

BEFORE THE U.S. HOUSE OF REPRESENTATIVES
Committee on Government Oversight and Reform, Subcommittee on Government Operations
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November 16, 2022

Subcommittee Chairman Connolly and Distinguished Members of this Committee: ACMA appreciates the Subcommittee's interest in postal matters, and the specific focus on operational and service delivery issues. While we admire your inquiries into USPS service performance, with respect there are a number of issues demanding Congressional review and oversight. We encourage you to examine these topics as well.

As to the subject of service, catalog mail is deferrable at USPS option, which means merchants must allow a wide window for delivery to occur. This is a challenge as merchants seek to coordinate all marketing communications around a specific date or sale event.

The Postal Service is making investments to better inform mailers (such as Informed Visibility) as to the actual location and expected delivery date, which will help marketers synchronize communications across multiple channels or media. The agency is also investing heavily in Informed Delivery to provide the same visibility to mail recipients, while also providing a digital marketing opportunity to merchants so they get a "second bite at the apple" from their postage investment.

While these capabilities have been years in the making, both remain relatively immature; long-term plans and viability as measured by their return on investment have not been clearly established as yet. This is true also for the total cost of these capabilities and who is responsible to pay for them. As a general policy matter, ACMA believes the USPS should be encouraged to innovate by trying many different things with the realization that a majority of these will not eventually be viable. Without support from the boss (or bosses in this case), risk taking leading to innovation does not usually occur. Unlike other federal government agencies that do deep research and development leading to world-changing new capabilities, this activity has proven challenging for the USPS due to the regulatory and political environment that it operates in.

The Postal Service also does not typically share long-range plans, issues and opportunities with the mailing community. This has become particularly acute under current leadership. As a former USPS Inspector General once noted, "I have never seen a place with so many secrets." This may be a logistical response to the outside environment, but it hampers innovation possible when diverse supply chain partners co-create the future together. Indicative of this is Delivering For America, a 10-year strategic marketing plan created entirely within the postal agency devoid of any outside review, input or thinking. While we support generally and even welcome some of the goals and initiatives, it is difficult to understand how real, successful or useful these changes will end up being for those that pay for the postal system's ongoing operation.

While on the subject of who pays the bills, we must note the rapid and twice annual rate increases occurring since the Postal Service Reform Act (PSRA) was signed into law. This has resulted in a 50% increase, compounding, for catalog postage in 24 months. Catalog mailers have been particularly hurt by this since the Postal Regulatory Commission (PRC) has mandated postal products used for catalogs have received another two percent (2%) higher increase than all other products and classes of mail. This is proving highly disruptive and the

biannual cadence does not even allow the Postal Service to understand the impact of their past rate changes before another is instituted. ACMA members tell us they are working frantically trying to reduce their postage costs including reducing the number of pieces entered. Since successful catalogs also generate many parcels, this also has implications for package volumes.

Catalogs are receiving this 2% addition because they are reported as "underwater" or "non-compensatory" yet this is due to no fault of mailers. In the decade and a half ACMA has existed, mailers and their suppliers have made all manner of Postal Service-requested changes and investments. The most visible is the ill-fated Flats Sequencing System (FSS) that was developed and implemented with virtually zero industry input but resulted in substantial costs attributed to flat shaped mail.

In fact, flat shaped mail has had its reported costs increase by two-and-one-half times (2.5x) the rate of inflation, compounding, for over 30 years. ACMA has developed and published a cost index to correct for changes in mail mix that has been submitted with data sources, calculations and results nearly every year since its founding to the PRC in an open process available online. No one has challenged the calculation or results. It is from this work we can say that when a profitable product's costs go up at over double the rate of inflation, over time that product becomes unprofitable. While not a reflection of current postal leadership, who had in fact taken the decision to remove FSS machines, these facts do lead one to conclude that flat shaped mail, as a category, had been grossly mismanaged for decades. This is another area of potential Congressional investigation, and ACMA is happy to assist with this in any way.

Mailers received virtually nothing out of the \$10B granted by Congress to the USPS as part of the CARES Act. It went to improve the USPS's cash position. Same is true for the approximately \$56 billions of benefit resulting from the PSRA. What mailers have gotten instead is twice annually and extraordinary rate increases that call into question the future viability of mail for many commercial purposes. The Postmaster General has indicated mailers must expect "uncomfortable" rate increases and he plans to support rate hikes until "revenues equal expenses," a strategy that lays bare the value of a government monopoly for captive customers.

These large rate increases were enabled by the Postal Regulatory Commission's decision on the Ten-Year Review demanded by the 2006 law, the Postal Accountability and Enhancement Act (PAEA) in a process that did not account for a myriad of developments that have taken place since this decision was taken including the Covid relief, higher than expected package volumes due to the pandemic, PSRA and others. More, the PRC's decision created a perverse disincentive for the USPS where it gets rewarded with additional rate authority when volumes and customers leave the mail. More, this "density adder" makes it nearly impossible to forecast a mailer's annual postal expense, leading to missed budgets and disrupted marketing plans.

While most American businesses find they must keep costs in line with inflation and find efficiencies and productivity improvements to offset inflationary pressures, evidently this same well-accepted business logic does not apply to the postal monopoly and when tying rate authority to a widely accepted index such as CPI-U, it is a "defective pricing model."

Chairman Connolly and members of this committee have recognized these concerns in H.R. 8781 - the "Ensuring Accurate Postal Rates Act," which calls for the Postal Regulatory Commission to re-assess its Ten-Year decision considering subsequent developments. ACMA

wholeheartedly supports this bill and its objectives. We look forward to the possibility of a hearing on this topic as well.

From the perspective of those paying the bills to run our national postal system, this all looks very unsustainable. But then mailers are not privy to the long-term plans and approach the USPS intends to take. While no bank would underwrite a company's transformation initiative without a great deal of investigation and diligence, mailers have had no such option despite taking on equivalent risk. The outlook for mail in the eyes of many commercial mailers is bleak as a result of all the above-mentioned factors yet commercial mail generates more than ninety percent (90%) of USPS revenues. It is also generally believed that once a company makes a decision to exist mail, it is virtually impossible to lure them back in to the mail.

Some on the Hill believe that postal legislation need be done only once a decade or decade and a half. ACMA believes the speed of technology and business requires a much greater frequency of lawmaking. We acknowledge there are many constraints on the US Postal Service and that its mission in and of itself creates inefficiencies, but more work must be done to find workable solutions for the nation's postal system if it is to exist in some form similar to what citizens have enjoyed since the Second Continental Congress.

This needs to be curtailed and Chairman Connolly's Ensuring Accurate Postal Rates Act calls for the Postal Regulatory Commission to conduct a follow-up review of the postal rate-making process. As outlined above – it is critical that Congress considers the impact of the PRC's rate-making authority as it examines the USPS' service delivery issues. ACMA appreciates the Committee's attention to this issue and we look forward to working to find bipartisan solutions.