

FY 2011 Nonprofit Mail Cost Approximations

I. PREFACE

A. Purpose and Content

USPS-FY11-27 approximates the unit costs, total costs and contribution associated with Nonprofit Standard Mail by using the volumes and revenues associated with Nonprofit Standard Mail in conjunction with estimated unit costs by product, shape and rate category for Standard Mail. Because the Postal Service's data systems do not collect cost information separately for Nonprofit and Commercial mail, the estimated costs reported for Standard Mail represent costs for the combined categories. Although it may be reasonable to assume, for instance, that an Automation 5-Digit Nonprofit letter and an Automation 5-Digit Commercial letter would have similar costs, there may be cost-causing characteristics which are not explicitly incorporated into the cost models and which may vary for Nonprofit as opposed to Commercial mail. The Postal Service does not represent that USPS-FY11-27 necessarily reflects the actual costs of Nonprofit mail, but rather, it approximates the costs of Nonprofit mail assuming that the costs of Nonprofit mail are the same as the costs of Standard Mail at the disaggregated level.

B. Predecessor Documents

USPS-FY10-27

C. Methodology and Changes from USPS-FY10-27 Methodology

The billing determinants for Nonprofit Standard Mail from USPS-FY11-4 for the full fiscal year 2011 were used as the source of the file display and the revenue and volume data. The estimated unit costs by product, shape, and rate category from USPS-FY11-30, NSA unit cost detail data calculation.xls, were used as the source of most of the estimated unit costs, with the detailed estimated mail processing unit costs for Standard Mail Parcels and NFMs obtained from USPS-FY11-12. The "Other Costs" were obtained by volume-weighting the unit costs already determined, summing and subtracting from the "CRASummary" total unit cost. As necessary, those unit costs were adjusted to accommodate the destination entry cost avoidances by shape from USPS-FY11-13. As the average costs for the categories of Standard Mail do not represent the transportation and nontransportation costs of "nondropship" mail, but rather, the weighted average of dropship and nondropship mail, the unit costs for nondropship mail are increased whereas the costs for dropshipped mail are decreased relative to the national average costs. The dropship adjustments for letters and flats include both the transportation and nontransportation cost avoidances, but for Standard Regular Parcels and NFMs, the nontransportation cost avoidances for various levels of destination entry are already included in the unit costs provided by USPS-FY11-12. Thus, the adjustment to Standard Regular Parcels and NFMs in tab "Dropship Adjustment" only includes the transportation dropship cost avoidances. The barcode

surcharge is obtained from USPS-FY11-12, the Standard Mail Parcel and NFM Mail Processing Cost Model.

For parcels and NFMs in the category formerly known as ECR, the Mail Processing costs were derived from USPS-FY11-18, FY11 ECR Unit Costs.xls, tab “Table 1”. Window Costs, Vehicle Service Driver Costs, and Transportation Costs were obtained from FY 11 NSA Unit Cost Detail Data Calculation.xls, tab “CRASummary” multiplied by the appropriate piggyback in tab “Piggys” and divided by the appropriate volume in tab “RPW”. Carrier Route Basic had separate costs from High Density and Saturation, but the costs for High Density and Saturation could not be separated out for these categories. The Delivery costs for Carrier Route Basic, High Density and Saturation were provided separately and were from tab “Delivery” in the same workbook. The “Other Costs” were obtained by volume-weighting the unit costs already determined, summing and subtracting from the CRASummary total unit costs for Carrier Route Basic, and High Density and Saturation Flats and Parcels. Total Costs for each were the sums of the unit costs, including the “Other Costs”.

The unit costs were applied to the appropriate Nonprofit volumes to approximate the total costs. In order to ensure that the costs would add up by category, in some instances in which the volumes were zero, in order to prevent the spreadsheet from displaying “#DIV/0!” and thus preventing the summation of costs, formulae related to zero-volume categories were overridden and manually set to zero costs. The total costs, revenues and contribution by product are summarized. The unit costs for some of the dropshipped High Density parcels turn negative when the adjustment for dropshipping is made to the average costs. This result is likely due to the inability of the cost systems to adequately establish separate costs for High density and Saturation pieces, and due to the extremely small volume of these parcels. These anomalies affect fewer than 3,500 pieces, however, so the impact on the aggregate result is negligible.

A methodological change from USPS-FY10-27 is the addition of the tab “ECR FLATS (ltr-shaped) P. C2-3”. This tab appears in the billing determinants for the first time in FY 2011. The unit costs for these letter-shaped flats are derived by reference to the same unit costs used for other Carrier Route Basic, High Density and Saturation flats.

D. Input/Output

The Nonprofit Standard Mail cost approximations obtain the information from:

<u>Input Source</u>	<u>Input Description</u>
USPS-FY11-2	Standard Mail Parcels and NFMs costs by cost segment
USPS-FY11-4	Standard Mail billing determinants

USPS-FY11-12	Standard Mail Parcel/Not Flat-Machinable Mail Processing Unit Cost Estimates and Unit Cost Avoidance by Barcoded Parcels
USPS-FY11-13	Standard Mail Destination Entry Cost Avoidance Estimates
USPS-FY11-18	FY 2011 ECR Mail Processing Unit Costs
USPS-FY11-19	Unit Cost of Detached Address Labels
USPS-FY11-30	FY 2011 Detailed Unit Costs

The approximated Nonprofit Standard Mail costs and contribution figures are used in USPS-FY11-33, Rule 3050.14 Alternative Format Report – Public Version.

II. ORGANIZATION

In addition to this preface, USPS-FY11-27 consists of one Excel file, StandardNonprofit2011.xls.