

Partnership Opportunities for the USPS and the PC Postage Industry

Introduction

Stamps.com welcomes the President's Commission on the US Postal Service and applauds your efforts in determining the steps required to keep the USPS as a relevant and affordable component of our nation's commerce. We are pleased to participate in the hearings and to discuss our industry, our company, our technology and the possibilities of an enhanced partnership between companies like ours and the USPS.

Industry and Company Background

Stamps.com was formed in 1996 with the idea of making access to postage more convenient and cost effective for businesses and consumers. After a two and one half year development and regulatory approval process, we launched our initial product in the fall of 1999. Stamps.com is one of four companies that are currently licensed to offer services in our industry, commonly referred to as the PC Postage industry. Total postage printed by all customers of the PC Postage industry totaled approximately \$100 million for fiscal year 2002.

From inception to date, Stamps.com has spent \$58 million on research and development, and \$120 million on marketing—with no financial contribution other than our own shareholder's funds—to bring a more convenient form of postage to large businesses, small businesses, home offices and consumers. Our current customer base numbers approximately 290 thousand, approximately 80% of all PC Postage customers.

PC Postage is the original form of intelligent mail or I-Mail®. Each PC Postage indicia is completely unique, and can be traced back to the originator of the mail. PC Postage was originally called the Information Based Indicia Program, or IBIP, by the Postal Service. Today, the IBIP system has become the blueprint for other forms of postage evidencing systems (e.g. postage meters) to add intelligent mail capabilities. The commission has received significant testimony on intelligent mail, and we agree that this form of mail represents the future of the USPS.

Stamps.com currently offers three variations on PC Postage to its customers. First, traditional Internet postage, which is typically printed directly on envelopes, is very convenient for doing mailings to lists of addresses. Second, NetStamps™, which is printed on special secure labels (25 labels per 8 ½” by 11” page) and can be used similarly to ordinary postage stamps. Third, plain paper shipping, which is a very convenient feature for accessing USPS package services with a single, all-in-one shipping label that may be printed on plain white paper.

For access to our service our customers pay us a monthly convenience fee ranging from \$4.49/month to \$15.99/month, depending on postage volume. The customer purchases and pays for postage at face value, and the convenience fee is an additional cost to the customer.

Benefits of PC Postage to the USPS

We believe that PC Postage provides significant cost savings to the USPS, that PC postage has driven additional business away from other carriers to the USPS, and that PC Postage has provided an enhancement to mail intelligence and to mail security.

The Postal Service has estimated that 31% of all customer visits to retail post offices just to purchase stamps. The USPS has estimated that it costs \$0.24 for every dollar of revenue whenever a customer purchases stamps at a retail post office (even those purchased via USPS vending equipment cost \$0.14 per dollar). Before becoming Stamps.com customers, approximately 80% of our customers obtained their postal services via post office retail locations. Clearly PC Postage customers, who rarely visit retail post offices, are a far more profitable customer segment for the USPS.

The USPS also saves additional costs due to the way PC Postage software prepares the mail. Most variations of PC Postage automatically cleanse delivery addresses and automatically apply a postnet barcode to every mail piece (note that this is not the case for Stamps.com’s NetStamps feature which does not contain any delivery addressing information). These features of PC Postage reduce the amount of undeliverable-as-addressed mail—estimated to cost the USPS \$1.9 billion per year—and provide a large time and cost benefit during the processing of mail. Stamps.com has previously argued for a \$0.04 discount per envelope based on these cost savings. (In November of 2000, the U.S. Postal Rate Commission recommended the creation of a new discounted rate for First Class mail sent using PC Postage, but the recommendation was later rejected by the Postal Board of Governors.)

In addition, we believe that the convenience of PC Postage has helped drive more revenue to the USPS and away from other shipping services. In a survey of the Stamps.com customer base, customers told us that the USPS' share of their overall shipping business had increased from 42% before they were a Stamps.com customer to 70% afterwards.

Following the events in the fall of 2001, the USPS began to value uniquely identifiable mail, which is important for security and revenue protection. The capability to trace an envelope or package can help reduce the threat of hazardous materials contained in a mail piece. Information about the mail can also help the USPS more effectively plan, monitor and manage its activities. Unique mail or package identifiers can also be used to facilitate additional postal services such as the CONFIRM service or Delivery Confirmation (or even first class mail tracking) which make the USPS more competitive and enhance USPS revenue opportunities.

Multiple Roles of the USPS

When dealing with private sector companies such as Stamps.com, the USPS may wear multiple hats. The USPS can sit in the role of a regulator, can be a partner and may even act as a competitor.

The USPS is first and foremost the regulator of the PC Postage industry. The USPS approves PC Postage technology, products, features, processes, and audits all of the financial transactions of the industry. The approval process for new products and services has been lengthy and costly for Stamps.com and other PC Postage vendors, and ongoing regulatory requirements are a significant portion of the overall business costs of the industry.

The USPS also plays the role of partner with our industry. The USPS sometimes participates in press announcements with the PC Postage industry, and it provides some distribution of marketing information within some of its retail post offices today. Historically the promotional activity by the USPS for the PC Postage has been relatively limited. (More recently, the USPS appears more willing to work together with the industry to do more promotions.)

The USPS can also act as a competitor to our industry. At times, the USPS has been more interested in building its own technology solutions rather than working with companies like Stamps.com to provide those solutions (which could have been done at a much lower cost). The USPS offers certain Web services at www.usps.com that compete with services offered by the PC Postage industry, particularly for lower volume customers. At the same time, the promotion of the private companies in the PC Postage industry at www.usps.com is currently fairly minimal.

Opportunities to Enhance the Partnership with PC Postage

The PC Postage industry directly supports several USPS Transformation Plan initiatives, including expanding access to postal services, using technology to enhance value, enhancing package services, and removing low cost postal transactions from the retail lobby. Given all of the clear benefits provided by the PC Postage industry to the USPS, we believe that the USPS should and could promote the industry more heavily. We also believe that the Postal Service should offer financial incentives to customers who use PC Postage.

Stamps.com has spent over \$120 million on marketing in the PC Postage industry; the USPS has spent a small fraction of that amount on promotion of the PC Postage industry. The USPS has the ability to reach their customers in many different ways: retail post offices, website, sales force, carriers, advertising, and others. We strongly believe the USPS could inject significant growth into the PC Postage industry through any or all of these channels, and at very little incremental cost to itself.

We believe that the USPS should also provide financial incentives to try to switch business and consumers to PC Postage and away from retail post offices. Today, because of the necessity to charge an additional convenience fee, PC Postage customers pay more for postage than a retail customer despite the clear evidence that they are a more profitable customer. The USPS offers various work sharing discounts to large mailers for mail preparation and presentation because they reduce USPS operational costs. Despite the evidence that PC Postage also provides clear operational cost savings, no comparable discounts or incentives are offered to PC Postage customers.

Additionally, the PC Postage industry is currently given financial disincentives to pursue higher dollar volume customers in the form of a requirement that the PC Postage industry must pay for the credit card fees for individual customer postage purchases when those purchases exceed a set amount. A higher volume customer may cost Stamps.com more in credit card fees than the company earns in convenience fee revenue.

PC Postage companies must either fund these additional credit card fees for their high volume customers, or must pass the fees on to the customers (which, of course, provides a disincentive to use PC Postage). High dollar volume customers also tend to be heavy users of shipping, a segment that the USPS normally pursues heavily as customers. This inconsistency is even more difficult to understand given that the USPS accepts (in fact, encourages) usage of credits cards in all Postal retail locations with no volume limitations or additional fees. Furthermore, we believe that all USPS competitors that offer shipping services offer usage of credit cards online or offline with no limitations or penalties.

Summary

There are significant opportunities for partnerships between the USPS and private sector companies such as Stamps.com. The USPS should try to enter into partnerships whenever a partner that possess complementary expertise is available. Partnerships between the USPS and private industry can result not only in better products and services to USPS customers but can also significantly reduce costs and enhance revenue for the USPS.

Although the PC Postage industry is currently a relatively small percentage of total USPS business, we believe that with additional USPS support it can and should grow to be a significant contributor to overall Postal revenue. Given the cost savings, the intelligent mail capabilities, the enhancements to mail security, and the competitive benefits of PC Postage to the USPS, we believe that the Postal Service can and should do more to encourage the use of PC Postage. We view our partnership with the US Postal Service as our most important relationship, and we are always looking for ways to work more closely with the USPS to improve the delivery of USPS services to the customers that we share.