USPS Domestic Mail Manual](#) provides information about rates to which shippers are entitled. For purposes of our analysis, there are four different shipping prices:

1. **Retail price.** What we would pay if we were to walk into any USPS store to purchase a label to ship a package.
2. **Commercial Base price (CBP).** What we would pay if we were a customer of a USPS-approved PC Postage product like Stamps.com.
3. **Commercial Plus price (CPP).** What we would pay if we shipped a high volume of packages, typically 50,000 or more packages in the course of a year
4. **Cubic rates.** Rates that are not tied to weight but are based on the zone to which the mail is shipped and the cubic measurement of the mail. The Domestic Mail Manual provides "Commercial Plus cubic prices are generally available to Priority Mail customers whose account volumes exceeded 50,000 pieces in the previous calendar year and have a customer commitment agreement with the USPS."

Our findings. In some cases, by using a multicarrier software platform, we received CPP rates even though we did not satisfy the USPS' volume requirements. In every case in which we used a multicarrier software platform to purchase postage, the Barcode Inspector software revealed that the underlying postage was purchased from the USPS at rates that were less than what we paid for the postage.

This difference in the purchase and sale price of postage is known as the postage spread. In most cases the postage spread was significant, ranging anywhere from \$0.56 up to \$7.82. That postage spread—and potential profit for postage resellers and their partners—varied depending on the zone to which we shipped, and the weight of our mail.

Why this matters. The USPS recently announced a net loss for Q2 [2017](#) of \$562 million. Our use of the Barcode Inspector software reveals that simply by signing up for a multicarrier software platform, the underlying postage was purchased at discounted rates, which resulted in lost revenue for the USPS and profits for postage resellers and their partners. In the aggregate, given the number of packages shipped through the USPS, the total lost revenue is potentially significant.

We reached out to the USPS, USPS OIG, Postal Regulatory Commission and the three major postage resellers for comment. The PRC declined to comment, and we received no reply from the others. We also ran the size of the

postage spread by industry sources who indicated that the numbers the Barcode Inspector software found were in line with what they had seen in the industry.

Barcode Inspector Results

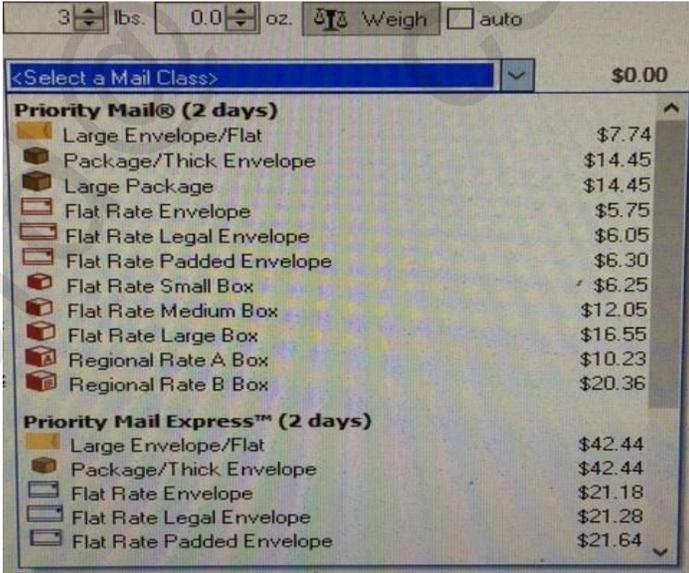
Our methodology. We purchased postage to ship packages and envelopes from Stamps.com, Endicia, Pitney Bowes, EasyPost, Ordoro, ShipStation, ShipWorks, ShippingEasy, and ShipRush. All of the labels we printed were for mail shipped either between Washington, D.C. and Manhattan, New York (Zone 3) or Washington, D.C. and El Segundo, California (Zone 8).

Our tests show that most PC-Postage companies are playing by the rules with basic offerings. In order to benchmark our tests with the Barcode Inspector software, we opened basic accounts with all of the legacy PC-Postage companies: Stamps.com, Endicia, and Pitney Bowes. We used Shyp to access the EasyPost software, as EasyPost indicated it has no forward-facing user interface at this time and recommended that we use Shyp.

We tested the software by printing labels for small flat rate boxes shipped between Washington, D.C. and Manhattan, New York. For our accounts with Stamps.com, Endicia, and Pitney Bowes, we purchased the postage for \$6.45—the published CBP rate for the shipping label. When we ran those labels through the Barcode Inspector software, it revealed that the underlying postage was purchased from the USPS for \$6.45.

However, when we used Shyp, we purchased the postage for the retail rate of \$7.15. When we ran the EasyPost/Shyp label through the Barcode Inspector software, it indicated that the underlying postage was purchased for \$6.25—the CPP rate, which resulted in a postage spread of \$0.90.

Stamps.com still gaming the system. Despite our tests of the Barcode Inspector software revealing that Stamps.com purchased postage at CBP rates, Mr. Lodhia indicated that Stamps.com does offer CPP rates for Priority Mail Packages to low volume shipping customers who are using the Stamps.com desktop Windows software. Mr. Lodhia provided us with a screenshot of the Stamps.com Windows desktop software, which contains various rates for a three-pound package shipped to zone eight:



The screenshot shows a software interface for selecting a mail class. At the top, there are input fields for weight: '3 lbs.', '0.0 oz.', and a 'Weigh' button with an 'auto' checkbox. Below this is a dropdown menu labeled '<Select a Mail Class>' with a current value of '\$0.00'. The main area displays a list of shipping options with their corresponding rates. The options are grouped into 'Priority Mail® (2 days)' and 'Priority Mail Express™ (2 days)'. The 'Priority Mail' section includes various envelope and box options, with 'Flat Rate Small Box' highlighted at \$6.25. The 'Priority Mail Express' section includes envelope and box options, with the lowest rate being \$21.64 for a 'Flat Rate Padded Envelope'.

Mail Class	Rate
Priority Mail® (2 days)	
Large Envelope/Flat	\$7.74
Package/Thick Envelope	\$14.45
Large Package	\$14.45
Flat Rate Envelope	\$5.75
Flat Rate Legal Envelope	\$6.05
Flat Rate Padded Envelope	\$6.30
Flat Rate Small Box	\$6.25
Flat Rate Medium Box	\$12.05
Flat Rate Large Box	\$16.55
Regional Rate A Box	\$10.23
Regional Rate B Box	\$20.36
Priority Mail Express™ (2 days)	
Large Envelope/Flat	\$42.44
Package/Thick Envelope	\$42.44
Flat Rate Envelope	\$21.18
Flat Rate Legal Envelope	\$21.28
Flat Rate Padded Envelope	\$21.64

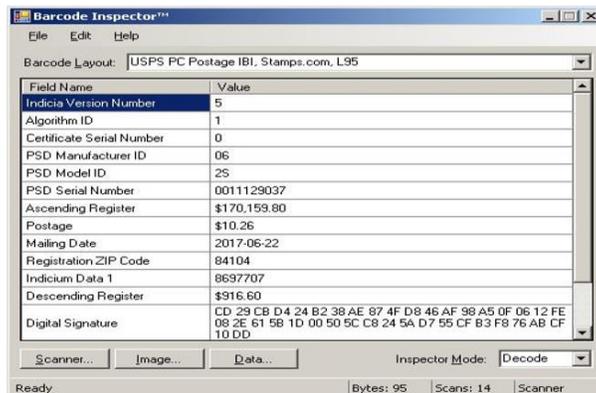
Source: Stamps.com Windows Desktop Software

Mr. Lodhia also scanned a Priority Flat Rate Envelope label that was purchased by a shipping customer who automatically started receiving CPP pricing for his Priority Mail shipments. According to Mr. Lodhia, the Barcode Inspector revealed that a Priority Mail Flat Rate envelope, which was purchased by the customer for \$5.75, was actually purchased from the USPS for \$5.04, resulting in a postage spread of \$0.71. During the Internet Retail Conference and Exhibition earlier this month in Chicago, we spoke with representatives from ShippingEasy, one of the multicarrier platforms owned by Stamps.com, about the difference between their rates and the regular Stamps.com platform rates. According to the representatives, we could get CPP rates through the Stamps.com platform by speaking with a shipping consultant.

Mr. Lodhia appears to have had a similar conversation with a Stamps.com shipping consultant, as he indicated he spoke with Chantelle Jackson at Stamps.com shipping support on June 26, 2017, during which he repeatedly emphasized that he was a very low-volume shipper. Nevertheless, according to Mr. Lodhia, he was told that Stamps.com had access to special NSA pricing with the USPS under which Stamps.com could offer Mr. Lodhia CPP pricing of up to 10 lbs and Cubic pricing as well. Mr. Lodhia indicated that he was told to open an account with Stamps.com and then send an email to shippingsupport@stamps.com and Stamps.com would evaluate his request to receive CPP and Cubic pricing.

Use of multicarrier software platform results in postage being purchased from USPS at discounted rates. We printed a wide range of postage through multicarrier software platforms. In general, we received CPP pricing, despite our disclosure—when possible—that we were a low volume shipper. Through the Barcode Inspector program, we found that even though we did not receive a discount below CBP in all cases, all of the underlying postage was purchased from the USPS at below CBP. In one case, we purchased a Priority Mail three-pound shipping label from ShipWorks for a package to be shipped from our offices in D.C. to El Segundo, California. We purchased the postage for \$14.45, which is the CPP price for the package we intended to ship, but the postage was purchased from the USPS for \$10.26 which reflects a 31.1% discount below CBP and a postage spread of \$4.19.

Barcode Inspector indicates use of Parcel Partners as a postage reseller. Additionally, in the 31.1% discounted case highlighted above, when we ran the shipping label through the Barcode Inspector software, it revealed a registration Zip Code of 84104, which is the Zip Code for Salt Lake City, Utah. Given that we were shipping the package from Washington, D.C. to El Segundo, California, and purchasing the postage from ShipWorks, which is based in St. Louis, Missouri, we found the Salt Lake City Zip Code interesting. After some investigating, we discovered that Parcel Partners is the only legacy postage reseller based in an 84104 Zip Code. The label and Barcode Inspector Results for the discount can be found below:



Below is a compilation of our findings after using the Barcode Inspector software. We provide information about the multicarrier software platform we used, the CBP rate for postage, and what the underlying postage was purchased for from the USPS. We also provide information about the dollar and percentage discount below CBP rates. The spread is the difference between the rate at which we purchased postage and the rate at which the software provider purchased the postage. The loss to the USPS is greater than the postage spread because, in some cases, we received CPP rates simply by signing up for a multicarrier software platform when we should have received CBP rates.

	USPS		Ordoro					Shipping Easy					
	Commercial Base	Paid to USPS	Loss to USPS		Sold to TCF	Profit to Reseller		Paid to USPS	Loss to USPS		Sold to TCF	Profit to Reseller	
	Postage		\$	%		\$	%		\$	%		\$	%
Priority Mail													
Flat Rate Envelope	5.95	4.94	-1.01	-17.0%	5.75	0.81	16.4%	5.18	-0.77	-12.9%	5.75	0.57	11.0%
Small Flat Rate Box	6.45	5.19	-1.26	-19.5%	6.25	1.06	20.4%	5.63	-0.82	-12.7%	6.25	0.62	11.0%
Medium Flat Rate Box	12.40	10.61	-1.79	-14.4%	12.05	1.44	13.6%	10.85	-1.55	-12.5%	12.05	1.20	11.1%
Large Flat Rate Box	17.05	14.74	-2.31	-13.5%	16.55	1.81	12.3%	14.90	-2.15	-12.6%	16.55	1.65	11.1%
Parcel, 3 lbs, Zone 3	7.38	5.56	-1.82	-24.7%	6.51	0.95	17.1%	6.50	-0.88	-11.9%	7.16	0.66	10.2%
Parcel, 3 lbs, Zone 8	14.90	7.04	-7.86	-52.8%	7.32	0.28	4.0%	13.12	-1.78	-11.9%	14.45	1.33	10.1%
Priority Mail Express													
Parcel, 3 lbs, Zone 3	24.68	24.12	-0.56	-2.3%	24.68	0.56	2.3%	16.86	-7.82	-31.7%	24.68	7.82	46.4%

	USPS		ShipRush					ShipStation					
	Commercial Base	Paid to USPS	Loss to USPS		Sold to TCF	Profit to Reseller		Paid to USPS	Loss to USPS		Sold to TCF	Profit to Reseller	
	Postage		\$	%		\$	%		\$	%		\$	%
Priority Mail													
Flat Rate Envelope	5.95	4.94	-1.01	-17.0%	5.75	0.81	16.4%	5.18	-0.77	-12.9%	5.75	0.57	11.0%
Small Flat Rate Box	6.45	5.19	-1.26	-19.5%	6.25	1.06	20.4%	5.63	-0.82	-12.7%	6.25	0.62	11.0%
Medium Flat Rate Box	12.40	10.61	-1.79	-14.4%	12.05	1.44	13.6%	10.85	-1.55	-12.5%	12.05	1.20	11.1%
Large Flat Rate Box	17.05	14.74	-2.31	-13.5%	16.55	1.81	12.3%	14.90	-2.15	-12.6%	16.55	1.65	11.1%
Parcel, 3 lbs, Zone 3	7.38	5.56	-1.82	-24.7%	7.16	1.60	28.8%	6.50	-0.88	-11.9%	7.16	0.66	10.2%
Parcel, 3 lbs, Zone 8	14.90	10.26	-4.64	-31.1%	14.45	4.19	40.8%	13.12	-1.78	-11.9%	14.45	1.33	10.1%
Priority Mail Express													
Parcel, 3 lbs, Zone 3	24.68	24.12	-0.56	-2.3%	24.68	0.56	2.3%	16.86	-7.82	-31.7%	24.68	7.82	46.4%

	USPS		ShipWorks				
	Commercial Base	Paid to USPS	Loss to USPS		Sold to TCF	Profit to Reseller	
	Postage		\$	%		\$	%
Priority Mail							
Flat Rate Envelope	5.95	4.94	-1.01	-17.0%	5.75	0.81	16.4%
Small Flat Rate Box	6.45	5.19	-1.26	-19.5%	6.25	1.06	20.4%
Medium Flat Rate Box	12.40	10.61	-1.79	-14.4%	12.05	1.44	13.6%
Large Flat Rate Box	17.05	14.74	-2.31	-13.5%	16.55	1.81	12.3%
Parcel, 3 lbs, Zone 3	7.38	5.56	-1.82	-24.7%	7.16	1.60	28.8%
Parcel, 3 lbs, Zone 8	14.90	10.26	-4.64	-31.1%	14.45	4.19	40.8%
Priority Mail Express							
Parcel, 3 lbs, Zone 3	24.68	24.12	-0.56	-2.3%	24.68	0.56	2.3%

Significance of cubic pricing. According to Mr. Lodhia, the Ordoro label we printed with a 52.8% discount was most likely priced at Priority Mail Cubic, which is only available to customers who qualify for Commercial Plus pricing. Mr. Lodhia noted that because there is no published Commercial Base price for this type of mail service, the postage was technically not purchased at a 52.8% discount below Commercial Base prices. However, Mr. Lodhia noted, that from a revenue loss perspective to the USPS, the 52.8% number was correct. In short, had Ordoro not given us access to Cubic pricing, we would have had to pay the regular Priority parcel rate of \$14.90, which is the Commercial Base price.

Mr. Lodhia also pointed out that giving access to Priority Mail Cubic rates to all customers could potentially cause significant revenue loss to the USPS. If PC Postage vendors and their reseller partners are automatically providing

customers with Priority Mail Cubic rates for customers who are routed through the reseller program, this would ultimately reduce the “Revenue per Pound” number for the USPS, which, according to Mr. Lodhia, is an important metric for shipping carriers.

As the Domestic Mail Manual provides, cubic rates are not tied to weight but the zone to which the mail is shipped and the cubic measurement of the mail. Were postage providers offering customers cubic rates, the “Revenue per Pound” number for the USPS would not increase. Mr. Lodhia provided an analysis for Priority Mail with the numbers he pulled from the USPS’ Revenue, Pieces, and Weight reports. The analysis demonstrates that the USPS “Revenue per Pound” has not increased over the past two years, according to Mr. Lodhia, suggesting that cubic rates are likely being given to unqualified shippers, just as they were given to us in the Ordoro example.

USPS Revenue Analysis Priority Mail

	Revenue	Pieces	Weight (lbs)	Revenue per Piece	Revenue per Pound
2017-Q2	\$2,022,969.00	248,887	599,718	\$8.13	\$3.37
2017-Q1	\$2,369,635.00	287,523	723,979	\$8.24	\$3.27
2016-Q4	\$1,823,467.00	229,882	543,219	\$7.93	\$3.36
2016-Q3	\$1,881,337.00	243,404	544,635	\$7.73	\$3.45
2016-Q2	\$1,896,241.00	240,711	549,306	\$7.88	\$3.45
2016-Q1	\$2,185,390.00	290,468	684,233	\$7.52	\$3.19
2015-Q4	\$1,712,967.00	231,329	526,485	\$7.40	\$3.25
2015-Q3	\$1,672,891.00	231,992	509,214	\$7.21	\$3.29
2015-Q2	\$1,751,134.00	240,021	521,888	\$7.30	\$3.36
2015-Q1	\$2,051,823.00	271,048	624,311	\$7.57	\$3.29

Source: USPS Revenue, Pieces, and Weight Reports