TESTIMONY OF

ALLEN ABBOTT

EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

PAUL FREDRICK MENSTYLE, INC.

AND

CHAIRMAN,

AMERICAN CATALOG MAILERS ASSOCIATION

BEFORE THE

US SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS,

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

AND

US HOUSE OF REPRESENTATIVES COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

JUNE 23, 2010

Good afternoon. My name is Allen Abbott, and I am the Executive Vice President and Chief Operating Officer of Paul Fredrick MenStyle, Inc., a direct marketer of men's apparel located in Fleetwood, PA. We design and distribute high quality men's clothing to customers throughout the United States. Paul Fredrick originates about 9 million pieces of mail each year and our Berks County employees are highly dependent on an efficient and affordable United States Postal Service.

I also serve as the Chairman of the American Catalog Mailers Association, an advocacy group that was formed on behalf of the catalog industry after the punishing rate hikes that our businesses experienced as a result of the 2006 postal rate case. The recent announcement of an exigent rate case by the USPS has sent shudders through an industry that is still trying to recover from the double whammy of the postal rate increase of 2007 and a full-blown economic recession that still lingers almost two years after its beginning.

Paul Fredrick operates no retail stores – we are 100% dependent on direct response marketing. Ten years ago the vast majority of our marketing strategy was built around mailing catalogs. Most of our customer communications and all of our new customer efforts started with a catalog distributed through the Postal Service. Today we are still committed to catalog distribution through the USPS, but the dramatic increase in the cost of mailing catalogs has caused us to commit more and more of our resources to alternative communications strategies. This occurs despite the fact that we know a new customer acquired through a catalog is more valuable than a customer acquired through any other prospecting channel.

Why the strategy shift? Why has our catalog circulation decreased by 29% from 2006 (the year prior to the exorbitant postal rate increases), while our overall sales have grown by 34%? Why do we now acquire only 10-15% of our new customers via catalog prospecting? According to our catalog printer, Quad/Graphics, catalog postage costs increased by 58% between 1997 and 2008, while the general inflation rate during that same period was just 34%. Since postage represents about half of our variable catalog costs, this has skewed the economics of mailing catalogs versus other marketing options, especially in the area of new customer acquisition.

Paul Fredrick loses money when we acquire a new customer – we are making an investment in the short term in order to assure downstream profits from those new customers in the long term. When our postage rates went up by 20% in 2007 with little prior notification, we needed to improve our prospecting response rates by about 15% just to maintain the same new customer cost. Since we knew we couldn't achieve this savings level in the short term, we were forced to reallocate our catalog prospecting budget to other channels. Additionally, the impact of other catalog businesses doing exactly the same thing was causing the size of all mailing lists to shrink, further reducing the universe of potential prospect names and thus the total number of prospecting catalogs mailed. This has been a vicious downward cycle and Paul Fredrick now mails only about half the number of prospecting catalogs we distributed just three years ago.

The recession of 2008-2009 also required us to look carefully at mailings to our own customers. The 2007 postal rate increase raised our "break even" sales per catalog requirement significantly. Reduced response rates during 2008-2009 further eroded our customer file circulation. As we have learned to be more effective email marketers, catalog mailings to our existing customers have been reduced even further. And now we are facing an exigent rate case that will further exacerbate the situation. I can absolutely assure you that increasing catalog postal rates beyond the CPI will further erode mail quantity in the years to come. This will put the jobs at Paul Fredrick in jeopardy, along with tens of thousands of other catalog-related jobs at other companies across the country.

PMG Potter's 10-year plan for the USPS indicated potential losses of $230 billion over that period of time. By implementing a myriad of cost savings opportunities, that deficit might be reduced to $115 billion. The General Accounting Office responded by stating that the current USPS model is not sustainable. This is correct. The current situation is not sustainable, and everyone involved in the system needs to face this fact, doing what is necessary to change the model. As a business leader, trade organization chair and U.S. taxpayer, I am asking that the following steps be taken to address this dire situation:

- In the Postal reform legislation passed in 2006, Congress empowered the USPS to function more like a business. Please reinforce that mandate and encourage the USPS to aggressively move forward with both cost reduction and revenue enhancement activities rather than its intent to impose unfair postage increases.
- Encourage the USPS to start pricing products and services to maximize the individual customer variable marketing contribution, something every successful business does. Many of the costs in USPS pricing models are sunk; they will remain no matter what mail volumes are generated. The agency must understand those pricing strategies that will generate incremental customer contribution and go after them. I can guarantee you that a meaningful reduction in catalog prospecting postage would generate a great deal of incremental mail from Paul Fredrick. And this is true across the catalog industry. This is an example of a simple lever that will stimulate future mail volumes across all catalog companies, complete with the variety of mail this will generate in other catalogs, Standard and First Class mail letters and post cards, and packages, all of which will help cover USPS fixed costs.
- Aggressively challenge your fellow Members of Congress, the postal unions and everyone else who oppose the closing of non-productive postal retail and plant facilities or the amendment of archaic work rules that drive up costs. I am sympathetic that local changes can have a painful impact on those directly affected, but the simple truth is that the efficiency it creates is good for the majority over the long term. If you don't do this, costs will continue to grow and mail volumes will continue to shrink, ultimately costing more jobs in both the public and private sector.
- Allow the USPS to shift to a five-days-per-week delivery schedule. It is clearly not an optimal solution for my business, but we can live with five-day delivery if it generates the savings indicated by the PMG.
- Please adjust the inequities in the pension plan funding requirements for employees who have worked in both civil service and the Postal Service, insuring a fair apportionment of costs between the USPS and the federal government.

- Please adjust the funding requirements for USPS retiree health care benefits to be aligned with actuarial need. The dramatic pre-funding obligation adding $5-6 billion in annual funding requirement is a recipe for disaster for the long-term health of the USPS given where we are today.
- Please encourage persons with business backgrounds to be appointed to the USPS Board of Governors and the Postal Regulatory Commission in proportion to those with political experience. Today, 95% of the cost of running the nation's mail service is borne by businesses. It is critical that business interests and experience be represented in your top policy-making bodies.

The Postal Service has historically contributed a great service to the citizens of our country at no cost to the U.S. taxpayer. This will not last much longer if we all do not act to restore the fiscal health of this fine institution. I respectfully implore you to do so now.

Thank you.