



TESTIMONY OF

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**OUTSIDE THE BOX: REFORMING AND RENEWING THE POSTAL SERVICE,
PART I – MAINTAINING SERVICES, REDUCING COSTS AND INCREASING
REVENUE THROUGH INNOVATION AND MODERNIZATION**

HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE

U.S. SENATE

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INTRODUCTION

My name is Seth Weisberg, and I am the Chief Legal Officer of Stamps.com, a leading PC Postage company. In this written version of my testimony, I first provide background information about Stamps.com and the PC Postage industry, and then I discuss today's topic: How innovation and modernization can allow the Postal Service to maintain and improve services, reduce costs, and increase revenues.

BACKGROUND INFORMATION

PC Postage is Internet based computer software that allows customers to print their own postage using their existing computer and printer. Our software has developed to provide a full suite of modern cutting edge tools to mailers and shippers. We provide continuous product improvements and high touch customer support, all at negligible cost to the Postal Service. Stamps.com is the leading vendor, along with Endicia, in the US Postal Service PC Postage® program and the leading vendor in the USPS Customized Postage program with our PhotoStamps® product. Stamps.com specializes in bringing cutting edge Internet technology to mailers and shippers, and we currently serve over 500,000 registered PC Postage customers that are primarily small businesses from a cross-section of industries. Some sample customer testimonials are available at <http://www.stamps.com/postage-online/testimonials/>. In 1999, Stamps.com became the first company to offer a commercial software-only PC Postage solution, enabling customers for the first time ever to print real USPS postage from any Internet-connected PC and standard printer.

Customer adoption of PC Postage has grown rapidly since it was introduced, and has brought in new mail volume that would otherwise have gone to postal competitors. Just six years ago, PC Postage accounted for roughly \$250 million in annual postage sales. In 2012, Stamps.com and Endicia together accounted for over \$2.85 billion in postage sold. Stamps.com postage growth alone was more than 70%

year over year. That is right, growth even through the heart of the recession. The substantial majority of postage purchased through PC Postage is used on Priority Mail and Express Mail products – the classes of mail that provide USPS with its highest level of contribution above direct cost. Virtually all the Priority and Express (domestic & international) growth surge in recent years is generated through the PC Postage industry channel. A recent Postal Service study showed revenue through the industry PC Postage channel costs \$0.02 per \$1.00 of revenue compared to \$0.47 per \$1.00 through a USPS owned retail outlet.

PC Postage provides many benefits to the USPS, including at least six items: (1) PC Postage produces a secure, sender-identifiable mail piece which is important for security against biological or other attacks because it reduces the amount of anonymous mail in the mail stream; (2) PC Postage automatically checks addresses reducing the cost to the USPS of undeliverable-as-addressed mail; (3) PC Postage can adapt quickly to changes in rates and classifications; (4) the PC Postage product and industry help to educate postal customers on Postal Service requirements; (5) PC Postage mail includes intelligent mail barcodes optimized to work with current and future USPS mail processing systems; and (6) PC Postage provides Postal customers with cutting edge technology without the Postal Service having to pay for research, development, support or maintenance.

PC Postage directly supports several long term USPS initiatives, including expanding access to postal services, using technology to enhance value, and enhancing package services. In addition, as barcodes become increasingly more reliably scanned in mail processing centers, PC Postage is even more valuable in terms of real-time data for the USPS that can be used to improve tracking and tracing capability, to improve revenue protection, to enhance mail security and deter terrorism, and to provide valuable real-time data on customer mailing & shipping behavior.

In 2004, Stamps.com invented and launched PhotoStamps®, a new form of PC Postage through which consumers or businesses turn digital photos, designs or images into valid US postage.

PhotoStamps is used as regular postage to send greeting cards, letters, postcards or packages. We estimate that as much as 50% of the postage revenue from PhotoStamps is brand new revenue for the Postal Service as customers substitute from electronic communication back to physical mail, increase their usage of the mail, or purchase PhotoStamps for collector's items or gifts that never get used on mail. In addition, 72% of PhotoStamps customers have stated that PhotoStamps makes mail more exciting to send, 55% say PhotoStamps make mails more exciting to receive, and 56% say PhotoStamps makes their perception of the US Postal Service more positive or much more positive.

In 2008, we launched an Enterprise service targeted to organizations with multiple geographic locations. It features enhanced reporting that allows a central location such as a corporate headquarters greater visibility and control over postage expenditures across their network of locations. Customers such as government agencies increasing their use of small and home offices are attracted to our corporate enterprise solution based on our dramatically lower cost of ownership and visibility into individual employee activity from our sophisticated front-end reporting tool with real time data, improved web-based postage management tools, and enhanced web-based financial and administrative controls for central decision makers. The Enterprise service has resulted in a surge of usage of letter mail, with our customers' letter mail postage spend increasing more than 50% year over year.

Most recently, we have focused on higher volume shippers, as this is one of the most important strategic initiatives of the Postal Service. Our technology includes: (1) batch capability that allows users to print a large volume of shipping labels all at once; (2) database integration technology for seamless automatic import and export of information to and from a customer's internal order database; and (3) direct integration with eCommerce platforms including eBay, PayPal, Amazon.com, Yahoo and Google,

so that a user can read and write order information directly from our software into and out of these platforms. An e-commerce merchant with multiple stores can consolidate all their orders so they can ship them out with ease. With one click, they can directly import all of their order data from the most popular online marketplaces including eBay®, Amazon.com®, Yahoo!®, PayPal®, Google Checkout™ and Etsy, plus the most popular shopping cart software including ChannelAdvisor®, Magento®, osCommerce, ProStores™, Volusion®, X-Cart® and Zen Cart™. When they are ready to ship, they can just select the orders and print their shipping labels. All the shipping data including USPS Tracking will automatically post back to their web stores. They can also automatically order a carrier pickup, send an electronic manifest to the Postal Service, and generate a SCAN form, so all the carrier has to do is scan the form once and all of the packages are automatically in the Postal Service's computer systems. Stamps.com also has a deep integration partnership with Amazon's Merchant Marketplace. Merchants who sell in Amazon's Marketplace and ship the packages themselves can print postage for the packages via Stamps.com's integration as part of a seamless integrated process flow.

TODAY'S TOPIC

How innovation and modernization can allow the Postal Service to maintain and improve services, reduce costs, and increase revenues

We believe Public Private Partnerships are the best path forward for the Postal Service as technology innovation becomes increasingly important for its future. We think it would be a mistake to just dictate to the Postal Service that it should innovate new technology. Having the Postal Service create its own technology is not the most efficient approach. Instead, the Postal Service should encourage and enable the marketplace to develop, maintain and support modern technology. They should provide incentives for industry innovation that helps the Postal Service and its customers. This allows Postal Service customers to pick the best technology solutions for their needs. It is much more

efficient. We would suggest as helpful a recent OIG White Paper called Public-Private Partnerships: Best Practices and Opportunities for the Postal Service, published June 24, 2013.

The single best opportunity for growth is in e-commerce shipping. Forrester Research projects online retail sales will grow at a compound annual rate of 10% from 2012-2017. By 2017, the web will account for 10% of U.S. retail sales. Because the Postal Service already visits every consumer address and has tremendous capacity to deliver more at low marginal costs, it is uniquely positioned to benefit.

The Postal Service's eCommerce shipping business has been on fire because of a deeply successful public private partnership set up over a decade ago. The existence of the PC Postage industry is based on a partnership between the Postal Service and private industry that was forged in 1995 when the Postal Service intelligently decided that the extremely challenging technology issues that needed to be solved to allow a standard PC to print U.S. legal tender (in the form of postage) in a secure and convenient method were best solved by private industry. Public Private Partnership in the PC Postage Industry takes the form of the Postal Service regulating industry participants to make sure they are secure and work well technically with the Postal Service's systems. The Postal Service also partners with the industry to achieve mutual win-win goals of improving the customer experience, increasing revenue, and minimizing costs. Pat Donahoe and so many of the dedicated Postal veterans who have ably worked with us for many years, deserve much credit for the success story that is the partnership between the Postal Service and the PC Postage industry. This structure led to industry participants such as Stamps.com inventing ideas and solving technical challenges that were considered unsolvable by most companies in the postage meter and postal service arenas at that point in time, and those ideas and our intellectual property are still the cornerstone of all postage printed online today. Furthermore, the PC Postage industry has spent hundreds of millions of dollars each on marketing, new product development, and ongoing maintenance and support. The Postal Service and its customer get the benefit of this spend.

The growth opportunity with PC Postage has the attractive benefit of providing jobs, both in industry and in the Postal Service. Every package produced is ultimately delivered by a city or rural letter carrier. Growth in PC postage means more packages to deliver, more letters to deliver, more volume to service. The volume is everywhere, but especially significant in rural areas where the Postal Service's marginal cost structure for delivering beats its competition. Public Private Partnerships also enable services for all segments of the marketplace. PC Postage brings world class technology support for those citizens who rely on the USPS every day, and for the fast growing e-Commerce community.