

TESTIMONY OF Stephen Colella, Vice President Postal Affairs  
on behalf  
CALMARK, INC  
and the  
MAILING & FULFILLMENT SERVICE ASSOCIATION

June 22, 2010

Good afternoon. My name is Stephen Colella. I am the Vice President Postal Affairs for Calmark, Inc. here in Chicago. My responsibilities include understanding USPS rules and regulations and assessing changes to the rules to determine their impact on Calmark and our clients. I have been in the direct mail industry since 1977 and in my present role at Calmark since 1995. I have an MBA from DePaul University.

For purpose of this testimony, I'm speaking on behalf of both Calmark and the Mailing & Fulfillment Service Association (MFSA). MFSA is a trade group of approximately 500 companies who offer a variety of mailing and fulfillment services, as well as vendors and suppliers to the trade. I represent MFSA as one of its representatives on the Mailers Technical Advisory Committee. I am presently on the MTAC Leadership Committee as the Standard Class representative and am on the Growth Focus Area.

Calmark is a privately held corporation celebrating its 50<sup>th</sup> year in business this July. Calmark provides a complete range of direct mail services including creative, print production management and lettershop services. Calmark processes approximately 500 million pieces of mail annually. While Calmark provides mail to a variety of commercial companies, the majority of our annual mail volume is for nonprofit organizations. Our clients will range from a very small nonprofits mailing 25,000 pieces monthly to larger organizations mailing in excess of 50 million pieces annually. Calmark has been located in Chicago since 1960 and presently employees a work force of 250 individuals. Over the past few years we have seen a continued decline in direct mail which, in turn, has

required Calmark to improve productivity by purchasing high-speed equipment and reducing its work force. We have been forced to do more with less. A further drop in volume would have a significant impact on our business and our employees. As mentioned earlier, many of our clients are nonprofit organizations that depend heavily on direct mail to provide the donations required to offer the services they provide. As much as 70% of the nonprofits' operating incomes is derived from donations received through direct mail solicitations. Therefore the need for a viable USPS and reasonable rates are essential for these nonprofit organizations.

The purpose of my testimony today is to offer comments on the Postal Service's proposal to reduce delivery days from six to five as part of its broader plan to reduce costs and improve its financial viability.

In general, mailing service companies like Calmark and others in MFSA respond to the needs of their clients and establish operating capabilities and schedules accordingly. Though we all work with our clients to develop their mailing plans, it is *they* who pay the postage for mailings and who determine what is to be mailed and when. Because each has its respective business objectives and needs, and because each has to coordinate mailed materials with other activities such as in-store programs or advertising through other media, the obligation of mailing service providers like Calmark and its peers is to structure its operations as necessary to fulfill the instructions of those clients.

Accordingly, if clients want to mail on specific dates, through specific entry points, or in specific formats, it is our obligation to produce mailings that comply with those specifications. In other words, the client gives the order – and pays the postage – and we make it all happen.

In meeting our clients' needs, the Postal Service is an essential and indispensable partner that singularly enables all of us to complete the critical link between businesses and their customers. Without an efficient and dependable postal system, none of us could do our jobs.

So it with great concern that we watch the agency struggle to overcome significant challenges; some are within its control, but many are not. Changes in how Americans communicate are highlighting how the postal system was designed for another time but never provided the operational flexibility to adapt as times changed. As a result, we see it now toiling to fulfill public expectations and policy obligations without the necessary tools to do so economically and efficiently. Aside from what 20-20 hindsight tells us could or should have been done in the past, the looming important decisions that must be made by USPS management, the Postal Regulatory Commission, and Congress, require progressive thinking about how to prepare the agency for the future, not how to perpetuate outdated traditions.

We were pleased to see that the Postmaster General's plan for the future of the Postal Service, presented on March 2, sought to comprehensively address all aspects of the challenges facing the agency, and to solve them in a coherent fashion rather than as a series of uncoordinated proposals. By emphasizing that tinkering with any element of the plan requires compensating adjustments elsewhere, he established a fundamental baseline from which further discussion can proceed.

There are some aspects of the plan that we wholeheartedly endorse – such as eliminating needless financial burdens, rightsizing the postal infrastructure and workforce, streamlining how service is provided, and improving the agency's business and operating flexibility. But there are also some which we do not support – notably an increase in prices above the rate of inflation.

As for the proposed change in delivery service from six to five days, both we and our association are somewhat of two minds.

On the one hand, as respondents to the needs and instructions of our clients, we are prepared to operate as those clients dictate. Each of them will support or oppose the elimination of Saturday delivery for its own business reasons – usually based on how critical that day's delivery is to their business needs and

how those could adapt – or not – if Saturday delivery were ended. Calmark's clients feel that a viable and efficient USPS is needed to ensure stable rates, and some clients support eliminating Saturday delivery, and will adjust their mail plans accordingly, if that change will help achieve the goal of rate stability. As with our clients, we can and will adjust our operations as necessary, and therefore can accommodate five-day delivery if it happens.

On the other hand, we are concerned that eliminating Saturday delivery will harm the Postal Service as current users turn to other media – out of the mail if not out of paper media altogether – to reach their customers. Reducing the value of mail will hurt not only our clients but those of us who produce that mail and the agency that delivers it. Some clients feel that one fewer delivery day may increase mail box clutter and competition for the recipient's attention, in turn affecting the recipient's opening and responding to the mailpiece. There is also concern that some mail delivery may be delayed after a three-day holiday weekend, thus impacting clients who have specific in-home delivery targets. Notwithstanding the studies the Postal Service has produced to evaluate the business losses from five-day delivery, we see it as a serious danger to USPS business.

The bottom line is that we see five-day as a course of action that we not only would *prefer* not to be taken, but one that we believe does not *have to be* taken.

In that regard, I must return to the underlying theme of the Postal Service's plan: that all of the elements, including five-day delivery, must be viewed as parts of a whole, and that something done to one element will require adjustments elsewhere. The Postal Service has stated that it could save about \$3 billion by eliminating Saturday delivery, and that anticipated mail volume will be increasingly unable to underwrite the delivery network in the future. Looking at mail from a producer's perspective, and aware as I am of the expanding delivery network, I can understand the Postal Service's math and its motivation for what

it's proposing. Saving \$3 billion can't be ignored, but there are other ways that it can be achieved besides cutting delivery, and those must be pursued.

My response to the five-day proposal is to ask the other key players in the conversation – the commission and Congress, both of whom having indicated their resistance to five-day – to step forward with their own proposals for how the Postal Service can avoid reducing delivery days. Each can and should endorse and enable other ways to eliminate equivalent costs or generate equivalent new volume. For example, the Postal Service's inspector general has found the Postal Service has overpaid its retiree annuity obligations by tens of billions while at the same time being mandated to make multi-billion dollar annual payments for future retiree health costs. Though I'm only a businessman in Chicago, I can easily see how these overpayments and other funding mandates could be rationalized to eliminate the need for desperate cost-cutting measures like eliminating Saturday delivery.

Of course, even if the reported overpayments are made available to the Postal Service, and even if Saturday delivery is retained, other challenges remain that must be overcome before the postal system is reconfigured to operate efficiently well into the future. but important steps would have been taken.

Thank you for allowing me to share my comments with you; I would be happy to provide any further information the commission would require.