

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

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2015-4

**COMMENTS OF THE
NATIONAL ASSOCIATION OF PRESORT MAILERS**
(February 11, 2015)

The National Association of Presort Mailers (NAPM) hereby respectfully submits these comments on the Postal Service's notice of price adjustments for market-dominant products.

NAPM membership includes 90 company members representing 136 mailing sites mailing in 36 states. NAPM represents mail owners preparing their own mail and mail service providers that commingle client mailings. 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 of the Postal Service. Collectively, NAPM represents approximately 40 percent of the total First-Class Letter Mail volume.

It is a known fact that First-Class Mail letter presort mail volumes have trended more favorably for the Postal Service than Single-Piece volumes. Mail prepared for workshare discounts is not only declining at a much slower pace than Single-Piece, it is significantly more profitable to the USPS- realizing a 5.1 cent per piece higher revenue contribution than Single-Piece according to the FY 2014 CRA. The members of NAPM have been valued partners with the Postal Service, delivering high quality mail to the Postal Service with accurate addresses, high quality barcodes, and high density preparation levels, transported and entered where the Postal Service wants it, bypassing many initial processing functions.

NAPM members are committed to ensuring this mail remains profitable and in the Postal system. We are true partners with the Postal Service: we sell their products, our customers are their customers, and just like the Postal Service, without mail we don't have a business.

I. Introduction

The NAPM recognizes that this rate adjustment is complex because of the surcharges imposed by the exigent rate adjustment. The NAPM, recommended in its August 26, 2014 reply comments on Docket 2013-11 RATE ADJUSTMENT DUE TO EXTRAORDINARY OR EXCEPTIONAL CIRCUMSTANCES that in order to reduce complexities and additional costs to the mail user, the Postal Service should change prices for Market Dominant products only once in 2015. That filing could address both a CPI increase and a rollback of the exigency increases awarded by the Commission. We continue to strongly encourage this approach as critical to keeping mail affordable and preventing increasing customer frustrations with change and unpredictability, which contribute to a continuing trend to finding alternative communication channels.

The NAPM believe it premature for the Postal Service to present this filing particularly in light of the USPS statement in its FRN filing on the Address Quality Measurement Alternative (Federal Register / Vol. 79, No. 246 / Tuesday, December 23, 2014 / Proposed Rules 76930) that it will seek a fee for the poor quality assessments:

“After an initial period, and subject to the appropriate regulatory approvals, the Postal Service plans to assess an Address Quality Assessment Fee on mailpieces in qualifying mailings that contain change-of-address (COA) errors in excess of a published threshold.” (pg 76930)

Thus, the NAPM is concerned that there will be yet another price related filing in 2015.

In addition to continued uncertainty, we contend that the resulting rate design - especially in First-Class Mail - creates prices that send inefficient price signals.

We encourage the Postal Service to revisit there rate design issues in its next rate adjustment. More efficient price signals will encourage mail retention and growth for the Postal Service's most efficient and profitable products.

II. First-Class Mail Prices Send the Wrong Message

There is no simpler more convenient way for a mail consumer to use First-Class Mail (FCM) commercial products than through the services NAPM members provide. Yet, the prices proposed for First-Class Mail letters send the wrong signals; they penalize the commercial mail user, the presorted mail, rather than reward it. The decision not to increase the Single-Piece FCM letter rate results in a disproportionate increase for commercial mailers / presort rates within FCM – with the largest percentage increase imposed on 5-Digit Automation letters (2.7%). The fact that there is no price increase to the retail price is putting the burden specifically on the mail users that are supplying the most profitable mail to the Postal Service. NAPM is concerned that these prices will discourage the use of more efficient and more profitable presort mail and drive them towards e-delivery solutions at a quicker pace.

In yet another price filing, the Postal Service is imposing an above-average rate increase on Presort letters and NO increase on Single-Piece letters. The most efficient, low cost Presort Letters product – 5-Digit Automation Letters – will increase by 2.7 percent. In contrast, the price for one ounce Single-Piece Stamped letters does not increase at all, while the price of metered one ounce letters (some of which are used by small and medium sized businesses) will increase by half a cent - a little more than half a percent. These prices harm the mailing industry and the long-term financial security of the Postal Service. The prices fail to maximize the contribution (profit) of the Postal Service under the CPI price cap and will add to the disparity in the unit contribution and cost coverage between Presort and Single-Piece Letters. This results in higher prices on the most efficient, lowest-cost, most profitable products.

The disproportionate burden on Presort Letters is one major flaw in the price adjustments. A second, related issue is the Postal Service's continued refusal to pass through the full amount of the workshare-related avoided costs within Presort Letters. Again, the Postal Service has proposed workshare discounts that are too small resulting in Presort prices that are too high. The only way the Postal Service can improve operational efficiency and lower total mailing costs is by offering workshare discounts that fully reflect the value of the work performed by mailers and mail service providers.

More importantly, the 5-Digit letter price fails to reward efficiency. The pass-through for 5 Digit Letters is only 74.2 percent. No explanation is provided by the Postal Service as to why it persists in giving its most efficient, lowest-cost, most profitable letter mail product above-average increases.

III. The Notice Appropriately Maintains the Full Service Intelligent Mail barcode Discount

NAPM members are among the earliest adopters and have made significant investments of time and money towards the design of Intelligent Mail. Because of our investments – the mail volume of tens of thousands of consumers became Full Service eligible early on. Today we still provide over 60% of all First Class Full Service mail entering the Postal mailstream. This was achieved because NAPM members made substantial investments to become compliant and with a minimal additional cost and time investment by the mail owners. Unfortunately, Full Service IMb growth has stalled in part because the value proposition for mailers has often been overwhelmed by the costs of implementing and maintaining the information technology infrastructure necessary to support it. For several years, the industry has provided feedback to the Postal Service that increased price incentives are necessary to stimulate broad-based adoption.

NAPM supports the Postal Service's decision to maintain the discount for FCM and Standard Automation letters that meet the requirements for Full Service Intelligent Mail barcode (FS IMb). Maintaining the FS IMb discount will further adoption and enable mailers and mail service providers to justify and recoup the upfront and continuing costs incurred to support the FS IMb initiative.

What is missing from the price filing are new incentives to drive the adoption of other FS IMb initiatives. The Postal Service should use its pricing flexibility to promote the full adoption of FS IMb by increasing the incentive for First-Class and Standard Mail. Additionally, it should expand FS IMb incentives to enable mailers and mail service providers to justify and recoup the upfront and continuing costs they incur to support FS IMb other initiatives like eInduction and Seamless Acceptance. Widespread adoption of FS IMb will benefit all stakeholders by increasing visibility and enabling enhanced operational efficiencies and improved service performance.

The expansion of the FS IMb incentives would be a smart investment in the future of mail.

IV. Providing Advance Notice of Promotions and Incentives is Sound Pricing Policy

The Postal Service seeks approval for four promotions in the upcoming calendar year. NAPM commends the Postal Service for providing the advance notice in response to mailer feedback.

NAPM supports the Postal Service's innovative use of its pricing flexibility to add value and integrate physical mail with emerging technologies. NAPM also recognizes the importance of promoting integrated digital and physical solutions for mail. More broadly, NAPM recognizes the marketing value of integrating a multi-channel approach to stimulate a consumer response. Using the mail as a vehicle has obvious benefits for purposes of delivering unique, relevant marketing content. The Postal Service must ensure that promotional discounts stimulate investment in the mail that will improve service and keep costs affordable.

We would also request the Postal Service to leverage its pricing flexibility and incentives to encourage broader use of these promotions. Many mailers that they do not push the Promos because of two reasons; the customer onboarding is still cumbersome and requires a lot of client handholding and customer service related costs and unless they are cross selling services e.g. printing, there is no return in it for the service provider. We encourage the Postal Service to continue to reduce the onboarding complexities, and establish another tier if FS incentive for promo mailings e.g. add a .001 to Full Service promotional mailings.

V. Conclusion

The NAPM recommends that the Postal Service reevaluate its strategic business decisions, engage, and embrace the industry capabilities to create a much more cost effective, service responsive, and profitable mail channel. Pricing decisions are a critical component of the Postal Service's strategy. The recent price signals are self-defeating. Pricing to help the Postal Service absorb excess capacity is not the direction that the Postal Service should be headed. Moving products and services in a direction that reduces rather

than increases service is not a successful formula for any business in today's market place. It is important to all of our member companies that the postal system remains as efficient and as cost effective as it can be. The Postal Service cannot hope to reverse or slow mail volume declines with successive above average price increases on its most profitable product – Presort Letters.

For the reasons discussed above, the NAPM recommends the Postal Service revisit rate design issues in its next rate adjustment. More efficient price signals will encourage mail retention and growth for the Postal Service's most efficient and profitable products. The Postal Service must price to encourage the use of its most efficient, lowest cost, and most profitable products. The NAPM supports the Postal Service's use of its pricing flexibility to provide promotions and incentives and recommends the use of expanded incentives to support adoption of new Full Service Intelligent Mail initiatives like eInduction and Seamless Acceptance. This is essential to ensure that mail continues to be perceived as a viable communications medium.

The NAPM appreciates the Commission's consideration of these comments.

Respectfully submitted,
National Association of Presort Mailers

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