

Christensen Associates Scenario Analysis for Standard Mail Contribution

I. Preface

A. Purpose and Content

USPS-FY12-43 presents seven models estimating differential contribution impacts for different scenarios pertaining to Standard Mail Flats price increases. It also contains a report from Christensen Associates, in PDF format, explaining the significance of the seven models.

B. Predecessor Documents

There are no predecessor documents.

C. Corresponding Non-Public Document

There is no corresponding non-public document.

D. Methodology

Six models are “prospective,” or forward-looking for eight years. The seventh model is “retrospective,” or backward-looking for slightly more than three years (to May 11, 2009). The first six models compare Standard Mail Flats to All Other Standard Mail, and therefore account for all authority under the Standard Mail price cap. The seventh model incorporates a streamlined – though still illustrative – Standard Mail Flats vs. Letters paradigm. The models apply hypothetical price change scenarios specified by the user, compute own price demand responses and cost responses to price and volume changes, and compute resulting “after rates” revenue, cost, and contribution. The models allows the user to vary key inputs, if desired. Following is a brief description of each of the models.

1. StdProspectiveV1a.xlsx (“Version 1a”). This tests hypothetically increasing the Flats price by 5 cents in each of two consecutive years against a more measured pricing approach reflecting CPI. Differential contribution impacts over eight years are estimated.
2. StdProspectiveV1b.xlsx (“Version 1b”). This repeats Version 1a but assumes that attributable costs, for both Flats and All Other Standard Mail, are 90 percent variable. Differential contribution impacts over eight years are estimated.
3. StdProspectiveV1c.xlsx (“Version 1c”). This repeats Version 1a but drops the assumption that Flats and All Other volumes are trending independently. Instead, it is assumed that both trends are -2 percent per

- year. Differential contribution impacts over eight years are estimated. By comparing this version to Version 1a, the effect on contribution of independently trending volume, which the Postal Service perceives, can be isolated.
4. StdProspectiveV2a.xlsx (“Version 2a”). This tests hypothetically increasing the Flats price by 5.373 percent over inflation for three consecutive years against a more measured pricing approach reflecting CPI. Differential contribution impacts over eight years are estimated.
 5. StdProspectiveV2b.xlsx (“Version 2b”). This repeats Version 2a but assumes that attributable costs, for both Flats and All Other Standard Mail, are actually only 90 percent variable. Differential contribution impacts over eight years are estimated.
 6. StdProspectiveV2c.xlsx (“Version 2c”). This repeats Version 2a but drops the assumption that Flats and All Other volumes are trending independently. Instead, it is assumed that both trends are -2 percent per year. Differential contribution impacts over eight years are estimated. By comparing this version to Version 2a, the effect on contribution of independently trending volume, which the Postal Service perceives, can be isolated.
 7. StdRetrospective.xls. This tests a “what if?” scenario – if Flats prices had been increased by 5 cents In FY 2009 and again in FY 2011 – against actual Flats price increases from FY 2009 through FY 2012. Differential contribution impacts over the 3+ years are estimated.

E. Input/Output

None.