



commended for taking the initiative to launch this new program. The Postal Service clearly needs such incremental contribution that this Summer Sale program will generate. Valpak supports the Postal Service's Standard Mail Volume Incentive Pricing Program (*i.e.*, Summer Sale program) and would encourage the Commission to approve the proposed program.

However, Valpak offers a few comments.

First, the notice for this initiative comes only weeks before the summer sale is to begin. With respect to Valpak's internal budget and planning cycle, this initiative comes somewhat late. Valpak's mailing schedule depends on our franchisees and their customers, and is planned many months in advance. Valpak hopes to encourage franchisees to enter additional volume this summer, but would suggest that earlier notice would permit greater response by Valpak, and probably many other mailers.

Second, in addressing the price cap<sup>1</sup> the Postal Service is treating this Summer Sale program under a rule applicable to Negotiated Service Agreements, 39 C.F.R. section 3010.24. However, since the Postal Service never before has sponsored any such promotion, it would not be inappropriate to analogize it to a large-scale test of a marketing idea.<sup>2</sup> The first question in the Chairman's Information Request No. 1 has identified what Valpak regards as the most important missing piece of information — namely, the absence of a plan for collection

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<sup>1</sup> Although it did not perform a price cap calculation, it is self-evident that reduced rates for eligible incremental volume of Standard Mail will not result in any noncompliance with the price cap.

<sup>2</sup> This is not to imply that the Summer Sale program should be subjected to the financial limits of market tests of experimental products governed by 39 U.S.C. section 3641(a)(2). Standard Mail clearly is not an experimental product.

of relevant data as well as *ex post* evaluation, as has been customary with NSAs for market dominant products.

Valpak believes that improved transparency and accountability under the Postal Accountability and Enhancement Act (“PAEA”) (*see generally* Commission FY 2008 Annual Compliance Determination, p. 3) requires that a plan for evaluation be established now, including criteria against which success (or failure) will be assessed, and results **be made available to the public** later, either separately or as part of the Postal Service’s Annual Compliance Report (“ACR”).<sup>3</sup> As a first-time event, the Summer Sale also represents a learning experience, not only for the Postal Service, but for other interested parties as well. Consequently, failure to have an adequate public *ex post* evaluation would seriously degrade the learning experience, set a bad precedent, and also could present later problems with respect to another Summer Sale program or market testing of some other promotion.

Third, the Postal Service’s Notice (p. 3) indicates excess capacity “to deliver,” without indicating whether this excess capacity refers only to carriers, or also to availability of idle capacity with respect to automation and transportation equipment, as well as excess capacity in the mail processing portion of the labor-force. The Chairman’s Information Request No. 1 asked the Postal Service for additional information designed to clarify this excess capacity. As explained in its response to Question No. 4, the Postal Service costing system traditionally has

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<sup>3</sup> The Postal Service should have no difficulty including results of this program in its ACR for FY 2009, as reduced rates under the program are scheduled to terminate on September 30, 2009. The only information that will not be collected in FY 2009 will be the amount by which the discounts will be reduced for reduced October 2009 volume, but even that information should be available by the time the Postal Service submits its ACR at the end of December 2009.

been based on long-run marginal cost under conditions of gradually-expanding volume and no excess capacity. However, those conditions have changed, at least temporarily. Volume has been declining, and the Postal Service acknowledges that it expects to have excess capacity, at least over the summer months (a period of traditionally slack demand). Accordingly, the Postal Service plans to evaluate the summer sale using short-run marginal cost. This is appropriate, but it raises a variety of methodological issues (some of which transcend the summer sale). Valpak has a keen interest in these methodological issues, but urges that their consideration be dealt with later, in a separate proceeding, and not allowed to delay implementation of the Summer Sale program.

Fourth, it is important that innovative marketing programs be carefully thought out and well-designed. In this respect, the Chairman's Information Request No. 1 has posed a number of highly-pertinent questions that need to be addressed at the inception of this program. With respect to predicting future outcomes, however, *ex ante* planning can go only so far. Actual results can differ, sometimes substantially, from the best laid plans. It is vitally important, therefore, that results of innovative marketing concepts such as this one here be made transparent to all interested parties after the fact.

Lastly, Valpak encourages the Postal Service to continue use of its flexibility under PAEA to experiment with innovative marketing ideas for pricing market dominant products.

Respectfully submitted,

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