

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

MARKET TEST OF EXPERIMENTAL PRODUCT –
EVERY DOOR DIRECT MAIL RETAIL

Docket No. MT2011-3

REQUEST OF THE UNITED STATES POSTAL SERVICE FOR EXEMPTION FROM
REVENUE LIMITATION ON MARKET TEST OF EXPERIMENTAL PRODUCT –
EVERY DOOR DIRECT MAIL RETAIL
(November 18, 2011)

The United States Postal Service hereby requests an exemption from the revenue limitation of \$10,000,000 in any year during the test of experimental market dominant product – Every Door Direct Mail Retail (EDDM-R).¹ Section 3641 of Title 39, United States Code, establishes authority for the Postal Service to conduct market tests of experimental products. On March 1, 2011, the Postal Regulatory Commission (“Commission”) found that EDDM-R comported with the requirements of 39 U.S.C. § 3641 and thus approved the market test.²

EDDM-R is a Standard Mail Flats experimental product, which must meet the preparation requirements of the Simplified Address option for Standard Mail Saturation Mail, be flat-shaped, and weigh less than 3.3 ounces. An EDDM-R mailing does not require a permit or mailing fees, and, among other things, must be entered and paid for at a local Destination Delivery Unit (DDU) and not exceed 5,000 pieces per delivery unit.

¹ This product was originally named Marketing Mail Made Easy, but the Postal Service notified the Commission on April 1, 2011 that the product had been renamed Every Door Direct Mail (EDDM) – Retail. Letter from Brandy Osimokun to Shoshana Grove (April 1, 2011).

² Order No. 687 (March 1, 2011).

EDDM-R Background

Since EDDM-R launched on March 31, 2011, the total revenue for the experimental product has been about \$8.5 million. In recent months, the Postal Service has observed that EDDM-R usage has rapidly grown. Between March 31 and September 30, 2011, revenue was \$5 million. But, the revenue for October 1-28, 2011 alone was over \$2 million. Recent growth rates have been consistently over 20 percent per month. For example, in October 2011, EDDM-R volume grew about 23 percent over September 2011. Revenue for the weeks of October 29 - November 11, 2011 was over \$1.3 million. If the current demand for EDDM-R continues to grow, the Postal Service anticipates that it will reach the \$10 million revenue limitation for Fiscal Year 2012 within 2 or 3 months.

Section 3641 Criteria

Pursuant to 39 U.S.C. §§ 3641(e)(1) and (2), a product may only be tested under this section if the total revenues received by the Postal Service do not exceed \$10,000,000 in any year. However, the Commission may, upon written application of the Postal Service, exempt the market test from the limit, if the total revenues received by the Postal Service from such product do not exceed \$50,000,000 in any year, subject to subsection 39 U.S.C. § 3641(g). In reviewing such a request, the Commission shall approve such application, if it determines that (A) the product is likely to benefit the public and meet an expected demand; (B) the product is likely to contribute to the financial stability of the Postal Service; and (C) the product is not likely to result in unfair or otherwise inappropriate competition.

Customer Demand and Benefit of EDDM-R

EDDM-R is likely to benefit the public and meet an expected demand. The EDDM-R market test has already shown that sending advertising mail to every address within a community, with fewer rules, rates, and regulations, is a popular way to connect to potential local customers. There has been widespread interest in the product. As of November 8, 2011, over 18,000 small businesses had registered for participation in the market test, and the total revenue for the product this fiscal year has been \$3,410,612. Analysis of the usage by mailers, as reflected in the Fiscal Year 2011 Quarter 3 and 4 data collection reports, indicates that about 87 percent of the revenue is from new customers of the Postal Service.

As discussed in the original filing of the market test and observed during the market test to date, EDDM-R has enabled small and medium-sized businesses to communicate at low cost with their target marketing area. Small and medium-sized business marketers typically define their markets in geographic, rather than demographic terms. For instance, dry cleaners, local restaurant owners and franchisees, and small retailers often see their natural markets as being households within a certain radius of the businesses' locations. EDDM-R also has increased the value of the mail to the recipients, by providing local offers to all households within specified areas.

Many of these businesses have been non-mailers who perceived mail preparation requirements for products other than EDDM-R as too complex and too expensive for the relatively small trading areas they wanted to target. By providing the opportunity to mail without permits or related fees, and simplifying mail entry, the

EDDM-R product has enabled businesses to communicate by mail at low cost within their target marketing areas, while reducing two of the current major barriers to mail entry (complexity and cost).

EDDM-R Contribution to Postal Service Financial Stability

From the beginning of the market test until now, the total revenue for EDDM-R has been about \$8.5 million, with about \$3.5 million of that amount generated in the current fiscal year. Contribution has been approximately \$4.8 - 4.9 million, based on the Saturation Mail Flats cost coverage of 240 percent. This level of contribution helps preserve the Postal Service's financial stability, and should not be stopped because of the \$10 million base revenue limit for market tests.

EDDM-R Unlikely to Result in Unfair or Inappropriate Competition.

Although this product has been designed with small and medium-sized customers in mind, all customers, including Mail Service Providers (MSPs), are eligible to participate in the program. EDDM-R has generated additional volume from potential customers who do not currently use the mail. As previously stated, 87 percent of the revenue from EDDM-R has been from new mailers. These new mailers typically use MSPs for services including mailpiece design, printing, and mail preparation and entry. Examples of types of MSPs being used include medium-size printers, who offer on-line turn-key packages for EDDM-R, and also national storefront franchisee printers, who have promoted EDDM-R at their stores. EDDM-R has provided an opportunity for MSPs to attract new customers, as well as expand their businesses with existing ones.

The Postal Service offers a kit to MSPs on how to promote EDDM-R to local businesses. The kit has been ordered by over 8,000 MSPs.

Additionally, EDDM-R does not eliminate or increase the cost to small or medium-sized businesses that already use, or have the option to use, the services of MSPs, or that use shared mail to establish a presence in the mail. Non-mail options for advertising also have remained competitive. There is no reason to believe that creating and mailing an EDDM-R advertising piece, including design and printing, is significantly less expensive than currently available advertising options. The attraction of EDDM-R lies in its convenience. EDDM-R enhances the role of mail as one among many options for small business to get their message to their audience

Further, EDDM-R is designed to be part of an integrated marketing plan for small and medium-size business. Small and medium-sized business marketers with limited budgets currently engage with customers and prospective customers via various advertising media and electronic channels, including local radio and television advertising, newspaper ads, various kinds of display advertising, internet banners and e-mail. EDDM-R, rather than substituting for other media, has enhanced the businesses' ability to use mail as part of their total plan.

Conclusion

As discussed above, EDDM-R benefits the public and has met an expected demand. It has contributed positively to the financial stability of the Postal Service, by promoting the mailing of Standard Mail flats. However, the Postal Service anticipates that annual revenues will exceed the \$10,000,000 limitation this fiscal year and during

the remainder of the market test, so it requests that the Commission exempt this market test from the \$10,000,000 annual revenue limitation, under 39 U.S.C. § 3641(e)(2). The immediate extension is necessary due to the likelihood that the \$10 million cap will be exceeded in the next two or three months. The annual revenues from the market test are not anticipated to exceed \$50,000,000 (as adjusted by the change in the Consumer Price Increase since 2007, as determined by the Commission) in any year (Sections 3641(e)(1) and 3641(g)).

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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