TESTIMONY OF

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STAMPS.COM

Examining Innovative Postal Products for the 21st Century

United States House Committee on Oversight and Government Reform

Committee on Oversight and Government Reform

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

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INTRODUCTION

My name is Seth Weisberg, and I am the Chief Legal Officer of Stamps.com, a leading PC Postage company. In this written version of my testimony, I discuss the postal products we have developed, our relationship with the Postal Service, and Postal innovation opportunities.

POSTAL PRODUCTS WE HAVE DEVELOPED

PC Postage is Internet based computer software that allows customers to print their own postage using their existing computer and printer. Our software provides a full suite of cutting edge tools to mailers and shippers. We provide continuous product improvements and high touch customer support, all at negligible cost to the Postal Service. Stamps.com is the leading vendor, along with Endicia, in the US Postal Service PC Postage® program and the leading vendor in the USPS Customized Postage program with our PhotoStamps® product. Stamps.com specializes in bringing the newest Internet technology to mailers and shippers, and we currently serve over 500,000 registered PC Postage customers that are primarily small businesses from a cross-section of industries. Some sample customer testimonials are available at http://www.stamps.com/postage-online/testimonials/. In 1999, Stamps.com became the first company to offer a commercial software-only PC Postage solution, enabling customers for the first time ever to print real USPS postage from any Internet-connected PC and standard printer.

Customer adoption of PC Postage has grown rapidly since it was introduced, and has brought in new mail volume that would otherwise have gone to postal competitors. Just seven years ago, PC Postage accounted for roughly $250 million in annual postage sales. In 2013, PC Postage accounted for over $3.25 billion in postage sold. Stamps.com postage growth alone was more than 35% year over year. That is consistent double digit growth every year even through the heart of the recession. The substantial majority of postage purchased through PC Postage is used on Priority Mail and Express Mail

products – the classes of mail that provide USPS with its highest level of contribution above direct cost. Virtually all the Priority and Express (domestic & international) growth surge in recent years is generated through the PC Postage industry channel. A recent Postal Service study showed revenue through the industry PC Postage channel costs $0.02 per $1.00 of revenue compared to $0.47 per $1.00 through a USPS owned retail outlet.

PC Postage provides many benefits to the USPS, including at least six items: (1) PC Postage produces a secure, sender-identifiable mail piece which is important for security against biological or other attacks because it reduces the amount of anonymous mail in the mail stream; (2) PC Postage automatically checks addresses reducing the cost to the USPS of undeliverable-as-addressed mail; (3) PC Postage can adapt quickly to changes in rates and classifications; (4) the PC Postage product and industry help to educate postal customers on Postal Service requirements; (5) PC Postage mail includes intelligent mail barcodes optimized to work with current and future USPS mail processing systems; and (6) PC Postage provides Postal customers with cutting edge technology without the Postal Service having to pay for research, development, support or maintenance.

PC Postage directly supports several long term USPS initiatives, including expanding access to postal services, using technology to enhance value, and enhancing package services. In addition, as barcodes are increasingly more reliably scanned in mail processing centers, PC Postage is even more valuable in terms of real-time data for the USPS that can be used to improve tracking and tracing capability, to improve revenue protection, to enhance mail security and deter terrorism, and to provide valuable real-time data on customer mailing & shipping behavior.

In 2004, Stamps.com invented and launched PhotoStamps® labels, a new form of PC Postage through which consumers or businesses turn digital photos, designs or images into valid US postage. PhotoStamps is used as regular postage to send greeting cards, letters, postcards or packages. We

estimate that as much as 50% of the postage revenue from PhotoStamps is brand new revenue for the

Postal Service as customers substitute from electronic communication back to physical mail, increase

their usage of the mail, or purchase PhotoStamps for collector's items or gifts that never get used on

mail. In addition, 72% of PhotoStamps customers have stated that PhotoStamps makes mail more

exciting to send, 55% say PhotoStamps make mail more exciting to receive, and 56% say PhotoStamps

makes their perception of the US Postal Service more positive or much more positive.

In 2008, we launched an Enterprise service targeted to organizations with multiple geographic

locations. It features enhanced reporting that allows a central location such as a corporate

headquarters greater visibility and control over postage expenditures across their network of locations.

Customers such as government agencies increasing their use of small and home offices are attracted to

our corporate enterprise solution based on our dramatically lower cost of ownership and visibility into

individual employee activity from our sophisticated front-end reporting tool with real time data,

improved web-based postage management tools, and enhanced web-based financial and administrative

controls for central decision makers. The Enterprise service has resulted in a surge of usage of letter

mail, with our customers' letter mail postage spend increasing at a double digit pace each year.

Most recently, we have focused on higher volume shippers, one of the most important strategic

initiatives of the Postal Service. Our technology includes: (1) batch capability that allows users to print a

large volume of shipping labels all at once; (2) database integration technology for seamless automatic

import and export of information to and from a customer's internal order database; and (3) direct

integration with eCommerce platforms including eBay, PayPal, Amazon.com, Yahoo and Google, so that

a user can read and write order information directly from our software into and out of these platforms.

An e-commerce merchant with multiple stores can consolidate all their orders so they can ship them out

with ease. With one click, they can directly import all of their order data from the most popular online

marketplaces including eBay®, Amazon.com®, Yahoo!®, PayPal®, Google Checkout™ and Etsy, plus the most popular shopping cart software including ChannelAdvisor®, Magento®, osCommerce, ProStores™, Volusion®, X-Cart® and Zen Cart™. When they are ready to ship, they can just select the orders and print their shipping labels. All the shipping data including USPS Tracking will automatically post back to their web stores. They can also automatically order a carrier pickup, send an electronic manifest to the Postal Service, and generate a SCAN form, so all the carrier has to do is scan the form once and all of the packages are automatically in the Postal Service's computer systems. Stamps.com also has a deep integration partnership with Amazon's Merchant Marketplace. Merchants who sell in Amazon's Marketplace and ship the packages themselves can print postage for the packages via Stamps.com's integration as part of a seamless integrated process flow.

OUR RELATIONSHIP WITH THE POSTAL SERVICE

The PC Postage industry is based on a partnership between the Postal Service and private industry that was forged in the 1990s.   Startups including Stamps.com approached the Postal Service about allowing postage printed from a normal PC. The Postal Service wisely allowed private industry to solve the technology challenges to securely and conveniently print U.S. legal tender in the form of postage.

Public Private Partnership in our Industry takes the form of the Postal Service regulating industry participants to make sure they are secure and work well technically with the Postal Service's systems. PC Postage products complete extensive USPS testing and evaluation in the areas of operational reliability, financial integrity and security to become certified for commercial distribution. The USPS certification process to become an approved PC Postage provider is a standardized, extensive process that took the existing approved providers years to complete. We are subject to ongoing audits, and review and approval of product modifications. The Postal Service also partners with the industry to

achieve mutual win-win goals of improving the customer experience, increasing revenue, and minimizing costs. Pat Donahoe and so many of the dedicated Postal veterans who have ably worked with us for many years, deserve much credit for the success story that is the partnership between the Postal Service and the PC Postage industry.

We believe Public Private Partnerships are the best path forward for the Postal Service as technology innovation becomes increasingly important for its future. We think it would be a mistake to just dictate to the Postal Service that it should innovate new technology. Having the Postal Service create its own technology is not the best approach. Instead, the Postal Service should encourage and enable the marketplace to develop, maintain and support modern technology. They should provide incentives for industry innovation that helps the Postal Service and its customers. This allows Postal Service customers to pick the best technology solutions for their needs. It is much more efficient. We commend as helpful the OIG White Paper called Public-Private Partnerships: Best Practices and Opportunities for the Postal Service, published June 24, 2013.

This structure led to industry participants such as Stamps.com inventing ideas and solving technical challenges that were considered unsolvable by most companies in the postage meter and postal service arenas, and those ideas and our intellectual property are still the cornerstone of all postage printed online today. Furthermore, the PC Postage industry has spent hundreds of millions of dollars each on marketing, new product development, and ongoing maintenance and support. The Postal Service and its customers get the benefit of this spend.

To make partnerships like this work, it is important that the Postal Service not take unfair advantage of its regulatory position and misuse our intellectual property. As an example, the Postal Service should not be allowed to launch its own directly competitive PC Postage products where they unfairly compete by not following the same regulations they require of the industry. The PC Postage industry strongly supports Section 703 of the House Postal Reform Bill. It requires this basic fairness and

gives the Postal Regulatory Commission authority to prescribe regulations to carry it out. The Postal

Regulatory Commission plays an important role and we think they are great.   We also support requiring

the use of digital signatures and in person sender verification to ensure adequate aviation security.

POSTAL INNOVATION OPPORTUNITIES

The single best opportunity for Postal growth is in e-commerce shipping. Forrester Research

projects online retail sales will grow at a compound annual rate of nearly 10% from 2013-2018. By 2018,

the web will account for 10% of U.S. retail sales. Because the Postal Service already visits every

consumer address and has tremendous capacity to deliver more at low marginal costs, it is uniquely

positioned to benefit.

An important current area of innovation where we are working closely with Chief Information

Officer Jimmy Cochrane and his team is improving technology for packages. We are working together

for all packages to include barcodes for complete tracking and routing. Stamps.com recently conducted

an in depth study designed to evaluate the three largest shipping carriers in the U.S. market: USPS, UPS

and FedEx. We analyzed the main factors an e-commerce business takes into consideration when

selecting a shipping carrier. The study found that for comparable e-commerce packages, the Postal

Service had the shortest delivery time for the lowest price, with a competitive average of 9.42 tracking

scans per package.   The full study is available at http://www.stamps.com/shippingwar/shipping-carrier-

war.pdf. The strong improvement in scans can be directly attributed to the work of Cochrane's team.

The growth opportunity with PC Postage has the attractive benefit of providing jobs, both in

industry and in the Postal Service. Every package produced is ultimately delivered by a city or rural

letter carrier. Growth in PC postage means more packages to deliver, more letters to deliver, more

volume to service. The volume is everywhere, but especially significant in rural areas where the Postal

Service's marginal cost structure for delivering beats its competition. Public Private Partnerships also enable services for all segments of the marketplace. PC Postage brings world class technology support for those citizens who rely on the USPS every day, and for the fast growing e-Commerce community.

Thank you for the invitation to testify today.

Seth Weisberg, *Chief Legal Officer*

Seth Weisberg has served in various roles at Stamps.com since 1999. Mr. Weisberg previously was an associate lawyer at Irell & Manella, worked as a software developer and founder at Shortcut Software, and created physical computer models at RAND Corporation.

Mr. Weisberg holds a bachelor's degree in Physics and Astronomy from Harvard, a master's degree in History from Harvard, a law degree from Columbia Law School, and a General Course Certificate from the London School of Economics. Mr. Weisberg is a registered patent attorney.

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

Name:
Seth Weisberg

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1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2011. Include the source and amount of each grand or contract.

   None

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

   Stamps.com, Chief Legal Officer and Secretary

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

   Stamps.com's entire business is based on our PC Postage offerings and I believe there are dozens of contracts we have with the Postal Service and many other parts of the Federal government governing this relationship, and for use of our PC Postage service and products. The revenues of our business (in thousands of dollars) we have received related to these numerous contractual relationships in the identified time period are:

	2010	**2011**	**2012**	**2013**	**Q1-2014**
Revenue	$85,544	$101,585	$115,661	$127,819	$33,298

I certify that the above information is true and correct.
Signature:

Date: May 16, 2014