

Article 43 Joint Study Hybrid Focus Group/Mailer Survey

-- Focus Group Summary Report --

prepared for

**U.S. Postal Service/U.S. State Department/
Postal Rate Commission**

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NOTE: Representatives of the State Department, Postal Rate commission, and the Postal Service were observers during the Focus Group sessions.

I. OBJECTIVES & METHODOLOGY

The U.S. Postal Service, in conjunction with the U.S. State Department and the Postal Rate Commission, are sponsoring a multi-task research effort to evaluate the implications of removing Article 43 of the Universal Postal Union (UPU) Convention. The primary purpose of this research is to gain an in-depth, quantitative understanding of the degree to which major mailers would engage in ABA remail, if Article 43 were eliminated. Additionally, there is a desire to identify the extent to which certain liabilities associated with remail (e.g., foreign indicia, limited points of entry, etc.) would curb demand. Finally, information on mailers' awareness of current UPU restrictions, and their perspectives on the effectiveness of these restrictions in preventing remail, is being sought.

As part of this effort, a hybrid study involving focus groups and a mailer survey among major U.S. mailers was commissioned. A total of 415 eligible mailers participated in the Web-based mailer survey. Twenty-five of these respondents also participated in focus group discussions. Five focus groups were conducted in Chicago and New York during July, 2001. The results of these focus group discussions are summarized in this report.

Participants in the survey and the focus groups were chosen from companies that send 300,000 or more mail pieces (in a specified mail class), and were responsible for making decisions regarding how and by whom company mail is prepared, produced, and delivered. Participants represented a mix of operational and business characteristics, including services provided, non-profit status, use of outsourcing for mail production and preparation, mail type and volume sent, and geographic scope of mailing activities.

Each participant was asked to complete the mailer survey prior to attending the focus group discussion. Two of the groups were comprised of First-Class mailers, two of Standard A mailers, and the fifth of Periodicals mailers. Discussions during the groups centered on reactions to the concept of legalized ABA remail implementation, the importance of key factors on their willingness to engage in remail, their awareness and assessment of restrictions that are currently placed on the practice, and the impact that removing these restrictions would have on the Postal Service's domestic mailstream and financial well-being.

II. OVERALL REACTIONS TO ABA REMAIL ALTERNATIVES

Generally, mailers in the groups were quite interested in the concept of ABA remail, because they recognized the potential to realize substantial cost savings relatively quickly by taking advantage of it. Although some mailers indicated it would be very difficult to design a remail alternative that would be acceptable to their companies or

organizations, there appears to be considerable interest provided particular service and delivery requirements can be met.

- **Orientation Towards Remail Alternatives**

All things considered, three segments of mailers interested in remail emerge, each with different degrees of interest and specific savings and service needs. One group, which can be characterized as "Commercial Advertisers", includes commercial companies that send out high volumes of advertising mail. These companies are the most responsive to net cost savings resulting from the use of remail. Their only concern is with the stability of delivery times from foreign countries. As long as they have assurances that the time-in-stream range associated with a given country is reliable, they are especially interested in remail options.

The second group, which can be characterized as "Commercial Client-Based Companies", includes companies that provide a service or product for established clientele. These companies have more concerns associated with the use of remail than do Commercial Advertisers. Like Advertisers, Client-Based Companies are interested in stable delivery times and net cost savings, but they are also more demanding when it comes to quality issues. They assert that their clients associate their company name with quality, and, therefore, they are hesitant to sacrifice paper or print quality for cost savings. In addition, Commercial Client-Based Companies, who primarily provide products and/or services to their clientele, need to feel confident that pieces sent via remail will be delivered with the same diligence as domestic pieces.

The final group of potential remailers, which can be characterized as "Non-Commercial Mailers", includes non-profit as well as government and government-affiliated organizations. These organizations express the same desires and concerns as the other two groups, however, they are most disturbed by the potential inability to use a U.S. indicia and return address associated with selected remail alternatives. These organizations are extremely concerned with the preservation of their reputation. Some such organizations point out that their constituents often expect them to use their funds within the local community, and that the appearance of a foreign indicia or return address on their mail pieces would result in complaints and the possible loss of funds/support. This group also contains mailers who believe they are not free to use remail (e.g., election boards, etc.), because of legal restrictions in place today (i.e., must have U.S. postmark). If these prohibitions were removed, they might consider remail, if savings could be obtained.

- **Company-Specific Considerations**

Within each of these segments, the degree of interest that individual mailers express in remail alternatives is influenced by several company-specific factors. These include the characteristics of the company's current mailing operations, sensitivity to public perceptions, and the "risk aversion" of the responsible decision-makers.

ABA remail is especially appealing to mailers who already own or contract with overseas production/preparation facilities. Because these companies are currently taking advantage of the lower production costs associated with foreign facilities, they are responsive to the possibility of entering their mail into the foreign country's mailstream, thereby eliminating added shipping and transportation charges and saving on postage costs. Although the appeal of remail is not limited to those who currently engage in overseas production, their heightened familiarity with operations outside of the U.S. makes them prime candidates to participate.

Even outside the non-profit/government sector, some organizations expressed concern that their constituents could look unfavorably upon the use of a foreign indicia – such an indicia would be perceived as "un-American" or akin to engaging in "offshore manufacturing." Others cited legal concerns, believing that their organizations are not allowed to accept foreign postmarks.

There was a small, but vocal, group within each segment who said they would consider remail only after it became a widely accepted practice. These individuals perceive a risk to their personal reputations, and possibly their job security, should the use of remail cause problems for their company. These mailers indicate that the unpredictable nature of using foreign production facilities and/or foreign posts could put their companies, and, therefore, themselves, at risk. There could be unanticipated costs associated with remail that reduce the arbitrage potential. Additionally, these mailers are concerned that the quality of mail produced overseas may decline over time and become unacceptable to their internal and external clients.

- **Companies & Mail Types Most Likely To Divert to Remail**

The general consensus is that the most likely companies to engage in remail are high volume commercial mailers of non-confidential advertising mail who can plan ahead to compensate for a longer time-in-stream.

"...if I were mailing out coupons for Pizza Hut or Blockbuster in mass mailings, I would be very, very interested in saving

anywhere I could... There's not that much difference between six days and four weeks, if you know what you're doing. You plan it ahead anyway."

Generally, the most common mail pieces that would be considered for remailing are non-time-sensitive pieces. There are concerns around putting faith in the time-in-stream estimates of foreign countries, and, therefore, selected participants would rather not risk delays or delivery failures for their time-sensitive or very important mail pieces. Given that many such pieces are sent First-Class, the expectation is that remail alternatives would be used primarily for non-time-sensitive Standard A and Periodicals mail, such as general bulk advertising mail and periodic mail (financial reports, membership directories, etc.).

III. IMPACT OF KEY FACTORS ON THE WILLINGNESS TO REMAIL

- **Price Incentives**

Overall, mailers in the focus groups indicated they would need savings ranging from 10% to 50% to consider remail, depending, primarily, on the volume of mail in question. Remail alternatives that offer smaller savings for the mailer are only appealing to those with especially high volumes. For non-profit mailers, particularly, who often use volunteer labor for their printing/production activities, postage cost savings would need to be quite substantial for them to consider remail options.

Mailers are particularly interested in the stability of cost savings over time. The concern is that the U.S. Postal Service would respond to the removal of ABA remail restrictions by increasing fees on foreign mail entering the U.S., thereby, eroding the arbitrage potential for companies engaging in remail.* Given that substantial start-up costs could be associated with switching to ABA remail, mailers are interested in remail only to the extent that foreign posts or mail consolidators could provide them with assurances of sustained savings.

- **Address Correction**

Both Commercial Client-Based Companies and Non-Commercial Mailers indicate that the provision of address correction, mail forwarding, and return of undeliverable mail services are critical factors affecting their willingness to

* Most large-scale domestic mailers who do not engage in international mailings have little, if any, knowledge of terminal dues and foreign postage rates.

engage in ABA remail. Such services substantially reduce costs associated with the production of the mail by allowing companies to update their mailing lists and successfully reach their customers (i.e., deliver products to the correct recipient). Mailers did volunteer, however, that address correction services could be purchased through third-party companies using the U.S. Postal Services' national change of address database. Accordingly, if the total savings associated with remail outweighed the added cost of using third-party address correction systems, remail would be considered.

- **Delivery Time**

In general, mailers are reluctant to send time-sensitive mail pieces via a remail option. For example, insurance firms are legally required to respond to individual claims within a certain time frame and it could be more risky to send their responses via remail. Commercial Client-Based Companies, as noted earlier, are particularly adamant about their need for relatively quick delivery times. Many distinguish themselves on the basis of the timeliness of their responses to clients' requests for service and/or products.

This issue aside, Commercial Advertisers, who face fewer time constraints, would be willing to adjust their production schedules to allow for potential extensions of time-in-stream associated with the use of remail. Here, the more important issue concerns the reliability of delivery time. As long as foreign countries can guarantee a delivery time range, whatever it is, these companies are prepared to factor this additional time into their planning and implementation schedules.

- **Indicia/Return Address**

Primarily for reasons associated with maintaining their companies' reputations, some First-Class and Standard A mailers would object to the use of a foreign indicia and return address. Some mailers expressed fear over potential objections that American jobs are being given away. In addition, Non-Commercial Mailers believe that part of their reputation as a respected community-orientated organization results from the fact that all of their production and preparation processing takes place within their community. In addition, some non-profit organizations anticipate an objection by their constituents that donations should be kept completely within the city in which the non-profit organization is located.

The main theme of these objections is that remail is not currently standard practice, and there is an assumption that the public will not immediately accept a transition to the use of remail. Thus, companies whose reputations are

associated with a local community are more likely to delay transitioning to remail alternatives until the practice becomes commonplace and more generally accepted by the public as a natural and reputable evolution in mailing practices.

- **Issues with Foreign Countries/Posts**

Finally, several mailers of each class of mail are concerned about quality and reliability issues surrounding the use of remail, especially when printing and/or production in a foreign facility is taken into consideration. Commercial Client-Based Companies, in particular, demand a high standard of paper and print quality.

The expectation is that with certain developing countries, quality control would suffer and additional costs could be associated with traveling overseas to handle quality concerns in person. Mailers express a greater willingness to deal with "more reputable" countries to which their company already sends mail, or that are close in proximity, in the event an in-person appearance is necessary. The use of mail consolidators to oversee the quality of foreign production could mitigate these concerns for a sizable group, however.

Mailers are also concerned about the delivery reliability from foreign countries. Issues such as the stability of foreign governments and labor forces lead mailers to shy away from considering certain developing countries as suitable venues for remail. In addition, respondents are particularly concerned about their ability to receive guarantees that their mail would actually be delivered. The use of branded carriers as a means of increasing confidence in delivery is appealing to such mailers. Others suggest that delivery confirmation services would need to be provided by the foreign posts for them to consider the use of remail.

IV. AWARENESS & EVALUATION OF CURRENT RESTRICTIONS

Very few mailers who participated in the groups had any prior awareness of either the existence of ABA remail or any restrictions prohibiting it. A small contingent knew of the general prohibitions on remail; however, they did not know of the restriction or article by name or number. After a summary of Article 43 and the related Article 49 provisions was provided, mailers generally agreed that Article 43 was the most effective restriction for ABA remail. This restriction is seen as highly penalizing to the mailer and the potential savings that might be garnered would not be worth the financial consequences or the risk of negative publicity associated with its effective enforcement. In further discussions, it became clear that the risks associated with ignoring Article 43 could be so significant that even in the absence of strict enforcement, a sizable group

would refrain.* In summary, mailers believe that very few companies would be willing to engage in remail with Article 43 in place.

"My company prides itself on its reputation as a AAA company and wouldn't want to jeopardize their reputation by being involved in some fraudulent illegal entry scheme."

Mailers view Systems Harmonization and the Revision Mechanism as similar to one another and much less powerful than Article 43, suggesting that these restrictions might make the use of remail somewhat difficult, but not impossible or even unattractive. Because these provisions are aimed at the foreign countries as opposed to the individual mailer, the focus for mailers would be on strategies that would minimize the risk associated with the enforcement of these restrictions.** Mailers believe it would be possible for their companies or their mail consolidators to monitor the mail volume or poundage coming from various countries and avoid sending remail through countries approaching their limit.

"Deutsche Post right now knows how much mail is coming or going.. Some mailing companies are government subsidized, so you can get access to the information and find out what the balance is. You can get it through the post office... I mean, that's public information... And I would see people like World Distribution, TNT, making these decisions for me and other mailers. And they carry enough mail – they know how much is going."

Of course, a specific concern associated with these restrictions is whether foreign countries would be able to retroactively impose fees on companies once the tonnage limit is reached. Because unanticipated costs cannot be tolerated, some mailers say they would go so far as to require binding contracts with third-party mailers that would prohibit the imposition of retroactive fees.

Mailers view the Bulk Mailing Option as an extremely effective deterrent for remail assuming it can be enforced. At least among the mailers interviewed, this restriction is considered to be just as effective as Article 43 in preventing the use of remail. Most mailers view reaching the volume limit as unavoidable and, therefore, the use of remail in this situation might be especially risky. In addition, there seems to be some confusion about who would levy the penalty or fine. Needless to say, mailers recognize

* Because mailers are unaware of offenders and assume that the U.S. Postal Service does or is capable of detecting such offenders, they would be dissuaded from engaging in remail. Fear of public exposure and being a "scapegoat" are powerful deterrents, according to several group participants.

** In particular, high volume mailers feel less vulnerable to these restrictions, suggesting that foreign countries might be willing to absorb imposed fees in an attempt to maintain their major clientele.

that their identities would be immediately known, but were unsure whether the U.S. Postal Service or the foreign post would impose a fine on them. Just as with Systems Harmonization and the Revision Mechanism, however, the ability of countries to impose fees retroactively is an important consideration for respondents. If countries could not impose retroactive fees, some mailers would be more willing to consider remain under the Bulk Mailing Option, until they get caught.

V. PERCEIVED U.S. POSTAL SERVICE RESPONSES TO THE REMOVAL OF ARTICLE 43

In general, mailers believe that repeal of Article 43 would lead to drastic measures on the part of the U.S. Postal Service to avoid operating losses. The consensus is that the first response would be a domestic rate increase in an attempt to offset revenue losses. Some question whether public opposition would be sufficient to thwart such increases, while others pointed to legislation that mandates that the Postal Service "break-even."

Additionally, some mailers suggest that the U.S. Postal Service might even attempt to slow down the delivery of foreign mail in an effort to combat revenue losses. Beyond reducing postage and improving delivery consistency, mailers did not believe that the USPS could do much to strengthen its existing service in an effort to maintain its customer base.