

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”

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TESTIMONY OF

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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 disabled 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.

Jerry Cerasale

Jerry joined The DMA in January 1995, as Senior Vice President, Government Affairs. He is in charge of The DMA's contact with the Congress, all federal agencies and state and local governments. He has testified before Congress on numerous occasions on postal and privacy matters. In addition he has testified before both the Federal Trade Commission and the Federal Communications Commission on direct marketing matters. Prior to joining The DMA he was the Deputy General Counsel for the Committee on Post Office and Civil Service, United States House of Representatives. He served for 12 years at the Postal Rate Commission as Legal Advisor to Chairman Steiger and most recently as Special Assistant to the Commission. He was an attorney advisor to Federal Trade Commission Chairman Steiger. Prior to the PRC he was employed in the Law Department of the Postal Service. He received his B.A. in Government and Economics from Wesleyan University, Middletown Connecticut and his J.D. from the University of Virginia School of Law. He served in the U.S. Army from 1970 to 1972.

He serves on the Board of Directors of the Digital Advertising Alliance. He was a Vice Chair of the Postal Matters Subsection of the Administrative Law and Regulatory Practice Section of the American Bar Association and served on the Board of Directors of the Mailers Council. He was a member of the Federal Trade Commission Advisory Committee on On-Line Access and Security. He is the recipient of the Silver Apple from the New York Direct Marketing Club and a lifetime achievement award from the Continuity Shippers Association.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name: Jerry Cerasale

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2010. Include the source and amount of each grant or contract.

None

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

Direct Marketing Association which represents companies and non profits that use the mail and their suppliers. I am employed by DMA

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2010, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None

I certify that the above information is true and correct.

Signature:

Date:

4/9/13

