

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

Submitted by Neil Sexton
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Buffalo, NY, Field Hearings
Buffalo City Hall, City Council Chambers

Introduction:

I am Neil Sexton, President & COO of Northern Safety Co. We are based in Utica, NY, where the company was founded by Sal Longo more than 26 years ago. Sal continues to lead the company as CEO and as a lifelong Utica resident, he is committed to keeping our company headquarters there. The company was originally started in a little red truck, but soon began using the mail as the primary vehicle for our marketing messages. That dynamic continues today.

We are a business-to-business (B2B), multi-channel marketing company. Until 2009, Northern enjoyed 25 consecutive years of sales growth, 22 of those years in double digit percentages. 2010 has us back on a growth path and we are excited at the prospects of continued improvement in our results. As a B2B purveyor, we are fortunate. We have a field sales force. We have a growing "inside sales" team of outbound callers, so "do not call" legislation does not apply to our calls to our customers. Like most catalog companies, a growing amount of our business is now coming via the internet. That said, the heart of our business is still mail-driven, and we hope that continues to be the case for a long time to come. Our customers like our mail, respond well to it and provide us great feedback on the quality of our information and product offering.

We employ approximately 250 people, most of them in the "employment challenged" Central New York region where Utica is situated. In addition to our New York operations, we have a significant (155,000 square feet) distribution center in Eastern Tennessee, a smaller (35,000 square feet) one in Houston, TX, and a sales office in

Charleston, SC. We are considering both acquisition candidates and opening another DC in the Western US to help us serve that group of customers better.

Opening Statement:

A big thank-you to the Postal Regulatory Commission for providing this opportunity to address the United States Postal Service and its proposal to discontinue delivery and collection service on Saturdays.

As a B2B company, the impact of eliminating Saturday as a delivery and collection date would have very little impact on our business. Our business position is, so long as this move is part of an ongoing and comprehensive cost-control movement aimed at keeping postal rates in check, we support it. Continued increases in postal rates in both Standard Mail and First Class will result in our using less mail and looking for ways to grow our business without incurring these costs. The USPS has seen a significant drop in catalog mail volume since the most recent rate increase. Rest assured that further increases will result in decreases in catalog mail volume from Northern Safety.

We feel it is time to make the hard choice to drop a delivery day to help maintain and reduce USPS costs and prices. Exigent or other above-inflation price increases that result in Standard Mail costs going up will certainly impact how deeply we mail into our “house file” of existing customers and to our prospecting (the pool we mail from to create new customers) databases as well. Like most catalog mailers, we are very empirical. If the piece costs X and brings back Y, we must constantly calculate where those lines cross. That determines where we “draw the line” and don’t mail when the costs exceed our ability to recoup our investment using our profitability models. It is dispassionate decision making. We use formulas to determine our “allowable cost” per piece. Because postage is such a high percentage of costs, it is now one of the largest variables in these formulas. Ever since the huge postage increase in 2007, we’ve continued to be at this ragged edge.

Another unique element of our B2B nature is that 75% percent of our orders receive a First Class-*mailed* invoice versus the credit card transactions that typify B2C and web-

based businesses. So when we mail more catalogs, we take more orders, and mail more First-Class invoices. This stimulates more catalogs, more orders and more First Class-mailed invoices to the referrals that folks who receive our books send to us.

We mail more than 2,000 pieces of First Class mail per day in addition to our Standard mailings. This usage is nearly 100%-driven by our order activity which is driven by our Standard Mail volume! Like all good catalogers, we mail more to our best customers.

As mentioned, we are fortunate to be in the B2B world. We have alternatives to mail that many of our B2C friends do not. We can build our sales forces both inside and out. We can “prospect” via the telephone to add new customers who exhibit the characteristics of our best performing customers. Like the B2C folks, we can increase the amount we spend with Google *et. al.* on “pay per click” advertising to try to add new customers via digital media – and we’re doing that at a rapid rate! However, this does not result in a decrease in our Standard Mail. We do mail our new customers added via the web so, that is not necessarily a bad thing. We don’t mail web customers as heavily, because they have already shown a propensity to respond to electronic, rather than mailed offers. And, of course we invoice them by mail when they order as well. Our ardent desire is to continue to receive excellent service at reasonable prices from the USPS. That is how our business model works best and allows us to continue to hire great people and serve our loyal customers.

Closing:

We understand that a change in service is a major decision for the USPS and one that affects people’s lives. We also believe that not making such a move will eventually drive up prices from an already precarious level. Should this occur in any manifestation that outpaces the CPI, it will certainly preclude our ability to use the mail to fuel our business. This will cost jobs, both in the private and ultimately the public sector. We feel that will negatively affect the lives of our customers, our associates and the people in our community who rely on the economic stimulation that a healthy Northern Safety helps create. Since we are a major provider of safety information and tools for the workplace -- information that is not typically available at retail -- arguably, it will make

the workplace less safe. We know that unless costs are controlled, prices will spiral upward and mail volume will drop, further exacerbating the problems the USPS faces from a financial perspective.

This being the case, we urge the PRC to recommend the elimination of Saturday service as part of a comprehensive effort to reduce and control costs. It is also our strong position that prices for Standard Mail are very inversely elastic. Any increase in postage costs will result in declines in volume, and that proves counterproductive.

Thank you all so much for providing this forum. I personally, and all of us at Northern Safety, have great respect for the difficult job that you do balancing interests. Since more than 90% of the cost of providing universal mail service is borne by commercial mailers such as ourselves, we appreciate that you are interested to hear our views on postal policy matters. We trust you will make the right decisions for USPS customers, of which we are proud to be one, and for all the employees across America that depend on a strong postal system.