

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Notice of Price Adjustment Technology
Credit Promotion

Docket No. R2013-6

**COMMENTS OF NATIONAL NEWSPAPER ASSOCIATION, INC.
IN RESPONSE TO THE POSTAL SERVICE PROPOSAL
(May 24, 2013)**

Pursuant to the Commission's Order No 1702, National Newspaper Association (NNA) hereby provides comments on the Postal Service's Notice of Market Dominant Price Adjustment.

As of the morning of May 24, NNA and the Postal Service have reached oral agreement to consider a tier of technology credits "tech credits" more suited to our industry, provided the Commission approves the credits for other mailers. A number of technical challenges and program pressures have prevented the parties from coming to a conclusion on this issue before now. NNA is requesting that the Commission, provided it approves the credits, permit the Postal Service to present a slightly amended credit schedule at a later date that it will propose in its reply to NNA's comments. But NNA is not requesting that the current proposal be delayed purely to include a lower tier. NNA recognizes that a series of other concerns from industry and the Public Representative will be raised in comments that may lead to changes in the proposal in this docket.

The information in NNA's comments is designed to fill out the Commission's record in this case and to correct some misunderstandings about our industry's use of barcodes, opportunities for electronic documentation and intentions for future actions as USPS moves into a more digital mail processing environment. If the Postal Service's reply to NNA's filing requires additional comment, NNA will seek at an appropriate time

to supplement its comments. NNA is also happy to respond to questions the Commission may have.

NNA represents approximately 2,200 members across the United States. Most are weekly community newspapers that use Periodicals and Standard mail, both market dominant postal products, for their primary distribution. After consultation with primary postal software vendors, NNA believes that few of the community newspapers in the mail have adopted the Full-Service Intelligent Mail Barcode (IMb) to date despite the Postal Service's urging that they do so. The principal reason is that there has been no business case to be made for adoption. By themselves, the new barcodes provide no speedier service or better price that would enable an individual mailer to see a return on the investment. Though IMb may in the long run lead to greater efficiencies in mail management that will temper price increases, those efficiencies are unquantifiable by a mailer today.

However, there is a potential benefit to community newspapers and to the Postal Service in the adoption of electronic documentation or "eDoc" for submission of mailing statements that is one of the requirements for implementing Full-Service IMb. By setting several goals to be achieved within the rubric of "IMb," only one of which is eDoc, the Postal Service has obscured the opportunities and misunderstood which barriers may actually hamper community newspaper mailers. In particular, it has not been clear to USPS that community newspaper mailers may benefit from eDoc and wish to convert to IMb to achieve that benefit whether or not they see value from the barcodes. The tech credit proposal might smooth some bumps toward conversion for smaller mailers, but the Postal Service's approach as articulated does not reach most NNA mailers. Rather, if it turns out that the "credit" is really a loan to some mailers to be repaid by them but also by others unable to use the credits, it is more likely that NNA members will end up paying for the invitations extended to others while missing out on an opportunity to promote efficiencies in mail entry.

NNA shares concerns expressed by others about the Postal Service's proposal to pay for the credits through a lifting of the price cap and recognizes that the Commission may deny the USPS proposal for that reason. NNA's preference would be for the credits to be compensated by the efficiencies that USPS says it will realize as a result of the industry's IMb conversion. But if the credits are approved and they are truly intended to provide incentives for smaller mailers, an addition to the incentive structure is needed to pick up the community newspapers that should be a part of the digital conversion strategy by USPS. NNA believes as a result of its May 24 understanding with USPS that additional dialogue will lead to an opportunity to adapt a tech credit proposal at the lower end that will encourage community newspapers to come onboard the new digital mail processing strategy that USPS envisions.

NNA addresses the following points:

- 1. Newspapers will likely benefit more from electronic documentation or "eDoc" than from IMb scans, but the software options available will require an upgrade to Full-Service to take advantage of the opportunity.*
- 2. The software upgrade alone is not cost-prohibitive but it is not costless. By eliminating the tech credit option for the smaller mailers that use postal software, USPS fails to reach those mailers that might be encouraged to move into electronic documentation.*
- 3. Concerns about the impact on the price cap should be addressed*

NNA provides declarations from NNA's representatives to the Mailers Technical Advisory Committee, Max Heath and Bradley Hill, who have investigated the opportunities and challenges presented by Full-Service IMb to community newspapers.

- 1. Newspapers may benefit more from eDoc than from IMb scans, but the software options available will require an upgrade to Full-Service to take advantage of eDoc.***

a. Newspapers in automation

The transparency provided by Full-Service data will come primarily from machines that perform automated sorting of mailpieces. Thus Full-Service IMb clearly will have diminished value for mail largely in the manual-sorting schemes. But it is important not to entirely dismiss the value of Full-Service adoption for newspapers in the automated mailstream. Newspapers are found in the current automated mailstream and newspapers do use barcodes—previously the old POSTNET and now the Basic IMb that has been required since January 2013. But because newspaper mail is mingled with magazines in the Outside County stream and with all other direct mail when entered as Standard Mail, it is very difficult to quantify the usage.¹ As a proxy to give a small glimpse into publishers' behavior, it is possible to look at the Within County Periodicals subclass, which consists mostly of newspapers. It would be unlikely to find much automation activity at all there because this mail is so heavily carrier-route, delivery-unit entered mail. But it is evident in even these volume data that newspapers are employing barcodes (Basic IMb or even some PostNet barcodes) to assist in mail processing. The Annual Compliance Report, 2013, indicates that this heavily drop-shipped subclass, with 78 percent of its pieces in the carrier route category, showed 5 percent of its pieces traveling at an automated rate. It is reasonable to assume, and NNA's Max Heath confirms, that these barcodes were likely applied as part of a larger print run that included Outside County pieces, and some in-county copies coded to 5-digit or higher prices for various reasons. Though the billing determinants do not indicate how the pieces are actually handled in mail processing, they do demonstrate that some newspapers are presently using barcodes in their labels. But NNA's information from members suggests that even modest adoption of Full-Service has yet to begin.

¹ Free circulation newspapers in the mail, bearing all of the physical characteristics of paid circulation or requester circulation newspapers, travel as Standard Mail.

b. The visibility to be offered by IMb is not likely to pay off for newspapers yet.

The Postal Service claims that Full-Service IMB offers increased visibility of mailings. But the data flowing from these mailings is obtained largely from scans accomplished by mail processing equipment. Information that from the piece scans that might of use to USPS and the mailer will be scant for the foreseeable future and is likely to continue to be elusive until USPS can develop a stream of scans of containers and bundles.

Today, for those primarily using delivery-unit-entered, carrier route mail, data from mail processing equipment will be non-existent and probably adds little to transparency anyway, since both the mailer and USPS can easily see where those mailpieces are. For those using Outside County mail or non-carrier-routed Within County mail, the possibility of a scan will depend upon an individual mail processing plant's decision to sort the newspapers by one of the Postal Service's automated processing machines, the Flats Sequencing System or the AFSM 100. But despite indications attested to by Heath that newspapers sometimes *can* be processed through automation, they rarely *are*. If that is the case, data scans in processing plants will be far too few to motivate those publishers in need of information to diagnose service problems to invest in the Full-Service system if transparency is the sole goal. Heath surmises that many newspaper mailers faced with the dilemma of upgrading to Full-Service IMb or not will simply revert to the non-automated flats prices, reasoning that the payoff for IMb is too little to justify the business expense. For those mailers, when the Postal Service does begin to achieve some visibility through scans of bundles and containers that equation could change, but the system is not prepared to provide those data yet.

c. The payoff comes in eDoc.

The undeveloped possible benefit for newspaper mailers is in the adoption of the eDoc that will go along with the IMb requirement. To date, in Heath's belief, virtually all Periodicals class newspapers provide their mailing statements to the Postal Service in hard copy. The information on them must then be re-entered into PostalOne! by the Postal Service, leading to the introduction of possible keystroke errors and duplication of efforts already made by the mailers in collecting and processing the data in the computer program and then printing it out in hard copy mailing statements.

Newspapers have some incentive to eliminate both the duplication and the inconvenience of delivering the hard copy mailing statements in person. Increased distance to local post offices because of the Delivery Unit Optimization (DUO) process, and narrower windows to hit small post offices under the PostPlan, consolidation of Business Mail Entry Units, shortened business hours by various facilities and other changes in service provoked by the Postal Service's closures and consolidations in recent years have added additional pain to the act of bringing a mailing statement to the entry office. In addition, changes in Critical Entry Times have complicated life for newspapers that need to drop the mailing at a late-night dock and provide the mailing statement later.²

In this environment, the ability to complete a mailing statement at the publisher's desk and submit it electronically would offer small but significant efficiencies both for the mailer and for the Business Mail Entry unit. The statement would arrive faster, would be less vulnerable to new keystroke errors from transferring a hard-copy report to PostalOne! and would eliminate the mileage involved in submitting the report.

² Because the 3541 mailing statement requires newspapers to provide advertising percentages, piece weight, final numbers of pieces in a mailing and precise sortation levels, most newspapers wait for a final proof copy and a qualification report to return from their printers before they are able to fill out the statement. NNA's work with USPS in securing some privileges to submit the statement the business day following the mail entry has eased this complication somewhat, but the solution is not ideal for either USPS or the mailer.

But the promise of this new efficiency has been a long time coming. Because most smaller printers and publishers do not generally use Mail.dat and Mail.XML has been slow in coming, the ability to link up with PostalOne! has eluded community newspapers.

The promise of Mail.XML by the Postal Service, therefore, has been long awaited. The program is designed to be a cloud-based communication between the mailer's computer and PostalOne! The dream of incorporating it into commonly-used postal software so that publishers could easily absorb the new ability has been in the delivery pipeline at USPS for more than four years. But it was only in late 2012 that Mail.XML began to be a reality for community newspapers. NNA's Hill states that his company, Interlink, Inc., a popular company for community newspapers needing affordable mailing software, found in 2012 that despite the looming Basic IMb requirements, and the oncoming Full-Service requirements, Mail.XML was not ready to be on the receiving end of publishers' mailing statements. Prodded by NNA as NNA has prodded all of its industry vendors, Interlink undertook the development cost of building a Mail.XML interface and in so doing, helped USPS to work out the kinks in the program. As a result Mail.XML became available to NNA newspapers only in late 2012. Today only 20 (0.13%) of Interlink's customers have begun filing with eDoc. Heath attests that few other software companies are as yet ready to provide that service to community newspapers, even though Interlink has offered to license its bridging software to its competitors, in the interest of speeding the industry's adoption. Some providers report they are finally now in development of either Mail.XML or Mail.dat capability for eDoc, but with the January 2014 implementation date looming, the likelihood of imminent massive conversion by time-and cost-challenged publishers is low, according to Heath. Hill, and others from the software industry share in this belief, noting that mailer adoption of the Basic IMb was minimal in advance of the January 2012 deadline due to the costs involved and lack of incentive.

Yet the Postal Service has commented that the benefits to USPS "cannot be fully realized if certain products in the mailstream require Full-Service IMb while others do

not.” Responses of the United States Postal Service to Chairman’s Information Request No. 1, Question 11. If uniformity is so critical to the success of Full-Service, it would seem that another look at the barriers to adoption is warranted.

d. The Postal Service believes newspapers are least able to afford compliance but has not offered the financial assistance to help them.

Postal Service has set a minimum threshold of 125,000 annual pieces as the cutoff for earning the credit. A weekly newspaper typical of NNA’s small community publications mailing 2,000 pieces each week would mail 104,000 pieces.³ Though the newspaper would be required to adopt Full-Service to the extent of including an IMb on its label to earn automated prices by next January, it would receive no credit to assist it in its adoption. Officials from the Postal Service have repeatedly remarked that the purpose of the tech credit is to support small- and mid-sized mailers. NNA has suggested to the Postal Service that, if tech credits are to be given at all in the name of incentivizing small- and mid-sized mailers, an additional low-end tier should be added to the credits with a beginning cut-off of 62,000 pieces and a credit of \$1,000. It is to this proposal that USPS responded on May 24. For such an opportunity to be used, the Postal Service would need to amend its eligibility timeline set up for the larger mailers, which NNA understands will be closed before the Commission’s deliberations in this docket are complete. There also may need to be some adjustment to the compliance deadline to give software developers a meaningful opportunity to get mail.xml based software into customers’ hands and carry out necessary training.

2. The software upgrade is not cost-prohibitive but it is not costless. By eliminating the tech credit option for the smaller mailers that use postal software, USPS fails to reach these mailers that might be incentivized to improve mailing practices.

³ NNA’s median sized weekly newspaper has about 3,200 circulation. A small newspaper typically distributes a percentage of its copies through single copy and newsrack sales. A 2,000 piece mailing for that sized newspaper is realistic.

Evidently the Postal Service did not consider a lower tier in tech credits because it did not believe small mailers could afford the software for electronic documentation compliance. Response to CHIR No.1, question No. 10. But the Postal Service had its assumptions backward. The software is the least expensive aspect of IMb. Interlink, for example, has been offering its upgrade for \$99, according to Hill. See Declaration of Bradley Hill on behalf of Interlink, Inc.

It is the barcode application, the training and the compliance, not the software, that create the biggest cost barriers to adoption. The printing technology, computer storage, lost printing speed and increased ink all create cost for community newspapers. That cost will be born regardless of the software chosen. Printers are costly, and few manufacturers have yet surfaced that will bring down the price through competition. Newspapers will have to train staff to handle the conversion to the new systems, register with and learn how to use the Postal Service Business Customer Gateway, apply for CRIDs and MIDs, and undergo the compliance examinations in order to be passed as eligible for IMb. They must re-estimate their printing time for creating the labels with barcodes, because spraying the codes will require more time, which will reduce printer output. The barcodes will require more ink. Storage of the unique identifiers and attendant reports will require more computer storage space.

So the use of the new barcode is costly. On the surface, software upgrades may appear to publishers to be only about the decision to use a new barcode. The less obvious benefits will take time to be grasped and appreciated—particularly since realistic usage of mail.xml is just in its infancy. Our industry's challenge is to help mailers understand that the values of eDoc may be had whether or not the barcodes are value.

The Postal Service should want this transition to begin. Ideally by the time the Service is able to make bundle and container scans available so that even community newspapers will benefit from visibility, many adopting newspapers will already be suited

up and ready to go because they wanted to jump on the eDoc bandwagon. But the ideal is unlikely unless some additional impetus is given to mailers to work their way through their own skepticism about IMb and see the value of eDoc.

a. The Postal Wizard is not the answer

The Postal Service affirms that it has set up the Postal Wizard, which streams directly into PostalOne! to help smaller mailers. That alternative is an admirable effort but it is better used by smaller non-profits, like churches with newsletters, than by community newspapers. NNA is actively discouraging its use.

Heath affirms that in his view, most community newspapers today use postal software for presorting and documentation, well above 95%. For a majority of newspapers, the existence of preprinted inserts traveling to different points in their markets means that the weights of various editions within an issue may vary. The publishers must create a separate mailing statement for each. They take pains to claim the presorting discounts and credits approved by the Commission over the years, including a relatively new discount for Outside County mailing by Within County publishers that was introduced in the Postal Enhancement and Accountability Act, and a recognition of simpler rules for density on rural routes for Within County newspapers implemented in 1998. When hard-copy documentation is submitted, each of these statements, along with a marked copy of the newspaper, is provided to the Business Mail Entry Unit.

Using Postal Wizard would require a newspaper to print out the completed statements from the postal software and re-enter the data painstakingly into the Wizard. It is not clear that Postal Wizard incorporates all the rate cells that a sophisticated software program would be expected to include or that the software printouts would make it easy for a publisher to determine which cell should get which data. But even if the Wizard works as well as proprietary publishers' software for rate calculation, it can never work as efficiently as a direct filing.

b. Encouraging publishers to upgrade to software that uses Mail.XML or Mail.dat is the answer.

The beauty of software is that it takes information from a variety of sources and digitizes it. Done once, the data of bits and bytes can efficiently flow from place to place with the proper bridges between programs. Mail.dat in its creation by IdeaAlliance built that bridge for large printers, who needed a variety of information cells to track jobs, containers, printing schedules, FAST appointments, and the like. The software, ideal for larger companies, has been out of the price range and the technical capacity for smaller printers until recently, though NNA understands a lower-cost version is now available. But Mail.XML is simpler to use and understand for companies without an information technology department. That is why its arrival for practical use is being heralded by newspaper postal experts.

Using the software bridges to PostalOne! avoids the redundancy of taking digitized data, bringing it back into an analog environment by printing it and re-entering it, either into USPS's BMEU terminals or into the publisher's own Internet connection to Postal Wizard. The mailing software avoids additional keystroke error possibilities. It creates internal archives, avoiding mounds of filed paper data or, worse, the temptation to hit "send" on the Wizard and not keep a hard copy file.

For all of these reasons, NNA encourages its members to use USPS PAVE-Certified presort software. Now that Full-Service IMb is being pushed by the Postal Service, NNA is urging its members to do the upgrades. It would seem eminently in the Postal Service's interest to be in line with NNA's best practices training and to do what it can to help smaller publishers make a technically and economically logical leap. That is why NNA has recommended an additional tier in the "tech credits," if they are to be granted at all.

3. Concerns about the impact on the price cap should be addressed.

The Public Representative has correctly asserted that the compliance will be costly and that it imposes a new cost that raises questions about the price cap. It has estimated the cost for First-Class mailers at \$1.1 billion if they lose their automation discounts because the Postal Service has changed the rules for automation. But the greatest concern from most stakeholders engaged in the discussion of the tech credits is about the impact on rates.

The Postal Service, after months of discussing the credits with the mailing industry, surprised all in the current filing by asserting that it did not intend to cover the cost of the credits with savings from greater efficiency, but from increased rates. The petition to be permitted to carry forward the value of a price reduction through the credits by lifting the price cap in the next rate increase was a surprise to the mailing industry. What is not a surprise is that any action affecting with the price cap will raise many concerns from a mailing industry struggling to hold onto volume and jobs.

Adding to the concerns were revelations by the Postal Service earlier this month in a webinar for mailers that it intended to apply the increased price cap unevenly, possibly only to the First-class stamp user and origin-entered mail.

NNA's concern now is that smaller newspapers using origin-entered mail for some portion of their distribution will disproportionately shoulder the cost of the tech credits. Though automation prices might offset that cost if the newspapers can come onboard to the Full-Service system, it is too soon to guess the long term impacts for them. Perhaps more importantly, putting additional burdens on the First-class stamp to fund a program of primary benefit to commercial mailers raises uncomfortable policy questions..

NNA joins others in the mailing industry in expressing doubt about pricing changes that result in a lifting of the price cap. Changes in the system now that the price

cap is in place to encourage cost-savings and hopes the Postal Service can determine a pay-back from the efficiencies it believes will come from IMb.

Respectfully submitted,

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