

**BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001**

**Notice of Price Adjustment**

**Docket No. R2011-2**

**Comments of the  
American Catalog Mailers Association (ACMA)  
(February 2, 2011)**

Commission Order No. 653 (January 19, 2011), "Notice and Order on Price Adjustments for Market Dominant Products and Related Mail Classification Changes," invited comments by today. ACMA is pleased to respond. Rate adjustments are matters of considerable important to our members.

ACMA members make a far-reaching range of goods and services available to businesses and consumers, largely through catalogs, mostly distributed through the mail, mainly at Commercial Standard rates. Postage represents 40 to 60 percent of their marketing costs, typically. Catalogs account for a high proportion of the volume of Standard Flats and Standard Carrier Route. Other catalogs are sent as High Density, Bound Printed Matter, and occasionally, First Class. Catalog marketers also originate mail in a variety of other products as well, including Standard letters and postcards, First Class letters and postcards, and parcels of various types. Accordingly, applicable postage rates are critically important to us and the Postal Service.

Catalogs present both graphic and descriptive material, authoritatively prepared, convenient for reviewing and sharing, and suitable for future reference.

They are among the most sought-after mailpieces by mail recipients. Although we use several categories of mail, our businesses are dependent most heavily on the rates for sending catalogs that are the primary revenue driver for customer orders and generating new customers.

### **I. ACMA's Position.**

On January 13, 2011, the Postal Service, consistent with section 3622(d)(1)(A) of title 39, *Noticed* rate adjustments for the *class* of Standard Mail that it estimated to average an increase of 1.739 percent. Of particular importance to our members, the increases for Regular Flats average 0.835 percent and for Carrier Route (mostly flats) average 1.376 percent.

In our comments on the Postal Service's FY 2010 Compliance Report, also filed today, we explained that the current rate levels are consistent with what the Commission has called the qualitative objectives and factors of sections 3622(b) and (c) (*Ibid.*), including the requirement that rates cover costs (c)(2). We also explained that our members are heavy and joint users of Regular Flats and Carrier Route flats, and that if these flats are viewed in their own right, apart from the below-cost benefit accorded by Congress to the associated Nonprofit categories, our flats are above cost. We hereby incorporate those comments.

Nevertheless, we have two concerns: (1) that the volume of catalogs can and should be considerably higher than it is currently; and (2) that the Postal Service's costs for flats are higher than they should be. Previous submissions before this Commission have noted that demographic trends underlying catalog

buying remain strong in America and that the decrease of catalog volume from an estimated 20 billion pieces in 2006 to an estimated 12 billion pieces in 2010<sup>1</sup> had its antecedence in rate changes well before the national recession also took its toll on all retail companies. Therefore, it is incumbent on us to work with the Postal Service to return catalog volumes to levels more appropriate to the role they can play in the economy and to help control Postal Service costs. The latter can be done, consistent with the Flats Strategy filed by the Postal Service in Docket No. R2010-4 (the exigency proposal), by improving preparation and processing and by a closer examination of the total delivered cost, including analysis of each discrete step in the supply chain and a rethinking of our flats processing approach. ACMA looks forward to the release of the Periodicals Cost Study for further insights as to how this may be accomplished.

In particular, we believe the flows of Standard flats should be examined carefully with the goal of a well-defined, well-oiled, lean processing stream, without interruptions and extraneous costs. We should be entering mail, effectively containerized, suited for direct entry into the processing system. The Postal Service should be providing us with appropriate direction and should accomplish the processing. All non-value added steps wherever they occur in the supply chain should be removed or minimized.<sup>2</sup> If there are reasons for costs

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<sup>1</sup> While the USPS is taking steps to change this, no definitive source of catalog mail volume currently exists that we know of. These are ACMA estimates compiled from a variety of independently-derived sources. The USPS has indicated that they believe there were 11 billion catalogs carried in the system in 2010. Other sources suggest 19 billion carried in 2006. We believe ACMA estimates to be accurate to +/- 10%.

<sup>2</sup> We acknowledge that significant effort to reduce flats costs has occurred to date, much of it well before ACMA's formation. We also note that both the USPS and mail

beyond those of a core system, the Postal Service should tell us what they are so we can consider if they are needed. Change by all parties must occur. This is not a small undertaking.

At the same time, we find some reasons for concern in the current costing results. One issue, concerning carrier casing costs for flats, was discussed in our comments in the Compliance Review, referenced above. Two others are discussed in the next section. A final section discusses rates for FSS-scheme mail.

## **II. Unexpected Relationships in City Carrier Costing and Mail Processing Costing for Letters and Flats Raise Questions that Warrant Inquiry.**

**A. City Carrier Costs for Letters.** While examining the city carrier costs for flats referred to in our comments in the Compliance Review, we looked also at the costs for letters. In thousands, the direct cost (meaning no piggyback factors, indirect costs, or burdened costs) of casing saturation letters is \$3,624. USPS-FY10-19, UDCmodel10.xls, tab 1a.DAdjustment, E18. The corresponding volume figure is 737,441, also in thousands. USPS-FY10-19, UDCmodel10.xls, tab 9.DeliveryVols, G20, adjusted for proportion DPSed from USPS-FY10-19, UDCInputs10.xls, tab CCSECRVols,  $C29/(C29+C28)$ , adjusted for proportion carried as extra bundle from USPS-FY10-32, I\_FORMS.xls, tab I-CS07 CCS,  $J25/(F25+J25)$ , assuming no high-density letters are taken as extra bundles. Dividing the cost by the volume yields 0.491 cents per piece. This is the direct

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service providers (MSP) have invested heavily in automation equipment and that many additional requirements for preparation and entry have been imposed over the years but that flats costs remain at an all time high, suggesting that we have yet to get to the root-cause of the issues.

casing cost for each saturation letter that is cased, as we understand it.

A corresponding cost for Regular Letters can be calculated similarly. Cost = \$311,540 from USPS-FY10-19, UDCmodel10.xls, tab 11.SummaryBY, E82, volume = 2,047,364, city cased volume, USPS-FY10-19, UDCmodel10.xls, tab 17.In-Office Detail, J58. The result of the division is 15.217 cents per piece. Again, this is the direct casing cost for each Regular Letter that is cased.

In short, it costs 0.491 cents to case a saturation letter and 15.217 cents to case a Regular letter. The USPS National Payroll Hours Report for Pay Period 9, 2010 shows a consolidated pay rate for carriers of \$40.82 per hour. Converting the unit costs to time, this is 0.882 seconds per cent. On this basis, the results just discussed show a casing rate of 138.56 pieces per minute for saturation letters and 4.47 pieces per minute for Regular Letters. This raises the question of why the casing rate for saturation letters is 30.99 times as fast as for Regular Letters.

One contributing factor is that saturation letters are in line-of-travel. In Docket No. R90-1, Postal Service witness Thomas P. Shipe presented a study of the casing rate of city carriers (USPS-T-10). He found a casing rate for ordinary letters of 20.6 pieces per minute and for "Walk-sequenced Letters" (essentially line-of-travel letters) of 41.2 pieces per minute (p. 15). His study was done before use of the vertical flats case became common. It does suggest, however, that the casing rates developed above for Regular and saturation letters are too far apart, even given the assumptions made in their development and allowing for statistical variation. Unless we have made errors in our work, further inquiry

seems warranted.

**B. Mail Processing Costs for Flats.** In order to develop presort passthroughs, mail processing estimates are prepared by presort category. For FY 2010, the mail processing cost of Carrier Route (CR) flats is 5.074 cents (down 0.94 % from FY 2009). USPS-FY10-18, FY10 ECR Unit Costs.xls, tab Table 1, C13. There is no automation requirement for these pieces, but they receive no piece processing except by the carrier. The corresponding figure for automation 5d flats is 20.525 cents (down 3.73 % from FY 2009). USPS-FY10-11, STD\_Reg\_flts 2010.xls, G50. The question is why it would cost 15.451 cents more to process an automation 5d flat than to process a CR flat.

The big difference between the 5d flat and the CR flat is that the 5d piece needs one pass through an AFSM 100. But 15.451 cents seems way too much for such a pass. In more detail, there are other differences. The 5d piece may get a bundle sort to get to the proper AFSM, and the CR piece may get a bundle sort to get to a dock to go to the carrier station. According to the costing for bundle sorts in Periodicals, the latter bundle sort is more expensive. Another difference would be any handling the containers get, which depends on their makeup. A container handling, of course, accounts for a considerable number of pieces, so it would not be large on a per-piece basis.

We are not in a position to do a complete mapping of the handling of the two pieces. The spreadsheets make it clear that the models used to develop these costs are quite detailed. But the difference between the two *does* seem large. One of the purposes of the AFSM 100 was to achieve a low-cost sort to

carrier route. Inquiry should be made into what has gone wrong. If different preparation is needed to allow 5d pieces to be processed at a low cost, the Postal Service should tell us about it and we should change the preparation.

### **III. ACMA Is Concerned about the Path to FSS Rates.**

Unofficially, and we think officially, public statements have been made by postal officials that the advent of the FSS machines should not hurt mailers of CR mail. This seems reasonable, particularly if one begins by thinking that the costs of CR mail should not be caused to increase. In fact, the concept behind what should happen is clear: the costs of 5d and less dense mail should decline, and the costs of CR and more dense mail should not rise.

However, there are indications that an increase for CR may occur. In Docket No. R2010-4, in regard to Periodicals, the Postal Service said:

While a carrier route sortation will continue to have value in non-FSS zones, expanding this discount would tend to encourage customers to undertake work that may not be necessary in an FSS-environment.

(p. 40, Statement of James M. Kiefer.) In its FY 2010 Compliance Report, in regard to Standard Mail, it said:

Although mail pieces in this product [Carrier Route] are required to be presorted by carrier routes, delivery point sequencing has reduced the value of carrier route presorting for letters. The deployment of FSS equipment is expected to have similar consequences for flat-shaped mail also.

(p. 28.) These words appeared earlier in its FY 2009 Compliance Report, where it added: “this calls into question the current large price differences between Carrier Route mail pieces and similar pieces in the most heavily presorted

categories of other Standard Mail products.” (p. 32.) And it should not go unnoticed that the rates for CR letters are higher than the rates for 5d automation letters.<sup>3</sup>

So we are left with a strange situation. To any extent that cost-based rates are important, the advent of the FSS should help 5d mail and not hurt CR mail. But if the 5d and CR rates are viewed as tied within a cap index, it is impossible for 5d mailers to see a benefit without CR mailers seeing above-cap increases. This may point to a defect in a cap constraint, although we understand that in this case the cap covers more than just these two categories.

In our initial comments in Docket No. R2010-4, we made suggestions about how FSS-scheme rates could be arranged, and discussed the rate cap. See pp. 7-11. Effective January 2, 2011, a step has been taken in that direction. See DMM Advisory, December 16, 2010. Optional FSS preparation, for FSS areas, allows three pallet makeups: a pallet to the 5d codes in an FSS area (which all goes to a specific FSS machine for a specific FSS run—an FSS-scheme pallet); an FSS facility pallet (which must be broken at the facility and directed to appropriate FSS machines and FSS runs); and an SCF pallet to a facility with FSS capability for some of the pieces on the pallet. CR mailers opting for FSS preparation may continue CR rates. 5d and less dense mail continues to pay the rate it paid before, despite changes in preparation costs. Any entry point may be used. The Postal Service indicates that FSS preparation may become

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<sup>3</sup> See also: Kiefer’s suggestion that FSS-scheme rates might cause a “push-up” effect on Carrier Route. August 12, 2010 hearing, Docket No. R2010-4, Tr. 3/422-28. We find the notion of a “push-up” for Carrier Route rates to be problematic on its face.

mandatory in the future<sup>4</sup>, but does not give any specifics on what might be mandatory or when.

In line with identifying and encouraging the most effective and lowest-cost mailstream possible, we believe that consideration should be given to singling out only the FSS-scheme pallet and providing a suitable rate for it. Also, as we explained in our initial comments in Docket No. R2010-4 (pp. 7-11, incorporated hereby), we believe the new rate cell can be accommodated in the cap calculations. Since no rate now exists for mail so prepared, except for the optional and voluntary contributions by mailers since January 2, 2011, no rate increase or decrease would be associated with it. Under these conditions, no volume is needed, but the volume is very low in any case.

#### **IV. Summary.**

A critical need is for flats mailers, including catalog mailers, to work with the Postal Service to help bring about an effective, low-cost mailstream for flats, consistent with, and going beyond, the Flats Strategy submitted in Docket No. R2010-4. It has been said that a sculptor sculpts an elephant by chipping away everything that does not look like an elephant. We need to chip away everything that does not look like a well-oiled, streamlined, low-cost mailstream. This stream must be encouraged and supported by rates that recognize costs and provide information to mailers concerning what costs too much and what does not. At the same time, costs need to be reviewed critically. Throughout this

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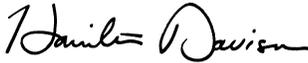
<sup>4</sup> We also note that preparing mail in FSS schemes while preparing it as is done today for non-FSS locations is a bifurcation of the current flats preparation flow; this bifurcation in and of itself imposes additional costs and complexity.

process, attention should be given to the lowest combined costs as it is this that drives to total price paid by the mailer. It is of no interest to optimize the USPS processing costs at the expense of increasing costs upstream at the Mail Service Provider, nor the alternative of imposing more cost on the Postal Service.

We have looked for indications that costing improvements might be needed. In the area of city carrier costs, it appears that the casing cost of saturation letters is too low relative to the cost of casing Regular letters, or, alternatively, that the cost of casing Regular letters is too high relative to the cost of casing saturation letters. In the area of mail processing costs, it appears that the cost of processing 5d automation flats is too high relative to the cost of processing CR flats. It may be that further inquiry into these virtually anomalous results will reveal other problems or will suggest ways in which operations can be improved.

Another matter of concern is the path to FSS-scheme rates. We make suggestions above on how this might be accomplished in a system constrained by price caps, but today we remain with great uncertainty and concern over what FSS rates will mean for flat mailers and the lead-time or phase in with which these will be implemented.

Respectfully submitted,  
**American Catalog Mailers Assn., Inc.**

By:   
Hamilton Davison  
President & Executive Director  
PO Box 11173 Hauppauge, NY 11788-0941  
800-509-9514