

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

Notice of Price Adjustment

)
) Docket No. R2009-2
)

DIRECT MARKETING ASSOCIATION, INC.
COMMENTS
ON USPS NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT

The Direct Marketing Association (DMA) hereby submits these comments in response to PRC Order No. 180, February 12, 2009.

DMA is the largest trade association for businesses interested in direct marketing to consumers and businesses via all channels of communication. Founded in 1917, the DMA today has over 3,600 member companies in the United States and 53 foreign countries. Those members include marketers and their suppliers.

This is the second adjustment by the Postal Service under the Postal Accountability and Enhancement Act of 2006 (PAEA) for market-dominant products. The Commission's role in this proceeding is to determine whether or not the Postal Service's announced price adjustments for market-dominant products averaged by class are at or below the Consumer Price Index for the year preceding the February 12, 2009 announcement. To the DMA it appears that the adjustments meet that requirement.

Neither DMA nor its members agree with all the rate adjustments announced by the Postal Service.¹ Others have filed comments in this proceeding objecting to certain of those adjustments. This is not the proper proceeding to voice those objections. The PAEA established a procedure for those objections, but this proceeding requires the Commission to review the cap.

¹ In fact, DMA has written to the Board of Governors requesting that these rate adjustments be delayed and that the CPI authority be banked until this economic crisis abates. Copy is attached.

However, since others have filed comments on specific adjustments,² DMA believes that a global comment is in order.³ One of the basic tenets for PAEA was to provide the Postal Service with rate flexibility to respond to market conditions. For competitive products, the Service and the Commission were to ensure that those products provided an adequate contribution to the institutional costs of the Service. For market dominant products, the rate flexibility was tempered by the CPI price cap for each class of mail. The Postal Service must be allowed that pricing flexibility.⁴ To constrict that flexibility with the analysis of cost of service pricing that was established in 1970 would be a financial disaster for both the Postal Service and mailers. It is difficult to fathom what rate adjustments mailers would face on May 11, 2009 under the old cost of service ratemaking. All mailers have benefited with these announced adjustments over what they would have faced under the old law.

DMA asks that the Commission confine its review to that required by the PAEA and, specifically, the question of whether the announced rate adjustments meet the CPI cap test.

Respectfully submitted,

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Washington, D.C. 20004

Counsel for Direct Marketing
Association, Inc.

March 11, 2009

² See Comments of Newspaper Association of America, Bank of America, and Governor Palin of Alaska.

³ If there is a proper proceeding to comment on specific rate adjustments (which this proceeding is not), DMA will file specific comments.

⁴ It was announced this week that the Postal Service's market share in competitive product market has increased.



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John A. Greco, Jr.
President & CEO

March 10, 2009

The Honorable Carolyn L. Gallagher
Chairman
Board of Governors
Unites States Postal Service
475 L'Enfant Plaza, SW, Room 10300
Washington, DC 20260

Dear Chairman Gallagher:

On behalf of the Direct Marketing Association and its 3,400 members, I urge the Governors to defer the recently announced price adjustments scheduled for May 11, 2009, until at least the end of the current Postal Fiscal Year. In fact, the Postal Service could use its authority to bank the CPI index and forestall the rate change for a full calendar year. We are mindful of the Postal Service's financial situation and the Board's fiduciary responsibility to the institution and its stakeholders. Nevertheless, we believe that a deferral, coming two thirds of the way into Postal Fiscal Year 2009 and on the cusp of what has traditionally been the slow season for mail, would do much to improve the long-term prospects of the Postal Service and the mailing community at a relatively modest short-term cost to the Postal Service.

Last December we wrote to the Board asking the Postal Service to avoid imposing price increases during 2009 that deviated substantially from the CPI cap and would render impossible sustaining then-current mail volumes. Unfortunately, given the current economic climate, this act of moderation, if followed, will not be sufficient to stop the accelerating loss of mail volume going forward. For those products and services whose announced rate increases are above the CPI index, the volume losses will be much deeper and will occur much more rapidly. For many mailers, the hope of worksharing to the last mile has been penalized. Mailers who have taken steps to commingle their mailings—by shifting delivery times, etc.—now face above average increases. And for some, the ability to workshare to the last mile is not permitted—as they face double digit increases. Why not allow that worksharing for both machinable and nonmachinable mail? Such worksharing efforts could reduce costs and rates as well as increase mail volume. In these difficult times, the Postal Service should not cavalierly signal mailers that their mail is no longer wanted.

The long-held view is that mail volume is inelastic relative to price—mail volume always has and will once again bounce back. However, it should now be clear—abundantly clear—that the retrospective nature underlying this concept is not valid given the current state of the economy. Moreover, there is even evidence that Service-initiated changes such as the shift to shape-based rates, which preceded the economic downturn, can wreak havoc with volume projections and those in the business mailing community on whom the viability of the Service depends.

The price adjustments scheduled for May will drive already hard pressed mailers out-of-the-mail. Once a mailer is lost that mailer's volume is lost—forever!

We firmly believe that if the Governors are to fulfill their fiduciary responsibility in a manner that will ensure the long-term viability of the U.S. Postal Service and all who rely on this national treasure, they must give serious consideration to deferring the price increases scheduled for May.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joseph A. ...". The signature is written in a cursive style with a large, looping initial "J".