

Quantitative Analysis of Negotiated Service Agreement DFS-LR-1

This library reference documents the spreadsheet LR-1.xlsx used to quantitatively analyze the incentives provided by the Negotiated Service Agreement (NSA) in Year 1 for Discover to increase its mail volumes and postage spend to qualify for the NSA's 2.5% rebate.

The spreadsheet also calculates the implied own-price elasticity of Discover's mail volumes and the value of the NSA to the Postal Service under a variety of Before-Rates volume scenarios. The analysis finds that the Postal Service will benefit from the agreement under a wide range of Before-Rates volume scenarios and that the implied elasticity of Discover's mail, when accurately calculated, is quite reasonable.

This library reference consists of one Microsoft® Excel file – LR-1.xlsx – with two tabs, “FCM Growth” and “No FCM Growth.”

- Both tabs estimate the monetary incentive (the avoided penalty plus rebate) provided by the NSA for Discover to grow its volume to meet the volume and revenue growth thresholds to qualify for the 2.5% rebate.
- The first scenario in each tab (row [h]) uses the Postal Service's Before-Rates volumes to estimate in this analysis. The following 17 hypothetical scenarios in each tab (rows [i]) perform the same analysis assuming that Discover's Before-Rates volumes differ from the Postal Service's Before-Rates estimates. In performing this analysis, the spreadsheets use the same mail mix (between First-Class Mail and Standard Mail) as in the Postal Service's Before-Rates estimate.¹
- The difference between the two tabs is that in the “FCM Growth” tab, the After-Rates volumes are based upon the Postal Service's After-Rates mail mix forecast (between First-Class Mail and Standard Mail) while the analysis in the “No FCM Growth” tab assumes that all volume growth is in Standard Mail. As the spreadsheet shows, the results are similar in both tabs.

¹ The one exception is that Before-Rates First-Class Mail volume in the “FCM Growth” tab is capped at the Postal Service's After-Rates First-Class Mail volume estimate.