

**IMPROVING CONSUMER OUTREACH WHEN
THE FIRST-CLASS STAMP RATE CHANGES**

**OFFICE OF THE CONSUMER ADVOCATE
POSTAL RATE COMMISSION**

MARCH 2000

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Change in First-Class stamp rates places burdens on the mailing public and the Postal Service. New denomination stamps must be available for purchase as well as “make-up” stamps or stamps in the denomination of the difference between the old and new rates.

Unlike major mailers, which are well aware of the rate change and which use permits and metering for most postage, consumers are often unprepared for changes in the rates for single piece letter and card mail. Post offices experience long lines and frustrated customers as consumers purchase “make-up” stamps to go with their existing supply of stamps, and purchase stamps in the new denomination. Regardless of the efforts made by the Postal Service, many consumers are inconvenienced and often are unnecessarily resentful of the rate change.

The rate change, however, offers the Postal Service opportunities to improve both the process of the transition and its public image. The Postal Service should seize this opportunity and engage the public proactively. In addition to the public information campaign and other standard preparations for a rate change, the Postal Service should do the following several weeks before the rate change:

- ◆ Deliver an informational mailpiece to every delivery address
- ◆ Include with the mailpiece ten “make-up” stamps at no charge
- ◆ Incorporate into the mailpiece a stamps-by-mail order form for new denomination stamps

All three aspects of this outreach are important. The novel aspect of this proposal—and what would transform ordinary consumer education efforts into meaningful outreach to consumers—is the inclusion of ten courtesy “make-up” stamps.

Benefit to the Public

The average household sends approximately twelve pieces of single piece First-Class letter mail monthly. Ten “make-up” stamps, then, would permit an

average household to utilize stamps on hand for about three weeks. That will significantly spread out the time over which consumers visit the post office to buy new stamps, reducing consumer aggravation and Postal Service retail costs. Done properly, provision of courtesy “make-up” stamps and a stamps-by-mail order form could avoid the surge of stamp purchasing just before and after the rate change. This would alleviate the burden on retail facilities and avoid the delays and inconvenience that make a change of rate a hassle for consumers.

Benefits to the Postal Service

Postal Service efforts to build positive public support would be strengthened by making the changeover to new rates more convenient for the public. Consumers may understand that costs rise over time, but nonetheless are frustrated by the inconvenience of obtaining the proper denomination of stamps when an increase occurs.

By delivering a mailpiece and courtesy “make-up” stamps to all delivery addresses, the Postal Service can accomplish the following:

- (1) inform the public about the costs of operating the Postal Service and why rates are changing;
- (2) provide a handy list of the new rates for services commonly used by the public;
- (3) reduce the additional lobby traffic due to consumers purchasing new stamps;
- (4) reduce the aggravation and waiting time experienced by consumers as they attempt to purchase new stamps;
- (5) reduce clerk window time, retail inventory, and other costs associated with selling new and “make-up” denomination stamps to the public;
- (6) encourage consumers to obtain new stamps through more convenient mail order service;
- (7) engender significant consumer good will towards the Postal Service; and
- (8) minimize disruption to mail processing by reducing the instances of consumers taping coins to envelopes.

Additional Cost to the Postal Service

The Postal Service will experience some additional costs in conducting this outreach to consumers when First-Class stamp rates change. These costs are very modest, however, in comparison to the benefits provided to the Postal Service and the public. It is important to note that some of the costs of the OCA proposal are

likely to be incurred by the Postal Service in any event, and that distribution of courtesy “make-up” stamps and a stamps-by-mail order form will reduce certain costs that the Postal Service would otherwise incur. The following discusses the cost impact of the proposal.

Cost of producing and preparing a mailpiece. The design, and therefore the cost, of a mailpiece can vary, depending on the information to be included. The nationwide “kNOw fraud” 11-1/8” x 6-1/8” card cost approximately \$2.5 million to produce and prepare.¹ A tri-fold stamps-by-mail order form (a BRM envelope, order form, and return mailing label) plus a separate insert order form cost 3.77¢ per piece to produce and prepare.² At this unit cost, production for 130,000,000 delivery addresses³ would cost approximately \$4.9 million (although the unit cost may decrease with larger-scale production). For purposes of this estimate, \$4.9 million is used.

It appears, however, that the Postal Service is already seriously considering a nationwide consumer information postcard mailing for the next change in rates.⁴ Based on the cost of the “kNOw fraud” mailpiece, a postcard mailpiece would cost \$2.5 million to produce and prepare. The cost of a tri-fold mailpiece with an insert is approximately \$4.9 million, so the additional cost of producing and preparing this type of mailpiece should be no more than \$2.4 million.

Cost of producing ten courtesy “make-up” stamps for each mailpiece. The cost of producing 130 million panes of ten stamps—1.3 billion stamps—is estimated by the Postal Service to be approximately \$3.9 million.⁵ This is a unit

¹ Response to OCA/USPS-8, February 10, 2000. Unless otherwise noted, all references are to filings in Docket No. R2000-1.

² Response to OCA/USPS-60, February 24, 2000.

³ Response to OCA/USPS-10, February 7, 2000.

⁴ Response to OCA/USPS-51, February 16, 2000. Both teams involved in assessing the success of implementing the Docket No. R97-1 rate increase recommended a nationwide direct mailing by the Postal Service.

⁵ Response to OCA/USPS-61, February 24, 2000.

cost of production of \$0.003 and is assumed to apply to the cost of producing “make-up” stamps for the next rate change.⁶

The cost of printing the courtesy “make-up” stamps would be offset by reduced quantities of “make-up” stamps printed and distributed for retail sale. It may be prudent for the Postal Service to print in combination somewhat more than the number of “make-up” stamps that would be printed if the only distribution were through retail sales. If 300 million additional “make-up” stamps were printed because of the dual distribution, the additional production cost would be \$0.9 million.

Revenue foregone by distribution of courtesy “make-up” stamps. If one assumes that the requested one-cent increase in the First-Class single piece rate is granted, each courtesy “make-up” stamp would have a postage value of one cent. The maximum revenue foregone would be \$13 million (1.3 billion courtesy stamps times \$0.01). As a practical matter, of course, not all of the stamps would be utilized. The Postal Service apparently does not have information on the portion of G- or H-rate “make-up” stamps purchased that were actually used.⁷ Assuming that 80% of the courtesy stamps are actually used, the revenue-foregone impact would be \$10.4 million.

Cost of processing and delivery of mailpiece. The cost of processing and delivery can be determined based upon an estimate of the test year volume variable cost of Standard Mail (A) saturation ECR.⁸ This is \$0.05415 on a unit basis, and therefore would be approximately \$7.0 million for a nationwide mailing.⁹ There

⁶ The cost of producing 2.5 billion “H” rate make-up stamps in 1998 was \$5.0 million, or \$0.002/stamp. Response to OCA/USPS-47, February 14, 2000.

⁷ Response to OCA/USPS-48, February 14, 2000.

⁸ Response to OCA/USPS-10, February 7, 2000.

⁹ The Postal Service suggested the use of the volume variable cost of delivering Standard Mail (A) saturation ECR, but did not provide an estimate of this cost. The OCA estimate is derived as follows. Exhibit USPS-32B provides a TYAR volume variable cost for all Standard Mail (A) regular ECR of \$2,471,864,000. Exhibit USPS-T-6, Table 1, provides a TYAR volume for all Standard Mail (A) regular ECR of 32,828,211,000. This results in an average unit volume variable cost for all Standard Mail (A) regular ECR of \$0.075297. No calculation was provided by the Postal Service for the volume variable costs of saturation ECR. USPS-LR-I-166, filed January 12, 2000, spreadsheet “wp1_comm.xls,” provides at page 3 TYAR volume forecasts for each category of regular ECR (auto, basic, HD, saturation letters; basic, HD, saturation non-letters). At page 10 the same spreadsheet provides total test year mail processing and delivery

should be little or no difference in the unit volume variable Standard Mail (A) cost to the Postal Service of a tri-fold mailpiece with an insert versus an informational postcard.¹⁰

Other cost impacts. The outreach program is designed to minimize additional window purchases of stamps due to the rate change. By spreading out the period of time over which consumers make new denomination stamp purchases, and by encouraging purchases through mail order fulfillment, the Postal Service can avoid certain operational costs that otherwise would be incurred.

The additional costs of the proposed courtesy “make-up” stamp proposal may be summarized as follows:

Item	OCA proposal (millions)	Expected USPS Cost (millions)	Additional cost (millions)
Mailpiece	\$4.9	\$2.5	\$2.4
Stamp production	\$3.9	\$3.0	\$0.9
Revenue foregone	\$10.4	\$0.0	\$10.4
Cost of saturation ECR	\$7.0	\$7.0	\$0.0
Total costs	\$26.2	\$12.5	\$13.7

This estimate of \$13.7 million of additional costs does not, however, take into account potential savings from avoided overtime, reduced retail inventory, and other cost savings associated with avoiding the peak load on retail units that would otherwise occur as consumers rush to purchase new stamps and “make-up” stamps.

The value to the Postal Service of avoiding a rush on window service at the time of the transition is, however, an important benefit of the courtesy “make-up”

costs for each category. The average unit test year cost for mail processing and delivery for all categories of regular ECR is \$0.07162; the average unit mail processing and delivery test year cost for the two saturation categories (letters and non-letters) is \$0.05150. Accordingly, saturation unit cost appears to be 71.9151% of overall regular unit ECR cost. In order to estimate volume variable cost of saturation ECR, 71.9151% of \$0.075297 = \$0.05415.

¹⁰ The tri-fold type of mailpiece with an insert recommended for this consumer outreach can be delivered as Standard Mail (A) saturation ECR. Response to OCA/USPS-60, February 24, 2000.

stamp proposal. Stamp purchases are the leading transaction at retail windows—30.4% of single component transactions, in 39.1% of two component transactions, and in 20.1% of three component transactions.¹¹ By supplying consumers with courtesy stamps, the Postal Service will enable consumers to avoid an extra trip to the window—many consumers will be able to purchase stamps at the time that they normally would. And by facilitating mail orders of new denomination stamps, the Postal Service likewise will reduce the number of retail window transactions associated with the transition to new rates.

Supplying consumers with the means to avoid a rush on post office facilities will also avoid long waiting in lines for window clerks and the accompanying frustration and irritation for consumers. Coupled with the opportunity to explain to consumers why postage rates are changing, and how the Postal Service spends the money collected for postage, there is a significant opportunity for positive public relations in the proposed nationwide mailing.

¹¹ USPS-LR-H-167, Docket No. R97-1, pp. 160-62.