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BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Estimating Volume Changes from Pricing Incentive Programs

Docket No. RM2010-9

COMMENTS OF PITNEY BOWES INC.

James Pierce Myers
Attorney at Law
1420 King Street
Suite 620
Alexandria, Virginia 22314
Telephone: (571) 257-7622
Facsimile: (571) 257-7623
E-Mail: jpm@piercemyers.com

Michael F. Scanlon
K&L GATES LLP
1601 K Street, NW
Washington, DC 20006
Telephone: (202) 778-9000
Facsimile: (202) 778-9100
E-Mail: michael.scanlon@klgates.com

Counsel to PITNEY BOWES INC.

DATE: July 16, 2010

I. INTRODUCTION

Commission Order No. 469 initiated the current rulemaking to "investigate methodologies for estimating volume changes due to pricing incentive programs." Order at 1. The Order recounts the history of methods used for estimating these volume changes, summarizes the current approach, and discusses alternatives. *Id*. at 2- 8. The Order further invited "comments from interested persons on the volume-estimating methodologies to be used in connection with pricing incentive programs." *Id*. at 8.

Pitney Bowes, Inc. (Pitney Bowes) appreciates the opportunity to comment on this important topic. Pricing incentive programs are an essential element of the pricing flexibility afforded to the Postal Service under the Postal Accountability and Enhancement Act (PAEA). The methodology for estimating volume changes caused by pricing incentive programs must minimize the administrative burden imposed on the Postal Service and maximize the Postal Service's ability to price its products to increase mail volumes, revenues, and profits. Accordingly, care is necessary to ensure that any prescribed methodology for evaluating profits derived from pricing incentive programs does not have the unintended consequence of discouraging future programs.

II. DISCUSSION

Because demand curves for mail are downward sloping, the Postal Service has an opportunity to increase mail volumes, revenues, and profits by pricing below the tariff price for incremental mail volumes. Pricing incentive programs should allow the Postal Service to better match a price schedule to a demand curve thereby stimulating more mail volumes, revenues, and profits than it would otherwise enjoy at the uniform tariff price. The alternative methodologies discussed in Order 469 are all intended to estimate and compare mail volumes that are actually induced by a pricing incentive versus those that would have been mailed "anyhow" in the absence of the incentive. Order at 3-8. Order 469 acknowledges that the established methodology traces back to the Commission's experience with negotiated service agreements under the Postal Reorganization Act (PRA).[1] Given these origins, the Commission should examine whether pricing incentive programs under the PAEA require a different approach.

Two aspects of the PAEA suggest a different approach is required. The first is the price cap. The fundamental compromise embodied in the PAEA involves the substantial new pricing flexibility provided to the Postal Service balanced against the CPI price cap. The Postal Service got pricing flexibility and mailers got the expectation of rate stability and predictability embodied in a CPI price cap. With the price cap, concerns regarding "anyhow" volumes are greatly diminished. The price cap effectively insulates mailers, including those who do not participate in the pricing incentive programs, from the negative effects of a poorly designed pricing incentive program. Second the PAEA replaced the "break even" requirement of the PRA with an opportunity for the Postal Service to retain earnings. The Postal Service now has a "profit motive." As a result, the financial incentives for the Postal Service to correctly estimate the effects of its pricing incentive programs are great.

At a minimum, these differences between the PAEA and the PRA militate in favor of a greater risk tolerance for pricing incentive programs. An appropriate methodology must properly balance the risk of (1) providing incentives for anyhow volume (and the resulting loss in contribution) with (2) foregoing new, incremental volumes (and profits) because of an overly

[1] The current methodology is described as an elasticity-based approach for estimating the effect of volume-based discounts both before implementation and based on after-the-fact analysis of actual results.

conservative or burdensome methodology. No system can eliminate all risk; it can only substitute one risk for another. The methodology for evaluating volumes and profits from pricing incentive programs should explicitly recognize this risk-risk trade-off.

Adopting a methodology that minimizes the administrative burden imposed on the Postal Service and maximizes the Postal Service's ability to exercise its pricing flexibility is especially important in the context of the current financial challenges facing the Postal Service and the mailing industry. The need for innovative pricing incentive programs to stimulate new volumes and revenues is great. The approach adopted by the Commission can and should help facilitate expanded product and pricing innovations.

III. CONCLUSION

Pitney Bowes appreciates the Commission's consideration of these comments.

Respectfully submitted,

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James Pierce Myers
Attorney at Law
1420 King Street, Suite 620
Alexandria, Virginia 22306
Telephone: (571) 257-7622
Facsimile: (571) 257-7623
E-Mail: jpm@piercemyers.com

Michael F. Scanlon
K&L GATES LLP
1601 K Street, NW
Washington, DC 20006
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Facsimile: (202) 778-9100
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