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NOTICE OF PRICE ADJUSTMENT

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Docket No. R2011-2

**COMMENTS OF L.L.BEAN, INC.**

(February 2, 2011)

L.L.Bean, Inc. hereby submits its comments addressing the Postal Service's Notice of Price Adjustment, filed on January 13, 2011. Founded in 1912, L.L.Bean is one of the oldest catalog distribution companies in America, for nearly a century using the mails to reach customers with its catalogs as a cornerstone of its growth. L.L.Bean is a substantial user of Standard Mail, mailing its catalogs predominantly at Carrier Route postal rates and also at Standard Mail Flat and higher-density rates.

The Postal Service's price-adjustment notice that initiated this proceeding was filed just fifteen days after the filing of its Annual Compliance Report in Docket No. ACR2010. Coincidentally, the Commission scheduled the same date for comments in both of these proceedings. L.L.Bean has today filed initial comments in Docket ACR2010, addressing at greater length its concerns about the pricing of below-cost Standard Flats, which the Postal Service's ACR filing indicates fell short of covering attributable costs by \$616 million in FY 2010. Our comments in this price-adjustment proceeding focus on the Postal Service's proposed 0.835% increase for Standard Mail Flats, an increase that is not only well below the Standard Mail class average but less than half the CPI inflation index.

We are cognizant that in price-adjustment proceedings such as this, the Commission's primary focus is on compliance with the "mandatory requirements" of the

Postal Accountability and Enhancement Act (PAEA), specifically: (1) that the proposed increases not exceed the allowable price-cap limitation measured on a classwide-average basis; and (2) that workshare discounts comport with the requirements of subsection 3622(e) of the PAEA. Normally, the Commission defers consideration of other issues – such as conformance with the pricing policies and factors of the PAEA – for its annual compliance reviews.

In this instance, however, L.L.Bean submits that there are a number of compelling reasons for the Commission to address in this proceeding the proposed below-average price increase for below-cost Standard Flats . These include:

- The problem with below-cost Standard Flats is not new, but has been addressed by the Commission in its last two annual compliance determinations in Dockets ACR2008 and ACR2009.
- This marks the fourth consecutive rate proceeding where the Postal Service has proposed and/or implemented below-average increases for below-cost Flats (see Dockets R2008-1, R2009-2, R2010-4, and now R2011-2).
- At the direction of the Commission in ACR2009, the Postal Service just last July in Docket R2010-4 presented a “plan” for bringing Flats up to full coverage through a combination of operational efficiencies and “*consecutive above average price increases.*” See USPS ACR2010 at 8 (emphasis added).
- Now, just six months later, the Postal Service claims that its plan for bringing Flats up to full coverage is “no longer workable” and “impossible” to attain, blaming the Commission’s denial of its exigency rate proposal and the “constraints imposed” by the PAEA. *Id.* at 8-9.
- Its proposal here – yet another below-average increase for below-cost Flats, in this instance at less than half the CPI-inflation index – represents a flagrant abandonment of its “plan” for “consecutive above average price increases.”
- \* The Postal Service’s justification for this below-average 0.8% increase – concern about the “delicate financial condition” of the

catalog industry – merely parrots its earlier explanation in the exigency case, even though the increase here is only one-sixth of its earlier proposal. It has not addressed this disparity, nor explained why just six months later an increase just one-sixth of its earlier proposal is now the maximum that this below-cost product can bear.

- Contrary to its claim of “impossibility” due to statutory constraints, the PAEA gives the Postal Service substantial pricing flexibility to bring prices on below-cost Standard Mail products closer to full coverage through above-average increases, so long as the average increase for the class is within the cap limitation.
- The Commission’s denial of the Postal Service’s exigency filing is no excuse for a below-average increase for Flats here. If anything, common sense would dictate that this intensifies the need for above-average increases. The Postal Service’s explanation does not address this illogic of its abandonment of its “plan” for bringing prices more in line with costs.
- Under the PAEA price-cap mechanism where, as here, the Postal Service chooses to exercise its full cap price-adjustment authority, the maintenance of one product at below-cost rates through below-average increases necessarily means higher-than-otherwise-necessary increases for other above-cost products collectively in the class. The Postal Service’s explanation does not address the rationality and fairness of such disparities.
- If not rectified here, the proposed below-average, below-inflation increase for Flats will widen the cost-coverage gap, undermining the prospect of closing that gap anytime soon, much less of attaining a reasonable contribution to institutional costs.

In sum, the Postal Service’s proposal is an unjustified step backwards. L.L.Bean recognizes the need for gradualism. We do not advocate that prices for below-cost products be raised precipitously to cost-covering or full-contribution levels overnight. Nevertheless, the Postal Service must begin moving in that direction now, or risk creating self-perpetuating and increasing losses that cannot be sustained, and that will require at some not-too-distant point substantial rate corrections that may generate an

even more disruptive “rate shock” for catalogers than that which it professes to want to avoid now.

For the above reasons, L.L.Bean asks that the Commission consider directing the Postal Service to rectify these clear deficiencies in its proposal in this proceeding. The process of transitioning the rates for Standard Flats to full cost coverage and a reasonable contribution should begin now, allowing a graduated and predictable phasing toward that objective.

Respectfully submitted,

/s/

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