

Consider Postage That Maximizes Catalog Circulation and Increases
the Post Office's Profitability!

The USPS needs to consider setting catalog postage rates that help both catalogers and the USPS improve their profitability. The USPS and the Postal Rate Commission should consider keeping Standard Mail rates unchanged for catalogs (and magazines) and actually lowering the carrier route postage. Lowering postage is a novel concept. Why should the USPS consider it? Because carrier route sorted catalogs are a *profitable business* for the Post Office and the Post Office should use lower carrier route postage as a way to push catalogers and printers to increase the volume of catalogs that flow through co-mail programs and qualify for carrier route discounts. Printers and catalogers can actually increase the percentage of mail that is consolidated and sent using co-mail pools thereby increasing the percentage of carrier route mail. The discounts for carrier route sortation have spawned an entire co-mail industry that is shifting costs away from the Post Office and created a win-win situation where the Post Office gets profitable mail and the mailers get dramatically lower costs allowing the catalogers to mail more catalogs profitably.

Increasing carrier route postage savings has already worked to incentivize mailers to find co-mail opportunities. The percentage of catalogs going through the system as carrier route bundles has increased dramatically in the past decade.

There is opportunity for increasing the amount of mail that travels as carrier route bundles because deeper incentives will result in more co-mail pools, and larger and more frequent co-mail pools.

Lowering carrier route postage will actually result in more volume in the short run because printers will build larger and more frequent co-mail pools.

Here is what is wrong with the USPS proposed postal rates.

- The USPS lawyers say it is not fair to question USPS management for being uneconomical, dishonest or inefficient. But the USPS management is in fact “uneconomical” because they don’t use any sort of economic analysis to set these rates. If you don’t use the science of economics for rate setting, then you can correctly be seen as being uneconomic. The USPS needs to show their economic analysis of what will happen when standard mail rates increase. This analysis needs to include the before and after analysis of the effects of the previous rate increases and their internal economic analysis of what will happen to volume and profitability of standard mail from this proposed increase. If the USPS has done no economic analysis of what will happen to catalog volume and their own profitability from catalogs, then it is fair to say they are being “uneconomic” which violates the statute governing raising rates under the “exigent circumstances” exception.
- The USPS legal reply brief makes the claim that the volume declines were from the recession alone and were “unforeseen.” The declines in standard mail over the past three years were largely a direct result of the huge price increases from the past postage increase. Businesses that use direct mail including catalogs and magazines make precise decisions about the level of mail they can profitably economically. So raising the cost of postage for Standard Mail results in a direct, predictable decline in volume. The USPS could reference the major price increase and also the recent smaller price increase and predict with great accuracy the decline in mail volume from this proposed increase. Also their argument that raising postage costs 30%+ three years ago which caused the decline in catalog volume was “unforeseen” is simply wrong. Circulation plans are based on breakeven

calculations which are based on postage costs. So volume declines can be predicted with scientific accuracy. The USPS should provide their estimates of volume declines based on the past postage increases and this proposed increase. If they don't have economic estimates of volume declines then they can correctly be called "uneconomic."

- The argument that the decline in volume is a result of the recession is offset by the fact that the recession is easing and catalog circulations are rebounding robustly. Abacus, the catalog cooperative database, tracks catalog circulations closely and while volume Q1 2009 compared to Q1 2008 was off some 14%, circulation of Q1 2010 compared to Q1 2009 was up 8% so the recovery is translating into a rebound in the volume of catalogs mailed. The volume declines are not solely the result of the recession. Volume declines are a result of three primary factors; the transfer of mail volume to the Internet, the recession and the increase in postage costs.
- The standard for "exigent circumstances" is largely undefined and both sides are seeking to have their legal briefs argue for reasonable definitions. But the PRC should make sure the bar for "exigent circumstances" is a high bar or the loophole is so large that the law is meaningless. The USPS reply brief is particularly weak when they argue that they couldn't see the decline in mail volume evolving based on the maturity of the Internet. The Internet and e-mail have been major macroeconomic factors for a long time now. So the USPS arguments that "We didn't see this decline in mail volume coming" and "There is nothing we could have done about it because we are a quasi government body" and "We can't be compared to our competitors UPS and Fed Ex" seem like weak arguments.

The USPS presents legal arguments but not any economic arguments in their reply to the objections raised by the lawyers for the various organizations representing bulk mailers. But the statutory language requires the USPS to be economic (see the HEEM standards). Where are their economic arguments? I strongly suspect that no economic analysis exists. If this is true, then the USPS management can correctly be said to be uneconomic. If the management is uneconomic, then they have not met the standard and this request should be declined and USPS should be required to present a coherent standard mail postage price that has been subjected to some economic analysis.

But a strong case can be made that the USPS can and should find ways to increase the volume of profitable bulk mail (especially catalogs). The USPS should keep postage rates the same for standard mail and increase the postage discount for carrier route mail. If the carrier route discount is increased, volume will immediately increase because cataloger's will have larger universes of names that can be mailed above breakeven. The lowering of carrier route discounts will also accelerate the growth of the co-mail industry and produce more mail in carrier route bundles which are profitable for the USPS to deliver. This should result in incremental profitability in addition to greater volume and significantly stimulate the economy. Isn't that a better plan for postage rates for bulk mailers rather than to increase postage and watch volume ratchet down again?

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