

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

MARKET TEST OF EXPERIMENTAL PRODUCT –
MARKETING MAIL MADE EASY

Docket No. MT2011-3

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
IN RESPONSE TO ORDER NO. 649
(February 15, 2011)

In Order No. 649, the Postal Regulatory Commission (“Commission”) established this docket to consider the market test of an experimental product, Marketing Mail Made Easy (“MMME”). Comments were due by February 4, 2011 and reply comments are due today. Sixteen comments were filed.¹

Many of the comments filed represent the understandable concerns of firms and associations currently offering services to mailers that promote and facilitate direct mailing. These criticisms embody a general apprehension that MMME poses a competitive threat and would undermine the viability and effectiveness of the excellent

¹ The following mailers filed comments with the Commission: (1) Experian (1/19); (2) Charles Thompson, EVP of Production World Marketing, Inc. (1/26); (3) Keith Judkins, President & CEO of National Association of Advertising Distributors, Inc.(1/26); (4) Globe Direct, LLC (1/27); (5) Wanda Senne, National Director of Postal Development of World Marketing, Inc.(1/31); (6) Mark Keefe of PrimeNet Direct Marketing Solutions (1/31); (7) Marc Brenard, Sales Manager of Publisher’s Diversified Mail Services (2/1) (Brenard Comments); (8) Harry Turner (2/1); (9) Michelle Hilston, Director of Postal Affairs Consolidated Graphics Group (2/2); (10) Faris Mailing, Inc.; (11) Newspaper Association of America (NAA Opposition); (12) Pat Wiley of Compact Information Systems; (13) Calmark, Inc. (Calmark Comments); (14) National Newspaper Association; (15) Public Representative (PR Comments); and (16) Valpak Direct Marketing Systems, Inc. and Valpak Dealer’s Association, Inc. (Valpak Comments). Comments were filed on February 4 except as noted.

work done by the service industry that exists to enhance the mail system in a number of important ways. Some of the comments, furthermore, express policy objections and arguments directed at the Postal Service's January 2, 2011 extension of the Simplified Addressing format to mailings on city carrier routes.² In a similar vein, these objections reflect concerns about the strategic wisdom of those changes to addressing, which have long been advocated by parts of the mailing community.

While readily acknowledging the logic of these concerns, although not necessarily agreeing with them, the Postal Service will in this reply focus primarily on the merits of MMME as an experimental product, under the standards and procedures created for considering experiments and market tests in 39 U.S.C. § 3641. Accordingly, it will not debate the policy considerations that underlie simplified addressing. In this regard, the Postal Service emphasizes the critical importance of experimentation and practical market research in the statutory scheme created by the Postal Accountability and Enhancement Act (PAEA). Especially in the current, challenging economic conditions, and in light of the evolving trends involving alternative means of communication that have undermined the Postal Service's revenue base, it is extremely important that the Postal Service be permitted to test new ideas and approaches that will promote and invigorate mail usage

MMME reflects a judgment that has evolved over many years of communicating with existing mailers and potential customers about opportunities to increase use of direct mail. The Postal Service is attempting to respond to commercial entities who might consider direct mailing, as well as to the Commission's urgings to create mail

² See Postal Bulletin 22300 at 46 (December 16, 2010).

products and services that meet the specific business needs of businesses, large and small. By approving this test, the Commission will be enabling the Postal Service to test an approach that has the potential to bring in many new business users, increase incremental volume and revenue from existing infrequent small-volume mailers, and provide a less restrictive mailing option for all businesses to compete with alternative marketing channels.

Pursuant to 39 U.S.C § 3641(b), there are two major conditions that the Commission must consider in reviewing the Postal Service notice of an MMME market test. MMME should be a significant product different from any product that the Postal Service has offered in the past two years, and the introduction or continued offering of MMME should not create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer, particularly in regard to small business concerns. 39 U.S.C. § 3641(b). The Postal Service addressed both of these factors in its Notice of the United States Postal Service of Market Test of Experimental Product – Marketing Mail Made Easy, January 12, 2011 (“Notice”), but believes that, in light of the comments, it would be helpful to explain in greater detail why the Postal Service satisfies these conditions.

From the viewpoint of mail users, MMME would be significantly different from products offered by the Postal Service within the two-year period preceding the start of the test. 39 U.S.C. §3641(b)(1). The key distinctions from existing product offerings are (1) the absence of the need to apply for permits and pay mailing fees to use the mail at Standard Mail prices, (2) the single price for such mailings, and (3) the ability for the customer to enter the mailings at retail units. The Postal Service wishes to test this

streamlined approach to mail usage in order to evaluate through practical experience long-expressed claims by potential customers that obtaining permits and paying mailing fees hinder small businesses from trying out Standard Mail advertising.

The Public Representative and Valpak assert that the introduction of MMME could disrupt the business of Mail Service Providers (“MSPs”). PR Comments at 4-6; Valpak Comments at 6-9. MMME, however, was designed so as not to create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer, particularly in regards to small businesses. MMME is not restricted to any type of customer. While the focus of the product is to offer a simple solution for small and medium-sized business to enter direct mail, any limitation on use of MMME is based on the product itself, not who can use it. MMME is available to any mailer who desires to reach all available deliveries in one or more carrier routes. Absent MMME, a mailer wishing to reach households or businesses in multiple delivery units would be required to obtain a permit (and pay associated fees) at every delivery unit in order to enter mail at that unit. The mailer would also potentially be required to take mail to a Business Mail Entry Unit (“BMEU”) (often many miles away from the local retail unit) for acceptance, only to create additional documentation (e.g. Form 8125) prior to making an additional trip back to the retail unit. By eliminating these steps, MMME would create a more user-friendly experience for the small volume mailer, while reducing the amount of postal time and effort necessary to accept, verify, document, and transfer mail through a BMEU, back to the retail unit responsible for delivery. MMME thus provides a bundle of conveniences and streamlined procedures calculated to overcome current reluctance to engage in direct mailing in many, primarily local commercial markets.

No mailer has been excluded from using MMME. Small and medium-sized businesses may be the most logical beneficiaries of this product; however, any mailer, regardless of size or business type, who meets the basic eligibility requirements, may use this service. MSPs can market this product to the same customers the Postal Service might target, and also offer this product to its existing customers. Any cost saving that the Postal Service could pass on to small and medium-sized businesses are available to the MSP for its customers.

By attracting new customers to using the mail, MMME could actually help mail service providers by creating a new source of customers. Thus, MMME might provide MSPs with additional print and mailing volumes, plus an opportunity to develop these new customers into more robust targeted and data-driven direct mail programs and services.

As indicated by several commenters, mail service providers provide one means for small businesses to mail without directly obtaining a permit. E.g., Calmark Comments at 2; Brenard Comments at 1; Valpak Comments at 5. While mail service providers offer many small businesses a means to enter the mailing market, the Postal Service believes that many businesses would benefit from direct mail advertising, but have not tried the mail despite the existence of mail service providers.³ Independent research demonstrates that most small businesses do not use direct mail at all. See, e.g., <http://www.pgccreative.com/blog/?p=151>; <http://www.dmnews.com/small->

³ NAA is wrong to claim that “[t]he thrust of MMME will be to cannibalize its current Standard [M]ail volume by competing against its own customers in the advertising market, including newspaper TMC programs that pay the higher High-Density rates.” NAA Opposition at 7. MMME’s focus is on simplifying the process for new mailers, and removing permit fees. MMME provides few benefits to existing mailers, who are using an MSP or have already paid permit fees.

[businesses-to-use-e-mail-for-mothers-day/article/95527/#;](http://www.emarketingandcommerce.com/article/e-mail-laps-other-holiday-marketing-channels-small-businesses/1)

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Some have argued that MMME's elimination of permit and associated fee requirements would be discriminatory or unfair. Brenard Comments at 2; NAA Comments at 10; Valpak Comments at 6, 9-12. However, in some respects, MMME places customers under more restrictions than those who mail the traditional way. MMME is offered only as a retail transaction. Other mailing options currently available to traditional permit mailers will not be available to MMME participants. Current permit holders have many options for when, where, and how they mail, as well as the weights, formats, quantities, and prices they pay. Unlike current permit holders, MMME mailers are limited in the shape, weight, location, volume, and frequency of each mailing.

The Postal Service believes that MMME will entice new mailers who are not currently utilizing the mail, as well as increase potential volumes from some of the smaller mailers who have utilized the mail in a very limited quantity up to now. By reducing barriers to entry, the Postal Service is developing a means for more prospective customers to experience the benefits of a very basic mail service, thereby creating an on-ramp to much more sophisticated direct mail campaigns. MMME's limitations undercut any claim that the Postal Service is using MMME to its competitive advantage.⁴ Thus, MMME would not create a market disruption, consistent with 39 U.S.C. § 3641(b)(2), for all of the above reasons.

⁴ NAA claims that the "removal of an addressing requirement for MMME mail . . . would give MMME a competitive advantage over the services sold by private mailing firms

Outside of the legal conditions necessary to satisfy 39 U.S.C § 3641(b), the comments expressed a few other practical concerns related to MMME and its effect on the Postal Service's costs. Some of the comments sought clarification of how the Postal Service would minimize in-office costs incurred by postal employees handling MMME mail from inexperienced mailers and how postage payments would be monitored without the use of a permit. One reason for limiting the size of each mailing is to reduce the time of each retail transaction, decreasing verification time at the window. Mailers will prepare bundles of 50 pieces, with postal-originated Delivery Statistics that provide specific piece counts required to saturate the delivery routes selected. Retail clerks would be able to complete the transaction in much the same way that other retail transactions are processed. Due to the maximum quantities permissible, each transaction should be completed within a few minutes (similar to times currently experienced for multiple parcel shipments, money orders, or other retail products and services). Because of the nature of each mailing, the format in which it would be presented for payment, and the documentation that would contain Delivery Statistics information originating from a postal source, the retail acceptance transactions would be expected generally to be simple for clerks to complete. Further, there would be procedures that would enable clerks to call a mailer back in the event that a discrepancy was identified after the mailer had left the retail counter. The Postal Service would also develop procedures to comply with Sarbanes-Oxley (SOX) requirements. Payment would be made based on documentation supported by postal

. . . ." NAA Opposition at 8. Simplified Addressing is not a feature of MMME, but rather an existing mailer option that is available outside of MMME. Participation in MMME would require use of that option.

Delivery Statistics information, which would include piece counts checked for accuracy against the number of deliveries for each route.

NAA argues that MMME would violate 39 U.S.C. § 404a, which prohibits the Postal Service from “establish[ing] any rule or regulation (including any standard) the effect of which is to preclude competition unless the Postal Service demonstrates that the regulation does not create an unfair competitive advantage for itself or any entity funded (in whole or in part) by the Postal Service.” NAA Comments at 8-9. First, as explained above, MMME would not establish an unfair competitive advantage for the Postal Service or related entities. Second, section 404(a) does not extend to pricing changes, such as the elimination of permit fees for MMME mailers, or their effect on “competition” between different sets of mailers.

NAA also claims that the Postal Service will not be able to track the volume and revenue for MMME, in order to ensure compliance with the revenue limits for market tests. NAA Opposition at 11-12. In particular, NAA is concerned that the Postal Service will not be able to track volume shifts to MMME from other postal products. Because MMME’s main benefits are for mailers who are not using the mail (and thus would otherwise have to pay permit fees), the Postal Service does not believe that such volume shifts will be significant. Moreover, the Postal Service is planning to track all volumes and revenues for MMME, including those coming from existing mailers.

The success or failure of this product will be evaluated based on total volume and revenue, in addition to the number of registered participants. Mailers would register through the Business Customer Gateway platform. The Postal Service hopes to grow overall revenues through the introduction of MMME. Postal costs are currently

measured in all areas of postal operations, including retail units. The market test will enable the Postal Service to compare product revenues to the cost impact on retail operations.

The Public Representative suggests that the Postal Service should attempt to gather more data about the affect of MMME on MSPs. PR Comments at 8-9. But the Postal Service cannot determine if a mailing “would have been mailed” using an MSP in the absence of MMME. This market test has one main purpose - to evaluate volume and revenue performance for the product. At the same time, MMME is expected to help the direct mail market, by bringing in new customers, and making them aware of the Postal Service and MSPs, too.

As noted above, MMME in large part would test an approach that will overcome conditions inhibiting growth of advertising mail among potential customers. By approving this test, the Commission will further its own urging to create mail products and services that meet specific needs of businesses, large and small. The information gained from MME as an experiment will enhance the Postal Service's ability to increase incremental volume and revenue from existing infrequent small-volume mailers, and provide a less restrictive mailing option for all businesses to compete with alternative marketing channels. Accordingly, the Postal Service respectfully requests that the Commission support the MMME market test.

Respectfully submitted,

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