

**Postal Regulatory Commission
Field Hearing
Memphis, Tennessee
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**Six-Day to Five-Day Carrier Delivery and Related Service Changes
Testimony of Cheryl Z. Chapman
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Good Afternoon:

It is a great honor for me to appear before the Postal Regulatory Commission today to talk about a view from outside Washington, D.C. on the Postal Service's proposal to change mail service from six days per week to five days per week.

Before I begin my testimony, I wanted to give you a brief background on myself. I have a degree in Chemical Engineering and I have worked for International Paper for over 25 years. I have worked in brand management, product development, technical services and quality assurance both at our paper mills and at our company headquarters. My job at the moment is to ensure that all of the products that I oversee are of excellent quality and to lead product development efforts. I have been involved in postal matters for at least a decade, working with other employees to stop "Do Not Mail" efforts, and most recently, heading the Envelope Manufacturers Association Foundation's Institute of Postal Studies. I serve as a Trustee of the Foundation and direct our postal team, which sponsors research and education on postal matters.

The United States Postal Service is very important to International Paper and our envelope customers. Mail in envelopes comprises 120 billion of the 202 billion of pieces of household mail (USPS Household Diary Study). Of all the uncoated free sheet paper manufactured in the U.S. by International Paper and our competitors, 28 percent goes into the mail stream (AF&PA). This is a significant portion of our industry's business and you can see why we take an interest when major changes are proposed for altering Postal Service operations. After all, the demand for our products is, in many ways, tied to the efficient and affordable delivery of mail from our customers to American consumers.

As an engineer, I can appreciate the tremendous complexity of the decision that you have before you because getting mail around this country is a very complicated and expensive process. This process is similar in context to our delivery network; we have to get our paper to the right place, at the right time, economically. The Postal Service is different in that we, in the paper industry, have competitors. I can certainly understand that the Postal Service has electronic competitors and other delivery services, but it is still the predominant enterprise in the physical delivery market.

As a business person, I know that it is very difficult to raise prices and reduce services at the same time. As I look at the proposal to eliminate one day of service, I have to ask myself: in today's competitive communications marketplace where electronic media can be used as a permanent substitution, are we doing the right thing in asking customers to pay more for less service? I can understand the USPS's dilemma. I was recently at the National Postal Forum in Nashville, Tennessee. The Postmaster General was asked how he thought he would ever make up the \$223 billion dollars he stated he needed in this decade. The answer that we received is that we will all have to share the pain, which I interpreted to mean mailers, citizens, vendors and postal employees. In my opinion, we must have a balanced solution and not just depend upon one event or another to solve this challenge.

In my role as chairman of the Institute of Postal Studies, I have had the opportunity to speak with quite a few experts on postal matters. Members of Congress have heard us tell them that the USPS is on the brink of insolvency. As you know, in 2009, the USPS had the largest one-year loss in history. It is a system built for 300 billion pieces of mail with only 177 billion delivered in 2009 (USPS).

Here are a few thoughts that might be worthwhile:

- From a business perspective, there is always a reduction in volume when you raise price and decrease services. Before you decide to eliminate a day from delivery, please make sure you understand the downstream consequences of future price increases and a decline in service standards. Also, the decline will be essentially permanent due to electronic substitution. I am sure many of the witnesses that you are hearing from are concerned about those factors.
- As I said at the beginning of my testimony, a financially viable Postal Service is important to the paper industry and my company. You must understand the entire

impact. There is a value chain that provides paper, envelope, gums, inks, films and shipping services. If you eliminate a day of delivery, you will need to determine the effect on this value chain as a result of that delivery day elimination. I am concerned about how much USPS will really save if they eliminate a day of delivery. I know you have testimony that covers a great deal of cost analysis, but you need to ensure that you have covered all of the downstream costs that go beyond the mailers into the value chain.

- We know through our research via the EMA Foundation, that mail has value because it is timely. No one wants to mail a late advertisement or a late bill. If we change this service standard, we must truly know just how late that statement or offer will arrive because mail has value not only in its physicality, but also in its timeliness. Our EMA Foundation research revealed that 78 percent of the people we surveyed still like the mail, but will they like the mail tomorrow with a different cost and service standard? That is the more important question.
- One of the studies we accomplished through the Institute of Postal Studies was our mail and jobs analysis. In 2008, there were 8.3 million jobs in the United States and \$1.3 trillion in economic activity associated with the mail industry (EMA Foundation Study). The industry includes those organizations that communicate by mail, such as catalog companies, publishers, charities, advertisers and transactional mailers – banks, insurance companies, utilities, telecommunications companies – as well as those that support these businesses, including printers, paper companies, technology companies and other service providers. These businesses and organizations rely on a healthy and affordable postal system to communicate with customers and promote commerce. Households rely on the mail to communicate and receive goods that are fulfilled through the postal system. All of the jobs in this study were U.S. jobs and when mail volume declines, the number of American jobs declines. There are a great number of jobs at stake that are dependent on the choices that you make.
- Mail has two values, the value to the sender, and the value to the receiver. While the average cost per mail piece can be calculated, it is difficult to put a value to the receiver. According to Direct Marketing Association, the average return on investment of an acted-upon direct marketing piece could be as high as \$11.48. But when you broaden this vision to the entire economic chain behind this transaction,

the total value is much higher. Also, according to EMA Foundation research, 67 percent of the respondents preferred to receive their bills through the mail.

- Other alternatives to reduce costs include increasing the time period to pre-fund the Postal Service Retiree Health Benefit Fund and determining the overall financial impact of the overpayment of the Civil Service Retirement System and whether that overpayment could be applied against current postal debt.

In summary, I believe there are many considerations in deciding whether to reduce mail delivery and make other service changes beyond just the impact on consumers and whether they would mind one less day of delivery. It is more important to consider the impact to the overall value chain: from the businesses that want to get their mail to the customer on time, from the greeting card recipient, or from a small business that needs their advertisement to be received in time for a Saturday sale. Local businesses use the mail; it is a critical avenue for commerce. We also need to understand the overall impact on jobs. We may have to eliminate one day of delivery because we have no other choice, but I would hope we will make that decision in a well-reasoned and complete way.

Thank you.