

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

NOTICE OF RULEMAKING

Docket No. RM2010-9

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
(February 11, 2011)

Postal Regulatory Commission (“Commission”) Order No. 469 initiated this rulemaking to “investigate methodologies for estimating volume changes due to pricing incentive programs,” (Order No. 469 at 1) and invited interested parties to comment on such methodologies. See Order No. 469 at 8. Besides the Postal Service, three parties (Pitney Bowes, the Saturation Mailers Coalition (SMC) and Valassis, and the Public Representative) filed comments. The Order also provided participants with an opportunity to reply to comments. See Order No. 469 at 8. The Postal Service hereby provides its reply comments.

Although their filings display varying degrees of apparent understanding of the methodologies involved, both Valassis and the Public Representative, in addition to the Postal Service, raise issues with the techniques used by both the Commission and the Postal Service to estimate the volume growth resulting from incentive programs. Valassis goes so far as to state that “there is no way to accurately estimate the amount of volume that would have been generated by a mailer or group of mailers in the absence of an incentive price,” (Valassis Comments at 3) and that evaluation must rely on business judgment. See Valassis Comment at 6. The Public Representative points out that trying to create mailer-specific models is unlikely to yield satisfactory results, but

believes that modeling “market segments” may provide a solution to the demand-estimation problem.

It is not clear, however, that segment-by-segment modeling necessarily makes estimating volume change as a result of an incentive program any easier. Although such estimation might provide more insight into the differing demand of individual segments (assuming a robust model could be developed for each segment), evaluating the response of each segment would presumably still be subject to the same pitfalls identified for the market as a whole. The net effect, then, would seem to be the parsing of one difficult problem into a series of potentially equally (if not more) difficult problems. And while the Postal Service does not necessarily share Valassis’ pessimism about the possibility of developing an estimate of the volume change resulting from an incentive program, it is true that—at least for the time being, until we have more experience and more data—the business judgment of Postal Service management will have to play an important role in developing and evaluating the effectiveness of these new structures.

This business judgment is not, and should not be construed as, the equivalent of consulting the Sibylline Books. As both Valassis and Pitney Bowes note, it is in the Postal Service’s best interest to develop programs that are financially successful. See Valassis Comments at 7 and Pitney Bowes Comments at 3. Postal Service management will continue to explore ways of reliably estimating the value of incentive programs, including estimating the volume changes that result from them. That process should gain momentum as the Postal Service gains experience with these programs, as its managers learn more about customer reactions, and as it accumulates more data against which it can evaluate theories, models, and techniques.

Respectfully, Submitted,

UNITED STATES POSTAL SERVICE

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