

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

Annual Compliance Report, 2010

Docket No. ACR2010

**Statement of the American Catalog Mailers Association in Support of the
Postal Service's Motion for a Stay of the Remedial Provisions Regarding
Standard Flats Set Forth in the FY 2010 Annual Compliance Determination**

(May 24, 2011)

The American Catalog Mailers Association (ACMA) hereby submits this statement in support of the Postal Service's motion for a "stay of those portions of the FY2010 Annual Compliance [Determination (ACD)] Report (March 29, 2011) in which the Postal Service is directed to take specific remedial action regarding the Standard Mail Flats product." Postal Service Motion at 1 (May 17, 2011).

One part of the remedial action ordered by the Commission on March 29 is the presentation by the Postal Service, within 90 days, of "a schedule of future above-CPI price increases for Standard Mail Flats." ACD at 107. On April 27, the Postal Service filed in the US Court of Appeals for the DC Circuit a petition "for review of the Findings and Orders" of the ACD. Petition at 1. Until the court has concluded its review, the creation of a "schedule of future above-CPI increases for Standard Mail Flats" would be harmful and wasteful to both the Postal Service and its customers. We respectfully urge the Commission to grant the stay.

I. Announcing a Schedule of Price Increases Would Be Harmful to Future Mail Use

With paper contracts and overseas purchases, the planning process for catalog mailings is often long, and thus an announcement of future rate increases could depress future volume to the detriment of the Postal Service regardless of the outcome of the review proceeding in the court of appeals. The inputs to this process,

including postal rates, are complex. In degrees that vary, the usual steps are to qualify mail for High-Density or Carrier Route, then for 5-digit, and then for 3-digit and coarser.¹ The focus is on all of these rates, since it is the average cost per piece that is determinative. Accordingly, an increase in the 5-digit rate would have a negative effect on Carrier Route mailings as well.

Considerations relating to this process are on-going now. We are concerned, however, that an announcement of a schedule of significant rate increases would further dampen planning activities, leading to lower postal volumes and greater attention to the development of effective substitutes, even if those rate increases are never implemented. Once marketers migrate to lower-cost methods, their mail can be expected to be lost forever. This should be avoided if possible.

II. The Difficulty of the Situation Being Faced by the Postal Service Adds to the Importance of Care in Proceeding, and Thus Adds to the Importance of a Stay

In the face of baffling costs being reported, the Postal Service is concerned about its overall flats volume. Time is needed to look into these matters. Taking inappropriate steps could harm all concerned. Undoing such steps might not be a process of repair.²

¹ In fact, an entire process known as “add-a-name” has been created to move as much mail as possible into higher density Carrier Route rate bands. After the circulation decisions have been made on the merits of known customer and prospect attributes, an additional pass through possible circulation files is then made to add one or more customers where the current density is just below the threshold to qualify for lower-cost Carrier Route or High Density flats rates. Co-mailing is another process that has developed and is in widespread use to increase volume in the lower-cost, higher-density rate bands.

² The effects of the large rate increase associated with the R2006-1 adjustment are illustrative. Despite ongoing demographic trends favorable to catalog purchasing, ACMA estimates that catalog volume has declined from 2007 to 2010 by about 35%, removing some 6 billion catalogs from circulation annually, with nearly half of these from Carrier Route. More troubling, there are thousands of catalog companies that have closed or gone bankrupt, including some thought well-established. We know of other companies that are struggling financially due to the compound impact of the large rate increase and the deep recession. With declines in the twelve-month counts of catalog customers, the universe of mailable names has contracted. Each individually would be troubling, but taken together

By our estimate, Standard Flats had a cost coverage of 104.5 percent in FY 2005, including the Nonprofits. Since then, the rates have increased 35 percent³, the cost levels have increased 72 percent⁴, and the cost coverage has declined to about 82 percent. Though imperfect, the graph contained in our reply comments in this docket was indicative of the cost increases. And Carrier Route has not been immune. Since the FY 2006 costs projected in Docket No R2005-1, its mail processing and delivery costs, over 90 percent of its total costs, are up 57 percent and 73 percent, respectively. Strangely, though, the costs of letters have not increased nearly as much.

The Postal Service needs to get a handle on these things, which may take time. Costs that increase inordinately, as reported, suggest excess capacity and inefficient incurrence. They defy the volume-variability assumptions (or analyses) behind them, and are thus not causal. They should be candidates for decreases. In addition, there is the implication that volume losses, including in Carrier Route, might not be accompanied by cost declines. This means sheer revenue losses, unmitigated by a cost response, which is a prescription for net losses of some magnitude.

A stay will increase the freedom of the Postal Service to grapple with these issues, consistent with the flexibility anticipated by the new law, and to consider the best course. It has a portfolio of products, all of which need attention. Balancing

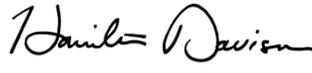
they present a picture of an industry in turmoil. It is unknown whether any of these trends will reverse, but they will certainly not reverse quickly.

³ To those who call for well above average rate increases on catalogs, we would point out that catalogs have already been receiving well above average increases. In the 2005-10 period, the CPI-U rose 14.3%, meaning users of Standard Flats have borne rate increases that are 2.4 times the rate of inflation.

⁴ Much has been written about the escalating costs of handling flats. While flats mailers and the Postal Service has done much in an attempt to address spiraling cost increases, clearly more work must be done to address this or correct any imprecision in the costs. Loss of flats volumes only compounds achieving a lower unit cost for flats.

rates properly is an assignment of considerable importance. Beyond flats, catalog mailers also send letters and cards in both Standard and First Class, and they use the Postal Service for parcel delivery. In total, the catalog segment is a significant contributor to overhead. Volume lost from the catalog industry has widespread effects and will reduce net income, hurting both the Postal Service and its customers. ACMA respectfully urges the Commission to grant the requested stay until the court has completed its review.

Respectfully submitted,
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