

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

NOTICE OF PRICE ADJUSTMENT

Docket No. R2012-6

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 1
(March 8, 2012)

Chairman's Information Request (CHIR) No. 1 was issued on March 2, 2012. The request sought answers no later than March 8, 2012. Attached are the Postal Service's responses to Questions 1-5.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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March 8, 2012

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

1. Attachment C to the Notice estimates the expected revenue forgone as a result of the 2012 Program. Please provide disaggregated versions of Tables 5 and 9 that separately show the expected contribution for the Standard Mail Flats product and the Carrier Route product.

RESPONSE:

Please find the disaggregated versions of Tables 5 and 9 in the excel workbook (*AttachmentA.xls*) filed with this response.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

2. In Docket No. R2011-5, the Postal Service stated that

If the Postal Service did not allow Standard Flats to participate in the program, it also would be effectively eliminating Carrier Route Flats from the program, because more often than not, Carrier Route and Standard Flats are entered into the Postal Service system together on a single postage statement from the customer.

Docket No. R2011-5 Response to Chairman's Information Request No. 1, question 1, April 29, 2011. Please explain if this statement remains true.

RESPONSE:

It is no longer true that the design of the postage statement means that removing Standard Mail Flats from the promotion would also effectively eliminate Carrier Route Flats from the promotion. However, for other reasons, the exclusion of Standard Mail Flats from the 2012 promotion would be counterproductive and interfere with the long-range goals of the initiative.

During the 2011 promotion, the process for calculating the postage discount made it nearly impossible to exclude Standard Mail Flats without also effectively excluding Carrier Route Flats. In particular, the Postal Service applied the 3 percent postage discount to the entire postage statement.¹ Therefore, all of the pieces in a mailing needed to qualify for the promotion.² This was particularly problematic for the mailers of Carrier Route and Standard Mail Flats (retailers and cataloguers), because they typically entered both products into the Postal Service system on a single postage statement.³ However, this problem has been resolved in the 2012 promotion, because

¹ Docket No. R2011-5 Response to Chairman's Information Request No. 1, question 1, April 29, 2011

² *Id.*

³ *Id.*

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

the 2 percent postage discount will now be applied to "line item" totals on the postage statement.

Nevertheless, the Postal Service believes that the exclusion of Standard Mail Flats from the promotion would be counterproductive and would harm the long-range goals of the initiative. Carrier Route and Standard Mail Flats are mailed by the same customers. Though technically classified as separate products, these customers treat Carrier Route and Standard Mail Flats as merely being different mail preparation requirements for the same mailpieces (i.e. catalogs, fliers, etc). This behavior is illustrated by the Postal Service's response to Question No. 3 of this Chairman's Information Request. In that response, the Postal Service shows that only 9 percent of Standard Mail Flats pieces in the 2011 promotion were not mailed in conjunction with a Carrier Route, High Density, or Saturation mailing.

Consequently, the removal of Standard Mail Flats from the promotion would unnecessarily complicate the participation of a significant portion of mailers, who would normally take advantage of the initiative. Since it would be impractical and unnecessarily complex for customers to remove Standard Mail Flats from mailing campaigns that also included Carrier Route Flats, customers would face the prospect that a portion of their mailing would not be eligible for the discount. The added uncertainty surrounding the ultimate cost of a mailing could induce customer hesitation during the campaign design phase. This hesitation may ultimately lead customers to decline to participate in the promotion. Given the short duration of the promotion, and the already small amount of the discount, the Postal Service is very concerned that

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

mailers will choose not to participate in the promotion if an unknown portion of their mailing may not qualify for the discount.

Further, the stated goal of the 2012 Promotion is to increase the long term value of mail by encouraging mailers to integrate more advanced mobile technologies into their mailing campaigns.⁴ Diminished participation by mailers of Carrier Route and Standard Mail Flats, who stand the most to gain from utilizing such mobile technologies, would undoubtedly harm the long-range goals of this initiative.

⁴ Docket No. R2012-6, Notice of Market Dominant Price Adjustment, Pgs. 3-4 February 21, 2012.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

3. Please provide and estimate of the percentage of Standard Mail Flats pieces in the 2011 Program that were not residual pieces from a Carrier Route, High Density or Saturation mailing. In addition, please provide a similar estimate for the 2012 Program.

RESPONSE:

The percentage of Standard Mail Flats pieces in the 2011 Program that were not residual pieces from a Carrier Route, High Density or Saturation mailing was 9%. The Postal Service estimates that the percentage of non-residual Standard Mail Flat pieces will remain the same for the 2012 Program.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

4. In Order No. 731, which approved the 2011 Program, the Commission stated:

The Commission's decision not to eliminate Standard Flats from the promotion is strongly influenced by the program's relatively short duration. The promotion may inform the Postal Service's long-term plans.

Order No. 731 at 11. Please explain whether the inclusion of Standard Mail Flats in the 2011 Program has assisted the Postal Service in developing a long-term solution to the insufficient cost coverage of Standard Mail Flats, and if so how.

RESPONSE:

While the inclusion of Standard Mail Flats in the 2011 Promotion did not directly lead to a long-term solution to the insufficient cost coverage problem, the inclusion of Standard Flats will benefit the product in the long-term.

As the Commission is aware, the 2011 promotion was not specifically designed to address the insufficient cost coverage of Standard Mail Flats, but was instead designed to promote the goal of higher direct mail revenues in the future.⁵ As discussed in the Postal Service's notice, the 2011 Program was designed to increase the long-term value of Standard Mail advertising by promoting awareness of how mobile technology could be integrated into mailing campaigns.⁶ The Postal Service believes that the awareness generated during the 2011 promotion will result in a more robust advertising mail market in the future, which will have the secondary effect of increasing flats revenues. Accordingly, the inclusion of Standard Mail Flats in the 2011 promotion should help the increase the product's cost coverage in the future as additional Standard Mail volumes are generated.

⁵ Docket No. R2011-5 Response to Chairman's Information Request No. 1, question 1, April 29, 2011

⁶ Docket No. R2012-6, Notice of Market Dominant Price Adjustment, Pg. 3, February 21, 2012.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

It is important to note that, though the Commission directed the Postal Service to increase Standard Mail Flats' cost coverage through a combination of above-average price adjustments and cost reductions,⁷ the Postal Service has sought judicial review of this directive.⁸ This appeal is still pending, and the Commission's directive has been stayed during the pendency of these proceedings.⁹

⁷ Docket No. ACR2010, FY 2010 Annual Compliance Determination Report, at 106, March 29, 2011.

⁸ *U.S. Postal Service v. Postal Regulatory Commission*, No. 11-1117 (D.C. Cir.).

⁹ Docket No. ACR2010, Order No. 739 - Order Granting Stay, May 27, 2011.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

5. Please provide the percentage of 2011 Program participants that directed a recipient to a mobile optimized webpage.

RESPONSE:

We estimate that the percentage of 2011 Program participants that directed a recipient to a mobile optimized webpage was approximately 68%.