

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

MARKET TEST OF EXPERIMENTAL PRODUCT –
MARKETING MAIL MADE EASY

Docket No. MT2011-3

NOTICE OF THE UNITED STATES POSTAL SERVICE
OF MARKET TEST OF EXPERIMENTAL PRODUCT –
MARKETING MAIL MADE EASY
(January 12, 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 identified as “Marketing Mail Made Easy” (MMME). The new product will reduce barriers to entry, encouraging small and medium-sized businesses to utilize the mail to promote and market their businesses to current and prospective customers simply and at an affordable price. The product will be limited to locally-entered and locally-paid mail to be delivered to every household on chosen corresponding local delivery routes, with a daily limit of 5,000 pieces entered per office. Users must prepare mail according to the simplified address option for Standard Mail saturation mail. No permit, permit fee, or annual accounting fee will be required to qualify. The market test will begin on or shortly after February 27, 2011.

Section 3641 of Title 39, United States Code, establishes authority for the Postal Service to conduct market tests of experimental products.¹

¹ The Commission has not yet established regulations creating specific procedures to implement Section 3641.

Description of Nature and Scope of Experimental Product Proposal

Marketing Mail Made Easy is a product designed to make advertising through the mail more accessible and attractive for small and medium sized businesses. It provides simplified qualification and preparation to ease the burden on customers, and it imposes restrictions on the volume and location of mail entered to minimize the acceptance and delivery burden on the Postal Service. It will be priced under the price schedules for existing Standard Mail saturation products during the test period.

Background and Customer Demand

Small and medium-sized business marketers with limited budgets are currently engaging with customers and prospective customers via various advertising media and electronic channels. These businesses typically define their markets in geographic, rather than demographic terms. For instance, dry cleaners, local restaurant owners and franchisees, and small retailers often see their natural markets as being households within a certain radius of the businesses' locations. These businesses use various marketing channels, including local radio and television advertising, newspaper ads, various kinds of display advertising, and internet banners and e-mail, to deliver their advertising messages.

Many of these businesses are potential mailers, who see current mail preparation requirements as too complex and too expensive for the relatively small trading areas they want to target. Simplified Addressing, which was extended to city carrier routes on January 2, 2011 (Postal Bulletin 22300 at 46 (December 16, 2010)), addresses some of these concerns. The permit and mailing fees, which can amount to \$370 for a new mailer, may discourage some customers from trying a Simplified Address mailing. This

market test allows mailings without permits or related fees and also simplifies mail entry. By introduction of this product, therefore, the Postal Service will enable those businesses to communicate by mail more cost-effectively within their target marketing areas, while eliminating two of the current major barriers to mail entry (complexity and cost).

Product Description

Although this product has been designed with small and medium-sized customers in mind, all customers, including Mail Service Providers, are eligible to participate in the program, provided they meet the following volume, addressing format and physical characteristics requirements:

- Mail must be presented in daily quantities not-to-exceed 5,000 pieces per delivery unit, but no less than one full carrier route
- Each mailing must be entered and paid for at the Destination Delivery Unit (DDU) responsible for delivery of the mail. Simplified acceptance procedures will be available at retail units for qualifying mail.
- Each mailing must meet the preparation requirements of the “Simplified Address” option for Standard Mail Saturation mail (see DMM 602.3.2.2 thru 602.3.2.5)
- Each mailpiece must be a Standard Mail flat and weigh less than 3.3 ounces
- Mailings for city, rural, and highway contract route delivery destinations are eligible
- Each mail piece must include an approved indicia
- No permit, permit fee, or annual mailing fee is required to qualify for this product; however, customers who do not have a Permit account will be required to register with the Postal Service so that their mailing data can be tracked.
- Customers must present USPS approved documentation with the total number of active deliveries by route, as reported by the USPS Delivery Statistics File (DSF²®).
- Customers must submit a sample mailpiece along with documentation at time of mailing.

Pricing

For the market test period, the price will be equivalent to the price for Standard Mail Commercial Saturation flats weighing less than 3.3 ounces and entered at the DDU. Currently, this price is 14.2 cents per piece. The single price will provide simplicity for mailers and postal employees, allowing mail to be accepted at DDUs throughout the Postal Service.

Benefits

- Postal Service: The Postal Service expects to expand its customer base and generate additional, highly profitable volume.
- Customers: Small and medium-sized businesses will be able to communicate cost-effectively with their target marketing area using mail. MMME will also effectively increase the value of the mail to the recipients, by providing relevant local offers to all households within specific trade areas.

Section 3641 Criteria

Section 3641 of Title 39 establishes 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.

- 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 will 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 fiscal year during the test (Sections 3641(e)(1) and 3641(g)).

Significantly Different Product

Marketing Mail Made Easy is differentiated from existing Postal Service products by both its characteristics and the market segment it is intended to serve. MMME is significantly restricted in terms of weight, entry, and payment options, compared to current postal products, since it is limited to local entry and payment, in addition to having both a Saturation Mail density requirement and a low volume limit. Further, MMME is intended to serve small and medium-sized businesses that do not use current Postal Service products.

Unlikely Market Disruption

As noted above, MMME is intended to generate additional volume from potential customers who do not currently use the mail. The new product will not eliminate or increase the cost to small or medium-sized businesses that already use, or have the option to use, the services of mail service providers (MSPs), or that use shared mail to establish a presence in the mail. Non-mail options for advertising also will remain competitive. There is no reason to believe that the total cost, including design and printing, of creating and mailing an advertising piece using MMME will be significantly

less expensive than currently available options. The attraction of MME lies in its convenience. The Postal Service expects, therefore, that MME will enhance the role of mail as one among many options, rather than a replacement for existing marketing channels, for small business to get their message to their audience.

Characterization as Market Dominant

The Postal Service identifies MMME as a postal product within the meaning of 39 U.S.C. §§ 102(5), (6). Based on the criteria set forth in Section 3642(b)(1), (2), and (3), MMME would qualify as a market dominant 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 existing status of Standard Mail advertising as market dominant under these criteria, the test of this new product designed to enhance the attractiveness of Standard Mail as an advertising medium should also be categorized as market dominant. Under Section 3642(b)(2), the mail sent under this market test is also subject to the postal monopoly provided for in the Private Express Statutes.

Finally, in regard to the considerations delineated in Section 3642(b)(3), there are numerous advertising delivery media available in the private sector. MSPs and shared-mail providers would not be affected in a significantly unfavorable manner, and the impact on small businesses is expected to be favorable.

Timeline

The market test will begin February 27, 2011 or shortly after, and continue for as long as two years. The Postal Service will evaluate the performance of the new product over the course of the year after the commencement of the market test. The Postal Service will then analyze the results to determine how to proceed, and whether to end the market test, continue it for a second year, or file to make the product permanent.

Total Revenues from Market Test

Exact volumes and revenues for MME are hard to project, since the extent of customer preference for the new product over currently existing advertising options is unknown. Based on institutional knowledge, the Postal Service estimates the test will generate 10 to 20 million pieces per year in new volume. Given that volume estimate and the current pricing for Standard Mail saturation mail, the Postal Service at this time does not anticipate revenues from this test to exceed \$10,000,000 in any fiscal year pursuant to 39 U.S.C. § 3641(e)(1).

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 customers
- Total volume sent
- Average size of mailing
- Volume of mail entered by location.
- Proportion of mail entered by day of the week.
- Shape of Mail being entered.

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 with the Commission to make Marketing Mail Made Easy permanent. If so, statutory procedures under the Commission's rules for establishing a new product will be observed.

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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