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

REMOVAL OF CUSTOMIZED POSTAGE FROM THE MAIL CLASSIFICATION SCHEDULE	Docket No. MC2020-126

REQUEST OF THE UNITED STATES POSTAL SERVICE TO REMOVE CUSTOMIZED POSTAGE FROM THE MAIL CLASSIFICATION SCHEDULE
(May 1, 2020)

In accordance with 39 U.S.C. § 3642 and 39 C.F.R. § 3040.130 *et seq.*, the United States Postal Service hereby requests the removal of Customized Postage from the Mail Classification Schedule.

A copy of the Governors' resolution authorizing this request is included at Attachment A. The proposed changes to the Mail Classification Schedule's ("MCS") language appear at Attachment B. As required by 39 U.S.C. § 3642(d)(1), a notice describing the request will be published in the Federal Register. The supporting justification required by 39 C.F.R. § 3040.132 is below.[1] The factual statements contained herein are attested to by Christopher Karpenko, Executive Director of Brand Marketing, United States Postal Service.

The Postal Service established the Customized Postage program in 2004 as a means to generate additional revenue. Through this program, authorized vendors offer customers the ability to personalize postage indicia using the customers' own images or text. While these personalized indicia are distinct from U.S. postage stamps, they pose

[1] Subsections (c), (d) of Section 3040.132 are inapplicable to this Request as they deal with the transfer of competitive products. Subsection (e) of Section 3040.132 is also inapplicable as it serves to ensure that products covered by the postal monopoly are not incorrectly classified as competitive. *See* 39 C.F.R. § 3040.132(e).

unique risks because they share the appearance and function of U.S. postage stamps. For this reason, the Postal Service has required that vendors adopt the eligibility criteria set forth in 39 C.F.R. § 501.21(b) to ensure that the types of content included in customized postage are appropriate in light of the purposes of the program and the potential audiences, in order to safeguard the Postal Service's legal, financial, and brand interests. Further, as provided in 39 C.F.R. § 501.21(c)(7), the Postal Service may suspend or revoke a vendor's authorization if the Postal Service determines the Customized Postage products constitute an unacceptable business risk.

Over time, the eligibility criteria have become the source of customer complaints and the subject of legal disputes. Thus, the Postal Service recently reevaluated the program to determine whether the program's benefits outweigh the business risks.[2] In doing so, the Postal Service looked at typical business metrics, such as demand and revenue. The Postal Service also considered the impact of the program's removal on small businesses and consumers. Lastly, the Postal Service took into account the views of the program's participants.

The Postal Service found that the demand and revenue for Customized Postage products has never been significant, and has steadily declined in recent years. Since FY 2017, the number of Customized Postage mail pieces has declined from 38,960,509 to 15,972,708 in FY 2019. The number of requests for new authorizations has also declined. There has not been a serious inquiry for new authorization in some time. Further, as of June 16, 2020, there will no longer be any authorized vendors for the Customized Postage program. The Postal Service revoked the authorization of the last

[2] The following discussion is responsive to 39 C.F.R. § 3040.132(i).

remaining vendor because it determined that Customized Postage products constituted an unacceptable risk to its business interests. The other authorized vendors exited the program either due to industry consolidation or lack of demand, or the Postal Service discontinued the vendor's authorization due to quality issues.

As a result of the reduction in demand and authorized vendors, Customized Postage's revenue has also declined. The Customized Postage program's revenue consists of First-Class Mail postage and $325,000 in annual licensing fees per authorized vendor. Accordingly, as the volume of Customized Postage products and number of authorized vendors declined, the Postal Service also saw a drop in revenue. For example, postage revenue from Customized Postage products declined from $21.8 million in FY 2017 to $10.45 million in FY 2019. The Postal Service believes it would have received most of this revenue even in the absence of the program, as most of the customers would have sent the same mailpieces by purchasing other postage.

The Postal Service believes the impact to consumers and small businesses will be minimal.[3] As demonstrated by the aforementioned volume and revenue figures, consumer demand for Customized Postage has been weak. Indeed, demand for this product has never been large, and has declined in recent years.

The small number of affected consumers and small businesses can minimize any impact by turning to alternatives.[4] One alternative is the Postal Service's robust official stamp program. Currently, the Postal Service offers 72 First-Class Mail stamps that cover a range of topics and events. For example, the Postal Service's "Love" series

[3] Subsection (h) of Section 3040.132 requests that the Postal Service consider the impact to small businesses when proposing a change to the MCS.
[4] Subsection (f) of Section 3040.132 requests that the Postal Service provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.

stamps can be used for wedding invitations or birth announcements, and its Sesame Street, Scooby Doo, or Hot Wheels stamps can be affixed to children's birthday cards. Every year, the Postal Service introduces a wide range of new stamps. In 2019, the Postal Service introduced 21 First-Class Mail stamps, and so far in 2020, there have been 9 new First-Class Mail stamps. Additionally, consumers and small businesses can continue to customize their envelopes, return address labels, or other aspects of their mailings, which are services provided by a number of firms in the private sector.

Even though the impact of the program's removal on consumers and small businesses will be minimal, the Postal Service assumes some industry participants would object to this Request.[5] They may believe that continuing the program will be in the interest of all parties involved, including the general public.

After careful consideration of the above factors, the Postal Service has ultimately reached the conclusion that the Customized Postage program constitutes an unacceptable risk to the Postal Service's business that outweighs any countervailing benefits, given the significance of the risks to the Postal Service's legal and brand interests, the program's declining demand, its insignificant contribution to the Postal Service's revenues, and the availability of alternatives. As required by Subsection 3040.132(b), the Postal Service also considered whether the removal of the language from the MCS is consistent with the factors and objectives of Section 3622. While the Postal Service has found that none of the factors and objectives of 39 USC § 3622 are directly applicable here, the removal of Customized Postage is nonetheless consistent with the spirit of Section 3622. The import of Section 3622 is to ensure that the Postal

[5] Section 3040.132(g) requests available information on industry participants' views of the request.

Service's rate system is balanced and generates adequate revenue. The Postal Service has concluded that the Customized Postage program constitutes an unjustified risk to its business. Accordingly, to prevent harm to the Postal Service's brand, which may negatively impact revenues, the Postal Service is requesting removal of Customized Postage from the MCS.

As set out above, the Postal Service submits that the proposed removal fulfills the criteria set forth in 39 C.F.R. § 3040.132, and therefore requests that the Commission remove Customized Postage from the MCS.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESOLUTION OF THE GOVERNORS

OF THE

UNITED STATES POSTAL SERVICE

Resolution No. 20-3

Removing Customized Postage from the Market-Dominant Product List

RESOLVED:

Pursuant to section 3642 of Title 39, United States Code, the Postal Service shall file a notice with the Postal Regulatory Commission of its intent to remove the Customized Postage product from the market-dominant product list.

Postal management is directed to provide the required public notice, and to file with the Postal Regulatory Commission the required documents and supporting information, in accordance with Part 3020 of Title 39, Code of Federal Regulations.

The foregoing Resolution was adopted by the Governors on April 1, 2020.

Michael J. Elston
Secretary of the Board of Governors

MAIL CLASSIFICATION CHANGES

(Deletions are marked by strike-through. Some unchanged language is included, but only to show the location of the changes.)

PART A

MARKET DOMINANT PRODUCTS

1000 MARKET DOMINANT PRODUCT LIST

FIRST-CLASS MAIL*

Single-Piece Letters/Postcards
Presorted Letters/Postcards
Flats
Outbound Single-Piece First-Class Mail International
Inbound Letter Post

USPS MARKETING MAIL (COMMERCIAL AND NONPROFIT)*

High Density and Saturation Letters
High Density and Saturation Flats/Parcels
Carrier Route
Letters
Flats
Parcels
Every Door Direct Mail—Retail

PERIODICALS*

In-County Periodicals
Outside County Periodicals

PACKAGE SERVICES*

Alaska Bypass Service
Bound Printed Matter Flats
Bound Printed Matter Parcels
Media Mail/Library Mail

SPECIAL SERVICES*

Ancillary Services
International Ancillary Services
Address Management Services
Caller Service
Credit Card Authentication
International Reply Coupon Service
International Business Reply Mail Service
Money Orders
Post Office Box Service
~~Customized Postage~~
Stamp Fulfillment Services

* Organizational class or group (not a Postal Service product)

* * * * *

1500 Special Services

* * * * *

1500.2 Products Included in Class

- Ancillary Services (1505)
  - Address Correction Service (1505.1)
  - Applications and Mailing Permits (1505.2)
  - Business Reply Mail (1505.3)
  - Bulk Parcel Return Service (1505.4)
  - Certified Mail (1505.5)
  - Certificate of Mailing (1505.6)
  - Collect on Delivery (1505.7)
  - USPS Tracking (1505.8)
  - Insurance (1505.9)
  - Parcel Airlift (PAL) (1505.11)
  - Registered Mail (1505.12)
  - Return Receipt (1505.13)
  - Shipper-Paid Forwarding (1505.16)
  - Signature Confirmation Service (1505.17)
  - Special Handling (1505.18)
  - Stamped Envelopes (1505.19)
  - Stamped Cards (1505.20)
  - Premium Stamped Stationery (1505.21)
  - Premium Stamped Cards (1505.22)

- International Ancillary Services (1510)
  - International Certificate of Mailing (1510.1)
  - International Registered Mail (1510.2)
  - International Return Receipt (1510.3)
  - Customs Clearance and Delivery Fee (1510.4)

- Address Management Services (1515)

- Caller Service (1520)

- Credit Card Authentication (1525)

- International Reply Coupon Service (1535)

- International Business Reply Mail Service (1540)

- Money Orders (1545)

- Post Office Box Service (1550)

- ~~Customized Postage (1555)~~

- Stamp Fulfillment Services (1560)

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~~1555 Customized Postage~~

~~1555.1 Description~~

~~a. The Customized Postage program authorizes vendors to provide their customers with Postal Service-authorized postage consisting of customer-selected images aligned with Postal Service-approved indicia of postage payment. As a condition of participation, a vendor must comply with all Postal Service requirements, including the content of submitted images and specifications for postage indicia printing. The vendor must also allow Postal Service inspection to ensure compliance.~~

~~b. A vendor's annual participation fee allows the vendor to print at two facilities. Additional print sites may be added at a reduced fee. The Postal Service does not control the price that the vendor charges its customers, beyond the applicable price for postage. The face amount of the postage is remitted to the Postal Service by the vendor.~~

~~1555.2 Prices~~

	~~($)~~
~~Annual Participation Fee (up to two printing facilities)~~	~~345,000.00~~
~~Additional Printing Sites (3-50 sites, each site)~~	~~58,000.00~~
~~Over 50 Printing Sites (each site)~~	~~5,800.00~~

* * * * *