

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
EFFECTS OF THE 2007 POSTAGE CHANGES ON MAILERS

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TESTIMONY OF
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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 effects of the most recent postage changes on mailers.

The Direct Marketing Association, Inc. (DMA) 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 Subcommittee's continued outreach to the business community on important issues involving the Postal Service. Mailers depend upon reliable and affordable postal services, and it is important for this Subcommittee to examine the effects of the most recent postage increases on mailers.

Every postal rate change affects the mailers' decisions—how much mail—what mix of mail—what mix of communication channels. The Postal Service's shift to shape-based rates coupled with the greater than requested and anticipated postage increases for flat-shaped mail created an almost untenable situation for many businesses in the mailing community. I would like to discuss four specific postage changes:

- Standard Mail flats
- First-Class Mail flats
- Standard Mail parcels
- Standard Mail not flat machinables

Flat-shaped mail

In 1990 the Postal Service began implementation of a postal rate design to reflect differences in handling, transporting and delivering between letter-shaped and flat-shaped mail in First-Class and Standard Mail.¹ As required by the Postal Reorganization Act, both the Postal Service and the Postal Rate Commission designed rates to mitigate the impact of rate increases on flat-shaped mail—they began a gradual shift in rates that would eventually fully reflect the handling differences. In the last rate case, the Postal Service’s proposed increases continued that gradual shift. However, the Postal Regulatory Commission (PRC) abandoned the mitigation approach and recommended rates that reflected the full differential.² Those increases were implemented on May 14, 2007. This resulted in rate increases double or more than those proposed by the Service—approximately 20% for First-Class flats and 20% to 40% for Standard Mail flats. Certain nonprofit members of DMA faced greater than 50% increases in postage with the May 14 rates. Increases of that magnitude have significant impact on mailers.

Standard Mail

The PRC recommended letter-shaped mail postage rates lower than those proposed by the Postal Service. We do not have data on the expected positive volume effect due to the lower than proposed postage increases for letter mail. It is important to note that letter-shaped mail accounts for approximately 75% of Standard Mail volume and 67% of Standard Mail revenue. We should demand more up-to-date data from the Postal Service to understand the effects on letter-shaped mail volume. We do know, however, that since 1999 immediately following postage increases, Standard Mail

¹ Standard Mail is bulk identical pieces of mail weighing less than 1 pound. It receives no free forwarding, is not sealed against inspection, is not transported by air, must be presorted and have postage paid that does not require cancelling. First-Class Mail is sealed against inspection, transported by air, receives free forwarding, may have postage paid by stamps requiring cancellation, need not be presorted, and need not be part of a bulk mailing. Flat-shaped mail is mail greater than 6.25 inches by 11.5 inches with a thickness no greater than 1.25 inches.

² Both the rates that the Postal Service proposed and the rates that the Postal Regulatory Commission recommended had flat-shaped mail and letter-shaped mail in First- and Standard Mail covering their costs.

volume continued to rise albeit less than it would have without the increase. Sadly, that is NOT the case after this postage increase. Standard Mail volume is down almost 1%. This is problematic for the Postal Service since Standard Mail has been its growth generator.

DMA members have written to the Governors of the Postal Service showing their planned adjustments in mailings due to fixed budgets and greater than expected flat-shaped postage. Our catalog members are compelled to reduce volume an additional 10% to 15% reduction in the number of pieces mailed based on the additional increases over the Postal Service's proposed rates. The loss of that catalog mail will result in a loss of orders and a resulting loss of additional mail. It has been estimated that every order generates an additional 21 pieces of mail. All that will be lost.

As a result, DMA members are examining all avenues to reduce postage costs. There is far greater interest in co-mailing and commingling catalog mail. Those efforts will help mitigate the huge rate increase catalogers face. But catalogers are looking elsewhere as well. I recently attended the Fall Conference of the New England Mail Order Association. Over one-half of the conference programming was focused on the Internet and Web site development. The rate increase has accelerated the shift away from paper communications—not a good omen for the Postal Service's only significantly growing class of mail.³

Catalogers are not the only mailers of Standard flats. A DMA member that publishes a weekly newsletter, mailed First-Class, has used a Standard Mail flat for its promotion. Anticipating greater increases on flat-shaped mail than letter-shaped mail, the publication changed its promotion piece to letter-shaped. The response was SIGNIFICANTLY lower than the historic flat-shaped promotion. For each newsletter subscription lost there was a loss to the Postal Service of 52 First-Class Mail pieces—the law of unintended consequences at work.

The PRC assumed in its recommendation that many flat-shaped mailers would change the shape of their mail pieces to letter-shaped (6 inches by 11 inches by ¼ inch is still a letter). That has not occurred in Standard Mail to any significant extent. The shape

³ In the latest budget for the Postal Service, Standard Mail is the only class for which the Service estimates a growth in mail volume.

of a mail piece is determined by many factors—not simply postage. Response of customers is a major factor as shown in the newsletter example above. ¼ inch may not allow enough pages to show all the product offered. Letter-shaped catalogs must be tabbed to allow them to be processed on letter sorting equipment—an additional expense and historically a barrier to customer response. Furthermore, DMA and mailers have heard that the 6 by 11 letters, “slim jims” may not be as compatible with letter sorting equipment as thought. There are expectations that slim jims may be considered flat-shaped mail next time around. This is causing mailers to wait and see before making any change. As DMA explained to both the PRC and the Governors of the Postal Service, the PRC assumed migration to letters will not materialize as estimated; rather, volume will be lost and along with it much needed revenue. As explained in filings, DMA believes that the revenues for Standard Mail estimated by the PRC will not be realized.

In addition, a catalog company has a significant lead time before a catalog is produced and mailed. Product to be sold *via* the catalog must be chosen, then purchased, then produced, then shipped to the cataloger in time for sales generated by the catalog. Once the products to be offered in the catalog are ordered, the size of that catalog, for all practical purposes, is set. Purchase decisions for the holiday season were well underway by May 14, when these rates became effective. Thus, the full effect of the rate increase on catalog volume has yet to be felt. The Subcommittee should continue its examination beyond today.

The effect of the rate increase on the nonprofit community, particularly on one veteran group, was devastating. Donations from their flat-shaped promotions have fallen because the charity could not afford to mail as many pieces as planned. At a time of war this rate increase has not helped the veteran beneficiaries.

Finally, some collateral effects of the Standard flat increase are being felt. Non profit mailers indicate that the number of prospect donors on lists is declining since there are fewer catalogs being mailed and thus there are fewer catalog customers. This phenomenon will only increase as the full effect of the increase is felt after the holiday mailing season.

First-Class flats

Unlike our observations for Standard Mail, it appears that many flat-shaped First-Class mailers are converting their pieces to letter-shaped. Sales for 9 by 11 envelopes is down significantly, but sales for 6 by 9 envelopes have grown. This suggests that mailers may be folding flat-shaped pieces to fit into a 6 by 9 envelope. From our information the effects of the flat-shaped postage increases on First-Class Mail are less severe than for Standard Mail.

Standard Mail parcels

Standard Mail parcels, bulk parcels weighing less than 1 pound, had postage increases of 40%.⁴ DMA members had to pass these increases to their customers and are seeing a reduction in orders. This, in turn, reduces the number of promotional pieces of mail sent as mailing lists of customers shrink. Parcel shippers are examining different packaging to try to shift from parcels to flats. DMA expects to see significant long-term reductions in this mail as customers decline to pay higher shipping costs for products ordered—the items are removed from the shopping cart.

Not flat machinables

The postage for not flat machinables for non profit members of DMA increased 100% to 200% and more. The inclusion of a small premium (a pen or pin, for example) in a donation request mail solicitation has virtually ended. DMA nonprofit members were left with significant inventory of premiums that are now too costly to mail.⁵ One charitable organization planned to mail almost 8 million donation solicitations with premiums enclosed in 2008. The current plan is to mail 100,000 such pieces. The ancillary effect again will be a reduction in the number of prospective donors on mailing

⁴ The 40% increase recommended by the PRC was significantly less than the increase proposed by the Postal Service.

⁵ DMA and its DMA Non Profit Federation asked the Board of Governors to delay until December 31, 2007 the increase for not flat machinables to allow non profits to draw down their premium inventory. Sadly, that request was rejected.

lists. It appears to DMA that the Postal Service wanted to end this type of mail, and the PRC agreed.

Solution

The solution available is to avoid an “old law” rate case that produced the current rates. Do not allow that to happen. Any future rate change should be under the provisions of the Postal Accountability and Enhancement Act which gives the Postal Service flexibility to establish postal rates as the market demands. The Service must balance the effects of increases on all shapes of mail and must protect the growth of Standard Mail which will generate mail volume in all other classes. Under that Act, the Service should consider the volume disruptions, if any, caused by the May 14th rates. Hopefully, the Service will account for the pending spike in coated paper prices that will dramatically affect catalogs and magazines when establishing rates under the new law. The new investment into sorting equipment for letters, flats and parcels and any expected productivity improvements should be an integral part of any future rate changes. Strict adherence to short-term cost of service pricing is not in the best interest of mailers, Postal Service and the American public. We need the new law to work, and DMA asks this Subcommittee use all available tools at its disposal to insure that the next postal rate changes are accomplished under the provisions of the Postal Accountability and Enhancement Act.

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