

Strategies and Solutions to Mitigate the Proposed May 2009 Price Changes



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Background

On May 11, 2009 new prices take effect for USPS® Mailing Services. Mailing Services, called Market Dominant Products under the Postal Accountability and Enhancement Act (PAEA) of 2006, include:

- First-Class Mail®
- Periodicals
- Standard Mail®
- Single-piece Package Services - Parcel Post®, Library Mail, Media Mail®, Bound Printed Matter
- Single-piece International Mail
- Extra Services

Under the PAEA, price increases by class of mail are limited to the rate of inflation. For the purpose of determining that cap, a moving average method is used to calculate the Consumer Price Index (CPI). The CPI at the end of December 2008 was 3.8%.

12-Month Average Change in CPI-U

Prepared by Postal Regulatory Commission

Last Update: 1/16/2009

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	1.7%	1.9%	2.0%	2.0%	2.1%	2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
2004	2.2%	2.1%	2.0%	2.0%	2.1%	2.2%	2.3%	2.3%	2.3%	2.4%	2.6%	2.7%
2005	2.8%	2.9%	3.0%	3.1%	3.1%	3.0%	3.0%	3.1%	3.3%	3.4%	3.4%	3.4%
2006	3.5%	3.5%	3.5%	3.5%	3.7%	3.8%	3.9%	3.9%	3.7%	3.4%	3.3%	3.2%
2007	3.1%	3.0%	2.9%	2.8%	2.7%	2.6%	2.4%	2.3%	2.3%	2.5%	2.7%	2.9%*
2008	3.0%	3.2%	3.3%	3.4%	3.5%	3.7%	4.0%	4.3%	4.4%	4.5%	4.2%	3.8%*

* December value will be the cap value for annual mid-May rate adjustments per USPS schedule.

Illustration source: www.prc.gov

The Postal Service *must* publish their new pricing at least 45 days in advance of the effective date; however they have provided 90-days advance notice of the May 11, 2009 price change. While “rate cases” are a thing of the past, there is still oversight by the Postal Regulatory Commission to ensure that the proposed pricing is consistent with statutory requirements.

Mailers must be a bit cautious in assuming that all prices within a particular class of mail, or even Extra Services such as Certified Mail™, will increase no more than exactly 3.8 percent. The Postal Service may add “Unused Rate Adjustment Authority” to the CPI, which then would result in a higher price increase. The “Unused Rate Adjustment Authority” is essentially a portion of the price cap from previous years’ price changes that the Postal Service did not use for a particular mailing

services product. For example, the “Unused Rate Adjustment Authority” for First-Class Mail is 0.014. Add that to the 3.8% CPI and the total authority for the May 2009 Price Increase is 3.814%. For Standard Mail the “Unused Rate Adjustment Authority” is 0.062, for a total authority of 3.862%.

Another element to consider is that price cells within a particular mailing services product can increase or decrease dramatically as long as the overall average increase for that service does not exceed the total authority. An example of this is the price for First-Class Mail® retail one-ounce letters, which will increase approximately 4.8%, whereas prices for commercial First-Class Mail® letters will increase approximately 3.1%. In Standard Mail there are significant price increases, approximately 16%, for Not Flat-Machinable and parcel-size mailpieces.

The lesson-learned would be that savvy mailers would identify the specific price changes for the classes, sizes, sortation levels and Extra Services that they use most often so they can more accurately anticipate the impact of each annual price adjustment against their budgets.

First-Class Mail® Price Change Examples

Some of the price changes for retail First-Class Mail include the following:

	2008	5/11/09	% Change
One-ounce letter-size mailpiece	\$0.42	\$0.44	4.8%
One-ounce flat-size mailpiece	\$0.83	\$0.88	6.0%
One-ounce parcel	\$1.17	\$1.22	4.3%
Postcard	\$0.27	\$0.28	3.7%

The additional ounce rate remains unchanged at 17-cents for retail First-Class Mail and the surcharge for nonmachinable letter-size mailpieces remains unchanged at 20-cents.

Extra Services Price Change Examples

Some of the price changes for Extra Services include the following:

	2008	5/11/09	% Change
Certificate of Mailing	\$1.10	\$1.15	4.5%
Firm Mailing Book (min. 3)	\$0.40	\$0.42	5.0%
Delivery Confirmation™ service			
First-Class Mail® parcels			
Retail	\$0.75	\$0.80	6.7%
Electronic	\$0.18	\$0.19	5.6%
Priority Mail® mailpieces			
Retail	\$0.65	\$0.70	7.7%
Electronic	\$0.00	\$0.00	0.0%
Signature Confirmation™ service			
Retail	\$2.20	\$2.35	6.8%
Electronic	\$1.80	\$1.95	8.3%
Certified Mail™ service	\$2.70	\$2.80	3.7%
Return Receipt	\$2.20	\$2.30	4.5%

Electronic Return Receipt	\$1.00	\$1.10	10%
Registered Mail™ (without insurance)	\$10.00	\$10.60	6%

Mailing Standards Changes

In addition to price changes, the following includes some of the proposed classification changes, modifications to mailpiece characteristics and changes in classification terminology.

Proposed Changes - LETTERS

- Machinable and automation letters (commercial letters) -
 - With the exception of a qualifying barcode, commercial machinable and automation letters will have the same physical characteristics.
 - For thickness, letter-size mailpieces may be no more than 0.25 inch, or less than 0.009 inch thick.
 - There are *recommended* static charge and coefficient of friction standards (to avoid excessive static charge and allow all letters to be handled efficiently when inducted and removed from equipment).
 - A letter-size piece is nonmachinable if it has an exterior surface that is not made of paper or if it does not meet the standards in the Domestic Mail Manual (DMM®) section 201.3.0.
- Retail letters (full price First-Class Mail® letters) –
 - Nonmachinable Criteria:
A letter-size piece is nonmachinable if it has one or more of the following characteristics:
 - a. Has an aspect ratio (length divided by height) of less than 1.3 or more than 2.5.
 - b. (Revised) Is polybagged, polywrapped, enclosed in any plastic material, or has an exterior surface made of a material that is not paper. Paper envelopes with windows prepared under DMM 202.5.8 and DMM 601.6.3 do not make mailpieces nonmachinable.
 - c. Has clasps, strings, buttons, or similar closure devices.
 - d. (Revised) Contains items such as pens, pencils, keys, or coins that cause the thickness of the mailpiece to be uneven; or loose keys or coins or similar objects not affixed to the contents within the mailpiece. Loose items may cause a letter to be nonmailable when mailed in paper envelopes; see DMM 601.2.3, Odd-Shaped Items in Paper Envelopes.
 - e. Is too rigid (does not bend easily when subjected to a transport belt tension of 40 pounds around an 11-inch diameter turn).
 - f. For pieces more than 4-1/4 inches high or 6 inches long, the thickness is less than 0.009 inch.
 - g. Has a delivery address parallel to the shorter dimension of the mailpiece.
 - h. Is a self-mailer that is not prepared according to DMM 201.3.14.1.
 - i. Is a booklet that is not prepared according to DMM 201.3.14.2.
- There will be an optional sortation of First-Class Mail® and Standard Mail® automation letters and Standard Mail® machinable letters to all applicable sort levels, with prices matching the level of sortation chosen.

Proposed Changes - FLATS

- Eligibility of automation prices to certain flat-size mailpieces that are not able to meet the flexibility standards in DMM 301.1.3, but are able to demonstrate flats machine compatibility through a Pricing and Classification Service Center (PCSC)–administered testing process. Mailpieces approved for automation flats pricing under this standard must print the endorsement “Automation Flat” directly under the postage imprint.
- Polywrap standards in DMM 301.3.3, currently applicable only to automation flats will be extended to all flat-size mailpieces using polywrap including saturation carrier route flats.
- Deflection standards will apply to all commercial flat-size mailpieces, except those mailed at saturation carrier route prices.
 - Deflection standards will change to allow one inch less of vertical deflection (droop) than is currently allowed.
 - Test all flats, including oblong flats (those with a bound edge on the shorter side), with the length placed perpendicular to the edge of a flat surface.

(Note: this is a general overview of some of the May 2009 changes and therefore mailers are urged to source the Domestic Mail Manual and/or their Mail Design Analyst!)

Solutions and Strategies to Mitigate Changes

1. Avoid Nonmachinable Characteristics of Letter-size Mailpieces. These characteristics are noted above.
 - a. First-Class Mail® letter-size pieces with one or more characteristics are subject to a 20¢ surcharge (no change 2008 to 2009)
 - b. Standard Mail® letter-size pieces with one or more characteristics are rated as nonmachinable letters
2. Avoid nonmachinable prices and qualify for automation pricing by meeting design standards for CD's. A CD in a typical envelope may be considered nonmachinable because it is too rigid. However, mailers following the design standards in DMM 201.3.3 “Dimension-Shape Standards for Automation-Compatible Enveloped Letters Containing Discs” may qualify for automation prices.
3. Consolidate mailings, i.e., mail fewer, but heavier pieces, taking advantage of the low additional ounce rate for First-Class Mail of only 17¢, or 12.5¢ for discount (nonautomation and automation-price letters). For Standard Mail the postage price is the same within that shape and sortation level for pieces less than or equal to 3.3 ounces! The intelligence of Pitney Bowes inserters can even selectively feed applicable documents and inserts into each recipient's envelope, increasing the content “value” for each mailpiece! This strategy is ideal for targeted mailings to households.
4. Redesign flats to letters. Pitney Bowes inserting and/or tabbing solutions can serve as a cost-effective and efficient solution to fold and insert “flat-size” content into letter-size envelopes! For example, converting 2-ounce flats to 2-ounce letter-size mailpieces will reduce postage by approximately 40 percent! Further, by implementing solutions that barcode your mailpieces, savings *and deliverability* are significantly increased!
5. When content is limited, consider converting First-Class Mail® letter-size mailpieces to postcard size, reducing postage up to 38 percent!

6. Redesign mailpieces that are categorized as parcels to meet flat-size dimensions and physical characteristics. These characteristics include that the flat must be no greater than 12 inches by 15 inches by $\frac{3}{4}$ inch and be rectangular, uniform in thickness, and flexible while not being too flimsy or droopy (i.e., must meet the deflection criteria noted above). Converting discount parcels to barcoded flats could save approximately \$300.00 per 1000 mailpieces!
7. While not a design strategy, correct use of ancillary endorsements can significantly impact the cost of returned mail. For example, if "Address Service Requested" is used on a Standard Mail® 14-ounce flat-size mailpiece such as a catalog, and the recipient moved 13 months ago, the return cost of that catalog would be \$12.23, not the outbound postage price of less than a dollar. In this case, a more cost-effective endorsement choice to receive address change notifications without the costly return of the mailpiece would be "Change Service Requested". Address change notifications are greater when mailers participate in the Address Change Service program. Trackmymail and Pitney Bowes offer easy-to-use, cost-effective solutions to participate in the USPS® Address Change Service program!
8. An additional strategy to reduce the cost of undeliverable as addressed mail is to implement a more proactive, pre-mailing NCOALink® solution such as Pitney Bowes VeriMove™ solution. Having the ability to validate addresses for moves prior to the generation of the mailpiece reduces costs and enables mailers to meet the Move Update Standard for commercial First-Class Mail and Standard Mail!
9. Use the right USPS® Extra Service. When only proof of mailing is needed, consider Certificate of Mailing rather than Certified Mail™ service. And when delivery information is needed, consider Delivery Confirmation™ or Signature Confirmation™ services as opposed to Certified Mail™ service or Certified Mail™ service with Return Receipt. The savings can be as significant as a dollar per piece! Processing Certified Mail™, Delivery Confirmation™ and Signature Confirmation™ mail is efficient and cost-effective when using Pitney Bowes DM mail finishing solutions or SendSuite™ solution!
10. Consider the use of electronic Return Receipt with electronically-filed Certified Mail via a Pitney Bowes DM or SendSuite™ solution. In addition to saving \$1.20 per piece, you'll gain efficiency through the use of electronic documentation and the elimination of "green card" Return Receipts.

In conclusion, mitigating price changes requires a solid understanding of the physical characteristics and preparation standards of cards, letters and flats. Appropriate selection of USPS® Extra Services based on the specific mailstream objective is important. Implementing Pitney Bowes solutions to improve efficiency and address quality will reduce labor, material and postage costs.

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