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AHEAD OF POSTAL REFORM: HEARING FROM USPS BUSINESS PARTNERS

HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERAL WORKFORCE, US POSTAL SERVICE AND THE CENSUS

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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AHEAD OF POSTAL REFORM: HEARING FROM USPS BUSINESS PARTNERS

Wednesday, April 10, 2013,

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE AND THE CENSUS,
COMMITTEE ON OVERSIGHT, AND GOVERNMENT REFORM,
Washington, D.C.

The committee met, pursuant to call, at 1:37 p.m., 2154 Rayburn House Office Building, Hon. Blake Farenthold [chairman of the committee] presiding.

Present: Representatives Farenthold, Walberg, Collins, DeSantis, Norton, Clay, Cummings.

Also Present: Representatives Connolly, Davis.

Staff Present: Molly Boyl, Majority Parliamentarian; Adam P. Fromm, Majority Director of Member Services and Committee Operations; Linda Good, Majority Chief Clerk; Shelby Hodgkins, Majority Staff Assistant; Michael R. Kiko, Majority Staff Assistant; Jeffrey Post, Majority Professional Staff Member; Scott Schmidt, Majority Deputy Director of Digital Strategy; Peter Warren, Majority Legislative Policy Director; Kevin Corbin, Minority Professional Staff Member; Devon Hill, Minority Research Assistant.

Mr. FARENTHOLD. Good afternoon. The Subcommittee on the Federal Workforce, U.S. Postal Service and Census will come to order.

I would like to begin this hearing, as is traditional with this committee, by reading the mission statement of the committee. We exist to secure two fundamental principles. First, Americans have a right to know that the money Washington takes from them is well-spent. And second, Americans deserve an efficient, effective government that works for them.

Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold the government accountable to the taxpayers. Because taxpayers have a right to know what they get from their government.

We will work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy. This is the mission of the Government Oversight and Reform Committee.

At this point, I would like to do my opening statement, then we will go to Mr. Clay and his opening statement. And then on to the witnesses.

Again, welcome to our first hearing on Postal Reform. The purpose of today's hearing is to give the people that rely on the United States Postal Service the opportunity to discuss how well the USPS

is meeting their needs and to see how we can better identify reforms that could make the Postal Service a better, more efficient provider.

When a business is struggling, even the most basic business course will teach you that you need to look to your customers to see what they want and what they need and how you can serve them better. With the Postal Service losing $16 billion a year, there is no question that they are struggling. Over the last two years, postal reform has become the subject of great debate. In fact, in the last Congress, both this subcommittee and the full committee focused on issues dealing with postal reform.

While last year s legislation was not ultimately signed into law, I believe we made great progress and I look forward to working with my colleagues, especially those across the rotunda in the Senate, to find a solution that will put the USPS on the right track to fiscal solvency.

The Postal Service's financial condition has only grown worse, and more mail has continued to seep from the system. While I am a strong proponent of the benefits of the internet, the loss of business to business email, with electronic bill payment and other first class mail is a real issue. The Postal Service must deal with these issues. There is still a need to deliver atoms, something tangible, in addition to the bits of data that the internet delivers.

Last year, there were 23 million fewer mail pieces each day. How do we get additional revenue and right-size the Postal Service for customers current needs? With mail volumes down more than 25 percent from its all-time peak, the Postal Service has been forced to default on the statutory payments to the Treasury and is rapidly facing shrinking liquidity that could lead to insolvency in the future.

While pre-funding requirements are not the scope of this hearing, I am certain we will hear a lot about these issues in future hearings and as the debate on postal reform continues.

Given the scope of the reforms we are talking about, mailers, a.k.a. customers involvement, is absolutely necessary in determining what postal reforms can and cannot be done and would be helpful, which brings us to our current hearing. As I have already stated, any struggling business must look to their customer's need when charting a path to prosperity. If the customers are happy, whether they use the Postal Service for their business or personally, they will keep coming back.

Today we will hear from six people who represent broad portions of the mailing industry, including newspapers, advertisers, periodicals, packages and others. In reading the testimony, I am encouraged to see that there appears to be a consensus that implementing cost-cutting reforms has gone fairly well for many. And many, if not all witnesses today broadly support the Postal Service's right-sizing efforts and are interested in the long-term best interests of the Postal Service and the mailing industry as a whole.

In addition, recently in the news, as I am sure you heard today, the USPS Board of Governors announced their decision to reverse modified Saturday delivery, which would have saved $2 billion annually. Contrary to the Board of Governors decisions blaming a Congressional mandate for preventing the implementation of modi-

fied Saturday delivery, I believe modified six-day delivery met any Congressional requirement.

It still appears there are a number of areas where the Postal Service can find further ways to improve its value to customers and improve its service and cut costs. I look forward to hearing about these areas.

Finally, I would like to thank the witnesses for taking time to come and testify. I will now recognize the ranking member, Mr. Clay, for his opening statement.

Mr. CLAY. Thank you, Mr. Chairman, and thank you for conducting this hearing. Let me also thank the witnesses for appearing before us today.

Today's testimony will help us understand the important relationship between the Postal Service and its business partners, mailing industry partners who are heavily dependent on a financially healthy postal system.

Representing over 8 million jobs and accounting for almost 9 percent of our Nation's gross domestic product, the mailing industry is a vast entity dependent not only on a growing economy but also on a heathy Postal Service. A recent industry study found that a majority of the jobs within the mailing industry are dependent on the Postal Service's delivery network, whether it is delivering packages, printing advertisements or providing supplies for those items. These are jobs that are important, not only to the economy, but to our constituents.

For its first quarter, the Postal Service reported a $1.3 billion loss as a result of declining mail volumes and required payments to pre-fund its retiree health benefits fund, a mandate that no other company must face. The Postal Service's recent announcements to modify its delivery schedule and to accelerate its network consolidation program continue to reflect the dire financial condition it faces. So clearly, postal reform legislation must remain a top priority for this Congress.

At a time where unemployment remains high, we in Congress must be mindful that any reform measures must preserve jobs, not only within the Postal Service, but also within the industry as a whole.

Finally, as we listen to the testimony of our witnesses, I hope that we are reminded that each passing day is a missed opportunity to pass postal reform legislation. Each passing day is another day that the Postal Service loses millions of dollars that it desperately needs and each passing day is another day of uncertainty for the Postal Service, the mailing industry and its millions of workers across America.

So thank you, Mr. Chairman, for holding this hearing. I look forward to the testimony of our witnesses. I yield back.

Mr. FARENTHOLD. Thank you, Mr. Clay.

And without objection, members will have seven days to submit opening statements for the record. And we will now recognize our distinguished panel.

Mr. Steven Brandt is President and Publisher of the Greenville News in Greenville, South Carolina. Ms. Joy Franckowiak is Director of Postal Affairs and Distribution for Valpak. Ms. Meta Brophy is the Director of Procurement Operations for Consumer Reports.

Mr. Carl Janssens is Vice President of Pharmacy Operations for CVS Caremark. Mr. Ken Garner is President and CEO of the Association of Marketing Service Providers. And Mr. Jerry Cerasale is Senior Vice President of Government Affairs for the Direct Marketing Association.

Pursuant to the rules of this committee, all witnesses are to be sworn in before they testify. So if you will stand with me and raise your right hand.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth and nothing but the truth?

[Witnesses respond in the affirmative.]

Mr. FARENTHOLD. Let the record reflect that all witnesses have answered in the affirmative. You may all be seated.

We have a big panel today and a big part of these hearings is both hearing your testimony and answering the questions that the members of the panel have. As a result of the size of our panel, and consistent with our normal operating practices, we request that you summarize your testimony and limit it to five minutes. You will have a timer in front of you. Green light means go, yellow light means speed up and the red light means you need to wrap it up.

Again, you will have five minutes. We have your entire written testimony before us. Hopefully the members have already read it. But we would appreciate your summary and we will get started.

So first off we will go to Mr. Brandt. Mr. Brandt, you are recognized for five minutes.

WITNESS STATEMENTS

STATEMENT OF STEVEN BRANDT

Mr. BRANDT. Chairman Farenthold, Ranking Member Clay and members of the subcommittee, I appreciate this opportunity to share my views on how the Postal Service is working with our business.

The Greenville News is a daily newspaper serving the third largest metro area in South Carolina. The newspaper has been an important source of local news and information since 1874.

Our newspaper uses all classes of mail, but by far our largest postal spend is in standard mail, which we use to distribute free weekly newspapers and preprinted advertising to homes that do not subscribe to the newspaper. These are ads for grocery stores, discount retailers, furniture stores and other home service companies. The News also delivers these preprinted ads to our subscribers as inserts in the daily newspaper.

We call this combined distribution to subscribers and non-subscribers our total market coverage, or TMC program for advertisers. We mail 53,000 TMC pieces per week and have an annual postage bill of $850,000 for this class. Many other newspapers use the Postal Service in a similar manner. Daily newspapers collectively spend $500 million on standard mail postage for delivery of their non-subscriber TMC products.

We depend on the reliable and efficient service from the Postal Service to keep our advertising customers happy. The success of

the midweek retail sales promotion depends on the timely delivery of the advertising piece. We receive excellent service from the hard-working men and women of the U.S. Postal Service. They help us serve our advertising clients and are a vital part of our local economy.

Unfortunately, the business relationship with the Postal Service has become strained in recent years. Recent pricing initiatives are making our newspaper and many others around the Country reconsider using the postal system for delivery of TMC packages. Let me explain.

Newspapers compete with direct mailers for the distribution of advertising inserts. Over the last decade the Postal Service has followed a strategy of giving significantly more favorable saturation rates to our direct mail competitors than it has offered for our TMC products, which are delivered at high density rates. In 2007, the rate difference between what our TMC mailings paid and what a saturation mailer paid was 9/10ths of a cent. In just six years, this rate difference widened to 2.6 cents per piece. This is a significant difference in a highly competitive market.

To add insult to injury, the Postal Service last year entered into a negotiated services agreement with Valassis, the Nation's largest saturation direct mailer, and a direct competitor to local newspapers. This special deal provides Valassis with deep discounts off its already preferred saturation rates for the sole purpose of driving retail advertising out of newspaper Sunday editions.

In response to these pricing decisions, many newspapers have moved TMC packages out of the mail. Those packages now go to private firms that deliver advertising inserts on the porch or in the driveway and provide verified delivery through GPS technology. Over the last 10 years, the Greenville News has moved approximately 50,000 pieces, or roughly $800,000 in annual postage, out of the mail into alternate delivery.

The Postal Service has driven our business away at precisely the time that it had a golden opportunity to increase volume and revenues from newspapers. When a newspaper s circulation declines, we need to increase the number of TMC packages, that we send to non-subscribers. Instead of designing rates and services to help us serve those non-subscriber customers, and to increase more volume and revenue for the Postal Service, the Postal Service put forward pricing initiatives designed to divert advertisers from newspapers to saturation direct mailers. The unintended consequence of those decisions was to drive hundreds of millions of dollars of the industry's business out of the Postal Service.

The Postal Service can get our business back if it stops taking sides in the marketplace competition. It should treat all mailers as valued and important customers, not some as favored and others as targets.

Thank you for this opportunity to testify. I look forward to your questions.

[Prepared statement of Mr. Brandt follows:]

Statement

of

Steve Brandt
Publisher and President
The Greenville* (South Carolina) *News

before the

United States House of Representatives

Committee on Oversight and Governmental Reform

Subcommittee on Federal Workforce, U.S. Postal Service & the Census

April 10, 2013

Introduction

Chairman Farenthold, Ranking Member Lynch, and members of the Committee.

My name is Steve Brandt. I am the publisher and president of *The Greenville News* and GreenvilleOnline.com in Greenville, South Carolina. *The Greenville News* is a newspaper with a circulation of 46,000 daily and 70,000 on Sunday in greater Greenville, which constitutes the third-largest metropolitan area in South Carolina. *The Greenville News* has been an important source of local news and information since the first day it was published in 1874. Since December 1995, it has been owned by Gannett Company, Inc.

I appreciate the opportunity that the Subcommittee has given me to share my views on how the Postal Service is working with our business – and others in the newspaper industry – where the business relationship is working well, and where it could improve.

Newspapers and the Postal Service

First, newspapers have had a long and positive relationship with the Postal Service dating back to the very beginning of our Nation. Our Nation's postal system was largely created to deliver newspapers so Americans in the early Republic could stay connected and informed. A newspaper publisher, Benjamin Franklin, served as the first postmaster general. Throughout our history, newspapers have consistently served as partners with the Postal Service in its mission to "bind the nation together."

The Greenville News uses all classes of mail. We use First-Class Mail to send invoices, and we receive much of our revenue through envelopes mailed in by subscribers and advertisers. We use Priority and Express Mail as needed for business purposes. And, we distribute a small number – about 200 copies – of our print newspaper through the mail, typically to subscribers outside of our immediate area.

By far our largest postal spend is in Standard Mail, which we have used for about 20 years to distribute free weekly newspapers and free-standing preprinted advertising to homes that do not subscribe to the newspaper. These are ads for grocery stores, discount retailers, fast food restaurants, furniture stores, and other home service companies. The *News* also delivers these preprinted advertisements to our subscribers as inserts in their copies of the newspaper. We call this combined distribution to subscribers and non-subscribers our Total Market Coverage, or "TMC," program.

The Greenville News mails 53,000 TMC pieces weekly, mostly going at Standard High Density Plus rates. Our postage bill for our TMC program comes to about $850,000 annually. Many other newspapers use the Postal Service in a very similar manner. Our national trade association, the Newspaper Association of America (NAA), estimates that daily newspapers collectively spend some $500 million on Standard Mail postage for delivery of their non-subscriber (TMC) advertising products.

As customers of the Postal Service, we depend on reliable and efficient mail delivery. Advertising dollars provide the vast majority of the revenue that we need to

support journalism in our communities. And we need good service from the Postal Service to keep our advertising customers happy. The success of the midweek grocery store sale and the big weekend hardware sale depend on the timely delivery of the advertising piece.

Like many other newspapers, we work closely with our partners at the Postal Service at the local level to make sure that the advertising that we deliver through our TMC program arrives by the time that the advertiser wants it to. Our Greenville postmaster, Patricia Sullivan, is a dedicated public servant. Mary Chandler, the Greenville BME (Bulk Mail Entry) supervisor, is especially helpful and will always take time to answer our questions and help us navigate the USPS system. In addition, and especially significant, is the reliable, timely and consistent service that we receive from postal clerks and carriers. While the Postal Service has 72 hours to deliver our TMC pieces once they arrive at the local Post Office, our experience is that they generally are delivered within a couple of days after we put them into the system. This is very helpful to us and to our preprint advertising clients. We appreciate the support of the Postal Service, which is a vital part of our local economy.

Recent USPS Decisions Are Driving Daily Newspaper Business Away

Unfortunately, recent pricing decisions and initiatives by the Postal Service are making our newspaper – and many newspapers around the country – reconsider using the postal system for the delivery of our TMC packages. Some have already left the mail and converted their TMC distribution to more welcoming private business partners. Let me explain.

Newspapers (while mailers ourselves) compete with regional and national direct mailers for the distribution of advertising inserts for both small local retailers and large national chains. In Greenville, for example, we compete with national mailers such as Valassis (branded in our market as Red Plum) who mail at saturation rates.

In recent years, the Postal Service has embarked on a strategy of giving significantly more favorable saturation rates to newspapers' direct mail competitors than it has offered our TMC products delivered at High Density rates. In 2007, the rate difference between what we paid for our TMC mail and what a saturation mailer paid for their advertising mail was 0.9 cents per piece. In the six short years since, the Postal Service has repeatedly increased our rates at a much faster clip than the rates for our saturation ad mail competitors. The clear goal was to make direct mail more attractive than newspaper advertising. As a result of this consistent pattern of discriminatory rate increases, the rate difference between High Density and saturation rates widened to 2.6 cents per piece, or $26 per thousand pieces, last year. I can assure you that $26 per thousand is very considerable price advantage for direct mailers in a highly competitive market. Although earlier this year the Postal Service reduced that difference to 2.3 cents for some of our mail, even that rate difference remains nearly three times what it was only a few years ago.

As another example, in April of last year, the Postal Service signed a negotiated services agreement with one company – Valassis – the nation's largest saturation direct mailer, which directly competes with newspapers for advertising in local markets. The

special deal granted exclusively to Valassis provides discounts between 22 and 34 percent off of the already lower saturation rates. These super discounts are designed specifically to enable Valassis to attract retail advertising out of newspapers' Sunday editions.

Faced with a Postal Service that has plainly favored our direct mail competitors, a number of newspapers have moved TMC packages out of the mail. Those packages now go to private firms that deliver advertising inserts on the porch or in the driveway, and provide customers with verified delivery through GPS technology. Over the last 10 years, *The Greenville News* has moved approximately 50,000 pieces (amounting to about $800,000 in postage) out of the mail into alternative delivery. We have done so largely in response to Postal Service pricing decisions favoring our competitors. According to an NAA survey, the Postal Service has lost some $300 million worth of TMC mail due to daily newspapers moving out of the postal system into alternative delivery over the last five years.

The special NSA for Valassis has had the effect of increasing the interest on the part of newspapers that remain in the mail in exploring alternative delivery to distribute their TMC products. In short, a special deal for one customer is driving away business from hundreds of others, which may cost the Postal Service hundreds of millions of dollars in annual revenue. This is a short-sighted decision that the Postal Service cannot afford. It should simply cancel this special deal, which — as I understand — it could do at any time.

The sad truth is that the Postal Service has driven newspapers away at precisely the time that it had a golden opportunity to increase business from daily newspapers. As I mentioned before, newspapers distribute their TMC advertising inserts to households that do not subscribe to the newspaper. So, when a newspaper's circulation declines, as has happened in many places over the past five years, the Postal Service has an opportunity to increase business from daily newspapers through increased mailings of TMC packages to nonsubscribers. But instead of designing rates and services to help us serve our customers — and capture more of our business — the Postal Service has sought to divert advertisers from newspapers to saturation direct mailers.

The good news here is that our newspaper and many others in the industry would prefer to be in the mail with our TMC products because we believe many of our advertisers value being in the mailbox and because, as I said earlier, we get great service from local postal employees.

The Postal Service can get this business back if it stops taking sides in the marketplace competition between newspapers and other advertising media and, instead, offers postal rates and services that are competitively neutral between newspapers and our advertising mail competitors. It should treat all mailers as valued and important customers – not some as favored and others as targets.

Thank you for the opportunity to testify before you today. I will be happy to try to answer any questions that you may have.

Mr. FARENTHOLD. And Mr. Brandt gives back 20 seconds. He set the bar high.

[Laughter.]

Mr. FARENTHOLD. We will now go on to Ms. Joy Franckowiak.

STATEMENT OF JOY FRANCKOWIAK

Ms. FRANCKOWIAK. Chairman Farenthold, Ranking Member Clay, members of the subcommittee, my name is Joy Franckowiak. I am the Director of Distribution and Postal Affairs for Valpak Direct Marketing, located in Largo, Florida.

Valpak is a part of Cox Enterprises, a leading communications, media and automotive services company. Valpak operates through franchises in nearly every State and across Canada. Our franchisees are local, independent businesses with employees who live and work in towns across America. They sell advertising that drives significant economic activity for small business, the lifeblood of the American economy.

Each year, almost half a billion of our familiar blue envelopes carry some 20 billion money-saving offers, exclusively using the Postal Service. Most mailers choose to use the mail as one of several available method of advertising, shipping or publishing. But Valpak s actual product is the mail that we send. That is why Valpak has been one of the most active mailers before the Postal Regulatory Commission, has participated in the Mailers Technical Advisory Committee, and has partnered with the Postal Service to create efficiencies and test new initiatives.

Valpak also actively supported the Postal Service's move to increase efficiency by reducing the number of money-losing post offices and supporting the Postal Service's network realignment. Valpak was also one of the first large mailers to support five-day delivery and, along with the majority of Americans, we still support it.

We, along with our advertisers, rely heavily on timely delivery across the Country. The Postal Service rarely gets credit for what it is doing right. Currently, the Postal Service delivers over 97 percent of our products on time.

More than 150 postal facilities have been identified for closing as an essential cost-cutting strategy. Half of these closings affect where Valpak enters its mail. But the Postal Service has done an excellent job in working with mailers to reduce confusion and delay during this transition.

To increase communication, last year Postal Service COO Megan Brennan reinstated one-day meetings in each postal area to ensure mailers are fully advised of upcoming developments. Every mailer had to go through painful downsizing a few years ago. We believe that Postmaster General Donahoe has done a remarkable job of right-sizing his business to adjust to plummeting mail volume. We urge Congress to allow him to do what he needs to do to cut costs and survive financially.

Please remember that mailers are footing the bill for every dollar of expense that Congress doesn't allow the Postal Service to cut. But Congress cannot force mailers to mail.

I would like to highlight some concerns that we believe must be addressed by Congress. First, in fiscal year 2012, the Postal Service

allowed there to be eight underwater products, where the revenues earned do not even cover their attributable costs. As an example, a serious problem exists with standard flats, which lost an amazing $528 million last year alone. The Postal Service could increase these prices significantly, but refuses to do so. The Commission repeatedly has found this pricing unlawful, but has refused to order meaningful price increase.

It is a mystery to me why the Postal Service believes it can lose enormous amounts of money on products, as no business could ever operate that way. In fact, during the six years since PAEA was enacted, $8.1 billion of the $9 billion in operating losses were caused by underwater products.

A step in the right direction was the Issa-Ross bill in the last Congress. It would have done much to remedy underwater products, and we urge that these remedial provisions be included in the new bill. When some products pay none of the overhead, the other products must pay all of it. The product that has the highest burden imposed on it is the one most used by Valpak, high density and saturation letters. This product has a cost coverage of 221 percent and receives significant annual price increases, even though it is the only standard mail product whose costs have actually decreased. Postage rates are extremely important to our franchisees viability and postage rates impact the volume in which they mail.

Lastly, the Postal Service believes that Congress has been pressuring it to pursue market-dominant negotiated service agreements, or NSAs. Yet its track record with such agreements has been terrible. One NSA is now on appeal and another lost $4.3 million in its first year. But neither the Postal Service nor the Commission has been willing to terminate that agreement.

The Commission has taken a hands-off approach to postal pricing on the theory Congress wanted the Commission to use only light-handed regulation. We cannot believe this is what Congress wanted. Yet the Commission has ignored below-cost pricing of many products, abusively high prices for other products and losses incurred by NSAs. We suggest Congress use this opportunity to remind the Commission that its role is to protect against abusive pricing by an agency with statutory requirements, rather than giving deference to the agency that it has been regulating.

The Postal Service is the heart of a $1.3 trillion industry and needs greater control over its costs, but greater oversight over its pricing. Thank you.

[Prepared Statement of Joy Frankowiak follows:]

Subcommittee on Federal Workforce, U.S. Postal Service and the Census
U.S. House of Representatives' Committee on Oversight & Government Reform

Ahead of Postal Reform: Hearing From USPS Business Partners
April 10, 2013

Statement of Joy Franckowiak
on behalf of
Cox Target Media, Inc. and Valpak Direct Marketing Systems, Inc.

Chairman Farenthold, Ranking Member Lynch, and Members of the Subcommittee:

My name is Joy Franckowiak. I am Director of Postal Affairs and Distribution of Valpak Direct Marketing Systems, Inc., located in Largo, Florida. Valpak is part of Cox Target Media, Inc., which is part of Cox Enterprises, Inc. — a leading communications, media and automotive services company.

Thank you for this opportunity to testify. I have been with Valpak for more than 18 years. I also chair the Government Affairs Committee of the Association of Marketing Services Providers, and serve on its Board of Directors, but I am testifying today only for Valpak. (A summary of my job responsibilities and experience is appended to this statement.)

I. VALPAK

Valpak has been in business for over 45 years and is one of the largest direct mail companies in North America. We pioneered the concept of local cooperative mail in the United States several decades ago and we operate through franchises in nearly every state and across Canada. Our franchisees are local independent businesses, with employees who live and work in towns across America. They sell the advertising that drives significant economic activity for small business — the lifeblood of the American economy.

A few years ago, we opened a state-of-the-art $220 million manufacturing center in St. Petersburg, Florida so that Valpak can deliver savings and value to about 40 million households each month. And, each year, the Postal Service delivers almost a half billion of our familiar blue envelopes containing some 20 billion money-saving offers throughout the country, exclusively using the Postal Service. Valpak helps American families save money, especially in tough economic times, and helps small businesses grow. Each year, we assist more than 54,000 advertisers in promoting their products and services.

Our company also has aggressively entered the digital space in the online and mobile coupon business. This will allow us to reach new customers with our products and continue to serve as a leader in our industry. Our digital strategies will continue to complement our printed product strategies.

Most mailers choose to use the mail as one of several available methods of advertising, shipping or publishing, but Valpak's actual product is the mail that we send.

> That's why Valpak has for almost 20 years been one of the most active mailers before the Postal Regulatory Commission, and has been active on the Mailers Technical Advisory Committee ("MTAC"), and has worked as test sites for the Postal Service in evaluating new cost-saving measures.
>
> That's why Valpak actively supported the Postal Service's move to increase efficiency by reducing the number of money-losing post offices,[1] as well as the Postal Service's network re-alignment.[2]
>
> Valpak was also one of the first large mailers to support former Postmaster General Potter's announced need to move to five day delivery,[3] and, along with the majority of Americans, still support it.

Although some other mailers may only care about low rates in the short term, Valpak is committed to the long term financial health of the Postal Service. And we submit that must be Congress' focus as well.

II. USPS OPERATIONS

Because we mail about 10 million Valpak envelopes a week, we rely heavily on timely delivery across the country. We incur the cost to ship our envelopes to Postal Service processing plants across the country — this practice is known as drop shipping. We send out approximately 160 trucks each month to more than 150 Postal Service Sectional Center Facilities. The Postal Service rarely gets credit for what it is doing right, but its timely delivery of drop shipped Standard Mail has been outstanding. Currently the Postal Service delivers over 97 percent of our product on-time.

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[1] Valpak submitted an Initial Brief and a Reply Brief in support of the Postal Service's plans in Commission Docket No. N2011-1.

[2] Valpak submitted an Initial Brief and a Reply Brief in support of the Postal Service's plans in Commission Docket No. N2012-1.

[3] Valpak also submitted an Initial Brief and a Reply Brief in support of the Postal Service's original 5-day proposal in Commission Docket No. N2010-1.

I also want to report on the progress being made regarding the 150-plus postal facilities that have been identified for closing as an essential cost-cutting strategy.[4] Almost half of these planned closings affect facilities where Valpak enters its mail. But the Postal Service has done an excellent job in working with mailers to minimize confusion and delay during this transition. The Postal Service has used many methods to advise mailers which facilities would be affected, where mail should be entered, and when the changes would go into effect. Mailers have worked with the Postal Service in adjusting to the new system. We have had some extra work to do, but have had no significant problems through this transition.

The Postal Service is committed to ensuring that no mailer is caught off guard by its improvements. To increase communication, last year Postal Service Chief Operating Officer Megan Brennan reinstated area-wide meetings with mailers. The Postal Service operates through seven Areas, and one-day meetings are held in each Area to ensure that mailers are fully advised of upcoming developments. I serve as co-chair of the Southern Area Focus Group, and at our last meeting in Dallas, about 100 mailers received briefings by national staff and area officers. This outreach to the different areas helps reach mailers especially small to midsize mailers who cannot spend several days at the annual National Postal Forum, which is also an important outreach tool — despite some unfair criticism which it received recently.

To improve service and decrease processing costs, the Postal Service has vastly increased use of technology. We were one of the Postal Service's first customers to implement the Full Service Intelligent Mail barcode ("IMb") for outbound mail. The Postal Service, as well as mailers, uses the IMb to track mail through its system to the point of delivery.

Now, it is moving to what is called Seamless Acceptance, which would eliminate clerks at mailer facilities' Detached Mail Units and reduce many other acceptance costs, substituting computer analysis of the mail. Valpak was the first mailer to test E-Drop Ship and Seamless Acceptance, which is now used in about five postal plants, and soon both will be rolled out across the Postal Service processing network.

The nature of our business means that we watch the Postal Service and its issues very closely. Most mailers had to go through a painful downsizing program a few years ago. We believe that Postmaster General Pat Donahoe has done a remarkable job of right-sizing his business to adjust to plummeting mail volume. We urge Congress to allow him to do what it needs to do to cut costs and survive financially.

Congress may write the laws, but the mailers are footing the bill for every dollar of expense that Congress refuses to allow the Postal Service to cut. And Congress needs to remember that as prices increase, mailers enter less mail.

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[4] http://about.usps.com/news/electronic-press-kits/our-future-network/welcome.htm.

The Postal Service simply cannot afford to deliver mail six days a week without causing price increases. Congress may be able to force the Postal Service to keep Saturday delivery, but Congress cannot force mailers to mail.

Let me shift gears, and now I would like to highlight some key problems that we believe Congress needs to address as your craft revisions to the Postal Accountability and Enhancement Act ("PAEA").

II. UNDERWATER PRODUCTS

It is a mystery to me why the Postal Service believes it can lose enormous amounts of money on products, as no business could ever operate that way. In fact, during the six years since PAEA was enacted, $8.1 billion of the Postal Service's $9.0 billion in operating losses were caused by underwater products. Nevertheless, neither the Postal Service nor the Commission appears willing to follow the law.

Although most press accounts of Postal Service finances focus on the gross loss that includes Retiree Health Benefits Fund payments,[5] just as important is the Postal Service's operating loss, which is the focus of the following comments. Table 1 shows Postal Service operating revenue and operating expenses for FY 2007 through FY 2012, the years following enactment of PAEA in December 2006. The first row shows operating revenue, all of which is derived from mailers, except for a few minor items. The second row shows all operating expenses, excluding retiree health benefits. Payments for health insurance premiums for current retirees, which always have been recorded as operating expenses, are shown separately on row 4. The net profit or loss from operations is shown on row 5.

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[5] The need to reform the RHBF prefunding schedule is well-known. Although not the focus of this statement, any postal reform legislation must include some reasonable relief to the RHBF schedule.

Table 1
Postal Service Operating Revenue and Expenses
FY 2007 – FY 2012
($, millions)

	FY '07	FY '08	FY '09	FY '10	FY '11	FY '12
1. Operating Revenue	74,778	74,932	68,090	67,052	65,711	65,223
2. Operating Expenses, Ex-Retiree Health Benefits	70,021	70,331	68,440	67,679	68,193	67,235
3. Op. Profit (Loss) Before Retiree Health Benefits	**4,757**	**4,601**	**(350)**	**(627)**	**(2,482)**	**(2,012)**
4. Health Benefits for Current Retirees	1,726	1,807	1,990	2,247	2,441	2,629
5. Net Op. Profit (Loss), excluding RHBF	3,031	2,794	(2,340)	(2,874)	(4,923)	(4,641)
6. Funding of RHBF	8,358	5,600	1,400	5,500	------	11,100
7. Six-year net **operating loss**, excluding RHBF						**8,953**
8. Six-year cost of RHBF						31,958
9. Six-year total reported loss						40,911

In FY 2012, the Postal Service allowed there to be eight "underwater" products — where the revenues earned did not even cover these products' "direct and indirect attributable costs." Last year, on these eight products, the Postal Service lost nearly $1.5 billion, *i.e.*, approximately 75 percent of the Postal Service's total operating loss. *See* Table 2. Valpak has asked the Commission to remedy this ongoing, widespread problem repeatedly, most recently in comments in the annual compliance review for FY 2012.[6]

Only about 60 percent of Postal Service costs are attributed to products, so even a product which merely covers its attributable costs is not paying anything toward the overhead of the Postal Service. A product or a class that does not even cover its attributable costs presents an even more serious hemorrhage to Postal Service finances.

[6] *See* Commission Docket No. ACR2012, Valpak's Initial Comments and Reply Comments.

Table 2
Loss-Generating Market Dominant Products
FY 2011-2012
(Exclusive of Special Services)

Product	FY 2011 Deficit (million)	FY 2011 Coverage	FY 2012 Deficit (million)	FY 2012 Coverage
First-Class Parcels	—	—	$10	98.4%
Inbound Int. Single-Piece First-Class Mail	$36	79.0%	$66	65.8%
Standard Mail Flats	$652	79.3%	$532	80.7%
Standard Mail NFMs and Parcels	$117	84.8%	$53	84.3%
Periodicals Within County	$20	77.5%	$29	69.7%
Periodicals Outside County	$597	74.5%	$649	71.8%
Single-Piece Parcel Post	$89	89.2%	$66	92.1%
Bound Printed Matter Parcels	$5	98.4%	—	—
Media and Library Mail	$99	77.0%	$56	85.1%
Total	**$1,615**		**$1,461**	

Sources: FY 2011 ACR, Tables 1-4; FY 2012 ACR, Tables 1-2, 4-5.

A serious problem exists with **Standard Flats** — used by some catalog companies — which lost an amazing $532 million last year, covering only 80.7 percent of its costs. The Postal Service could increase these prices significantly, but refuses to do so, as it prefers to overcharge other Standard mailers to subsidize the catalogers with which they compete. Just since PAEA, Postal Service pricing has forced other mailers to cross-subsidize these catalog mailers by a total of $2.6 billion. The Commission repeatedly has found this pricing unlawful, but it has refused to use the power Congress gave it to order the Postal Service to make meaningful price increases for this money-losing product.

Table 3
Standard Mail Flats
Revenue, Costs and Contribution
FY 2008 – 2012
(millions)

Fiscal Year	Revenue	Attributable Cost	Contribution	Volume
2008	$3,663.7	$3,891.0	-$227.3	10,010.875
2009	2,866.0	3,488.3	-622.3	7,793.511
2010	2,579.4	3,161.3	-581.9	7,049.230
2011	2,491.1	3,142.9	-651.8	6,783.186
2012	2,229.6	2,761.7	-532.1	5,939.635
TOTAL	$13,829.8	$16,445.2	-$2,615.4	

Source: CRA for each respective year.

A different problem exists with the **Periodicals** class, which lost $670 million last year, and Periodicals' mailers covered only 72.1 percent of their costs. However, there the entire fault lies with the Commission, which in its Annual Compliance Determination recently refused to find that even this enormous loss constituted "noncompliance" with PAEA — despite Valpak's and the Postal Service's requests that it clearly rule on the scope of its powers to remedy this problem. Congress required that each class must cover its cost, but the Commission reasoned that since the problem of underwater Periodicals has existed for so long (constantly losing money for the Postal Service over the past 16 years — totaling $5.6 billion), Congress must have wanted it to be that way.

Table 4
Periodicals Class
Revenue, Cost, Coverage, and Cross-Subsidies
FY 1997 — 2012

	(1)	(2)	(3)	(4)
PRC CRA	Revenue	Costs	Cover-age	Revenue – Costs
Year	($, mill.)	($, mill.)		($, mill.)
Under PAEA				
2012	1,731.5	2,401.6	72.10%	-670.1
2011	1,821.1	2,430.0	74.94%	-608.9
2010	1,878.8	2,489.8	75.46%	-611.0
2009	2,038.0	2,680.0	76.04%	-642.0
2008	2,294.9	2,732.1	84.00%	-437.2
2007	2,187.9	2,635.6	83.01%	-447.7
Subtotal	**11,952.2**	**15,369.1**	**77.77%**	**-3,416.9**
Under PRA				
2006	2,124.8	2,487.6	85.42%	-362.8
2005	2,068.9	2,431.6	85.08%	-362.7
2004	2,100.0	2,323.3	90.39%	-223.3
2003	2,139.6	2,196.2	97.42%	-56.6
2002	2,066.9	2,280.4	90.64%	-213.5
2001	2,106.9	2,367.1	89.01%	-260.2
2000	2,076.3	2,354.8	88.17%	-278.5
1999	2,017.7	2,213.1	91.17%	-195.4
1998	1,972.8	2,129.0	92.66%	-156.2
1997	1,964.6	2,038.5	96.37%	-73.9
Subtotal	**20,638.5**	**22,821.6**	**90.43%**	**-2,183.1**
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TOTAL	**32,590.7**	**38,190.7**	**85.34%**	**-5,600.0**

A step in the right direction was the Issa/Ross bill (H.R. 2309) reported out of this Committee in the last Congress. It would have done much to remedy underwater products as well as many of the other problems facing the Postal Service, and we urge that these remedial provisions, at a minimum, be included in the new bill.

When some products pay none of the overhead, the other products must pay all of it. The product that has the highest burden imposed on it happens to be the one used by Valpak — High Density/Saturation Letter Mail. That Standard Mail product has a coverage of 221 percent, and receives significant annual price increases even though it is the only Standard Mail product whose costs have actually decreased over the past six years. Some of the burden of these price increases have been offset by various incentive programs, but Valpak would much prefer that the general tariff rates be kept low, rather than needing to jump through hoops to qualify for special temporary sales. Postage rates are extremely important to our franchisees and every postal increases has an adverse impact on the volume they mail.

III. NEW PRODUCTS

The Postal Service also has had problems with some of its new product offerings. It began a market test for Every Door Direct Mail-Retail ("EDDM"), which is locally-entered, saturation, unaddressed mail. The Commission found that EDDM violated PAEA, in that it exceeded the Congressionally-imposed $50 million annual cap on market tests. But the Commission but ignored the violation since the test had ended.[7]

Also, the Postal Service says that it is committed to automation and transparency of mail, but EDDM is a manually-handled product which provides no transparency whatsoever.

Lastly, while other mail must be addressed, the Postal Service exempts EDDM from this requirement so it can directly compete for this business with other mail service providers. While some EDDM mail may be new volume, the Postal Service cannot be successful if it uses marketing strategies which cannibalize business from existing mailers. Even the Postal Service's Inspector General could not tell whether any or all of EDDM was coming from businesses already using mail service providers.[8]

IV. NEGOTIATED SERVICE AGREEMENTS

The Postal Service believes that Congress wants it to enter into Market Dominant Negotiated Service Agreements, or NSAs. Its track record with such agreements has been

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[7] FY 2012 Annual Compliance Determination, p. 152.

[8] USPS OIG, Audit Report: Every Door Direct Mail-Retail (May 7, 2012), https://www.uspsoig.gov/foia_files/ms-ar-12-004.pdf.

terrible. It has lost millions of dollars, yet it continues to pursue NSAs. The profitable ones barely make a dent, while the unprofitable constitute yet another serious drain on Postal Service finances.

Table 5
Summary of Market Dominant NSAs
Net Effect on Postal Service Contribution
($ Thousands)

	2009	2010	2011	2012	Total
Bookspan					20
Lifeline	25	104	0		129
Bradford Group	93	(72)	(37)		(16)
Bank of America	(23,514)				(23,514)
Discover				(4,338)	(4,338)
Valassis					
Total	**(23,396)**	**32**	**(37)**	**(4,338)**	**(27,719)**

A recent NSA with one mailer is now on appeal to the U.S. Court of Appeals for the D.C. Circuit, and Valpak has joined with the Newspaper Association of America and the National Newspaper Association in the appeal. That NSA provides special discounts to a large national mailer to enable it to enter into new markets to directly compete with other, already established advertisers. This marketplace is already highly competitive, and we had hoped that the Commission would stand in its place as a regulator of the Postal Service and protector of the marketplace. We are disappointed that we are having to rely on the courts to play that role.

Another NSA with one credit card mailer (Discover) lost $4.3 million in its first year, and neither the Postal Service nor the Commission has been willing to use the authority they have under the law to terminate that agreement. The Commission's recent Annual Compliance Determination found that the NSA with Discover violated the statutory requirement that it not result in a loss to the Postal Service.[9] Nevertheless, the Commission took no action, merely suggesting to the Postal Service that, if the second year also results in a loss, the Postal Service should re-evaluate continuing the NSA.

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[9] *See* FY 2012 ACD, p. 158.

We have proposed specific statutory language to help stem losses from these ill-conceived NSAs.[10]

First, subsection (A)(i) currently provides that an NSA "improve the net financial position of the Postal Service," and the proposed amendment clarifies that this criterion will be determined based on the Commission-approved methodology. The Postal Service always claims greater financial improvement of NSAs based on its own methodology. The Commission's methodology is more conservative and likely is more accurate, yet the Commission has approved NSAs which were projected to result in a net financial loss using its own methodology. Our proposed amendment would clarify how to calculate financial improvement.

Second, our proposed subsection 3622(c)(10)(C) adds two additional criteria.

New subsection (C)(i) would require a Commission finding that it would be "impracticable to offer" a niche classification that would be made available more broadly, such as part of the general tariff schedule. There was a similar requirement under Commission

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[10] 39 U.S.C. § 3622(c)(10) (New language is shown as underlined; deletions are shown as strikethrough.)

(10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that—

(A) either—

(i) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service, based on methodology approved by the Commission; or

(ii) enhance the performance of mail preparation, processing, transportation, or other functions; ~~and~~

(B) do not cause unreasonable harm to the marketplace~~.~~; and

(C) no agreement with one mailer or a group of mailers shall be approved unless the Commission —

(i) makes a finding that it would be impracticable to make such a classification available to all mailers, and

(ii) identifies the specific criteria by which mail users would be deemed "similarly situated mailers" entitled to receive a functionally equivalent agreement.

regulations for NSAs prior to PAEA.[11] Niche classifications address some of the systemic problems identified with NSAs, and eliminate the inherent problem of preferences and discrimination (39 U.S.C. § 403(c)) among mailers.

New subsection (C)(ii) would require the Commission to determine which mailers are similarly situated to a mailer in an NSA so that they will be entitled to their own NSA.

CONCLUSION

The Commission has taken a hands off approach to postal pricing on the theory that Congress gave the Postal Service broad "pricing flexibility," and wanted the Commission to use only "light handed regulation." We cannot believe this is what Congress wanted. If the Commission ignores the below-cost pricing and cross-subsidization of many products, abusively high prices for other products, losses incurred by NSAs, and violation of limits on Market Tests, then exactly how does the Commission protect the public from the Postal Service misusing its monopoly pricing power over Market Dominant products?

Looking at the larger picture, the Postal Service is at the heart of a $1.3 trillion industry which employs 8.4 million people. It appears clear that the Postal Service needs greater flexibility to cut costs, but greater regulation by the Commission over the Postal Service's pricing strategies. Both can be accomplished by this Subcommittee as it considers amendments to PAEA.

Thank you.

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[11] Former regulation 39 C.F.R. § 3001.195(a)(1) required: "A written justification for requesting a Negotiated Service Agreement classification as opposed to a more generally applicable form of classification."

Mr. WALBERG. [Presiding] Thank you, Ms. Franckowiak. I grew up in a Polish ghetto on the south side of Chicago, and I was a gym leader. Had to pronounce all those names.

Ms. FRANCKOWIAK. So you know it used to have an ski at the end of it.

Mr. WALBERG. Right. I married a Polenski.

[Laughter]

Mr. WALBERG. Thank you.

Ms. Brophy, we recognize you for five minutes.

STATEMENT OF META BROPHY

Ms. BROPHY. Thank you. Good afternoon, Mr. Chairman and members of the committee. Thank you for inviting me here today to discuss Consumer Reports relationship with the Postal Service.

Consumer Reports serves to educate consumers by helping them navigate the countless and confusing options in today's marketplace that affect their every purchase decision in their everyday lives. Whether big ticket purchases like cars or electronics, or everyday purchases like detergents or cereal, Consumer Reports provides consumers with everything they need to make the best decisions for themselves and their families.

Consumer Reports has no commercial interests or affiliations and operates the largest independent consumer testing organization in the world, where hundreds of people work every day to test products, inform consumers of the results and to protect consumer interests. Consumer Reports relies on subscription revenue to fund its product testing program, the sole goal of which is to inform and protect the U.S. consumer from unsafe products and misleading advertising in the marketplace. The marketing goal is to support this mission by continuing to grow the subscriber base in the most cost-effective manner possible.

Traditional direct mail marketing is the largest source of new subscriber acquisition for both Consumer Reports Magazine, published since 1936, its offshoot publication Shop Smart Magazine, as well as our Health and Money newsletters. Consumer Reports services nearly four and a half million print and more than three million online subscribers.

Our marketing strategy is to continually increase our reach to our target market with the most impactful and cost-effective stream of communications, offering the right product at the right price in the optimal mail slot, using the right promotion in the right distribution channel. To that end, our direct marketing campaigns are carefully woven, multi-channel programs that include direct mail and email messages executed with precision to the appropriate prospects.

The Postal Service is our largest outside vendor. Consumer Reports spends more than $32 million on postage in the United States each year. We primarily use first class mail, non-profit periodicals mail and non-profit standard mail. Consumer Reports relies on the Postal Service to deliver its marketing, subscriber and transactional mail in a consistently reliable and timely way. Our reliance on the Postal Service goes back to our beginning. Postal Service delivery is critical to our business.

Like most other content publishers, Consumer Reports is moving ahead with the digital first, digital fast entrepreneurial approach. To continue in direct mail, still the largest source of new subscribers, we pay careful attention to containing costs. Whereas CPI increases in postage are more predictable to budget, my department annually is charged with finding ways to mitigate additional costs. CPI increases are not something we can pass along to our customers in the cost of a subscription.

In today's postal announcement, I heard that until legislative action takes place the Postal Service has to pursue revenue ideas, including perhaps an exigent case. Such a scenario, especially in the absence of legislative reform, is very disturbing. It will hurt our business and drive our volume down. And it is mail volume that is at the heart of this situation. The Postal Service has excess capacity now.

We are more than interested, we are invested in a viable, sustainable Postal Service. A significant portion of our customers and subscribers rely on mail to receive information from us. We support plans that reasonable and effectively improve the Postal Service's business and financial footing. So far, postal communications have been clear and timely. And we have been able to adjust logistics plans and delivery dates very well.

We will adjust to changes as best we can in continued partnership with the Postal Service. Thank you for your consideration.

[Prepared statement of Ms. Brophy follows:]

Statement of Meta Brophy
Director, Procurement Operations
Consumer Reports
before the
Committee on Oversight and Government Reform
Subcommittee on Federal Workforce, U.S. Postal Service and the Census
United States House of Representatives

April 10, 2013

Good afternoon, Mr. Chairman and members of the Committee. I appreciate the opportunity to be here today to discuss Consumer Reports' relationship with the Postal Service.

Consumer Reports is the nonprofit publisher of *Consumer Reports* and *Shop Smart* magazines, as well as newsletters and other special interest publications for consumers. The Consumer Reports National Testing and Research Center in Yonkers, New York, is the largest nonprofit educational and consumer product testing center in the world. Consumer Reports surveys millions of consumers about their experiences with products and services. Consumer Reports buys all the products that it rates, and does not accept free test samples from manufacturers or paid advertising. We derive revenue mainly through subscriptions and donations. Our mission, since 1936, is to work for a fair, just, and safe marketplace for all consumers and to empower consumers to protect themselves.

Consumer Reports spends more than $32 million on postage in the United States each year. We primarily use First-Class Mail, nonprofit Periodicals Mail, and nonprofit Standard Mail. Consumer Reports relies on the United States Postal Service to deliver its subscriber mail—that is, magazines, newsletters, premiums, special interest publications, acknowledgments, bills, renewal notices—and to prospect for new subscribers and donors through direct mail solicitations.

My responsibilities at Consumer Reports involve supply chain management including purchasing, high-volume print production and mail distribution for our magazines, newsletters, direct marketing and fundraising mail campaigns, back-end circulation campaigns, premiums, and special publications. My team evaluates current practices and approaches and identifies opportunities for increased efficiency and cost savings. We explore and pursue opportunities for innovation, monitor supplier performance, and manage relationships with key suppliers, including the United States Postal Service and Canada Post.

I serve as the president of the board of directors of the Alliance of Nonprofit Mailers. I am also a member of the Direct Marketing Association and Magazine Publishers of America.

Consumer Reports has relied on the Postal Service as a vital business partner since our founding more than 75 years ago. Throughout our long association with the Postal Service, we have experienced consistently dependable and reputable service that has been the foundation of our partnership. We trust the Postal Service to deliver our information and communications to consumers.

When Consumer Reports withdrew a report on infant car seats and had to notify our subscribers very quickly, we turned to the Postal Service for assistance. With a mass mailing to more than 3 million households, the Postal Service was key to delivering our message. The Postal Service ensured that our mailing was handled expeditiously and successfully, allowing Consumer Reports to reach millions of members with an explanation of the situation and a promise to strive for accuracy and fairness, all in a very timely manner.

In 2011, we changed our organizational identity from Consumers Union to Consumer Reports to strengthen our brand recognition in the marketplace. The Postal Service provided guidance and assistance in making the change known throughout the national postal network so there was no disruption to our mailings or our business.

Through direct mail solicitations, our marketing efforts will bring in 2 million new subscribers this year across all of our publications. Revenue derived from direct mail and print products is still vitally important to our budget and to our mission. A healthy, financially sound Postal Service is critical to our business now and for the foreseeable future.

As the Postal Service has been rightsizing its operational network to reduce excess capacity in the face of declining mail volumes, we rely on timely communications about those changes to ensure that our data, print, and logistics vendors can adjust plans accordingly. To date, the Postal Service has done a good job of disseminating critical information.

Although a significant portion of our customers and subscribers rely on mail to receive information from us, Consumer Reports is challenged by a pattern of declining growth in a weakened publishing industry and national economy. We are holding the line on expenses as we continue to help consumers and to have an impact in the marketplace. We will continue to support affordable methods of delivery for our products and services.

We encourage the Postal Service to continue to maximize operational efficiency and productivity, making the best use of automation and technological advancements. We need the Postal Service to maintain reliable mail delivery in the most efficient manner possible.

Mr. WALBERG. Thank you, Ms. Brophy.

Now, Mr. Janssens, you have five minutes. You are recognized.

STATEMENT OF CARL JANSSENS

Mr. JANSSENS. Thank you.

Good afternoon, Mr. Chairman and members of the subcommittee. Thank you for holding this important hearing today and allowing CVS Caremark the opportunity to share our views on the United States Postal Service.

My name is Carl Janssens, I am the Vice President of Logistics and Facility Engineering for CVS Caremark, a pharmacy innovation company located in Woonsocket, Rhode Island. I have the responsibility for the overall strategy in the areas of dispensing technology, packaging and transportation services for our products.

Today I would like to provide the committee with an overview of CVS Caremark's business, our relationship with the United States Postal Service, the benefits and cost savings to plan sponsors and beneficiaries of using mail order pharmacy and the opportunity for service improvements.

Most people think of us as the Nation's leading drug store chain because we operate more than 7,400 CVS pharmacy stores in 44 States, the District of Columbia and Puerto Rico. Seventy-five percent of all Americans live within three miles of one of our stores in the markets where we operate.

We are also a leading pharmacy benefit manager, or PBM, which administers prescription benefit plans for our clients, which include health plans, unions, and government groups. Our goal is to work with our clients to help them design prescription drug plans and options that best meet their members needs and help plan sponsors drive down costs while improving health outcomes.

Our PBM also provides beneficiaries with access to a network of more than 65,000 pharmacies in the U.S. We operate 19 onsite pharmacies, 43 specialty pharmacies, three mail order pharmacies, not to mention CVS.com and Caremark.com websites, in addition to our Minute Clinic division, which operates more than 640 retail medical clinics.

Our organization includes more than 75,000 pharmacists, pharmacy technicians, physician assistants, and nurse practitioners. They are focused on delivering expert pharmacy care to our consumers.

We are a leaders in a variety of areas, including retail clinics, specialty pharmacy, technology and Medicare Part D. We are the third largest provider of health benefits to eligible beneficiaries under the Federal Government's Medicare Part D program. Each year, CVS pharmacists serve more than 6 million beneficiaries and fill more than 275 million prescriptions under the Part D program. We also provides pharmacy benefits to the Federal Employees Heath Benefits Plan.

CVS Caremark's relationship with the United States Postal Service is one that dates back to 1985 when Caremark launched its first mail order pharmacy offering. CVS Caremark relies on USPS for both its inbound and outbound mail services. Our mail order pharmacies receive over a million prescriptions each week. On Saturdays alone, we receive approximately 100,000 prescription.

Once a prescription is received, our pharmacies process, fill and deliver the prescription within five business days on average, and this would include Saturdays. Our pharmacies are currently shipping on a six-day a week schedule, Monday through Saturday, and in many situations ships prescriptions seven days a week, using USPS services.

Saturday delivery to our customers is a critical piece of our overall service offering to our plan members. Each year, over 5 million packages, or 20 percent of all packages shipped, are delivered via USPS on Saturday alone. Having a consistent, reliable mail six days a week operation is critical for our business and for our clients plan members, and we support the Postmaster General's proposal to maintain Saturday package delivery.

More than 50 million prescriptions are dispensed through mail by Caremark; 100,000 orders are delivered for quality and safety and reviewed by a registered pharmacist in mail order medications delivered through the USPS. CVS Caremark today works closely with our clients to design pharmacy benefit plans that ensure convenient, affordable access to medicine through mail delivery.

In addition to cost savings, consumers receiving prescription medications for chronic conditions through a mail pharmacy are more likely to take them as prescribed by their doctors according to a study published in The American Journal of Managed Care. Since almost half of all Americans, or approximately 133 million, live with at least one chronic disease, medication adherence should be a matter of great importance to policy makers, insurance plan sponsors, physicians and patients.

USPS plays a vital role in Caremark mail pharmacy offering. Caremark has come to rely on the Postal Service's cost efficiency, reliability and predictability. We would like to see unnecessary regulatory burdens that are currently on USPS lifted to allow the Postal Service to better negotiate and reduce shipping rates so they can be more competitive with other shippers that they currently compete with.

We appreciate the relationship with the USPS and the invitation to talk to you today. Thank you.

[Prepared statement of Mr. Janssens follows:]

Testimony Of
Mr. Carl Janssens
Vice President, Logistics and Facility Engineering
CVS Caremark Corporation

Good morning Chairman Farenthold, Ranking Member Lynch, and members of the Committee. Thank you for holding this important hearing today and for allowing CVS Caremark the opportunity to share our views on the United States Postal Service.

My name is Carl Janssens. I am the Vice President of Logistics and Facility Engineering of CVS Caremark Corporation, a pharmacy innovation company headquartered in Woonsocket, Rhode Island. I have responsibility for the overall strategy in the areas of dispensing technology, packaging, transportation services, quality performance and overall capacity planning and facility utilization for CVS Caremark's Mail Service and Specialty Pharmacy operations

Today I would like to provide the committee with an overview of CVS Caremark's business, our relationship with the United States Postal Service, the benefits and cost savings to plan sponsors and beneficiaries of using mail order pharmacy and opportunities for service improvements.

Most people think of us as the nation's leading drugstore chain because we operate more than 7,400 CVS/pharmacy stores in 44 states, the District of Columbia and Puerto Rico. Seventy-five percent of all Americans live within three miles of one of our stores in the markets where we operate. We are also a leading pharmacy benefits manager, or PBM, which administers prescription benefit plans for our clients, which include health plans, unions, and government groups. Our goal is to work with our clients to help them design prescription drug

benefit options that best meet their members' needs and help plan sponsors drive down costs while improving health outcomes. Our PBM also provides beneficiaries with access to a network of more than 65,000 pharmacies in the U.S. We operate 19 on-site pharmacies, 31 specialty pharmacy stores, 12 specialty mail order pharmacies, three mail order pharmacies, and our CVS.com and Caremark.com websites. In addition, our MinuteClinic division operates more than 640 retail medical clinics.

Our organization, including our more than 75,000 pharmacists, pharmacy technicians, physician assistants and nurse practitioners, is focused on delivering expert pharmacy health care to consumers. We are a leader in a variety of areas including retail clinics, specialty pharmacy, technology and Medicare Part D. We are the third largest provider of drug benefits to eligible beneficiaries under the Federal Government's Medicare Part D program. Each year, CVS pharmacists serve more than 6 million beneficiaries and fill more than 245 million prescriptions under the Part D program. We also provide pharmacy benefits through the Federal Employees Health Benefits Plan.

CVS Caremark's relationship with the United States Postal Service (USPS) is one that dates back to 1985 when Caremark launched its first mail order pharmacy offering. CVS Caremark relies on the USPS for both its inbound and outbound mail services. Our mail order pharmacies receive over a million prescriptions each week. On Saturdays, we receive approximately 100,000 prescriptions. Once a prescription is received, our pharmacies fill and deliver the prescription within five business days (including Saturdays) on average. Our pharmacies are currently shipping on a six-day-a-week schedule, Monday through Saturday and, in many situations, ship prescriptions seven days a week, using first class, priority, express and

mail express USPS services. Saturday delivery to our customers is a critical piece of our overall service offering to our plan members. Each year, over five million packages – or 20 percent of all packages – are delivered via USPS on Saturdays alone. Having consistent, reliable mail six days a week is critical for our business and for our clients' plan members and we support the Post Master General's proposal to maintain Saturday package delivery.

More than 50 million prescriptions were dispensed through the mail in 2012, 100% of orders were reviewed for quality and safety by registered pharmacists with 90% of all mail order medications delivered through the USPS. While the postal service isn't a fit for all mail order medications, in particular those needing temperature control or special handling, average cost of shipping a prescription through the USPS is significantly lower than other carriers. For shipments requiring special delivery, average shipping cost is substantially more than other carriers. The USPS provides significant cost savings to plan sponsors and beneficiaries.

CVS Caremark works closely with our clients to design pharmacy benefits that ensure convenient, affordable access to medicines through mail delivery. In addition to cost savings, consumers receiving their prescription medications for chronic conditions through a mail pharmacy "were more likely to take them as prescribed by their doctors" according to a study published in the *American Journal of Managed Care.*[1] Since almost half of all Americans or approximately 133 million Americans live with at least one chronic disease,[2] medication adherence should be a matter of great importance to policy makers, insurance plan sponsors, physicians, and patients. Patients who adhere to their medication regimens have better health

[1] American Journal of Managed Care, *Mail-Order Pharmacy Use and Adherence to Diabetes-Related Medications*, (O. Kenrik Duru, et al., January 2010)

[2] Centers for Disease Control and Prevention. *Chronic Diseases and Health Promotion* [Internet]. Atlanta (GA): CDC; 2010 Jul 7 [cited 2010 Nov 29]. Available from: http://www.cdc.gov/NCCdphp/overview.htm

outcomes[3],[4] and make less use of urgent care and inpatient hospital services, compared to patients with similar medical conditions who are not adherent. It is estimated that the lack of medication adherence costs our health care system up to $300 billion per year. [5]

The USPS plays a vital role in CVS Caremark's mail pharmacy offering. CVS Caremark has come to rely on the postal service's cost efficiency, reliability and predictability; so have plan sponsors and beneficiaries. In terms of service opportunities, CVS Caremark would like to see unnecessary regulatory burdens on the USPS lifted to allow the postal service to negotiate better shipping rates so that it can be more competitive with other shipping providers.

We appreciate the invitation to describe CVS Caremark's relationship with the USPS and the value the Service brings to our mail order pharmacies, plan sponsors and members. CVS Caremark supports a robust postal service that includes flexibility to remain competitive in an evolving marketplace. Thank you for your time.

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[3] DiMatteo MR, Giordani PJ, Lepper HS, Croghan TW. *Patient Adherence and Medical Treatment Outcomes: A Meta-Analysis.* Med Care. 2002; 40(9):794–811.

[4] McDermott MM, Schmitt B, Wallner E. *Impact of Medication On-Adherence on Coronary Heart Disease Outcomes: A Critical Review.* Arch Intern Med. 1997;157(17):1921–9.

[5] New England Healthcare Institute, *Thinking Outside the Pillbox, A System-wide Approach to Improving Patient Medication Adherence for Chronic Disease,* August 2009

Carl A. Janssens
Vice President/Logistics/Facility Engineering

As Vice President of Logistics and Facility Engineering, Carl Janssens has responsibility for the overall strategy in the areas of dispensing technology, packaging, transportation services, quality performance and overall capacity planning /facility utilization for CVS Caremark's Mail Service and Specialty Pharmacy operations.

Previously, Mr. Janssens held the position of Vice President and General Manager for Caremark's Wilkes Barre Mail Service Pharmacy. Additionally he was with Material Control Systems, a company that provided logistic services for returnable packaging used in the heavy equipment industry. He also has served in senior-level positions in operations and general management in the areas of distribution, warehousing, transportation, and call center management with American Hospital Supply, Baxter International, and ValueRx. While at Baxter and ValueRx, he served as the Senior Vice President for mail service pharmacy operations.

Mr. Janssens holds a Bachelor of Science degree in Mathematics from Benedictine University and a Master of Business Administration degree from the Keller Graduate School of Management.

Mr. FARENTHOLD. [Presiding] Thank you very much.

I see that Mr. Connolly from the full committee has joined us. Just to make sure we stay appropriate with the rules, I would like to request unanimous consent that Mr. Connolly be able to participate in this subcommittee hearing. Without objection, so ordered.

Mr. CONNOLLY. I thank the gentleman.

Mr. FARENTHOLD. We will now hear from Mr. Garner, from the Association of Marketing Service Providers.

STATEMENT OF J. KENNETH GARNER

Mr. GARNER. Mr. Chairman and members of the subcommittee, I want to thank you for the opportunity to testify today on behalf of the members of the Association of Marketing Service Providers, formerly the Mailing and Fulfillment Service Association.

My name is Ken Garner. I serve as President and CEO of AMSP, an organization comprised of 450 member companies that provide mailing fulfillment, marketing and consulting services for a wide range of clients nationwide. AMSP is a trade association that for over 90 years has addressed the needs of primarily small businesses serving local customers. Our members are typical of those businesses identified as job creators. Our members businesses are most sensitive to the economic circumstances impacting the hard copy message industry and the Postal Service in particular.

AMSP is more than an association and its members are more than just marketing service providers. We are a critically important part of an enormous U.S. supply chain that develops, markets and sells products and ideas that help drive the Nation's economy. This supply chain, which employs roughly 8 million people and contributes well over $1 trillion to the economy, depends on the distribution of our products to the ultimate customer. To a significant degree that distribution depends on the U.S. Postal Service

AMSP members also participate in the exchange of information technology and ideas in this supply chain. We are members of the Coalition for a 21st Century Postal Service that includes members from every part of the U.S. print and product distribution channel and the Mailers Technical Advisory Committee to the Postal Service and many other related organizations.

While there are many postal-related challenges about which we feel qualified to speak, we will confine our attention to the need for postal system infrastructure and operating cost reductions, since this is the most critical part of the relationship of our industry to the Postal Service. More specifically, I will focus today's comments on downsizing mail processing capabilities, mail delivery and retail.

This need not be a complicated discussion. The fact is that the Postal Service's current processing, delivery and retail infrastructure was created in a different time with far greater volume and different customer expectations. At its peak only a few years ago, mail volume topped 212 billion pieces annually. The Postal Service's volume projection for its current fiscal year is just slightly over 153 billion pieces. Between 2005 and 2012, mail volume declined by 28.9 percent for a corresponding revenue declination of 24.5 percent, even after seven rate increases.

While we believe printed content will remain an important part of communication in the future, we know that mail volume will

never return to anything resembling the peak volume years and continuing volume loss is probable. Quite simply, the current business model is not sustainable, because the underlying financial and operations assumptions no longer exist.

There are no $500 million revenue streams that are readily available to tap. Though the Postal Service's approach to product innovation, sales and marketing needs dramatic, it is a topic for a discussion at another time. While no enterprise can assure success through cost reduction strategies alone, and while it may be fair criticism that the Postal Service reacted too slowly to the crisis facing it, we believe that its current focus is well placed. In the past couple of years, it has initiated a series of strategies to right-size its processing, delivery and retail components. Its network realignment strategy is well on the way to accomplishing its goal of closing or consolidating over 220 processing facilities. This will enable them to better utilize existing equipment investment and reduce labor expense. To this point, the Postal Service has executed this strategy in an effective and efficient manner with minimal negative impact on customers and business partners.

The Postal Service has also worked to rationalize and optimize its retail infrastructure. There is a need to close post offices that are under-utilized and represent expenses that is no longer supported by customer demand. However, in the face of Congressional opposition, USPS leadership revised its approach and created its POSt initiative that takes a somewhat softer but less effective approach. Rather than closing about 3,700 under-utilized post offices, the POSt plan seeks to align operating hours with current customer activity at about 13,000 post offices nationwide. Even this plan has met community resistance, but given the availability of alternative forms of access, the perpetuation of traditional brick and mortar USPS-operated retail outlets is an outdated and inefficient use of resources to meet ever-increasing customer demand.

Operational and logistical management represent a core competency of the current Postal Service leadership team. They have demonstrated the ability to make tough decisions and, when allowed, to execute their strategies with a high degree of competency. While some level of oversight is appropriate and necessary, an excessive and overbearing approach is not productive and only serves to waste precious time in a critical turnaround situation.

Of course, these infrastructure and cost reductions include related consequences. All stakeholders must be prepared to participate in this process. We all must be prepared to recalibrate our expectations.

The central challenge facing the Postal Service is whether the Congress and citizens of the Country will allow the Postal Service to make the necessary changes to survive. With 80 percent of the cost of the Postal Service tied to personnel, all cost reductions must include a discussion about the cost associated with labor.

In conclusion, the stakes are high and the consequences are significant. Time is not on our side. We need strong, decisive leadership that operates with a sense of purpose and urgency. This leadership must derive from an unprecedented level of collaboration by all stakeholders, including the leaders of the Postal Service, the in-

dustry supply chain, postal labor and legislative oversight bodies and Congress.

Success will depend on forward thinking, open-mindedness and a willingness to set aside dated perspectives. We need a commitment to action. At the Association of Marketing and Service Providers we are prepared to make this commitment, and I call on other leaders to join us in forging an effective solution. Thank you.

[Prepared statement of Mr. Garner follows:]

Testimony presented to the

Committee on Oversight and Government Reform

Subcommittee on Federal Workforce,

U.S. Postal Service and Census

J. Kenneth Garner

President and CEO of the Association of Marketing Service Providers

April 10, 2013

Mr. Chairman and members of the Subcommittee, I want to thank you for the opportunity to testify today on behalf of the members of the Association of Marketing Service Providers (formerly the Mailing & Fulfillment Service Association). My name is Ken Garner. I serve as President and CEO of AMSP, an organization comprised of 450 member companies that provide mailing, fulfillment, marketing, and consulting services for a wide range of clients nationwide. AMSP is a trade association that for over 90 years has addressed the needs of primarily small businesses serving local customers. Our members are typical of those businesses identified as "job creators." Our members' businesses are most sensitive to the economic circumstances impacting the hard-copy message industry, and the Postal Service in particular.

AMSP is more than an association and its members are more than just marketing service providers. We are a critically important part of an enormous U.S. supply chain that develops, markets, and sells products and ideas that help drive the nation's economy. This supply chain, which employs roughly eight million people and contributes well over $1 trillion to the economy, depends on the distribution of our products to the ultimate customer. To a significant degree that distribution depends on the U.S. Postal Service.

AMSP members also participate in the exchange of information, technology, and ideas in this supply chain. We are members of the Coalition for a 21st Century Postal Service that includes members from every part of the U.S. print and product distribution channel, the Mailers Technical Advisory Committee to the Postal Service and many other related organizations.

While there are many postal-related challenges about which we feel qualified to speak, we will confine our attention to the need for postal system infrastructure and operating cost reductions since this is the most critical part of the relationship of our industry to the Postal Service. More specifically, I will focus today's comments on the following-

- Mail processing capabilities
- Mail delivery
- Retail

This need not be a complicated discussion. The fact is that the Postal Service's current processing, delivery, and retail infrastructure was created in a different time with far greater volume and different customer expectations. At its peak only a few years ago, mail volume topped 212 billion pieces annually. The Postal Service's volume projection for its current fiscal year is just slightly over 153 billion pieces. Between 2005 and 2012 mail volume declined by 28.9% with a corresponding revenue decline of 24.5% (even after seven rate increases). While we believe printed content will remain an important part of communication in the future, we know that mail volume will never return to anything resembling the peak volume years and continuing volume loss is probable. Quite simply, the current business model is not sustainable because the underlying financial and operations assumptions no longer exist. There are no $500 million revenue streams that are readily available to tap. Though the Postal Service's approach to product innovation, sales, and marketing needs dramatic improvement, it's a topic for another discussion at another time.

While no enterprise can ensure its success through cost reduction strategies alone, and while it may be a fair criticism that the Postal Service reacted too slowly to the crises facing them,- we believe that the its current focus is well placed. In the past couple of years, it has initiated a series of strategies to right-size its processing, delivery and retail components. Its network realignment strategy is well on the way to accomplishing its goal of closing or consolidating over 220 processing facilities. This will enable them to better utilize existing equipment investment and to reduce labor expense. To this point, the Postal Service has executed this strategy in an effective and efficient manner with minimal negative impact on customers and business partners.

The Postal Service also has worked to rationalize and optimize its retail infrastructure. There is a need to close post offices that are underutilized and represent expense that is no longer supported by customer demand. However, in the face of Congressional opposition, USPS leadership revised its approach and created its "POSt" initiative that takes a somewhat softer but less effective approach. Rather than closing about 3,700 underutilized post office, the POSt plan seeks to align operating hours with current customer activity at about 13,000 post offices nationwide. Even this plan has met community resistance but, given the availability of alternative forms of access, the perpetuation of traditional brick-and-mortar USPS-operated retail outlets is an outdated and inefficient use of resources to meet ever-decreasing customer demand.

Operational and logistical management represent a core competency of the current Postal Service leadership team. They have demonstrated the ability to make tough decisions and, *when allowed,* to execute their strategies with a high degree of competency. While some level of oversight is appropriate and necessary, an excessive and overbearing approach is not productive and only serves to waste precious time in a critical turn-around situation.

Of course, these infrastructure and cost reduction initiatives include service related consequences. All stakeholders must be prepared to participate in this process. We all must be prepared to recalibrate our expectations. The Universal Service Obligation and other service requirements were developed at a very different time with very different circumstances. We simply can't expect the Postal Service to reengineer its capabilities without a willingness on the part of its customers and partners to openly discuss a new

level of appropriate service expectations. Overnight delivery is an unfortunate, but necessary casualty resulting from changes in citizens' communications habits that make maintenance of the related processing resources unaffordable. The plan to modify 6-day delivery also is an unfortunate, but necessary move to reduce an operating expense level that is simply not sustainable. The Postal Service cannot continue carrying less mail to more places while generating less revenue per delivery. AMSP was the first trade association to announce its support of 5-day delivery, not because the move represented our preference, but because we believe it's a necessary part of an overall strategy to save the Postal Service. Again, all stakeholders need to be prepared to "put some skin the game."

The failure of the Postal Service was once an unthinkable possibility but, as recent history has taught us, no organization is too big to fail. As previously mentioned, the Postal Service is the heart of a supply chain that has supported millions of jobs and thousands of small businesses that represent the backbone of the American economy. Today, that supply chain is severely challenged. Over that past three years thousands of private sector jobs in the supply chain have been lost. Unlike displaced Postal workers, these workers had no "soft landing." These private sector losses, unlike job losses at the Postal Service, never appeared on the public or political radar because they occurred in small numbers as company after company cut back or ceased operations.

The central challenge facing the Postal Service is whether the Congress and citizens of the country will allow the Postal Service to make the necessary changes to survive. With 80 percent of the expenses of the Postal Service tied to personnel costs, all cost reduction decisions must include a discussion about the costs associated with labor. As the Postal Service is working to reduce its network and continue to provide service, it must also follow the lead of the rest of the supply chain and bring its total cost of operation in line with current and potential revenues.

In conclusion, the stakes are high and the consequences are significant. Time is not on our side. We need strong, decisive leadership that operates with a sense of purpose and urgency. This leadership must derive from an unprecedented level of collaboration by all stakeholders including the leaders of the Postal Service, the industry supply chain, postal labor, the legislative oversight bodies, and Congress itself. Success will depend on forward thinking open-mindedness and a willingness to set aside dated perspectives. We need a commitment to action. At the Association of Marketing Service Providers we are prepared to make this commitment, and I call on other leaders to join us in forging an effective solution.

Mr. FARENTHOLD. Thank you very much.

The staff pointed out that Mr. Davis also needs to be UCd in. I have been on this subcommittee so long, we all just assumed you were still on it. So at this point,, I would like to ask unanimous consent as well for Mr. Davis to participate in this hearing. Without objection, so ordered.

We will now move on to Mr. Jerry Cerasale. He is the Senior Vice President of Government Affairs for the Direct Marketing Association. You are recognized for five minutes, sir.

STATEMENT OF JERRY CERASALE

Mr. CERASALE. Thank you very much, Mr. Chairman, members of the subcommittee and members of the full committee. It is a pleasure to be here and speak to you.

Direct Marketing Association is an association of mailers and suppliers. We represent probably 80 to 85 percent of the revenue the Postal Service receives.

As we look at the Postal Service, Americans and American business particularly are spending $65 billion a year in postage. That is in fact, the Postal Service is providing something that is necessary to American business. You have heard from some of my colleagues here on how important the Postal Service is for their companies. So it is a very important entity and this is a very important issue.

A couple more examples, disabled American veterans, a great member of DMA, receives 85 percent of its revenue to help disabled American veterans from direct mail campaigns. And they are typical for non-profit DMA members, that 80 to 85 percent of their revenue comes from direct mail campaigns. So the Postal Service is very, very important.

In essence, as we look at this, the unfortunate of the world depend on the U.S. mail to get those revenues to help them. But it is not just to non-profits that is important. Another example that I will give you are catalogs. People think in e-commerce that paper catalogs are no longer important. They are important for our members to get new customers, but every single catalog, when people order online, over half the people ordering online have the catalog sitting in front of them. So the mail is important for that segment of our membership.

Retail sales. There is a sale at the brick and mortar store. And the Postal Service delivers that advertisement to the home on time, so that customers will go to those brick and mortar stores. It is important for them as well to have the Postal Service. And the Postal Service does deliver on time most of the time. The complaints we receive, the Postal Service has been very, very, very responsive to try and look at errors and problems in their delivery system. They have been much more willing recently to meet with mailers, and we congratulate them for that.

As you look at all those examples, all of the use of the mail depends upon the return on investment, how much do I spend for postage, what is the response rate that I receive. And all of our members look at that return on investment across the board for all the communications channels that are open for them. And for many

of them, the mail is still a very, very important communication channel.

But we all know the Postal Service cannot continue to lose $25 million a day. So what can they do? Our hope is that they will try and grow volume and try and work with them. But you cannot grow volume by raising postage rates. Postage increases and increases in mail preparation costs, to put regulations down, hurt mail volume in two distinct ways. One, the revenue budget, the postal budgets are exhausted with less volume, and that volume that is most likely lost is prospective volume, the engine to try and grow those businesses. And second, the return on investment drops. When that happens, alternatives become more and more advantageous.

So our hope is that the Postal Service can use the sales force, Valpak as a sales force, others as sales forces out there. And if they get volume for their businesses, it grows postal volume. So lets work together and try and have the Postal Service leverage those sales forces. We think the Postal Service should be more aggressive with negotiated service agreements across classes of mail to try and keep volume within the Postal Service.

Finally, cutting expenses. The Postal Service has excess capacity. They are working well to reduce that excess capacity. They have to work faster. You can't raise rates and ask mailers to pay for excess capacity. It is not going to work. It is going to hurt mail volume, it is going to hurt the Postal Service. And it is going to hurt the mail industry. So they have to move more rapidly with that.

And I appreciate this time, and look forward to your questions. Thank you very much.

[Prepared statement of Mr. Cerasale follows:]

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE AND CENSUS
UNITED STATES HOUSE OF REPRESENTATIVES

"AHEAD OF POSTAL REFORM: HEARING FROM USPS BUSINESS PARTNERS"

APRIL 10, 2013

TESTIMONY OF

JERRY CERASALE
SENIOR VICE PRESIDENT, GOVERNMENT AFFAIRS
DIRECT MARKETING ASSOCIATION, INC.

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Good afternoon, Chairman Farenthold, Representative Lynch, Chairman Issa, Representative Cummings and members of the Subcommittee, I am Jerry Cerasale, Senior Vice President for Government Affairs of the Direct Marketing Association, and I thank you for the opportunity to appear today concerning the relationship of the Postal Service and its business customers.

The Direct Marketing Association (DMA) (www.thedma.org) is the leading global trade association of businesses and nonprofit organizations using and supporting multichannel data-driven marketing tools and techniques. DMA advocates standards for responsible data-driven marketing, promotes relevance as the key to reaching consumers with desirable offers, and provides cutting-edge research, education, and networking opportunities to improve results throughout the end-to-end direct marketing process. Founded in 1917, DMA today represents companies from dozens of vertical industries in the US and 48 other nations, including nearly half of the Fortune 100 companies, as well as many nonprofit organizations.

In a time of rapidly changing communications technology and declining mail volume, Americans, particularly American businesses, still pay $65 billion annually in postage. They are voting with their wallets that the Postal Service meets some of their communications needs. For DMA, its members account for approximately 70% to 80% of mail volume in all classes of mail and contribute over 85% of the revenue of the Postal Service. The U.S. Mail is an important channel of communications for our members to reach donors, customers and potential donors and customers with relevant appeals, offers, information, notices on transactions and delivery of products. As the Committee is aware the Postal Service and mailing industry annually contribute over $1 trillion to the American economy and employ over 8 million Americans. The Postal Service is important for all of us.

Examples of Critical Importance of the US Mail

The Disabled American Veterans (DAV), a DMA member that, unfortunately, could not be here to testify in my place today, receives 85% of its revenue from direct mail appeals. Without the Postal Service disable veterans would not receive the services of the DAV. DAV has found that the Mail is a reliable and affordable channel to reach

out to past donors and find new ones. In fact, today the Mail is the most economically efficient communications channel to reach donors. This same scenario is true almost all DMA member nonprofit organizations and charities. Over 80% of all donations are received in response to direct mail appeals. Those less fortunate than we throughout the world depend on the US Mail and the donations raised through it for food, for shelter, for medical care, for education—for a chance to live.

Nonprofits are only part of the Mail story. Catalogs have offered Americans the ability to purchase goods from their homes for over a century. DMA's catalog members still rely on the US Mail to send offers to customers and prospective customers and to send ordered goods to the customers' homes. Historically, orders from customers arrived *via* the Mail. Technology intervened, and it became more economical for consumers and marketers to accept orders *via* toll-free telephone. Today technology and economics are moving to online ordering. It is interesting to note, however, that more than half the customers ordering from catalogs online have the print catalog in front of them when ordering. That is why on the website of catalogs there is a box to enter the item number. Catalog members have found that mailing a catalog is the most efficient channel to reach potential customers.

Timing the arrival of the catalog also is very important—inventory must be available, fulfillment operations must be adequately staffed, operators must be standing by. The Postal Service has been delivering the mail on a consistent basis and has been very open to correcting delivery problems quickly.

DMA's members with brick and mortar presence use the Mail to notify consumers of a sale to entice them to come to their store. One of the leading complaints about the Postal Service that DMA receives from members is that the sale flyer arrived in consumers' homes after the sale which creates two problems—one, the advertising expenditure was totally wasted and two, the consumer is upset with the marketer for sending a sale flyer after the sale has closed. The Postal Service has worked to correct the service problem albeit sometimes more slowly than DMA members desire. Moreover, the Service has no program or ability to help mitigate the damage suffered by the mailer. Despite those few problems, the Mail is a cost effective means to advertise a sale at a local retailer.

The Mail remains a vital communications tool for marketers in this electronic communications age.

Return on Investment (ROI)

Although the Mail is the economically efficient communications channel for many DMA members, it is so only because the return in donations or sales per cost of communicating is greater than any other channel. If the ROI calculation changes, however, marketers will shift their advertising quickly. For example, it is significantly cheaper for utilities if customers pay online and not *via* check in the Mail. Thus, utilities have encouraged customers to pay online. In the same vein, utilities are encouraging customers to receive their bills online. Banks are pushing customers to eliminate paper statements. These efforts have been very successful, and they are driven by ROI.

All the examples in the previous section of this testimony reflect instances where the ROI for the Mail is higher than for other communications channels. However, a shift in service by the Postal Service that reduces responses to offers or an increase in the cost of using the Mail (including postage, printing costs, paper costs and mail preparation costs) reduces the value of the mail to nonprofits and marketers and, particularly, the ROI compared to other channels.

An increase in the cost of mailing has a twofold effect on the volume of mail. First, nonprofits and marketers usually have a set mailing budget. If postage, paper or mail preparation costs rise, the mailing budget will be exhausted with fewer pieces of mail being sent. Those pieces not sent most likely are prospects—reducing efforts to grow the charity or the business. Second, the ROI on the Mail drops and other communication channels become more competitive further reducing mail volume.

DMA members often complain that the Postal Service does not adequately consider the costs of implementing mail preparation changes for its customers. For DMA members increased costs due to mail preparation change regulations has the same effect as a postage increase. This is an area where mailers believe the Postal Service has failed. Rather than examining the entire mailing system environment, the Postal Service utilizes blinders and examines only its internal operations. DMA believes that is a mistake and is an area where the Postal Service should and must improve. It cannot afford to lose mail volume due to narrow focused regulatory burdens.

The Dark Cloud

No nonprofit or business can sustain losses of $25 million per day. DMA members need an affordable, financially viable Postal Service. How can the Postal Service help reach that goal?

Grow Mail Volume

As explained above, the Postal Service should keep mailing affordable by taking into account the entire cost of entering product into the mail stream. It cannot just raise postage and increase mail preparation requirements to increase revenue and reduce costs. It must ask its customers what products they need and work with them to provide those products. DMA is encouraged by efforts of the Postal Service to find new businesses to try the mail and by efforts to improve interoperability of the mail with mobile technology. However, DMA believes that the Postal Service should work more closely with its customers before offering new products or discounts. Many members believe that the Postal Service introduces a new product or discount without customer input and discussion, and they must react after the fact. There should be more consensus before introduction. Moreover, it should partner with the private sector to offer new products. If the private sector offers a product similar to one the Service may offer, it should not reinvent the wheel.

Many DMA members are suppliers to nonprofits and marketers. Their businesses depend upon mail volume and a strong Postal Service. Those suppliers have sales teams throughout the country finding new customers. A new customer for a supplier means new mail volume for the Postal Service. The Postal Service should leverage these supplier sales teams with its own marketing efforts. There should be very close coordination between the Postal Service marketing team and the sales teams of suppliers. Sadly, we do not see that—an area where Postal Service can improve.

Finally, the Service has not fully utilized its ability to grow volume with its customers using negotiated service agreements (NSA). DMA believes and has argued that the Service should look at the entire customer profile when considering an NSA. It should work with the mailer to construct an NSA that bundles every class of mail the mailer uses, including competitive and market dominant classes of mail. In order to grow mail volume a mailer should not be viewed or treated as separate silos—one sending

First-Class Mail; one sending Standard Mail; one sending parcels, etc. Mailers look at their entire mail footprint, and the Postal Service should as well. This alone could help maintain and grow mail volume by leveraging the product offerings of the Postal Service with each mailer.

Cutting Costs

Every DMA member that uses the Mail agrees that the Postal Service must cut its costs—in fact, DMA has testified that the Service must slash its costs.

The first obvious area for cost cutting is the elimination of excess capacity. According to the Postmaster General the Postal Service could deliver 300 billion pieces of mail per year, but is now expected to deliver less than 150 billion. No mailer can afford to pay for that excess capacity. DMA members appreciate the efforts of the Service to eliminate mail processing facilities. However, we believe it is not occurring swiftly enough. We believe the $25 million daily loss is evident of that fact. Postal Service customers know they must adjust to this down-sizing. DMA members need to know how the down-sizing will affect service delivery time to make the proper adjustments to their mail planning and preparation.

Postal Service announced plans for retail operation down-sizing are fully supported by DMA.

The DMA membership is split on supporting or opposing elimination of Saturday delivery. DMA agrees with the recent Senate testimony of the President and CEO of Quad Graphics that reduction of service should be a last resort for any business, including the Postal Service. Many members were encouraged by the plan to continue parcel and Post Office Box delivery on Saturdays which reduced concerns for some members. Other members believe that reduction of 16% of delivery days will have a negative effect on consumer response which will decrease the ROI of Mail.

All DMA mailing members, however, will have to adjust their mailing schedules, some more than others and some more successfully than others, if Saturday delivery is eliminated. That raises a serious concern among all mailers. Will there be Saturday delivery the week of August 5? Mailers are well into planning for August mailings. Confusion whether or not there will be Saturday delivery in August and beyond harms

their planning—reduces the attractiveness of mail. Uncertainty is the enemy of mailers and the Postal Service. That uncertainty must be eliminated quickly.

Conclusion

The Postal Service is important to DMA members. Mailers can rely upon affordable delivery. The Service has been responsive to delivery service problems. The Service must slash costs to remain financially viable. It cannot simply raise rates to balance its books. Doing that would drive mail from the system and just compound the current problems. The Postal Service should work with its customers to make the Mail more ecommerce friendly. It should use NSAs much more aggressively to grow mail volume.

The title of the hearing is "before postal reform…." Concerning postal reform and stealing a well-known advertising slogan, DMA asks Congress to "Just Do It."

I thank you for the opportunity to testify and look forward to any questions you may have.

Mr. FARENTHOLD. Thank you very much.

We appreciate everyone's testimony. At this point, we also invited testimony from eBay, a Mr. Carl Gish. He was unable to attend, and he did submit written testimony. Without objection, I would like to include that in the record.

Without objection, so ordered.

[Prepared statement of Mr. Carl Gish follows:]

Testimony of

Carl Gish
Vice President, Global Shipping for the eBay Marketplace
eBay Inc.

Before the
United States House of Representatives
Committee on Oversight and Government Reform
Subcommittee on Federal Workforce, U.S. Postal Service and the Census

Ahead of Postal Reform: Hearing from USPS Business Partners
Rayburn House Office Building, Room 2157
1:30 p.m.

SUBMITTED
April 10, 2013

Chairman Farenthold, thank you for the opportunity to submit testimony to the Committee on how eBay is partnering with the United States Postal Service (USPS) to support Internet-enabled small businesses, and empower them to serve their local and global customers. My name is Carl Gish and I am a Vice President at eBay Inc., where I oversee the global shipping initiatives on the eBay Marketplace.

Founded in 1995 in San Jose, Calif., eBay Inc. connects millions of buyers and sellers globally on a daily basis through eBay, the world's largest online marketplace, and PayPal, which enables individuals and businesses to securely, easily, and quickly send and receive online payments. We also reach millions through specialized marketplaces such as StubHub, the world's largest ticket marketplace, and eBay classifieds sites. And through our company GSI

Commerce, eBay Inc. has become the leading provider of eCommerce and interactive marketing services for many of the world's premier brands and retailers, such as Toys R Us, Ralph Lauren and Dick's Sporting Goods.

Additionally, eBay Inc. is actively working to revolutionize global commerce with the recent additions of mobile technology companies WHERE, Milo, Zong and others combined with the seasoned services of eBay Marketplaces Mobile and PayPal Mobile. In fact, in 2012, eBay Marketplaces generated $13 billion in sales of nearly everything from cars, clothing, shoes, electronics, and toys all through mobile applications. Altogether, we estimate that the total enabled commerce volume, or purchases touched by eBay Inc., was $175 billion in 2012, and we expect that to grow to $300 billion in 2015.

As you can see, eBay Inc. represents a very diverse family of businesses supporting millions of users ranging from individual consumers to merchants and retailers of every shape and size. By understanding our company profile and where our company is going, you can see how the Internet and mobile technology are changing the commerce landscape and empowering retail businesses, large and small alike. It is our hope to be their partner in this venture.

But commerce as we imagine it would not be possible without strong and reliable partners to facilitate the physical movement of goods. This is true today and it will be especially true going forward. We at eBay know that developments in the commerce landscape and consumer preferences for Internet-enabled retail are why the postal service is experiencing year over year growth in shipping and package volume. And eBay's growth plans support the notion that USPS package volumes will continue to grow.

We are pleased that the USPS has put increased focus on serving their eCommerce customers, and we have been encouraged by the USPS's willingness to explore future postal innovations that would support our users – especially the small businesses and entrepreneurs that use our services. But, the USPS/eBay relationship is nothing new. eBay and the Postal Service have enjoyed a strong formal partnership for nearly 10 years. The Postal Service has long been a

key package delivery service for eBay's top sellers – the small businesses and entrepreneurs – that are at the heart of the eBay marketplace.

In addition to being long-term, the eBay relationship with the USPS is robust and complementary. Approximately 85 percent of the total domestic shipping volume from eBay is managed by the USPS. The eBay users that drive this volume include hundreds of thousands of small business retailers and entrepreneurial individuals across America, including individuals and small retailers in rural and disadvantaged communities.

In turn, eBay-generated commerce is a significant part of USPS' revenue. Shipping on eBay now accounts for approximately a quarter of all packages shipped by the USPS. As a result, eBay sellers are collectively the USPS's single largest package customer. Additionally, total USPS revenue related to commerce over eBay was close to $2.5 billion in 2012. And we're proud to report that last year we also surpassed the $1 billion mark in postage paid through the label function on the eBay platform. It marked the first time we've reached this mark in a single year with the USPS.

Our partnerships go beyond our user uptake. eBay has invested several millions of dollars into marketing to promote the USPS. We also continue to collaborate with the Postal Service across many fronts, including fighting fraud together and co-developing technology tools to provide shipping solutions. In fact, in April 2012, eBay was awarded the Partnership for Progress Award by the USPS for technology and financial innovation after we systematically developed a setup on our platform that allowed sellers to bill and ship faster. We also recently concluded negotiations around an extension to the service agreement that gives our small business users access to competitive shipping prices.

It is clear that eBay and the Internet help American small businesses connect with buyers across the nation and around the world. The Postal Service with its unique network is a critical piece of that connection. Together, we are driving benefits to small Internet-enabled businesses and their customers.

As I'm sure you can understand, a financially and structurally sound postal service remains critically important to eBay Inc. and the hundreds of thousands of small businesses that use our platform. We have long-supported Congressional action to preserve a postal system that is strong and viable for the long-term. As the Committee considers how to address the financial challenges facing the USPS, we would encourage you to keep in mind that eBay's sellers' success translates into a growing postal service. That's why we think Congress should focus on reforms that preserve and promote affordable and reliable shipping alternatives for the small businesses that use them.

In the world of eCommerce, low-cost shipping alternatives are a tremendously important tool for small businesses. Customers today demand free and same-day shipping. Large retailers in particular have been successful in meeting these demands by leveraging their economies of scale. Small businesses, on the other hand, have a harder time meeting these customer expectations because of their proportionally higher costs of doing business; however, the USPS provides important low cost shipping alternatives that especially benefit small businesses. Maintaining and building upon these and other low-cost shipping products ensures the ability of the small Internet-enabled retailers to compete, grow, and create jobs.

Conversely, when the USPS has increased prices, those increases have negative impacts on the small businesses that use our platform. For example, we believe that the 14.5% average increase in international shipping services instituted on January 27, 2013, has reduced the competitiveness of our sellers in their efforts to export to foreign buyers. We also know that the most recent price adjustments have negatively impacted the sales of goods that rely on first class mail. When postage rates go up, so too do the overall prices of the item, causing some customers to abandon their purchase. Overall, these higher postal shipping rates compromise the ability of small businesses to succeed in a highly competitive retail world.

Additionally, we believe that any changes to the service week or any restructuring efforts that compromise fast and reliable service by the USPS would have negative impacts on small businesses. In particular, offering affordable Saturday delivery has significant value. Without Saturday delivery from USPS, sellers will be forced to pay a significant premium. Consumers

who shop with small businesses online will suffer as these costs will be passed onto them and small business retailers will make fewer sales. This, in turn, rebounds in a negative way and means less package volume for the Postal Service.

We recognize and empathize with the financial difficulties the Postal Service now faces. That's why we support aggressive management efforts to address financial problems without undermining the core value proposition, which is based on competitive rates and quality service. For example, eBay has long agreed with other postal customers that any plan to stabilize the postal service should include reamortization of payments by the USPS to pre-fund retiree health benefits. We also believe that any financial stabilization plan should return to the USPS overpayments that were made to the federal employee retirement system. Finally, we believe that the USPS should be empowered to make structural adjustments that reflect the current market. I must underscore, though that we do not think structural adjustments should equate with price increases or service reductions. Rather, appropriately closing or moving underutilized post office locations, renegotiating labor contracts, and introducing new products should all be aggressively pursued by the Postal Service.

We are encouraged by the USPS's intention to preserve the six-day delivery week for packages, including many of the products our users enjoy. And we have worked with the postal service to try to address some of the ramifications of the most recent postal price increases. But we know that until Congress takes action, both eBay and the USPS will be limited in their ability to serve small shippers.

As I highlighted above, the Internet is an important component of every retail business model, especially for small and micro-small businesses. It provides a channel by which small businesses can grow and, with the right tools and dedication, become big businesses. But without Congressional action, this small business growth opportunity may be in jeopardy.

Thank you for the opportunity to express our views on this important issue. We look forward to working with Congress to support a strong and viable United States postal system.

Mr. FARENTHOLD. But for eBay, I wouldn't have this lovely tie. [Laughter.]

Mr. FARENTHOLD. Actually, but for a lot of people on this panel, my life would be very different. I paw through the Valpak for the pizza coupons, I paw through my newspaper for the CVS coupons. So it is, a very interesting panel that I think affects all postal customers lives as well.

At this point I want to begin my questioning with something that is really kind of topical in the news today. We are seeing a pullback now from the Postal Service saying they are going to stay with full six-day delivery. What I do want to, I know the gentleman from CVS pointed out they were happy with just packages being delivered, that met their business needs. But I would like to go down and ask the panel, is part of their business, do they see a huge negative effect with the proposal that was before us to just deliver packages and priority mail and post office boxes on Saturday? If you could all just answer quickly, because I have quite a few questions. We will start with Mr. Brandt.

Mr. BRANDT. Mr. Chairman, we in the newspaper industry have experienced many of the challenges that the Postal Service is facing. We have had multiple responses to that. But one has been to reduce our costs significantly. So my view, and the one expressed in editorials in my newspaper, is that that was a perfectly legitimate option available to the post office for reducing its costs.

Mr. FARENTHOLD. About 71 percent of surveyed folks agreed with you on that.

Ms. Franckowiak?

Ms. FRANCKOWIAK. We actually also mail into Canada. We have franchises located up there where they have a five-day delivery model currently. So we have been used to that for quite some time. We have been very supportive of the Postal Service. At this point we kind of look at it as maybe a luxury if they are able to continue Saturday. It wouldn't be our preference, if they could afford it, to eliminate it. But we have had the experience in Canada.

Mr. FARENTHOLD. Ms. Brophy?

Ms. BROPHY. We understand that the move to eliminate the sixth day of home delivery is another initiative to cut costs. We have said right along that we will adjust.

Mr. FARENTHOLD. Okay, great. Mr. Janssens?

Mr. JANSSENS. Yes, sir, as I stated, we supported the initiative of moving to a five-day for first class and keeping the parcel for six days.

Mr. FARENTHOLD. Great. Mr. Garner?

Mr. GARNER. Our Association was the first to announce its support of the PMG s intent to move to five-day, not because we were excited about it, but because we believe that everybody has to make some concessions in this, everybody has to have some skin in the game. That was one of the concessions we were prepared to make.

Mr. FARENTHOLD. And Mr. Cerasale?

Mr. CERASALE. DMA can't take a position. Our Association is split, our membership is split. But we all agree that you should cut as much as you can before you cut service, and as a last resort there. All my members will have to adjust if Saturday delivery

goes. For some it would be easier than others. But, as a last resort, we support it as a last resort, because we need the Postal Service to stay financially viable.

Mr. FARENTHOLD. Thank you very much.

I am going to go back to Mr. Brandt, as well. You mentioned that the Postal Service is negotiating a sweetheart deal with some of your competitors for delivery, a lower rate for bringing in new customers. I know my local newspaper, the Corpus Christi Times, brought that to my attention. We sent a letter to the Postal Service about it.

Do you feel like some of the customers that are using this service are actually new postal customers, or are they customers that were using the Postal Service to begin with and are just switching providers to get a better deal?

Mr. BRANDT. Mr. Chairman, first of all, I appreciate your signing and perhaps even initiating that letter. That was very helpful.

Our industry association tracks activity related to the negotiated services agreement with Valassis, which was targeted at Sunday inserts in newspapers. There has apparently not been, at this point, an actual conversion of a pre-print delivered by newspapers to the new program. So at the moment, it has netted nothing for the Postal Service.

However, there is evidence and data that it is being used by agencies that place newspaper inserts to flog newspapers in rate negotiations to reduce the rates that pre-print advertisers are paying for the inserts that they put into newspapers.

Mr. FARENTHOLD. I see my time is expired. So I am going to lead by example and move along. If we have time for a second round of questioning, I do have a couple more, if they don't get asked by other members.

At this point, I will recognize Mr. Clay for five minutes.

Mr. CLAY. Thank you, Mr. Chairman. I certainly will observe the five-minute time limit.

In the 112th Congress, both Chairman Issa's bill and the Senate bill addressed underwater or under-priced postal products through a provision that mandated increasing prices of market-dominant classes, products or types of mail that did not contribute to 100 percent of their indirect or direct costs.

Joy, let me begin with you, and I will not try to tackle your last name. But in your testimony you mentioned that the Postal Service allowed eight products to remain underwater, costing the Postal Service millions of dollars. Do you think that the House and Senate provision on this issue would address the problem and do you think that this provision should be included in any future reform package?

Ms. FRANCKOWIAK. Thank you. Yes, sir, we believe that the Postal Service cannot afford to continue losing, at this point, billions of dollars on products that don't cover their costs. As a private business, we certainly probably wouldn't be very profitable if we had a bunch of products that didn't cover their cost, let alone contribute towards overhead. So we don't think that it needs to be an immediate jump and get them there in one year or even two years. But they should start to move in that direction and develop a plan that everybody can move toward.

Mr. CLAY. Thank you for your response.

Mr. Brandt, you mentioned that high density rate prices have incrementally increased over time at a higher rate than saturation rates. Has this caused you or any of the other newspapers in your association to scale back the amount of mail you enter into the system at the high density rate?

Mr. BRANDT. Congressman Clay, the expanding differential between saturation rates paid by direct mailers and high density rates paid by newspapers has resulted in Greenville in the transfer of 50,000 pieces per week from the mail to alternate delivery. Our industry association estimates that $300 million has migrated from the postal system to private alternate delivery forces as a result of what we view an ill-advised pricing action by the Postal Service.

Mr. CLAY. And Mr. Brandt, how do those costs, how do they come out? Is it more expensive to use the private company or is it less expensive to be with the Postal Service?

Mr. BRANDT. The private or proprietary, in our case, we have our own alternate delivery force in Greenville, the proprietary or private services are 25 to 50 percent less expensive than the Postal Service.

Mr. CLAY. At this time? It could change?

Mr. BRANDT. Yes, sir.

Mr. CLAY. Thank you for that response.

Do you think that if this issue was addressed in postal reform language that it would cause you and other newspapers to use the Postal Service more?

Mr. BRANDT. Mr. Congressman, the newspaper industry values the Postal Service. Even though it is more expensive, many deliveries remain in the Postal Service because our pre-print advertising clients value them.

So, if the differential were scaled back, I think there is every reason to believe that postal volume would increase as a result.

Mr. CLAY. Thank you for that response.

Mr. CONNOLLY. Would my colleague yield?

Mr. CLAY. I have one more.

Mr. Cerasale, one non-profit organization within your organization is the Disabled American Veterans. Could you discuss how this organization would be affected if non-profit mailing rates were increased?

Mr. CERASALE. Sure. As I said, the return on investment is the major driver. But they have a postal, or a mailing budget, not just for postage, but to prepare the direct appeals. And if postage rates go up, they will send out less pieces of mail. They will send it to the lower response rate that they think, but they will receive fewer dollars coming in to help disabled American veterans.

So it is just a simple dollar and cents issue, the mailing budget is used, and when it is all used up, they stop mailing. If they mail less, they get less money back.

Mr. CLAY. Thank you, and I am finished.

Mr. FARENTHOLD. Thank you very much, Mr. Clay.

We will now recognize Mr. Walberg for five minutes.

Mr. WALBERG. Thank you, Mr. Chairman. Begin with a father that just put my daughter on a plane back to Uganda where she has lived and worked for six years and this time, transporting with

her by air six large containers, because you can't mail to Uganda and expect that it gets there, safe, sound, or even gets there.

So to have a panel in front of us that is giving us ideas on how to work to make sure that a Postal Service which provides us really excellent service that we can trust, when you send a check or you send a package it arrives, sometimes a little bit beat up, but what do you expect, it is worse on the airplanes. It is good that we have this opportunity.

Ms. Brophy, for your magazines, can you estimate what share of the cost is postage?

Ms. BROPHY. There are a number of different ways that you could look at that. I couldn't tell you for sure unless I knew exactly what we were including. It is a significant portion of the direct mail cost.

Mr. WALBERG. So a significant portion.

Ms. BROPHY. It is significant.

Mr. WALBERG. I would assume because of that you have probably looked at other possibilities for delivering your magazines or mailings. What has kept you with the Postal Service?

Ms. BROPHY. Most of our customers, a great number of our customers, rely on getting that information. They like getting the print information. Direct mail is also the largest acquisition source and more than half of our revenue still comes from direct mail acquisition. So direct mail campaigns are vitally important to the mission and to the budget.

We have a very strong digital presence. Consumerreports.org is one of the largest paid sites on the web. At any given time, depending on how much of an expense postal happens to be in that equation, we would probably divert much more of our resources to figuring out and conquering how to pursue acquisitions online.

Mr. WALBERG. Thank you.

Mr. Garner, in your testimony you highlight the major actions that the Postal Service has taken to begin right-sizing its infrastructure. Could you expand on why that right-sizing is so important to mailers?

Mr. GARNER. I think it is a very basic principle here in terms of an infrastructure that exists now that can't support itself. It is not sustainable. As we have all been made aware here, the financial consequence of having the cost of an infrastructure that far exceeds the demand for it is penalizing all of us. It puts all of what we do here at serious risk.

So first and foremost, I think, as a strategy, we need to get the Postal Service's infrastructure and costs in line with the volume and the revenue it receives.

Mr. WALBERG. In your fully testimony, you touched on the larger mailing industry and the effect that the electronic diversion and downturn in mail volume has had on the industry as a whole. If you could, could you explain for us what have been some of the differences between how the United Parcel Service has impacted or worked to deal with that, respond to that crisis, I think is a better how they have responded in some ways in the private sector better than they have done with the U.S. Postal Service?

Mr. GARNER. I will take a swing at it. I think one of the things about UPS and FedEx is they are not encumbered by some of the

same requirements that the Postal Service is. They don't have a thing called the universal service obligation. They don't have to deliver mail every day to every residence. In fact, the Postal Service does a lot of that work on behalf of FedEx and UPS.

So as commercial businesses, I think they have more latitude, more freedom to execute the kinds of cost reduction and infrastructure reduction strategies that are available to them. So I think they have a distinct advantage in that area.

Mr. WALBERG. Okay, thank you.

Mr. Janssens, in your testimony you mentioned the important role of cost efficiency in your decision to use the United States Postal Service. How has the continual increase in the cost of postage affected your business over the past few years?

Mr. JANSSENS. From a history perspective, back in the 1980s when we first started the program for mail order prescriptions, everything went 100 percent UPS. FedEx didn't exist back then. The pressure on the industry, like all industries, continued to look for cost savings. And we have moved to the postal system. And as they upgraded their delivery system for packages, it has been very opportunistic for everyone to increase that volume.

As I said, over 90 percent of the medicine and medication that we ship today on the maintenance side for maintenance products goes to the postal system. As we continue to have these price increases, obviously that affects our business as well as our pricing model. We have less ability to pass that savings on to our clients and our constituents, or our beneficiaries that are using our products. We still have a very good differential today between the Postal system and UPS, it is getting closer all the time, for example.

Mr. WALBERG. Thank you, Mr. Chairman. I yield back.

Mr. FARENTHOLD. Thank you very much. We are now up on the other side of the aisle to the gentlelady that has the shortest commute of anybody in Congress to their home district, the gentlelady from the District of Columbia, Ms. Norton.

Ms. NORTON. Thank you very much, Mr. Chairman. Nine blocks. [Laughter.]

Ms. NORTON. First, let me ask a threshold question. If we do not pass a postal bill, a lot of the testimony we are hearing today may be quite moot. We have done nothing on this side of the House, of the Congress. But last year I note that the Senate actually passed a postal service reform bill. Two-thirds of the Senate is voting for it, really bipartisan bill.

Could I ask where each of you stand on the Senate bill? Mr. Brandt, why don't you start?

Mr. BRANDT. Congresswoman Norton, I am not familiar with the content of the bill. Therefore, I can't comment on it.

Ms. FRANCKOWIAK. Our preference, I think, from an operational perspective, we preferred a lot of the language that was in the proposed House bill that was passed out of subcommittee. Because we didn't feel that the Senate bill really went after a lot of the fundamental issues of the Postal Service. It relayed a lot about RHBF and some of the other things that, while they are things that are impacting the Postal Service, they really need to have the ability to right-size their business model and do some of these changes that we feel need to occur.

Ms. BROPHY. We supported the Senate bill. There are very many elements in the House bill that we were also in favor of.

Ms. NORTON. Thank you. Mr. Janssens?

Mr. JANSSENS. Congresswoman, I am not close enough to understand all the details of that bill to comment.

Ms. NORTON. Mr. Garner?

Mr. GARNER. We did support the Senate bill, but similar to my colleague, Ms. Franckowiak, we wish it would have been a bit more aggressive in its approach to cost reduction.

Ms. NORTON. Mr. Cerasale?

Mr. CERASALE. We supported the bill. We think the postal reform needs to get moving so we supported the Senate bill and hope that they pass something similar to get things started again.

Ms. NORTON. I appreciate just that understanding of where people would have been willing to start. Obviously the House and the Senate are not going to agree on everything. That is why if somebody doesn't get it started it doesn't happen. So I think they did make a start, and I do believe this is the year that if we don't do it, the Postal Service, this will be the second or third year of defaulting on its health benefits, prepayments. It is out of cash. In November it will owe $1.3 billion just for workmen's compensation. No cash in November. It will owe $5.5 billion in prepaid benefits, health benefits, at the end of this fiscal year. This is folly. We are sitting here talking about an important matter, but I think there are worse problems here.

I was interested in how you viewed the Postal Service, Mr. Brandt indicated that something like 25 percent of your business had been moved to private deliverers. Mr. Cerasale, you indicated that the Postal Service was timely and reliable. I am sure if there any Postal Service people here they are glad to hear someone say such good things about them.

By the way, there was a recent survey done of government agencies. It found the Postal Service to be the most trusted by the American people, and it is not even a government agency.

Let me ask you, though, this is my pet peeve. In 1971, the Congress spun off the Postal Service to be a private business, to be like you who are sitting at this table, but it has never treated it like a private business. The health benefits are only one example that they have to prepay in a way that no Federal agency does, for example.

And the reason for that, very frankly, is only because it makes our deficit look better. It doesn't have anything to do with them. If they didn't put their trust funds then our deficit would look like it really is.

Let me ask you though about treating the Postal Service as a private business. The Postal Service has a unparalleled infrastructure in transportation and delivery like nobody else. But they cannot at the moment even engage with non-Postal Service matters, like products or the internet, other kinds of things that its infrastructure, if any private sector had it, would be now used in a dozen ways.

Do you think that today's Postal Service should be allowed to use that infrastructure in a, to take full advantage of that infrastructure by not being required to stick only to what is a very narrow

set of products and services related to the Postal Service itself? I would like to hear what each of you who are in private business have to say about that. Mr. Brandt?

Mr. BRANDT. Congresswoman Norton, I agree with you on the scope and magnitude of the challenge that the Postal Service is facing. I think that when we talk about spinning it off and giving it true independence as a business, an issue that is part and parcel of that has to do with the fact that the Postal Service is both an umpire and a player in some of the arenas where it operates. I think that would have to be taken into account if it were spun off as an independent business.

Ms. NORTON. Mr. Franckowiak?

Ms. FRANCKOWIAK. We generally feel that the Postal Service, what they are really good at, to your point, is delivering the mail and the size of their network and utilizing their infrastructure. We would support anything that they could do that falls within their specialty. A lot of foreign posts get into banking and insurance and different things like that. We don't think that that is something the Postal Service should go after.

But anything that can enhance their strengths we would support.

Ms. NORTON. Ms. Brophy?

Ms. BROPHY. I would leave it up to other experts to decide whether or not the Postal Service should pursue other avenues. We are really much more interested in what is in front of us immediately and that they continue to work on organizational changes that make them financially sound.

Ms. NORTON. I am just trying to allow them to grow like any business would like to grow.

Mr. Janssens?

Mr. JANSSENS. I also share your pet peeve, by the way, in terms of, either we fund it as an organization as part of the government, if we feel that is the right way to go, or we allow it to be an independent business from a regulatory perspective. So today we are kind of in that middle ground.

As to your comment or your question, I would support them looking for other avenues for revenue generation to fill that capacity, as has been discussed by a number of the constituents here.

Ms. NORTON. Mr. Garner?

Mr. GARNER. I believe that product innovation and service innovation is not a core competency that the Postal Service currently has. I think industry could help a great deal in that area. But I would also caution against kind of a free rein here in a sense that they are in a position to, perhaps in some cases inappropriately, leverage their size and their reach. So there needs to be a sensitivity to private business and competition in those areas. But there is no question about the fact that they need to be much better at product and service innovation.

Mr. CERASALE. I agree with Mr. Garner that they need to be much better in product service integration. I have testified before that the Postal Service should not reinvent the wheel in looking at products. They should try and look to partner with the private sector, if in fact the private sector is producing something they don't have to reinvent and do it, they can work with them together. I

think that is an area the Postal Service should be allowed to more aggressively pursue.

Ms. NORTON. Thank you very much.

Mr. FARENTHOLD. Thank you, and I would note that they have now called votes in the House. This is going to be a rather lengthy series of votes. They are saying that we will probably not walk off the Floor until 4:15.

So what we are going to do, so we have time to get to the votes by probably taking two more rounds of questions if they stick to five minutes. Then we will recess. If any of our witnesses have to leave to catch a plane or whatever, we will excuse them. But we will reconvene immediately after the votes for any other members who have questions of any of our panel who can stay.

So at this point, in order to get a couple more sets of questions in, we will recognize the gentleman from Georgia for a quick five minutes.

Mr. COLLINS. Thank you, Mr. Chairman. This is going to be quicker than five minutes.

I think one of the things that was said here, and we can rehash a lot of what has been said, the Postal Service is a vital function that is needed, it is something that we need, it provides a service that no one else is going to pick up. UPS, FedEx, nobody else is going to pick up a lot of what they do. And we have to fix that.

But we also have to acknowledge that there are a lot of problems. And this is what we have had in the last two days over here. And one of the things, we talk about the pre-funding mandate, and that is causing all the problems. There is an issue there, but you have $9.9 billion in losses on top of the pre-funding. There is just an inherent problematic model here. And when I sit here and listen today about the agreements, the NSAs agree, you are losing money, you are giving preferential treatment, I have a real problem with the Postal Service picking winners and losers, I have a problem with any side of that.

But I do have one quick question, and then I am going to reserve back. I am just going to say Joy, not even going to attempt it. My north Georgia would just mutilate it.

It is my understanding, though, that products such as Valpak pay a higher percentage of basically the cost relative to the cost of the Postal Service. Is that true? So basically you are a profit, you pay more than what is needed to deliver, is that correct?

Ms. FRANCKOWIAK. Yes, sir. We pay approximately 220 percent of our costs. So we are paying quite a bit to help offset some of the products that aren't paying even 100 percent of their costs.

Mr. COLLINS. And when I hear that, and seeing how this model is not working, it really bothers me. And I am all for doing what we can, because it is a vital service. And even the others, UPS, FedEx and others I have talked to, want a strong relationship with the Postal Service like they already have.

I think what concerns me though in that question, and with other things going on, is that we simply again have just a flawed business model here, it is a flawed model that is not working to support newspapers, to support others where you have this kind of rate structure that basically says, we will make here or not make here, when you can actually do something about it.

I look forward to dealing with the chairman and ranking member and others on this subcommittee as we move forward, and that we do need to address this. This is not something we need to duck. It is something we need to move forward on.

And is it going to be easy? No. But we have to do it, and I appreciate all of your attendance today. Mr. Chairman, I yield back.

Mr. FARENTHOLD. And I appreciate your generosity with your time.

We will now recognize Mr. Davis for five minutes.

Mr. DAVIS. Thank you, Mr. Chairman. I certainly appreciate your giving me the opportunity to participate. I think I have been on this committee so long until I forget that I am not still a member of it.

There are many members of Congress, including some people on this committee, who are concerned that senior citizens and veterans who receive their prescriptions by mail would be adversely affected by the Postal Service's decision to reduce its delivery schedule. The Postal Service has stated that package delivery will occur on Saturdays.

However, many of the prescriptions that our seniors and veterans receive are not classified as packages. Mr. Janssens, you mentioned how important Saturdays are to your operation. As a provider of mail order prescriptions for Federal employees, retirees and their dependents, has the Postal Service reached out to your company to explain its plan to implement this measure or address the issue of delivery to our seniors and veterans?

Mr. JANSSENS. Congressman, they have reached out, and we have talked to our account representatives. Right now, all of our products that we ship today is either a parcel select or a parcel select lightweight. It would be included in their Saturday delivery schedule.

Mr. DAVIS. Do you think that additional costs will be incurred by your company that you in turn would pass on to the consumer, some of whom are already on fixed incomes or are already contending with high prescription costs?

Mr. JANSSENS. At this point, are you suggesting if they stopped Saturday deliveries?

Mr. DAVIS. Yes.

Mr. JANSSENS. It would impact our ability to maintain our current margins. It has not been decided at this point whether that cost would be passed on to our clients, who are the payers that tie back into our members from a health plan perspective, unions and government organizations.

Mr. DAVIS. So you think it would adversely affect your operation vis-a-vis your clients?

Mr. JANSSENS. Correct. If we had to continue to ship on for delivery on Saturday. But there is also the issue, as I touched on from an adherence perspective, then we have one less day where they would have deliveries if we chose not to ship for delivery on Saturday.

Mr. DAVIS. Thank you very much. Mr. Chairman, I thank you again for the opportunity to participate, and I certainly thank all of the witnesses for coming to share with us.

Mr. FARENTHOLD. Since our two previous questioners were so rapid, we probably can still make our votes by letting Mr. Connolly go for five minutes. You are recognized.

Mr. CONNOLLY. I thank the Chair, and I thank you for your courtesy in allowing me to participate.

All of you were asked by the Chairman the question about the reasonableness of going from six to five days. But would you not, might you have a different answer if the question were phrased differently? If for example you knew that the biggest cost item that we have not dealt with in the House bill we did in the Senate bill that you were not familiar with, Mr. Brandt, is the pre-payment requirement, an onus put on no other entity on the planet of the United States Congress, except the U.S. Postal Service, that costs it between $5 billion and $6 billion a year right now? You might have answered differently, might you not, if I had said, that is the choice.

The choice is, cost-cutting from six to five, holding in abeyance what revenue loss you might have, and/or dealing with the prepayment problem, which is the big elephant in the room, except we didn't deal with it here in the House. Might your answer have been different, Mr. Brandt, if I had phrased it that way?

Mr. BRANDT. Congressman Connolly, my understanding is the deficit for the Postal Service last year was $15.9 billion. My understanding is that the prepayment on retiree health care benefits is $5.5 billion. Clearly that leaves more work to be done.

I understand that the elimination of Saturday delivery other than parcels would save an additional $2 billion.

Mr. CONNOLLY. Can I stop you there, Mr. Brandt?

Mr. BRANDT. Yes, sir.

Mr. CONNOLLY. So far you are accurate in the retelling. But I assume, being a newspaperman, you don't just accept those numbers uncritically. For example, let s take this so-called $2 billion savings from six to five days a week. Are you aware of the fact that the Postal Regulatory Commission actually examined that number and said it overstates the savings by $1.4 billion and understates the revenue loss by $.4 billion? Might that have changed your editorial opinion about going from six to five?

Mr. BRANDT. Congressman Connolly, our editorial was really addressing a more general issue, and that is the necessity to reduce costs and/or increase revenues in order to sustain the viability of the Postal Service into the future. As part of that, as a subset of that editorial, we endorsed the idea that Saturday delivery be on the table.

Mr. CONNOLLY. Fair enough.

Mr. BRANDT. And my answer would not have changed.

Mr. CONNOLLY. I would just say to you, however, especially in the newspaper business, it seems to me we can't accept things uncritically. It has to be examined. For example, there was a study two years ago that the Postmaster General commissioned, not an outside study. And they deep-sixed it because it found that yes, all these reforms to save money actually cost money and lost revenue, over $5.2 billion. And they buried the study, rather than have it be available to the public. I assume you were aware of that.

Which calls into question the efficacy of some of the so-called reforms. And Mr. Garner, you really emphasize cut, cut, cut. But don't we need to emphasize new revenue opportunities? Let me give you one simple example. In terms of parcel service delivery, the Federal business alone, to the Federal customer, was $342.6 million in 2011 and $336.9 million a year later. The Postal Service share of that was $1.2 million in 2011, and $4.8 million in 2012. This is Federal business.

Would you at least agree that in addition to spending cuts, there are revenue opportunities that we are not really exploring?

Mr. GARNER. I would absolutely agree.

Mr. CONNOLLY. Okay. Because that is what bothers me. I think we need a new business model. And Mr. Cerasale, you touched on it. If you look at Europe, they are exploiting that business model, and it is a fairly significant chunk of their revenue. And it is viable.

But our 2006 legislation around here actually precludes the Postal Service from really examining that. Why, I don't know. But it seems to me that we are the ones who put a real onus on the ability of the Postal Service to respond by creating a more nimble business model, including cuts, including new revenue opportunities, including expansion into areas heretofore unexplored or limited. And I would hope that as we do that, we do it within the law.

Because one of the others things, I end on this note, that didn't get said about the Postal decision to go from six to five is, it was frankly an extra-legal decision. The Postmaster General clearly, on its face, he did not have that authority. That was so opined by the GAO and confirmed today by the Postal Board of Governors, even though they disagree with the Congressional intent.

But a statute is a statute, and we all have to operate within the law. Thank you.

Mr. FARENTHOLD. Mr. Connolly and I may disagree with the intent of that statute.

I have been informed by the minority staff that since Mr. Connolly has gotten his questions, the remainder of the members of the minority, we will not be able to get back after votes. We have completed our questioning on our side. I had a couple of other questions that I wanted to direct to the panel in general. That was just a general comment with respect to the customer service you have received from the Postal Service.

And I have a question for Mr. Brandt as well about the different effectiveness of using the Postal Service for delivery of your products versus your door hangers. Because I need to get over and vote as well, if you guys would just fire off a quick letter to the committee with the answers to those questions, to supplement your written testimony, we will adjourn this and we will all go about our business.

I would like to thank each member of the panel as well as members of the subcommittee for participating in this. I think we gained some valuable insight as we move forward with postal reform.

So with that, thank you very much, and the subcommittee stands adjourned.

[Whereupon, at 2:59 p.m., the subcommittee was adjourned.]

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April 17, 2013

Mr. Ken Garner
President & CEO
Association of Marketing Service Providers
1800 Diagonal Road, Suite 320
Alexandria, VA 22314

Dear Mr. Garner:

Thank you for appearing before the Committee on Oversight and Government Reform Subcommittee on Federal Workforce, U.S. Postal Service and the Census on April 10, 2013, at the hearing entitled "Ahead of Postal Reform: Hearing from USPS Business Partners." We appreciate the time and effort you gave as a witness before the Committee.

Pursuant to the direction of the Chairman, the hearing record remains open to permit Members to submit additional questions to the witnesses. Attached are questions directed to you from Representative Farenthold, Chairman of the Subcommittee. In preparing your answers to these questions, please address your response to the Member who has submitted the question(s) and include the text of the Member(s) question along with your response.

Please provide your response to these questions by May 1, 2013. Your response should be addressed to the Committee office at 2157 Rayburn House Office Building, Washington, DC 20515. Please also send an electronic version of your response by e-mail to Michael Kiko, Staff Assistant, at michael.kiko@mail.house.gov in a single Word formatted document.

Thank you for your prompt attention to this request. If you need additional information or have other questions, please contact Michael Kiko at (202) 225-5074.

Sincerely,

Darrell Issa
Chairman

Attachment

cc: The Honorable Elijah Cummings, Ranking Minority Member
Committee on Oversight and Government Reform

Garner
Page 2

Questions for Mr. Ken Garner
President & CEO
Association of Marketing Service Providers

Chairman Blake Farenthold
Federal Workforce Subcommittee
Committee on Oversight and Government Reform

Hearing on "Ahead of Postal Reform: Hearing from USPS Business Partners"

Customer service is a vital part of keeping business. Previously, businesses have felt the USPS has been not been as concerned with keeping their business as they should be.

1. In the last few years, do you think the Postal Service has gotten better at listening and responding to the concerns of mailers?

2. What areas do you think they can improve in?

3. Have you noticed a difference in dealing with USPS employees on a local versus a national level?

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2157 Rayburn House Office Building
Washington, DC 20515
Attn: Subcommittee Chairman Farenthold

The answers to your follow-up questions are as follows –

- In the last few years, do you think the Postal Service has gotten better at listening and responding to the concerns of mailers?

  Yes, I believe there has been improvement resulting from a concerted effort on the part of Postal management to be more receptive to input and feedback from mailers and service providers. However, there is still room for improvement. There is still a need for closer collaboration on policy development. There are opportunities to create more productive and mutually beneficial relationships with industry including collaborations on new technology development. Creating a "customer driven" culture is a significant challenge for Postal leadership largely because they must overcome ingrained employee attitudes, but some progress is being made.

- What areas do you think they need to improve in?

  As previously mentioned, they need to create a customer driven culture that incorporates a better understanding of who their customers and partners are, and a willingness to effectively respond to their wants, needs, and expectations.

  They need to improve the consistency of the customer experience. Customers should receive excellent service regardless of size or geographic location.

  They need to communicate better with all stakeholders. Communications need to be clear, concise, proactive and result in meaningful two-way dialog.

  They need to develop and maintain stronger relationships with members of the postal supply chain.

  Postal leadership needs to create a compelling organizational vision – beyond the cost reduction strategies that currently exist – to galvanize all stakeholders with a common goal and objective.

  Postal leadership needs to be alert to the sensitivity that service providers have about potential encroachment and competition.

- Have you noticed a difference in dealing with USPS employees on a local versus a national level?

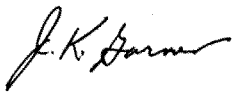
  Yes, the experience varies not on the basis of geography or national verses local level. The variance is a function of the lack of a consistent understanding of what needs to be done and how it needs to be done. Employees must recognize that they work for a "business" and that they must represent that business in a positive manner. The sheer magnitude of change puts an enormous strain on postal staff everywhere. And, given the size of the Postal Service it will take some time to weed out the bad attitudes.

  When and if, the culture is appropriately and successfully transformed employees can be empowered to make better decisions on the basis of responding to customer needs and expectations.

  I would give significant credit to PMG Donahoe. He has been making progress under very difficult circumstances with little or no support from labor or the various oversight groups that significantly limit the latitude he has to make necessary changes.

As a footnote, my offices are located in nearby Alexandria. I would be happy to meet with Mr. Farenthold, his staff, or other members of the committee to discuss my answers or other elements of my testimony at their convenience.

I appreciate the opportunity to provide this input and perspective.



Ken Garner
President and CEO
Association of Marketing Service Providers

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April 17, 2013

Mr. Steven Brandt
President/Publisher
The Greenville News
P.O. Box 1688
Greenville, SC 29602-1688

Dear Mr. Brandt:

Thank you for appearing before the Committee on Oversight and Government Reform Subcommittee on Federal Workforce, U.S. Postal Service and the Census on April 10, 2013, at the hearing entitled "Ahead of Postal Reform: Hearing from USPS Business Partners." We appreciate the time and effort you gave as a witness before the Committee.

Pursuant to the direction of the Chairman, the hearing record remains open to permit Members to submit additional questions to the witnesses. Attached are questions directed to you from Representative Farenthold, Chairman of the Subcommittee. In preparing your answers to these questions, please address your response to the Member who has submitted the question(s) and include the text of the Member(s) question along with your response.

Please provide your response to these questions by May 1, 2013. Your response should be addressed to the Committee office at 2157 Rayburn House Office Building, Washington, DC 20515. Please also send an electronic version of your response by e-mail to Michael Kiko, Staff Assistant, at michael.kiko@mail.house.gov in a single Word formatted document.

Thank you for your prompt attention to this request. If you need additional information or have other questions, please contact Michael Kiko at (202) 225-5074.

Sincerely,

Darrell Issa
Chairman

Attachment

cc: The Honorable Elijah Cummings, Ranking Minority Member
Committee on Oversight and Government Reform

Mr. Brandt
Page 2

Questions for Mr. Brandt
Publisher and President
The Greenville News

Chairman Farenthold
Federal Workforce Subcommittee
Committee on Oversight and Government Reform

Hearing on "Ahead of Postal Reform: Hearing from USPS Business Partners"

Customer service is a vital part of keeping business. Previously, businesses have felt the USPS has been not been as concerned with keeping their business as they should be.

1. In the last few years, do you think the Postal Service has gotten better at listening and responding to the concerns of mailers?

2. What areas do you think they can improve in?

3. Have you noticed a difference in dealing with USPS employees on a local versus a national level?

4. *The Greenville News* uses a Total Market Coverage (TMC) strategy, which means they send preprinted ads to homes that do not subscribe to the newspaper. These ads are for grocery stores, discount retailers, fast food restaurants, furniture stores, and other retailers. Because of recent Postal Service policies favoring direct mailing, *The Greenville News* has removed 50,000 of these TMC items from the mail.

5. How has this affected your business?

6. Do you believe the Postal Service is the most effective method for delivery of your product?

The Greenville News
greenvilleonline.com
A GANNETT COMPANY

Steven R. Brandt
President & Publisher

Regional Publisher
South Newspaper Group

April 22, 2013

The Honorable Darrell Issa, Chairman
Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Issa:

Thank you for the opportunity to testify before the Committee on Oversight and Government Reform Subcommittee on Federal Workforce, U.S. Postal Service and the Census on April 10, 2013 at the hearing entitled "Ahead of Postal Reform: Hearing from USPS Business Partners."

Thank you also for the opportunity to respond to the additional questions posed by the Members of the Committee. My responses are included with this letter.

If there are further questions, I will be glad to try to answer them.

Sincerely,

Steven R. Brandt

Attachment

cc: The Honorable Elijah Cummings, Ranking Minority Member
Committee on Oversight and Government Reform

Office: 864-298-4416 • Fax: 864-298-4805 • srbrandt@greenvillenews.com
305 S. Main Street, Greenville, SC 29601

RESPONSES OF STEVE BRANDT TO QUESTIONS POSED BY THE HONORABLE BLAKE FARENTHOLD

HEARING ON "AHEAD OF POSTAL REFORM: HEARING FROM USPS BUSINESS PARTNERS"

1. In the last few years, do you think the Postal Service has gotten better at listening and responding to the concerns of mailers?

   Chairman Farenthold, *The Greenville News* works closely with our local postal officials to serve our advertising clients through the delivery of our Total Market Coverage products to non-subscribers. Local postal officials listen to our concerns, and are always responsive.

2. What areas do you think they can improve in?

   Chairman Farenthold, from our experience there is good communication from USPS national headquarters and local postal officials on operational issues involving the movement of the mail through the postal system. However, it doesn't appear that USPS headquarters seeks feedback from the field on the impact of USPS pricing decisions and initiatives on local businesses. Postal Service pricing decisions are often made in a vacuum, without good market intelligence to assess the impact of those decisions on local business mailers like *The Greenville News*.

3. Have you noticed a difference in dealing with USPS employees on a local versus national level?

   Chairman Farenthold, at the local level, postal officials and employees are mindful of local business customer needs and are extremely responsive. While I don't have personal experience with USPS officials at the national level, it is the view of many in the newspaper industry that USPS management is so focused on rolling out new pricing and revenue initiatives to support and feed the postal system they fail to fully assess the impact of those initiatives on local business mailers. For example, as I described in my testimony, the Postal Service has raised rates on newspapers' TMC products at a much faster clip than rates for newspapers' national saturation mail competitors. In six short years, the rate differential between two very similar advertising products expanded from a little less than a penny per piece to 2.6 cents per piece. This is a sizable rate advantage given to our competitors, which has resulted in newspapers taking TMC products out of the mail system to lower their costs to stay competitive. These pricing decisions have cost the Postal Service hundreds of millions of dollars in annual postage. This loss of revenue for the Postal Service likely could have been avoided, if the national USPS officials involved in rate setting had fully assessed the predictable impact in the market of its preferential rates for Valassis and other national direct mailers.

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   A. *How has this affected your business?*

Chairman Farenthold, by moving 50,000 TMC pieces a week out of the mail, *The Greenville News* has reduced our distribution costs by $430,000 annually, based on the current average size of our weekly TMC package. We receive good service from alternative delivery firms that distribute our TMC packages to non-subscribers.

   B. *Do you believe the Postal Service is the most effective method for delivery of your product?*

Chairman Farenthold, right now, postal delivery is not the most cost effective method for distributing our TMC products. However, we value the good service we receive from the Postal Service for the TMC products that we have in the mail. And, there is significant value in being in the mailbox. If the Postal Service stopped favoring our national advertising mail competitors in its pricing decision, it is possible that our newspaper and others would do more business with the Postal Service. On the other hand, if the Postal Service continues to give our direct mail competitors a significant pricing advantage, it is likely that *The Greenville News* will feel compelled to move some or most of our 52,000 remaining mailed TMC packages to alternative delivery.

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April 17, 2013

Mr. Jerry Cerasale
Senior Vice President, Government Affairs
Direct Marketing Association
1615 L Street NW, Suite 1100
Washington, DC

Dear Mr. Cerasale:

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Chairman

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Committee on Oversight and Government Reform

Mr. Cerasale
Page 2

Questions for Mr. Jerry Cerasale
Senior Vice President of Government Affairs
Direct Marketing Association

Chairman Farenthold
Federal Workforce Subcommittee
Committee on Oversight and Government Reform

Hearing on "Ahead of Postal Reform: Hearing from USPS Business Partners"

Customer service is a vital part of keeping business. Previously, businesses have felt the USPS has been not been as concerned with keeping their business as they should be.

1. In the last few years, do you think the Postal Service has gotten better at listening and responding to the concerns of mailers?

2. What areas do you think they can improve in?

3. Have you noticed a difference in dealing with USPS employees on a local versus a national level?

Jerry Cerasale
SVP, Government Affairs

April 30, 2013

The Honorable Darrell Issa
Chairman
Committee on Oversight and Government Reform
United States House of Representatives
2157 Rayburn house Office Building
Washington, DC 20515-6143

Dear Chairman Issa,

I thank you and the Committee for the opportunity to participate in the hearing entitled >Ahead of Postal Reform: Hearing from USPS Business Partners." I have attached my responses to the questions from Representative Farenthold as requested.

If you or other Members of the Committee have any further questions, I look forward to them.

Sincerely,

Jerry Cerasale
Senior Vice President, Government Affairs
Direct Marketing Association
1615 L Street, NW, Suite 1100
Washington, DC 20036

Responses of Jerry Cerasale
To
Questions from Chairman Farenthold
From Hearing Entitled
"Ahead of Postal Reform: Hearing from USPS Business Partners

Customer service is a vital part of keeping business. Previously, businesses have felt the USPS has not been as concerned with keeping their business as they should be.

1. In the last few years, do you think the Postal Service has gotten better at listening and responding to the concern of mailers?

   A. It has. Postal Service management has significantly improved its communication with and cooperation with its business customers particularly since Patrick Donahoe has become Postmaster General.

2. What areas do you think they can improve in?

   A. The Postal Service still has a tendency to craft a new program, service offering, or automation project that centers solely on internal Postal Service operations without regard to business mailer interface, including new mail preparation costs. This creates some friction between USPS and its business customers. Any increase in mailer operations to prepare mail for entry into the mailstream, in reality, is a postage increase. Obtaining business mailer input at the very start of any new service, program or automation project and maintaining that input throughout the process is an area begging for improvement.

   On the local level, members of my Association have complained that responses to mail classification questions "take too long." Local managers seem reluctant to make decisions and simply buck the question up to the next level. This phenomenon may be due to the reduction in trained staff. Whatever the cause, mail may sit on a loading dock waiting a few days for a classification clarification. Such delays cause missed in home delivery dates—causing missed mailer staffing at call centers and fulfillment centers—causing inventory backups. For sale flyers those delays cause in home delivery after the sale which angers consumers and potential customers for the mailer. In essence, slow response by USPS lowers the value of the mail. USPS should eliminate (or, at least, reduce)

those delays by providing better training for the local employee and empowering that employee to make the classification determinations quickly at the local level.

3. Have you noticed a difference in dealing with USPS employees on a local versus a national level?

   A. On the national level, USPS employees have been more responsive and have sought out business mailer opinions more often than any time in my 38 years working in the mail industry. The Postmaster General holds monthly dialogues with mailer associations to discuss what is happening at USPS and to listen to our concerns. This has been a major improvement. On the local level, most of Direct Marketing Association's (DMA) members have a very good relationship with local employees with whom they work. However, as noted in answer to question 2 above, those local employees need to be empowered to respond quickly and make decisions at the local level to avoid delayed acceptance of mail at the postal facility.

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April 17, 2013

Ms. Meta Brophy
Director, Procurement Operations
Consumer Reports
101 Truman Avenue
Yonkers, NY 10703

Dear Ms. Brophy:

Thank you for appearing before the Committee on Oversight and Government Reform Subcommittee on Federal Workforce, U.S. Postal Service and the Census on April 10, 2013, at the hearing entitled "Ahead of Postal Reform: Hearing from USPS Business Partners." We appreciate the time and effort you gave as a witness before the Committee.

Pursuant to the direction of the Chairman, the hearing record remains open to permit Members to submit additional questions to the witnesses. Attached are questions directed to you from Representative Farenthold, Chairman of the Subcommittee. In preparing your answers to these questions, please address your response to the Member who has submitted the question(s) and include the text of the Member(s) question along with your response.

Please provide your response to these questions by May 1, 2013. Your response should be addressed to the Committee office at 2157 Rayburn House Office Building, Washington, DC 20515. Please also send an electronic version of your response by e-mail to Michael Kiko, Staff Assistant, at michael.kiko@mail.house.gov in a single Word formatted document.

Thank you for your prompt attention to this request. If you need additional information or have other questions, please contact Michael Kiko at (202) 225-5074.

Sincerely,

Darrell Issa
Chairman

Attachment

cc: The Honorable Elijah Cummings, Ranking Minority Member
Committee on Oversight and Government Reform

Ms. Brophy
Page 2

Questions for Ms. Brophy
Director, Procurement Operations
Consumer Reports

Chairman Blake Farenthold
Federal Workforce Subcommittee
Committee on Oversight and Government Reform

Hearing on "Ahead of Postal Reform: Hearing from USPS Business Partners"

Customer service is a vital part of keeping business. Previously, businesses have felt the USPS has been not been as concerned with keeping their business as they should be.

1. In the last few years, do you think the Postal Service has gotten better at listening and responding to the concerns of mailers?

2. What areas do you think they can improve in?

3. Have you noticed a difference in dealing with USPS employees on a local versus a national level?

ConsumerReports

April 30, 2013

Honorable Blake Farenthold
Chairman
Federal Workforce Subcommittee
Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Farenthold:

I am glad to have had the opportunity to address the Subcommittee on Federal Workforce, U.S. Postal Service and the Census at the April 10 hearing, "Ahead of Postal Reform: Hearing from USPS Business Partners." Additionally, here are my responses to the questions that you posed subsequent to the hearing.

1. In the last few years, do you think the Postal Service has gotten better at listening and responding to the concerns of mailers?"

In the last few years, Consumer Reports has frequently engaged in dialog with the Postal Service. We have been invited to speak with postal executives on a number of occasions, including a 2009 luncheon with the former Postmaster General and the Board of Governors, at National Postal Forums, at a 2009 breakfast for CEOs hosted by the former Postmaster General, at the 2009 National PCC Day event, and at the Magazine Publishers of America's 2012 Postal Summit. Additionally, through our position on the Alliance of Nonprofit Mailers, we have asked to speak directly to postal executives, including Postmaster General Donahoe, who have attended our Washington, DC–based board meetings regularly. Postal leaders are accessible and available.

In each instance, the Postal Service asked directly about our business needs or responded to our questions and comments. The Postal Service has gotten better at listening and responding to our concerns. Service adjustments to the proposed Saturday schedule that include keeping post offices open, maintaining package delivery, and continuing mail processing reflect a positive response to stakeholder input.

continued

101 Truman Avenue
Yonkers, New York 10703-1057
914 378-2000
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ConsumerReports

Farenthold 2

2. What areas do you think they can improve in?

Continue to build out a customer-centric approach. It is not sufficient to say, we have a great delivery infrastructure and service, so come and use them. Give the customers what they want, when they want it, at a price they can afford. Innovate, automate, adhere to standards, and provide value. A great staff, a vast network, and an impressive green fleet are nothing without customers.

3. Have you noticed a difference in dealing with USPS employees on a local versus a national level?

Yes, there has been a difference in our dealings with the USPS on a local and national level. In the last few years our local representation has been eliminated. We do not have local account representatives calling on us anymore. We enjoy a long-term, excellent rapport with representatives in our local Business Service Network, and at our local home facility in Yonkers. However, we deal with mailing concerns and issues at the national level exclusively.

Representative Farenthold, thank you for asking Consumer Reports, a long-term postal business partner, to participate in this hearing. If you have additional questions or need more information, please don't hesitate to ask.

Sincerely,

Meta A. Brophy

Meta A. Brophy
Director, Procurement Operations

101 Truman Avenue
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fax: 914 378-2900

CRLH-002

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April 17, 2013

Ms. Joy Franckowiak
Director, Postal Affairs & Distribution
Valpak
8605 Largo Lakes Drive
Largo, FL 33773

Dear Ms. Franckowiak:

Thank you for appearing before the Committee on Oversight and Government Reform Subcommittee on Federal Workforce, U.S. Postal Service and the Census on April 10, 2013, at the hearing entitled "Ahead of Postal Reform: Hearing from USPS Business Partners." We appreciate the time and effort you gave as a witness before the Committee.

Pursuant to the direction of the Chairman, the hearing record remains open to permit Members to submit additional questions to the witnesses. Attached are questions directed to you from Representative Farenthold, Chairman of the Subcommittee. In preparing your answers to these questions, please address your response to the Member who has submitted the question(s) and include the text of the Member(s) question along with your response.

Please provide your response to these questions by May 1, 2013. Your response should be addressed to the Committee office at 2157 Rayburn House Office Building, Washington, DC 20515. Please also send an electronic version of your response by e-mail to Michael Kiko, Staff Assistant, at michael.kiko@mail.house.gov in a single Word formatted document.

Thank you for your prompt attention to this request. If you need additional information or have other questions, please contact Michael Kiko at (202) 225-5074.

Sincerely,

Darrell Issa
Chairman

Attachment

cc: The Honorable Elijah Cummings, Ranking Minority Member
Committee on Oversight and Government Reform

Ms. Franckowiak
Page 2

Questions for Ms. Franckowiak
Director, Postal Affairs and Distribution
Valpak

Chairman Blake Farenthold
Federal Workforce Subcommittee
Committee on Oversight and Government Reform

Hearing on "Ahead of Postal Reform: Hearing from USPS Business Partners"

Customer service is a vital part of keeping business. Previously, businesses have felt the USPS has been not been as concerned with keeping their business as they should be.

1. In the last few years, do you think the Postal Service has gotten better at listening and responding to the concerns of mailers?

2. What areas do you think they can improve in?

3. Have you noticed a difference in dealing with USPS employees on a local versus a national level?

Responses of Joy Franckowiak
Director of Postal Affairs and Distribution
Cox Target Media, Inc. / Valpak Direct Marketing Services, Inc.

To Questions Posed by Hon. Blake Farenthold, Chairman
Subcommittee on Federal Workforce, U.S. Postal Service and the Census
Committee on Oversight and Government Reform

Submitted May 1, 2013

Regarding Subcommittee on Federal Workforce, U.S. Postal Service and the Census's Hearing on "Ahead of Postal Reform: Hearing from USPS Business Partners," April 10, 2013

1. In the last few years, do you think the Postal Service has gotten better at listening and responding to the concerns of the mailers?

Response

Yes. There is a noticeable difference from the last five years or so, especially when dealing with the operations side versus the customer service side. It used to be that operations management, particularly plant personnel, were difficult to locate and even more difficult to talk to when problems arose with mail acceptance at drop shipment sites, timely mail processing, etc. Accountability was lacking at certain facilities, but that seems to be improving. With the advent of the Intelligent Mail Barcode ("IMb"), mail visibility has put many facilities on the customer's radar when it comes to tracking their performance with respect to mail service standards.

2. What areas do you think they can improve in?

Response

Communications among internal postal functional areas: We sometimes hear postal representatives are not aware of or fully trained when it comes to either national pricing promotions or network changes. We have heard of postal sales representatives selling Every Door Direct Mail ("EDDM") — a Postal Service product — to customers who are already using a mail service provider; Postal Service dock personnel refusing drop shipments because of minor errors on paperwork (Form 8125s); mailing requirement clerks among different areas giving inconsistent mail preparation advice; etc. We believe that most of these problems are a lack of training or communication within the Postal Service's ranks.

3. Have you noticed a difference in dealing with USPS employees on a local versus a national level?

Response

Usually, local employees are very willing to assist but may not comprehend the bigger picture on which a national level employee focuses. Sometimes this limits the response or effectiveness of the local employee. We have not seen any dramatic changes within these two levels of employees.

Most USPS employees (local or national) are courteous, responsive, and provide good information in general, but there are some exceptions as listed above. It behooves the USPS to educate their own employees on the challenges that mailers face when doing business with the USPS. Having USPS employees visit business mailers might facilitate reducing that gap of knowledge, but postal finances or work hour limitations may be a barrier to such collaborative interactions.

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April 17, 2013

Mr. Carl Janssens
VP Pharmacy Operations
CVS Caremark
2211 Sanders Road
Northbrook, IL 60062

Dear Mr. Janssens:

Thank you for appearing before the Committee on Oversight and Government Reform Subcommittee on Federal Workforce, U.S. Postal Service and the Census on April 10, 2013, at the hearing entitled "Ahead of Postal Reform: Hearing from USPS Business Partners." We appreciate the time and effort you gave as a witness before the Committee.

Pursuant to the direction of the Chairman, the hearing record remains open to permit Members to submit additional questions to the witnesses. Attached are questions directed to you from Representative Farenthold, Chairman of the Subcommittee. In preparing your answers to these questions, please address your response to the Member who has submitted the question(s) and include the text of the Member(s) question along with your response.

Please provide your response to these questions by May 1, 2013. Your response should be addressed to the Committee office at 2157 Rayburn House Office Building, Washington, DC 20515. Please also send an electronic version of your response by e-mail to Michael Kiko, Staff Assistant, at michael.kiko@mail.house.gov in a single Word formatted document.

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Sincerely,

Darrell Issa
Chairman

Attachment

cc: The Honorable Elijah Cummings, Ranking Minority Member
Committee on Oversight and Government Reform

Mr. Janssens
Page 2

Questions for Mr. Carl Janssens
VP Pharmacy Operations
CVS Caremark

Chairman Blake Farenthold
Federal Workforce Subcommittee
Committee on Oversight and Government Reform

Hearing on "Ahead of Postal Reform: Hearing from USPS Business Partners"

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2. What areas do you think they can improve in?

3. Have you noticed a difference in dealing with USPS employees on a local versus a national level?

Under the original USPS plan to end all Saturday mail and package delivery concerns were expressed that such a plan could make it more difficult for consumers to receive medication and that additional costs for delivery could be passed along to the consumer.

4. Does CVS Caremark foresee its customers being negatively affected by prices increases or delivery delays if a modified Saturday delivery schedule is implemented?

May 8, 2013

Hon. Darrell Issa
Chairman, House Oversight & Government Reform Committee
US House of Representatives
2157 Rayburn House Office Building
Washington, DC 20515-6143

Re: House Oversight & Government Reform follow up from April 10, 2013 hearing on Postal Reform

Chairman Issa:

This letter responds to your April 17, 2013 correspondence requesting answers to additional questions from the Oversight & Government Reform Committee members following the recent April 10th, 2013 hearing, "Ahead of Postal Reform: Hearing from USPS Business Partners." As you are aware, this hearing was called by the Oversight and Government Reform's Subcommittee on Federal Workforce, US Postal Service and the Census.

The questions raised in your letter relate to CVS Caremark's relationship with the US Postal Service and anticipated price impact to customers assuming a modified Saturday delivery schedule is implemented. Our responses to the questions are set forth below.

1. In the last few years, do you think the Postal Service has gotten better at listening and responding to the concerns of mailers?

CVS Caremark, specifically Mail Order Operations, has a designated USPS account executive that manages the relationship between the two parties. CVS Caremark has maintained a positive relationship with the USPS and we find them to be responsive to questions and concerns associated with postal delivery of mail order medications.

2. What areas do you think they can improve?

As mentioned in our testimony during the April 10, 2013 hearing, CVS Caremark would like to see unnecessary regulatory burdens on the USPS lifted to allow the postal service to negotiate better shipping rates so that it can be more competitive with other shipping providers.

3. Have you noticed a difference in dealing with USPS employees on a local versus national level?

CVS Caremark deals mostly with designated USPS account executives. We have not noticed a difference in dealing with USPS employees on a local versus national level.

4. Does CVS Caremark foresee its customers being negatively affected by price increases or delivery delays if a modified Saturday delivery schedule is implemented?

CVS Caremark prepares and ships mail order medication packages seven days a week with its highest average volume on Wednesdays. Shipping costs for mail order medications are built into negotiated contract prices between the plan sponsor (large employers, unions, public clients, etc.) that uses a pharmacy benefit manager to administer their prescription drug benefit. Since many medications shipped through mail order pharmacy are maintenance medications, CVS Caremark has the ability to shift outbound mail to other days of the week, sometimes avoiding unnecessary charges for Saturday delivery through vendors other than the USPS. Preservation of Saturday package delivery would be helpful from the CVS Caremark perspective as the USPS typically provides our customers with the most economical shipping mode. Any adverse price impact to our customers would need to be evaluated on a client by client basis pursuant to the terms of each client's contract with CVS Caremark.

If you have any questions regarding the above responses, please contact me at 847/559-5646 or carl.janssens@cvscaremark.com.

Sincerely,

Carl Janssens
Vice President, Pharmacy Operations
CVS Caremark