

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Dan G. Blair, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton;
Ruth Y. Goldway; and
Tony L. Hammond

Notice of Price Adjustment

Docket No. R2009-3

COMMENTS OF NATIONAL NEWSPAPER ASSOCIATION ON VOLUME INCENTIVE
PROGRAM KNOWN AS THE "SUMMER SALE"
(May 21, 2009)

National Newspaper Association hereby offers its comments on the proposal of the United States Postal Service to adjust prices for large Standard Mail users that provide the mail system with extra volumes from July 1 to September 30, 2009. The proceeding is being treated as a type of Negotiated Service Agreement in some ways, but is in reality more in the nature of an experiment. The Postal Service has stated its intention to do more experimental pricing experiments.

As the Commission is aware, NNA represents 2,500 community newspapers that are heavy users of Periodicals mail. It may be not-so-well known that NNA's members also are heavy local mailers of Standard mail products. Virtually every newspaper enters into the mailstream a weekly Standard "shopper" that either saturates local zip codes or operates as a "non-serve" publication, or in other words, a publication serving the households that are not served by the newspaper itself. With these Standard and

Periodicals products, community newspaper publishers are often the largest customers of their post offices.

The Postal Service's plan is to provide a 30 percent rebate to Standard Mail users whose volume reached at least 1 million pieces for the baseline period of October 1, 2007 to March 31, 2008 provided they increase their volumes in the target summer months in 2009. It is instituting administrative checks to ensure that mailers do not simply shift volumes from October 2009 to the summer months. It proposes to ignore the net price decrease for purposes of the rate cap.

NNA does not oppose the Summer Sale proposal, but it wishes to state its concerns for this record.

The Postal Service is now headed toward a financial loss of \$6.4 billion this fiscal year, a gap in its fiscal stability that has drawn the attention of this Commission, as well as that of key members of Congress:

“The Postal Service’s financial picture has gone from bad to worse. Just halfway Through the current fiscal year, the Postal Service has already experienced a loss of \$2.3 billion, which is just shy of its total loss from last year. Despite plans To cut costs this year by \$5.9 billion, postal officials still anticipate losing a total of \$6.4 billion by year’s end—primarily due to the recession and its negative impact on mail volume.” Statement of Chairman Stephen F. Lynch, Chairman of the Subcommittee on Federal Workforce, Postal Service and the District of Columbia, Hearing on “Nip and Tuck: the Impact of Current Cost Cutting Efforts on Postal Service Operations and Network.” May 20, 2009.

The looming financial outlook is indeed grim. It will be punctuated by the necessity of a September 30, 2009, payment to the United States Treasury of \$5.6 billion for this year’s contribution to the Retiree Health Benefits Trust Fund. But for this payment, USPS would have shown a \$2.8 billion profit. Statement of John Waller, Director of Office of Accountability and Compliance on behalf of the Postal Regulatory Commission. Nip and Tuck Hearing, May 20, 2009. But the Trust Fund payments are

mandated under the law, and this year-end expenditure is part of the fiscal year's cash requirement. The cash drain necessitated by this large payment may confront USPS management with a set of unpalatable choices: shorting vendor payments, missing payrolls, defaulting on the Treasury obligation or worse. NNA is mindful that the system is in a state of emergency that compels all stakeholders to examine new ideas.

In general, NNA has opposed Negotiated Service Agreements that are not founded in work-sharing principles, and it has particularly opposed volume incentives. Its opposition has been grounded in three concerns: 1) that the Postal Service may "give away the store" in ways that ultimately hurt all mailers through systematic revenue leakage; 2) that its great market powers may unfairly alter the playing field, particularly in local advertising markets where NNA's members are most sensitive; and 3) that its new plans and projections almost uniformly are designed to help the largest mailers, while the smaller dominant market mail users' needs are equal to or greater than those of larger companies. PAEA encourages the development of pricing flexibilities, 39 U.S.C. 3622(c)(7), but at the end of the day, it also requires the Postal Service and the Commission to attend to NNA's usual concerns—the need to assure adequate revenues to run the system, 39 U.S.C. 3622(b)(5); the effect of USPS's huge market power, 39 U.S.C. 3622(c)(3) and the need for a just and reasonable rate schedule, 39 U.S.C. 3622(b)(8).

The Summer Sale suffers potentially from each of the three defects that usually concern NNA. It offers the possibility of revenue leakage. The administrative guards that USPS has proposed will help to stem that possibility, but are not failsafe—particularly against the possibility of a mailer's shifting volumes from November-December, 2009, to the Summer Sale months. It does offer large direct mailers favorable rates to compete in local advertising markets. And it offers little to smaller mailers, with the possible exception of the system-wide benefits if a short-term infusion of revenues reaches USPS coffers before the \$5.6 billion payment falls due.

The Postal Service in this proceeding has highlighted the challenge of absorbing the fixed costs of delivery in times of falling volumes. In its response to the Chairman's Information Request No.1, the Postal Service has demonstrated the difficulty of adjusting fixed costs when volumes decline. Because delivery services tend to carry the greatest fixed costs within the costing segments of the system, city and rural delivery routes show the least flexibility for adjustment. For example, in March 2009 when volumes fell 22 percent, city carrier street hours fell only 10 percent. Table 7, FY 2009 SPLY Comparisons of DOIS Data and Carrier Hours, RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 1, May 15, 2009.

It is a challenge, indeed, and it amplifies the precise reason why the Postal Service must move with careful precision when its actions may disrupt the ongoing flow of dependable mail volumes, as seasonal volume incentives for large mailers can easily create for smaller continuous mailers in competitive markets. For within the community newspaper industry are thousands of mailers that are providing continuous, dependable volume flows into the system, day after day, year after year. Not only should they be appreciated for their continuity, they must be protected against disruptions that short-term blasts of creativity from the larger direct mail industry can create for local markets.

Therefore, NNA approaches the whole concept of pricing experiments with concern. But with the hope of that this experiment will infuse the system with cash at a critical time, NNA stands down in its usual opposition to the Postal Service's big mailer/big volume discount ideas. Because of the urgency of the fiscal situation, NNA concedes the need to try to pull all levers that can be pulled on behalf of cash flows.

However, NNA wishes to state for the record that it believes that incentives and encouragements for smaller mailers should be on the Postal Service's agenda continuously. To that end, it has proposed to USPS a smaller, more informal version of

a “Summer Sale” for newspaper mailers, who could be allowed to exceed their permissible allowances for promoting their publications to non-subscribers through sampling over the coming months. This informal “sale” could be executed with a simple, short-term relaxation of a sampling allowance already permitted for periodicals. This short-term relaxation could bring in volumes to USPS that are presently presented to readers through single-copy newsracks, and have the salutary effect of increasing newspaper circulations at a time when much of Washington seems to be fearful of losing all the newspapers in the country. (Like Mark Twain, community newspapers find rumors of their death considerably premature, but in recessionary times, aggressive marketing is necessary and can pay long-term dividends.)

The details of NNA’s proposal must be pursued through USPS marketing and pricing departments initially, and need not divert from this docket. But it is important for the Commission’s long-term oversight of the dynamics in this changing mailstream and national institution for all stakeholders to recognize that creativity and flexibility for smaller mailers is important, too. In a world where websites, texting, social networking and the full panoply of futuristic electrons are tempting the capital formations and audience development that have belonged to larger mailers, hosts of smaller mailers may in the end be the ones that support the system.

Respectfully submitted,

;

Tonda F.Rush
KING & BALLOW
PO Box 50301
Arlington, VA 22205-3406
(703) 812 8989