

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

MARKET TEST OF EXPERIMENTAL PRODUCT –
PLUS ONE

Docket No. MT2019-1

UNITED STATES POSTAL SERVICE NOTICE OF
MARKET TEST OF EXPERIMENTAL PRODUCT – PLUS ONE
(August 13, 2019)

Pursuant to 39 U.S.C. § 3641 and 39 C.F.R. Part 3035, and as directed by its Governors, the United States Postal Service plans to launch a market test of an experimental product called Plus One on October 1, 2019. In this Notice, the Postal Service describes the Plus One concept and shows that the market test will comply with applicable legal requirements.

Description of Plus One

Plus One is an addressed advertising card that may be mailed as an add-on piece with a USPS Marketing Mail Letters “marriage mail” envelope containing multiple advertising pieces. Marriage mail is a service provided by third-party mail service providers who combine advertisements from multiple businesses into a single mailpiece, thereby significantly reducing each business’s per-address mailing expense. Small and medium sized businesses with limited marketing budgets choose from an array of advertising channels to reach potential customers, including local radio and television, newspapers, outdoor and indoor display advertising, internet banners, and e-mail; therefore it is critical for the Postal Service to continue innovating to position mail as an attractive advertising channel.

Plus One will benefit small and medium sized businesses by giving them an expanded, affordable channel for advertising through the mail; it will benefit mail service providers by giving them an additional tool for retaining and growing volume; and it will benefit the Postal Service by expanding its customer base – most importantly, Plus One will showcase the value of standalone mailpieces to customers who have thus far limited themselves to marriage mailings, thereby creating an on-ramp for such customers to eventually mail their own solo USPS Marketing Mail pieces.

Plus One mailings will be required to conform to the following requirements:

- The host piece to which the Plus One piece is added on must be mailed as a commercial automation USPS Marketing Mail Saturation marriage mail letter. A minimum of 90 percent of the mailing must be Saturation sorted, and the remainder may be High Density or High Density Plus.
- All mailings must be entered at the destinating Sectional Center Facility (DSCF).
- The Plus One add-on card must be part of the same mailing as the host piece, addressed to the same delivery points.
- The Plus One advertiser must also advertise or have advertised within marriage mailings.
- Only one Plus One card is allowed for each delivery point within the mailing.
- A full automation address with Intelligent Mail Barcode (IMb) must be included on both the host pieces and the Plus One add-on.
- The Plus One card may measure up to 6 inches by 9.5 inches, must be at least 0.009 inch thick, and must meet USPS Marketing Mail Letter design standards.

The Postal Service will test four different price points, ranging from 8.5 cents to 10.0 cents. For purposes of this test, the Postal Service has divided the United States into four sections: West (including Alaska and Hawaii), South, Midwest, and Northeast. The regions have been divided so that, to the extent practical, each region contains DSCFs that serve each of four tiers of population density: large (6,600 to 47,362

individuals per square mile); mid-tier (1,000 to 6,600 individuals per square mile); small (185 to 1000 individuals per square mile); and sparse (below 185 individuals per square mile). Each region has been randomly assigned one of four prices: 8.5 cents (West), 9.0 cents (Northeast), 9.5 cents (Midwest), and 10.0 cents (South). The attached workbook lists each 3-Digit ZIP Code and its associated price. The Postal Service anticipates that the varying prices will generate valuable market insights that will inform the Postal Service's pricing decisions if it chooses to convert Plus One into a permanent product.

Compliance with Legal Requirements

Section 3641 of title 39 and the Commission's implementing rules at 39 C.F.R. Part 3035 set forth the criteria that a market test must meet. As explained below, the Postal Service has determined that the proposed market test will satisfy all of the criteria.

First, as required by subsection (b)(1) of section 3641, Plus One is significantly different from all products offered by the Postal Service within the last two years. To be sure, the inspiration for Plus One arose in part from the Detached Marketing Labels (DMLs) option that the Postal Service developed over a number of years for flat-shaped USPS Marketing Mail Saturation pieces.¹ However, Plus One is critically different in that it is being developed for mailers of letter-shaped pieces. Thus, it serves a different market with different cost characteristics, thereby meeting the definition of "product" set

¹ Detached Marketing Labels evolved from the Detached Address Labels (DALs) that were needed for addressing purposes for unaddressed flat-shaped pieces; over time, an advertising purpose developed, resulting in Detached Marketing Labels.

forth in 39 U.S.C. § 102(6), namely, a “postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied.”²

In addition, there are a number of material secondary differences between the two options:

- Many DMLs and associated host flats mailpieces are entered at the DDU. There, each of the pieces is handled manually (or the DML is sent back to the SCF to be processed). But the Plus One card and host piece will both be required to be entered at the DSCF for automation processing.
- The DML must be delivered to the addressee on the same day as the host piece, while Plus One removes this requirement (since the Plus One card is not an address label and mailers generally do not need same-day delivery). The Plus One add-on must be entered simultaneously with the host piece, but the Postal Service may choose to process them such that the add-on arrives on a different day than the host piece.
- Plus One has differing size, thickness, and content preparation specifications than DMLs.

Second, as required by subsection (b)(2) of section 3641, Plus One will not create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer. The prices have been chosen to more than cover the costs for Saturation letters (7.7 cents).³ Moreover, from mailers’ and customers’ perspectives, if anything Plus One will correct any potential market disruption that may already exist by virtue of the availability of DMLs for flat-shaped pieces but not for letter-shaped pieces. In other words, the availability of Plus One will ensure that the Postal Service is not tilting the USPS Marketing Mail environment toward mail service providers who focus on flat-shaped pieces at the expense of providers who focus on letter-shaped pieces. Further,

² Put another way, because the Commission already views Letters and Flats as different “products,” it follows that add-ons to each are different products as well.

³ Postal Regulatory Commission’s Fiscal Year 2018 Financial Analysis Report, Appendix A, Page 1 (Cost per piece for Saturation and High Density Letters) (April 19, 2019)

as to small businesses, Plus One will create more advertising opportunities via the mail for such businesses, thus fostering a market more responsive to small business needs.

Third, as required by subsection (b)(3) of section 3641, Plus One is properly categorized as market dominant, as it is an add-on to market-dominant USPS Marketing Mail Letters.

Other Requirements

Commission Rule 3035.3 requires a few additional points of information, covered here. The Postal Service intends for the market test to run for two full years from October 1, 2019; however, it is possible that the Postal Service may decide to seek permanent product status early, or alternatively that it may seek authority for an additional year of testing if needed to determine the feasibility or desirability of the product.

Volumes and revenues for Plus One are difficult to predict, as customer demand at the different prices is unknown. Nevertheless, it is the Postal Service's hope that Plus One will generate significant customer interest, and therefore it is possible that the Postal Service may eventually need to seek a waiver of the annual statutory limitation of \$11,641,026. Should revenue approach the cap, the Postal Service will furnish appropriate notice to the Commission and submit an application for exemption under 39 U.S.C. § 3641(e)(2) in a timely manner.

To better understand the results of the market test, the Postal Service intends to collect the following data on a quarterly basis:

- Volumes (broken down by location);

- Revenues (revenue from the host piece will not be counted for purposes of the test, as it is not a new mailpiece; rather, only the revenue collected for the add-on Plus One piece will be counted);
- Number of participating customers; and
- Average size of mailing.

The Postal Service will also collect data on the attributable costs of Plus One, including the administrative costs of the test. The Postal Service can report these data to the Commission upon request.

Consistent with 39 U.S.C. §3641(c)(1), the Postal Service is filing notice of this market test in the Federal Register.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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