

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

Periodic Reporting

Docket No. RM2012-6

COMMENTS OF THE NATIONAL ASSOCIATION OF PRESORT MAILERS

(January 7, 2013)

Pursuant to Order No. 1510, the National Association of Presort Mailers (NAPM) hereby respectfully submits these comments in support of the petition to change the benchmark for purposes of estimating workshare-related costs avoided within Presort First-Class Mail.

NAPM membership includes 75 company members representing 143 mailing sites mailing in 36 states. NAPM represents mail owners preparing their own mail and mail service providers that commingle client mailings. Membership ranges from some of the largest mailers in the industry to many small business mailers providing services to their communities.

Our members interact with, and collect mail from, tens of thousands of mail consumers and combine their mail together to present it as a single mailing to the Postal Service so that the client can receive the benefits of workshare postage discounts with minimal involvement with the complex mailing standards required by the Postal Service. Collectively, NAPM member companies represent approximately 30 percent of the total First-Class Letter Mail volume. We are committed to ensuring this mail remains profitable and in the Postal system. We are true partners with the Postal

Service: NAPM members sell Postal Service products, our members' customers are its customers, and just like the Postal Service, without mail our members don't have a business.

I. INTRODUCTION AND SUMMARY

The Postal Service has announced that it is re-evaluating the incentives within Presort First-Class Mail and that there could be future changes as USPS changes operations and consolidates facilities. NAPM supports these efforts and recognizes that future changes are possible.

The Postal Service's decision to eliminate the price incentive and preparation requirements for 3-Digit presort tier requires a change in the benchmark used to calculate workshare-related avoided costs within First-Class Mail now. As discussed in the comments of Pitney Bowes, accurate cost measurement is essential for compliance purposes. See PB Comments at 3-4. The Commission cannot properly assess whether discounts comply with statutory workshare limitations without accurate cost information. See *id.* Proper costing is also important for the Postal Service's long-term viability. Inaccurate cost data may result in inaccurate pricing decisions. For example, measuring workshare-related cost savings from the wrong benchmark creates a risk that the Postal Service cannot pass through the full amount of workshare-related savings to moderate price increases for its most profitable letter mail products – Presort First-Class Mail. If inaccurate costing results in higher prices on Presort mail it will hurt the Postal Service's efforts to stem mail volume declines.

Given the importance of Presort First-Class Mail, NAPM conducted a survey of its members to try to help identify an appropriate benchmark. The survey results

confirm that in response to the elimination of the price incentive for 3-Digit First-Class Mail Letters, the volume of 3-Digit mail prepared by NAPM members dropped substantially. Mail that used to be prepared in 3-Digit trays migrated to AADC trays. For the respondents that no longer prepare 3-Digit trays, this presort level is no longer a consideration. For them, the mail preparation choice is now between AADC and 5-Digit. This is confirmed by the survey responses of respondents representing a substantial majority of mail volumes that indicated that 5D volumes would revert to either AADC or a combination of AADC and 3-Digit, not to only 3-Digit. Survey results also show that some NAPM members continue to make up 3-Digit trays; for them, the 3-Digit presort level is still an option. These results confirm that a blended AADC / 3-Digit benchmark makes sense. Accordingly, NAPM supports Pitney Bowes' conclusion that a blended AADC / 3-Digit benchmark would be the most appropriate benchmark.

II. DISCUSSION

A. NAPM Survey

The purpose of the survey was to understand how and why mail preparation practices changed in response to the January 2012 elimination of the price incentive for First-Class Mail 3-Digit Automation Letters. Additionally, the survey attempted to gather information regarding the expected response to the elimination of the price incentive for Standard Mail 3-Digit Letters.

The survey was comprised of 20 questions. The questions were designed to elicit qualitative and quantitative information on letter sized mailings for both First-Class Mail and Standard Mail regarding historical volumes and mail mix, presort levels used,

reasons for preparing or not preparing 3-Digit trays and the likely presort level for mail that would convert to or revert from 5-Digit in response to price changes.

The survey was administered through Survey Monkey, an online survey tool (www.surveymonkey.com). The survey was conducted between November 12, 2012 and December 7, 2012. 39 survey responses were received. Of those, 38 surveys provided data on First-Class Mail; 26 surveys provided data on Standard Mail. Total mail volume represented through the survey is provided in Table 1 below.

Table 1. Survey Volumes

Mail Class	Volume (in millions)	
	2011	2012 ¹
First-Class Mail	2,235	1,969
Standard Mail	435	597

Source: NAPM-LR-1, "Table 1"

All numbers presented below are derived from the empirical analysis of the survey results. A copy of the NAPM survey instrument is attached as Exhibit 1. The NAPM survey data and data analysis are being filed as non-public materials under part 3007.22 of the Commission's Rules of Practice and Procedure.

B. Implications of NAPM Survey Results: First-Class Mail

The survey results confirm that there was a substantial shift from 3-Digit to AADC in response to the Postal Service's decision to set the 3-Digit price equal to AADC price in First-Class Mail Letters. As shown in Tables 2 and 3 below, in response to the elimination of the price incentive to sort First-Class Mail letters to 3-Digit, the volume of 3-Digit mail has dropped substantially. There is a clear shift in volume from 3-Digit to AADC preparation. In 2012, members representing more than half of the volume

¹ All 2012 volume data presented in these comments represent volume through October 2012.

stopped making 3-Digit trays. Notably, the survey results also show that a similar migration in Standard Mail is expected next year in response to the elimination of the incentive for 3-Digit Standard Mail Letters in January 2013.

Table 2. First-Class Mail Survey Mail Mix²

First-Class Mail Volume³	2011	2012
Mixed AADC	5.0%	4.9%
AADC	12.2%	43.3%
3-Digit	44.9%	13.4%
5-Digit	37.8%	38.4%
TOTAL	100.0%	100.00%

Source: NAPM-LR-1, "Table 2"

Table 3. Percentage of Mailers that Prepare 3-Digit Trays⁴

Mail Class	2011	2012	2013
First-Class Mail	99.6%	39.7%	39.9%

Source: NAPM-LR-1, "Table 3"

Note: Four mailers, representing 10.7% of the First-Class Mail survey volume, indicated they sort to 3-Digit for local mail only. See NAPM-LR-1, "FCM Summary Statistics", cells C34, C37, C39, C41.

These results are consistent with those for all First-Class Mail Automation Letters. As discussed in Pitney Bowes' comments, recent billing determinants show that the percentage of AADC Automation Letter volume has more than doubled since the Postal Service eliminated the price incentive and preparation requirements for 3-Digit mail. See PB Comments at 7-8.

The survey results also provide some insight into the reasons for the shift, and an explanation for why some NAPM members continue to prepare 3-Digit mail. As shown

² All 2011 percentages presented in these comments are weighted by 2011 volumes. All other percentages are weighted by 2012 volumes.

³ There were some instances where volume percentages by presort level did not sum to 100%. In these instances, we did not adjust the percentages provided by the survey respondents. See NAPM-LR-1, "FCM Summary Statistics", cells D6 & D14 and E6 & E14.

⁴ There were no similar changes for other presort levels.

in Table 4 below, the main reasons for the switch were efficiency and cost-based, with numerous respondents citing “reduces work / mail preparation costs,” “allows production of fuller trays,” and “allows more efficient use of MLOCRS,” as the main reasons for switching from 3-Digit to AADC mail.

Table 4. Top Four Reasons for Not Using 3-Digit for First-Class Mail

Reduces work/mail preparation costs	65.7%
Allows more efficient use of MLOCRs	56.9%
Allows production of fuller trays	47.8%
No Financial Incentive	26.7%

Source: NAPM-LR-1, “Table 4”

The survey results also help explain why some NAPM members continue to prepare 3-Digit mail in the absence of a price incentive or preparation requirement. One reason is the expectation of better service for 3-Digit mail relative to mail prepared in AADC trays.⁵ Other members stated that they continue to make up 3-Digit trays because they have always enabled a 3-Digit scheme option in the process,⁶ or that they continue to make up 3-Digit trays for purposes of consistency with the way they prepare First-Class Mail and Standard Mail.⁷ A number of members also stated that they continue to make up 3-Digit trays at the request of the Postal Service as a condition of a preexisting Customer Supplier Agreement (CSA) with the Postal Service.⁸

The survey results show that for many NAPM members that no longer prepare 3-Digit trays, 3-Digit mail is no longer a consideration. For them, the choice is now between AADC and 5-Digit. As shown in Table 5 below, for the significant majority of

⁵ NAPM-LR-1, “FCM Summary Statistics”, cell G26

⁶ NAPM-LR-1, “FCM Summary Statistics”, cell G27

⁷ NAPM-LR-1, “FCM Summary Statistics”, cell G30

⁸ NAPM-LR-1, “FCM Summary Statistics”, cell G29

the volume represented, if postage discounts were not large enough to justify 5-Digit preparation, the existing 5-Digit mail would revert to AADC preparation.

Table 5. First-Class Mail Reversion Responses

3-Digit/Scheme	9.7%
AADC	60.1%
Combination of AADC and 3-Digit/Scheme	28.3%

Source: NAPM-LR-1, "Table 5"

The survey found that in response to the elimination of the price incentive in First-Class Mail to sort to 3-Digit, a substantial volume, but not all, of 3-Digit mail has shifted to AADC. Additionally, a substantial portion of 5-Digit mail would most likely revert to AADC, not 3-Digit, in response to a price change. Consistent with the arguments put forward by Pitney Bowes, these two findings suggest that 3-Digit is no longer the appropriate benchmark for estimating the 5-Digit cost avoidance, a blended AADC / 3-Digit benchmark would be more appropriate.

C. Implications of NAPM Survey Results: Standard Mail

Shortly after these comments are filed, the Postal Service will implement price changes that eliminate the price incentive for Standard Mail 3-Digit Letters.

Accordingly, the survey also attempted to gather information regarding the expected response to the elimination of the price incentive for Standard Mail 3-Digit Letters.

The survey responses suggest a similar dynamic in Standard Mail Letters once the AADC and 3-Digit prices are equalized. Table 6 shows that many members are planning to stop preparing 3-Digit trays in 2013. This is consistent with the shift experienced in First-Class Mail after the elimination of the 3-Digit price incentive.

Table 6. Percentage of Mailers that Prepare 3-Digit Trays⁹

Mail Class	2011	2012	2013
Standard Mail	98.5%	97.5%	34.1%

Source: NAPM-LR-1, "Table 6"

Table 7 shows that once the price incentive for 3-Digit is eliminated, if postage discounts were not large enough to justify 5-Digit preparation, a significant majority of the volume of 5-Digit mail would revert to AADC preparation.

Table 7. Standard Mail Reversion Responses

3-Digit/Scheme	27.7%
AADC	61.7%
Combination of AADC and 3-Digit/Scheme	10.7%

Source: NAPM-LR-1, "Table 7"

Again, these results are similar to the responses for First-Class Mail Letters. The main reasons cited by members as to why they plan to stop making 3-Digit Standard Mail Letters trays are also similar to the reasons cited for why they have stopped preparing First-Class Mail 3-Digit Letters.¹⁰ One additional reason why some mailers of Standard Mail automation letters plan to continue preparing 3-Digit trays is to qualify additional pieces for DSCF entry discounts.¹¹

In light of the experience in First-Class Mail and the similarity in the survey results, NAPM respectfully requests that the Commission consider whether a change is also required at this time for the benchmark for Standard Mail Letters. As noted in the Pitney Bowes Comments, even though we do not yet have billing determinants to prove that a similar shift will occur in Standard Mail Letters, the "theory and logic of using a

⁹ There were no similar changes for other presort levels.

¹⁰ NAPM-LR-1, "Std Summary Statistics", cells G49 & G53.

¹¹ NAPM-LR-1, "Std Summary Statistics", cell G37.

blended AADC / 3-Digit benchmark” applies with equal force to both First-Class mail Letters and Standard Mail letters. See PB Comments at 2.

NAPM appreciates the Commission’s consideration of these comments.

Respectfully submitted,

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