PUBLISHERS
CLEARING HOUSE
382 CHANNEL DRIVE
PORT WASHINGTON, NEW YORK 11050
(516) 883-5432

Postal Regulatory Commission
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Celebrating Over 50 Years of Serving Customers

February 2, 2011
Postal Regulatory Commission
901 New York Avenue, NW Suite 200
Washington, DC 20268-0001

Re: Docket No. R2011-2 : USPS Notice of Market-Dominant Price Adjustment

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. In 1967 sweepstakes were initiated to draw attention to magazine deals. By 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 aggressively continue 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's business model is based on a free credit, free inspection privilege, where payment is not due until after the customer receives the order. This "bill-me" proposition is a major source of our success which drives further billing, promotional and fulfillment volume for the USPS. In the bill-me environment where mailers take on full financial risk since order payment, and, shipping and handling are not always collected, the basic and affordable delivery provided via Standard Mail parcel rates is essential. PCH orders that are solicited via direct mail are fulfilled 100% by the USPS.

Illogical / Disparate Adjustment of Standard Mail NFM/Parcel Rates

While the published “average” increase for Standard Mail NFMs/Parcels is 11.3%, the adjustment disparity is extreme ranging from 4% to 34%. Based on past price adjustments, one might think that the higher proposed increases are on the less efficiently prepared and entered parcels. It’s actually quite the opposite. The Machinable 5-digit destination entered parcels carry the highest proposed increases of :

- 25% to 34% increases for 5-digit Machinable DDU entry
- 18% to 29% increases for 5-digit Machinable SCF entry
- 17% to 27% increases for 5-digit Machinable NDC entry

Dig a little deeper and you find that the proposed workshare discount for 5-digit Machinable parcels is reduced by $0.092 (or 21%). And that’s off an already low passthrough base of 69.1% (54.6% proposed) compared to the less finely sorted passthroughs which exceed 100%.

It was thought that one of the objectives of PAEA was to have predictable and equitable price increases by virtue of the increases being capped by the CPI at the class level. It is understood that this leaves room for specific rate categories to be increased by more than others, but increases of 17% to 34% are certainly neither predictable nor equitable, especially, when compared to the lower increases assessed on less finely sorted parcels.

Complete Reversal of Past Price Signals / Desired Logistics

The price signals that were consistently given in the past of offering the greatest incentives for the most efficiently prepared, sorted and entered parcels have taken an about face. But mailers and consolidators who invested in and designed their fulfillment center operations, consolidation operations, and transportation network to support the current model, can’t do an about face. These logistics models were built around the concept of “least combined cost,” a win-win concept for both the USPS and mailers. For the past year, comments had been made by postal management that they need to better utilize their excess capacity and potentially encourage parcel entry "upstream," effectively reducing parcel workshare savings. This concept has become a reality in this filing. So in essence, the Postal Service is penalizing mailers of the most efficiently prepared, sorted and entered parcels with the burden of the cost coverage shortfall (and to cover "excessive" costs) through the greatest increases. Equitable workshare distinctions should be reflected and maintained.

Cost Coverage Focus is on Price Rather than Cost

It would seem that the lower increases for less finely sorted parcels would encourage less efficient parcel preparation and handling and thus further *increase* costs and *degrade service*. This action is counter intuitive. The industry is still waiting to hear what specific plans the USPS has for driving out and reducing parcel handling costs. Instead, the Service appears to be focused on covering them with inappropriately allocated price increases.

Recommendation

- The USPS should be directed to adjust Standard Mail NFM/Parcel rates in a more logical and appropriate manner that keeps the price relationships between sortation levels relatively close to what they are today, with the increases more narrowly assessed around the average 11.3% increase being sought.
- Cost coverage focus needs to shift to more aggressively taking cost out of the parcel handling and delivery network.

Thank you for your consideration of these comments.

Respectfully,

Wendy C. Smith
Assistant Vice President Fulfillment & Postal Affairs