

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

MARKET TEST OF EXPERIMENTAL PRODUCT –
MAIL WORKS GUARANTEE

Docket No. MT2011-4

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
IN RESPONSE TO ORDER 717
(May 6, 2011)

In Order No. 717, the Postal Regulatory Commission (“Commission”) established this docket to consider the Notice of the United States Postal Service of Market Test of Experimental Product - Mail Works Guarantee (“Notice”), filed pursuant to 39 U.S.C. § 3641. Comments were due by April 29, 2011 and reply comments are due today. Comments were filed by the Public Representative (PR) and the following is the Postal Service’s reply to those comments.

I. INTRODUCTION

The Mail Works Guarantee is a program targeted at companies who spend a minimum of \$250 Million annually on advertising, as identified by Advertising Age magazine, but for whom postage is less than 0.36 percent of those funds. During the test, the Postal Service will prudently select 16 companies representing a cross section of different industry segments, such as restaurants, retail, health/beauty, e-commerce, pharmaceutical, and consumer products. The Postal Service will work with each company who chooses to participate in the market test to design a direct mail campaign to test the effectiveness of advertisements for their products using First-Class Mail and Standard Mail. A set of metrics will be jointly developed, based on the specific

objectives of each company, to measure the effects of the direct mail campaigns. Using these metrics, a required achievement threshold will be established to evaluate the success of each campaign. For example, a retail company's direct mail advertisements could be designed to increase store traffic; an e-commerce company's offer could be designed to drive Web traffic; or a consumer products company's offer could be designed to promote increasing sales of a specific product. Each participating mailer would be limited to one campaign during the market test, although one campaign could consist of multiple mailings. Each campaign would be required to consist of a minimum of 500,000 pieces, up to a maximum of 1 million pieces of First-Class Mail or Standard Mail. The results of the campaigns would be assessed according to the pre-established metrics. If a campaign did not meet the threshold for success, the mailer would be eligible for a refund of postage spent on disseminating the advertisements, limited to up to \$250,000 of any postage paid.

The Public Representative's comments focused on the Postal Service's methodology for selecting participants and calculating postage credits in the Mail Works program. He identified particular additional information he considers would be necessary for the Commission to review the market test. The Public Representative believes that supplying this additional information would allow the Commission to determine whether the methodology applied to the selected participants would create an unfair otherwise inappropriate competitive advantage for any mailer, and whether the Postal Service possesses the requisite expertise to negotiate metrics which aren't overly optimistic.

These reply comments will address the PR's comments in the context of the specific requirements established under 39 U.S.C. § 3641 and the general purposes of testing and experimentation in the statutory scheme, and in light of current economic and market conditions affecting mail revenues. As indicated in the Postal Service's Notice, the top advertisers in America represent \$90 Billion in total expenditures for media advertising. The Postal Service is trying to find inventive ways to increase its share of the pie, which is currently 3.1 percent or \$3 Billion. In light of the erosion of mail volumes and revenues during recently depressed economic conditions, as well as growing trends towards alternative means of communication, which have destabilized the Postal Services' revenue base, it is critically important that the Postal Service exercise opportunities to test new ideas and approaches that will promote and invigorate mail usage. If successful, the Mail Works experiment will help the Postal Service to refine and employ a means to incentivize mailers to consider direct mail through advertising campaigns designed to meet specific business needs.

II. SECTION 3641 CONDITIONS

Pursuant to 39 U.S.C § 3641(b), there are three major conditions that the Commission must consider in reviewing the Postal Service's notice of the Mail Works Guarantee market test. The Mail Works Guarantee should be a significantly different from any product that the Postal Service has offered in the past two years; it must be correctly categorized as market-dominant or competitive; and the introduction or continued offering of the Mail Works Guarantee should not create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer. 39 U.S.C. § 3641(b). The Public Representative agrees that the Mail Works Guarantee, categorized

as market-dominant, is significantly different from other products offered by the Postal Service in the past two years, but is unsure whether this test will create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer. The Postal Service addressed the issue of preference in its Notice, but believes that, in light of the PR's comments, it would be helpful to explain in greater detail why the Postal Service satisfies this condition.

A. Test Will Not Create Unfair or Inappropriate Competitive Advantage

In its Notice, the Postal Service explained how it would approach selecting companies to participate in this market test. The PR suggests that participation in the market test by itself could present an opportunity for a participant to gain a preference over current mailers or companies who meet the initial eligibility requirements, based on the possibility that a participant could receive a refund for any postage that it paid. The PR also explains that one participant in the market test could have a competitive advantage over another participant through the different direct mail advertising arrangements that are negotiated, and that these negotiated agreements should be publicly disclosed.

This market test is designed to test the effectiveness of offering refund incentives to induce potential customers to try a different method of advertising than they currently employ. As the PR notes, this is similar to a "money-back guarantee" commonly used by companies seeking to induce purchase of their products. The PR attempts to distinguish the Mail Works program, however, by arguing that, here, the product to be guaranteed is the delivery service, and that only dissatisfaction with the service actually provided would suffice to justify a monetary inducement to try the service. In this

regard, the Postal Service submits that the PR is applying an overly narrow view of the rationale behind the Mail Works guarantee. Here, the business the Postal Service is attempting to stimulate is use of mail as an advertising medium, rather than just the delivery service, as opposed to using some other method or competitor to deliver a physical object. In this broader context, providing refund inducements to businesses who currently do not use mail to advertise is perfectly logical, and could be an effective means to increase mail usage. Moreover, the “birthday gift” analogy the PR uses is inapt. The PR suggests that the Postal Service would not be qualified, or would be unhelpful, as a consultant on the effectiveness of uses of mail, and that the experiment would not be enhanced by the mechanism the Postal Service has proposed. On the contrary, the Postal Service commonly sells mail usage, particularly Standard Mail, which is principally an advertising medium, by providing advice to potential mailers about the effectiveness of mail as an advertising medium, as well as the most effective mailing patterns in particular markets. In this regard, the rationale behind the Mail Works guarantee is especially enhanced by the design of the program, which attempts to exploit specific objectives sought by particular mailers.

Furthermore, in the past and currently, the Postal Service has offered other incentives for current mailers and new mailers to increase the volume and revenue that they bring to the Postal Service. The Summer Sales, which have been volume based, and the Every Door Direct Mail initiative and the proposed Mobile Barcode Promotion, which are not volume based, are examples. Each of these incentives is specifically tailored to target a different business population by providing money incentives. The Mail Works Guarantee, as an experiment, targets a few new large business mailers who

currently do not use much mail to advertise. In this regard, the Public Representative acknowledges that the small number of participants in the market test will limit the probability of competitive advantages between the test participants and other companies. Moreover, any new business acquired through this test would benefit all mailers by providing additional contribution to offset costs.

Using data from Ad Age's Top 100 Leading National Advertiser (LNA) listings and other data, the Postal Service has narrowed the body of companies eligible to participate in the test to those who spend \$250 million in annual advertising but less than 0.36% of those funds on postage. From the Postal Service's view, a modest subset of 16 companies would provide a manageable initial population of companies across a diverse selection of industries, while minimizing the Postal Service's financial risk. Initially, the Postal Service has identified a cross section of 16 companies, in different industries, that it would like to approach to discuss participation in the market test. The Postal Service's selection of participants would depend on negotiations with individual companies. If companies originally consulted were not interested, the Postal Service would select additional companies to approach, including those companies who meet the requirements and might have contacted the Postal Service to express an interest in participating. The Postal Service would, however, maintain its goal of getting a representative body of participants from different industry segments.

Once the list of 16 companies was finalized, a team led by a Postal Service Officer, including relevant Postal Service experts and Sales personnel would begin working with each participant to design a campaign focused on driving direct mail volume. Contrary to the PR's assertion, no one participant would have a significant

opportunity of obtain a preference over the others, since they would represent different industries or business types, and a unique metric based on the company's individual business and advertising objectives would be developed jointly with the Postal Service. The individualized metrics would not be constrained by a generalized formula, but would be assessed for each particular participant according to whether they were reasonable, quantifiable, and based on some historical measurement previously used in the company's advertising campaigns.

Further, there would be nothing preventing non-participating customers from working with the Postal Service to develop direct mail campaigns, which already happens today. Rather, the program would target customers who currently do not use the mail to advertise, with the objective of exploring the potential advantages of using mail as an advertising medium. To argue that this limited experimental approach to generating mail business should be avoided, because competitors of current mail users might benefit from the effectiveness of mail advertising, would undermine the general goal of using market test and experimental procedures under the PAEA to promote the Postal Service's finances generally.

The PR reasons that the list prices for postage products may be the same, but direct mail advertisers enjoying the potential for a full credit of postage would be placed at a competitive advantage compared to other direct mail advertisers with whom they may compete, but who are not eligible or selected for the test. Users of the Mail Works Guarantee whose campaigns are successful, however, will pay list prices for current products. The test is unlikely to cause disruption within the advertising-mail market, since the participants will be facing the same terms and prices as existing advertisers.

Refunds of postage paid will only be made if a campaign is unsuccessful, in which case, current users of the mail still will not have been harmed, since their competitors who participated in the test will not have benefitted according to their original objectives.

The PR also doubts on the Postal Service's expertise in negotiating the metric on which the success of the program hinges. However, the Postal Service has worked with direct mail advertisers for many years to improve the performance of mail campaigns designed to achieve a certain goal or objective. The selection of a success metric will be a collaborative process between the Postal Service's direct mail subject matter experts and the marketing/advertising team within the selected companies. Additionally, the Postal Service will not by itself measure the success of these campaigns. This will be a joint effort with the participating companies, based on the campaign objective and measurement criteria. Further, it is in the Postal Service and the participating company's best interests to negotiate a metric that is measurable, based on industry standards, and the companies' historical advertising targets that are attainable.

The objective of this campaign is to prove to multi-million dollar advertisers that the mail can improve a marketing return on investment. Based on the size and scope of these organizations, combined with the scale of their current marketing spends, the benefit of an overly optimistic forecast, solely for the purposes of gaining postage credit, would likely be negligible. If the company had chosen to participate, then it is likely that the company would be interested in discovering the benefits of direct mail. The Postal Service believes that it is unlikely that such a company would purposefully set a metric that is overly optimistic in order to get free postage. In any event, based on its long experience interacting with current and potential customers in

direct mail campaigns of all sizes, the Postal Service is confident of its abilities to assess the motivations of potential participants. Alternatively, even if the metric were designed to be overly optimistic for purposes of receiving the refund, but the direct mail campaign was otherwise successful, in other respects, that participant might be likely to use the Postal Service again for its advertising needs, resulting in a new mailer, new volume and new revenue. The narrow goal of securing lower postage expenses to advertise itself might suggest that the company could be inclined to believe it could benefit from direct mail, beyond the temporary and limited benefits from participating in the experiment.

B. Data Collection Plan

Ultimately, the PR reasons that publicly disclosing the negotiated agreements in the market test, as well as the calculations that measure successful campaigns, and any postage credits would be the only way to maintain sufficient oversight of the negotiated contracts. The Postal Service does not agree with this premise and had intended to work under non-disclosure agreements due to the commercially sensitive nature of advertising campaigns. A company's direct mail campaign strategy consists of information of a commercial nature that under good business practice would not be publicly disclosed. Revealing such information would provide a competitive advantage to competitors of the company and might deter good candidates from participating. The Postal Service considers that it is highly probable that, if this information were made public, competitors of participants would take immediate advantage of it, and there would be a substantial risk that the participating company would lose business as a result. Competitors could use the information to assess the advertising strategies used

by the participating company to learn comparative vulnerabilities and focus sales and marketing efforts on those areas, to the detriment of the participating company. The competitor could then target its advertising and sales efforts at the participant's customers for that same type of product or offering, hindering the participating company's ability to reach out effectively to those customers and potentially sabotaging the direct mail campaign.

III. CONCLUSION

As noted above, the Mail Works Guarantee would test an approach designed to eliminate inhibitions preventing large mailers from trying Postal Service direct mail products for their advertising needs. As an experiment, it could enhance the Postal Service's ability to increase incremental volume and revenue from large volume mailers. The test, furthermore, would further the Commission's previously-expressed interest in persuading the Postal Service to create mail products and services that are designed to meet the specific needs of businesses. Accordingly, the Postal Service respectfully requests that the Commission support the Mail Works Guarantee market test.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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