

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

Notice of Price Adjustment Standard Mail Incentive Price Program

Docket No. R2010-3

COMMENTS BY STARCREST PRODUCTS OF CALIFORNIA, INC.

(Submitted March 19, 2010)

Starcrest Products of California, Inc., respectfully submits these comments in opposition to the formula proposed by the United States Postal Service for the 2010 Summer Sale.

Starcrest is an interested party in these proceedings due to its position as one of the nation's leading catalog companies and as a major customer of the Postal Service in various mailing classes. At times Starcrest has generated more than \$50 million in annual revenue to the Postal Service through its annual mailings comprised of more than 8 million Parcel Select and Standard Mail parcels and more than 125 million Standard Mail Flats. More importantly Starcrest was a major participant in the 2009 Summer Sale, representing about 3% of all incremental Postal Service revenue generated by the incentive program.

Summary

These comments will address (1) how the 2009 Summer Sale was a success despite high thresholds, (2) how the 2010 Summer Sale threshold formula is fatally flawed, because it effectively excludes the mailers that made last year's program a success, (3) how the 2010 Summer Sale formula can be easily repaired to be inclusive and ensure program success, (4) how the current formula creates an environment of unfair competition by establishing prohibitive thresholds for mailers that produced incremental mail in the 2009 Summer Sale and (5) a concluding recommendation in support of repairing the formula to ensure program success or, in the alternative, a recommendation that the Postal Regulatory Commission disapprove the program entirely.

(1) How the 2009 Summer Sale was a success despite high thresholds for mailers:

The 2009 Summer Sale succeeded because it stimulated 453 mailers to generate incremental mail. It succeeded despite requiring those mailers to mail "up to" thresholds that were set well above their actual mailing plans. It succeeded despite the fact that thresholds were set so high that most mailers could not mail a single piece at the discount rate.

The designers of the 2009 Summer Sale correctly recognized that the thresholds needed to be based on trend. Those thresholds had to be high enough to limit unnecessary discounting to "any how" mail and low enough to ensure broad participation by mailers. Unfortunately, by using the six month period between October 1, 2008 and March 31, 2009 the Postal Service included the exact time when the economy collapsed. Fall 2008 proved to be devastating for many mailers. In effect they mailed way too much in the critical baseline

period. The result is that thresholds were set too high for broad participation. The thresholds were so inflated that more than 2,000 qualified mailers didn't even bother to go through the paperwork and an additional 507 enrolled but never attained the threshold level.

Fortunately for the Postal Service, the work of 453 mailers made the program a success. Those 453 mailers mailed "up to" the high threshold without a discount in order to reach the point of adding mail at the discount rate. Those 453 mailers represent 100% of all the success achieved by the 2009 Summer Sale.

(2) The Formula proposed by the Postal Service for the 2010 Summer Sale is fatally flawed because it effectively excludes the mailers that made the 2009 Summer Sale a success:

Unfortunately in planning the 2010 Summer Sale program the Postal Service has slammed the door shut on those same 453 mailers that generated 100% of the success last year. Instead it looks only to last year's nonparticipants for success this year.

As currently proposed, the 2010 Summer Sale formula will exclude the 453 mailers that produced 100% of the extra revenue and 100% of the success declared by the Postal Service. These mailers are effectively excluded because the proposed formula is based strictly on "5% over Same Period Last Year (SPLY)". The formula makes no provision to adjust the SPLY by the amount of the 2009 Summer Sale "incentive mail", the incremental mail that corresponded to the rebates.

How can the Postal Service expect the 2010 Summer Sale to work? The requirement for a 5% increase over SPLY will pose a difficult barrier for the nearly 3,000 mailers that did not generate any incremental mail last year. Their participation will likely be modest at best this year. Worse, the 5% over SPLY formula represents an insurmountable barrier for the 453 mailers that generated all of the benefit last year because there is no provision to deduct incremental mail.

In effect, the Postal Service formula dangles an unreachable carrot in front of the nearly 3,000 mailers that failed to produce incremental mail last year, while beating off with a very big stick the 453 mailers that generated all of the incremental mail last year. It is a formula for failure.

(3) How the threshold formula can be repaired to be inclusive and ensure program success:

The formula can be repaired with a simple change as follows:

2010 Threshold = (SPLY - 2009 Summer Sale rebate quantity if any) x 1.05

This recommended formula would apply to all mailers, with the adjustment only having an effect on the threshold computation where a rebate was issued. The impact of this change on administrative costs should be minimal, because the Postal Service has the exact number in its records for each of the rebate recipients from last year's program. Most importantly, implementing this change to the formula will dramatically enhance any opportunity for program success by being inclusive.

(4) How the current formula creates an environment of unfair competition by establishing prohibitive thresholds for mailers that produced incremental mail in the 2009 Summer Sale:

In changing the threshold formula this year to 5% over SPLY, the Postal Service is counting

on broader participation from those mailers that did not participate last year. To the extent that it succeeds it will have created an environment of unfair competition in favor of those nonparticipating mailers and in disfavor of the 453 mailers that generated all of the incremental mail last year.

The nearly 3,000 mailers that did not receive a rebate last summer presumably mailed in accordance with their plans in that period. Even those mailers have a tough threshold to attain this year considering that the threshold requires a 5% increase over SPLY at a time of considerable downward pressure. Time will tell if there will be broad participation by those mailers. Clearly the Postal Service believes it will.

To the extent that the Postal Service is correct in its assessment that last year's nonparticipating mailers will participate with the 5% over SPLY threshold, it is creating a competitively unfair environment to the detriment of the 453 mailers that made the program a success last year. Those 453 mailers have an insurmountable threshold that requires they mail an amount equal to their plan for Q3 2009 plus 5%, plus their "up to" quantity from last year, plus 5% of that "up to" quantity, plus an amount equal to their incentive mail, plus 5% of their incentive mail quantity. All of that must be attained before a penny of discount can be earned.

This bias in the proposed 2010 Summer Sale formula creates an environment of unfair competition. By repairing the formula, the Postal Service would enjoy a repeat of the success it stimulated from the 453 mailers last year and add on top of that the anticipated contribution from those that will join in this year. If the formula is not repaired, the program will be competitively unfair and will fail in its mission.

Here is an illustration of how the formula is competitively unfair using Starcrest's actual experience:

Had Starcrest not participated in the 2009 Summer Sale:

13,000,000	Planned quantity for Q3 2009 (SPLY as it would have been)
+ <u>650,000</u>	5% of Q3 2009 quantity
13,650,000	2010 threshold (5% over planned SPLY)

Because Starcrest did participate:

13,000,000	Planned quantity for Q3 2009 (SPLY as it would have been)
+ 650,000	5% of Q3 2009 quantity
+ 1,724,000	"up to" quantity to reach 2009 threshold
+ 86,000	5% of "up to" quantity
+ 12,050,000	Incentive mail quantity stimulated by 2009 Summer Sale
+ <u>602,000</u>	5% of incentive quantity stimulated by 2009 Summer Sale
28,112,000	2010 threshold (116% over planned SPLY)

Using the recommended formula that allows a deduction of rebated quantity from SPLY:

13,000,000	Planned quantity for Q3 2009
+ 650,000	5% of planned quantity for Q3 2009
+ 1,724,000	"up to" quantity to reach 2009 threshold
+ 86,000	5% of "up to" quantity to reach 2009 threshold
+ 12,050,000	Incentive quantity due to 2009 Summer Sale
- <u>12,050,000</u>	Rebated quantity
15,460,000	2010 threshold (19% over planned SPLY)

The first two illustrations show how the flawed formula being proposed by the Postal Service both creates an environment of unfair competition and imposes an insurmountable barrier for the 453 mailers that produced 100% of the benefits to the Postal Service last year.

The third illustration depicts how the recommended formula would still force the 453 rebate recipients to once again mail their "up to" quantity plus an additional 5% of that "up to" quantity without a discount. Arguably, this too is unfair compared to nonparticipants, but it is a manageable shortcoming that is likely surmountable by the 453 mailers, thus substantially increasing the program's prospect for success.

(5) Concluding argument against the current proposal:

In the last year, the Postal Service has reached out to the business community in search of cooperative solutions that help the Postal Service overcome its financial challenges. The 2009 Summer Sale was a prime example of how that can work. Unfortunately, the current proposal for the 2010 Summer Sale is an example of how the Postal Service can alienate its business partners.

The Postal Service will argue that a portion of the 453 mailers may still participate, but it is likely that these will be the mailers that produced the least amount of incremental mail. The barrier for mailers that contributed significantly is simply insurmountable. In recent days, the Postal Service has conceded that last year's major participants will generally be excluded. It labeled this flaw in its current proposal an "unintended consequence" of making a proposal to the Post Regulatory Commission that is more likely to be passed.

Starcrest objects to this reasoning. Political expediency should not trump common sense and should not be allowed to turn a successful program into one that is competitively unfair and one that is doomed to fail by excluding the very mailers that made last year's program a success.

Starcrest recommends that the current formula be made competitively fair by amending the formula to allow mailers to deduct last year's audited incentive mail. It is a simple modification with no burden on program administration. If no such modification is made to the program to ensure inclusiveness, competitive fairness and ultimately success for the Postal Service, then Starcrest strongly recommends that the 2010 Summer Sale proposal be disapproved by the Postal Regulatory Commission.

Respectfully submitted,

---

Michael Donnelly  
President  
Starcrest Products of California, Inc.  
3660 Brennan Ave.  
Perris, CA 92599  
(951) 943-2011