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

CONFIDENTIAL

Statutory Review of the System For Regulating Rates and Classes For Market Dominant Products	)))))	Docket No. RM2017-3

COMMENTS OF THE SATURATION MAILERS COALITION; ASSOCIATION OF FREE COMMUNITY PAPERS; INDEPENDENT FREE PAPERS OF AMERICA; COMMUNITY PAPERS OF FLORIDA; MIDWEST FREE COMMUNITY PAPERS ASSOCIATION; COMMUNITY PAPERS OF MICHIGAN; SOUTHEASTERN ADVERTISING PUBULISHERS ASSOCIATION; MID ATLANTIC COMMUNITY PAPERS ASSOCIATION; FREE COMMUNITY PAPERS OF NEW YORK; WISCONSIN COMMUNITY PAPERS; SMALL BUSINESS LEGISLATIVE COUNCIL; COMMUNITY PAPERS OF NEW ENGLAND

STATEMENT OF INTEREST

The Saturation Mailers Coalition ("SMC") is a coalition of saturation mailers that, collectively, send more than 100 million pieces of saturation and high density mail with the USPS each week. SMC's members represent shared mail programs, free community papers, and coupon publications.

The Association of Free Community Papers (AFCP) and Independent Free Papers of America (IFPA) are national associations that represent free community papers, both with and without news content, that are sent by mail, private carrier delivery, or offered by demand distribution. Community Papers of Florida (CPF), Midwest Free Community Papers Association (MFCPA), Wisconsin Community Papers (WCP), Community Papers of Michigan (CPM), Southeastern Advertising Publishers Association (SAPA), Mid Atlantic Community Papers Association (MACPA), Community Papers of New England (CPNE), and Free Community Papers of New York (FCPNY), are state and regional associations of free papers.

All of the free paper associations represent free papers, some with all advertising content and some with traditional news coverage or local neighborhood news. The collective membership of these free paper associations represents over 1900 audited publications, with audited, predominantly weekly, circulation exceeding 44 million. More than 40% of the audited circulation of free papers is circulation sent by the USPS using ECR saturation and high density mail. When known, but not audited circulation, is included, the total mailed circulation is much higher. Collectively, all of these associations represent businesses that are working to attract advertisers, large and small, to print advertising pieces distributed by the USPS to businesses and consumers in a defined geographic area. This is a fiercely competitive marketplace. These associations work together to urge the USPS, the PRC, and the various government and other stakeholder groups that impact the USPS, to keep the USPS affordable for our businesses, and the customers we serve.

The Small Business Legislative Council (SBLC) is a 40 year old, permanent, independent coalition of approximately 50 trade and professional associations that share a common commitment to the future of small business. SBLC members represent the interests of small business in such diverse economic sectors as manufacturing, retailing, distribution, professional and technical services, construction, transportation, and agriculture. SBLC policies are developed by consensus among its membership. SBLC has historically worked with SMC on postal issues based on its belief that America's small businesses heavily rely on the USPS as a primary means of communication and marketing for prospecting, general advertising, driving retail and service consumer response, and helping local retailers and service providers get in business and stay in business. The predominant customers of free papers are local service businesses, professionals and retailers.

THE SYSTEM WORKS

Thank you for the opportunity to submit comments on whether the current rate making system is achieving the objectives of the current law. We also want to thank the Commission for clarifying that parties that believe the current systems works, need not worry about losing any chance to comment or submit input should the Commission find that changes should be made. We appreciate the opportunity to focus our efforts, and your valuable time, to provide the reasons we believe the current system works.

Many of the Association members contributing to these comments have been users of the Postal Service for decades. Collectively, we remember the "old days", when the USPS announced how much money it needed, and the PRC and stakeholders all "duked it out" fighting over a zero sum game. Decisions and orders for double digit postal rate increases were not uncommon. For our members that operate shared mail programs, this process led to rate increases, and business cycles, of one step forward, two steps back. This Commission has recognized the price elasticity, and competitive forces, that prevent saturation mailers from passing on their cost increases to customers. Unlike some mailers, our experience is that an effort to pass on an increase of "X" to our customers, can result in a "2X" loss of business. Our members would spend years working to build their shared mail businesses, open and expand markets, circulation and frequency, and win customers to the Postal Service. The cost of service system would allow a big rate increase, where distribution costs for postage were higher than other advertising mediums. Our members would be forced to pass on these costs to customers. As a result, they would see their sales, revenues, and customer counts decrease. For us, the old days were not the good days.

In reviewing how the rate setting system has worked to achieve PAEA's objectives, we urge this Commission to consider a perspective of "If it ain't broke, don't fix it".

This is a relatively new law and rate making system. The past ten years have given this Commission, the Postal Service, and stakeholders, an opportunity to learn and tweak the new system. After a long, protracted, series of proceedings fighting over exigency, we now have a body of law and guidance from this Commission, and the Court of Appeals, about what circumstances need to arise before an exigency case is appropriate. The Service and stakeholders have authority on the measure for exigency increases.

The Service has tried and explored different time frames for filing. In recent years the USPS has settled into a fall filing, January, price adjustment rate calendar. This annual calendar, and the CPI pricing benchmark, has given the Postal Service, and industry, a road map for exploring changes that can be made to classifications and products throughout the year. This has given the USPS and industry time and opportunity to discuss, explore and plan for promotions, operations or classification changes, and pricing flexibility for the Postal Service in proposing rules, or rule changes, on a faster track than prior law. It is a cycle that is working for the Postal Service, its customers, and the many stakeholders that are part of the mailing industry.

On an operating basis, where the Postal Service's controllable items of expense are considered, the USPS has performed well. The current rate making system has given Postal Service management, and its work force, incentives to reduce costs and increase efficiency. The current rate setting process has done much to reduce the administrative burdens, and increase the transparency, of rate making. In terms of giving the Postal Service pricing flexibility, the Service's success in getting an approval decision from this Commission with the 45 day time frame required by the statute, (and often faster!) demonstrates that the current system gives the Postal Service pricing flexibility.

Although reductions in the network, consolidations and service standard changes have resulted in some service challenges, overall service performance levels are improving. The rate making system is contributing to the maintenance of high quality service standards.

We anticipate the USPS, and the postal labor unions, may argue that the current system does not meet Objective Five of the law of assuring adequate revenues, including retained earnings, to maintain financial stability. The Service may complain that it is "awash in red ink" and that its balance sheet "looks bad". Balance sheets don't run a business. The Office of Inspector General has rightly pointed out in numerous reports and studies the many understatements of assets that appear on the Postal Service's balance sheet and the many overstated liabilities that are mandated by flawed requirements of current law. The OIG has recognized the basic distinction between controllable costs and those, like the statute's pie in the sky pre-funding mandate, which management cannot control. A rate making system cannot help (or hinder) management in coping with non-controllable costs. We hope that reform is achieved this year so that many of the Postal Service's financial challenges, that were created by the same law that created the rate making system now under the Commission's review, are corrected. But this Commission cannot, and should not, try to fix structural problems with the law that are better addressed by Congress.

In the balance of these comments, we want to address, and provide a market place perspective, on the very important objective that the law has achieved in providing predictability and stability in postal rates and, in turn, predictability and stability in the market place for the delivery of advertising and marketing messages. The USPS is only one of many distribution and marketing channels. The current law has succeeded in fostering a business environment where our members can, and do, invest and grow mail programs. We work each day to win customers to the mail. The predictability and stability of the current rate process has allowed our members to stay in the mail, grow incremental business and revenue, and help our members, and the Postal Service, attract and gain market share in a fiercely competitive advertising and marketing environment.

THE RATE CAP HAS HELPED SHARED MAILERS WIN AND KEEP CUSTOMERS IN THE MAIL

As mail customers, SMC members, and free papers that mail, are unique. Unlike most mail customers, postage is inevitably our single highest cost. Most of our members spend anywhere from 20% to over 50% of every dollar of gross income on postage. We are truly partners with the Postal Service for distribution of our mail programs. Our members promote the mail as a reliable and effective marketing medium. But selling the mail isn't easy. Mail is perceived as the highest cost, in terms of cost per 1000, of all advertising alternatives. Our members are constantly fighting the perception that "print is dead", and the whiz-bang allure of digital. Although many of us are working to add digital channels and enhancement to shared mail offerings, and have been happy to take part in USPS promotions, we are working against a market place bias that mail is "old school", is "not sexy", and is "too expensive". No one understands the hurdles of marketing the mail and the USPS better than our members.

But every day our members do it. The volume retention and gains that the Postal Service has seen in saturation mail and high density and newspaper TMC programs, in terms of pieces mailed and growth in package weight, and diversity of advertisers and messaging content, is a tribute to our efforts.

The last ten years of predictability and rate stability in postal rates, with annual rate changes tied to the CPI rate cap, has made it easier to promote the mail and to win and keep customers.

Our members are pitching to advertisers, large and small, about getting in the mail and staying in the mail. Advertisers live by their marketing budgets. They don't care that our costs go up. They only care about their budgets. Small incremental changes in costs, and costs that are related to the CPI, are rate adjustments that the market place may be willing to accept. The current rate process, with a 90 day notice period and annual adjustments, has worked its way into advertiser's and marketer's budget planning and annual cycle. It has created an environment of consistency that has allowed our members to win and keep customers.

Advertisers accept CPI as an acceptable, market-based benchmark for pricing. For many of our members, the annual rate cycle of modest increases have allowed our members to pass on some or all of postal rate increases to advertisers.

But the Service, and this Commission, should recognize that many advertisers, large and small, simply won't agree to take or pay any price increases. Any increase that is perceived as large, or inconsistent with the market, cannot be passed on by our members.

In the past, when postal rates frequently exceeded other price increases, big advertisers would tell shared mail companies "we have this much to pay, we won't pay more". Price increases usually led large advertisers to adjust their media mix. Non-mail, non-print, options include digital, broadcast, and outdoor to name a few. Mail was always the loser in this adjustment. Even advertisers that "love" the mail, use rate increases as a reason to "optimize" their postal buy and to reduce postage costs. How do they "optimize"? Rural and suburban distribution (the highest cost and most difficult to deliver), might stay in the mail. But distribution alternatives like private carrier delivery, rack or demand, doubling up with another publication, or eliminating apartments or lower revenue zips, are ways of keeping or reducing the postal spend and staying on budget. When the USPS raises rates higher than the market, the Postal Service and our businesses lost business and market share with our larger advertisers.

For small business, advertising expense is generally seen as a discretionary item and the small business simply won't pay more dollars. When there is a price increase, small business owners see the increase as coming out of their pocket or lifestyle. When choosing between paying more for advertising, or lifestyle, lifestyle wins. When price increases are passed on by us to small business, the advertisers response is predicable. The advertiser may skip an ad, downsize on the size or frequency of advertising, or use this as an excuse to try another media.

The Small Business Legislative Council (SBLC) has joined in these comments, and has worked with these associations in the past, on postal issues based on its belief that increases in postal rates often have a disproportionately adverse impact on America's small businesses than larger businesses that have more bargaining clout, and more advertising choices. We need only look to Amazon or Wal-Mart as examples of how America's biggest businesses are able to demand that vendors or service providers that want to do business with them agree to sell goods, and provide services, at the lowest prices and smallest margins possible. When our members tell a big business that our costs went up, the big business is often able to force the mailer, or the business, to "absorb" a portion of the cost increase as the price of keeping a big account. Big businesses are also better able to utilize other media if the Postal Service is raising rates higher than market average or the CPI. As a distribution service counted on by many of SBLC's members, SBLC asks the PRC to maintain this system that has kept monopoly products and prices linked to a well-recognized, market-based index, of the general economy with the CPI rate cap.

Here are some representative comments from our members about their fear of an environment where the Postal Service, or the PRC, could be approving price adjustments that are higher than a market place benchmark, or rate cap like CPI:

> A larger, unpredictable rate increase, would serve as a catalyst for advertisers to test other media. Our customers are always talking about "getting out of the mail". Although the mail may have a better rate of return, and be more cost effective than other media, it is still perceived as high cost. When the Postal Service wants to charge more than other media, it reinforces this prejudice and we lose customers and market share.

> Price increases don't fix the problem of declining volumes. The Service and the Commission should understand that shared mailers have not been able to pass on price increases, particularly the exigency increase, and retain customers. With every price increase, we have done some absorption of the costs within our own business to keep from losing customers. Much of the advertising market is static. Our advertisers have so much to spend. They have little sympathy for us that our rates went up. They expect us to deliver a competitive price and solutions. To do that, we are often holding the line on prices so that we can continue to grow our business, and attract more customers.

For our members that produce shared mail, or total market coverage programs, our businesses are, in many ways, similar to the Postal Service. Our highest cost, postage, is out of our control. There is nothing we can do to offset it, reduce it, or slow our increases. But our members have learned that simply passing on higher costs does not lead to a healthy business or a business that can recoup these higher costs from advertising customers. Rather than increase prices, our members have worked to increase operation efficiencies within their printing, production, and sales organizations. More importantly, our members have faced postal rate challenges, and business challenges, by working harder to drive business and by working to sell more pieces into mail packages, expanding circulation and frequency where opportunities are presented, and working harder and more efficiently to increase revenues to bring more customers to our mail programs by increasing revenues with growth to pay rate increases.

CONCLUSION

For the past ten years, the rate cap mechanism has worked exceedingly well to help mailers and mail stake holders plan their business. We believe all postal stakeholders have benefitted by the current rate cap process and a rate adjustment system where postal costs are generally competitive, do not gyrate unpredictably, or increase at a pace that exceeds other costs of goods and services.

The rate cap mechanism has spurred the Postal Service to make many needed changes in its network and work force. It has contributed to efforts to focus on new products, promotions, and ideas to retain customers and volumes that we did not see in the old "cost of service" days. Although we all suffered through a recession, and the USPS' zealous legal and regulatory efforts to achieve a permanent increase in its rate base with exigency, that dust has largely settled. Based on operations and recent performance, it appears the USPS has learned to live within its means from an operations standpoint. When the performance of the Postal Service is evaluated from an operations standpoint, it has done well.

We ask the PRC to find that the current rate making system is fulfilling the objectives under the law and that no further rule making or proceedings are needed.

Respectfully submitted,

/s/______________________________

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