AMERICAN CATALOG MAILERS ASSOCIATION
www.catalogmailers.org

April 22, 2008

Ms. Linda A. Kingsley
Senior Vice President, Strategy and Transition
United States Postal Service
475 L'Enfant Plaza SW Room 5016
Washington, DC 20260-5016

Ref: ACMA response to call for input to
USPS Transformation Vision 2013

Dear Ms. Kingsley:

Thank you for requesting mailer input to the Transformation Vision 2013. ACMA is pleased to present an industry viewpoint for catalogers. Please let me know if this material raises further questions or if we can provide more information.

1) Where does your business need to be in 5 years? How can we help get you there?

   The Catalog Industry is a low margin, high volume sector that competes with retail. Well run catalogers typically earn 5% profit on sales. Business to Consumer (B2C) marketing costs (i.e. catalog costs) typically represent about a third of sales with postage about half of this, or 15% to 20% of total company sales. B2B postage may be half this percentage. The relatively low margin nature of cataloging means that companies must carefully manage risk. Catalogers typically accomplish this through careful testing of changes to their business model using control groups to quantify the impact of any proposed change prior to rolling it out widely.

   R2006-1 fundamentally altered the catalog industry business model. For instance, a 30% cost increase to a 15% cost center takes a 5% profit company to breakeven. There have been numerous CEO changes, business closures, bankruptcies and layoffs as a result of R2006-1. While other costs are also up, none comes close to the percentage of sales that postage represents.

Catalogers are now working aggressively to move their business models away from mail. Catalog industry consultants routinely report client goals of reducing mail dependency by 30%-35% per year for the next 3 to 5 years. The speed and magnitude of the rate increase did not allow adjustment to catalog business models which might have been possible with a slower escalation in mailing costs. The perception amongst catalogers that the rate hike was a surprise leads them to conclude they cannot rely on mail as a predictable advertising channel given the obvious risks created by a rapid increase to postage cost.

Prior to the R2006-1 change, catalogers were co-dependent on the USPS. Their business models were wed to the US Mail. Today, the catalog industry must figure out how to operate profitably using other media channels or figure out how to lower their effective per piece cost of mail. Most are doing both. Since they believe "you cannot fight city hall" they are by and large concentrating their effort on alternatives and substitutes to mail.

The reality is that catalogers must search out cost-effective alternatives or their business will die. This should seriously trouble anyone interested in a strong postal system. As catalogers move away from dependency on the USPS, the postal system may be forced to drastically increase rates and deal with the political fallout from Congress and Consumers.

2) What do you see as growth opportunities?

American demographic trends favor cataloging. Catalog use typically increases with age. As a generation, baby boomers have always been heavier catalog users than previous (or subsequent) generations. Combining these two realities, the graying of America greatly favors continued catalog industry expansion. Until recently, there was a huge inflow of private equity into the catalog industry in recognition of this growth potential. While private equity investment has effectively stopped as of last summer, this was a strong indication that the catalog sector has mighty growth potential.

The growing "green" movement also favors cataloging. While we do not have the resources to conclude a definitive study on the environmental impact of cataloging, contrary to the claims being made in the popular press, cataloging is more environmentally friendly than other forms of consumer activity. National warehouse direct to end user is ecologically efficient. Even hybrid marketers who use catalogs to drive consumes to retail stores are lowing their carbon footprint through catalogs as they avoid wasted trips. The consumer arrives in the store ready to buy with a clear indication of the merchandise mix and pricing, making trips to several different store locations in search of appropriate merchandise unnecessary.

The internet has been a boon to catalogers. Every major cataloger also has a significant web presence. Both websites and catalogs are mutually reinforcing and the best marketers have tightly integrated each channel. Order volumes typically spike with each catalog mail drop indicating the catalog's role in driving web orders; cover and feature merchandise from the catalog typically ranks among the top performers from the website. Matchback data (orders received without a key code are matched back to catalog mail tapes for the same period) has demonstrated 50% to 80% of web orders come from customers who recently received printed catalogs. Moreover, the web beats catalogs when consumers already know what they want but catalogs grab attention announcing new products and features; i.e. the catalog provides the joy of the shopping experience while the internet is efficient for order placement. Proliferation of access to high speed computer communications should only continue to drive the importance of mailed catalogs.

Finally, there are cultural trends favor cataloging. Time starved America finds the "always available anywhere you are" nature of catalogs is the perfect anecdote for our busy lives. Whether used to purchase life's necessities or for recreational shopping, catalogs' instant availability fit well into our pressured lives.

From the USPS perspective, managed properly, the catalog sector should be a viable future growth opportunity for the USPS. More, since each successful catalog generates multiple additional mail volume, catalog sector growth has a strong multiplier impact. In most cases, catalog success also generates package volume. The USPS is in a wonderful position to tie these two volumes together and capture greater share of catalog advertising and freight spends, growing volume of mail, packages and other mail volume but only if the basic economic equation can be resolved keeping catalogs in the mail as they adjust through trial and error to remaining profitable in the face of increased mailing costs.

3) How do we work together to get new customers using mail?

Unfortunately, the current trend (as indicated above) is 180 degrees away from this direction. However, with the growth volume potential from cataloging and the need to grow USPS volume, ACMA would like to work with the USPS to figure out solutions to the current state of affairs.

Despite a long term co-dependency, catalogers have not historically interacted with the US Postal Service. The catalog industry is – generally speaking – not very attuned to how the USPS works, where to go for information, how competing interests impact rates, mailing standards and access, postal policy, or the current challenges faced by the USPS in running the nation's mail service. ACMA is working to change this via education, outreach, top-to-top meetings with Postal Officials, presentations, newsletters, etc. but much remains to be done to get to this diffuse group of nearly 20,000 companies. Anything the USPS does that helps catalog companies to understand the need to be involved in postal policy, and the appropriate role of a trade organization to represent their needs, is helpful. For instance, most catalog companies believe their printers or the broad-based trade associations are the most appropriate way to interact with the USPS. Until catalog executives understand better the need to have a direct, focused voice in policy and maintain a direct dialog with the USPS, it will be more difficult to work together to promote real growth, innovation and cost improvement.

The organization of the USPS is also a barrier to forging closer relations between catalogers and the USPS. Typically, large companies organize around customer segments. Today, when working with the USPS, catalogers must talk to one person or department about SM flats, another group concerning parcels, and many others about mailpiece design, addressing and presentment. To work more closely with this industry segment, an interdisciplinary team, led by a senior USPS executive charged with growing volume and reducing costs would be enormously helpful in reducing complexity, providing a single point of contact, and promoting a detailed understanding of what it will take to be successful together over the long haul.

Thank you for giving us this opportunity to offer comments for consideration in the Transformation Plan. We would be happy to provide additional information or clarification if you require it.

Sincerely,

Hamilton Davison

Hamilton Davison
Executive Director