

Dear PRC,

I am writing to disagree with the proposed increase in postage rates for catalogs.

In addition to the attached article which I wrote for All About ROI magazine, the reasons to disagree with the proposed postage increased are:

- The post office has not done any analysis to show the economic benefits of raising the cost of profitable bulk mailing of catalogs. Raising the cost of postage for catalogs may actually result in a decrease in profits. To my knowledge no work has been done to analyze the effect of the last increases in the cost of catalog postage and no work has been done to understand the cost of this proposed increase. I think a strong case can be made that the increase will reduce the profitability of catalog mail.
- The USPS in their reply brief to the brief filed by the various bulk mailers basically says that they have done all they can do to cut costs and increase profitability within the constraints of their union contracts and statutory requirements as a quasi government monopoly. They haven't done a complete job when it comes to understanding the relationship of postage costs, catalog mail volume and the USPS profitability. Catalogers are quite scientific in calibrating their circulation to the costs of putting a catalog in the mail and postage is the largest cost. So raising costs will inevitably result in a decrease in volume. The USPS has a responsibility to project the relationship of the cost increase for bulk mail with the decline in volume and the effect of the smaller volume on their profitability. A traditional corporation does this kind of analysis all the time and the USPS should be held to the responsibility to do the same kind of analysis. Their defense in their brief that they can't be compared to Fed EX and UPS because they are a public corporation with more constraints does not apply to their need to understand to bulk mail volume when a price increase happens. They have a rich pool of data from the last series of

price increases to gauge the effect of this increase. Until they do that necessary analysis, they can't honestly claim extraordinary circumstances.

- The standard for "exigent circumstances" is largely undefined and both sides are seeking to have their 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. I think the USPS 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 and the decline in the need to send documents through the mail has been a major macroeconomic factor 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.
- I think part of the PRC's mandate is to force the USPS to act as a private corporation and I don't think a close review of setting these new rates shows that the USPS is doing everything they can do to cut costs, and to actually find ways to increase profitable volume from bulk mailers.

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Setting the Best Postage Rates for Catalogs and Direct Mail
Let's Not Kill the Goose that Laid the Golden Egg!

The direct marketing industry needs to focus on getting the post office to set the smartest postage rates for catalogs, magazines, saturation mail for retailers and for direct mail. And it's in the best

interest of the post office to respond to guidance from the industry because direct mail is a major source of profitable mail volume. The post office should be focused on increasing its profitable volume rather than ratcheting up postage again and having volume and profits dwindle as a result.

What is wrong with the proposed postage increase? The demand for first class mail won't change much when the price of a stamp goes up \$.02. When the price goes up, volume first class mail doesn't fall off very much so the post office achieves an increase in revenue and profits. But direct mail volume is directly tied to costs and a price increase raises breakeven points and volume inevitably falls. So the increase in price results in a decrease in volume. Since direct mail is profitable, it is a big issue whether increasing postage and thereby decreasing volume yields an increase in profits or a decrease. The post office needs to look backwards at the last two price increases to see what happened to the Post Office's own revenue and profits as a result of the last two price increases. Certainly volume dropped as a direct result of the postage increases; the issue is whether the USPS's profits also declined, and if so, by how much.

What should the post office do to maximize its own profitability in handling all kinds of bulk mail?

First the USPS needs to study the cause and effect relationship between increasing postage, decreasing volume and profitability. If they have done any studies on previous postage increases it needs to be available to our industry so that the direct marketing industry can respond with some insight to this latest postage increase.

Second, the post office needs to examine ways to increase the proportion of carrier route mail because that is the easiest and most profitable mail for the post office to handle. Offering sortation discounts for carrier route mail has revolutionized the relationship between mailers printers and the post office and created an entire industry around the use of co-mail. Co-mail basically allows mailers to combine their mail with other mailers to achieve the savings from

maximizing the carrier route and other sortation discounts. The post office should look to set rates that continue to push mailers to use co-mail and to incentivize the carrier route discounts.

Third, the post office needs to not only push existing mailers to take greater advantage of co-mail technology and delivery, but also to find ways to bring in new mailers, especially from the internet retailing community, as well as to provide affordable postage for merchants who are not currently mailing to their customers but are only using the web to reach their customers.

The biggest way to build profitable bulk mail volume is to reduce, rather than increase the postage for carrier route mail. If the post office sets the rates for carrier route mail lower and increases the incentive for mailers to join co-mail pools, the entire industry will push toward co-mail will accelerate and the portion of the most highly profitable mail, carrier route sorted mail, will increase.

How will the co-mail industry evolve? Co-mail really didn't exist a decade ago. First mailers sought to find individual partners who had common sizes and mail schedule. Now both printers and third party consolidators offer regular co-mail pools. A growing portion of catalogers and periodicals participate. The next evolutionary step for co-mail is a bit of an unknown. Opportunities exist to grow co-mail by combining periodicals and catalogs in common pools and for increasing the savings available to larger mailers. But if it makes economic sense to find more ways to bundle mail and achieve carrier route discounts, printers and mailers will find the ways to capture those savings.

What was right and wrong with the Post Office's first attempts using the last two year's "Summer Sales?" Well, thanks to the lobbying efforts of the ACMA, the Post Office actually crafted a response to the catalog industry. So, as they say, the first step to communication is to listen. The good news is that the Post Office listened. The "Summer Sale" wasn't perfect because it only included catalogs that increased their prospecting circulation and it was only applied to the summer season the past two years rather than a global reduction in postage

but at least the Post Office showed that it would listen and try to create programs to help direct marketers increase their mailing volume. Now the issue is for the Post Office to listen again and come up with solutions that are permanent and serve to increase overall profitable mail volume.

My recommendation is that the Post Office *takes the simple step of actually decreasing the cost for carrier route mail*. Decreasing the cost of carrier route sorted mail will actually increase volume and will accelerate the growth of co-mailing and the technological solutions driving co-mail. Decreasing the cost of carrier route mail will inevitably increase mail volume. It will show the direct marketing industry that the Post Office could actual be a business partner, and will probably result not only in greater volume, but also greater profits for the Post Office.

PS. (because all good direct mail letters have a postscript). The Post Office needs to share its studies of the relationship between bulk mail costs and volume and Post Office profitability. We as an industry know that when the big postage price increase happened, volume tanked because mailers simply read their breakeven numbers and mailed less. What we don't know is what happened to Post Office profitability based on that diminished volume. But I'd bet that a close examination of before and after the big price increase, that the Post Office was actually more profitable before the big postage increase because it had so much more volume. Imagine the stimulus it would be if we went back to the "good old days" when postage was 30 lower and we could mail bigger circulations profitably?