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Celebrating Over 50 Years of Serving Customers

Postal Regulatory Commission
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Postal Regulatory Commission
901 New York Avenue, NW Suite 200
Washington, DC 20268-0001

Re: Docket No. R2010-4 : Rate Adjustment Due to Extraordinary or Exceptional Circumstances

Dear Commissioners,

Publishers Clearing House (PCH), a New York based industry leading multi-channel direct marketer requests that the Postal Regulatory Commission consider the following comments on the above docket.

Background

PCH was founded in 1953 by the Mertz family in Port Washington NY. They created mailings for consumers to choose from an array of discounted magazine subscriptions. PCH initiated sweepstakes in 1967 to draw attention to magazine deals. In 1985, PCH began expansion into merchandise offerings which now account for the majority of sales. A wide variety of value based products are offered ranging from popular household "As Seen on TV" items, health and personal care products, music, DVDs, books , jewelry, gift foods, collectibles and more. Our website was launched in 1999 and we are aggressively continuing our multi-channel growth through an assortment of online games, lead generation, and ecommerce expansion. However, direct mail continues to be the backbone of our company and a major driver of the multi-channel interaction. PCH is among the Postal Service's top customers.

- PCH mails hundreds of millions of Standard Mail letter promotions through weekly campaigns. These mailings create a sizeable mail multiplier effect.

- PCH mails tens of millions First-Class bills to customers given our Free Credit, Four-Part Pay business model.

- PCH creates even more inbound First-Class mail for sweeps entry, order responses and customer payments. First-Class mail comprises more than 95% of these responses.

- PCH mails tens of millions of parcels (Standard Mail parcels comprise 62%, Parcel Select comprises 33%, Bound Printed Matter comprises 4% and Media Mail and Parcel Post comprise 1%). We utilize solely the USPS for "least cost" merchandise fulfillment. The least cost model is necessary to support our free credit and free inspection proposition where payment is not requested until after the customer receives the order.

- PCH includes other marketer promotions (most with courtesy reply mail pieces) in the fulfillment parcels as well as the early stage bills.

- PCH is also an agent creating tens of thousands of Periodical mail pieces.

Overarching Position on the Rate Adjustment Request

First off, let me state that Publishers Clearing House does not believe that "extraordinary or exceptional" circumstances as contemplated by the PAEA exist to support an exigent rate filing. The comments of the Affordable Mail Alliance and Senator Susan Collins appear to prove that point. If however, the PRC does not opine that those facts justify dismissal of the filing, then please consider the following relative to the level of price increases sought. For the record, please also note that PCH echoes the comments made by the Parcel Shippers Association which explain that the proposed price increases are unreasonable, inequitable, and unnecessary. For simplicity, they will not be recited here. We would like to supplement those comments with more specific views on the impact the proposed Standard Mail parcel rates, which average an exorbitant 23%, will have on our business, the end consumer, and ultimately the Postal Service. While this exorbitant increase is our focus, all of the proposed price increases are viewed as excessive by PCH, especially considering the potentially deflationary weak economy which is already putting pressures on the marketplace. The exigent rate request blatantly counters the intent of the CPI based price cap on market dominant products. Additionally, when businesses are faced with financial difficulties, as is the case with the Postal Service, the last thing they typically do is increase the price of their products or services as they know this usually drives business away. Instead, businesses in this situation typically exercise every means of cutting costs, something the USPS has not fully leveraged.

Comments

Access to Affordable Goods Will be Eroded

The USPS has acknowledged that it has the largest market share of parcels under one pound. They have a niche with Standard Mail parcels. Entire direct mail businesses such as ours have been built around this niche, making delivery affordable for value based (e.g. $9.99-$19.99 retail) merchandise offerings. The demographics of this customer base are mostly rural, moderate income consumers who depend on affordable mail delivery for access to these goods. Despite the series of three double digit Standard Mail parcel increases which increased our parcel postage rates by more than 50% since 2006, we did not increase shipping and handling charged to our customers as we knew it would significantly depress response to the value based offerings and depress the pay rate on these free credit sales. However, the tipping point has been reached and we can no longer avoid passing an increase along. This erodes the niche business model. With postage and handling (including costs to haul to parcel consolidators to realize the greatest work share discounts) rising exorbitantly relative to the value based retail price points, many customers will not be willing or able to pay for such incremental costs. An unreasonable 23% increase on small parcels will reduce struggling consumers' access to affordable goods.

Volume Will Decline Across Multiple Mail Categories Given the Mail Multiplier Effect

Not only will PCH (and others') small parcel fulfillment volume decline as a result of the value based marketing proposition being less effective, but the margin squeeze from the exorbitant parcel rate increase will have a negative multiplier effect on the very profitable Standard Mail letter volume that promotes the merchandise and the very profitable First-Class response mail (sweeps response, order response, bills and payments) that result from these promotions. PCH has already had to reduce promotional letter volumes given the last three price increases. It baffles us that the Postal Service seems to ignore the full complement of mail that its customers generate and rather than leverage that, the pricing proposals become self defeating to the extent they discourage mail growth across multiple mail categories. Such self defeating actions cannot continue if the Postal Service expects to grow their business and attain financial health.

Keep in mind that many direct mail merchants do not have brick and mortar retail sites and thus rely on direct mail and/or online merchandising. The Postal Service has launched campaigns to educate online retailers on the value of the mail. That is admirable, but in the meantime, they need to also focus efforts on retaining volume from merchants who already recognize the value of mail rather than drive them to invest more in online channels due to the direct mail margin squeeze.

Rate Shock; Cost Coverage Needs to be Refocused on Cutting Costs

Based on the statements made by Dr. Kiefer in the R2010-4 filing as well as his testimony on August 12, it seems that the Service is being more lenient on mail categories where they have seen some of the most significant volume fall off (e.g. Flats) and thus deem them more susceptible to rate shock and further downward spiral. It defies logic that the Service could propose a 23% increase on small parcels and not be concerned about rate shock. The proposed increase is contradictory to Dr. Kiefer's August 12 contention that "I hope that one message that came across loud and clear in my statement was our concern that these price increases might have on our customers." The Service should look at the small parcel mailers as a source of future growth which in many cases such as ours, extends to other mail classes.

It is realized that the Postal Service is adverse to growing small parcels at the current prices because according to their data, this mail category is not covering costs. First, as mentioned, they aren't looking at the big picture and full mix of mail use by customer or at least customer segments. Secondly, their cost coverage calculation is flawed as described in PSA's comments on R2010-4. Thirdly and perhaps most importantly, after three successive double digit price increases, the Service should refocus their energies on reducing parcel handling and delivery costs to achieve profitability on small parcels. Comments have been made by postal management that they need to better utilize their excess capacity and potentially encourage parcel entry "upstream," effectively reducing parcel work share savings. This is a very alarming strategy. The appropriate solution is to drive cost out. While the continued efforts in tweaking operation schedules, consolidating select facilities and equipment, improving cube utilization in transportation and reconfiguring carrier routes are admirable, it is critical that more aggressive plans specific to reducing parcel handling costs be developed.

Catalogs can be Flats or Letters and Should be Given Similar Consideration Relative to Recognition of Other Mail Products that Catalogers Contribute

In the August 12 hearing, Dr. Kiefer stated that "we do not want to take steps that might cause catalog mailers to trim their mailing lists or get out of the hard copy mail system altogether. There are other mail products that these catalogs mailers use which contribute, make positive contributions." He later expanded on the concept, stating that there could be opportunities for contract pricing, and, the PRC indicated support of those opportunities. PCH applauds this notion as it supports the mail multiplier factor discussed above. Additionally, there is a critical need to grow the mailing list market; otherwise, customer attrition across the direct mail industry will outpace the prospecting activity that is needed to sustain business. The definition of a catalog; however, needs to be inclusive of Standard Mail letter offerings of product, such as those mailed by Publishers Clearing House. The recently published, August 2, DMM definition of a catalog is limited to "bound flat-sized mail pieces." This is discriminatory. The essence of a catalog is captured in the rest of the definition, "Catalogs provide a listing of products offered for sale arranged systematically and includes images, photographs or illustrations of the products, descriptive details, and prices. Catalogs must contain an order form, a phone number, or a web address to place orders and provides shipping options for the products offered for sale." As stated, this definition should apply to flats and letters alike.

Conclusion

- Absent a dismissal of the exigent rate filing, the next Standard Mail parcel increase should be in line with the average requested rate increase.

- Cost coverage focus needs to shift to more aggressively to taking cost out of the parcel handling and delivery network.

- When designing price increases, the Service needs to better account for the mail multiplier effect.

- To grow volume and revenue, the Service needs to incent mailers who can leverage the mail multiplier across mail categories.

It should also be noted that an exigent rate filing is premature. The relief being sought from Congress for the $50 billion plus Civil Service Retirement System overpayment that we mailers paid (not tax payers) should first be resolved. It is unjust and unreasonable that mailers be expected to carry the burden of this accounting error by further overpayment in the form of exigent rates. An exigent rate increase will only worsen the financial situation of the USPS, as well as, the businesses and ~9 million employees of the direct mail segment of the economy which I'm told totals ~$900 billion in revenue and represents over 6% of the Gross Domestic Product.

Thank you for your consideration of these comments.

Respectfully,

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