Mailers Hub News

February 2024 Summary *From the February 12 and 26 issues*

Finger-pointing Follows Withdrawal of PCH NSA

As the saying goes, "Success has many parents while failure is an orphan." To a degree, this may apply to the still-born negotiated service agreement with Publishers Clearing House that the Postal Service had filed last August 11. That filing was different from other NSAs in that it was for market-dominant mail, not competitive products. As the USPS stated in its filing:

> "The PCH NSA is designed to give PCH a discounted initial mailing of one million pieces of USPS Marketing Mail letters, mailed at cost. This initial mailing is limited to one million dormant prospecting customer addresses, which PCH has not mailed to within the past three months. In exchange for these discounts, PCH has committed to certain performance targets for follow-on mailings, both from PCH to the addresses of this million piece mailing and to PCH from the addresses of this million piece mailing, that are expected to result from the initial mailing, also known as a 'multiplier effect.' PCH expects two million pieces will result from the initial mailing, mailed at published rates, within nine months of the date of the initial mailing. If the parties deem the initial mailing and performance satisfactory, an additional second prospecting mailing could be authorized at least six months after the initial mailing. The same performance period and performance targets would apply to the second mailing. The forecasted expected multiplier volume by source is as follows [the numbers were redacted in the public notice]:
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> - Initial First-Class Mail sweepstakes entries from target prospects
> - Marketing Mail follow-ups from PCH
> - First-Class Mail responses by customers to follow-up Marketing Mail
> - Invoices sent by PCH to converted prospects
> - Responses to invoices from converted prospects
>
> "The parties intend for the NSA to take effect in November or December 2023, upon favorable review from the Commission. The initial mailing date will then be established at least thirty calendar days after the effective date of the contract, expected to be in January 2024 or shortly thereafter. The contract term will be one year from the date of the initial mailing. If the parties agree to a second mailing, then the NSA term will conclude one year from the date of the second mailing. ...
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> "If this NSA proves to be successful in improving the net financial position of the Postal Service, as expected, the Postal Service stands ready to consider NSAs on comparable terms to similarly situated mailers, provided that these mailers can provide a similar "multiplier effect" and are willing to commit to performance targets that mitigate the financial risk to the Postal Service."

Concerns

Because it was in barely charted territory – there have been only a handful of NSAs for market-dominant products (First-Class Mail and/or Marketing Mail), including agreements with Bank of America, Bradford Group, Bookspan, HSBC North America, Discover Financial Services, and PHI Acquisitions. Most expired over a decade ago; the last was PHI's that ended in 2018.

Moreover, the PRC has traditionally been leery of market-dominant NSAs, fearing they would offer a discount for "anyhow mail," i.e., volume the mail owner would have sent even without the incentives proposed by an NSA. How either the Postal Service or PCH could dispel such a conviction wasn't clear – there's no possible evidentiary answer to a hypothetical presupposition. Similarly unclear is whether the commission believes that, absent such proof, the NSA shouldn't be approved because, presumably, the mail would have been sent anyway.

Many in the commercial mailing industry were concerned that the PRC is less interested in exploring new ways to build (or preserve) mail volume than it is in preventing unjustified discounts and protecting the USPS from any level of financial risk. The USPS had taken pains to include provisions in the NSA to minimize such exposure that, even at its worst, would be reimbursed by PCH.

Approval

In a 41-page order issued November 22, the PRC *provisionally* approved the NSA, stating it had concerns about the lack of an "analytical principle," i.e., a basis for evaluating the financial benefit expected from the incentive. As in previous market-dominant NSA proposals, the PRC also had serious concerns about the wisdom (and benefit) of offering a discount for "anyhow" mail that, it worried, would have been mailed without an incentive. As the PRC explained:

> "One of the required pieces of information that the Postal Service must provide is '[d]etails regarding the expected improvements in the net financial position ... of the Postal Service[,] ... [which] shall be based on accepted analytical principles.' ...
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> "The Commission's current accepted analytical principle for evaluating the contribution of Market Dominant NSAs is often referred to as the 'Panzar analysis,' as it was first developed by the economist John Panzar in the earliest Market Dominant NSA cases in the early 2000s. This methodology uses either a mailer's specific price elasticity or a proxy of it (such as the subclass elasticity for the type of mail subject to the NSA), to attempt to quantify the volume increase that can be attributed to a

discount, as distinguished from changes in volume that are due to other factors. ...

"... [T]he Commission concludes that the design of the PCH NSA does not lend itself to the use of the Panzar analysis. However, that does not relieve the Postal Service of its fiduciary duty or from relevant statutory and regulatory requirements. The Postal Service does not ... provide any explanation as to why the current accepted analytical principle is not the most accurate and reliable methodology available. Nor does the Postal Service ... propose an alternative methodology that would objectively address the question of what volume of mail PCH would have been likely to have mailed absent a discount. The Postal Service's financial analysis simply takes PCH at its word that none of the volume that would be sent under the PCH NSA would be mailed absent the NSA, particularly with regards to the initial mailing. This is precisely the kind of reliance on mailer assertions without critical analysis that the Commission has been critical of in the past. ..."

Unfortunately, the approval came too late for PCH to implement its marketing plans, and so the company saw no value in pursuing the NSA. In turn, in a barely four-page notice sent January 17, the Postal Service informed the commission, and was clear that the withdrawal was directly related to how long it took the PRC to render its decision:

"The United States Postal Service hereby provides notice, in response to Commission Order No. 6813 (November 22, 2023), that Publisher's Clearing House (PCH) has declined to implement its Negotiated Service Agreement (NSA) because of the delay in receiving regulatory approval of its contract. …"

Though dispassionately stated, the Postal Service's notice had clearly left the corpse of the NSA – and the future of similar NSAs – on the PRC's doorstep.

Pushing back

The PRC didn't appreciated the Postal Service's attribution of PCH's decision to the commission's "delay." In a ten-page order issued January 29, the PRC fired back:

"… The Postal Service contends that the reason for PCH's decision was perceived 'delay in receiving regulatory approval.' This is untrue and inconsistent with the facts. The Commission approved the PCH NSA within the timeframe identified in the Postal Service's Request. At no time prior to the Commission's approval did the Postal Service inform the Commission that the PCH NSA needed to be approved earlier to allow for implementation. As further explained below, the Commission remains ready to approve requests for Market Dominant NSAs that meet the legal requirements. …

"If the Postal Service has concerns about the speed of Commission review vis-à-vis the planned implementation date for a novel NSA it wishes to pursue, it could initiate a proposal to establish a new accepted analytical principle for evaluating the contribution associated with Market Dominant NSAs (or particular types of Market Dominant NSAs) prior to filing a request for approval of the NSA. The Commission also remains open to considering another Postal Service request to conduct an experiment along the lines of that contemplated by the PCH NSA with a different mailer, assuming that the scale and risk mitigation profile are similar to what was proposed in the PCH NSA.

"... To the extent that the Postal Service wishes to pursue further Market Dominant NSAs with other mailers, the Commission offers this response as guidance going forward."

Claiming the orphan

Clearly, neither the Postal Service nor the commission wants to be forced to adopt the orphan of failure, and each party has a reason for taking its position. Reading the Postal Service's January 17 notice, it appears the commission was simply too slow in making its decision but, in reading the commission's response, the PRC's pace might be attributed to the Postal Service not providing the "analytical principle" the commission needed to support favoring the NSA. To outside observers, there seems to be blame to share.

On the one hand, the Postal Service knew the commission would need an "analytical principle" but tried to avoid supplying one in the interests of time. The agency also seems to have not been as clear as it should have about the timeline on which PCH was operating and how that, in turn, drove the timeline for the PRC to act.

On the other hand, the commission took a very cautious – some would say overly cautious – approach to the issue of "anyhow mail" and was consumed by the need for an established "analytical principle" to offer shelter from the risks attendant to the novel NSA.

In sum, there's no black-and-white answer as to the parentage of the failed NSA. The USPS tried to shortcut some steps and hurry the process, and the PRC was unwilling to step outside the box to learn if an untested idea would work.

At the close of its response to the USPS, the PRC stated that

"… based on PCH's decision not to implement the PCH NSA, it is no longer necessary for the Commission to initiate a rulemaking docket to establish an accepted analytical principle as contemplated in Order No. 6813. It would not be an efficient use of either the Commission's or the Postal Service's resources to attempt to develop a new analytical principle in the absence of an actual NSA and without the data and experience that the PCH NSA was expected to provide. …"

Such a position seems to be less than proactive.

If, as it claims, the Postal Service has other customers interested in pursuing a market-dominant NSA, it might be wise for the likely protracted and technical argument about an appropriate "analytical principle" to be engaged.

The best the interests of potential NSA customers and of any additional mail volume or revenue they could supply might be well-served if the USPS and PRC set aside their bickering and engaged in the necessary anticipatory rule-making. Though the current postal administration has prosecuted an adversarial approach toward the PRC, believing it to be an "impediment," the PRC has done little to overcome the perception that it prefers to hunker down within the ramparts of conservative legalistic principles rather than risk any creative thinking. A constructive attitude adjustment on both sides might eventually yield the necessary framework to enable retention of mail volume and revenue from willing ratepayers.

USPS Service Performance: Far From the Targets

Suffice to say that PQ I/FY 2024 service performance was terrible; the Postal Service's own data reveals very few districts or areas achieved service targets. The Postal Service lowered service standards for First-Class Mail and some Periodicals effective October 1, 2021. In FY 2023, the Postal Service also revised the geographic units used in its reports, basing performance data on the four are-as and 50 districts established in 2020 rather than the preceding seven areas and 67 districts. The USPS announced its FY 2024 service targets in a November 22, 2023, letter to the Postal Regulatory Commission.

The aggregated figures are similar to those used by the USPS in their weekly press releases touting ever-improved service because they're based on homogenized, national level class averages that combine the results for all categories and presort levels. For anyone who looks more closely, the real, more granular data doesn't support what the PR spin would have ratepayers believe.

Moreover, only automation mail "in measurement" is reflected in all USPS service scores and, for Marketing Mail, only destination-entered mail is measured, clearly skewing what would be the true Marketing Mail scores if the less efficient origin-entered mail were also in the mix.

Compared to PQ I/FY 23, the PQ I/FY 24 national level scores were mostly lower for First-Class Mail and Marketing Mail, but much worse for Periodicals. Districts in the west again generally performed better while those in the east generally did worse; the WestPac Area had six of the eight best quarterly average scores for First-Class Mail and Marketing Mail.

Few districts achieved the service targets for First-Class Mail: 19 districts met the target for overnight, 11 for two-day, 7 for 3-day, 6 for 4-day, and only 1 for 5-day service; no districts met all the targets. For Marketing Mail, 55 districts achieved the service target for letters, as did 17 for carrier route mail, but flats remained a problem, with *none of the districts* meeting the service target.

Scores for Periodicals are not reported below the area level but the target for the quarter wasn't met by any of the area scores nor the national service score.

Even more granular data is available from the PRC; the full set of USPS service reports is on the commission's website under the February 9 daily listing.

January Financials: A Familiar Story

As the first month of the second fiscal quarter, January did little to alter the preceding month's downward trends in volume and revenue. Volume for the four market-dominant classes was lower – again – while competitive product volume which, according to the PMG's 10-Year Plan, is to grow as a source of needed revenue, was up – but less than planned.

Total revenue was up 3.7% from January 2023, while expenses (except for salaries) were below plan by 1.4%, helped by a $184 million favorable swing in the workers' comp liability. The result was a net loss for the month of $301 million, yielding a $2.373 billion loss for the year to date.

Total market-dominant mail volume was down 2.2% compared to January 2023. First-Class Mail volume fell by 1.3% but Marketing Mail was down by 2.6% compared to the same period last year. Meanwhile, competitive products volume was up 5.9%. Total USPS volume was 9.629 billion pieces, down 1.8% from January 2023.

First-Class Mail: 4.356 bln pcs, -1.3%; 16.284 bln pcs, -4.5% YTD
Marketing Mail: 4.403 bln pcs, -2.6%; 19.931 bln pcs, -11.3% YTD
Periodicals: 223.4 mln pcs, -10.7%; 954.6 mln pcs, -9.1% YTD
Total Mkt Dom: 9.042 bln pcs, -2.2%; 37.539 bln pcs, -8.3% YTD
Total Competitive: 559.1 mln pcs, +5.9%; 2.472 bln pcs, +5.9% YTD
Total USPS: 9.629 bln pcs, -1.8%; 40.131 bln pcs, -7.5% YTD

Though market-dominant revenue should be higher because of price increases totaling over 10.7% since March 2022, revenue from the market-dominant classes, compared to January 2023, was up only 1.3%. USPS operating revenue for the month was $6.891 billion, with the components mixed:

First-Class Mail: $2.436 bln, +5.8%; $9.164 bln, +3.4% YTD
Marketing Mail: $1.187 bln, +3.6%; $5.331 bln, -3.5% YTD
Periodicals: $72.733 mln, -1.1%; $310.99 mln, -0.7% YTD
Total Mkt Dominant: $4.038 bln, +3.8%; $16.061 bln, +0.2% YTD
Total Competitive: $2.722 bln, +4.0%; $11.877 bln, +3.18% YTD
Total USPS: $6.891 bln, +3.8%; $28.505 bln, +1.3% YTD

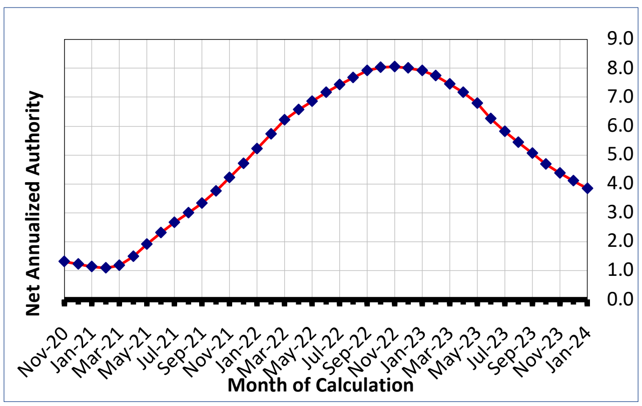
Total "controllable" compensation and benefit costs in January were $5.178 billion, 2.0% over plan and 5.3% higher than January 2023; total expenses were $7.271 billion. Despite 1.8% less volume, workhour usage was 0.3% over plan, and 1.5% greater than a year earlier. Total workhours for the year-to-date were 0.8% over plan and only 1.7% below SPLY YTD. Moreover, despite less work, the USPS workforce is larger, and with *more* career employees.

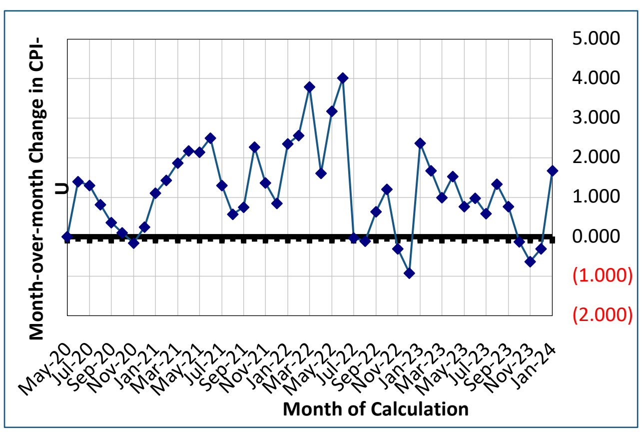
Month's end complement: 643,113 employees (529,705 career, 113,408 non-career) **+0.61%** compared to January 2023 (639,218 employees: 517,422 career, 121,796 non-career), but **2.37% more** *career* workers.

Compared to pre-pandemic January 2020, total USPS volume was down 20.28% (market dominant 21.88% lower; competitive up 23.95%), while revenue, after many price increases, was up only 13.44%; despite significantly less mail, total workhours were down only 0.74% from three years ago.

After Five Months, CPI Impact on Prices Remains Low

As commercial mail producers and their clients prepare for the next planned rate increase in July, the impact of the Consumer Price Index will be less than that of other factors.





Following release of the January CPI on February 13, the Postal Service's *annualized* CPI-based pricing authority was 3.847%. However, because of the semi-annual frequency of rate hikes under Postmaster General Louis DeJoy's 10-Year Plan, the effective CPI-based authority was only 1.360%.

Over the past five months, that figure has increased about ¾ of a percentage point monthly, meaning that, if the trend continues, the net CPI-based rate authority available to the USPS after six months will be just over 1.6%. The USPS had earlier projected CPI-based rate authority of about 2%.

Though individual months' changes are mitigated by the period of the calculations, it's notable that the month-over- month change in the CPI was 1.671% in January, the biggest jump since January 2023. Though the Postal Service's *annualized* CPI-based rate authority decreased again in January – for the fourteenth straight month – there's no guarantee it won't turn upward should the CPI itself start to climb.

The adders

Despite the mild impact of the CPI, the majority of the next price increase will be the result of the "adders," the additional sources of rate authority established by the Postal Regulatory Commission is November 2020. Of the three, "density," "retirement," and "non-compensatory," the most hurtful will be "density," calculated by the Postal Service to be 4.312% – more than twice what the CPI will provide. The "retirement" adder was calculated to be 1.82%. Only classes not currently covering their costs are subject to the fixed 2% "non-compensatory" adder.

The actual size of the "density" and "retirement" adders will be confirmed by the PRC in its *Annual Compliance Determination*, due by the end of March, but the Postal Service's figures should hold, barring any as yet undiscovered errors.

The Postal Service also has a "bank" of leftover rate authority that was unused in previous filings. At present, that's virtually nil: 0.001% for all classes except Periodicals (0.000%).

Class	CPI *5-month*	Bank	Density	Retire-ment	Noncom-pensatory	Total Auth
First-Class	*1.360%*	0.001%	4.312%	1.820%	n/a	*7.493%*
Marketing	*1.360%*	0.001%	4.312%	1.820%	n/a	*7.493%*
Periodicals	*1.360%*	0.000%	4.312%	1.820%	2.000%	*0.492%*
Package Svcs	*1.360%*	0.001%	4.312%	1.820%	n/a	*7.493%*
Special Svcs	*1.360%*	0.001%	4.312%	1.820%	n/a	*7.493%*

To implement the next price increase in July, the procedural schedule means the USPS must file for it with the PRC in early April, before the March CPI is published.

It's all but guaranteed that DeJoy will ask the governors to approve the maximum possible increase, and equally certain they'll accede to his request. So, with four of the five factors driving the potential size of next July's price increase now known, and one month's additional CPI-based authority yet to be determined, the April filing is shaping up to be for a net increase of nearly 7½%:

(The figures in italics will increase once the full six-month CPI-based rate authority is calculated).