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

ANNUAL COMPLIANCE REPORT, 2020

Docket No. ACR2020

**COMMENTS OF THE  
NATIONAL ASSOCIATION OF PRESORT MAILERS**  
(February 1, 2021)

The National Association of Presort Mailers (“NAPM”) respectfully submits these comments on the Postal Service’s Annual Compliance Report for Fiscal Year 2020 (“ACR”), filed December 29, 2020<sup>1</sup>.

**About NAPM.** NAPM membership includes 87 company members representing 113 mailing sites producing mailings in 40 states. NAPM represents mail owners preparing their own mail, mail service providers (MSPs) that presort and commingle client mailings, mail service providers that perform printing services, and vendor solutions providers to the mailing industry. Our MSP members interact with, and collect mail from, tens of thousands of business mail consumers provide them with access to affordable postage prices, excellent customer service, and add value to their mail by presorting, commingling, barcoding and more so that the client can receive the benefits of workshare postage discounts with minimal involvement with the complex mailing standards required by the Postal Service. Collectively, NAPM represents over 45 percent of the total commercial First-Class Presort Mail volume and over 60 percent of the USPS’ total IMb Full-Service volume. While NAPM members present a significant volume of First-Class Mail, our members also present a

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1 Order No. 5796 (Dec. 30, 2020) (Notice of Postal Service’s Filing of Annual Compliance Report).

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growing volume of Marketing Mail, as well as handling Periodicals, Package Services and competitive parcel products.

Our members consider the Postal Service as valued partners, delivering high quality mail to them with accurate addresses, high quality barcodes, and high density preparation levels, transported and entered where the Postal Service wants it, bypassing many initial processing functions. Our members are highly engaged in programs and initiatives that help reduce the USPS' costs. Beyond the core worksharing activities which postage discounts compensate, our members also have a high participation level in optional programs such as Seamless Acceptance. The mail data that is provided to the Postal Service through Seamless Acceptance and IMb Full-Service support a long and growing list of USPS programs designed to reduce costs, improve efficiency, and improve service performance.

Our members are committed to ensuring mail remains profitable and in the Postal system. We are true partners with the Postal Service: we sell their products, our customers are their customers, and just like the Postal Service, without mail we don't have a business.

## **I. WORKSHARE DISCOUNTS**

As part of the 10-year rate system review the Commission concluded that the USPS has not fully utilized its existing pricing flexibility in terms of setting prices to achieve ECP (Efficient Component Pricing). As NAPM has commented numerous times, we support ECP -- workshare discounts being set significantly below 100% passthrough discourage mailers from making investments necessary to leverage newer technologies that improve mail production, preparation, and downstream entry

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processes that enable the Postal Service to realize the cost cutting and mail retention benefits of workshare. Additionally, these investments enable mailers to support, and facilitate the development of Postal Service innovation programs to create added value offerings, improve delivery service, and promote the growth of mail. At a time when mail volumes continue to be threatened and businesses have other choices for their communication needs, it is essential that mail remain a cost-effective and viable solution.

The USPS in its ACR (Library Reference 3) identifies the workshare discounts and passthroughs for First-Class Mail and Marketing Mail (as well as other mail classes), too many of which fall below the 85% threshold established by the PRC's final rules in its 10-year rate system review. NAPM looks forward to the implementation of the changes in how the USPS sets workshare discounts as included in the PRC's final rules. While other elements of the PRC's final rules remain contentious and in fact are the subject of a pending appeal, the workshare rules are unquestionably within the PRC's authority to implement, and accordingly will go forward with the next USPS price change even if court action delays or changes other elements of the PRC's final rules that are the subject of litigation. While economic theory clearly shows that the workshare passthrough "floor" should be higher than 85%, we appreciate that the PRC's new workshare rules will require USPS to move passthroughs closer to 100 percent of avoided costs to promote efficient mail preparation and entry.

As NAPM has repeatedly commented in the past, and as the PRC has supported in previous Annual Compliance Determinations (ACDs), when passthroughs are significantly below 100%, mailers/MSPs are not being fairly compensated for the work they are performing for the USPS, and the USPS is not

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fully incenting preparation of the most efficient mail for the USPS. In fact, with passthroughs less than 100 percent the Postal Service is performing work that our members could provide at lower cost so is using its monopoly power to squeeze out more efficient upstream competitors. NAPM hopes that the PRC's changes to workshare discounts and passthroughs will be a positive move toward better USPS pricing efficiency and reducing the USPS' costs while adding value to mail through all the activities that Mail Service Providers (MSPs) perform.

## **II. IMB FULL-SERVICE INCENTIVE**

NAPM again commends the Postal Service for maintaining the IMb Full-Service incentives for both First-Class Mail and Marketing Mail, in recognition of the ongoing costs for mailers to support IMb Full-Service mailings. The Full-Service incentive works to retain and grow mail volumes by compensating mailers for the additional work they must perform to qualify for the incentive, and NAPM appreciates that the Postal Service recognizes these ongoing costs, particularly in light of the significant financial impacts of the pandemic being experienced by mailers and MSPs in FY2020 (and continuing in FY2021).

The Full-Service incentive also provides the foundation for the Intelligent Mail data that the USPS uses for a long list of initiatives designed to retain/grow volume, improve efficiency, reduce costs, and better plan its processing, transportation, and employee resources.

Without the mailing data supplied by NAPM members and others utilizing IMb Full-Service, there would be no Informed Delivery mailer campaigns, no Informed Visibility, no internal Service Performance Measurement system, and no

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elections/ballots mail tracking. Further, a host of other USPS programs would not be possible or would be significantly negatively impacted without such data. The capabilities enabled by the USPS' use of this data drives innovation towards more automated and efficient processes. In addition, better data sharing between the USPS and industry related to service issues could help prevent or improve performance issues. Accordingly, it is critical that the USPS continue to support IMb Full-Service industry participation by maintaining the existing price incentives.

NAPM recently reviewed the list of MSP costs associated with supporting IMb Full-Service to determine whether these costs – first identified in 2013 – still exist today to support Full-Service; we found there has been little change in the activities mailers must perform with most costs remaining the same or increasing over the years. NAPM has also heard from some of our members that when workshare discounts are changed in a manner that reduces the amount passed through to the MSP, the costs of supporting Full-Service in combination with the workshare discount reduction is causing some mailers to reconsider their support of Full-Service. It is hoped that the new workshare rules along with continuation of the Full-Service incentive at the same or an increased level will keep all mailers supporting Full-Service.

### **III. SEAMLESS ACCEPTANCE INCENTIVE**

NAPM also commends the Postal Service for implementing in its January 2021 price changes a Seamless Acceptance incentive. Supporting Seamless Acceptance requires different activities that MSPs must perform on an ongoing basis, and each activity represents a cost. These are costs separate and distinct from those an MSP experiences to support IMb Full-Service, so it is appropriate that a separate incentive be established pertaining to Seamless Acceptance.

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NAPM anticipates that the Seamless Acceptance incentive will result in more MSPs moving into Seamless, which will reduce the USPS' business mail acceptance costs as well as bring more value to the mail, enable innovative changes for the future to increase automation of labor-intensive business processes, improve mailing quality, and ensure USPS revenue protection. There is additional data available to the Postal Service from Seamless Acceptance mailings that will further help it drive operational and logistical improvements. NAPM supports continuing the Seamless Acceptance incentive and increasing it over time to recognize and compensate MSPs for more of the costs incurred in supporting the program. As the USPS moves ahead with its plans to require mailers that enter through BMEUs to participate in Seamless Acceptance, many of those mailers will need to invest more money to investigate and handle undocumented piece errors and other aspects of Seamless, which represent additional costs for those mailers.

#### **IV. SERVICE PERFORMANCE**

The USPS as part of its Annual Compliance Report submitted its FY 2020 Annual Report on Service Performance for Market Dominant Products. The customers of NAPM's MSP members routinely stress the importance of predictable, on-time and consistent USPS service performance as an integral part of the product they are purchasing from the USPS. When USPS service performance does not meet its service standards, is inconsistent, or becomes unpredictable, it has significant negative impacts on business users of the mail by creating customer service issues between business mailers and their consumer customers, increased expenses in tracking mail, investigating issues and responding to customer

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complaints, lost revenue for business customers unable to achieve delivery within the service standard, and other additional expenses incurred by business mailers. In reviewing the USPS' FY2020 Performance Report and FY2021 Plan, NAPM provides below some specific recommendations on service performance. While NAPM recognizes the extraordinary challenges both the USPS and its private sector MSP partners have faced in FY2020 due to the pandemic, the USPS service performance issues have persisted for some years prior to FY2020.

**Measurement and Reporting of First-Class Mail (FCM) Flats.** The USPS in its service performance measurement and reporting combines FCM Single Piece and FCM Presort flats. This blended measurement and reporting does not reflect the better service performance that FCM Presort flats experience, which can be seen clearly in the performance results reported by the USPS for FCM letters. FCM Presort letters service performance is reported separately from FCM Single Piece letters, allowing a clear picture of the improved service performance attained through presort. NAPM members utilize this separate service performance data to help move commercial mail users into presort and commingle programs, which also benefits the USPS by increasing its "profitability" through use of lower cost products, increasing efficiencies that enable mail to move more quickly through its network, allowing mail to bypass processing steps, and avoid service performance issues. We encourage the USPS and the PRC to move to a separate service performance measurement and reporting of FCM Single Piece and Presort flats.

**First-Class Mail Service Performance.** The USPS in its FY2020 Annual Report on Service Performance for Market Dominant Products discusses at length

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the measures it is taking to monitor and improve service for FCM international pieces, but does not include the same level of detail in its discussion of how it plans to improve service for the rest of First-Class Mail. NAPM stresses the need for the USPS to form and identify an action plan for FY2021 to bring First-Class Mail service back to pre-pandemic levels.

**USPS New “Composite” Metric.** The USPS in its FY2021 Performance Plan (included in its FY2020 Annual Report, submitted as Library Reference 17 in its Annual Compliance Report), states “The Market Dominant Composite is a new FY 2021 High-Quality Service indicator. This composite includes all First-Class Mail, Marketing Mail, Periodicals, Flats, Bound Printed Matter Parcels, Marketing Mail Parcels and Library/Media Mail.” If this reference means that the Postal Service plans to report its service performance for all Market Dominant mail as one composite measure, NAPM strongly opposes this.

By further aggregating and combining service performance results, the actual service experience of a particular mail class and product within that class is lost. This issue already exists today with the USPS reporting its quarterly performance results as composite groupings. For example, reporting all First-Class Mail as a composite score obfuscates the lower service performance experienced by First-Class Mail flats compared to letters. Reporting all Marketing Mail service performance as a composite obfuscates the significantly lower service performance experienced for origin-entered Marketing Mail as compared to destination-entered Marketing Mail, and for specific Marketing Mail product categories.

While more detailed quarterly service performance results are available through the USPS reports filed at the PRC, and to some extent on the USPS web site, the

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USPS reports out only these “composite” scores at its Board of Governors meetings and other public communications. NAPM is concerned that by further muddying the service experience of specific mail class and product users, and the lack of transparency in doing so also results in the USPS not communicating to its field managers the sub-standard performance experience of those mail users, and sends a signal that because a “composite” score may be meeting a target, no work is needed to address more specific service performance at the class and product level.

**Lack of USPS FY2021 Service Performance Targets.** The USPS in its FY2021 Performance Plan states that “[a]s of the date of this report’s publication, USPS management determined to not establish targets for FY 2021 High-Quality Service metrics due to the significant ongoing effects stemming from the COVID-19 pandemic on employee availability as well as surface and air transportation capacity. USPS management will establish service targets later in the fiscal year, if pandemic conditions warrant.” NAPM does not understand the USPS’ inability to establish service performance targets for FY2021. The fact that the USPS may not reach those targets has never prevented the USPS from establishing performance targets in the past. NAPM is concerned that a lack of FY2021 service performance targets sends the message that the USPS anticipates and accepts lower service performance and/or lacks a recovery plan to return performance to acceptable levels.

**Last Mile Delivery Scans.** NAPM recommends that the USPS provide last mile delivery scan data -- where available -- to mailers, as it does other processing scans through Informed Visibility. Lacking the last mile delivery scan data, mailers

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are unable to confirm the actual delivery date in order to analyze and respond to service delays. Many mailers use an anticipated delivery date in order to plan follow-up activities to the recipient (some of which are digital communications), but the actual delivery date would be much more effective for these types of activities and help add value to mail.

**The Real World Impacts of Service Performance Issues.** NAPM members, who act as the primary contact and liaison between their commercial mail user customers and the Postal Service, are continually informing NAPM of the real world impacts that the USPS' service performance issues have on use of the mail and on the users of mail. While there were historically high parcel volumes and significant USPS challenges resulting from the pandemic that impacted service performance in FY2020, service performance issues are not new and not restricted to FY2020. Service performance issues have been a real and regular occurrence, increasing since 2012 when the USPS changed its operating window as well as some service standards. Performance in most categories has not returned to pre-2012 levels over the past 8 years.

When service performance is inconsistent, unpredictable, and significantly below the USPS' target, the results can be devastating for the businesses using the mail. Service performance in most cases is within the USPS' control, and providing poor service performance is akin to raising postage prices in its impact on mail users. Businesses using the mail report to our members that service performance issues result in significant additional costs, negative impact on their customer experience in reaching consumers, loss of faith in the USPS' mail brand, and accelerated focus on exploring electronic alternatives to mail.

NAPM continues to believe that the existing ACR/ACD process does not hold the Postal Service accountable for failure to meet service standards or improve service performance. While the USPS is correct that its service performance in the first two quarters of FY2020 was better than SPLY (FY2019), it should be noted that FY2019 scores were lower in most cases compared to the four previous Fiscal Years. As can be seen from the below USPS service performance scores for the past nine years for specific products/service standard levels, performance has not met the USPS' targets in most categories for the past 5 Fiscal Years. First-Class Mail service performance last met the USPS' targets in FY2014 and then in only one Presort category.

#### USPS Annual Service Performance for Market-Dominant Products

Category	FY 2012	FY 2013	FY 2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
<b>First-Class Mail:</b>									
Single-Piece Overnight	96.5	96.1	96.0	95.6	NR	NR	NR	NR	NR
Single-Piece Two-Day	94.8	95.3	94.9	93.2	94.7	94.7	93.8	92.0	91.5
Single-Piece 3-5 Day	92.3	91.6	87.7	76.5	83.7	85.6	82.5	80.9	78.8
Presort Overnight	96.8	97.2	97.0	95.7	96.2	96.5	96.0	95.5	94.7
Presort Two-Day	95.7	97.0	96.4	93.6	95.1	95.6	94.9	94.1	92.8
Presort Three-Day +	95.1	95.1	92.2	87.8	91.7	93.7	92.0	92.0	89.9
<b>Marketing Mail:</b>									
Origin Entry	56.5	63.3	63.5	59.6	65.9	69.8	66.4	66.2	72.2
Destination Entry	82.0	88.8	89.9	89.1	92.3	93.7	91.6	91.9	91.5
<b>Package Services</b>	87.2	87.5	86.3	84.0	82.5	89.6	89.2	87.3	85.8

NR = Not Reported

**Color Key:** Annual performance scores shown in red were below target, scores shown in green were at or above target

**Disruptive Events Initiative.** The USPS in its FY2020 Performance Plan said that in FY2020 it would be launching a “Disruptive Events” initiative “to identify mail

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affected by unforeseen events outside of management's control...[which will] use data to identify and flag mail pieces impacted by unexpected events, such as weather, outside of the Postal Service's control." The PRC in its FY2019 Report and FY2020 Plan on Service Performance recommended that the USPS provide an update on the initiative in its FY2020 Report, yet no such update has been provided by the USPS.

NAPM members and other mailers/MSPs are finding the lack of available actionable USPS data on specific facilities where issues are arising is hampering their ability to respond to customers, change mail entry/preparation plans when warranted to avoid encountering significant delivery delays or incurring additional costs, or take other appropriate actions based on USPS facility conditions. The lack of actionable data on USPS facility conditions during the recent service issues has resulted in NAPM members spending hundreds of thousands of dollars on truck transportation costs to trucks sitting for days trying to unload mail at postal facilities, or sitting for 12 hours only to be told the mail can't be accepted at a postal facility then have to return the next day and try again. These situation also significantly negatively impact consumer recipients of mail that is delayed, including late charges from bills/remittance mail delays, more aggressive movement by business customers to get their consumer customers to switch to electronic communications, marketing opportunities and sales revenues lost when direct mail can't be entered at postal facilities on time or is delayed well past a sale or promotion period, and more.

While it is unknown whether the "Disruption Events Initiative" as envisioned by the Postal Service would meet this industry need, NAPM strongly encourages the USPS to develop some mechanism that would provide its industry partners with near real-time actionable data on facility conditions in the event of disruptions. While the

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USPS currently provides some information through its Industry Alerts and Mail Service reports on its web site, it has limited the types of disruption events it reports on using those mechanisms. The USPS needs to design a communication and data sharing mechanism that includes data on significant delays in facility unload times and operations restrictions due to USPS resources impacted by the pandemic such as have been experienced during the peak/holiday season – but which are likely to continue and recur as similar situations arise.

## **V. USPS FINANCIAL HEALTH**

The USPS in the “Financial Health” section of its FY2020 Performance Report and FY2021 Performance Plan states that it “anticipates that the volume of First-Class Mail will continue to decline in future years with the ongoing migration to electronic communication and transactional alternatives resulting from technological changes. To address the long-term trend that such changes have had on First-Class Mail revenue and volume, the Postal Service has focused on providing new services and innovations with Marketing Mail. The Postal Service has expanded service offerings, such as Informed Delivery, which enables customers to preview mail and packages scheduled to arrive as a means of merging digital and physical mail.”

First, NAPM stresses that the pace of migration of First-Class Mail to electronic alternatives is not a foregone conclusion, nor does it impact all First-Class Mail volume. The USPS itself plays a significant role in the rate of such diversion in the prices and features it provides in its First-Class Mail product. Rising prices and declining service performance both drive accelerated movement of First-Class Mail volume to electronic alternatives. No matter how many bells and whistles the USPS might add to mail, such

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as Informed Delivery, it doesn't matter if the piece does not get delivered in a timely manner to meet the needs of the sender and receiver. Improvements in service performance and stabilization of prices can go a long way to slow such diversion down and exploration of new features that meet customer needs could also help retain and even grow First-Class Mail volumes. Yet instead of focusing on (and detailing in its ACR) innovative efforts around First-Class Mail product, the USPS says it is instead focusing on Marketing Mail. While Marketing Mail innovation also is important, it is a different product with different features and in many cases can't fulfill the needs of First-Class Mail users.

NAPM strongly urges the USPS to focus as much energy and resources on the mail side of its business as it does on the competitive parcels side. Both business lines are equally important, indeed the USPS likely could provide neither in an affordable manner to customers without the contributions of the other.

NAPM also stresses that the USPS should explore expansion of its public-private partnership with the mailing industry as part of its strategic endeavors to keep postage prices affordable and service performance reliable. There are additional opportunities available that should be collaboratively discussed and explored that could help the USPS improve its long-term financial health.

In addition, NAPM anticipates and strongly supports that the PRC take into consideration in its ACD analysis of the Postal Service's financial health the \$10 billion that has now been granted to the USPS without repayment requirement as part of the Congressional stimulus legislation. It is likely that the exact details of how the USPS may use this \$10 billion will be resolved by the time the PRC completes its ACD, therefore the additional funds should be taken into account in assessing the USPS' financial health.

## VI. STRATEGIC INITIATIVES

As in past practice, the USPS in its FY2020 Report and FY2021 Performance Plan includes a section where it outlines the strategic goals it has established in its FY2020-FY2024 Five-Year Strategic Plan and its portfolio of initiatives designed to support its FY2021 strategic goals. The USPS also notes that “The strategic initiatives identified in the USPS Five-Year Strategic Plan for FY 2020-FY 2024 are subject to change by the Board of Governors as changes in strategy become necessary or business conditions warrant.”

The USPS has referred to the development of a new strategic plan at its open meeting held November 13, 2020, of its Board of Governors as well as during recent meetings of the Mailers Technical Advisory Committee (MTAC) and meetings between the USPS and industry association executives. NAPM would like to understand the process of how the USPS will incorporate into its FY2020-FY2024 Five-Year Strategic Plan the new strategic plan it is currently developing and reportedly plans to share in the next few months, and how the changes to the USPS’ strategic plan will be incorporated into the Annual Compliance Determination process.

In addition, as NAPM again emphasizes that the USPS should develop and share with industry a multi-year pricing strategy, not just to indicate when price adjustments will occur, but a more detailed long-term business pricing strategic plan to guide business mailers and MSPs on future direction of pricing for USPS products, workshare, and incentives so they can plan accordingly in terms of their investment in software, hardware, equipment, personnel, and other expenses.

When pricing signals fluctuate each year or within a few years in a manner that does not seem to reflect a long-term strategy, and are inconsistent from one year to

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another, it does not allow private sector partners to prepare to better support the USPS and the mailing industry, and instead leaves private sector businesses either reacting to short term price changes only to have them reversed the next price change, or making the business decision not to invest in more efficient processes because it is unknown whether the pricing signals will remain in subsequent years.

## **VII. CONCLUSION**

NAPM appreciates the Commission's consideration of these comments. NAPM's members continue to work closely with the USPS through our public-private workshare partnership, delivering to the USPS high value data-rich mail that is efficient and lower cost for the USPS and which creates a better customer satisfaction experience for business mail users.

We continue to advocate for the USPS to set prices in accordance with Efficient Component Pricing (ECP) with workshare passthroughs closer to 100% of the USPS' avoided costs to increase the incentive for more efficient, data-rich mailings that benefit all – the Postal Service, our members, and business customers using the mail. We also appreciate the USPS' continued IMb Full-Service price incentive and creation of the Seamless Acceptance price incentive to compensate mailers for the additional costs incurred to support these programs.

NAPM remains concerned with the continued (and recently accelerated) degradation of USPS service performance, and urges the USPS and the PRC to explore new ways to identify and resolve service issues. While we appreciate the PRC's extensive efforts around service performance measurement and requiring additional reporting and data from the USPS around its performance, these processes

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have not been successful in driving service improvement.

In looking at the USPS' financial health elements of its 2020 report and 2021 plan, NAPM does not agree with the premise that there is little the USPS can do to grow or retain its volume. We think there is a great deal the USPS can do in this regard. We would like clarification on how the \$10 billion granted the USPS in the legislative stimulus package will be taken into account in analyzing its financial health.

NAPM would also like to understand how the new strategic plan the USPS is developing will be incorporated into its existing Five-Year Strategic Plan and how it will be brought into the ACD process. In addition, NAPM believes that any long-term USPS strategic plan would be better if developed in collaboration with its industry partners who would bring knowledge and expertise on the capabilities of the private partner supply chain and potential impacts of strategies being considered by the USPS. To date, there has been no effort by the USPS to engage industry in development of its long-term strategic plan.

NAPM continues to appreciate the efforts by the Commission to review the USPS performance and plans through the Annual Compliance Review/Determination process.

Respectfully submitted,



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