

**BEFORE THE
POSTAL RATE COMMISSION**

Docket No. MC2004-5

REPOSITIONABLE NOTES MARKET TEST

REPLY BRIEF

OF

**DIRECT MARKETING ASSOCIATION, INC.
ASSOCIATION FOR POSTAL COMMERCE
MAGAZINE PUBLISHERS OF AMERICA, INC.
MAILING & FULFILLMENT SERVICE ASSOCIATION**

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October 29, 2004

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WASHINGTON, D.C. 20268-0001

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The Direct Marketing Association, Inc., the Association for Postal Commerce, the Magazine Publishers of America, Inc., and the Mailing & Fulfillment Service Association (collectively, the "Mailers") respectfully submit this reply brief in opposition to the proposal made by the Postal Service in this proceeding.

ARGUMENT

In its Initial Brief, the Postal Service argues primarily that that the non-cost factors of "fairness and equity" and "value of the mail service" support its proposal for an RPN classification and rate. The argument completely fails to address the Mailers' difficulties with the proposal, which should have been clear to the Postal Service from the record in this case.

Both the Postal Service's testimony and its brief simply presume the "fairness and equity"

of its proposal. Nowhere in the record does the Postal Service address the fairness and equity of charging a fee for simply changing its mail acceptance criteria, where no additional product or service is provided. Basing rates solely on value-of-service is a novel approach to pricing, but the implications of this approach, too, are wholly unexplored on this record. Value-of-service-based rates can not be a one-way street, as are the rates being proposed in this proceeding. To date, the Postal Service has offered no explanation why it is entitled to reap the rewards, but not assume any of the risks of mailer innovation.

Consider, then, what the record does show:

First, the available data on the value of RPN's is ambiguous; it is not at all clear that RPN's add significantly to the value of any given category of mail service. The Postal Service's concept research indicates that less than a third of the participants rated the RPN concept highly, that companies that have pilot tested RPNs have had "highly mixed experiences," and that while some respondents expressed a willingness to pay postage for RPNs, "many" respondents had difficulty answering the questions posed, and were pressed to do so.¹ Plainly, the research upon which the Postal Service relies² is wholly unreliable.

Second, at the conclusion of the proposed test, this Commission will be in exactly the same decision-making position it is now: it will still have an inadequate record upon which to assess whether the proposal conforms with the statutory criteria. The test will provide absolutely no data showing differences in "the value of the mail service". Nor will it provide any data showing the effect of the rates on RPN volumes that might have been sent but for the rate

¹ USPS-LR-1, Repositionable Note (RPN) Concept Research (May 2004) at 65-66.

² Initial Brief of USPS at 10.

increase. The only data that will be collected -- volume data at a particular price point -- can be collected without separate charges for RPN's.

Third, the specific rates proposed by the Postal Service in this case are arbitrary, and may even be discriminatory. The record shows the Postal Service based its proposed pricing primarily on the same flawed market research.³ Furthermore, there is absolutely no record evidence to support Witness Kaneer's assumption, implicit in his proposed prices, that Standard Mail will experience three times the lift in response rates relative to First Class Mail.⁴

Mailers recognize the innovative spirit reflected in this proposal, and support those Postal Service initiatives that make its services more responsive to mailers' needs. Such initiatives are crucial to maintaining the vitality of the USPS into the future. Also, Mailers appreciate and accept the Postal Service's clarification that the proposed classification applies only to RPN's on the "exterior of a mail piece" and would not apply to an RPN attached to the exterior of a catalog, periodical, or other item enclosed in a polybag.⁵ But the Postal Service's surcharge on RPNs applied to the exterior of mailpieces prematurely restricts the unknown potential that this particular innovation might have to enhance the mail's ability to compete with other media, and to boost or maintain mail volume. Based on the record in this case, the nature of the demand for RPN's is highly uncertain, and there certainly is no justification for imposing a separate charge for RPN's on value-of-service or any other grounds.

³ USPS-T-1 at 3; DMA/USPS-T2-4.

⁴ USPS-T-1 at 3-4.

⁵ Initial Brief of USPS at 1 (n. 1).

Respectfully Submitted,

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