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CHAPTER 22 Making Consumer Decisions

Dead Letter?

Stamps.com and E-Stamp are struggling as customers resist buying postage online

by Arlene Weintraub

A little over a year ago, two California startups thought they had an irresistible sales pitch: Buy stamps on the Web and you'll never have to stand in line at the post office again. Investors loved the idea. After going public in June, 1999, Stamps.com's (STMP) stock soared fourfold, to $48 a share—even before it had sold its first stamp.

Today, Stamps.com and E-Stamp (ESTM) are taking an unexpected licking. Both set out to sell their products to small and home-office customers that don't use postage meters—a potential market of nearly $22 billion in annual sales. But their targeted customers haven't been as enthusiastic as investors. The upstarts have racked up heavy losses on meager sales since the U.S. Postal Service said on Aug. 9, 1999, that they could sell stamps online. Both stocks are 95% off their peaks.

What went wrong? Plenty, say executives. The companies struggled to turn out products that were easy to use. But they blame an overly cautious Postal Service for making that virtually impossible. The USPS set a $500 monthly spending limit per customer, effectively shrinking the potential market. And it issued a 79-page rule book of technical requirements such as insisting that stamps—printed onto the envelope from the computer—be placed exactly one-quarter inch from the top and side.

It all adds up to red ink for both companies. For the six months ended June 30, Stamps.com has rung up operating losses of $98.8 million—three times more than analysts originally projected—on $5.7 million in sales. E-Stamp has lost $60.4 million, or two times projections, on sales of $3.1 million in the same time period.

To try to recover, both companies are turning to Plan B: using their secure technology for online printing of shipping labels, concert and movie tickets, and the like. ''They have a compelling technology,'' says analyst Melissa Shore of market researcher Jupiter Media Metrics Inc. ''But for survival, they have to find other outlets.''

Even then, it's going to be a struggle. They're facing plenty of competition in stamps and tickets, and not just from one another. Postage-meter giant Pitney Bowes Inc. has entered the fray. The biggest challenge, however, remains convincing customers to do these transactions online. ''Our No.1 competitor is the status quo,'' says Robert Ewald, CEO of E-Stamp.

OVERCOMING INERTIA. To overcome buying inertia, the companies will have to show that online stamps are worth the price. Customers haven't been willing to pay a fee—usually 10% of the postage purchased—for services that can be inconvenient. E-Stamp requires users to buy a label printer to download postage. Stamps.com prints directly to envelopes, but the post-office-imposed specs often cause printers to jam. Stamps.com customer Howard Lute, who runs a clothing business from his home, says the service often crashes mid-purchase because it conflicts with his security software. ''It can be pretty annoying,'' he says.

Stamps.com CEO John Payne and E-Stamp's Ewald have been lobbying the Postal Service to ease its rules. And they appear to be making headway: The $500 limit is likely to rise to $10,000 soon, says the USPS. But the companies probably won't get what they really want: permission to charge less than 33 cents for stamps so they can slash fees and draw more business. The Postal Service will consider the issue in December.

Payne and Ewald can't afford to sit and wait. Both companies are overhauling their marketing strategies, replacing expensive banner and TV ads with more direct targeting. This year, Stamps.com created a salesforce of 450 people. ''We've gone from broad branding to direct, in-your-face selling,'' Payne says. He expects to double the sales team by yearend.

The online upstarts also are trying to reach more customers by bundling their stamp software into other small-business products such as Intuit Inc.'s (INTU) accounting software. And both now offer products that allow shipping managers to compare the cost of mailing a package across major carriers and print vouchers for the chosen carrier. In February, Stamps.com spun off EncrypTix, a company that provides print-at-home airline and event tickets, among other offerings. E-Stamp plans to do the same.

They may be trading one logistical nightmare for another. Although EncrypTix has nabbed $30 million in funding from the likes of Walt Disney (DIS), American Express (AXP), and Loews Cineplex (LCP), the ticket company has equipped only one theater with the service. Meeting the high security standards of ticket companies isn't that much easier than dealing with the post office. Even Ticketmaster (TMCS) has been able to provide the service for only two establishments so far—Cirque du Soleil and House of Blues.

None of this fazes the stamp executives. ''Big ideas come to pass,'' says Ewald. If they don't pass soon, the pair may never regain investors' stamp of approval.

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