



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

NOTICE OF PRICE ADJUSTMENT

Docket No. R2011-5

COMMENTS OF QUAD/GRAPHICS, INC.

Pursuant to Order No. 715 of the Postal Regulatory Commission (PRC), Quad/Graphics, Inc. submits the following comments in response to the United States Postal Service's (USPS) Notice of Price Adjustment for First Class and Standard Mail letters and flats.

The comments do not address specifically whether the planned changes are consistent with the policies of 39 U.S.C. 3622 and 39 CFR part 3010 as stated in Order No. 715, but rather will focus on the practicality of the proposal and the impact it can have on mail volume and revenue for the USPS as well the mailing industry.

1) Background

Over the course of the last 4 years mail volume declines have hurt not only the USPS, but printers and other mail service providers as well. It's important to note that mail volume declines in Standard Mail began in response to the 2007 price increase which was implemented prior to the recession that began later that year. The overall impact in the printing industry during that time has been reductions in pricing; job loss; overcapacity causing facilities closures; mergers and acquisitions; and a drive to create more value in print through innovated products, services and technologies.

2) Growing the Business

QR Codes or 2D barcodes are perfect examples of how we and others are taking a multi-channel marketing approach to adding value to our clients' mail. The formula is actually very simple: value-added = increased response rates = mail/print volume growth. Innovation is certainly not limited to QR Codes. Many other new ideas and concepts are being developed to ensure that print remains relevant and is the first choice for marketers in their multi-channel mix. It's important that the USPS is in lockstep with mailers in that regard. This proposal indicates that the USPS is taking a more business-like approach to growing the mail and is, in essence, willing to partner with the mailing industry in achieving that goal.



Retailers are increasingly using the technology to provide e-coupons to consumers or provide an “insider” exclusive content and build brand awareness. A wide range of diverse marketers have used QR codes to promote their products with tremendous success, here are a few examples:

- QR codes allow readers to watch bonus videos directly on their Smartphone
- Magazines incorporate QR codes into a feature highlighting multiple products. Readers who were interested in getting more information about the products are able to scan the codes and are then driven to mobile web pages.
- QR codes placed on brochures that allow users to download specific apps directly to their phones.
- QR codes provide readers with more information about items featured in fashion and other pop culture magazines. Users are able to order products directly on line using the link or view trailers of upcoming movies.
- Marketers use QR codes to give away products through sweepstakes to smartphone users who scanned a QR code.

These are all examples of how marketers are beginning to use QR codes as part of a multi-channel marketing campaign and in all cases the campaign begins with print as the vehicle for delivering the QR code to potential customers. This promotion by the USPS will help to encourage even greater use of this innovative tool and in turn increase postal volumes.

3) Cost Coverage Concerns

While we understand the concerns expressed by the PRC in the 2010 Annual Compliance Determination related to Standard Mail flats cost coverage, we don’t think that it should preclude the USPS from using the pricing flexibility granted them in the 2006 Postal Accountability and Enhancement Act (PAEA). The 3% reduction for mailings with mailpieces that contain the 2D barcodes will encourage catalogers and direct marketers to utilize the technology. The lower postal cost will then provide an opportunity to print and mail more copies since it will not impact the total spend for those mailings. Since larger volumes generally lead to higher percentages of carrier route qualified mail which as a subclass does cover its costs, this proposal should help to relieve cost coverage concerns in the short term and for the relatively short duration of the program.

4) Volume and Revenue Growth

As previously mentioned, we should see an increase in volume during the July 1 – August 31 timeframe because the lower postal cost provides the opportunity to add more pieces to the mailing for the same price. The beauty of this type of incentive program is that it should provide short term volume



growth as mentioned, but because response rates should increase it will provide longer term opportunities for catalogers and direct marketers to mail more to their customers as well as doing more prospect mailings.

Unfortunately, not all mailers who take advantage of the discount will increase volumes in the short term. That's mainly because of the timing of the filing. Schedules and inventories are generally set for July/August, and some mailers just aren't able to make the necessary changes. Additionally, the supporting systems that are needed for the QR Codes do take some time to implement. As with previous incentive programs, we would have liked to see the USPS provide more lead time for our clients. With that said, we are still experiencing a great deal of interest from clients who have been considering the testing of QR Codes. Since this will be mutually beneficial for Quad/Graphics, we expect to be able to provide the gateway for all interested clients so that they can participate.

5) Conclusion

For years, we have all told the USPS that they need to be more business-like. Since 2006 we have asked them to be more creative in their pricing strategy and to use the flexibility that PAEA afforded them. With the filing of this proposal, the USPS has signaled intent to do just that. This is a simple approach to driving mail volume and growth. It's the same approach and strategy that we practice. It should be easy to administer, and it should be easy for mailers to participate. We fully support the QR Code discount and would encourage the PRC to accept the USPS's proposal. We are encouraged by the USPS willingness to implement this incentive and we would encourage the USPS to continue to work with marketers and their partners to implement innovative approaches as part of a multi-channel marketing strategy. QR codes are a valuable tool and will be even more valuable when combined with the latest targeted marketing strategies that work together to drive results by connecting marketers with willing consumers. It is our hope that after evaluating what we expect will be the success of this program the USPS continues to look for ways to incent the use of print an overall marketing campaign. We appreciate the opportunity to express our comments in this matter.

Respectfully submitted,

Joel Quadracci
President, CEO and Chairman
Quad/Graphics