

Are You Ready For The USPS Rate Case?



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Change is imminent. New rules and regulations, if approved by the Board of Governors, are set to roll out in spring of 2007. Businesses are concerned about the immediate and long-term effects of R-2006-1, and many want to know how to prepare.

As a Workshare partner of the U.S. Postal Service, DHL Global Mail has an in-depth understanding of postal regulations and what occurs at the operating and management levels of the USPS. Our extensive heritage in the mailing industry and our relationships with worldwide postal authorities ensure we are constantly apprised of policies and conditions that potentially impact our clients and partners. We distill this information and equip our customers with solutions to face industry challenges head-on and shape the way they mail in the future.

Keep Pace With The Evolution Of The Mail

The USPS faces the sizeable challenge of efficiently delivering mail to 140 million U.S. addresses, six days a week, while keeping operations streamlined and costs under control. This is no small feat. To position itself for the future, the USPS must amend its infrastructure to run more efficiently and be profitable over the long haul, all while delivering the same reliable service we have come to expect.

The R-2006-1 rate case reflects this need for transformation. But why are these sweeping changes happening now? The Internet and email have strongly influenced the mailing industry. E-commerce is booming and e-tailers are sending more parcels and catalogs, increasing the abundance of Standard Mail. Online billing has significantly im-

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pacted the amount of First-Class mail sent. In fact, First-Class mail is projected to decline by 2.8% in F/Y 2007, while Standard Mail will grow by 1.9%. In F/Y 2006, Standard Mail volume exceeded that of First-Class for the second year, accounting for 49.3% of total volume to that of 44.6% for First-Class.

Historically, the USPS has raised rates on all products collectively across the board. The USPS did not take a comprehensive look at the costs of individual mail classes or how specific technology improvements may influence the bottom line. Now, the USPS is taking a strategic and forward-thinking inventory of its products and services, examining the attributable costs of products and determining the appropriate margins. As a result, R-2006-1 reflects the unique cost components of delivering letters, flats, parcels and so on, depending upon the type of machinery used to handle them.

Be Proactive And Stay Informed

The R-2006-1 rate case proposes measures that affect the way mail is processed and priced. These are some of the changes you should monitor to mitigate potential impact on your business.

1. *Flat Sequence Sorters (FSS)*. In 2005, the USPS reported processing 53.4 billion flats! These next-generation machines, now in testing for a

2008 launch, quickly sort millions of flats into delivery sequence order. Assuming these flats are properly addressed and barcoded, the carrier will now be more efficient and prepared to serve customers earlier in the morning.

2. *Standardized Address Placement*. The FSS machine is not the sole factor driving the new address placement on flats. This proposed change will help carriers quickly thumb through mail, rather than manually manipulating the orientation. Addresses should be affixed in portrait (vertical) format at the top one third of the mail piece. Businesses with excess inventory of envelopes will be greatly impacted by this new standard. DHL Global Mail's clients stand to benefit from these changes as they will enable processing efficiencies.

3. *Address Management*. The quality of a mailing list correlates to the cost of the mailing. Mailers pay a premium when the USPS has undeliverable-as-addressed mail. It is imperative that businesses develop an address hygiene program to ensure quality lists. Through address hygiene services, DHL Global Mail has helped mailers to reduce undeliverables and keep costs down.

4. *Not Flat-Machinable*. This new category of mail is being introduced as flat sorting machines cannot handle rigid items such as CDs, DVDs

in jewel cases and check boxes greater than 3/4" thick. This category is priced higher than flats, but lower than parcels.

Businesses such as direct mailers may alleviate this burden by redesigning dimensional mail. DHL Global Mail offers design ideas to help businesses reshape their mail to qualify for greater discounts.

Consolidators Can Help Ease The Pain

The USPS is encouraging Workshare partners, such as DHL Global Mail, to do the front-end processing and "heavy lifting" of transportation. We consolidate mail and insert it deeper into the postal stream, closer to the delivery address. Depending upon customer need, we drop at tier 1, 2 and 3 distribution facilities, i.e., DBMC, SCF and even DDU (Destination Delivery Unit/ local post office). The USPS always handles final-mile delivery. By commingling mail, DHL Global Mail is able to reduce costs for the USPS and pass on volume-based discounts to businesses.

DHL Global Mail has the network, reliability and unmatched attention to detail to enable faster transit times and more value for your mailing dollars. And through value-added services, such as address correction, we improve the quality of your mailings.

Change is inevitable and we all must adapt. DHL Global Mail's mailing professionals are happy to help you prepare for the future of mail.

Please send your questions to: RateCase@dhlglobalmail.com. For other questions, call 866-616-MAIL.

(Mr. Phelan's article first appeared in the *PostCom Issue Brief*, October 2006.)