

ROSS + SIMONS

Postal Regulatory Commission

August 24, 2010

Ross-Simons would like to go on record with the PRC that the exigent postal increase requested by the United States Postal Service is:

- 1) A terrible business decision for the USPS and its customers; postage increases above the inflation rate will drive disproportionate decreases in mail volume.

The Postal Service continues to raise rates with no underlying economic benefit. This forces mailers to seek alternatives, such that the remaining mailers have to pay higher rates to cover the diminished mail volume. Indeed, this exigency rate increase accelerates the death spiral, and ultimately threatens the survivability of jobs in companies like ours, who depend on fair and reasonable postage rates.

- 2) Not supported by the Postal Accountability and Enhancement Act. The PAEA requires that such increases may only be considered in the event of "extraordinary or exceptional circumstances."

A Poor Business Decision

Ross-Simons has been a New England Cataloguer for over 30 years, and we rely on the Post Office to be our partner. However, the USPS is using its monopolistic pricing power to try to push through an exigency rate increase this January. This proposed increase will cost our company hundreds of thousands of dollars and further cripple our ability to mail catalogs and generate sales. Faced with increased postage costs (8 times the rate of inflation) and no increased economic benefit in the mail service, we will have to further cut our mailings.

I can tell you that our mail reductions have been and will be real: In 2007, the USPS initiated a 25% increase in catalogue postage rates. In response we cut our mailings by 50%, and eliminated 20 million catalogues from the mailstream. By proposing an increase that far exceeds inflation, the USPS will force us to eliminate additional mail at an accelerated rate. Indeed, we project that the 5% increase in Standard Mail flats postage will eliminate 15% of our mail volume, or another 3 million pieces. Quite frankly, we are approaching the point where catalog-substitutes like Internet paid search and comparison shopping engines will be a better investment of our marginal advertising dollars.

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Not supported by the PAEA

I am sure that you are well aware that postage increases are limited to the rate of inflation. The remedy that the USPS seeks for an exigency increase has not met the hurdle established by Congress.

Certainly we all face tough times, but the circumstances faced by the USPS are no more extraordinary or exceptional than the hardships we face today. To claim that the weak economy has had an exceptional or unpredicted effect on the USPS operations is a stretch. Indeed, three years ago the very risk factors that the USPS claims as “exceptional” or out of the ordinary were described and predicted in the 2008 USPS Annual Compliance Report:

“Adverse changes in the economy directly impact our business, adversely affecting our results of operations. The demand for postal services is heavily influenced by changes in the economy...”

Additionally, to claim that the growth of the Internet is an exceptional circumstance is preposterous. The popular press has predicted the demise of snail mail for 10 years, certainly ample time for the USPS to right-size its ship, labor force, product mix, and infrastructure. In the 2008 compliance report, the USPS predicts:

“Expanding use of electronic communications methods and other commercial services compete with some of our principal services. If we do not compete effectively with these services, our business and results of operations will be adversely affected.”

Both of the events that are cited by the USPS as “extraordinary” were completely predictable – and predicted.

Additionally, I might offer one more insight by way of a question. How does the USPS intend to “compete effectively” when they are asking for a rate increase that is not supported by increased services or even the cost of inflation? The USPS must compete in all elements of the marketing mix, including price, if it expects to compete at all for market share of our ad dollars.

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The Death Spiral

Our single greatest expense is postage. The USPS is our single largest provider. This proposed increase will 1) cost our company hundreds of thousands of dollars and 2) further cripple our ability to mail catalogs and generate sales. Faced with increased postage costs and no increased economic benefit in the mail service, we will have to further cut our mailings. We will seek advertising alternatives to the USPS at an accelerated rate.

The downward spiral continues: By proposing an increase that far exceeds inflation, the USPS will see its volumes decline even further. Today, though, it is not only the demise of the Post Office. The costs increases will force companies to close their doors – further accelerating the volume declines, but also costing thousands of jobs in the private sector. We are a small company and only employ 400 folks, but I can tell you that this price increase put every one of us at risk of losing his job.

We simply cannot afford to pay the extraordinary increases proposed by the USPS. Nor is the proposed increase legal: The PAEA is supposed to protect mailers from monopolistic pricing.

We urge you to reject with all due speed the very notion of an exigent increase.

Cordially,

Darrell S. Ross

President and CEO

cc: American Catalog Mailers Association

Direct Marketing Association