Postal Regulatory Commission
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BEFORE THE

POSTAL REGULATIORY COMMISSION

WASHINGTON, DC 20268-000

RATE ADJUSTMENT DUE TO
EXTRAORDINARY OR EXCEPTIONAL CIRCUMSTANCES

Docket No. R2013-11

INITIAL COMMENTS

NOVEMBER 26, 2013

Pursuant to 39 CFR 3010.65.(f) the Software & Information Industry Association(SIIA) and American Business Media (ABM) submit the following initial comments.

American Business Media (ABM) was founded in 1906 and is positioned at the center of the global Business-to-Business marketplace. Recently, to strengthen its B-to-B brand, ABM merged with the the Software & Information Industry Association(SIIA), one of the leading trade associations representing technology, digital content, media and information companies, including those that publish business-to-business industry magazines and newsletters. Our combined membership is comprised of more than 700 members who publish more than 600 print periodical titles and mails approximately 800 million magazines and newsletters each year, representing approximately 15% of the periodicals class within the US Postal Service. In addition, SIIA/ABM members utilize first-class and standard mail extensively and collectively spend an estimated $260 million in postage each year.

We support the U.S. Postal Service at all levels, whether it's working with Postal Headquarters on operational, rules and regulatory matters, or on Capitol Hill to enact legislation to put the Postal Service on a permanent sound financial footing.

SIIA/ABM is a member of the Affordable Mail Alliance (AMA) and is a cosigner to initial comments filed on behalf of MPA - The Association of Magazine Media; The Association of Postal Commerce; The American Catalog Mailers Association; the Direct Marketing Association; the Alliance of Nonprofit Mailers; the Association of Marketing Service Providers; the Major Mailers Association; the National Newspaper Association; the Printing Industries of America; Quad Graphics; R.R. Donnelly; and Time Inc. These comments detail a full justification for why the Postal Service’s exigent rate filing should be modified and limited such that the rate of increase is in line with the actual economic losses from the recession. We strongly and fully support these comments and urge the PRC to modify the Postal Service’s request accordingly.

Our purpose in filing these comments is to provide additional information for the Commission's consideration as to why this exigent filing is not justified as submitted and to establish the effect it will have on SIIA/ABM member publications, the mailing industry in general and the American economy if approved.

Mailers will take actions to offset this increase

This past summer SIIA/ABM conducted a survey among our membership in order to understand how their mailing habits would be affected based on varying postal rate increases. The results support our overall position in opposition to an exigent increase. 67percent of respondents to our survey said they would reduce mailed periodicals by an average of 11 percent if postal rates increased by 7.5 percent. If rates were increased by 10 percent, 90 percent of our members would reduce mailed periodicals by approximately 13 percent. Even if rates increased less than 7.5 percent our survey showed that our members would still reduce their mailings. Since SIIA/ABM members mail in all classes of mail to support periodicals, as well as mailings for events and trade shows, mail volume in other classes of mail would be reduced as well.

During recent discussions with our members on the specific topic of the proposed exigent rate increase they have confirmed that with this potential increase pending they are forced to take preemtive actions related to their 2014 budgets to prepare. One member shared that they are discontinuing the printing of one publication, and will fold the content into another publication as a special section as well as reducing the frequency of another publication. Others have stated they will reduce other business expenses to help compensate for the proposed exigent increase.

We believe these same decisions are taking place in other classes of mail as well which will reduce Postal Service volumes and revenues and will have negative effects on the overall economy.

Furthering this argument is the current state of the overall economic recovery. During the November 21st hearing before the PRC, Postal witness Altaf H. Taufique, Pricing Economist for the U.S. Postal Service, stated that even though economic recovery is happening, it is slow, and customers (both residential and business) continue to face difficult economic conditions. The exigent increase, as proposed, will certainly have an adverse impact on customers, mailers and businesses at a time when the recovery is just starting to turn things around.

The U.S. Postal Service has stated previously that they have accounted for revenue and volume loss as a result of the exigent increase, but one has to ask, how is that possible? SIIA/ABM cannot even be sure at this point how each of our members will react and to what degree so the U.S. Postal Service volume and revenue loss expectations could well be understated causing further harm to mailers and the overall economy.

The Postal Service has not implemented all possible cost reductions

The USPS Inspector General released a report on September 26, 2013, which supports the contention that at least part of the increase is not justified. That report contains information for fiscal year 2012, the year on which the USPS is basing their exigent increase request, saying the USPS has not taken all steps to reduce costs. The report states: "We found the Postal Service had not yet fully adjusted work hours in response to declining mail volume or achieved all possible efficiencies in mail procession operations. Also, Management had not evaluated operational efficiency by assessing performance, based on median productivity for each plant grouping. Therefore, the Postal Service used over 14 million work hours (equating to $629 million dollars) more than necessary to process mail volume."

This supports the contention that the Postal Service has not been on the leading edge of adjusting their business model to the new economy. As such it would seem wise to allow them more time to catch up, which their 2103 financial statements indicate they are doing, instead of inflicting a cost burden on customers that will result in a reduction of volume and revenues that never will return.

Positive economic and business signs indicate that postal revenues will improve
Recent revenue numbers and forecasts from the Postal Service indicate that the tide is turning with respect to the losses that have piled up in recent years. In fact according to USPS Preliminary Financial Information filed with the PRC for September, the Postal Service has recorded for fiscal year 2013 its first revenue growth since 2008, despite the continuing decline of its mail volumes. Furthermore, if the $5.5 billion allocated for future retiree health benefits were excluded, the Postal Service would have made a small profit in fiscal year 2013.

Additionally, Congress continues to debate comprehensive postal reform legislation and while it is not expected to be enacted this calendar year, progress has been made with the U.S. House of Representatives Committee on Oversight and Government Reform have passed out their version of postal reform earlier this year with the U.S. Senate remaining committed to passing their version. If enacted, comprehensive postal reform will put the U.S. Postal Service on more sound financial footing and provide options that will more than offset the additional revenue that would be realized from an exigent rate increase.

According to the Association of Magazine Media (MPA) advertising revenue for consumer periodicals have shown a 1.6 percent increase for the first three quarters of 2013, which is a positive sign for increased Postal Service revenues.

The positive signs we have seen in the last twelve months indicate now is not the time to attempt to increase Postal Services revenues with an exigent rate increase as proposed. As discussed above, based on our survey and information received from our members, the proposed increase will only drive additional volume and long term revenue from the Postal Service and will cause at least some mailers to constrict their business models.

Periodicals are a key component of the Postal Service business model
Periodicals mail consists of newspapers, magazines, journals, and newsletters and must meet specific requirements for eligibility. Periodicals are very diverse, exhibiting a wide range of characteristics, and printed by churches, schools, clubs, and publishers of hometown newspapers, academic societies, nonprofit organizations, and multi-national corporations. There is an educational, cultural, scientific and informational value to the recipient.

Periodicals also generate significant revenues in all classes of mail including the mailing of First class invoices, Standard Mail renewal materials and promotional pieces and in package services.

During the Nov 21, 2013 Postal Regulatory Commission hearing, Postal Service witness, Altaf Taufique summed up the Periodicals class effectively, calling it the kind of mail that's valued in the mailbox. The proposed increase will have a decidedly negative impact of Periodicals, reducing the amount of "valued" mail in the mailbox.

Small Business Impact
As mainly business-to-business publishers our members support many small businesses throughout the country. They assist them in growing those businesses throughout the country, many of which are in rural America, by providing educational and scientific information that would be difficult to obtain in some other manner. A listing of the titles mailed by SIIA/ABM members include a who's who of publications that provide critical information to farmers, small manufacturers, and other small businesses who rely on the timely delivery of these publications to make sound business decisions.

Summary
In conclusion, SIIA/ABM believes simply that there will not be any positive return from the approval of this exigent rate filing as submitted. While there may be a short-term increase in revenues, this action will force mailers in all classes of mail to take action to reduce their postage as well as general business expenses. In the long run, this will reduce, if not eliminate, the additional revenue realized from an exigent increase. It is very unlikely that lost volume will ever return. As stated earlier SIIA/ABM believes there are positive signals occurring in the overall economy and directly with the U.S. Postal Service that will help to alleviate at least some of the financial problems the Postal Service is experiencing. We believe more time is needed so the Postal Service can adjust to this "new normal" before implementing a postal rate increase of this significance on customers that will likely do serious and in some cases irreversible harm.