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PRICING & PRODUCT DEVELOPMENT LAW SECTION
LAW DEPARTMENT

UNITED STATES POSTAL SERVICE

February 24, 2010

Shoshana M. Grove
Secretary
Postal Regulatory Commission
901 New York Avenue, NW, Suite 200
Washington, D.C. 20268-0001

RE: Docket No. R2009-3

Dear Ms. Grove:

In accordance with Commission Order No. 219, the Postal Service hereby provides its data collection report on the Standard Mail Volume Incentive Program (or "Summer Sale"). Data reconciliation has been an ongoing process, and as a result, the Postal Service delayed the filing of this report in order to resolve as many issues as possible and provide more meaningful and accurate data.

Please note that the raw data is not in the format requested by the Commission, but it will be filed in that format by the end of this week. Additionally, nine customers are missing from the raw data and we are in the process of reconciling their data. Their information will be included in the reformatted data that will be filed at the end of this week.

Sincerely,

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FY 2009 SUMMER SALE DATA COLLECTION REPORT

INTRODUCTION

As required by Order No. 219 in Docket No. R2009-3, the Postal Service presents its data collection report on the Standard Mail Volume Incentive Program (referred to here as the "Summer Sale"). Although the vast majority of rebates have been calculated and processed, there are still approximately 30 customers whose rebates are still under process. We did not anticipate the complexity in reconciling new permits that were opened during the Summer Sale months and the difficulty in obtaining and verifying mail service provider volumes from customers. This has been an ongoing process, and as a result, the Postal Service had delayed the filing of this report in order to resolve as many issues as possible and provide more meaningful and accurate data. As discussed below, the Postal Service believes the program was generally successful.

SUMMARY STATISTICS

Given the economic conditions during the sale period, participation in the program was good. 960 customers, about 31 percent of the total number eligible, representing 60 percent of eligible volume, chose to participate in the program. Of these, 453 (47 percent of participants, 61 percent of total participating volume) earned a rebate. To date, these rebates have totaled $67.8 million on eligible volume of 995.3 million pieces.

SUCCESS OF THE PROGRAM

The Postal Service's goal for the Summer Sale program was to "help its customers increase their use of mail during these challenging economic times" (Docket No. R2009-3, USPS Notice of Price Adjustment, pp. 2-3). While only about 31 percent of eligible mailers chose to participate in the program, those who took advantage of the discount experienced significantly smaller volume declines than customers who did not, as shown in the table below.

	Threshold as a % of SPLY	**Actual as a % of SPLY**
Total Standard Mail	-15.3	-16.3
All Qualified Customers	-6.7	-26.2
Qualified Non-Participants	6.6	-34.2
Participants	-17.5	-20.9
Earned Rebates	-29.3	-6.8
No Rebates	-4.9	-35.9

FINANCIALS

Overview

The Postal Service estimates that the Summer Sale had a net impact of $24.1 million in contribution. Rebates have been paid on 995.3 million pieces, of which an estimated 621 million were new volume generated by the sale, which resulted in a revenue increase of $72.5 million (net of rebates paid). This new volume led to increased attributable costs of $48.4 million, to which are added administrative costs of $972,509.

Volume growth estimates

The Postal Service estimates that about 61.8 percent of the incentive-eligible volume from the Summer Sale was new growth. This estimate is based on an analysis of the distribution of customer growth rates compared to the overall average using recent historical data for time periods not impacted by the sale program. This analysis revealed relatively widely dispersed growth rates around the mean, which leads the Postal Service to conclude that a sizeable proportion of the mail that earned rebates would have been sent even in the absence of the sale program.

In addition, the Postal Service surveyed Summer Sale customers at the conclusion of the program. Responses were received from 224 of the 960 participating customers. An analysis of the survey data show that about 62 percent of the volume that qualified for rebates was new growth. Smaller mailers were more likely to send new mail as a result of the sale program. In addition, the survey found very little evidence of mail shifting from First-Class Mail to Standard Mail as a result of the incentive; two customers reported a total of less than 300 thousand pieces shifting.

Cost

On page 14 of Order No. 219, it states: "Fourth, the Postal Service shall identify the actual short-run volume-variable cost by each Standard Mail letter and flat product. See Response to CHIR No. 1 at 18-24."

The actual short-run volume variable costs are obtained by taking the FY 2009 attributable costs (from Docket No. ACR 2009, USPS-FY09-2), which are the long-run attributable costs for this period, and then adjusting these to reflect excess capacity by the use of short-run variabilities provided in Table 1 of the Postal Service response to question 4 of Chairman's Information Request No. 1, Docket No. R2009-3, (May 15, 2009). These short-run variabilities are supported by the Postal Service's response to Questions 3 and 4 of Chairman's Information Request No. 1, Docket No. R2009-3, (May 15, 2009) and also the 12 percent volume decline for July-Sept., 2009 relative to July-Sept. 2008. The FY 2009

actual short-run attributable costs are shown below, and these calculations are provided in the spreadsheet "Calculating SR Attributable Costs for Summer Sale using fy09 cra.xls."

FY09 "Summer" Long-Run and Short-Run Attributable Unit Costs	Volumes	Long-Run Attributable Costs	Short-Run Attributable Costs
	(000s)	(in dollars)	
Std. High Density and Saturation Letters	5,085,391	0.063	0.026
Std. High Density and Saturation Flats and Parcels	12,356,828	0.067	0.022
Std. Carrier Route	9,901,988	0.160	0.082
Standard Regular Letters	46,867,847	0.109	0.061
Standard Regular Flats	7,814,466	0.448	0.297
Total Volumes/Average Unit Costs of Above	82,026,520	0.138	0.078

Administrative cost

The actual administrative costs for the program to date are nearly the exact amount predicted in the Price Adjustment Notice. Personnel expenses were slightly under budget, while the print production and website creation were over budget. The print communications included the cost of the initial customer invitation letters and a direct mail piece sent during the registration period to engage further participation from invited customers. There was one unplanned expense for the programming that was needed to process the rebates to customer accounts.

Expense Item	Planned	Actual
Program Support - Dedicated USPS Personnel	$550,000	$530,000
Contractor analytical support	$400,000	$320,000
Registration website creation	$7,000	$7,095
Production of customer print communications	$20,000	$87,622
Programming for rebate issuance		$27,792
Total	**$977,000**	**$972,509**

COMMISSION-REQUESTED DATA

Introduction

The workbooks "whatever.xls" include the summary and detail data requested by the Commission, including Standard Mail and First-Class Mail rate-category data by month for Fiscal Years 2006-9 plus October 2010 for participating customers. Customer identifications are masked in the workbooks. Please note that the raw data is not in the format requested by the Commission, but it will be filed by the end of this week. Additionally, nine customers are missing from the raw data and

we are in the process of reconciling their data, and their information will be included in the reformatted data that will be filed at the end of this week.

Note that in some cases, Standard Mail totals used in calculating thresholds and rebates do not match the sum of rate-category detail data. This mismatch is the result of identification, during the verification and reconciliation process, of missing or erroneous information in Postal Service records. The main sources of those errors were misidentification of Permit account ownership and lack of ownership information for volume entered by third-party mail service providers. The customer records have been corrected at the aggregate level for the periods relevant to the Sale, but the corresponding detail records were not similarly updated. Months not used in either calculation thresholds or measuring performance during the Sale were not reconciled and have not been updated; totals for these months may not be an accurate representation of any individual customer's volume or revenue for that month.

Similarly, the First-Class Mail data included here has not been reconciled. To the extent that customers use mail service providers to prepare and enter First-Class Mail, it is unlikely that volume or revenue is fully captured in this data set. Also, there may be cases where First-Class Mail Permit accounts have been misidentified in Postal Service data sets; in these cases, corresponding customer volumes will be misrepresented.

Workbooks

Please see the attached file "Summer Sale - PRC Report v1.xls".

CUSTOMER SURVEY

On October 19, 2009 we sent approximately 900 email surveys to certified participants of the Standard Mail Summer Sale. We received 224 responses to our survey by the set deadline. The primary purpose of the survey was twofold. We wanted to see if customers increased their mail volumes as a result of the Summer Sale incentive and if they shifted volumes among mail classes and/or products. In addition, we sought information of how the Summer Sale might affect future mailing behavior and provided opportunity for open ended responses. Generally, the survey results matched the anecdotal evidence we were receiving from customers throughout the sales period. Broadly speaking, the survey suggests that:

- Larger companies tended to need more lead time to make changes to scheduled mailings.

- Smaller companies generally had more flexibility in their mailings and shorter lead times so they were more likely to change their mailing behavior as a result of the Summer Sale.

- Most companies said they intend to reinvest rebate dollars into mailings.

- Very few companies shifted mail from one set of shapes and/or classes to another.

We asked participants if they increased mailings during the sales period as a result of the Summer Sale.

- **133** (59%) No, they did not mail more because of the Summer Sale (using October data, of these 133 customers only 46 actually qualify for a rebate)

- **91** (41%) Yes, they did increase mailings because of the Summer Sale

We can also tell from this information that the companies whose mailings were influenced by the Summer Sale were smaller than those who did not. On average they mailed 30% less volume, in comparison to SPLY, during the Summer Sale period.

	Customers not influenced by Sale	**Customers whose behavior changed b/c of Sale**
Average Summer Vol.	8,093,999 pieces	5,551,488 pieces

From the survey results we conclude that the vast majority of rebate recipients will reinvest their dollars into future mailings. 185 Respondents described what they would do with a rebate, if received. Of these responses nearly 77% indicated it would directly or indirectly be reinvested in mailings (a few respondents were going to invest money in “mail technology”). Of these customers, 75 respondents qualified for a rebate (which is 73.5% of the 102 survey respondents who are receiving rebates).

- 17 (9%) said rebate would go to non-mail business expenses

- 26 (14%) said they didn’t expect a rebate or didn’t know what would be done with it

- 4 (2%) said rebate would be invested in mail related expenses (e.g. IMB implementation)

- 138 (75%) said rebate would be used for mailing expenses (unclear how much would be new mailings)

Concern has been expressed that companies are shifting mail volumes from classes and shapes of mail with a higher cost coverage to those with lower cost coverage (namely, First-Class to Standard Mail or from Standard Mail letters to Standard Mail flats). From the survey responses this does not appear to be the case. Of 224 responses, only 5 companies indicated that they made any shifts in these categories. Of those five companies, only two shifted volume from First-Class Mail to Standard Mail and in total less than 225,000 pieces were shifted.

Survey instrument

Standard Mail Summer Sale Participant Survey

The Standard Mail Summer Sale program is drawing to a close and we will be calculating how much of your volume qualified for the 30% rebate. We expect to send your individual rebate information in late November and rebates should be deposited into accounts by December 1st. Because of the significant participation in the Summer Sale the USPS is giving strong consideration to holding another Standard Mail sale during the winter months.

To help construct the best future programs possible the USPS is seeking your feedback about your experience so far, from participating in Summer Sale. It would be appreciated if you would take ten minutes to answer the questions below and email your response back to summersale@usps.gov by **October 23**.

1. **Because of the Summer Sale offer, did your company mail more Standard Mail between July 1 and September 30 than it would have mailed otherwise?**

   Select one: **Yes**____ **No**____

   If **Yes**, approximately how many more pieces did your company mail?

   _____

2. **How will your company invest the savings it realizes from its participation in Summer Sale?**

   Please describe:

   _____
   _____
   _____
   _____
   _____

3. **During the Summer Sale period did your company make any changes to the type of mail it sent because the Summer Sale rebate offer? Please indicate how many pieces (if any) for each of the categories shown below.**

Select all that apply:

a.) Volume shifted from Standard Mail flat size pieces to Standard Mail letter size pieces

Yes____ No____

If yes, approximately how many pieces did you shift?_____

b.) Volume shifted from Standard Mail letter size pieces to Standard Mail flat size pieces

Yes____ No____

If yes, approximately how many pieces did you shift? _____

c.) Volume shifted from First Class to Standard Mail

Yes____ No____

If yes, approximately how many pieces did you shift? _____

Survey data

Please see the attached file "Survey responses.xls".