

Written Statement for Docket N2010-1  
U.S. Postal Service's Six-Day to Five-Day Street Delivery and Related Service  
Changes 2010 Initiative

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Submitted on June 16, 2010

Chicago, IL Field Hearings  
Chicago City Hall, 121 LaSalle Street

## **Introduction**

Good Afternoon, I am John R. Seebeck, Direct Marketing Business Director for Euromarket Designs, Inc., 1250 Techny Road, Northbrook, IL 60062. Euromarket Designs, Inc. owns three specialty retail businesses all of which use catalogs as their primary marketing tool.

The first and most well known of the three specialty retail businesses is Crate and Barrel, which offers contemporary furniture, housewares, Gift Registry services and more. There are 156 Crate and Barrel U.S. stores, 2 Crate and Barrel Canada stores, 2 Crate and Barrel Dubai stores, 13 Crate and Barrel U.S. Outlet stores, one Crate and Barrel Web site and 2 telephone ordering and customer service facilities. Crate and Barrel was founded in Chicago in 1962 and has been mailing a catalog since 1967. Crate and Barrel also mails sale notifications in a postcard format.

In 2000, we opened CB2 which offers affordable, modern housewares and furniture for apartments, lofts, homes and businesses. There are 6 CB2 U.S. stores and one CB2 Web site. CB2 uses the same telephone ordering and customer service facilities as Crate and Barrel. The first CB2 catalog was mailed in 2006.

The Land of Nod was founded in 1995 and mailed its first catalog in 1996. It offers high quality kids furniture, including playroom furniture, kids bedding, kids

storage and everything for the nursery. Euromarket Designs, Inc. purchased The Land of Nod in December of 2000. There are 5 Land of Nod stores, one Land of Nod Web site and one telephone ordering and customer service facility which is independent of the Crate and Barrel and CB2 facilities previously mentioned.

### **Opening Statement**

I would like to thank the Postal Regulatory Commission for this opportunity to comment on the United States Postal Service's proposal to discontinue delivery and collection services on Saturdays. Mail and customer service are critically important to all three of our brands. Any changes in service level by the Postal Service directly impact our customers and our ability to grow our businesses.

Let me be clear. We do not favor the elimination of delivery and collection services on Saturdays. We believe this will negatively affect certain customers' ability to conveniently place orders, learn of our product offerings, hear about our promotional events, receive orders and return product.

However, what would be more damaging would be exigent or other postal rate increases that are in excess of CPI-U (Consumer Price Index for Urban consumers). Postal rate increases, such as the one implemented in 2007, result in us mailing fewer catalogs, negatively impacting the Postal Service, our customers and our sales. Therefore, we would rather adjust when a customer hears or interacts with us – vis-à-vis a five-day week service schedule -- versus the necessity of discontinuing mailing a customer altogether due to rate increases.

### **A Love Affair – Crate and Barrel and the Catalog**

Although we have three brands, I would now like to talk only about Crate and Barrel and its relationship with the catalog. If you have ever been in a Crate and

Barrel store, you undoubtedly noticed what we are famous for and that is the “vignette.” Crate and Barrel invented the store merchandising technique of grouping different product together in a vibrant way in order to uplift and inspire shoppers to use our products in ways they might not have envisioned when they entered the store.

Since 1967, we have used the catalog to bring this technique into our customers’ homes. We conducted a survey recently that confirmed over four decades of thinking that the catalog is simply the best remote way to inspire purchases for the home. I stress this as a counterpoint to those who believe the usefulness of the catalog has passed. It has not. It remains relevant and desired. However, the cost of delivering the catalog to the home is becoming prohibitive.

Here are four highlights from our recent research, which was both quantitative and qualitative. I am highlighting this information to emphasize how rate increases are bad for the Postal Service and Crate and Barrel because they will result in us mailing less of what consumers want.

1. Catalogs are the most often used source for home décor ideas. They outrank the Internet, newspapers, home décor TV shows, home décor magazines, friends’ houses, stores, design showrooms, books and interior decorators. With the growth of the Internet and the popularity of home décor TV shows, we were not sure this was the answer we were going to get so we were pleasantly surprised.
2. The majority of home décor consumers surveyed looked at a catalog and then went to the store or elected to buy online; very few mailed in an order form or called a call center. This information is supported by our sales data that has shown a significant shift from phone sales to store or online purchases over the past several years.

3. The younger consumer, aged 21-34, was equally enthusiastic and in some cases more enthusiastic about the catalog for home décor inspiration. This was the biggest surprise of the research as our hypothesis was the younger customer would be drawn to the Web and TV more than the catalog. This segment described how the Internet “feels like work” (because they are on computers all day at their jobs). Therefore they avoid using the Web after work and see the catalog as an “escape” for their “private time.”
  
4. My favorite quote from one of the focus groups was, “I like getting a physical piece of mail, not everything electronic...you can touch it...it is addressed to you, specially sent to you. And there is something about being on a mailing list, even if you haven’t bought something for several months...makes you feel validated as a customer...feel worthy.” Catalogs make people feel good about themselves and about society and their connection to it.

We continually test our catalog mailings to see if we can replace them with emails or other forms of marketing. We continue to find that the catalog is our foundation and without it we would not grow our sales as quickly. However, in making this determination, we examine the cost of the contact compared to its effectiveness. While catalog effectiveness remains at an all time high, its cost is rising considerably. The edge it enjoys is thus diminishing. Catalog marketers of all types are actively experimenting with methods to improve non-catalog effectiveness. This helps explain the shedding of catalog volume at increasing cost to deliver as the more marginal customer and prospect mailings must be omitted to keep the mailing profitable.

The majority of our total company sales are transacted in our stores. Tracking our store purchases back to our marketing events (specifically, the mailing of a catalog) is a difficult thing to do. Contrast the store purchase with an online and

phone sale where complete mailing and other customer information is a requirement of the transaction. Even without “perfect information” we can track back greater than 50% of our total Crate and Barrel annual sales to a catalog mailing.

While the iPad tells us technology will continue to improve and suggests that a catalog delivered by mail could be replaced by digital delivery, provided the economics of catalog mailing do not worsen, we believe this time is far off. In the meantime, due to customer demand and sales response, the catalog will remain as, by far, the largest percentage of each brand’s marketing.

### **The Impact of the 2007 Rate Increase and the Summer Sale**

The 2007 Rate increase translated to as much as a 14% catalog postage cost increase for Crate and Barrel. This was a significant increase because for us postage can be as high as 50% or more of the unit cost of a catalog.

In addition to reductions in mailed catalogs we cut catalog costs in a variety of other ways: we used lesser grades of paper, we reduced printing costs, we began co-mailing and, most importantly, we cut pages. In some cases we cut the number of pages in our catalogs by 65%. We did this in order to minimize our circulation reductions. The fact is, though, we have exhausted our efficiency options and if there is an exigent or greater than CPI-U rate increase, our only response will be reducing our catalog circulation quantities. A rate increase will hasten our move toward digital marketing including portable technologies (specifically, mobile and the iPad).

When the unit cost of a catalog mailing goes up, the number of catalogs that can be profitably sent goes down, often by a greater amount. Moreover, the catalog event kicks off a series of other mailings, both catalog, parcel and letter or card, in both Standard Mail and First-Class Mail. In our experience, a purchase from a

catalog mailed (or not mailed) is responsible for generating an additional 26 pieces of mail. Additionally, one purchase from a catalog can result in 100 or more list rentals from companies other than Crate and Barrel which translates to catalog mailings, similar multiplier effects as the 26 and list rental multiplier effects.

Standard Mail flats is often cited as the catalog product but, in fact, Crate and Barrel mails more flats under Carrier Route rates than flats. However, we need to be able to mail in both categories to properly manage our circulation. We strongly suggest policy makers consider the inter-relationship between all postal products and the reality that pricing one product above its usable maximum, as Standard Mail flats is becoming today, reduces mail volumes in a wide number of other postal products, thus reducing so called "profitable" mail.

Volume changes with postage cost work both "up" or "down." To demonstrate how Crate and Barrel might respond to an exigent or greater than CPI-U rate increase, I will summarize how we responded to the 2009 Standard Mail Summer Sale. For the calendar year 2009, Crate and Barrel mailed 100 million catalogs. 12.3 million of this total was made possible by the Summer Sale rebate, which translated to an effective postal rate decrease of 9%. This translated to an increase in circulation of 54% to our plan prior to the Summer Sale. These catalogs would not have been sent had the incentive not been offered. The sale also generated additional pieces of mail, both subsequent catalogs as well as other types of mail and packages.

In our case, and I would hazard to guess is the case for all catalogers as general catalog circulation economics are typically the same, drastic mail reductions will occur in response to an exigent or greater than CPI-U rate increase. Continued above inflation increases to postage costs correspond to continued erosion in mail volumes, spreading the considerable fixed costs of operating the system over a declining volume base. This is counterproductive and has put the mailing

industry – and catalogs in particular – on a perpetual downward spiral. Attention, therefore, must be given to the cost side of the equation. This leads me back to a reduction in delivery days that must be a part of an accelerated aggressive cost management plan.

We applaud the Postal Service's innovation by proposing the elimination of a delivery and collection day. This is an example of the types of challenging, yet practical, steps that will be required to bring the Postal Service back to financial health. We encourage going further as this alone does not correct the deficit. Thus, we support this change if it is part of a larger ongoing aggressive cost management plan that has the following key elements:

1. Labor flexibility so Postal employees can be moved to where the work is
2. Unfettered closure of unneeded retail and processing facilities
3. Deployment of new Postal services at retail facilities
4. Equitable apportionment of pension and health care costs for Postal employees (to date, Postal rate payers, like Crate and Barrel, have been unfairly bearing this cost)
5. Development of a standardized cost accounting system to accurately measure the costs of handling various types of mail and continuous improvement to drive these costs ever lower
6. Management of a rate structure that is rooted in how mailers use the mail, how they make mailing decisions, one that retains and grows mail volume, especially from customer segments likely to remain loyal to mail and one that is grounded in where the USPS adds value for the business and individual

## **Closing**

To underscore our key point, the continual above-inflation increases to the cost of using mail are driving catalogs out of the system and have set the USPS on a

downward spiral of declining revenues while leaving the fixed costs to deliver to every house every day. Continuous and aggressive action is required to reverse this trend, and must be done so quickly. I highly doubt anybody wants to see Saturday mail service go away, and Crate and Barrel is no exception. But the reality of the situation is that we favor this as one of the most efficient and effective ways to help get the Postal Service's costs inline and avoid more postage increases that would lead us and other catalog mailers to retreat even more than we had to do in 2007.