Postal Regulatory Commission
Submitted 11/26/2013 5:01:55 PM
Filing ID: 88415
Accepted 11/27/2013

Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Rate Adjustment Due to Extraordinary or Exceptional Circumstances — Docket R2013-11

COMMENTS OF BOARDROOM, INC.
November 26, 2013

Dear Commissioners:

My name is Samuel Edelston, and I'm executive vice president and co-owner of Boardroom, Inc. We publish newsletters and books, which we sell mostly through direct mail, and which we ship via mail. We are a second-generation family business, in our 42nd year. In the past 25 years, we've sent out a billion and a half pieces of direct mail, and our expertise in the field is well known in the direct marketing community. I've been analyzing our marketing programs for over 30 years.

While the current docket applies only to the exigent increase of approximately 4.3%, mailers experience this and the CPI increase together as a single, combined hit of approximately 6%.

Would the USPS be better or worse off as a result of the proposed increase?

Whether or not the USPS establishes that it suffered a loss due to the 2007-2009 recession that qualifies as being "due to either extraordinary or exceptional circumstances," there is also a question of whether granting an exigent increase would help "to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States." In other words, would a rate increase help or hurt the USPS?

A brief thought experiment: If the Commission believed that a 6% increase in postage rates would cause a 50% drop in mail volume, you obviously would reject the increase – regardless of the merits of the USPS's arguments about the 2008-2009 recession. At the same time, if the Commission believed that a 6% increase in postage would cause a 1% drop in mail volume, that would make it easier to approve the exigent request. Clearly, price elasticity matters a lot.

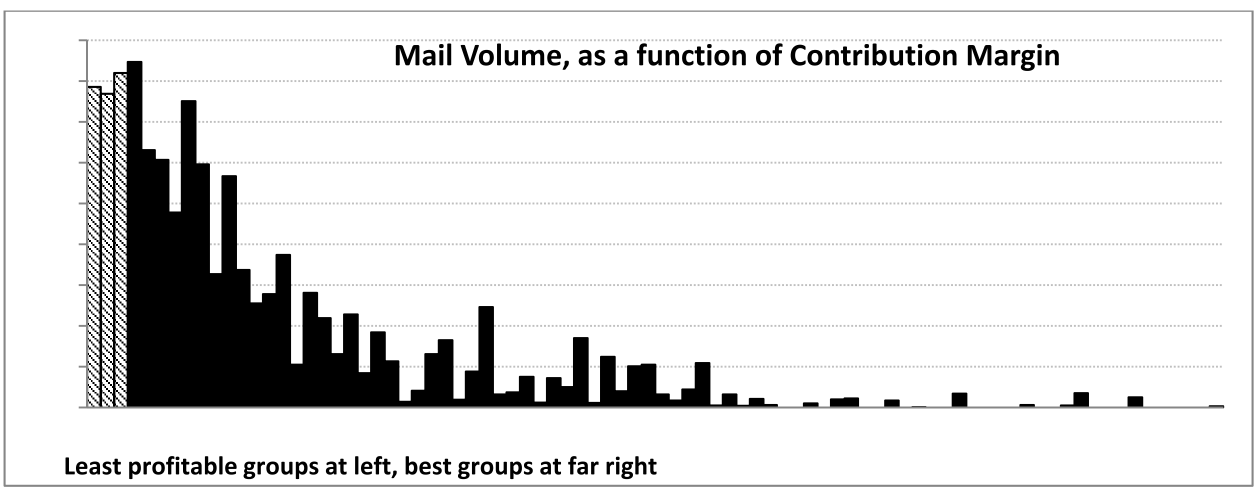
The USPS claims that Standard Regular mail has own-price elasticity of mail -0.464, and that First Class mail is even more inelastic than that, based on a mathematical analysis of a set of macroeconomic factors that in some cases are only indirectly related to the real-life factors that real-life mailers use when making volume decisions. For example, one of the major factors is "Investment" (i.e., gross private domestic investment)[1], yet about 4/5 of *Target Marketing*'s list of "2013's Top 50 Mailers"[2] are in non-capital-intensive categories: 12 catalog companies, 10 nonprofits, 9 insurance companies, 6 financial service companies, and 2 associations.

Real mailers make mailing decisions based on the expected return on investment (ROI) of each potential recipient or each potential mailing list. To oversimplify a bit: We

[1] "Gross private domestic investment is expenditures on capital goods to be used for productive activities in the domestic economy that are undertaken by the business sector during a given time period." http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=gross+private+domestic+investment
[2] http://www.targetmarketingmag.com/common/items/biz/tm/pdf/2013/08/TM0913_top50chart.pdf

use history to make a best guess at expected response rates, and we know our costs, which gives us sufficient information to calculate the expected ROI (or some similar measure), and this result is compared against some sort of ROI cutoff. Specifically, if a cost such as postage goes up by, say, 6%, that will decrease every potential recipient's ROI. (In addition, it may tighten the ROI cutoff, if that is based on a customer's future value.) Thus, a cost increase eliminates the least profitable prospects from the mailing.

I did a retrospective version of this calculation recently for the past 12 months of my company's direct mail. The chart below shows the number of pieces that we mailed during that period, grouped by the amount of expected profit above our ROI cutoff. The three leftmost bars are the least profitable customers, who would not have been mailed if postage had been 6% higher. They were 12% of our direct mail volume. For my company, the price elasticity for direct mail is approximately 2.0. The decrease in direct mail would have reduced our total postage expenditure, even after counting the Periodicals rate increase on our reservoir of existing subscriptions.



I've spoken with several other direct mailers. Nobody has told me that their elasticity is anything less than 1.3.

From the vantage point of an in-the-trenches mailer, Standard mail is highly elastic, not highly inelastic.

That's the difference between abstract calculation and in-the-trenches reality.

Other commenters have gone into great detail about methodological concerns in the USPS's elasticity model, its inability to distinguish between price sensitivity and electronic diversion, and the shortage of actual data on price increases even half the size of the one currently being proposed. I share these concerns. I'll refrain from repeating them here.

What about the other classes of mail?

Periodicals: In the short run, indeed, this probably is the least elastic major class of mail, because of subscriptions that would be in progress at the time of any increase. However, publishers still have ways to counteract cost increases here:

- The iPad and Kindle opened up the masses to reading online in a way that no technology had done before. We publishers know that if we don't go online with our content, somebody else will go there with theirs. Publishers are trying hard to get subscribers online, and will continue to.
- The higher postage goes, the more attractive alternate delivery becomes, in at least certain parts of the country. My company already has been

approached by at least one alternate delivery network within the past month, because of the prospect of postal increases.

- Decreasing frequency is an option for some publishers. For example, less than a year after the May 2007 postage increase on flats, the venerable Science News changed its frequency from weekly to biweekly, while doubling the number of pages per issue.
- In my own company's case, we could fold our issues in half to qualify for letter-size rates. The tabs and folds would make the issues look less attractive, but at a certain point it would become worthwhile.

All of these options would reduce the number of flats going through the mail stream, increasing the cost-coverage challenges on that category.

First Class: With or without the exigent increase, telecom and credit card companies are already urging customers to pay online, banks are urging customers to bank online, and nonprofits are urging people to donate online. They've been doing this for a decade. It's no mystery that First-Class mail volumes have declined in 10 of the past 11 years – and that the decline has been greater than 5%/year in each of the past 5 years.[3] It would be easy for banks and credit card companies to financially incent their customers to take their statements online. The higher rates go, the more motivated they will be to do so. And as I heard a representative of a leading credit card company say recently in a meeting in Washington, DC, once that mail goes out of the system, it doesn't come back.

[3] Specifically, the annual declines ranged from 5.3% to 8.8%. http://about.usps.com/who-we-are/postal-history/first-class-mail-since-1926.htm

Conclusion

I share the PRC's and USPS's frustration that a legislative solution to the Postal Service's financial problems has not been passed yet. We all want the Postal Service to be financially vibrant.

However, for the reasons cited here and for reasons cited by others, I believe that the USPS has not established that its elasticity models predict what will actually happen in the real world, and I believe that the USPS would be worse off if any exigent increase is approved. I urge the Commission to reject the exigent rate request, or to delay it long enough for Congress to pass a better solution.

The solution to this problem lies on the cost side and in efficiencies, not in raising rates.

Samuel Edelston
Executive Vice President
Boardroom, Inc.
281 Tresser Blvd.
Stamford, CT 06901
(203) 973-6257