

**BEFORE THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES**

“THE FUTURE OF THE POSTAL SERVICE: A POSTAL POLICY FORUM”

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TESTIMONY OF

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Good morning, Chairman Towns and members of the Committee, I am Jerry Cerasale, Senior Vice President for Government Affairs of the Direct Marketing Association, and I thank you for the opportunity to appear today on behalf of the Direct Marketing Association concerning the future of the Postal Service: Innovation and the continued relevance of the US Postal Service in the 21st Century.

The Direct Marketing Association, Inc. (“DMA,” www.the-dma.org) is the leading global trade association of businesses and nonprofit organizations using and supporting multichannel direct marketing tools and techniques, including the U.S. Mail. Founded in 1917, DMA today represents more than 3,000 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, such as printers.

DMA and our members appreciate this Committee’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 21st century market needs of individual and business mailers.

It is important to view the Service’s customer base as two distinct groups: individuals and businesses. Each has both similar and distinct needs.

From my individual perspective, I view the Postal Service very differently today than I did 40 years ago. As a member of the military 40 years ago, I received a letter a day from my soon to be wife. Our phone conversations were limited to 3 minutes due to our financial situations. Look at today—cell phones, texting, streaming video, instant video communication—not letters. We do online bill payment—now receive incentives to receive bills online. There are electronic cards—even electronic wedding invitations. Of course, the care packages of 40 years ago would still arrive by mail today. I am now a major catalog and online shopper who relies upon package delivery. Of course, to encourage my shopping habits, I value the advertisements and catalogs I receive in the

mail. I peruse them at my leisure. Thus, my view and use of the Postal Service has changed, but it is still a needed and valuable service.

Business customers provide over 80% of postal revenue, and they rely upon the Postal Service to reach customers and potential customers with information, offers and product. Their use of the mail indicates that mail is a valuable communications and delivery tool for them. That value, however, depends upon both price and service compared to other means and channels available to the business. For example, shippers have choices for delivery of ordered products to both businesses and consumers. The law recognizes that competition and categorizes most Postal Service parcel products as competitive. But there is competition for market dominant mail as well. Financial product companies encourage and even incent individuals to both pay online and receive bills online—some require businesses to do both. It reduces costs for those companies—those savings go “right to the bottom line.” Mail volume lost in those instances will never return.

The situation for advertising mail is somewhat different. The channel a marketer utilizes to send an offer to a consumer is decided by the response to the offer versus the cost of sending the offer—a return on investment (ROI). At the moment, advertising mail—the only category of mail that showed any volume growth in the last quarter—provides a better ROI than other channels for many marketers. However, that could change quickly. New technologies that offer new channels are developed every day it seems. Increases in the cost of mailing (paper, printing, postage) reduces the ROI of advertising mail and, thus, the value of mail compared to other communication channels. There is no doubt that the expected 5% postage increase that the Postal Service will be seeking due to “extraordinary or exceptional circumstances” will reduce the value of advertising mail to marketers. Under PAEA advertising mail postage would be capped at the CPI, currently less than 0.5%. A January, 2011 5% postage increase—over 10 times the rate of inflation—will make other channels of communication more valuable and will shift advertising expenditures away from the mail. Facing declining volume, it is difficult to imagine a business raising prices for its customers, but that is what my members are facing.

The first task to have a viable Postal Service in the 21st Century is to have its financial house in order. The huge burden of retiree health benefit prefunding schedule must be reexamined. Congress has an opportunity to solve this problem without forgiving mailers from their obligation to cover the costs of the Postal Service. The Inspector General of the Postal Service has stated that since 1971 mailers have overpaid for postal retiree pensions by \$75 billion. The Postal Regulatory Commission is also examining this payment and expects to issue its report next month. That overpayment will prefund all postal retiree health benefit premiums. Congress should use the mailers' overpayment of pensions to cover the costs of health benefits. That action would remove the need for the Service to seek a 10-times inflation postage increase and a reduction in service. The time to act is now to avoid stunting, if not eliminating, the small growth we see in advertising mail.

Turning to the specific questions to which you asked me to respond:

- **How can the Postal Service remain relevant over the next few decades?**

Relevance of the Postal Service equates to value of the mail. That means American citizens must be given the services they desire. Delivery must be timely. Retail services must be available. For shippers prices must be competitive and service comparable for package delivery. For marketers the ROI for advertising mail must be greater than the ROI for other channels of advertising. If the Postal Service fails to meet those expectations, the volume losses of the past few years will continue and will likely hasten. Postage increases of 10 times inflation devalue the mail and will be a poison pill rather than an aspirin.

- **Should the Postal Service move more aggressively into area such as hybrid mail, unaddressed mail, and online postage, either unilaterally or in partnership with other entities?**

The Postal Service should look at all of those. They should not attempt to reinvent the wheel, however. Partnering with the private sector should be explored in every instance. As former Deputy Postmaster General Michael Coughlin testified before Congress recently, these new "products" likely will not

produce the billions of dollars that the Postal Service needs to correct its financial situation. But every little bit helps.

I believe the Service should look very aggressively at removing barriers for mailers to use the mail. In the past few years the Postal Service has placed many new requirements on business mailers that necessitated reengineering the address placement on catalogs, new barcoding, and new demands on companies' IT systems in hopes of reducing costs of the Postal Service. Sadly, those costs keep rising at the same time the requirements increase the costs for mailers (reducing ROI as well). All of those requirements should be reexamined by the Service in constant consultation with its customers.

It is also time for the Postal Service to come into the 21st Century business operations. DMA members have contracts with many different suppliers and service providers. Those contacts are managed through the use of manifests—that is how business operates. Unfortunately, the Postal Service requires a separate set of forms to be completed for each mailing and for each product purchased. That is confusing, time consuming and costly particularly for small- and medium-sized businesses. This barrier to entry into the Mail should be eliminated and postage should be verified via manifests. In addition companies conduct business in the United States with payments due in 30 or 60 days. The Postal Service requires payment in full before the mail is accepted. This is especially a problem for smaller catalogs that must wait for orders from the catalog mailing for their revenue. Terms would relieve cash pressure on them at the time of mailing and might encourage more mail to be sent.

The Service should examine new ways to view customers. Rather than see a customer separately as a Standard mailer, a First-Class mailer and a parcel shipper, it should work with that customer as a mailer—setting rates and offering services to the customer as a unit and not exclusively tied down to specific products. For example, a customer's standard mail generates both First-Class and parcel mail—eliminate the silo view and treatment of customers.

The Service should focus efforts on reducing barriers of entry to mail advertisements to encourage volume growth as well as looking at any new products to help bring in revenue.

- **Are legislative or regulatory changes necessary to allow the Postal Service more flexibility in new product areas, or does it have sufficient flexibility now?**

The elimination of the silo view of customers may require legislative change. However, the Service and the Postal Regulatory Commission (PRC) should immediately work to adjust any regulations to allow this holistic view of mailers. We must end the silo treatment.

In the same light, the Service should intensify its efforts for negotiated service agreements (NSA). It should make agreements with customers that improve the long-term financial health of the Service and send them to the Commission for its review. If the Commission disapproves of all these efforts, Congress should step in to adjust the law to allow NSAs that encompass multiple products (including market dominant and competitive), volume guarantees, etc.

The Service should become very aggressive and challenge the Commission to look for the long-term health of the Service.

There is another legislative change that could affect the Postal Service and the marketing economy that Congress should note. Severe privacy legislation that restricts the flow of information to provide consumers relevant offers *via* the Mail, the Internet, email, mobile, etc. would have significant negative effects on ecommerce and the Postal Service. Information is the driving force for marketing in all channels, and this Committee should monitor all such legislation and request referral (whether joint or sequential) of any privacy legislation that would restrict the flow of marketing information for marketing purposes.

- **How can the Postal Service leverage its network to better serve businesses and consumers?**

First, the Postal Service should be commended for working with United Parcel Service and FedEx to leverage its carrier network to deliver packages to American residences. This should continue and be expanded as much as possible.

The network of Post Offices should also be leveraged. In cases of closing small Post Offices, the PRC in many cases has found that the Post Office is THE presence of the government in the community. Allow the facilities to become a revolving office for other governmental services. For example, once a month Social Security Administration personnel can meet citizens at the Post Office. In March and April, IRS representatives could help taxpayers at the Post Office. Even the state Department of Motor Vehicles could use space periodically. In essence have Post Offices, particularly in rural areas, become the face of government.

- **Is there a legitimate concern about the Postal Service straying from its core business of the mail?**

There are two concerns. First, if the Service strays from its core mission, it does not have the expertise to provide that new product efficiently. Second, it may become a competitor of its customers which might drive those customers away from mailing.

There is no doubt that the Postal Service needs new revenue, but it is unclear whether or not “straying” would provide enough new revenue to be economically worth doing.

- **How can the Postal Service partner with the private sector more effectively?**

The Service must enter into any partnership with a view of overall cost of mailers. Too often the Postal Service seeks to partner with the private sector with a view of only postal operations. Here again a holistic approach is needed.

In conclusion, the issue of retiree health payments and the overpayment of pension benefits must be settled in order to improve the Service’s fiscal situation. Mailers should pay for the pensions of postal employees not government employees.

This correction will eliminate, hopefully, any disastrous call for postage increases of 10 times the rate of inflation. This is not the time to put the brakes on a slow and weak economic recovery. Finally, the Service should be very aggressive creating negotiated service agreements and should send many, many of them to the PRC for review.

I thank you and look forward to any questions you may have.