

POSTCOM-T-3

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

POSTAL RATE AND FEE CHANGES, 2006

DOCKET NO. R2006-1

**DIRECT TESTIMONY
OF
ROBERT J. POSCH, JR.
ON BEHALF OF
THE ASSOCIATION FOR POSTAL COMMERCE,
ALLIANCE OF INDEPENDENT STORE OWNERS AND PROFESSIONALS,
THE DIRECT MARKETING ASSOCIATION,
THE MAILING AND FULFILLMENT SERVICE ASSOCIATION, AND
THE SATURATION MAILERS COALITION**

Communications with respect to this document may be sent to:

Ian D. Volner
Rita L. Brickman
Jennifer Mallon
Venable LLP
575 7th Street NW
Washington, DC 20004
(tel) 202-344-4800
(fax) 202-344-8300

Counsel for PostCom and
MFSA

Donna E. Hanbery
33 South Sixth Street, Suite
3725
Minneapolis, MN 55402
(tel) (612) 340-9855
(fax) (612) 340-9446

Counsel for AISOP and SMC

Direct Testimony

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4 1. Autobiographical Sketch

5 My name is Robert Posch. I am Senior Vice President of Legal, Postal, and
6 Government Affairs at BOOKSPAN (a partnership owned by Time Inc. and Bertelsmann
7 AG.) BOOKSPAN is dedicated to providing books through its various book clubs, and
8 to conducting business with its customers through the mail. I have been involved with
9 legal, postal and government affairs, representing Bookspan and its predecessors in the
10 book and music club business, for over thirty years.

11 I am a native of New York State, and hold J.D. and M.B.A. (marketing) degrees
12 from Hofstra University. I have written five books and over 200 articles relating to
13 postal, marketing, and the law. I represent BOOKSPAN on the governing board of the
14 Association for Postal Commerce (PostCom), and am involved in various committees of
15 the Direct Marketing Association and the Association of American Publishers. Prior to
16 representing BOOKSPAN, I represented Doubleday & Co., Inc, Doubleday Book &
17 Music Clubs, Inc. (DBMCI) and Doubleday Direct Inc.

18 Most recently, I provided written testimony before the Postal Rate Commission
19 on behalf of Bookspan in the proceeding to implement a Negotiated Service Agreement
20 between the Postal Service and Bookspan (MC2005-3).¹ I also testified before the
21 Postal Rate Commission on behalf of the PostCom as an industry witness in the
22 proceeding to implement the Negotiated Service Agreement with Capital One Services,

¹ *Direct Testimony of Robert J. Posch, Jr. on Behalf of Bookspan*, PRC Docket No. MC2005-3 (July 14, 2005).

1 Inc. (Docket No. MC2002-2).² I have provided testimony on behalf of the Advertising
2 Mail Marketing Association (PostCom's predecessor) and Mail Advertising Service
3 Association International in the 1994 omnibus rate proceeding (Docket No. R94-1), and
4 was an industry witness at a Labor Arbitration Hearing on October 26, 2001.

5 **2. Purpose of Testimony**

6 My testimony is submitted to present a rate and classification proposal
7 concerning heavy letters that is presented on behalf PostCom, AISOP, the DMA, MFSA,
8 and SMC (hereinafter, collectively "PostCom"). PostCom proposes to increase the
9 maximum weight of Standard Mail automation Regular and ECR letters from 3.5 ounces
10 to 4.0 ounces.

11 Under the Postal Service's existing and proposed rates, letters that weigh more
12 than 3.3 ounces but not more than 3.5 ounces, pay the flat piece and pound rates, but
13 receive a discount of the difference between the letter and flat minimum piece rates.
14 (See Rate Schedules 321B, Note 2, and 322, Note 4.) PostCom proposes that the
15 Postal Service increase the Standard Mail Regular and ECR 3.5 ounce breakpoint to
16 4.0 ounces, such that letters that weigh more than 3.3 ounces but not more than 4.0
17 ounces continue to pay the flat piece and pound rates, but receive the discount of the
18 difference between the letter and flat minimum piece rates.

19 There are several reasons why this proposal makes good financial sense for the
20 Postal Service. First, heavier solicitation letters -- "heavy letters" -- can generate
21 business for the Postal Service through a multiplier effect through the mail stream.

² *Direct Testimony of Robert Posch on Behalf of PostCom, et al.*, PRC Docket No. MC2002-2 (February 25, 2003).

1 Second, the existing pricing structure discourages adding additional inserts or additional
2 coupons above the breakpoints, and therefore artificially constrains the use of mail as a
3 marketing and delivery medium. Finally, there is, plainly, no operational rationale for the
4 current maximum weight limits for automation letters. Rather, all available information
5 suggests that heavier letters can run efficiently on the Postal Service's newer letter
6 automation equipment.

7 The remainder of this testimony addresses each of these points.

8 **3. Heavy Letters Bolster the Mailstream Multiplier Effect**

9 It is has been generally recognized in the mailing industry that growth in
10 advertising mail bolsters the growth of mail across all mail classes.³ As I described
11 when I testified on behalf of BOOKSPAN, there is a significant multiplier effect inherent
12 in solicitation mail. Successful solicitation mail generates additional mail volumes for
13 the Postal Service in terms of business reply correspondence, package shipments,
14 negative option mailings and responses, First-Class payment remittance mail, product
15 delay notices, late payment courtesy notices, collection letters, and other First-Class
16 customer correspondence. See my testimony in PRC Docket No. MC2005-3 for a
17 discussion of the multiplier effect of Bookspan's solicitation mail. Plainly, the multiplier
18 effect of solicitation mail is incontrovertible; indeed the existence of the multiplier effect
19 was uncontested in Bookspan's NSA proceeding.⁴

³ See, e.g., Gene Del Polito, "Viewpoint: Keep the USPS Alive with 'Three Point Five'", *AMMA Bulletin*, No. 42-98 (October 5, 1998).

⁴ *Rate and Service Changes to Implement Baseline Negotiated Service Agreement with Bookspan, Opinion and Recommended Decision*, PRC Docket No. MC2005-3 (May 10, 2006), ¶ 4035

1 As I alluded to in my written testimony in the Bookspan NSA proceeding,
2 historically, the increase in the maximum weight for automation and ECR rated letters to
3 3.5 ounces made it more economically feasible for many direct marketers (including
4 Bookspan) to expand their mailing efforts on developing new markets, new lines of
5 business, and new products. A further increase in the maximum weight for automation
6 and ECR- rated letters to 4.0 ounces would have equally beneficial effects. Direct mail
7 marketers would be able to further promote their own products or clubs cost effectively
8 through inserts in promotions of related products.

9 New mail-based product markets indirectly lead to new mailing lists, and the
10 expansion of the list inventory. More desirable lists leads to more list rentals, and their
11 corresponding additional solicitation mailings through which the Postal Service attains
12 volume growth. As I said in the Bookspan NSA proceeding, the multiplier effect
13 multiplies.⁵

14 Also, companies that would not otherwise use the mail may be attracted to using
15 insert enclosures as a means to promote their products and services and this may lead
16 to the development of new mail-based product markets. As my colleague Matthias Epp
17 explained in that same proceeding, inserts do not represent mail that might otherwise
18 be sent as a stand-alone Standard Mail solicitation.⁶ Inserts more typically represent
19 campaigns that would not otherwise be conducted through the mails. Therefore, the
20 Postal Service does not risk losing solicitation mail volume as a result of expanding
21 opportunities for insert mail.

⁵ *Direct Testimony of Robert Posch on Behalf of PostCom, et al.*, PRC Docket No. MC2002-2 (February 25, 2003) at 6.

⁶ *See generally, Direct Testimony of Matthias Epp on Behalf of Bookspan*, PRC Docket No. MC2005-3 (July 14, 2005) at 6.

1 **4. The 3.5 Ounce Breakpoint Unnecessarily Constrains The Use of Mail as a**
2 **Marketing Medium**

3 Consider a solicitation that weighs 3.3 ounces, that includes two typical inserts
4 weighing about 1/10 ounce each, bringing the mailpiece up to 3.5 ounces. For such a
5 solicitation, the large letter-flat differential makes an additional (third) 1/10 ounce insert
6 cost-prohibitive. Under the Postal Service's proposal, the incremental postage costs of
7 the additional (third) insert to be included in the solicitation (at Automation Mixed ADC
8 presort rates) is \$0.144. It requires no further economic analysis for me to observe that
9 the incremental postage costs make that third insert uneconomical. By contrast,
10 PostCom's proposal would enable the same (third) insert to be included in the same
11 mailpiece at an incremental cost of \$.004 cents, the same incremental postage cost of
12 the first two 1/10 ounce inserts already in the package. Indeed, PostCom's proposal
13 would permit mailers to include approximately five more inserts in the mailpiece at
14 roughly the same incremental cost -- and potentially provide the Postal Service with the
15 resulting increase in multiplier volumes associated with the mailpiece. The converse of
16 this point is that maintaining the current 3.5 ounce breakpoint unnecessarily constrains
17 the potential multiplier effect of existing solicitation mail volumes.

18 Due to increasing postal costs, direct marketers are looking for less expensive
19 ways to promote their products. Solicitation mail campaigns compete with print
20 advertising and television. Also, as postage costs increase, more businesses are
21 exploring electronic marketing as an alternative.⁷ Postage is the single largest cost
22 component of a direct mail solicitation campaign. From a business perspective, it is

⁷ For an e-marketing perspective on the competition between direct mail electronic marketing media, see Dennis Malaspina, Return Path, Inc., "Overcome Rising Postal Rates: 5 Ways Email Adds to Direct Marketing Success" www.returnpath.net.

1 also the most challenging cost component to try to reduce. By increasing the maximum
2 weight of a heavy letter, businesses would be provided with an incentive to continue to
3 use the mail, to increase their use of the mail, or to experiment with the mail as a
4 marketing and promotion medium. The slight increase in "real estate" holds the
5 potential for large increases in a mailer's return or investment in postage. And the
6 Postal Service can recapture advertising revenues that would otherwise be spent on
7 other advertising media, including print advertising, television and e-mail marketing,
8 without loss of contribution.

9 **5. There are No Operational Limitations That Dictate a 3.5 Ounce Breakpoint**

10 Given that the Postal Service appears determined in this case to differentiate
11 both its pricing and its operations based on shape, it is simply unfair for the Postal
12 Service to treat as flats for purposes of revenue collection pieces that are or can be
13 treated operationally as letters. The Postal Service has acknowledged that it has
14 deployed letter sorting equipment that can process letters up to six ounces, so long as
15 the piece otherwise meets the external dimensions of a letter (with some preparation
16 constraints). PostCom's proposal does not contemplate that pieces greater than 4
17 ounces be treated as heavy letters even though these pieces will undoubtedly be
18 processed and costed as letters (nor does it recommend changes to the preparation
19 constraints). However, it is manifestly unfair to mailers, and short sighted by the Postal
20 Service, to require mailers to pay the rates applicable to flats for pieces that can and do
21 run readily on both older and next generation sorting equipment.

1 **6. Conclusion**

2 In conclusion, heavy letters were instrumental in producing multiplier volumes
3 when the Postal Service increased the maximum weight for automation and ECR rated
4 letters to 3.5 ounces. A further increase in the maximum weight of a letter would
5 provide a key stimulus for the Postal Service increase volume growth, volume growth
6 that is necessary for the Postal Service to collect the revenues required to cover its
7 attributable and institutional costs. Moreover, the Postal Service can implement this
8 proposal without any resulting uncompensated increases in costs.