

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

Regulations Establishing System
of Ratemaking

Docket No. RM2007-1

WRITTEN STATEMENT OF MICHAEL MONAHAN
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Wilmington, Delaware Field Hearing
July 9, 2007

Introduction

Good morning. I am Michael Monahan, Executive Vice President and President, Mailing Solutions and Services, Pitney Bowes Inc. (Pitney Bowes). The recently enacted Postal Accountability and Enhancement Act of 2006 (PAEA) directs the Postal Regulatory Commission (Commission) to establish a modern system of ratemaking. Thus the PAEA begins a new era for the mailing industry in the United States. Pitney Bowes appreciates the scope and complexity of the Commission's role in developing and implementing regulations that will define this new era. Pitney Bowes is pleased to participate in today's hearing and to have the opportunity to discuss how the Commission can best fulfill these specific responsibilities.

I want to begin by talking about Pitney Bowes and the future of the mailstream. I will then discuss the opportunities under the new law and how the Commission can encourage and enable the Postal Service and the mailing community to maximize the opportunities and achieve the efficiencies made possible by postal reform. The Commission can best do this by:

- ♦ providing specific, advance guidance as to the scope and nature of the modern ratemaking system;
- ♦ promoting efficiency and enhancing the value of mail through rules and incentives; and
- ♦ facilitating consistently attainable service standards and performance measurements.

Background on Pitney Bowes

Pitney Bowes is the world's leading provider of integrated mail and document management systems, services and solutions. Pitney Bowes helps organizations of all sizes engineer the flow of communication to reduce costs and increase impact, and enhance customer relationships.

Pitney Bowes invented the postage meter in 1920, which enabled the post office to offer more convenient and secure postage payment at lower cost for mailers. Today, you will find Pitney Bowes postage meters and mailing equipment in millions of offices, small and large, across the country and around the world. We have solutions for customers that range from small home-based businesses to the largest corporations in our nation. The company's 80-plus years of technological leadership have produced many major innovations in the mailing industry and more than 3,500 active patents with applications in a variety of markets, including printing, shipping, encryption, and financial services. We also manage 1,300 corporate and government mailrooms, and share our expertise every day with many thousands of additional businesses, including 800,000 small business customers, through our professional consulting services, postal management seminars, and distance learning tools for mail center managers and professionals. With approximately 34,000 employees worldwide, Pitney Bowes serves over two million businesses through direct and dealer operations.

Pitney Bowes partners with mailers and the United States Postal Service (Postal Service) to provide the world's most comprehensive suite of mailstream solutions to help companies manage their flow of mail, documents and packages - from creation, production and distribution, to end-to-end mailstream management.

Mail Creation: Pitney Bowes helps its customers generate and format messages, either physically or digitally, with integrity and accuracy. Data integration, address management, document composition and enhanced personalization are just a few of the ways we improve communication effectiveness.

Mail Production: Through large-scale Automated Document Factories, a network of Document Solution Centers, intelligent inserters, postage meters and an integrated suite of desktop software solutions, Pitney Bowes helps its customers deliver the high-quality print and digital output needed to reach recipients cost-effectively – with the right message.

Mail Distribution: Pitney Bowes offers a fully integrated suite of equipment, services and software solutions, including high-speed sorters, global presort services, postage financing, and mail finishing technology, to help its customers automate, track and manage inbound and outbound mail and parcel shipping. The end result is increased productivity and significant cost savings.

Mail Management: Pitney Bowes helps its customers capture critical mailstream information – archiving communications, such as customer records, business documents and transactional mailings – so they can view, modify and redistribute them at any time, in both digital and physical formats.

Pitney Bowes has developed unique capabilities for improving the efficiency and effectiveness of the communication flow critical to business. From revenue flows to information

flows, from the flow of marketing programs to the flow of customer support functions, we engineer processes and technologies to save businesses time and money, enhance their security and help them grow. And we deliver these benefits to businesses and postal services worldwide.

The Postal Service and the American Mailing Industry

Pitney Bowes believes that mail is and will remain a vital communications medium for individuals and organizations of all sizes around the world. Market research and everyday experience confirm that mail will remain a central part of American life for the foreseeable future. I hope you have all had the opportunity to review the material we regularly make available on our PostInsight web site that supports and explains this view.

The Postal Service delivers over 212 billion pieces of mail annually, nearly 8 times that of the next largest post, approximately 46 percent of the world's letters and cards. Yet as large as the Postal Service is, it is only the core of a much, much larger American mailing industry. The American mailing industry ranges from paper, card and envelope manufacturers, to postal automation equipment providers, direct marketers, printers, publishers, mail processors and package shippers. As was often noted in the legislative discussion surrounding postal reform, the Postal Service is the linchpin of a much larger more dynamic mailing industry. None of this would be possible without the innovation and investment of American businesses in the mailing industry to improve the efficiency of the postal system.

In short, mail is critical to commerce. It serves as a vital channel for business. Ninety percent of the mailstream today is business-related. This mail is business-to-business, business-to-consumer and consumer-to-business. Consequently, the way in which the Commission implements the new law and the manner in which the Postal Service operates going forward will have a dramatic impact on American business.

Mail also remains important to the consumer, that other 10 percent of the mailstream. We continue to pursue and expand technology which makes mail more convenient for the individual, such as expanded retail access through personal postage meters, postal kiosks, and online postage.

Pitney Bowes is optimistic about the opportunities for a more efficient, flexible, innovative, and transparent postal system. Pitney Bowes is also optimistic about new opportunities to enhance the value of mail for senders and recipients. Pitney Bowes looks forward to continuing its role as a strategic partner of the Postal Service in developing efficient solutions across the mailstream to help the Postal Service grow and enhance the value of the mail.

Capturing Opportunities Created by Postal Reform

Comprehensive postal reform legislation was necessary to protect and promote mail as an economic driver for the larger U.S. economy. Now the Commission must ensure that the modern ratemaking system is designed to capture the opportunities created by the new law.

The primary object of the modern ratemaking system should be to create an environment in which the Postal Service can maximize its opportunities to reduce costs and increase overall mailstream efficiency. No other objective will better serve to promote and sustain a vibrant, growing mailing industry, enhance the value of the mailstream, and ensure universal affordable mail service.

Under the new law, the Commission must promote a more efficient and flexible mailstream to meet the needs of business and consumer mailers. The PAEA codifies for the first time the concept of worksharing discounts and promotes expanded public-private partnerships to reduce the costs of the postal system. The new law also contemplates more frequent rate

adjustments, including dynamic adjustments, under a CPI-based price cap to stimulate increased demand. The PAEA encourages the Postal Service to adopt technologies that increase the value of mail to the sender and the recipient. Technology has played an integral role in the evolution of both Pitney Bowes and the U.S. postal system, and technology will increasingly enable the extension of efficient mailing solutions to smaller business and consumer mailers.

To capture these benefits and maximize the opportunities presented by the new law, the Commission must:

- provide specific, advance guidance as to the scope and nature of the modern ratemaking system;
- ♦ promote efficiency and enhance the value of mail through rules and incentives;
- ♦ establish consistently attainable service standards and performance measurements;
- and
- ♦ enable and encourage the Postal Service to seize the opportunities and pursue the efficiencies presented by reform.

1. The Importance of Specific Advance Guidance as to the Scope and Nature of the Modern Ratemaking System

It is critical that the Commission's implementing regulations provide specific guidance to all stakeholders about the requirements and boundaries of the new ratemaking system. From a business perspective, specific advance guidance is absolutely necessary. All stakeholders should have confidence as to the rules that the Commission will apply. Failure to enunciate clear principles and, where necessary, prescribe rules in advance will lead to confusion and uncertainty and unnecessary litigation. Specific advance guidance will allow mailers and other stakeholders to focus on growing the mail and enhancing the value of mail by pursuing strategic investments and partnerships. Advance guidance will also create an environment that encourages businesses to make future investments in the mailstream.

2. Promoting Efficiency / Enhancing the Value of Mail Through Rules and Incentives

a. *Enhanced Public-Private Partnerships to Improve Efficiency and Reduce Costs.*

The Commission's implementing regulations should build on the successes of the Postal Service's experience with worksharing and public-private partnerships. Both have contributed to substantial reductions in total postal system costs and substantial volume growth. These efforts must be continued and expanded. The Commission's regulations should encourage the Postal Service to expand partnership opportunities and adopt pricing incentives to fully reward mailer activities that reduce total postal system costs. The Commission's regulations should also seek to maximize private sector innovation and collaboration with the Postal Service in the form of expanded opportunities for rate incentives and customized pricing agreements or customer-specific rates.

Rate incentives can and should be extended beyond the very largest mailers, to individuals and small businesses. Pitney Bowes is proud to have implemented and expanded its

Postage Discount Program (PDP) to allow smaller volume mailers to take advantage of the same workshare discount rates that benefit the very largest mailers. Under the PDP program Pitney Bowes picks up and sorts qualifying small business volumes. Pitney Bowes currently has over 1,200 customers in the PDP program, many of whom enter fewer than 500 pieces per day. In all of these cases, targeted rate incentives extend the reach of workshare discounts to small volume mailers while reducing the total postal system costs by ensuring that cleaner, presorted mail is entered further into the postal network.

b. Leverage Technology to Improve Efficiency and Reduce Costs.

The Commission's regulations should also facilitate expanded opportunities for technological innovations to improve efficiency and enhance the value of mail. The new law envisions and encourages rate incentives for expanded retail access channels (e.g., postage meters, online postage, or self-service kiosks) that increase efficiency and reduce total postal system costs by driving expensive transactions away from the Postal Service retail window.

The Commission's regulations should push further for technological innovations that add transparency and security to the mailstream. The concept of "secure, sender-identified mail" is in the law and is to be counted as a factor when setting rates. Similarly, the law encourages the use of mail with an intelligent barcode – 4-State / OneCode or Information Based Indicia – with data-rich, machine-readable information to uniquely mark a mail piece. Mail can be marked to identify the sender, the recipient, the postal product used, the payment received, a piece identification number and value added services. Mail with an intelligent barcode can be traced through the entire USPS system.

Data-rich mail will also reduce postal system costs. Mail that uses an intelligent barcode provides the Postal Service with valuable information to better manage its workload and its

workforce, achieve greater efficiency and reduce costs. It can help the Postal Service level production peaks and valleys that drive up processing and transportation costs. A data-rich mailstream could also enable dynamic rerouting of mail and provide data on which components of the system could be optimized. Data-rich mail also improves security at the lowest additional cost by deterring the threat of anonymous mail.

The use of technology to uniquely mark and trace a mail piece also increases the value of mail to the sender and recipient by allowing coordination with other services based on when a piece of mail is received. The evolution of the intelligent barcode can further the advances of the existing Confirm product by allowing mailers to know, for example, when the mail will arrive thus enabling timely follow-up communications. For companies that receive a large number of payments through the mail, an intelligent barcode can provide crucial information on when customers have truly put "the check in the mail," and can route those payments for improved cash flow. Individuals can also track a mail piece or package as it moves through the postal network and could redirect letters or packages in transit, as necessary. This increases the value of mail not just to business, but also to individuals who would know not just when to expect a package but also whether a payment has been delivered.

Technology advances in seamless acceptance can also help reduce total postal system costs. Pitney Bowes / PSI Group is participating in the initial pilot program for seamless acceptance. We look forward to seeing that program expanded as a means of driving further efficiencies. As above, the Commission's regulations should be fashioned such that these technological advances can be exploited by small business mailers and individuals as well as large volume mailers.

Technological innovations can also lead to significant increases in mail volumes and can serve as a catalyst to drive emerging ecommerce initiatives. The strategic partnership among Pitney Bowes, eBay, and the Postal Service is a case in point. The Instant Online Postage system developed by Pitney Bowes processed over 85 million pieces of postage last year. A significant user of the system is the community of buyers and sellers who use eBay. This system provides convenient, easy access to many small businesses and consumers and as a consequence, more goods are being sent through the Postal Service network, thus generating substantial new volumes.

3. Establishing Consistently Attainable Service Standards and Performance Measurements

Consistently reliable service standards that assure regular and effective service are essential for business mailers. Reliable service standards are also essential for maintaining and enhancing the value of mail as a vital communications medium. Pitney Bowes suggests that the Postal Service, in consultation with the Commission, should develop service standards and performance measurements that adhere to the following three guidelines.

a. Attainability

The service standards adopted under the modern ratemaking system should be realistic and attainable. As a starting point, the existing service standards should serve as the baseline. These existing service standards are attainable and form, in part, the basis of the current cost relationships among different products and services.

b. Consistency and Reliability

The primary focus of the service standards under the modern ratemaking system should be consistency and reliability. Again, given the existing service standards, consistency and

reliability are the single most important issues for many mailers. Whatever the standards, reliability is also the key to preserving and enhancing the value of mail.

c. Transparency

There is a critical need for verifiable and accurate performance measurement. Technology, specifically the widespread adoption of the intelligent barcode and seamless acceptance, can and should play an increasingly important role in verifying service performance by providing precise, real-time performance measurements. The Commission's regulations should provide for an "open architecture" that allows interested parties to access and verify the data used to measure compliance with service standards. Commission rules assuring transparency and accessibility to the Postal Service's performance measurement data would also diminish the need for external performance measurements.

Conclusion

In closing, Pitney Bowes appreciates the Commission's consideration of the views of interested parties on issues related to the implementation of the modern system of ratemaking. Pitney Bowes urges the Commission to promulgate regulations that will promote and sustain a vibrant, growing mailing industry, enhance the value of the mailstream for senders and recipients, and ensure universal, affordable postal service. We look forward to future opportunities to participate in the development of the system of ratemaking as the Commission continues to address these important issues.

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