

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

MARKET TEST OF EXPERIMENTAL PRODUCT –
COMMERCIAL PO BOX REDIRECT SERVICE

Docket No. MT2020-1

COMMENTS OF THE NATIONAL POSTAL POLICY COUNCIL
(May 21, 2020)

The National Postal Policy Council (“NPPC”) respectfully submits these comments on the Postal Service’s proposed market test of Commercial PO Box Redirect Service.¹

NPPC is an association of large business users of letter mail, primarily the Automation rate category in First-Class Mail, with member companies from the telecommunications, banking and financial services, insurance, subscription service, and mail services industries. NPPC members make use of Commercial PO Box service for remittance mail and are within the category of mailers that this service is intended to interest.²

The Commercial PO Box Redirect Experiment Should Be Approved

NPPC encourages the Postal Service to develop innovative services that increase the value of the mail and encourage volume retention and growth.

¹ *United States Postal Service Notice of Market Test of Experiment Product – Commercial PO Box Redirect Service (May 8, 2020) (“USPS Notice”), public notice issued Order No. 5433 (May 11, 2020), 85 Fed. Reg. 29491 (May 15, 2020) (Notice and Order Concerning Market Test of Experimental Product—Commercial PO Box Redirect Service).*

² Indeed, the pilot of this program included NPPC member participation.

Market tests of experimental services offer an opportunity to explore the usefulness and desirability of new features and products, and to obtain data that is useful for pricing and costing purposes.

The proposed Commercial PO Box Redirect service is an example of how to use a market test, and it satisfies the criteria for market tests of experimental services set forth in 39 U.S.C. §3641. The service is significantly different from current ways of redirecting mail from PO boxes because it makes use of the Postal Service's mail processing network to redirect Automation letters to an address not shown on the envelope. The mail never arrives at the address on the envelope; instead, the postal network re-routes it to the newly designated location. Because the proposed service relies on functionality in the letter mail processing equipment, it is properly classified as market dominant.

NPPC believes that the proposed service could provide useful business continuity support for mailers with multiple lockbox locations that have a need to redirect work from one facility to another on relatively short notice. Second, businesses that wish to consolidate their lockbox operations potentially could find that the redirect service could simplify and expedite that process although, as currently priced, this service would not offer large volume mailers a long-term solution for such consolidation.

However, despite this general support, NPPC has concerns about both operational details of the service and its pricing. First, as described below, aspects of the proposed experimental service need clarification. Second, the proposed pricing appears excessive. The proposal to assess per-piece charges

in the apparent absence of volume-variable costs will render the service uneconomic to many large volume mailers that otherwise would be interested in the service, as NPPC members have previously advised the Postal Service. Instead, the Postal Service is encouraged to experiment with a variety of prices to determine the optimal pricing for this experimental service.

Matters Needing Clarification

NPPC urges the Commission to seek, or the Postal Service to provide, clarification as to the following aspects of the market test.

First, the Postal Service is proposing two levels of fees: \$0.07 for each redirected piece (apparently the standard price) and \$0.06 per piece for customers that certify “that the service is essential to respond to a contingency” such as the COVID-19 pandemic. However, nothing in the Postal Service’s filing provides further guidance as to what might constitute a “contingency” justifying the lower price. Would flooding of the PO Box facility suffice? Forest fires that impair delivery to a particular box?³ A business failure on the part of a private carrier that currently collects and forwards the pieces after delivery to a lockbox?

Second, in the event of a contingency, how rapidly could the Postal Service “turn on” the redirect service for a customer? If redirected mail is “essential” for a contingency or, as the Postal Service acknowledges (*USPS Notice* at 4), “speed of redirection” is important, then the service should be implemented quickly. This should be possible, since apparently the proposed

³ It appears that the technology underlying the proposed Redirect service would offer great potential benefit to the Postal Service itself in the event of a catastrophic event that renders a postal facility inoperable for a period of time.

service would merely require updating of letter processing software. However, the Postal Service's notice does not provide a description of this feature.

Third, it appears that the Postal Service could enhance the value of this service by providing remittance mailers with additional reporting regarding redirected mail. The *USPS Notice* does not discuss whether it will offer such a feature.

Finally, while an improvement over today's solutions for when a lockbox change occurs, this service does not completely address operational issues related to a business's closing of a PO lockbox, because it is limited to Automation letter mail. Remittances and other mailings in non-Automation mail would not be redirected. Therefore, mailers understand that it is not a complete solution where redirection is necessary.⁴

Pricing

As mentioned, the Postal Service is noticing a price of \$0.07 per-piece for this service, with a \$0.06 per-piece price where a mailer certifies that the service is essential for a contingency. The Postal Service does not explain how it chose these proposed prices. They evidently are not cost-driven, as the Service notes that aside from initial administrative costs (which are not quantified), there should be no volume variable costs attributable to this service. *USPS Notice* at n.2. And it is generally preferable to recover one-time costs in a fee rather than by means of volume variable charges.

⁴ NPPC urges the Postal Service to explore combining this experimental service with Premium Forwarding Service in one price to allow inclusion of such non-Automation mail.

NPPC members, which include many of the largest mailers of Automation letters and users of lockbox services, see potential value in the proposed Redirect service. But that value has limits, and if the service is priced above its value, mailers simply will not participate. NPPC fears that such may be the case here.

NPPC members explained this concern in discussions with the Postal Service during the planning and pilot program of this service regarding pricing. They advised the Postal Service at that time that while they have significant interest in this service, a price of more than \$0.01 or \$0.02 per piece would significantly reduce their interest. That is particularly so in the case of the larger volume mailers, for whom the proposed \$0.06 or \$0.07 per-piece charges would generate a total price that greatly exceeds the perceived value to the mailer (especially given the service apparently incurs no volume-variable costs). Nonetheless, that customer input went unheeded.

However, the market test process gives the Postal Service an opportunity to test various alternative pricing models, and it should do so. Already in this proposed test, the Postal Service has chosen to exercise pricing flexibility to offer the reduced price for redirection “essential for a contingency.”⁵ NPPC is pleased that the Postal Service recognizes that lower prices are an appropriate response to a contingent or unusual condition, such as the COVID-19 pandemic.

However, the Postal Service could and should go further and use this market test as an opportunity to experiment with alternative pricing models to see

⁵ As mentioned, there appears to be no cost difference between “turning on” the service or redirecting pieces for “contingency” reasons than in non-contingent circumstances.

whether they elicit greater mailer interest and postal revenue. This would enable it to price the service optimally if it is to be made permanent at some future time.

In particular, assuming that the Commission approves the market test, NPPC urges the Postal Service to use the two-year period of the market test to explore testing some or all of the following alternative pricing models:

- A lower per-piece price (such as \$0.01 or \$0.02) to determine whether such prices would attract sufficient new use to offset the lower per-piece revenue;
- Given that the costs are non-volume variable, a flat fee for service setup and no volume-based charge;
- Tiered pricing with lower per-piece prices at higher volume thresholds;
- A flat rate or subscription option, which might appeal to larger volume mailers.

Conclusion

For the foregoing reasons, the National Postal Policy Council supports approval of the proposed market test, subject to appropriate clarifications. However, given the concern that the proposed per-piece prices are excessive for a service that imposes few if any volume variable costs, the Postal Service

should consider and revise this market test to offer alternative pricing models that are more closely related to the value that the service can provide to mailers.

Respectfully submitted,

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