

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

**RATE AND SERVICE CHANGES TO
IMPLEMENT BASELINE NEGOTIATED
SERVICE AGREEMENT WITH BOOKSPAN**

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REPLY BRIEF OF THE ASSOCIATION FOR POSTAL COMMERCE

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The Association for Postal Commerce (“PostCom”) files this brief in reply to the initial briefs of the Office of the Consumer Advocate (“OCA”); the Newspaper Association of America and the National Newspaper Association (“NAA”); and Valpak Direct Marketing Systems, Inc. and Valpak Dealers’ Association (“Valpak”). PostCom is convinced that the Bookspan NSA is an important step forward for the Postal Service and all direct marketers. We urge the Commission to approve it without modification.

PostCom is the leading association of mailers and mail service providers that support them. We focus exclusively on the Postal Service and postal matters. Our members, large and small businesses and nonprofit organizations, use all classes of mail, but our particular emphasis is on the use of the Standard Mail subclasses for advertising and marketing purposes. The businesses in which our members are engaged range from book clubs (like Bookspan) to financial institutions and include, among others, periodical publishers, catalog marketers, and virtually any other business that relies upon the Postal Service for marketing its goods or services to the public.

PostCom has been at the forefront of the efforts to encourage and support the development of NSAs since the inception of this initiative over a decade ago. Among other things, the Association supported the testimony of Robert Posch, who appeared in the first baseline case presented to this Commission. We have taken this active and leading role in support of NSAs because it is clear that this ratemaking mechanism is vital to the transformation of the Postal Service into a modern, market responsive and economically sound organization. NSAs do this by providing mailers with incentives to continue to use the system in the face of marketing alternatives while, at the same time, increasing the

overall institutional contribution received by the Postal Service from its profitable subclasses.

This is the first NSA that covers Standard Mail. The importance of NSAs for Standard Mail cannot be overstated. Standard Mail has become the dominant volume generator for the Postal Service. If the Postal Service is to maintain this growth, it must be able to provide incentives to direct marketers to increase their Standard Mail volumes. Although it enjoys a monopoly over the delivery of certain kinds of mail, the Postal Service is in competition for the advertising dollars of companies that use direct mail. This competition arises because there are a variety of other marketing channels competing for the same financial resources. NSAs in Standard Mail will allow the Postal Service to thrive in this competitive environment.

The competition the Postal Service faces for advertising dollars is evident in these proceedings. Bookspan can, and does, take advantage of other advertising media. Tr. 3/379-80. Each medium has its own costs and response rates; Bookspan evaluates these factors in determining which media to use in a particular campaign. By providing incentives to use Standard Mail, the Bookspan NSA allows the Postal Service to increase its share of Bookspan's advertising budget. The NSA makes Standard Mail comparatively more profitable for Bookspan when its response rates and costs are compared to those of other media. Tr. 3/379-83.

The Commission must understand, as the parties opposed to this NSA apparently do not, that Bookspan, like other direct marketers, is not simply a mailer—it is trying to sell a product. Bookspan uses the mail only as a tool to further this ultimate goal. Although Bookspan's business model requires some use of the mail, at higher mailing

volumes, Bookspan has the flexibility to choose direct mail or other media, such as Internet marketing and newspaper inserts. This NSA, however, will encourage Bookspan not only to continue using Standard Mail as its primary marketing method, but to increase its Standard Mail volume—thus increasing overall contribution to the Postal Service’s institutional costs and helping hold rates steady for users of all mail classes.

When one understands that Bookspan uses the mail as a tool to promote its book selling business, specious concerns about this NSA disappear. For instance, the OCA speculates that the DMCS provision permitting inserts from Bookspan’s strategic business alliances could lead to millions of pieces of “anyhow” mail containing virtually no references to Bookspan’s business. OCA I.B. at 34-39. The practice of inserting a limited number of third-party solicitations in promotional mailings is widespread throughout the direct mail industry. For the most part, these inserts would not have been mailed as free-standing pieces and they are often used by businesses that do not regularly use the mail at all. Thus, the OCA’s conjectures are unfounded. The discounts provided by the NSA make Standard Mail a more attractive tool for the marketing of Bookspan’s business; they do not make the “presort bureau” business more attractive than the business of selling books. Neither Bookspan nor any other NSA candidate is going to completely redefine its business based on a two-penny discount in Standard Mail.

Most importantly, the Bookspan NSA obviously benefits other Standard Mail users, whether or not they qualify for a functionally equivalent NSA. The Bookspan NSA – and others like it – will increase Standard Mail volumes and the overall contribution of Standard Mail to institutional costs associated with that class. This NSA and the functionally equivalent ones that will flow from it will also benefit users of other

classes through the multiplier effect. By permitting Bookspan to attract customers it otherwise would not have reached, the NSA will create additional volume in these other classes, contributing to those classes' share of institutional costs and benefiting users of those classes.

Finally, the basic structure of the Bookspan NSA is readily exportable. It contains protections against "anyhow mail" through volume thresholds that are significantly higher than Bookspan's before rates forecasts and historical mailing volumes. Moreover, the NSA is not volume dependent. That is, a smaller mailer could qualify for the discounts if it can show the Postal Service that similar discounts will cause it to increase its volume of a profitable class of mail and induce mail of other classes through a multiplier effect. Such an agreement would be just as valid as the relatively large volume Bookspan agreement, as it would increase contribution to the Postal Service's institutional costs over the contribution that would exist without the agreement.

The Bookspan NSA is thus a profoundly important step forward in allowing the Postal Service to effectively compete with other advertising media. The Bookspan NSA will also function as a secure vehicle to test customer and market-sector specific pricing. Moreover, it will signal to direct marketers that the Postal Service is willing and able to meet their needs. The central question in this proceeding is not whether the NSA is justified by differences in cost. It is whether the proposed NSA benefits Bookspan, the Postal Service, and all users of the mail. It clearly does.

For these reasons, PostCom urges the Commission to favorably recommend the Bookspan NSA.