

**BEFORE THE**  
**COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM**  
**SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF**  
**COLUMBIA**  
**UNITED STATES HOUSE OF REPRESENTATIVES**

**HEARING ON**  
**UNITED STATES POSTAL SERVICE INFRASTRUCTURE AND REALIGNMENT**

**JULY 26, 2007**

**TESTIMONY OF**  
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**SENIOR VICE PRESIDENT, GOVERNMENT AFFAIRS**  
**DIRECT MARKETING ASSOCIATION, INC.**

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Good afternoon Mr. Chairman and members of the Subcommittee. I am Jerry Cerasale, Senior Vice President for Government Affairs of the Direct Marketing Association, and I thank you for the opportunity to appear before you as you examine the Infrastructure and Realignment of the Postal Service.

The Direct Marketing Association, Inc. (“DMA,” [www.the-dma.org](http://www.the-dma.org)) is the leading global trade association of businesses and nonprofit organizations using and supporting multichannel direct marketing tools and techniques. DMA advocates industry standards for responsible marketing, promotes relevance as the key to reaching consumers with desirable offers, and provides cutting-edge research, education, and networking opportunities to improve results throughout the end-to-end direct marketing process. Founded in 1917, DMA today represents more than 3,600 companies from dozens of vertical industries in the U.S. and 50 other nations, including a majority of the Fortune 100 companies, as well as nonprofit organizations. Included are catalogers, financial services, book and magazine publishers, retail stores, industrial manufacturers, Internet-based businesses, and a host of other segments, as well as the service industries that support them.

DMA and our members appreciate this Committee’s and Subcommittee’s continued outreach to the business community on important issues involving the Postal Service. The DMA fully supported the Postal Accountability and Enhancement Act (“PAEA”). One of the major goals of PAEA was to enable the Postal Service to meet the 21<sup>st</sup> century market needs of individual and business mailers. To do that, the Postal Service must create the most efficient mail transportation and delivery network possible. The PAEA provides postal management with the tools it needs to create that network, but the tools alone do not guarantee success – it falls back to the Postal Service to provide the blueprint and carry through on the implementation.

DMA believes that postal management has great latitude in realigning its network. And we recognize that there will be significant costs involved. But I emphasize that the Postal Service cannot be allowed to implement realignment improvements that become, in effect a “hidden” rate increase that bypass the CPI cap requirements for market-dominant classes of mail.

Simply put, the Service cannot use realignment as an excuse to shed costs from its operations and transfer them to its mailing customers. For example, many postal processing facilities currently work around the clock. But if the Postal Service decides to change the allowed entry time for large drop shipments of mail at a sorting facility, for example, from 6pm to 6am, the costs for the Postal Service would decrease, because they would shift receiving volumes to less busy hours, but the costs for mailers, whose mail is time sensitive, such as weekly magazines or daily newspapers, would increase substantially.

Or as another example, if the Postal Service decided to dramatically shift the location of entry points for large mailings this would increase the mailer’s transportation costs without any increase in service provided. Such indirect cost increases for mailers amount to a hidden rate increase that should not be allowed under the rate cap regime established by PAEA. If such changes are made, at a minimum the CPI cap should be lowered accordingly.

Another goal of the PAEA was to create predictability for mail customers in not just the postage rates they are charged, but in the services they get for their postage investment. PAEA creates a framework for the Postal Service to establish much needed service standards for all mail. Service standards are very important to mailers—after all, the delivery of mail in a timely manner is what mailers are purchasing from the Postal Service. Service standards tell mailers what they are receiving for their money and help them to plan their mailing campaigns accordingly. This, it is extremely important that the mailing community knows what those standards are – and whether or not they are being met.

Under the new law, the establishment of service standards must be done in consultation with the Postal Regulatory Commission (“PRC”). At this point in time, DMA is concerned with the Postal Service response to this requirement. The PRC recently received comments on

performance measurements for market-dominant products per section 3691 of the PAEA.<sup>1</sup> Sadly, the Postal Service did not file comments. DMA hopes that the Service will file comments in the reply round even though mailers would then be denied the opportunity to comment on the Service's ideas.

DMA believes that the current service standards, such as they are, should be the basis for discussion on service standards. DMA also supports the efforts of the Mailers Technical Advisory Committee that is working on recommendations for service standards.

Certainly, as the postal service sets its baseline standards, we see many areas that are in need of significant improvement. There are many DMA members who send small mailings nationwide and who receive very poor service for their Standard Mail investment in those mailings. It may take weeks for mail to reach its destination across the country, and for nonprofit mailers the situation appears to be even worse. With the transportation networks in this country available to the Postal Service, it can do and must do better for the smaller Standard mailer.

However, just as with the issue of realignment, the Postal Service could use the justification of improving service standards to reduce what mailers are receiving for their money. It is our strong belief at DMA that cutting costs by cutting service violates the basis of postal reform. Therefore, any service standard setting process must prevent that cost shift. The Postal Service must become more efficient not less responsive.

On a related point, setting service standards and reporting them to the world is just half of the process. Standards that are set must be met, so the performance of the Postal Service is a key to any effective service standard program. This is very important because mailers, especially direct marketers, plan their entire business operation around the expected delivery of the mail. Telephone operators are scheduled, product is inventoried, and fulfillment personnel are hired to meet the demands of consumers who received the mail. If the mail is not delivered on time,

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<sup>1</sup> The DMA's Comments to the Postal Regulatory Commission on Services Standards are attached and incorporated into this testimony.

phone order lines are quiet and operators are idle; warehouses are overcrowded with unordered merchandise, and fulfillment personnel have no orders to fulfill. The entire operation depends upon mail delivery.

And in a unique twist, if the Postal Service performs much better than expected, the same type problems arise: there are not enough operators to answer customers' calls; inventory is not available and orders cannot be quickly fulfilled. Thus, performance for direct marketers means MEET the delivery standard—do not miss it or beat it, just meet it!

Standards cannot be set simply at the class of mail level. Mail is prepared by presort level, by entry post office, by automation level and by shape. A robust service standard system must take all of these variables into account when measuring mail delivery times. We understand that there cannot be standards for each piece of mail, but there must be sufficient disaggregation for mailers to rely upon them for their mail.

In conclusion, the American economy needs an efficient Postal Service to support the \$900 billion economic engine that the US Mail generates. But efforts toward efficiency should not be efforts to shift costs to Postal Service customers as a disguised rate increase. The American public – from the person mailing a birthday card to the largest business mailer -- deserves to know what they are getting for their postage costs, and feel confident that they will receiving the level of service that they have come to expect.

Reductions in service that shift costs to mailers are, in effect, hidden rate cases. The CPI cap established by the postal reform law cannot be bypassed by realignment and service changes. And finally, it is imperative to remember that mailers need the Postal Service to meet its service standards, since both missing them and beating them cause havoc to broader sales and fulfillment operations.

The DMA thanks the Subcommittee for allowing it to present our views at this hearing. I will be happy to answer any questions you may have for me.

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

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Service Standards and  
Performance Measurement  
for Market Dominant Products

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Docket No. PI2007-1

DIRECT MARKETING ASSOCIATION, INC.  
INITIAL COMMENTS  
PURSUANT TO PRC ORDER NO. 21  
(July 16, 2007)

The Direct Marketing Association, Inc. ("DMA") respectfully submits these Initial Comments in response to Order No. 21 issued by the Commission on June 13, 2007,<sup>1</sup> on the subject of performance measurements for market-dominant products under section 3691 of the Postal Accountability and Enhancement Act ("PAEA").<sup>2</sup>

**I. Importance of a Workable System for Measuring Service Standards**

As an initial matter, DMA would like to emphasize the importance of the subject that the Commission is addressing in this docket. As DMA has stated in the past,<sup>3</sup> the fundamental compromise reflected in the PAEA is based on the proposition that mailers will not face rate increases greater than the rate of inflation, as measured by the CPI. A degradation of service standards is nothing more than a rate increase in disguise, and the Commission should assure that this type of rate increase does not occur. Establishing a workable, reliable system for measuring the service being rendered to mailers by the Postal Service is a prerequisite to assuring mailers that they are not subjected to this type of rate increase.

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<sup>1</sup> PRC Order No. 21, Notice of Request for Comments on Modern Service Standards and Performance Measurement for Market Dominant Products, (June 13, 2007).

<sup>2</sup> Public Law 109-435.

<sup>3</sup> E.g., DMA Initial Comments in PRC Docket No. RM2007-1 (April 6, 2007) at 4.

## **II. Service Levels**

DMA believes that the current service levels should form the basis of the standards that the Commission will develop under section 3691 of the PAEA. However, DMA will defer to industry recommendations from MTAC Workgroup 114 on this subject.

## **III. Level of Disaggregation**

DMA assumes that modern service standards must be promulgated by class and by subclass. However, finer levels of disaggregation will enhance the value of service standards to both senders and recipients and help assure reliability and speed of delivery. Thus, the Commission should give serious consideration to establishing distinct standards for mail with different characteristics, especially if those characteristics have a significant impact on the way in which the Postal Service handles the mail. For example, within the same class or subclass, differences in entry points, differences in levels of presortation, differences in levels of automation compatibility, differences in ZIP-code pairs, and differences in shape can have a substantial impact on the steps that the USPS needs to take to process the mail, and, therefore, can have a substantial impact on the service standards that mailers should expect the Postal Service to be able to meet.

DMA fully appreciates that there comes a point where the level of disaggregation may become so fine that it becomes impractical, either from an operational point of view or from a financial point of view, to create distinct service standards and to measure USPS compliance with them. DMA simply wishes to encourage the Commission to recognize the fact that, from the point of view of each mailer, aggregate service standards are virtually meaningless. What matters to each mailer is that service that its mail receives, and that mail has very specific characteristics in terms of automation compatibility, presort levels, etc.. Each mailer needs to know what level of service it can expect, and to what extent the Postal Service is meeting that standard. Subclass-wide data has little relevance to the individual mailer.

#### **IV. Method of Measurement**

Once standards are established, of course, there needs to be a way to measure the extent to which the Postal Service is meeting them. This measurement system must be transparent. The information needs to be public and it needs to be provided on a periodic basis-- no less frequently than quarterly in DMA's view.

Also important is the level of disaggregation in which this information is provided. Nationwide numbers are not useful. They are not useful to specific mailers, and they are not useful to the Commission or the Postal Service in trying to identify sources of problems in meeting service standards. To be useful, the level of disaggregation should not be broader than each Postal Service Area.

#### **V. Enforcement of Service Standards**

Finally, DMA firmly believes that performance is much more important than penalizing non-performance. Thus, DMA urges the Commission to monitor service performance carefully and to assure that the Postal Service develops and executes plans for remedial action when systemic failures or service degradation is identified. In this connection, the Commission should consider that mailers are purchasing service based upon published service standards, and sub-standard performance by the Postal Service means that the mailers did not get what they paid for. As a last resort, and DMA emphasizes that this would be a measure of last resort, the Commission should treat persistent non-compliance as a price increase and, therefore, to reduce permissible rate increases under the CPI cap (as Postcomm, the UK postal regulator, does in England).

Respectfully submitted,

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