

Before the  
POSTAL REGULATORY COMMISSION  
Washington, DC 20268-0001

Notice of Price Adjustment

Docket No. R2009-2

COMMENTS OF THE AMERICAN CATALOG MAILERS ASSOCIATION

The American Catalog Mailers Association (AMCA) files these Comments pursuant to the Commission's Order No. 180 (February 12, 2009).

ACMA also filed comments to the PRC on the USPS's 2008 Annual Compliance Report<sup>1</sup> challenging the allocation to Standard Mail flats with the "floating work hours" in the ACR2008 proceeding. We feel that if that allocation were corrected, then flats would indeed cover their attributable costs. Since the statutory deadline for the Commission's determination of ACR compliance is March 30, 2009, but the Commission must rule on the rate increases in this docket by March 16, 2009, it seems the Commission will out of necessity rule on this issue in advance of the ACR deadline. ACMA's comments on the ACR also outline our concerns on the cost impact on catalogs and related issues for the long term health of the catalog sector. We ask that these comments be incorporated by reference.

1. The catalog industry has not recovered from the "rate shock" of the R2006-1 increases that ranged between twenty to forty percent for some catalogers. The current economic crisis which has devastated retailers has further exacerbated the harm to catalogers. The catalog industry is now very fragile. Over the past year, ACMA has presented detailed information to the Postal Service on the state of the catalog industry, but it cannot present its full case in this proceeding because of the statutory deadlines.

ACMA requests that the Commission not second guess the rates proposed by the Postal Service. The Postal Service set the rates after long deliberation, including many discussions with catalogers and other classes of mailers on the business impact of postal rates. Were it to make changes to USPS proposed rate adjustments for May 2009, the PRC would be overturning those rates on the basis of very recent cost allocations that have been challenged and have yet to be resolved.

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<sup>1</sup> See PRC Docket No. ACR 2008, Initial Comments of ACMA at 5-7.

2. Mail plays a much more central role to the catalog industry than it does to banks. The driving variable affecting catalog volume declines in circulation prior to the current economic downturn is the expense of mailing. Postage costs for catalog marketers typically range between 15% and 20% of sales, or up to 50% of the total advertising expense, for B2C (business to consumer) companies.<sup>2</sup> This is a huge cost concentration unmatched by any other mailer segment of which we are aware. Certainly, banks do not spend anything approaching this proportion of total revenues with the USPS. What is more, catalogers typically operate on very thin margins. When postage increases over 20% in one year without warning, and because it represents such a large proportion of expense, the impact is fundamental. Finally with an estimated \$270 billion<sup>3</sup> in commerce for 2006, the catalog industry is a significant part of the health of our national economy and an important part of the US GDP.

3. The Commission must be very careful in making any changes to Standard Mail letter and Standard Mail flats rates because of the large disparity in the volumes of letters and flats. In R2006-1, for example, a slightly lower than CPI change in the rates for Standard Mail letter rates resulted in a larger increase to Standard Mail flats rates. Thus, reducing the 2009 Standard Mail letter rate as requested by Bank of America could result in several cents increase for flats. This would have a disproportionate and highly negative effect on catalogers.

4. It is important to remember that the standard mail flat declines were triggered primarily by the increases in postal rates in 2006. After growing 2% in 2006, standard mail flats declined more than -7% in 2007. The standard letter mail volume was similar in 2006 and declined by only -1% in 2007. In 2008, the degree of the decline continued to accelerate for catalogers. This volume drop must be considered to be primarily driven by rates. The current problems of catalogers are certainly compounded as the BOA document suggests, but it is incorrect to assert that it the same for all classes of mailers. In the catalog industry, there are tremendous efforts underway to migrate out of mail not due to the economy but to the fundamental economics of mail use versus substitute media. A review of the trade press provides weekly accounts of catalog companies going out of business, reducing employment, reducing mail circulation and seeking efforts to divert marketing resources to alternative media. At a time when the Postal Service is fighting to retain existing volume, let alone grow volume, pushing its customers in the direction of alternative media choices is counterproductive.

5. The banking industry is suffering a “once in a generation”-type of downturn that has created publicly acknowledged tightening of credit standards<sup>4</sup>. To imply

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<sup>2</sup> ACMA interviews with catalog executives and catalog industry consultants.

<sup>3</sup> ACMA estimates based on a variety of sources including Libey Incorporated, 2007.

<sup>4</sup> This has been widely reported in the popular and business press. See, for example, [http://www.blz.com/news/2008/07/24/Bank\\_America\\_Tightens\\_Lending\\_Rules\\_7850.html](http://www.blz.com/news/2008/07/24/Bank_America_Tightens_Lending_Rules_7850.html).

that postal costs are the primary driver of decreased credit card solicitations does not seem plausible.

6. ACMA commends the Postal Service for considering “the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters” as stated in Postal Accountability and Enhancement Act (PAEA)<sup>5</sup>. This must be seen as evidence that the Postal Service has taken upon itself good business practices made newly available under the PAEA in its price setting and, not at all, “an excuse to play favorites among Standard Mail customers.”

ACMA believes that every effort should be made to maintain the value of the mail as an advertising medium and that catalogs provide content value to mail that is welcomed by mail recipients which make mail more important for all types of mail-borne messages. ACMA respectfully requests that the Commission leave unchanged the rate adjustment decisions made by the Postal Service and support the USPS’s continuing efforts to reduce the dependency on the old cost-attribution system of rate justification as a necessary way of moving into market-based rate setting and establishing industry specific pricing incentives that drive additional mail volume into the system in the future.

Respectfully submitted,

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<sup>5</sup> See 39 U.S.C. § 3622(c)(3)