

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

MARKET TEST OF EXPERIMENTAL PRODUCT –  
SAMPLES CO-OP BOX

Docket No. MT2010-1

**NOTICE OF THE UNITED STATES POSTAL SERVICE  
OF MARKET TEST OF EXPERIMENTAL PRODUCT –  
SAMPLES CO-OP BOX**  
(March 29, 2010)

The United States Postal Service hereby gives notice that it intends to conduct a test of a proposal for an experimental competitive product to gain information concerning the operations, costs, and potential market for the product. The experimental product has been provisionally titled the “Samples Co-Op Box.” The Samples Co-Op Box is a parcel box that will contain an assortment of product samples from multiple consumer packaged goods companies and will be mailed to the companies’ target consumers, with the companies sharing the postage costs. The market research test, which will begin on or shortly after May 1, 2010, will consist of one mailing of co-op boxes to consumers in certain test markets. The test will also include research efforts designed to gain information about the product proposal.

The Postal Service has partnered with a company experienced in the preparation of advertising mailings to assemble the samples for inclusion in the co-op boxes, execute the mailing, and conduct the market research. Postage will not be charged for the mailing; the expense will be considered a research and development cost incurred by the Postal Service in connection with new product development. The companies supplying the samples will not be charged for inclusion of their samples in the co-op

boxes. The companies, as well as the samples, have been selected according to a market research plan designed to test the concept and to gain information about operations, costs, and the reactions of product consumers and postal customers.

Subchapter III of Chapter 36, Title 39, United States Code, establishes authority for the Postal Service to conduct market tests of experimental products. It is notable that, under 39 U.S.C. § 3641, a product may not undergo a market test if the Postal Service expects to receive over \$10 million in revenue. This condition indicates that market tests involve revenue, a conclusion further supported by the fact that Section 3641 grants the Postal Service wide latitude in regard to pricing a product during a market test, by exempting the product from the requirements of Sections 3622, 3633, and 3642 while it undergoes the market test. The Postal Service notes that the Samples Co-Op Box research effort will not involve revenue, as no postage will be charged. The research effort's status as a market test of an experimental product, within the intent of Section 3641, is, therefore, unclear. The one prior instance when the Postal Service established a market test pursuant to Section 3641 involved the sale of unused capacity on postal transportation,<sup>1</sup> and the Commission has not yet established regulations creating specific procedures to implement Section 3641.<sup>2</sup>

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<sup>1</sup> In Docket No. MT2009-1, the Postal Service gave notice of intent to undertake a market test of an experimental product termed "Collaborative Logistics." On May 7, 2009, the Commission found the test to be consistent with Section 3641 and directed the Postal Service to file reports of the results of the tests. Order Concerning Collaborative Logistics Market Test, Order No. 211, Docket No. MT2009-1, at 8 (May 7, 2009).

<sup>2</sup> 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.

Notwithstanding the uncertain status under Section 3641 of the Samples Co-Op Box research proposal, the Postal Service has chosen to give notice of the proposed test and to address the criteria outlined in Section 3641 as if that provision applied. The Postal Service believes that its election to follow these procedures in the interests of transparency will not prejudice the application of Subchapter III to similar research efforts in the future that may fall outside the intent of Section 3641 or the Commission's rules, when they are established.

### **Description of Nature and Scope of Experimental Product Proposal**

Consumer packaged goods companies ("CPGs") are constantly looking for attractive ways to build brand awareness; one method they often turn to is providing trial-size samples of their products to consumers. The Postal Service's internal research shows that sample distribution is a large and growing industry, and that it offers the potential for millions of dollars of added revenue for the Postal Service. Unfortunately, the volume of samples sent through the mail has actually been declining significantly in recent years. Prior to 2005, CPGs mailed annually between two to three times the current yearly volume of mailed samples. In 2005, the Postal Service adopted a "shape and weight" pricing system. The resulting pricing structure made the mailing of samples more expensive for CPGs, leading CPGs to reduce their use of direct mail to distribute samples and substitute it with other less expensive sample distribution methods, such as grocery store distribution, bundling with newspapers, etc.

Nonetheless, CPGs realize that mail remains one of the most effective channels for inducing consumers to try samples at the point of use – their homes. Therefore, the Postal Service is exploring the possibility of increasing its presence in the sample

distribution market through the Samples Co-Op Box, a parcel box weighing at least 12.5 ounces that will contain an assortment of samples from multiple CPGs and will be delivered to the mailboxes of consumers in targeted demographic markets. Because of cost sharing, the cost per mailed sample for each CPG will be significantly lower than the cost each CPG would incur if it mailed its samples on its own. Further, the co-op box will be designed and branded to impart a premium character, making it a potentially more attractive means of product sample distribution than the methods currently used by CPGs. In addition, the presence of the co-op box in a consumer's mailbox will enhance the "mail moment," making consumers more interested in mail generally.

In order to better understand operational requirements, costs, and the value of the Samples Co-Op Box to CPGs and consumers, the Postal Service plans to conduct research through a test mailing. A partner will prepare several hundred thousand co-op boxes, each containing product samples from multiple CPGs. The Postal Service will deliver the boxes to the mailboxes of consumers in test markets. Research will then be performed to assess the viability and value of the co-op box. It is important to note that the mailing and research are very exploratory in nature; the Postal Service does not yet have a firm plan in place on how to proceed after the test. As the test proceeds and research is gathered, the Postal Service can report on the test results to the Commission upon request.

### **Section 3641 Criteria**

The following discussion addresses the criteria outlined in section 3641. The Postal Service has determined that the proposed market research effort would satisfy the requirements for a market test under Subchapter III.

- 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 competitive (Section 3641(b)(3)).
- The duration of the market test shall not exceed 24 months (Section 3641(d)(1)).
- The total 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) (Sections 3641(e)(1) and 3641(g)).

### **Significantly Different Product**

The Postal Service has never offered a similar product in the past. As noted earlier, CPGs have, from time to time, sent product samples to consumers through the mail, but such mailings have usually been limited in scope and have declined in recent years. In any case, the Postal Service has never provided special packages or rates for such mailings.

### **Unlikely Market Disruption**

Because the Samples Co-Op Box is a new, untested product, it is currently unclear what effect it will have on the sample distribution market. The results of the proposed research test will help clarify the issue. At this time, the Postal Service does not believe that the introduction of the Samples Co-Op Box will create an unfair or inappropriate competitive advantage for the Postal Service or any mailer. This belief is

supported by the fact that there is already significant and diverse competition in the sample distribution market.

Currently available distribution methods include in-store distribution, venue-based distribution, door hangers, coupons, newspaper bundling, and bundling with purchased consumer products. The Postal Service's research shows that in-store distribution encompasses over one-third of the market. Approximately another one-fifth of the market is held by venue-distribution. Direct mail accounts only for a little over one-tenth of the market. The remaining market share is spread over the various other methods.

If successful, the Samples Co-Op Box will improve the attractiveness of direct mail distribution and hopefully increase direct mail's share of the sample distribution business. However, because direct mail's share of the market is currently very low and because CPGs appear to prefer using multiple distribution methods simultaneously, the Samples Co-Op Box will not lead to Postal Service dominance of the market. In regard to small business concerns, sample distribution services are generally provided by large businesses (e.g., newspapers, grocery stores, etc.), so small business providers should not be impacted significantly. Further, small business CPGs should be impacted favorably, as the Samples Co-Op Box may, if it is successful, provide an economical way for small businesses to deliver samples to their target consumers.

Notwithstanding the Postal Service's conclusions above on the potential effects of the Samples Co-Op Box, should it be adopted, on competition, the limited market research project at issue presently should not have any effect on competitors or the competitive market.

## **Correct Characterization**

The Postal Service identifies the product as competitive. 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 mailable package with a distinct market characteristic for which rates may reasonably be applied, the Samples Co-Op Box would be a postal product.

Based on the criteria set forth in Section 3642(b)(1), (2), and (3), the Samples Co-Op Box would qualify as a competitive product. Section 3642(b)(1) states that:

The market-dominant category of products shall consist of each product in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products. The competitive category of products shall consist of all other products.

Given the wide variety of competition in the sample distribution market, the Postal Service cannot arbitrarily set the price of the Samples Co-Op Box or raise it in the future without ceding a significant level of sample distribution business to other firms offering distribution services.

Further, in regard to Section 3642(b)(2), the Samples Co-Op Box is excluded from the postal monopoly provided for in the Private Express Statutes because it weighs at least 12.5 ounces. Finally, in regard to the considerations delineated in Section 3642(b)(3), there are numerous, comparably priced sample distribution methods available in the private sector, sample distribution providers would not be affected in a significantly unfavorable manner (other than having to share the market with a more competitively priced Postal Service product than is currently available), and the impact on small businesses would not be significantly harmful (and very well may be favorable).

### **Timeline**

The market research test will begin on or shortly after May 1, 2010. The mailing will likely be completed in a single week. The Postal Service or its partners will perform research both immediately prior to and in the weeks after the mailing. The Postal Service will then analyze the research to determine the ideal next steps. The entire effort, from mailing through research and analysis, should be completed within a few months.

### **Total Revenues from Market Test**

The Postal Service will not receive any revenue from the market research test. As noted earlier, the Postal Service will not charge for delivery of the co-op boxes. The expense will be considered a research and development cost incurred by the Postal Service in connection with new product development. Its partner will not charge for assembling the samples into the boxes, and the CPGs will not be charged for the inclusion of their samples in the boxes.

## Other Issues

**Plan for Monitoring Performance.** The Postal Service intends to collect data before and after the mailing to better understand (1) the Postal Service's operational costs in mailing the co-op box, (2) whether the product is scalable, (3) whether it is well-received by consumers, and (4) whether it provides the required value to CPGs.

For each of these research goals, the Postal Service has a number of specific internal metrics it will use to assess the product. In general terms, these metrics will help the Postal Service better understand the following types of issues:

- all of the steps necessary for completing one mailing of co-op boxes;
- costs of delivery and other associated costs;
- per-box costs and per-mailing costs, to better assess scalability;
- effect on CPG brand awareness;
- effect on CPG product purchases;
- effect on mail moment for consumers; and
- consumer preferences for sample distribution.

**Data Collection Plan.** The Postal Service will conduct surveys with consumers receiving the co-op boxes both before and after their receipt of the boxes. The surveys will consist of several questions based on the internal metrics described above. In addition to conducting surveys, the Postal Service will also attempt to obtain empirical data regarding purchases of the CPG products included in the co-op box in the geographic areas where the boxes are mailed. Such data would include, for example, sales data from retail establishments in the specified geographic areas. Upon

completion of research and analysis, the Postal Service can report on the results of its research effort to the Commission upon request.

***Future Steps.*** Depending on the results of the research effort, the Postal Service may conduct another market test, after providing notice to the Commission, in order to determine the appropriate rates to charge for mailing co-op boxes. It is also possible that, based on the research and the results of the test mailing, the Postal Service will decide to forego another test and move directly to launching the co-op box as a permanent offering. If so, statutory procedures under the Commission's rules for establishing a new product will be observed.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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