

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

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Notice of Market Dominant )  
Price Adjustment )  
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Docket No. R2017-1

**COMMENTS OF THE  
AMERICAN CATALOG MAILERS ASSOCIATION (ACMA)**

(November 1, 2016)

Pursuant to Commission Order No. 3565, “Notice and Order on Rate Adjustments and Classification Changes” (Oct. 13, 2016), ACMA is pleased to submit these comments.

Through catalogs, our members make a wide range of goods and services available. These catalogs are a major component of the mailstream. Postal Service prices, and signals provided thereby, are strong determinants of the level and the mix of catalog volumes. Our comments are directed primarily to structural changes proposed by the Postal Service.

**Background**

ACMA has developed a cost index and shown that flats costs on a unit basis have risen substantially faster than factor prices, despite numerous technical changes by the Postal Service and preparation changes by mailers, and explained that this

increase is not likely explained by volume declines.<sup>1</sup> At the same time, the Postal Service has developed and implemented a Flat Sorting System (FSS) for sequencing flats for carriers, which, at least in the short term, appears to be increasing costs instead of reducing them. In response to all this, the Commission has directed the Postal Service to provide disaggregate information that might help identify the root causes of the cost increases, and thereby light the way to bring the costs into alignment with expectations and to allow the benefits of the technologies to be realized.<sup>2</sup> This will undoubtedly take some time.

Compounding the difficulties associated with this alignment process, the Postal Service implemented (in Docket No. R2015-4) separate FSS rates, made mandatory for Carrier Route flats in FSS zones and optional for Standard Flats mail that choose FSS preparation. The industry was given little or no warning of what these rates might entail, and understanding their impact has been a slow process. The surprise was that Carrier Route mailers, the mainstay category of flats in the Standard class (to which the Standard Flats product is in many respects a residual), realized a significant rate increase.<sup>3</sup>

The result has been unnecessary deterioration. Carrier Route volume, particularly in FSS zones, has declined, as any analysis based on elasticities would

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<sup>1</sup> See Docket No. R2013-10, Comments of the American Catalog Mailers Association, Oct. 17, 2013, and Docket No. ACR2014, Initial Comments of the American Catalog Mailers Association, Feb. 2, 2015.

<sup>2</sup> See Docket No. ACR2015, Annual Compliance Determination Report, March 28, 2016, Chapter 6, at 160.

<sup>3</sup> The postage increase was larger than a focus on specific rate cells might suggest, due to the need to adjust mailings consistent with rates and preparation requirements.

suggest. But matters are much worse than this.

(1) Carrier Route mailers, given the signals in the rates, have taken specific steps to reduce FSS volume, often removing prospecting pieces, the latter having long-term consequences for both mailers and the Postal Service.<sup>4</sup>

(2) The incentives to co-mail have been reduced, leading to reduced co-mailing. This is a reduction in overall efficiency.

(3) Dropship decisions have been affected negatively.

(4) The spillover effects of Carrier Route on Standard Flats have been negative.

Nothing is good about this outcome. Carrier Route is high-density mail, with low costs, that is profitable for the Postal Service. Corrections are needed.

### **USPS Response in this Case**

The Postal Service's handling of the changes proposed in the instant case, and the specific proposals themselves, are appreciated and credible. It has assessed the situation, which is deplorable, and found it to be redeemable. More specifically, it has analyzed its markets, talked to mailers, and proposed certain changes. And, importantly, it has discussed these changes openly, across many venues, well ahead of time. Three changes warrant special note.

First, the Postal Service is restoring the distinction between Standard Flats and Carrier Route (CR), by eliminating the FSS categories and moving the CR portion of FSS back to CR. This will return recognition of the density of CR mailings, which is a cost determinant. It will also allow a uniform rate for CR that does not vary with how the mail for particular destinations is processed. In addition, it should have a positive effect on co-mail decisions and on the uniformity of dropship patterns.

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<sup>4</sup> The effects of prospecting volume stretch out over many years as prospects become customers to whom mail is sent in future years.

Second, the break-point for flats is being extended to 4.0 ounces, from the current level of 3.3 ounces. We believe this will have a negligible effect on Postal Service costs but will increase simplicity and add value to the mail. We expect some mailers to increase paper weight and to add profitable content as a result. The former should improve processibility and the latter should increase volume.

Third, the Postal Service is increasing the discount for the use of 5-digit pallets in CR, which aligns with costs and will encourage efficient operations. The level of this discount, which costing evidence would allow to be increased more in the future, is important because mailer costs and adjustment are required to prepare and handle these pallets, which then bypass expensive bundle handling operations, creating a lower cost and more efficient processing path.

ACMA understands that these changes are significant and that some mailers will be affected in greater degree than others. Further, adjustments by mailers will be made and are important aspects of the outcome. But the net result should be increased volumes and more efficient operations. This makes them win-win. ACMA wholly supports these changes as good for the long-term success of flats mail automation, cost reduction, and volume growth.

Respectfully submitted,

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