

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Notice of Market Dominant
Price Adjustment

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Docket No. R2018-1

**COMMENTS OF THE
AMERICAN CATALOG MAILERS ASSOCIATION (ACMA)**
(October 26, 2017)

Pursuant to section 3622, in accordance with Commission rules, the Postal Service noticed a Type 1-B market dominant rate adjustment,¹ for implementation on January 21, 2018. In Order No. 4153, the Commission invited comments on that notice by October 26, 2017.² ACMA is pleased to submit these comments.

ACMA members send large quantities of catalogs throughout the year, as well as use the mail for fulfillment and associated purposes. We work with the Postal Service in support of a low-cost, efficient mailstream. This includes mail preparation and selecting the most appropriate mail categories to use. The latter process is guided in significant degree by the signals sent in rate differences, such as discounts. Our interest in this

¹ "Notice of Market Dominant Price Adjustment," Docket No. R2018-1, October 6, 2017.

² "Notice and Order on Rate Adjustments and Classification Changes for Market Dominant Products," Docket No. R2018-1, October 10, 2017.

proceeding, however, goes beyond specific postal rates for specific rate elements.

More specifically, as outlined briefly in the following three sections, we are concerned with the impact of several ongoing developments, and hope that these disturbances can be ironed out in reasonable time

1. Promotions

Our members have benefited significantly over the last few years from several Postal Service promotions. We believe the Postal Service has benefitted as well and that mailers who participate in promotions are growing mail volume at a faster rate than those who do not. Generally speaking, ACMA members have aggressively participated in promotional incentives. We have been anticipating further promotions and have been working with the Postal Service on what those might be and how they could be structured. However, it appears that, due to an absence of Postal Governors, progress in this area has virtually stopped; no new promotions, or promotion continuations, will be implemented at the time of the new rates in January.

This means that in addition to the effect of the proposed rate increases, our members will also feel the effect of the loss of promotions. This is a double whammy. Prior to the end of August 2017, there was no indication that promotions would be summarily withdrawn. Many companies have already created 2018 mail plans based on promotion participation and once plans are locked in, they are difficult to change quickly. What often happens in these instances mailers will reduce their circulation to accommodate the additional 2% lost in incentives and once this volume is gone, it's gone. This will double the effective rate change to about 4% for many companies. ACMA is hopeful that some progress on this front can be made during 2018, if not

before. Promotions have more than a direct financial effect: they aid in business growth and call attention to aspects of mailing practices. All this is helpful for all concerned.

2. FSS Processing

At the same time, being heavy users of the Carrier Route and in some degree the High Density products, our members are concerned about the costs of the FSS system. It is essential that these costs are brought under control, in order to allow for an effective future. There is no signal in the rates currently to tell mailers to avoid FSS zones, but our members are asking such questions. We do not completely understand whether the cost for the FSS process is less than the manual processing it replaces but reports vary. We know of no definitive accounting figures that clearly demonstrate the FSS system is working to expectations. Some believe it is a failed system implementation that will lead to higher reported costs, putting further pressure on flats rates. Fortunately, the USPS's actions at the last rate change reduced the pressure on this issue with the elimination of FSS rates that contained a premium over non-FSS zones, but still, it is not clear how the costs of FSS operations have flowed into reported flats costs. We do not want to be a cause of a postal failure, but neither do we want to face costs that are beyond our capacity to absorb.

3. Five-Digit Carrier Route Pallets

The advent of a pallet discount for properly prepared Carrier Route mail was viewed as a matter of promise for our members. We explored what we could do to achieve DDU entry (which seems to put the mail at exactly the point where the Postal Service can tend to it most efficiently), to mix products and classes on the same pallet, and to consider pallets of different weights, among other things. Changes of this kind

involve costs and require planning, and typically, multiple years to recoup the costs of making changes to supply chain flow or investments.

Thus far, the pallet discount has been given on a piece basis. It began at a level of 0.5 cents per piece but there was little industry adoption. On a finding that the cost avoidance was 3.3 cents per piece, the discount was increased to 2 cents per piece. This helped. Now, however, the finding on cost avoidance is 1.9 cents per piece, and the discount is being reduced to 1.9 cents per piece. At the same time, certain regulations are being changed.

This leaves the pallet discount in a state of flux. It appears to be an effective way to submit and process mail. To allow planning and investment, stability is needed. Still, there are unresolved operational questions and it is unknown whether there is enough candidate volume to build 5D pallets with CR bundles at a weight that is cost-beneficial to make up. The potential to lower total cost of mail is significant as these pallets may enable skipping a great many processing steps but further work and investigation are required. As with other changes to the workflows to improve full supply chain efficiency, stability of discounts is important to provide greater predictability of return for the cost and effort of making workflow changes. Having costs fluctuate widely is not conducive to efficient use of the mail especially when these cost changes drive changes to discounts. Since costs vary annually, sometimes significantly, maybe a way to average them over time would help. Maybe another solution can be found. Predictability and stability favor all parties and reduce the risk of making improvements.

4. Dropship Discounts

Dropship discounts have been a staple since Docket No. R90-1. In that docket, the Postal Service proposed a passthrough of 70 percent, saying “This provides healthy

discounts while being conservative.”³ The Commission viewed 80 percent as “reasonable,” citing, among other things, a Postal Service statement that the passthrough should be “large enough to make the discount meaningful.”⁴ This is another discount where investment and planning by mailers is needed.

The notion of dropship discounts does more than compensate mailers for transportation costs; it provides a signal concerning the lowest-cost mailstream and allows mailers to manage arrangements that they are in a unique position to manage effectively. Once a mailer begins to plan transportation, for example, he also begins to plan production and to combine mailings in ways that allow transportation and service achievement. This can be much more effective than hauling mail to origin postal facilities and forgetting about it.

The Postal Service performs and updates a rather sophisticated analysis of the cost differences between origin mail and, say, DSCF mail (normally Library Reference 13 in Compliance Reports). The cost results have increased over time, but have been well-behaved. Look at the DSCF dropship discount in cents per pound. In Docket No R2013-10, the discount was 20.9 cents per pound, for a passthrough of 88.6 percent. This discount carried through the May 31, 2015 rate change, when the exigent increase was removed. In the January 2017 changes, this discount decreased to 15.2 cents per pound, for a passthrough of 53.7 percent. In the instant proceeding, this 15.2 is maintained, but the passthrough is now 44.7 percent.

³ Direct Testimony of Robert W. Mitchell, USPS-T-20, at 106, l. 12.

⁴ Opinion and Recommended Decision at V-283 [6031] and V-282 [6029], January 4, 1991.

These trends are not attractive. If mailers stop destination entry, particularly longer-haul destination entry, the Postal Service will have to make expensive adjustments and mailers will have their own set of difficulties.

5. Conclusion

The situation being faced now has a number of aspects that are too far from ideal, some of which we explain above. Many of them could be much better. We hope the stress will die down. We would appreciate the Commission and the Postal Service keeping these things in mind.

After Hiroshima and Nagasaki, Emperor Hirohito said in his surrender broadcast: "The war situation has developed not necessarily to Japan's advantage." We feel like this applies to us.

Respectfully submitted,

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