



**MAILERS COUNCIL**

**WHY A STANDARDIZED POSTAGE RATE  
IMPLEMENTATION PERIOD WOULD  
BENEFIT THE  
UNITED STATES POSTAL SERVICE  
AND ITS CUSTOMERS**

**August 24, 2006**

## EXECUTIVE SUMMARY

When the United States Postal Service files for a rate increase, it begins a 10-month regulatory process followed by a vote of the Board of Governors and publication in the Federal Register of the new rates and accompanying rules. Mailers then may have 60 days or less to prepare for the new rates and rules. This time period has proven insufficient for both postal employees and mailers. A standardized rate period of at least 90 days would benefit both groups, ensuring greater continuity, avoiding confusion over pricing and mailing rules, and saving software designers and mailers millions of dollars.

Even when the Postal Service files relatively uncomplicated rate cases with across-the-board rate increases, postal employees can get most of their work done in 60 days only by accumulating substantial overtime hours. Even then, as was seen in the last rate case, 60 days is clearly insufficient time to deploy calculations for processes such as PostalOne. Also, postal officials spend considerable time issuing exceptions to new preparation rules. For more complex rate cases, like the current one, implementation problems will escalate sharply, as will requests for exceptions, because of the much higher number of new rates and rules and the loss of institutional memory due to the retirement of many experienced postal managers involved in rate design and implementation.

For the mailing industry, insufficient time for implementation also creates additional costs from accumulated overtime, but more significantly from errors and system flaws that add millions of dollars in added administrative costs. Exceptions may help avoid postage costs, but most mailers believe the system is inherently unfair, and it generates hundreds of hours of administrative work. The cost to the Postal Service in terms of its customer relations is needlessly high.

To make rate cases less difficult, litigious, and costly for both the Postal Service and its customers, the Mailers Council, the nation's largest coalition of mailers and mailing associations, recommends that the Postal Service adopt the following new implementation dates for rate cases:

- Allow 90 days for simple changes to rate cells.
- Allow at least 120 days for structural changes.
- Continue the recent practice of implementing international rate increases at the same time as domestic rate increases.
- Raise rates sometime between March and August and avoid January 1 rate increases.

## **SUFFICIENT TIME NEEDED TO IMPLEMENT NEW RATES**

Like many industries, the mailing industry has grown more sophisticated over the years as automation and worksharing opportunities have evolved. The commercial mailer relies on software, hardware and other systems to run the processes necessary to produce and enter mail into the postal system. A third-party vendor often provides the software a mailer uses for address hygiene, to sort mail and to qualify for discounts. The mailer needs to integrate its supplier's software into its own system and processes, as well as mesh these with Postal Service mailing supply chain systems.

The Postal Service has traditionally provided from 30 days to 60 days as the span of time from which the final rates are approved to the date they go into effect. For many years, the mailing industry has been asking for an implementation period of at least 90 days. Mailers now are asking the Postal Service to build that amount of time into its rate-planning process so that they are not stuck endlessly debating the issue. If the Postal Service moves to annual increases, the mailing industry will need a standardized process.

Further, there are benefits to the Postal Service of a suitable implementation timeline. The process goes smoother and with less confusion among field personnel when more time is provided between final approval and implementation. It would make the need for an exception process unnecessary. The exception process is costly to the Postal Service and inevitably raises questions of fairness, which in turn leads to strained customer relations.

These benefits extend beyond the commercial end. The retail side of the Postal Service also relies on software upgrades to Point of Service and Integrated Retail Terminal equipment. If retail outlets do not have upgraded systems up and running by implementation date, there will be delays at retail counters, which add costs and harms customer relations.

The Mailers Council, the nation's largest coalition of mailers, suppliers and mailing associations, solicited input from its members on the steps and processes they must take to prepare for new postage rates or classification changes. Following are some of the issues raised.

## **BEYOND SERVICE PROVIDERS**

We start with the software providers, which are only one part of the industry affected by rate and rule changes. Pitney Bowes has noted that a short timeframe can raise the risk of rating error. When a rating error occurs, the company has to recreate, manufacture and resend the part at significant cost. Small windows also limit communication from the software provider to customers announcing the rate or classification changes. Customer dissatisfaction often spills over to frustration with the Postal Service.

Business Objects (formerly Firstlogic) raises the issue of unseen costs to the industry due to a rushed rate implementation. By not providing sufficient time to develop, test and certify software, vendors risk putting their customers into a state of perpetual update. Installing software can delay production, confuse acceptance clerks and introduce errors.

Although software vendors can make preparations based on the proposal, they cannot work on their actual product until the rate case is final. That is, programmers are unable to proceed until final rules are published in the *Federal Register* (not after the PRC recommendation or even approval by the Board of Governors). Even then, vendors say they inevitably find errors in the *Federal Register* notice. Software suppliers need at least a week to read, analyze and work with postal officials on anomalies in the final *Federal Register* notice before they even finalize code.

## TESTING IN A PRODUCTION ENVIRONMENT

Companies must thoroughly test the new rates in a production environment prior to running live jobs. Time-consuming testing is required whether the new rates are simple or complex. The testing is essential so that proper postage is paid. When classification changes are part of the new release—as they are in the current case—the amount of time needed to test the software increases. The likelihood of integration problems also increases.

For example, Kable Fulfillment Services Inc. notes that in addition to testing new software, most companies have programs to run the software, create parameter cards or use the output in further processing. Kable says:

“We have many programs that must be changed even in a simple rate case. If it is a structural change, we have programs that dynamically create parameter cards, create reports, create bag tags, create Mail.dat files that must be changed. We must not only receive the new software in time for testing and integration; we must understand the changes our software vendors have made to implement the structural change. Finally, we must make the required programming changes to use the new software.”

Another example would be the 300-plus mainframe users of products from the core software providers. Some mainframe users need to take the software provided and write their own code to accept these changes. There have been times when the USPS' National Customer Service Center (NCSC) required this type of service provider to re-certify, which can take weeks to pass and get graded. Considering proprietary qualifications systems, such as the one Experian has, there are updates and quality control tests as well, which sometimes require NCSC PAVE™ retesting in addition to just rate changes in CASS engines (which Experian uses two and certifies their own product to process over 3 Billion records per week). These tests are linked to USPS-licensed products such as DSF<sup>2</sup>™ and CASS™. This step can add weeks to the total process, all in addition to the weeks the software supplier has already taken.

Mainframe users customize software and mold specific solutions for individual clients. The effects of classification and rate changes and those made by core software providers, magnify as they reach further out into integrated solutions. The exposure to error is expansive, creating a large ripple effect in the industry. For example, if CASS re-certification is required of the core software provider, then all CASS vendors that use code provided by another vendor must be re-certified and then re-tested.

In addition:

- Third-party software vendors often try to time the release of its updated software, which would include both new rates and any classification changes, with its regular enhancement releases. So, this means that the mailer must check the new software for performance issues unrelated to the rate or classification changes as well.
- Some companies use more than one software provider for different needs, such as for manifesting and presorting. Therefore, they must integrate separate upgrades to accommodate a rate increase.
- ZIP Code changes are good for operational efficiencies. These types of changes require vendors to send communication to customers to see if they need updates on those zones. If yes, the vendor has to send updated software. The vendors get the changes from NCSC but ZIP Code changes do not go through the *DMM Advisory* group. This means the timing on communication of ZIP Code changes is unpredictable, and they are not in sync with the implementation of the new rates. For example, in the R2005-1 case, ZIP Code changes were communicated Dec. 8, 2005, just one month prior to the Jan. 8, 2006, implementation date.

## COMPLEXITIES AND INTEGRATION

A rate change of the complexity in the R2006-1 case will result in significant changes to the Mail.dat standard as well. As R.R. Donnelley has noted, “For every change to that standard, we have several software applications that must be changed. Right now, there are at least three custom-made supported applications used in our plant that are impacted, not counting CoPal or comail.”

Time Inc. said there is growing demand on the platforms and relationships between data-exchange technologies. Mail.dat, PostalOne! and the new emergence of web services all require precise timing when structural changes are required. “There also are similar considerations involved with integrating third-party software applications with internal systems and processes.”

Users of PostalOne! and Mail.dat need to be ready for changes about 45 days in advance of the final implementation date. Industry users of Mail.dat say they would need a minimum of a month to get the standard done and approved.

Time also said most list houses must load software into the live production environment about 30 to 45 days prior to the implementation date. This is generally the lead-time required for the cycle of monthly magazines. “Therefore, the last several weeks leading to the implementation date are not available for coding or testing: that work must already be complete.”

Taking all this into consideration, and building in some reasonable assumptions\*, the following minimum schedule is required.

<b>ACTION</b>	<b>TIMELINE</b>
Finalized rules from USPS	BOG approval plus 2 days
Finalized Mail.dat spec completed	BOG approval plus 7 days
Start CAT testing	BOG approval plus 49 days
PostalOne! release allowing new rules to be used	BOG approval plus 77 days
New rules must be followed by all parties	BOG approval plus 91 days
<b>Total time</b>	<b>91 days</b> (with a small testing cycle)

\* Assumptions:

- USPS and industry understand each possible rule option that comes out of BOG approval.
- PRC and BOG do not create a new situation causing changes in rules and specs.
- Testing cannot and should not be compromised (four weeks).
- PostalOne! needs to be out at least 1 week—but preferably two weeks—prior to implementation to allow integration testing with other software and to allow submission of post-rate-case mailings before implementation.

## **PROBLEMS IN R2005-1**

The most recent rate increase allowed only 55 days from final rates to implementation. Although the case was not nearly as complex as the current rate case (R2006-1), it still caused problems for mailers and suppliers. Some of the hurdles were completely outside of mailers’ control.

For example, PostalOne! did not deploy its new rate calculation capabilities prior to the Jan. 8, 2006, rate implementation date. In a memo to PostalOne! users, the USPS noted that PostalOne! could not implement a rate release prior to Jan. 8 because “many of the

rate related requirements did not get finalized in time for us to be able to develop, adequately unit and QA test, and then execute reasonable customer acceptance testing.” The USPS had to issue a six-page memo that explained how mailers should present their various types of mailings.

Other problems included the lack of availability of 24¢ and 39¢ stamps prior to Jan. 8. Kable Fulfillment reported that as of April 19, 2006, 24¢ stamps were still not available. The company was unable to buy 39¢ stamps in bulk until Jan. 9.

The final changes to postage forms were not released until Nov. 22, 2005, leaving mailers and suppliers only four weeks to make the necessary changes to incorporate the new forms into their own processes and operations.

WindowBook Inc. reported confusing signals from Postal Service on PAVE certification in the R2005-1 case. Despite having gone through the PAVE certification just five months earlier in the spring of 2005, the requirements for PAVE approval appeared to change. WindowBook scrambled to have programming done in order to match the USPS statements so that PAVE approval could be secured prior to the Jan. 8, 2006, implementation date. In the past, approval was granted based on a generic sample with minor cosmetic changes made as needed.

A 2002 article for the Alliance of Nonprofit Mailers by *The Elks Magazine* Director of Circulation Phil Claiborne remains relevant today. Claiborne explored timetables of the three cooperative industry-side partners: mail owners, mail service suppliers and software providers. He wrote:

“The latter react immediately to BOG mail make-up decisions. The mailing industry requires their software to accommodate all make-up minutiae across the class spectrum, achieve certification, and allow time for installed site testing. This means software providers are usually rushed. Failures to meet the implementation deadlines have drastic effect, rippling through to fulfillment bureaus, printers and, finally, mail owners.”

The article considers the timeline needs of each part of this partnership. In short, complex rate changes and drastic mail make-up changes require four months lead-time to implementation, Claiborne says.

## **PREFERRED TIME OF YEAR**

If the Postal Service does indeed move to an annual rate cycle, mailers will need a time period that better suits business cycles than the one followed in the most recent rate increase. When a postage increase occurs at the busiest time of the mailing season (fall through January), it places tremendous stress on the system. Even the modest rate increase of January 2006 prompted companies to step up mailings to beat the increase. This desire put a rush on logistics providers, who then needed to increase their drop-ship appointments with the Postal Service. In some cases, this was difficult to accomplish.

## WHAT OUR MEMBERS RECOMMEND

- Allow 90 days for even simple changes to rate cells. This gives software suppliers time to adjust and service providers time to install the new software and test it. Mailers urge the Postal Service to build this timeline into its process, if it does in fact move to more predictable rate increases.
- Allow at least 120 days for structural changes. This will allow for integration into Mail.dat and PostalOne! and still give time for installation and testing.
- If a change is not required at the time of implementation, stagger the change to a later date.
- Mailers appreciate that international rate increases are now timed to coincide with domestic rate increases. But companies ask that enough lead-time be given on announcing the changes to international rates.
- Raise rates sometime between March and August and avoid January 1 rate increases.

## CONSEQUENCES OF TOO LITTLE TIME

The consequences of a compressed timeline are significant for mailers and the Postal Service. They extend beyond monetary stress; having too little time taxes customer relations and the partnerships this industry was built on.

In this day of sophisticated technology and complex integrated systems, it simply is unreasonable to cling to the attitude that software providers and their customers “will get it done in time.” As we have tried to illustrate in this paper, this comes at considerable cost to mailers and the Postal Service.

Certainly, the mailing community understands that the Postal Service cannot put off an implementation date indefinitely. Indeed, the reason the USPS files its rate request is to generate sufficient revenue to break even in a test year. However, it is important that postal officials understand the realities of a transition to new postage rates and the significant costs companies can incur during the transition.

