

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

NOTICE OF CLASSIFICATION AND PRICE ADJUSTMENTS
FOR PICTURE PERMIT IMPRINTS

Docket No. R2012-7

**COMMENTS OF THE NATIONAL POSTAL POLICY COUNCIL AND
THE MAJOR MAILERS ASSOCIATION**

(April 17, 2012)

The National Postal Policy Council and the Major Mailers Association respectfully submit these comments on the Postal Service's proposal to impose a surcharge for the use of Picture Permit Imprint Indicia.¹ The proposal to assess a surcharge – one cent per piece for First-Class Mail and two cents for Standard Mail -- comes as an unexpected surprise to mailers that have invested over a year's worth of time and effort in the pilot program to develop this concept.

Whatever modest revenue that the Postal Service might hope to obtain will be more than offset by the discouraging signal sent to mailers and reduced use of the indicia, in addition to the disincentive the Postal Service would create to helping to develop innovative uses of the mail. Consequently, the proposed increases, which could cost some mailers hundreds of thousands of dollars, should be rejected as unjust and unreasonable.

Mailers involved in the pilot have invested more than a year in working with the Postal Service to develop the Picture Permit Imprint Indicia. Pilot

¹ *United States Postal Service Notice of Market Dominant Classification and Price Changes for Picture Permit Imprint Indicia* (March 28, 2012) ("USPS Notice"), *noticed* Order No. 1302 (March 29, 2012).

mailers have already mailed many pieces bearing Picture Permit Imprint Indicia. We are informed that over seven million test pieces have been mailed to date, and are aware of one mailer that has sent more than one million pieces since February of this year alone.

Thus, Picture Permit Imprint Indicia are already in use *today*. The use of those indicia in lieu of pre-canceled presort stamps is already saving the Postal Service money. The Postal Service's filing introduces neither a new product nor a new service, nor proposes a cost saving. Its sole purpose to charge fees for something that currently is not subject to a fee.

The Postal Service offers three justifications for its proposal:

The proposed Picture Permit Imprint Indicia will [1] directly help to keep mailers using the mail, [2] increases the interest of mail recipients in the mail they receive, and [3] generate higher revenue per piece through a per piece charge over and above postage.

USPS Notice at 3. The first two justifications – keeping mailers in the mail and increase recipients' interest – do not support the rate proposal. Those features exist today with no surcharge. On the contrary, the proposed surcharge is counterproductive to those justifications, because the Postal Service seeks to raise the cost of Picture Permit Imprint Indicia without providing any offsetting additional benefit.

In fact, the *only* new consequence of the proposed surcharge would be, if all went as the Postal Service hopes, "higher revenue per piece." While the Postal Service's desire for revenue in light of its financial condition is understandable, the amount of money to be gained from the proposed surcharge

is vastly outweighed by the revenue, contribution, and goodwill it stands to lose from imposing the surcharge.

A review of the history of this proposal will help to understand the mailers' perspective. As the Postal Service acknowledges, the idea of using customized permit indicia has been discussed informally for awhile. More recently, in the past year or so, mailers have worked closely with the Postal Service to flesh out the concept. After considerable effort, earlier this year live mail bearing test Picture Permit Imprint Indicia were placed into the mailstream and successfully delivered. To date, more than seven million pieces bearing a Picture Permit Imprint Indicia have been mailed.

At a time when First-Class Mail volume continues to decline, the Postal Service's first priority should be encouraging mail retention, while also attempting to generate volume growth (which can occur only after curtailing the losses). At a unit contribution of 23.9 cents per piece,² any increase in the volume of First-Class Presort letters will benefit the Postal Service financially to a substantial degree.

Even without a volume increase, the Postal Service benefits financially from mailers' customized permit indicia. Although the Postal Service's *Notice* is silent on the point, Picture Permit Imprint Indicia saves the Postal Service money by reducing the demand for pre-canceled presort stamps. Instead, mailers are willing voluntarily to invest the time and money needed to create their own indicia, which substitute for the pre-canceled presort stamps.

² Postal Regulatory Commission, *Annual Compliance Determination Report, Fiscal Year 2011* at Table VII-1 (Mar. 28, 2012).

Unfortunately, confronted with an innovative concept that has NPPC and MMA mailer enthusiasm, is operationally successful, and which can reduce its own costs, the Postal Service feels impelled to go a step too far. Not content with a net contribution of nearly 24 cents per piece in First-Class Presort letters and 7.48 cents per piece for Standard High-Density and Saturation letters,³ the Postal Service wants to impose an additional penny on the already overburdened First-Class Presort mailer, with no budgetary flexibility and ready access to Internet communications, and increase the contribution from Standard letters by nearly 25 percent. And many of the test pieces mailed to date were First-Class cards, which already received an above-inflation rate increase earlier this year.

This penny-wise proposal is pound-foolish. Imposing a surcharge is self-defeating for a concept driven by mailers to save or increase volume. Raising the price for mailer-created Picture Permit Imprint Indicia will merely stunt growth by *reducing* – not increasing -- volume.

There is little reason to think that large Presort mailers will be willing to pay the surcharge.⁴ As we repeatedly tell the Postal Service, large commercial mailers' budgets are fixed. Applying the surcharge to, say, four million Presort letters would cost \$40,000 in additional postage, money which will not be found in tight operational budgets.

³ ACD Report, FY2011 at Table VII-11-FY2011.

⁴ Indeed, the Postal Service's *Notice* states (at 3) that only nine percent of First-Class commercial customers would be willing to pay a "small" premium to use their own indicia.

If mailers are discouraged by price from using the concept, the Postal Service will simply continue to bear the cost of creating pre-canceled presort stamps. And so yet another possible cost saving idea will bite the dust.

The Postal Service errs in thinking of Picture Permit Imprint Indicia as a revenue-generating premium service. On the contrary, the idea is to retain, and possibly increase, volume by making letters more interesting and appealing. First-Class mail volumes will only stabilize and eventually grow if mailers and recipients perceive them to have more value than is currently the case. That is the true source of revenue growth in the mail. Nickel-and-diming will prove counterproductive.

In addition, several technical issues regarding the payment and comingling of mail have yet to be explored and resolved. For example, mailers may incur as yet unknown additional costs and burdens in making payments for these indicia. It also is unclear at this time how this program will be supported in a comingled/presort environment, while the Postal Service has yet to prescribe fully mail preparation and acceptance procedures. Until the Postal Service details how these indicia are to be submitted for payment, and what preparation and acceptance procedures will apply, what other technical or operational costs mailers will bear to use this feature remain unknown.

Finally, and perhaps even more importantly, the proposal in this proceeding has already caused substantial damage to the Postal Service's goodwill on the part of mailers. For several years, the Postal Service has asked mailers for innovative ideas, and asked mailers to work with it to explore

innovative ways to enhance the value of mail. The Picture Permit Imprint Indicia in this case is an example of such an idea, and mailers have invested more than a year, incurring their own uncompensated costs, in close cooperation with the Postal Service to develop it.

Unfortunately, if the Postal Service had plans to charge mailers for Picture Permit imprint indicia, such plans were not well-communicated. Instead, mailers now feel blindsided by an unexpected rate hike. If the reward mailers receive for cooperating with the Postal Service to develop innovative new mailing ideas is to be surprised by an unexpected rate hike for those very same ideas, then mailers will be hesitant to participate in future initiatives and the Postal Service can expect less help from mailers in the future.

For the foregoing reasons, the National Postal Policy Council and the Major Mailers Association urge the Commission to reject the non-cost based surcharge for picture permit imprint indicia as not just and reasonable, and for the Postal Service to refrain from implementing such rates if approved. We do urge

the Postal Service to move forward with picture permit imprint indicia with no rate increase.

Respectfully submitted,

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