

**BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001**

**Consideration of Technical Methods to
Be Applied in Workshare Discount Design**

Docket No. RM2010-13

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Initial Comments of Stamps.com

(February 18, 2011)

Established by Order No. 537 (September 14, 2010), this docket pursues issues relating to the efficiency of First-Class Mail. Order No. 568 extended the deadline for initial comments to today. As the leading provider of PC Postage, Stamps.com helps mailers to prepare mail, the plurality of it First-Class. Significant improvements in preparation have resulted. We think more can be done, and thank the Commission for the opportunity to address associated matters.

I. Background.

In the FY 2008 Compliance Review, Stamps.com explained that a discount for First-Class Mail prepared with the aid of PC Postage would be consistent with title 39 and could lead to a more efficient mailstream. In its Determination, the Commission indicated that then-ongoing Docket No. RM2009-

3 would “provide[] an opportunity for Stamps.com to make a more fully-formed proposal” (p. 51).

Accordingly, in RM2009-3, Stamps.com introduced Qualified PC Postage (QPCP), an advanced version of PC Postage, having cleansed addresses and an IMb. It would apply to single-piece letters. With Order Nos. 536 and 537 (both September 14, 2010), the Commission closed RM2009-3 and began this docket. Order No. 536 indicated that the QPCP proposal “remain[s] relevant and therefore appropriate to pursue” (p. 10).

Order No. 537 points to “[c]omments suggest[ing] de-averaging rates for First-Class Mail by indicia, ... ,and a form of pre-barcoding discount that would recognize the savings generated by single-piece First-Class Mail that is CASS-certified and bears an Intelligent Mail barcode” (p. 3). The position of Stamps.com is that de-averaging, often done along workshare lines, has the potential to increase the efficiency of the mailstream and the effectiveness of the Postal Service. With the on-going changes in the economy generally and in the use of the mail, these kinds of changes are important.

II. Change and Elements of Change.

The Postal Service helps consumers and organizations move letters, flats, and small parcels from an origin point to a specified destination. The essential things the customer needs to do are provide an address and pay for postage. But times change. Technology advances. The capability of customers increases. An increasing array of customer alternatives becomes available. The Postal Service has changed too.

We have seen ZIP Codes, barcodes, and the IMb. We have seen automated processing and the growth of computers. We have seen the advent of worksharing—a good example of discounts being used to help mailers and the Postal Service work together. The way the mail is prepared today is different from a decade or two ago. Improvement in the effectiveness of the mail has been the result.

Doing the same thing at a reduced cost is a gain. But the most important gains usually come from changes in behavior.¹ For example, getting mailers to use computers to put addresses in order before they are printed is a good thing. Similarly, getting mailers to provide good addresses and print barcodes are also good things. Whether called discounts or just separate rates, the key to such achievement is signals in rates. If appropriate signals are given, based on processing utility and Postal Service costs, mailers can make efficient decisions. If appropriate signals are not given, progress is stymied. It has become conventional wisdom that mailers respond mightily to signals. That responsiveness must be built on.

¹ Staying at a rate cap, it is possible to increase the rate of one mailer and decrease the rate of another, perhaps following costs. This will shift volumes somewhat and may cause a net gain to the Postal Service, depending on the costs and elasticities. But when a rate feature causes mailers to change their behavior, a step increase in the efficiency of the postal sector can be brought about. This in turn makes the Postal Service a more effective organization, as Congress intended. Behavioral changes include, but are not limited to, changing entry points, changing piece shape, changing preparation (e.g., containerization), improving address quality, and elevating the intelligence of the mail (i.e., the IMb).

As we note further on in the text, the volume of mail already qualified as QPCP is virtually nil. This means that the cap implications of a QPCP discount are virtually nil. Under these conditions, the discount becomes a net gain a fortiori, as Postal Service costs decline and operations are improved.

III. What Steps Are Needed?

It is clichéd to say that the Postal Service is under pressure. There are even those who suggest moving hard copy to a destination will become a thing of the past. Stamps.com disagrees. We believe a basic need will continue to exist, particularly if it can be met economically. It is important to work together to realize a low-cost, effective mail service. To this end, we believe further de-averaging of First-Class should be considered.² And appropriate rates must accompany any changes made.

Many of the workshare arrangements now in place are suitable for, and only suitable for, large mailers. But personal computers, connected to the Internet, now offer capabilities once not thought of. And these capabilities are available to the smallest of mailers—those left out of the great workshare leap.

Stamps.com has been working with small mailers to improve the quality, processibility, and security of their mail. These mailers include ordinary consumers (some tech savvy), small businesses, and some larger organizations. The larger organizations have mail that originates at many small distributed locations. We believe the kinds of mail our customers submit, and could submit, are low in cost to the Postal Service and consistent with a well-managed, smart mailstream.

² With presort rates, automation rates, and separate charges for letters, flats, and parcels, First-Class is much less averaged than it once was. Still, when faced with certain questions about the costs of bulk metered mail (BMM), the Commission said: “With adequate justification, a separate rate for BMM could be introduced, further increasing the rate design flexibility of the Postal Service” (FY 2009 Compliance Determination, p. 73). We believe improvement in the overall ability of the Postal Service to meet mailer needs and to remain viable is an adequate justification.

To go further, we have proposed that a version of PC Postage, with cleansed addresses and an IMb, be singled out and called Qualified PC Postage. And if the signal of a reduced rate is provided, we believe the volume of QPCP will grow substantially. This is the kind of improvement that involves mailers changing their behavior, for a net gain in postal effectiveness.

Presently, none of the mail prepared on our systems would qualify for the discount, because without an incentive for our customers or any customer demand, we have not enabled production of mail that meets all of the requirements for basic IMb. Less than 4% of the postage printed by Stamps.com customers is currently address cleansed barcoded First Class letter mail, capturing much of the cost savings that would be achieved by QPCP. This is again because few of our customers have taken the added effort and steps to cleanse their addresses and add barcodes. However, we believe the signal of a discount would prompt a large conversion. That is, mailer behavior would change.

An example of the kind of response we would expect is the remarkable use of similar discounts for using private computer systems to print postage for certain competitive products, especially Express Mail and Priority. Since the initiation of those discounts, postage volume for our customers in the discounted products has increased more than 50%, well in excess of the magnitude of the discounts. During 2010, our customers printed \$447 million of postage, up 26 percent from 2009. The bulk of this increase was accounted for by the competitive categories qualifying for discounts.

The justification for a QPCP discount centers on the importance of changes in mailer behavior, the difficulty of bringing small mailers into the automation mailstream, the value of a quality address, and the utility of an IMb (which aids in tracking and managing the mailstream). Also important are security and reliability aspects, that window service and physical stamps are avoided, and that there is no need for stamp cancellation. Some of these matters were faced when the current IMb discount was established. As of now, no measure of cost avoidance is available. We believe a meaningful degree of savings is clear. We also believe that the Postal Service could develop indicators of savings.

We believe a QPCP discount would also lead to increased use of advertising mail by small businesses. Today's small businesses are tomorrow's big businesses. Advertising mail has continued to be a successful marketing tool for large enterprise customers as they are able to take advantage of discounted rates and have access to sophisticated mailing specialists to manage their mailings. By offering small businesses QPCP, advertising mail will become more competitive with other marketing options available to small businesses. PC Postage software will also make it easier for small customers to get their mailings out the door. QPCP can serve as the on-ramp to direct mail. As the marketing budgets for these small businesses grow, so will their spend on direct mail advertising.

IV. Conclusion.

The days of one size fits all are gone. Mailers and the Postal Service must work together to help bring about an effective mailstream, one that continues to meet needs at a cost that makes mail viable. In other words, one song with harmony is better than two solos. De-averaging can promote harmony.

Stamps.com has proposed Qualified PC Postage as a low-cost mailing option. Associated changes in mailer behavior will lead to an increase in the efficiency of the postal sector. As discussed herein, we believe lower costs for the Postal Service will be brought about. We continue to encourage the Postal Service to consider such a change and we welcome Commission review.

Respectfully submitted,

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