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PRICING & PRODUCT DEVELOPMENT LAW SECTION
LAW DEPARTMENT

UNITED STATES POSTAL SERVICE

July 26, 2010

Ruth Ann Abrams
Acting Secretary
Postal Regulatory Commission
901 New York Avenue, NW, Suite 200
Washington, D.C. 20268-0001

RE: Docket No. R2009-5

Dear Ms. Abrams:

In accordance with Commission Order No. 299 in Docket No. R2009-5, the Postal Service hereby presents its data collection report on the First-Class Mail Incentive Program. The volume and revenue data requested by the Commission is in the spreadsheet entitled "First-Class Mail Incentive-Order 299.zip". Also attached is the Postal Service's narrative report, along with associated data files.

Sincerely,

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FIRST-CLASS MAIL INCENTIVE PROGRAM
DATA COLLECTION REPORT

INTRODUCTION

As required by Commission Order No. 299 in Docket No. R2009-5, the Postal Service presents its data collection report on the First-Class Mail Incentive Program. The volume and revenue data requested by the Commission is in the spreadsheet First-Class Mail Incentive-Order299.zip (2MB). Evaluating customer data and processing rebates has been an ongoing process, and as discussed below, the program was successful and generated $18 million in contribution on 212 million incremental pieces.

CUSTOMER RESPONSE

Total presort volume for the quarter, October through December 2009, was 11.6 billion pieces. There were 926 eligible customers, and 476 of those customers participated in the Incentive Program. The 476 customers generated 3.8 billion of the 11.6 billion presort First-Class Mail pieces during the program period. 170 of the 476 participating customers earned rebates on the program. These customers generated 1.3 billion pieces, or 11 percent of the total volume during the period. The 170 customers earned rebates totaling just under $15 million, on eligible incremental volume of 212 million pieces.

The First-Class Mail Incentive program received highly positive reviews from a number of customers, even those who did not earn rebates.

> "I think this was a great program that allowed us to utilize First Class Mail not only to try to generate new customers through the mail, it also allowed us to shift a great deal of Standard mailings to First Class during the busy holiday season. I would like to see it done again from June through December." **Entertainment Industry customer**

> "Gave us great focus on the USPS process and organized us around the First Class Mail process within our firm." **Retail Industry customer**

> "Overall, the program was a good driver of volume. Thanks for offering the program and I look forward to seeing additional programs." **Financial Industry customer**

With respect to the level of participation in the Incentive program we identified four main reasons why more customers did not participate:

(1) They did not meet the minimum volume requirements,

(2) They were discouraged by the amount of documentation required,

(3) They could not get funding to take advantage of the opportunity, and

(4) The time frame from notification to program roll out was too short.

There were other comments and feedback that helped us to fine tune the processes and will help us immensely with future incentive programs:

> "At this point I haven't seen any results yet. Maybe I'm wrong, but I would think that the USPS would have our previous volumes and could use them to compute a threshold instead of requiring us to furnish you with that information. It's not something that I monitor (fortunately someone in this organization had that information) and wonder if other organizations monitor that usage." **State Government customer**

> "What to do differently in the future? I would avoid going back in time to retrieve old documents and MSP support; it requires requesting time and effort from vendors we no longer do business with, and although they were surprisingly cooperative, I don't imagine they would continue to do so if asked again and again". **Employment Agency customer**

FINANCIALS

The Postal Service estimates that the program generated net incremental contribution of approximately $18 million after accounting for administrative costs.

Contribution Growth

Of the 212 million pieces that earned a rebate as part of the program, the Postal Service estimates that 208 million were incremental new First-Class Mail volume, and another 4 million would otherwise have been sent using Standard Mail.

We used survey responses to calculate the amount of buy-up from Standard Mail. Customers mailing 4% of total participating volume said they shifted some mail, and we made an assumption that half of their Standard mail volume was shifted while half was always going to be First-Class Mail.

To arrive at the Loyalty Volume, "anyhow volume", estimates, the Postal Service reviewed the mailing trends of the program's customers during the three calendar quarters: January–March, April–June, and July–September 2009. For each of these periods, a 2009 projection was determined for each company by applying the company's 2007 to 2008 trend. The volume, in pieces, actually mailed during

these periods in 2009 that exceeded the calculated thresholds was used as a proxy for the Loyalty Volume, because there were no incentives offered during these months. Based on this calculation, the estimated ratio of anyhow incremental volume to total volume was 5.26%. (Loyalty Analysis.xls below).

	Theoretical Sales	Winter (Jan - Mar)	Spring (Apr - June)	Summer (July - Sept)	
1	2008 Volume	1,185,136,549	1,151,286,618	1,138,699,186	*Actual 2008 sale-period volume*
2	2009 Threshold	1,171,733,407	1,135,726,213	1,133,111,130	*Aggregate sale-period thresholds*
3	2009 Volume	1,149,951,609	1,101,814,624	1,102,131,058	*Actual 2009 sale-period volume*
4	Loyalty Volume (Growers)	53,894,829	54,205,240	68,120,909	*Aggregate incremental volume of "growers" (rebate-eligible volume)*
5	As Percentage	**4.69%**	**4.92%**	**6.18%**	*Percent of total participating volume representing "Loyalty"*
6	**Average Loyalty Percentage**			**5.26%**	

For the entire program, the calculated total and Loyalty volumes were summed across all customers. Together, the new pieces and those that bought up from Standard Mail generated $48 million in new contribution, against which $15 million of rebates were paid. $350 thousand can be attributed to the Standard buy-up. $640 thousand was expended on administrative costs. Net contribution from the program was $18 million. (FCM Incentive Analysis.xls).

	Rebate Earners	Non Rebate Earners	TOTAL All Customers
Customer Count	170	306	476
Oct. - Dec. Volume			
Actual Oct. - Dec. 2008 volume (SPLY)	1,132,426,668	3,007,085,519	4,139,512,187
Projected Oct. - Dec. 2009 volume (Base Period)	1,023,566,917	3,143,113,503	4,166,680,420
Actual Oct. - Dec. 2009 volume (Incentive Period)	1,254,512,743	2,520,593,878	3,775,106,621
Total Sept./Jan. adjustment	19,176,781	444,324,104	463,500,885
Incremental Volume*			
Incremental volume of customers earning rebates	211,769,045	0	211,769,045
Volume attributed to buy-up from Standard Mail	4,129,496	0	4,129,496
Volume attributed to loyalty	65,008,209	0	65,008,209
Net incremental volume	142,631,340	0	142,631,340
Incremental Revenue*			
Incremental revenue of customers earning rebates	$ 72,963,255	$ -	$ 72,963,255
Total rebate amount	$ 14,592,651	$ -	$ 14,592,651
Revenue attributed to buy-up from Standard Mail	$ 860,038	$ -	$ 860,038
Revenue attributed to loyalty	$ 23,042,851	$ -	$ 23,042,851
Net incremental revenue	$ 34,467,716	$ -	$ 34,467,716
Incremental Contribution*			
Incremental contribution of customers earning rebates	$ 47,689,821	$ -	$ 47,689,821
Total rebate amount	$ 14,592,651	$ -	$ 14,592,651
Contribution attributed to buy-up from Standard Mail	$ 347,410	$ -	$ 347,410
Contribution attributed to loyalty	$ 14,639,674		$ 14,639,674
Net incremental contribution	$ 18,110,085	$ -	$ 18,110,085

In analyzing the Standard Mail Volume Incentive Program for their FY 2009 Annual Compliance Determination, the PRC used an alternative methodology that relies on the elasticities from the Postal Service's time series econometric regression models to estimate the incremental volume. (*FY 2009 Annual Compliance Determination*) The Postal Service has expressed reservations about this approach—particularly about the application of a market elasticity to a subset of that market—and will discuss its concerns in the PRC's proposed rulemaking, Docket No. RM2010-9. Applying that analysis to this program yields an estimated reduction in contribution of $7 million. (FCM Incentive Analysis.PRC.Meth.xls)

Administrative Cost

As noted above, administering the program involved required resources including the time of Postal personnel and contractors, printing, and computer programming. The total administrative cost was $640,000, partially offsetting the net contribution generated by the program.