

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Special Study on Issues Related to  
Flats Operations

Docket No. SS2022-1

**COMMENTS OF THE NEWS/MEDIA ALLIANCE  
ON THE POSTAL SERVICE'S FLATS PLAN**

(October 16, 2023)

The News/Media Alliance (“N/MA”)<sup>1</sup> respectfully submits these comments regarding the Postal Service’s Flats Plan, which was submitted to this Commission on October 6, 2023. The Commission should reject the Postal Service’s October 6 submission and direct it to address the deficiencies identified in these comments. As submitted, the Plan lacks the comprehensiveness, metrics, and accountability needed to remedy the well-established Flats inefficiencies.

N/MA urges the Commission to:

- Address deficiencies in the Postal Service Flats Plan Pursuant to Section 206 of the Postal Service Reform Act of 2022, which falls short of the comprehensive plan to control Flats costs that Congress intended; and
- Highlight that the Service’s Flats Plan fails to include measurable metrics to ensure accountability for its planned reforms.

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<sup>1</sup> N/MA is the leading voice for the news and magazine media industries that collectively generate more than \$40 billion in annual revenue. N/MA members mail substantial volumes of Flats, particularly in Periodicals and Marketing Mail, and will be directly affected as the Postal Service implements the plan if approved by the Commission.

**I. CONGRESS INTENDED FOR THE FLATS OPERATIONS REFORM PLAN TO REMEDY THE IDENTIFIED DEFICIENCIES IN OPERATIONS AND EXCESSIVE COSTS**

In the Postal Service Reform Act (“PSRA”), Congress directed the Commission and Postal Service to work to improve Flats operations and costs.<sup>2</sup> To this end, Congress tasked the Commission, in consultation with the Inspector General of the Postal Service, to conduct a study to:

(A) *comprehensively identify the causes* of inefficiencies in the collection, sorting, transportation, and delivery of Flats; and

(B) quantify the effects of the volume trends, investments decisions, excess capacity, and operational inefficiencies of the Postal Service on *the direct and indirect costs* of the Postal Service that are attributable to Flats.

PSRA, Section 206(a) (emphasis supplied). The Commission issued its *Flats Operations Study Report* on April 6, 2023.

Next, Congress directed the Postal Service, within six months after receiving the Commission’s report, to:

(A) develop and implement a plan to remedy each inefficiency identified in the study conducted under subsection (a)(1) to the extent practicable; and

(B) if the Postal Service determines that remedying any such inefficiency is not practicable, provide to Congress and the Postal Regulatory Commission an explanation why remedying such inefficiency is not practicable, including whether it may become practicable to remedy such inefficiency at a later time.

PSRA, Section 206(b)(1). Before the Postal Service’s plan is implemented, the Commission must approve it. PSRA, Section 206(b)(2)(B). After a public comment

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<sup>2</sup> Pub. L. 117-108, 136 Stat. 1127 (2022), Section 206(a)(1), April 6, 2022.

period on a draft of the plan, to which N/MA responded,<sup>3</sup> the Postal Service submitted its Plan.

The Commission must now decide whether to approve or reject the Postal Service's Plan. While we appreciate the effort that the Postal Service has put into this process and its discussion of various initiatives, the Plan relies in part on proposals that Congress did not instruct it to use, does not address some of the issues identified by the Commission, and fails to establish metrics and a process by which the Postal Service will be accountable for meeting those metrics. Accordingly, the Plan, even if implemented as currently proposed, will likely fall well short of correcting the Postal Service's long-standing problems with Flats costs. The Commission should insist on improvements to achieve the goals articulated in Section 206 before giving its approval.

Unfortunately, the Plan's first recommendation is to raise rates. Rate increases are not responsive to the Congressional directive, which focused exclusively on flats costs. Congress directed the Plan to address inefficiencies in the collection, sorting, transportation, and delivery of Flats, and to focus on the effects of the volume trends, investments decisions, excess capacity, and operational inefficiencies. On the contrary, Congress directed the Postal Service to consider the inefficiencies and excessive costs found in the Commission's report when setting rates, so that mailers would not be punished for the Service's own failings.

Nor would raising prices on Flats address the fundamental problem of *excessive costs* in Flats-related operations. Higher rates will continue to reduce Flats volumes but that will not solve operational inefficiencies; in fact, it is likely to exacerbate them. Flats

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<sup>3</sup> Attached here are N/MA's comments to the Postal Service, filed September 15, 2023.

volumes have already declined but increases in unit costs continue to outpace inflation. The Plan needs to implement operational improvements that reduce unit costs. Raising prices will not accomplish this goal.<sup>4</sup>

Further, the Plan does not go far enough to facilitate the mailer-Postal Service collaboration that has been missing in past efforts. The Office of the Inspector General recently found that the Postal Service errs in “not leveraging the mailing industry’s expertise to develop and implement initiatives” to reduce flats costs.<sup>5</sup> Although the Plan addresses collaboration, it does not commit to an ongoing two-way dialogue in which it could benefit from mailers’ insights on preparation, entry, and related activities, as N/MA had urged. Instead, for example, Section 3.4.5, entitled Mailer Compliance – USPS Interface with Mailing Industry, appears to contemplate one-way communications from the Postal Service to mailers rather than a process through which mailers and the Service can work together to identify better solutions.

Historically, the Postal Service has attempted to “solve” operational inefficiencies by shifting the problem to mailers, imposing burdensome mail preparation and entry requirements. The Plan submitted raises the possibility that the Postal Service would reduce maximum bundle size and weight, forcing mailers to create additional bundles and amounting to a *de facto* postage increase.

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<sup>4</sup> Nor does the Flats Plan mention the role that pricing *does* have in reducing costs – by incentivizing cost-efficient mail preparation, including destination entry and co-mailing. The Postal Service’s recent rate proposals for workshare discounts used by Flats mail more closely approach efficient rate design, which will in turn encourage greater mailer worksharing to prepare Flats mail in the least combined-cost manner.

<sup>5</sup> Office of the Inspector General, *Flats Costs Coverage*, Audit Report Number 22-166-R23, at 7 (June 29, 2023) (“*OIG Flats Costs Audit*”).

Discussions with the mailing industry through direct communications or via the Mailers' Technical Advisory Committee, as the Plan describes, is highly desirable. What is missing from the Plan, however, is a commitment to ongoing discussions until the problems are resolved, or any metrics to track the effectiveness of proposed changes in mail preparation.

Third, the draft plan omits several important cost savings opportunities identified earlier this year in the Commission's recent *Flats Operations Study Report*. For example, that *Report* identified changes in the Postal Service's processing network as potential causes of increased bundle breakage. While the Plan devotes many pages to mailers' putative roles in causing bundle breakage, it does not address the Postal Service's own bundle processing operations and well-documented operational stress points that contribute to the problem. Nor does the Plan's discussion of the Commission's findings of cost issues in mail processing and transportation activities contain enough specifics to constitute a plan against which progress can be evaluated.

Finally, and most importantly, N/MA is concerned that the Flats Plan does not adequately lay out metrics for all ongoing and future initiatives that will facilitate accountability. We note that the OIG earlier this summer faulted Postal Service initiatives for not being designed with "specific, measurable objectives."<sup>6</sup> Unfortunately, the Plan does not offer improvement. Although the Plan mentions that the Service will set metrics and measure financial results, it does not say if, how, and when those metrics and financial results will be made publicly available and what the Postal Service must do if metrics are not met.

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<sup>6</sup> *OIG Flats Costs Audit*, at 4 & 7.

This continues a long and frustrating pattern of the Postal Service describing proposed initiatives or characterizing its ongoing initiatives as a remedy to this particular problem, without offering any metrics by which to evaluate success. As N/MA stated in its previous comments in this docket:

In last year's ACD, the Commission faulted the Postal Service for being "unable to determine how its operational initiatives and/or changes will impact costs and service." *FY2021 ACD* at 277. Unfortunately, similar flaws beset the Rule 3050.50(f) Operational Initiatives Report. See *FY2022 ACR*, USPS-LR-45 Flats Paragraph (f). The Postal Service repeatedly states that it cannot determine the effect of any particular initiative. *E.g., id.* at 1-2 ("it is neither possible to identify with certainty which initiatives contributed to a particular result nor to isolate the effects of each initiative"). It merely lists an initiative and offers some reason why that initiative might reduce costs. There is still, after all these years, no cost-saving target or a means to measure progress.

*Comments of N/MA – The News/Media Alliance*, Docket No. SS2022-1, at 11-12 (Jan. 18, 2023) (footnotes omitted).

Unfortunately, the Plan does not contain publicly available targets for measurable cost savings for each identified initiative. Nor does the Plan explain how the Commission and mailers will be able to evaluate its performance, because without specific publicly available targets there are no metrics against which the Service's performance can be evaluated. No sanctions for a failure to achieve a target metric are identified.

Instead, the Plan lists initiatives and suggests why they might reduce costs. Consequently, the Plan will not provide the accountability and transparency necessary to assure the Commission, OIG, Congress, and mailers that the Postal Service is successfully reducing excessive Flats costs and remedying the identified inefficiencies. Stronger accountability for fixing the Flats costs problems, and sanctions for not doing

so, are essential. It would be entirely consistent with Section 206(c) of the PSRA for the Commission to disallow any non-compensatory surcharge for Flats products if the Postal Service fails to meet a set of objective and publicly available metrics for reducing costs and inefficiencies.<sup>7</sup>

Finally, the Postal Service still is not planning to measure the Flats volumes that are not scanned by machine. The failure to measure pieces that are processed manually will leave a large gap in understanding the unit costs of manual flats processing. The Commission should review this alarming concern.

## **II. CONCLUSION**

The Commission is under a Congressional directive to use its substantial regulatory authority not only to identify and quantify the Postal Service's problems in handling Flats, but also to ensure that the Service implements operational reforms to remedy them. N/MA respectfully believes that the Plan submitted by the Postal Service on October 6, 2023, is insufficient, does not provide for enforceable accountability, and will once again fail to remedy the long-standing Flats inefficiencies and runaway costs

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<sup>7</sup> Recently, N/MA recommended that disallowance of the underwater surcharge on Periodicals class could serve as an appropriate performance incentive mechanism. See *Comments of the News/Media Alliance and the National Newspaper Association*, Docket No. RM2021-2 (Sept. 15, 2023).

identified by the Commission. The Commission should not approve the Plan until the shortcomings identified herein have been rectified.

Respectfully submitted,

THE NEWS/MEDIA ALLIANCE

By: William B. Baker  
William B. Baker  
POTOMAC LAW GROUP, PLLC  
1717 Pennsylvania Avenue, N.W.  
Suite 1025  
Washington, DC 20006  
Telephone: (51) 317-1922  
E-Mail: [wbaker@potomaclaw.com](mailto:wbaker@potomaclaw.com)

### **ATTACHMENT**

Letter from Holly Lubart, Vice President, Government Affairs, News/Media Alliance, to Chief Counsel, Global Business & Service Development, Office of General Counsel, United States Postal Service (September 15, 2023)





September 15, 2023

Chief Counsel, Global Business & Service Development  
Office of General Counsel  
475 L'Enfant Plaza, SW  
Washington, DC 20260-1135

Re: *Flats Plan*

The News/Media Alliance (N/MA) is pleased to submit its views on the Postal Service Flats Plan Pursuant to Section 206 of the Postal Service Reform Act (PSRA) of 2022.<sup>1</sup> N/MA is the leading voice for the news and magazine media industries and our members use Flats mail in all classes of mail, particularly Periodicals and USPS Marketing Mail.

As Flats mailers, N/MA members remain concerned that the Postal Service has struggled to control Flats costs for many years. The Flats Plan required by the PSRA is a vital component in a process mandated by Congress to focus the attention of the Postal Service, the Office of Inspector General (OIG), and the Postal Regulatory Commission on Flats costs. N/MA has submitted comments to the Commission regarding Flats costs on numerous occasions and has participated in the current process established by the PSRA.

N/MA appreciates the Postal Service's efforts to lay out in the draft plan the various initiatives that it has undertaken, is currently undertaking, or plans to undertake to bring Flats costs under control. We recognize and acknowledge that some of the initiatives described relate to the overall network and some specifically relate to flat-shaped mail. We are hopeful that initiatives of both types will be successful in increasing efficiency and reducing costs while maintaining adequate service performance. However, the draft plan does not contain enough specifics to allow us to conclude that these initiatives will achieve this goal.

N/MA is also encouraged that the Postal Service is seeking industry input on several of the initiatives identified, including bundle requirements. We hope that mailers will be included in similar discussions on all initiatives, particularly on matters related to mail preparation and entry, rather than having decisions imposed on such topics without input.

We believe that to be effective the Flats Plan must incorporate four crucial elements:

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<sup>1</sup> See 88 Fed. Reg. 55740 (Aug. 16, 2023).

- A Focus on Lowest Combined Costs – The Postal Service must recognize that reducing postal processing costs at the expense of an increase in mail preparation costs for mailers and their supply chain partners will not yield the desired outcome. At the same time, work-sharing incentives need to be set in an economically efficient manner to encourage improved mail preparation and procedures;
- A collaborative process -- Input from the affected mailers is necessary to ensure that the resulting network and processing procedures have the highest likelihood of success;
- Clear and verifiable metrics – The plan must establish proper metrics by which the success of the initiatives can be judged. As noted by the Commission in its Congressionally mandated study, this element has been missing from previous studies and plans to reduce flats costs; and
- Examination of all cost centers – The draft plan must examine the full range of cost centers that have led to flats processing issues for years.

We are disappointed that the draft Flats Plan leads with, and prominently highlights, price increases as a key component of the plan. The Postal Service makes very clear its intention to use pricing to increase revenue from Flats. Raising prices on Flats will not address the fundamental problems of excessive costs in flats-related operations. Indeed, if the Postal Service is correct that decreasing volume leads to increased unit costs, then price increases would be counterproductive to the goal of reducing unit costs. If, on the other hand, pricing led to increased volume that might help to reduce per-unit Flats costs, but the draft Flats Plan does not mention that possibility.

N/MA is also concerned that the Flats Plan does not mention that pricing *does* have a role in reducing costs – by incentivizing cost-efficient mail preparation, including destination entry and co-mailing. The Postal Service can reduce costs by setting workshare discounts used by Flats efficiently, which USPS has not done in the past. Fully passing through avoided costs will encourage greater mailer work-sharing to prepare Flats mail in the least combined-cost manner. Setting workshare discounts at avoided costs should be included in the Flats Plan.

The issue of lowest combined costs is an important consideration for the bundle breakage initiative. The possibility that the Postal Service will reduce maximum bundle size and weight would force mailers to create additional bundles and could amount to a de facto postage increase in bundle charges. Further, additional packaging materials for bundles on pallets could slow production and add cost to mailers. These factors must be weighed carefully.

With respect to the need for the plan to facilitate a collaborative process, we remain concerned that such a process has been missing in past efforts. The OIG recently found that the Postal Service errs in “not leveraging the mailing industry’s expertise to develop and implement initiatives” that can reduce flats costs. For example, the costly history of the Flats Sequencing System (FSS), which the Postal Service deployed despite well-articulated concerns from mailers that the FSS would not be successful, demonstrates that the Postal Service may need to modify plans in response to mailer feedback. A more recent example involves the last postal-industry flats operations review effort, known informally as The Bolger Group for its origins at the Postal Service’s Bolger Center. While beginning in a productive and collaborative manner, ultimately the

Postal Service moved forward with the network redesign incorporated in the Delivering for American plan despite questions raised by the industry members of the group about several of the elements of the redesign, including the movement of delivery operations from local delivery units to Sorting and Delivery Centers. With many N/MA members seeking to enter their Periodicals mail as deeply into the system as possible to achieve overnight delivery of hot-off-the-press news and information, we remain concerned about potential cost and service impacts of moving delivery operations upstream from local Destination Delivery Units. We believe this will need to be monitored closely in a collaborative manner.

Another area where collaboration will be needed involves bundle breakage, which is covered extensively in the draft plan. Section 3.4.5, entitled Mailer Compliance – USPS Interface with Mailing Industry, appears to contemplate one-way communications from the Postal Service to mailers rather than a process through which mailers and the Postal Service can work together to identify better solutions. While the Postal Service understands its operations, it does not have the same depth of understanding of mailers' postal operations. Solutions devised only by the Postal Service may create unintended – and potentially costly -- problems when they are imposed on mailers' procedures.

Turning to metrics and accountability, N/MA is supportive of the process identified to develop a rigorous system to quantify the financial results of its various initiatives to measure their effectiveness. However, we are concerned that the Flats Plan does not adequately lay out metrics for all ongoing and future initiatives. We note that the OIG earlier this summer faulted Postal Service initiatives for not being designed with “specific, measureable objectives.” Further, the plan does not indicate if, how, and when those metrics and financial results will be made publicly available. To advance the draft Plan's goals, the Postal Service must first set targeted, measureable cost savings for each identified initiative, with verifiable data sources, making this information publicly available. Subsequently, the Postal Service must compare the actual results to the targets. Doing so is necessary to provide accountability and transparency and help to assure the Commission, OIG, Congress, and mailers that the Postal Service is successfully reducing Flats costs.

In terms of examining all cost centers, the draft plan appears to omit several potential cost savings opportunities identified earlier this year in the Commission's recent Flats Operations Study Report. For example, that Report identified changes in the Postal Service's processing network as potential causes of increased breakage. While the draft plan details many pages on mailers' roles in causing bundle breakage, the plan does not address the Postal Service's bundle processing operations and well-documented operational stress points that contribute to the bundle breakage problem.

Further, while N/MA understands the cost tradeoff with metrics regarding manual operations, both manual processing and allied operations appear to have been significant contributors to increased flats costs over the years. If USPS does not plan to measure flat volumes that are not scanned by machine, there will be a large gap in understanding the unit costs of manual flats

processing. We agree with the Commission that additional metrics are needed to address these continuing areas of concern.

Congress mandated a serious examination of inefficiencies in flats mail processing, transportation, and delivery and a path to a long-term solution. We look forward to being a partner with the Postal Service in this endeavor.

Sincerely,

*Holly Lubart*

Holly Lubart  
Vice President, Government Affairs  
N/MA – The News/Media Alliance  
4401 N Fairfax Drive  
Suite 300  
Arlington, VA 22203