

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

Transferring Selected Post Office Box Service
Locations to the Competitive Product List

Docket No. MC2010-20

PUBLIC REPRESENTATIVE COMMENTS ON POSTAL SERVICE
REQUEST TO TRANSFER SELECTED POST OFFICE BOX SERVICE LOCATIONS
TO THE COMPETITIVE PRODUCT LIST

(March 31, 2010)

In response to Order No. 423¹ the Public Representatives hereby provide comments on the request of the United States Postal Service to establish a new competitive post office box service product.²

In this proceeding, the Postal Service requests the addition of a new product to the Competitive Product list. Request at 1. The Postal Service proposes to establish the new product —Post Office Box Service (Competitive)—by transferring post office box service in a small number of locations from the Special Services class in the Market Dominant Product List to the Competitive Product List. *Id.* The new product would consist of Group 1 post office boxes located in 52 ZIP Code areas. Request, Attachment D. No changes are requested in the prices or service features of post office box service. *Id.* at 2-3. Nevertheless, the Postal Service is currently evaluating all post office box locations and “may propose additional transfers if warranted.” Request at 2.

For the reasons stated below, the Public Representatives believe that additional information should be developed, including through initiation of a further proceeding, if

¹ Commission Order 423, Notice and Order Concerning Request to Transfer Selected Post Office Box Service Locations to the Competitive Product List, March 16, 2010.

² Request of the United States Postal Service March 12, 2010 (Request).

necessary, in order to effectively evaluate the Postal Service's Request. See 39 CFR 3020.34(b).

COMMENTS

The Postal Service's apparent justification for moving a small number of Group 1 post office boxes to the Competitive Product List is the existence of a "competitive private mailbox service provider," *i.e.*, a commercial mail receiving agent (CMRA), within one-half mile of such boxes. Attachment B at 2. However, the proximity of CMRAs does not *per se* reveal anything about the nature of the competition, if any, between post office boxes and CMRAs.

In the past, the Postal Service has maintained that CMRAs are not a competitive alternative to post office box service. The Postal Service describes the decision to obtain post office box service as a "binary" one—"you either have [box service] or you don't."³ As a result,

the decision to obtain box service is not driven primarily by price, but by specific needs and by convenience. This is corroborated by the fact that so many people are willing to pay much higher fees for CMRA boxes.⁴

Thus, existing customers and possible new customers exhibit distinct differences in their propensity to use post office boxes. Accordingly, demand for post office box service has been described as "asymmetrical." *Id.* Graphically, asymmetrical demand is represented by a "kinked" demand curve,⁵ featuring an inflection point with relative more elastic segment for price increases and a relative less elastic segment with respect to price decreases. The implications of this differing demand for Postal Service pricing of box service are that price increases generate relatively little additional revenues as existing customers decline to renew their box service. Similarly, price

³Docket No. MC96-3, Rebuttal Testimony of Paul M. Lion on Behalf of United States Postal Service (USPS-RT-3), at 12.

⁴*Id.* See also Comments of Associated Mail & Parcel Centers (AMPC), March 23, 2010 (Currently a dissimilar product, many PMB [Private Mail Box] locations enhance the mail receiving services by including email notification, street addresses, call-ins, free fax services, accepting private carrier packages, and store discounts among other services.) AMPC objects to future changes in post office box service features if the Commission approves the Postal Service's Request.

⁵Docket No. MC96-3, Tr. 9/3598.

decreases fail to generate relatively little additional revenues as new customers must affirmatively act to obtain service and take other actions, including filing a change of address, etc.

While theory suggests that CMRA services and post office box service are not competitive alternatives, the behavior of existing post office box customers appears to confirm this fact. According to the Postal Service, post office box customers when asked tend to overstate the degree of rejection and understate the degree of acceptance of price increases.⁶ The Postal Service explains the causes of this “well-known” effect as,⁷

(1) the significant behavioral consequences of [rejecting a price increase], namely, that a customer needs investigate and find alternative means of receive mail, and then follow through when necessary address changes; [footnote omitted] and (2) the history of previous box fee increases, which does not indicate much customer rejection of the fees. [citation omitted]

Both theory and Postal Service experience suggest CMRAs and post office boxes serve different markets. More importantly, the behavioral aspects of customer response to price changes suggest a highly inelastic demand curve. High inelasticity in turn suggests monopoly power. Thus, post office box service would appear to be a market dominant product.

For FY 2009, the Postal Service reports relatively high cost coverage for Post Office box services of 129.2 percent.⁸ However, the Postal Service asserts that there “is no reason to believe that the boxes being proposed for transfer have a cost coverage below the cost coverage for post office box service as a whole.” Attachment B, at 3. The Postal Service’s claim is unsupported, and is the subject of a Chairman’s Information Request.⁹ The Public Representatives have also requested additional information concerning the extent of competition between CMRAs and post office box

⁶Docket No. MC96-3, Initial Brief of United States Postal Service, January 14, 1997, at 53.

⁷*Id.*, at 53-54. See also Initial Comments of David B. Popkin, March 25, 2010, at 3 (As much as I might hate to concede it, I am locked into my existing post office box address regardless of the cost or level of service received.)

⁸United States Postal Service FY 2009 Annual Compliance Report, December 29, 2009, at 53.

⁹Chairman’s Information Request No. 1, March 29, 2010.

service, and the availability of post office boxes (or lack thereof), in the 52 ZIP Code areas.¹⁰

Moreover, the Postal Service's Request reveals virtually nothing about its intentions for post office box pricing and service—except by implication. In this regard, the Postal Service might “move an additional portion of Post Office box service to the competitive product list in the future.” *Id.* at 3. By doing so, the proposed and future post office boxes would be exempt from the inflation-based limitation on price increases now applicable to market-dominant post office boxes. The Postal Service states that this limitation is problematic for small business competitors as the “primary regulatory concern” is that post office box service is “under-priced.” *Id.* at 6. This suggests future price increases in areas where CMRA prices exceed existing post office box prices.

CONCLUSION

For the reasons stated above, the Public Representatives maintain that the Postal Service's Request does not provide sufficient information on which to evaluate the establishment of the proposed new competitive post office box service product. Consequently, the Public Representatives believe that additional information should be developed, through further proceedings if necessary, to evaluate the Request.

The Public Representatives respectfully submits the foregoing Comments for the Commission's consideration.

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Public Representatives

¹⁰See Public Representative Motion for Issuance of Information Request, March 19, 2010.