Mailers Hub News

September Summary *From the September 12 and 26 issues*

Household Diary Study Confirms Familiar Trends

The Postal Service's 2021 *Household Diary Study*, released September 8, provided statistical confirmation of the trends in mail volume and usage that have become well-known in the commercial mailing industry.

The study noted that 84% of total mail was sent to or from households. However, "correspondence mail" accounted for only 14% of mail sent or received by households, and only 2.5% was between households, reflecting the transition of personal correspondence – like letters and cards – to electronic media. Business correspondence – bills, statements, and payments – has also been migrating to electronic media. The study reported what transactional mailers already have realized:

> "... to further accelerate households' transition to the internet and reduce mailing costs, billers often introduced incentives (or penalties) to encourage (or pressure) households to move their transactions online. As a result, from 2011 to 2021 the percentage of bills received electronically increased from 15% to 40%, respectively ... ."

Meanwhile, Periodicals volume fell 6% from the previous year, and is down 39% from 2011; advertising mail represented 60% of mail sent to households in 2021, and almost 90% of that was sent as Marketing Mail; and USPS package volume surged by 27% during the pandemic.

Digging deeper into transactional mail, the study found that billings and payments – First-Class Mail matter – continued its decline. People are making fewer payments than in 2016, but the proportion of those made by mail is declining faster.

Meanwhile, advertising media, including direct mail, showed the impact of the pandemic as retail activity, and the need for associated advertising, fell sharply. Just the same, and despite marketers' realization that direct mail remains a valuable advertising medium, its share of total marketing spend fell from 9% to 4.9% from 2015 to 2021.

Nonetheless, the study found that the open and read rate for advertising mail has held steady since 1987 at about 50%. However, over the same period, the proportion discarded without being opened has climbed steadily, rising from 9% to 29% over the timespan. Catalogs remain the most successful, with 55% reportedly read or "set aside for later," compared to 68% of credit card solicitations either "looked at, not read" or simply discarded.

The details of household behavior with mail only indirectly offered any insights about how downward trends can be slowed or reversed. Figuring out the rest falls to commercial mailers and their clients. The complete 235-page study is available from the PRC website (https://www.prc.gov/dockets/document/122693.)

Legislation Could End Rate Authority "Adders"

Ever since the Postal Regulatory Commission concluded its lengthy rulemaking in November 2020 by awarding the Postal Service three new forms of rate authority, the Postmaster General has used them to maximize price increases on market-dominant mail.

On September 9, Rep. Gerald Connolly (VA 11th) filed a bill that could undo the commission's grant. If enacted, it would require the PRC to revisit its final rule "in light of the Postal Service's newfound financial situation after the passage of the Postal Service Reform Act and the pandemic-era boom to package business."

The PRC's rule was intended to allow the USPS to raise more revenue – beyond what the CPI cap would allow – at a time when its finances were particularly poor. However, passage of the *Postal Service Reform Act of 2022* last April erased billions in debt and future obligations, enabling it to report a net income of $59.7 billion at the end of in the third quarter of fiscal 2022. All told, the reform act is forecast to reduce existing debt and future liabilities by up to $107 billion.

Connolly's bill would give the PRC ninety days to again review the ratemaking system for market-dominant products as it existed before November 2020. After revisiting the issue in light of subsequent events, the commission could either revert to the previous system, i.e., without the three "adders," or take another year to develop a new one.

Release Notes Preview Structural Changes Proposed in October Price Filing

Though the Postal Service has made no other general announcements about the content of its anticipated October price change filing, the pre-release notes supplied to software developers offered some valuable insights.

The document briefly outlined changes for market-dominant products; the USPS proposes:

- "... to include an incentive for Mail Service Providers that claim Informed Delivery promotions successfully on Postage Statements;

- "... a new promotion for reply mailpieces processed by the USPS Intelligent Mail Barcode Accounting (IMbA) system that automates the accounting of Business Reply Mail (BRM);
- "... a new promotion for Retargeted Mail. This promotion will require pre-qualification for participation;
- "... a new incentive for Personalized Color Transpromo Promotion;
- "... a discount for flat-shaped Marketing Mail prepared on SCF pallets regardless of entry point;
- "... to make Connect Local Mail a permanent product as a First-Class Flat;
- "... to stop support for the manual services for Mailing List, including i) ZIP Coding and ii) Address corrections, currently provided at Retail/DDU. ..."

Other proposed changes were listed for competitive products.

Carriers' Overpreparation May Yield Overcapacity

The surge in package shipment during the pandemic may have led parcel carriers to develop more capacity than retreating package volume may warrant. As reported September 19 by *Modern Shipper*, transportation consultancy ShipMatrix predicted that

> "Parcel delivery carriers will be confronting massive excess capacity during the peak shipping season and will face severe financial repercussions if they don't align their resources with what are expected to be flat year-over-year volumes."

ShipMatrix forecasted that shippers will have daily peak-season capacity of 110 million parcels, but daily demand may average only 92 million parcels per day – an 18 million piece daily capacity surplus "that will be difficult for carriers to offset without cost reductions." ShipMatrix added that for the 2020 and 2021 peak seasons daily demand exceeded capacity by 7.2 million and 1.3 million parcels, respectively. In 2022, however, "the flat year-over-year demand is due to more consumers returning to in-store shopping and changes in delivery patterns to reflect more shipments going to stores instead of residences." The company added that

> "The potential of slowing holiday demand has yet to be reflected in the carriers' network utilization plans, however. The US Postal Service, for example, said last week it plans to expand its delivery network to handle 60 million daily parcel deliveries. That is up from 53 million last year and will account for 54% of capacity despite the Postal Service controlling 38% of market share by volume, according to ShipMatrix data.
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> "FedEx Corp. and UPS Inc. have said they plan to emphasize utilization of their existing assets rather than focus on peak season expansion. However, both will still bring abundant resources to the table this holiday."

The article observed that the overcapacity might allow shippers to have some leverage against carriers' delivery surcharges, and could result in more timely delivery as carriers' networks are less stressed compared to the past seasons.

August Financials: Price Increase Adds Revenue, Lowers Volume

The Postal Service's August financials reflected not only the continued impact of the *Postal Service Reform Act of 2022*, enacted early in April, but the price increase implemented in July. Total market-dominant mail volume for the month was down 4.3% from August 2021, led by a 1.2% drop in First-Class Mail and a 5.5% decrease in Marketing Mail. Meanwhile, competitive products volume was up 1.0% for the month but still down 5.2% for the YTD. Total USPS volume was 9.907 billion pieces, down 4.0% from last August, while YTD volume, 116.558 billion pieces, was 1.5% lower.

After April's one-time PSRA adjustment, August revenue was $6.353 billion, and $72.267 billion for FY 2022 to date, with a net loss of $778 million for the month on total YTD income of $55.675 billion (mostly "income" from the PSRA adjustment). After two price increases totaling more than 13% in less than a year, revenue from the market-dominant classes, compared to SPLY, actually was up just 6.9% for the month and 6.0% YTD, suggesting the sharp price increase may be dampening mailing activity – contrary to the predictions of some USPS officials. Meanwhile competitive products revenue was up 5.0% in August but still down 1.5% for the YTD, both compared to SPLY. Total USPS revenue for the month was $6.353 billion, up 5.3% from August 2021.

Transportation costs jumped, but were softened by a favorable adjustment to the workers' comp liability. Total "controllable" compensation and benefit costs for August were $4.890 billion, and total expenses were $7.179 billion, but the annual YTD totals remained skewed lower because of the PSRA adjustment: -$3.197 billion and $16.812 billion, respectively. Workhour usage was 1.6% over plan for the month and 0.8% higher than SPLY, again led by mail processing workhours that exceeded plan by 3.4% for August and by 5.4% YTD, despite lower mail volume. Total workhours exceeded plan and SPLY by 1.6% and 2.8%, respectively, for the month, YTD workhours are 0.8% over plan but 0.7% below SPLY.