

**BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001**

Priorities for Future Data Collection and)
Analytical Work Relating to Periodic)
Reporting)

Docket No. RM2011-3

**COMMENTS OF
MAGAZINE PUBLISHERS OF AMERICA, INC.,
ALLIANCE OF NONPROFIT MAILERS
AND AMERICAN BUSINESS MEDIA**

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For American Business Media

February 18, 2011

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Pursuant to Order No. 589, Magazine Publishers of America, Inc. (“MPA”), Alliance of Nonprofit Mailers (“ANM”) and American Business Media (“ABM”) respectfully submit these comments on future data collection and analysis that are needed to improve the quality, accuracy, and completeness of data provided in the Postal Service’s Annual Compliance Report. In particular, these comments support the Commission’s proposal that the variability of mail processing costs be analyzed further. There are four reasons why studying the variability of mail processing costs is a high priority. *Cf.* Order No. 589, Attachment at 1-2 ¶ 2.

(1) Mail processing is the largest source of volume-variable costs in the postal system. *Id.*

(2) Despite the importance of mail processing costs, the mail processing cost variabilities used by the Postal Service have not been derived empirically; rather, they are based on the assumption that essentially all mail processing costs are 100 percent variable.

(3) Extensive analyses presented by the Postal Service¹ and other interested parties, including the undersigned parties², over the past 15 years strongly suggest that the current assumption overstates mail processing variability.

(4) The availability of new data, e.g., data from the Intelligent Mail barcode (IMb) program, may resolve data quality concerns the Commission has expressed in previous proceedings.

The variability of mail processing costs is likely to be less than 100 percent for two main reasons. First, as explained most recently by USPS witness Bozzo in Docket No. R2006-1, the costs for some mail processing activities – e.g., machine setup and takedown time – are relatively unaffected by mail volume. This fact creates economies of scale:

¹ See Docket No. R97-1, United States Postal Service Direct Testimony of Michael D. Bradley (USPS-T-14), Rebuttal Testimony of William H. Greene (USPS-RT-7) on Behalf of the United States Postal Service; Docket No. R2000-1, Direct Testimony of A. Thomas Bozzo (USPS-T-15) on behalf of the United States Postal Service, Rebuttal Testimony of A. Thomas Bozzo (USPS-RT-6) on Behalf of the United States Postal Service, Response of A. Thomas Bozzo to Notice of Inquiry No. 4 on Behalf of the United States Postal Service; Docket No. R2001-1, Direct Testimony of A. Thomas Bozzo (USPS-T-14) on Behalf of the United States Postal Service; Docket No. R2005-1, Direct Testimony of A. Thomas Bozzo on Behalf of the United States Postal Service (USPS-T-12). Rebuttal Testimony of A. Thomas Bozzo on Behalf of the United States Postal Service (USPS-RT-5).

² See Docket No R97-1, Direct Testimony of Rita D. Cohen (MPA-T-2) on Behalf of Magazine Publishers of America, Rebuttal Testimony of Paul Higgins (MPA-RT-2) on Behalf of ANM, ABP, CRPA, DJ, MPA, MH, NNA and TW, MPA Response to Notice of Inquiry No. 4; Docket No. R2000-1, Direct Testimony of Rita D. Cohen (MPA-T-1) on Behalf of MPA, ANM, ABM, CRPA, Dow Jones, MH, NNA and TW, Supplemental Testimony of Stuart W. Elliott (MPA-ST-2) on Behalf of MPA, ANM, ABM, CRPA, Dow Jones, McGraw-Hill, NNA, and Time Warner; Docket No. R2006-1, Rebuttal Testimony of Stuart W. Elliott on Behalf of Magazine Publishers of America, Inc. [et al.] (MPA *et al.*-RT-2).

[For example, s]etup and take-down activities have little direct relationship to processing volumes. The essence of setup and take-down activities is that they must be performed once per scheme run, regardless of the quantity of pieces that will run (or have been run) through the scheme. The setup activities include printing container labels, positioning trays or other containers at the runouts, and loading the sort program. Takedown activities, which tend to be more time-consuming, include removing labels and sweeping all processed mail from each output bin or stacker. The latter, in particular, involves handling of mail in the IOCS sense, though the main driver of costs is the number of output separations to be swept, rather than the number of pieces needing to be withdrawn from the machine or the manual operation.

Docket No. R2006-1, USPS-T-12 (Bozzo Direct) at 30-31.

Second, as volumes have declined in recent years, costs have been “sticky” because of the inability of the Postal Service to fully align the size of its workforce with reduced volumes. See Docket No. R2010-4, Comments of Users of Flat-Shaped Mail (Aug. 17, 2010) at 13-14, 20-21. To the extent possible, the investigation of the variability of mail processing costs should separately identify the impact of each of these factors on mail processing variability because the implications of the two are different.

The presence of scale economies can be recognized simply by reducing the variability of mail processing costs appropriately. The Postal Service’s inability to properly size its workforce as workload declines and the resulting excess capacity, however, require further adjustments. First, the Postal Service cannot attain and maintain financial viability in the future without rightsizing its workforce as volume declines. Second, the presence of excess capacity has significant costing implications. As detailed in previous comments, the marginal or incremental costs of output in the short run—i.e., the period of time until the excess capacity can be productively disposed of or redeployed—are well below the long-run marginal or incremental costs measured

by USPS costing systems. Docket No. ACR2010, MPA-ANM-ABM Comments (Feb. 2, 2011) at 15-17.

CONCLUSION

For the reasons explained above, the Commission should make further analysis of the variability of mail processing costs a high priority.

Respectfully submitted,

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