

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MARKET TEST OF EXPERIMENTAL PRODUCT –
MAIL WORKS GUARANTEE

Docket No. MT2011-4

NOTICE OF THE UNITED STATES POSTAL SERVICE
OF MARKET TEST OF EXPERIMENTAL PRODUCT –
MAIL WORKS GUARANTEE
(April 15, 2011)

The United States Postal Service hereby gives notice that it intends to conduct a test of an experimental market-dominant product. The experimental product is the “Mail Works Guarantee.” The top advertisers in America represent \$90 Billion in total expenditures for media advertising. The USPS share is currently 3.1% or about \$3 Billion annually which represents a huge revenue potential for the Postal Service. Thus, this new product will be offered to a group of companies who spend a minimum of \$250 Million annually on advertising as identified by Advertising Age magazine and for whom mail is not currently a large part of their advertising mix (postage is less than 0.36 percent of the company’s total spending on advertising). These companies will be offered a postage-back guarantee to test advertisements for their products through First-Class Mail and Standard Mail. The market test will begin on or shortly after May 16, 2011.

Subchapter III of Chapter 36, Title 39, United States Code, establishes authority for the Postal Service to conduct market tests of experimental products. The

Commission has not yet established regulations creating specific procedures to implement Section 3641.¹

Description of Nature and Scope of Experimental Product Proposal

During the Mail Works Guarantee market test, 16 initial companies will be offered a postage-back guarantee to test the effectiveness of advertisements for their products using First-Class Mail and Standard Mail.

For each selected mailer, a set of unique metrics will be developed jointly with the Postal Service against which to evaluate the performance of a test Direct Mail campaign. For example, a retail company's Direct Mail offer could be designed to increase store traffic, an e-commerce company's offer could be designed to drive Web traffic, or a product goods company's offer could be designed to promote increasing sales of a specific product. The threshold for determining success will be an agreed-upon percentage of increase in the uniquely established metric. Each participating mailer will be expected to mail a minimum of 500,000 pieces up to a maximum of 1 million pieces of First-Class Mail or Standard Mail. The Postal Service will provide assistance in developing the Direct Mail campaigns during the market test, as well as in the benchmarking and measuring the test metric.

If the Direct Mail campaign fails to meet the established metrics, as verified by a Postal Service representative, the Postal Service would only refund the postage paid during the market test, up to a total of \$250,000, issued as a credit to the company's

¹ In Order No. 211, the Commission noted that rules on market tests were under consideration and would be proposed in the near term. *Id.* at 7. As of this filing, specific proposed rules have not been issued.

Centralized Account Payment System account. Production and printing costs for the Direct Mail campaign would not be refundable.

Section 3641 Criteria

Section 3641 of Title 39 provides the criteria that a market test must meet. As explained below, the Postal Service has determined that the proposed market test would satisfy these requirements for a market test under section 3641.

- The product is significantly different from all products offered by the Postal Service within the two-year period preceding the start of the test (Section 3641(b)(1)).
- The introduction or continued offering of the product will not create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer, particularly in regard to small business concerns (Section 3641(b)(2)).
- The Postal Service identifies the product as market dominant (Section 3641(b)(3)).
- The duration of the market test shall not exceed 24 months (Section 3641(d)(1)).
- The annual revenues from the market test are not anticipated to exceed \$10,000,000 (as adjusted by the change in the Consumer Price Increase since 2007, as determined by the Commission) in any year (Sections 3641(e)(1) and 3641(g)).

Significantly Different Product

The Mail Works Guarantee is differentiated from existing Postal Service products by both its characteristics and the market segment it is intended to serve. Because it includes a guarantee based on market performance (rather than operational

performance), the experimental product is unlike any other Postal Service product. Also, the Mail Works Guarantee is geared toward—and its eligibility is restricted to—companies who do not currently use mail as more than a small part of their marketing mix.

Unlikely Market Disruption

The Mail Works Guarantee is intended to generate additional volume from potential customers who do not currently use the mail. The new product will not affect current marketing-mail customers, and non-mail options for advertising also will remain competitive. Because users of the Mail Works Guarantee whose campaigns are successful will pay list prices for current products, the new product is unlikely to cause disruption within the advertising-mail market as these new advertisers will be facing the same terms as existing advertisers. Refunds of postage paid will only be made if a campaign is unsuccessful, in which case, current users of the mail will not have been harmed.

Further, the Mail Works Guarantee complies with section 403(c) of title 39, which states that the Postal Service cannot unduly discriminate against (or provide an undue preference to) any mailer. While the market test is limited to companies whose postage is less than 0.36 percent of their total spending on advertising, the Postal Service believes that any discrimination that could arise between mailers is reasonably justified and not undue, within the meaning of section 403(c). The initial companies will be selected from a cross section of advertisers from the retail, services, fast food, automotive, and consumer products industries, etc who spend a minimum of \$250 Million on advertising, but generally do not use the Postal Service to mail their

advertising materials. This will create new volume for the Postal Service. Each of the companies selected will pay the list prices for current products just like any other mailer and will only receive a refund if their use of the mail does not result in a specifically defined benefit to their company. Limiting the market test to a small cross section of different companies not currently utilizing the Postal Service for its advertising and only offering a refund to them in the event the advertising campaign is not successful legitimately ensures that any discrimination that could arise between mailers is justifiable to induce new mail volume and not an undue preference.

Characterization as Market Dominant

The Postal Service identifies the product as market dominant. A “product” is defined in 39 U.S.C. § 102(6) as a “postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied.” The definition of “postal service” in 39 U.S.C. § 102(5) states, in relevant part, that the term “refers to the delivery of ... mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto.” As a means for delivering mailable packages, the Mail Works Guarantee is a postal product, since it is designed to promote delivering physical advertising messages.

Based on the criteria set forth in Section 3642(b), the Mail Works Guarantee would qualify as a market dominant product. In particular, this market test is subject to the postal monopoly provided for in the Private Express Statutes (Section 3642(b)(2)) because it involves Standard Mail and First-Class Mail.

Timeline

The market test will begin on or shortly after May 16, 2011, and continue for as long as two years. The Postal Service will evaluate the performance of the new product on an ongoing basis, as each participating customer completes its test. The Postal Service will then analyze the results to determine how to proceed, and whether to expand the market test or cancel it.

Total Revenues from Market Test

Exact volumes and revenues for the Mail Works Guarantee will depend on customer participation and the amount of mail each customer enters under the test program, but at a maximum, the test as currently structured can generate no more than 16 million new pieces. Therefore, the Postal Service at this time does not anticipate revenues from this test to exceed \$10,000,000 in any fiscal year

Data Collection Plan.

The Postal Service intends to collect data during the market test to better understand the characteristics of the mail of the experiment as it relates to:

- Number of participating customers
- Total volume sent by class and price category for each participating customer
- Total postage paid by each participating customer
- The refund, if any, paid to each customer

The Postal Service can report the data collection results to the Commission upon request.

Future Steps.

Depending on the results of the test, the Postal Service may file a request with the Commission for approval to offer the Mail Works Guarantee to additional companies under the market test.

Consistent with 39 U.S.C. §3641(c)(1), the Postal Service is also filing notice of this market test in the Federal Register.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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