

Before the  
POSTAL REGULATORY COMMISSION  
Washington, DC 20268-0001

Notice of Price Adjustment

Docket No. R2009-3

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COMMENTS OF THE AMERICAN CATALOG MAILERS ASSOCIATION ON THE  
STANDARD MAIL VOLUME INCENTIVE PROGRAM (SUMMER SALE)

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The American Catalog Mailers Association (AMCA) submits these comments pursuant to the Commission's Order No. 209 (May 4, 2009). ACMA represents 65 companies who mail or produce catalogs sent through the mail as a primary means of reaching customers. Our members include some of the largest catalog mailers in America, as well as many small and medium sized companies, operating in both the Business to Consumer (B2C) and Business to Business (B2B) markets, some of whom also operate retail store locations.

ACMA supports broader use of pricing levers by the US Postal Service to build or manage mail volumes. The idea of stimulating demand with price is well established and needs no comment. On the other hand, mailer support for the USPS "Summer Sale" must be explicit. After talking with many of our members, regardless of whether or not they expect to take advantage of the incentive, support for this innovation is broadly held and emphatic. ACMA fully endorses the idea and respectfully urges your swift approval of the Standard Mail Volume Incentive.

Catalog companies continue to struggle with high postage costs as a result of the R2006-1 rate change; catalog mail volumes are down an estimated 35% since its 2007 implementation. Because catalogers spend as much as a fifth of revenues on postage, they are very sensitive to postage costs. Providing access to the mail system at a time when it has historically exhibited capacity makes sense to our members to encourage volume they would not otherwise send.

Unlike the high fixed cost base of the USPS, catalog companies operate high variable cost businesses and have different business rules and decision-making logic than high fixed cost businesses. Simplifying this logic greatly, circulation decisions consider the total cost of mailing, compared to the expected gross profit from each discrete mailing, to determine total circulation volume. To determine house file circulation for a given mailing, marketers continue down their rank-ordered house file until marginal cost equals marginal gross profit contribution. In other words, lower the cost and catalogers mail more as they can now afford to reach “deeper” in their house file list. Raise the costs and catalogers mail fewer pieces less often. In addition to “house file” mailings for customers, this same dynamic is particularly true for prospect mailings, an investment in future growth for both catalog companies and mail volumes. Since catalogers do not expect to recover the costs of prospect mailing activity in a single mail drop, mail-based prospecting is even more price sensitive. These forces have become apparent in declining flat-shaped mail volumes in the last two years; prior submissions to the Postal Regulatory Commission have dimensioned the problem more fully. The Summer Sale idea is part of a solution moving in a different direction. We hope it is the first of many innovative attempts by the US Postal Service to generate additional mail volume.

The Chairman’s Information Request No. 1 (May 8, 2009) asks the US Postal Service to specify what constitutes “success” of this new incentive. Given the circumstances, ACMA is concerned that the postal community has reasonable expectations for success. The comparatively short notice from when the incentive is finalized to its effective dates does not allow every member to react fully<sup>1</sup>. The “sale event” does not coincide with the most productive mailing time for many of our members. Given the general economic conditions, consumer and business spending are depressed. Catalog company cash flows have been hurt by all these factors and debt financing is not an option for many companies in the current credit

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<sup>1</sup> Many companies have at least three (3) month lead-times to order merchandise from overseas. With details of the Summer Sale still being negotiated, there is no time to react.

environment. Executive tolerance for risk is now comparatively low. For all these reasons, we believe the catalog industry's reaction to this incentive will be less than may be expected in more "ordinary" times. An example of this outcome is illustrated in Attachment 1, "Circulation Impact on Mid-market Cataloger." However, changing the slope of the volume decline curve by *any* amount is a tremendous victory.

Moving quickly is another success. Business decision makers continue to evaluate their strategic investments under the time-based dimension of a competitive landscape in the Internet age. Accelerating pricing policy decision-making is very productive for all concerned. It is clear to us that both the Postal Service and its Regulator understand this; we appreciate and encourage the continued acceleration of important deliberations consistent with the other objectives that must be balanced.

Another success has already occurred. The announcement of a first ever USPS sale has generated a tremendous amount of positive publicity, driving heightened awareness and spirited discussions among marketers about mail. Sending a powerful signal to postal customers that the USPS intends to be more creative in its marketing management is a huge success.

The structure of the incentive is not a perfect one. Not all ACMA member companies qualify to participate. ACMA's larger members that operate separate legal subsidiaries mailing under separate permits must overcome all volume deficits before the incentive threshold is reached, yet these subsidiaries are operated by separate management teams, run separate Profit and Loss statements, and do not cross subsidize other "sister companies" under common ownership. Even catalogers who have not established separate legal structures typically make circulation decisions on a title-specific basis. Under the program today, multi-title catalogers must overcome declines created by titles that may be at the end of their market lifespan before being able to invest in emerging or growing brands. ACMA understands that these limitations are being made for the sake of expediency. In our opinion none are fatal flaws that should scuttle or delay the entire program.

With challenge comes innovation if we are willing to take some risk. While trying any new idea has issues, ACMA believes accelerating the pace of change is a highly positive development. Some constituency can always find grounds to criticize every attempt at innovation with the benefit of hindsight but the effect of this is to repress change. The safest course of action then often becomes to do nothing. In this environment it leads to disaster. ACMA believes that leaders in postal policy must communicate themes originating from our new Administration that this is the time for change and we must all do our part.

ACMA is sensitive to the need for the PRC to meet its statutory obligations but we urge all expedient means to act on this quickly. Until your intentions are clear, mailers will plan for additional costs and inventory but not take action until the Summer Sale is a reality. If you determine you must follow an established schedule, it would be helpful to find a means to signal your intentions in advance. This is the time for all of us to experiment and innovate, initiatives ACMA feels all do well to encourage. We appreciate any support the PRC provides as we work together to solve the crisis in our national postal system that impacts us all.

To summarize, the American Catalog Mailers Association urges the Commissioners of the Postal Regulatory Commission to approve the Standard Mail Incentive, or "Summer Sale," as quickly as possible. Even acknowledging the limitations, we support it fully.

Respectfully submitted,

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**Attachment 1:  
Circulation Impact of 2009 “Summer Sale” on Mid-market Catalog Mailer**

Outlined below are circulation decision outcomes for a significant multi-brand catalog marketer showing the amount of additional mail generated from the Summer Sale based on program finalization date and the impact of business constraints from the resulting lead-time.

This company mails well over 100 million catalogs annually in a broad range of product categories including apparel, jewelry, gifts, decorative accessories, and crafts with over a dozen distinct titles or brands its portfolio. As an active ACMA member, this company seeks to help educate the postal community on the price sensitivity of catalog postage. For competitive reasons, the company has chosen not to release this information directly and requests ACMA to submit it on their behalf.

This short summary is based on the company’s extensive analysis conducted since the announcement of the Standard Mail volume incentive details. The following points illustrate the inputs and outputs relevant to the Summer Sale and help understand the relationship between cost and volume for this mailer today.

- Input: Postage decrease by 30%
- Impact: Average Variable-Cost Break-Even for all catalog titles decrease by 17% (56% of the postage decrease)
- Potential increase in circulation with minimum 6 months notice: 40.8% increase
- Potential elasticity of circulation due to postage change:  $40.8 / 30 = 1.36$
- Possible circulation increase (with confirmation of decrease by June 15) accounting for production constraints including paper, printing, circulation planning and file processing: no more than 33% increase
- Probable circulation increase (with confirmation of decrease by June 15) accounting for merchandise/inventory constraints: approximately 15% increase

ACMA believes these results are reasonably representative of a mid-market, moderately priced merchandise line that is not particularly fashion driven, i.e. a significant segment of the catalog industry.