Postal Regulatory Commission
Submitted 2/28/2018 8:22:24 AM
Filing ID: 103952
Accepted 2/28/2018

meredith

Tom Harty
President & Chief Executive Officer
Meredith Corporation
1716 Locust Street
Des Moines, IA 50309
T 515-284-3928
tom.harty@meredith.com

February 27, 2018

U.S. Postal Regulatory Commission
901 New York Avenue NW, Suite 200
Washington, DC 20268-0001

RE: 10-Year Rate System Review
Docket No. RM2017-3; Order No. 4258

Dear Commissioners,

On behalf of Meredith Corporation, the largest magazine publisher in the U.S. and a company dependent upon a viable postal system, I am writing to express my strong opposition to the rate-making framework you have proposed as a result of your 10-year review of the CPI-based annual price cap established under the *Postal Accountability and Enhancement Act* (PAEA).

In 2017, Meredith entered over 1.2 billion pieces in the mail providing the United States Postal Service with almost $322 million in revenue. Periodical mail is Meredith's primary mail class, constituting approximately 76% of our total postage spend. However, in addition to $246 million in Periodical postage, Meredith also spent over $12.5MM on First Class Mail (FCM) postage and $58MM on Marketing Mail postage last year. Meredith's FCM and Marketing Mail use is directly tied to the number and volume of periodicals it mails each year. Its use of other classes of mail, including Marketing Mail, FCM, Bound Printed Matter, Packages and International mail supports Meredith's core periodicals business with respect to renewals, direct mail promotions, bills, gift incentives and special publications.

By the Postal Regulatory Commission's conservative estimates, which assume a 2% CPI annually, its proposal would raise First-Class single-piece, presort and Marketing Mail letters by more than 27% and Periodicals and Marketing Mail flats by more than 40% over five years. Postage rate increases of this magnitude will result in significantly reduced Meredith mail volume. Even with moderate, annual postage rate increases under PAEA, postage cost's share of Meredith magazines' total, physical production costs increased from 24% in 2006 to 40% in 2017. Of the three, primary physical production costs (paper, print and distribution), only postage continually increased during this period on a unit basis despite ongoing presort and drop ship optimization by Meredith. Through reductions in the other key costs of paper, print and freight, Meredith has been able to offset the moderate postage increases and has lowered its magazines' production costs on a unit basis every year from 2011 through 2017. However, Meredith has reached the feasible limit of its cost containment efforts in these other cost areas.

The PRC's proposed increases for the Periodical class will require Meredith to pursue magazine closures, circulation cuts, issue frequency reductions, conversions to digital only formats and alternate delivery for some magazine subscription copies. We conservatively estimate that the

PRC's proposed rate structure will result in a 32% reduction in the number of periodical pieces mailed by Meredith (a loss of approximately 310 million pieces annually). Along with the decreased periodical mail volume will be reductions in FCM and Marketing Mail pieces which are driven by Meredith's periodical mail. At this level of volume decline, the Postal Service will receive less revenue, not more, from Meredith than it does under the current CPI cap system.

Now more than ever it is critical that the PRC understands the effect that its proposal will have on Meredith and other users of the mail. The CPI cap provided welcome predictability that allowed Meredith to plan for moderate rate increases by the Postal Service. Abandonment of the CPI cap will introduce a degree of uncertainty that will make use of alternatives to mail much more attractive and certainly result in an exodus of customers and their mail from the postal system. The PRC proposal is not in the best interests of the Postal Service or the mail supply chain as a whole. The current CPI cap system incents the Postal Service to reduce costs and increase efficiency— the first objective of the rate cap established by Congress with the PAEA.

There is more that the Postal Service can do to reduce costs for processing and delivery of Periodical flats. For example, the Postal Service should reverse its current trend of consistently reducing the Carrier Route passthrough (from 88% in FY 2007 to 52% in FY 2017) to incent additional preparation of carrier route presorted pieces by mailers and achieve more efficient and profitable Periodical mail for the Postal Service. The higher Carrier Route passthrough will incent periodical mailers to increase participation in co-mailing, co-binding and co-palletization programs as the realized savings would outweigh schedule and/or delivery tradeoff concerns. Another alarming trend is the increasing gap in the total cost to process and deliver an FSS sorted Periodical flat vs. a Carrier Route sorted Periodical flat in a non-FSS zone. Based on ACR cost data, the total processing and delivery cost for an FSS flat exceeded that of a Carrier Route flat by 14.7 cents/piece in FY 2015, 16.8 cents/piece in FY 2016 and 19.9 cents/piece in FY 2017. Rather than reducing flats costs as the Postal Service had expected, the FSS program has increased these costs with no apparent strategy to address the worsening situation. The PRC's proposal to provide additional rate authority above CPI will do nothing to incent the Postal Service to fix (or abandon) the FSS debacle. Now is not the time to reduce the incentives for the Postal Service to become leaner and more efficient.

Rather than ask the Postal Service to tighten its belt and improve service to retain volume, the PRC's proposal provides the Postal Service excessively broad pricing flexibility at a time when tight margins and greater uncertainty regarding postage rates are making the mail an increasingly unattractive communications medium. For these reasons, I urge you to reconsider your decision to impose the proposed rate framework, and instead focus on rate increases specifically tied to cost efficiencies of the Postal Service. As a business, Meredith must aggressively manage its costs and provide high quality products and services to survive. Your proposal absolves the Postal Service of the need to meet similar standards by simply allowing them to increase prices to cover their costs.

Regards,

Tom Harty