



**TESTIMONY OF**

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**FOR THE**

**“FUTURE OF THE POSTAL SERVICE: A POSTAL POLICY FORUM”**

**COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM**

**U.S. HOUSE OF REPRESENTATIVES**

**JUNE 14, 2010**

## **INTRODUCTION**

My name is Ken McBride, and I am the Chief Executive Officer of Stamps.com, the 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 answer the questions posed in your invitation to join this panel.

## **BACKGROUND INFORMATION**

PC Postage is Internet based computer software that allows customers to print their own postage using their existing computer and printer. Stamps.com is the leading vendor in the US Postal Service PC Postage® program and the leading vendor in the USPS Customized Postage program. Stamps.com specializes in bringing cutting edge Internet technology to mailers and shippers, and we currently serve over 400,000 registered PC Postage customers that are primarily small businesses from a cross-section of industries (estimated to be about 85% of all U.S. PC Postage subscription-paying customers). Some sample customer testimonials are available at <http://www.stamps.com/postage-online/testimonials/>. Stamps.com is also a small business itself, with approximately 220 employees. 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. Stamps.com's fundamental technology breakthroughs in the late 1990s are the cornerstone of all US Postal Service postage printed online via a website or from a PC today.

PC Postage provides many benefits to the USPS, including at least seven 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 software has always been CASS certified and includes numerous address quality features reducing the cost to the USPS of undeliverable-as-addressed mail; (3) PC postage is run from a centralized location so

it provides valuable real-time information to the US Postal Service on customer mailing and shipping behavior; (4) PC Postage can adapt quickly to changes in rates and classifications; (5) the PC Postage product and industry help to educate postal customers on Postal Service requirements; (6) PC Postage mail includes intelligent mail barcodes optimized to work with current and future USPS mail processing systems; and (7) 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, enhancing package services, and removing low cost postal transactions from the retail lobby.

In addition, as information-based indicia (IBI) and other barcodes begin to get reliably scanned in mail processing centers in the near future, PC Postage will become even more valuable in terms of real-time data for the USPS that can be used to improve revenue protection, to enhance mail security and deter terrorism, and to provide valuable real-time data on customer mailing & shipping behavior. Stamps.com's business goals are closely aligned with our regulator and most important business partner, the USPS.

In 2004, utilizing our fundamental PC Postage technology, 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 letters, postcards or packages. All PhotoStamps also include a unique IBI barcode and thus provide some of the same benefits to the USPS as previously mentioned for PC Postage. People from all over the country have enthusiastically embraced PhotoStamps. Since launching this service, Stamps.com has sold more than 80 million PhotoStamps. In addition, Stamps.com estimates 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 make mail more exciting to send, 55% say PhotoStamps make mail more exciting to receive, and 56% say PhotoStamps make 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 are attracted to our corporate enterprise solution versus a postage meter 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, which are not available with a postage meter.

Most recently, we have focused on higher volume shippers, as this is one of the most important strategic initiatives of the Postal Service. Recent enhancements to our technology include: (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. Over the past two quarters as we have increased our focus in this area, we have grown postal revenue in our high volume shipping segment by 25% and 30%, respectively, versus the same period the prior year.

## QUESTIONS POSED TO THE PANEL

### How can the Postal Service remain relevant over the next few decades?

First and foremost, the Postal Service cannot remain relevant if it cannot reach a state of financial stability. We applaud the efforts of the current management of the Postal Service for the significant cost cutting initiatives it has undertaken over the past several years. We think that proposals by the Postal Service for further cuts through consolidation of its retail network and through elimination of Saturday delivery are (unfortunately) necessary. We note the concern on the part of many who wonder if continued cuts in services will lead to further decline of revenue, and perhaps to a downward spiral, and we share that concern, but we do not think there is a choice in the matter. In our view, the Postal Service needs to continue to cut costs very aggressively, the gap it faces in its profit & loss statement is simply too large. As it continues to aggressively cut costs, the Postal Service must also find ways to grow revenue. This is clearly easier said than done, but we think that in part through partnerships with outside organizations, the Postal Service can accomplish this goal as well.

We believe the Postal Service should narrow the scope of what it does to best serve the American public. It should stick to its core functions of delivering mail and packages. These core functions will continue to provide critical value for our economy in the decades to come, but the scope of service should match the need.

There are far too many post offices, more than three times more than the number of Starbucks in the U.S. currently. Yet whenever consolidation of post offices is considered, it is rejected or scaled back. Does this mean U.S. consumers and business feel they cannot drive as far to mail a package as they do to get a cup of coffee?

According to the Postal Service, seventy-five percent of USPS retail locations are losing money. If that is the case, it seems fairly clear that the American public is not visiting those Post Offices frequently enough or in sufficient numbers to cover the costs of those establishments. I personally have

reasonable access from my home to at least two Post Offices, one large one in Redondo Beach, California, and a smaller one in Hermosa Beach, California which is the only one in that city. When my small hometown post office in Hermosa Beach showed up on the Postal Service consolidation list last year, the negative reaction in the town was significant, the local newspaper carried pleas, online petitions were created, and legislative pressure was applied by the town leaders. Now that the Hermosa Post Office has been spared, I have visited it several times and I usually find that there are at most one or two customers anytime I go there (and usually about the same number of postal workers). I know of no reason why this post office should remain open. There is a much larger and more modern one two miles away in Redondo Beach (which usually has much longer lines and could probably use the Hermosa Beach workers). It seems to me the reaction of my fellow town members was more about the emotion of losing its identity as a town with a post office, and less about the actual convenience and usage of that particular post office. Unfortunately, the Postal Service cannot afford to support decisions that are based on emotions anymore.

We also think Saturday delivery is something the Postal Service can no longer afford to provide. Very few of our small business or larger business customers rely on it, and we do not think consumers do either. There are a handful of cases where dropping Saturday delivery could cost the Postal Service some revenue, or where some individuals or businesses could be inconvenienced, but we think the cost savings likely outweigh those few issues, and we believe that businesses and consumers will adapt to this slightly less convenient schedule.

As the Postal Service cuts costs, we also think it must find a way to grow revenue. It is difficult at best to accomplish both goals simultaneously. However, through enhanced partnerships we think both goals can be accomplished simultaneously. As an example of partnerships that can succeed and be very impactful to the Postal Service, 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. Stamps.com invented ideas and solved 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 by all PC Postage vendors, at usps.com, and on eBay/PayPal. Today, that represents over \$2 billion in postage. Additionally, PC Postage has been the only Postal Service product category whose volume continues to grow throughout the most recent economic turmoil.

However, we believe that the USPS-PC Postage partnership has not been as optimal as it could have been throughout our relationship. Given all of the clear benefits provided by PC Postage to the USPS, we believe that the USPS should and could promote it more heavily. We also believe that the Postal Service should offer financial incentives to customers who use PC Postage. Instead, Stamps.com is forced to charge its customers more than it costs to visit a post office. Furthermore, Stamps.com has spent over \$250 million on marketing PC Postage to grow the industry while the USPS has spent a small fraction of that amount. 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 further growth into the PC Postage industry through any or all of these channels, and at very little incremental cost to itself.

We believe the Postal Service can continue to grow in the next ten years with a greatly enhanced partnership with the PC Postage industry and other partnerships of a similar nature. Since the Postal Service has recently added online discounts of 5-10 percent for using PC Postage for shipping, volumes have increased by more than 30 percent on an annualized basis. We believe extending discounts to qualified PC Postage mail could also provide an excellent opportunity for growth.

**Should the Postal Service move more aggressively into areas such as hybrid mail, unaddressed mail, and online postage, either unilaterally or in partnership with other entities?**

The Postal Service should embrace new technologies related to mailing and shipping in partnership with industry, or should provide the right incentives for private industry to innovate new solutions as it did in 1995 with PC Postage. The Postal Service should not unilaterally move into these areas for a number of reasons. The Postal Service has never demonstrated the capability required for research and development of cutting edge technologies such as those required for true innovation. Moving unilaterally into areas of new technology squelches innovation because of a fear the Postal Service will take all good ideas and intellectual property without fair compensation. Even the hint of a reputation as being an organization that does not respect intellectual property rights will drive those that innovate away from the Postal Service and into the arms of its competitors. The Postal Service must be beyond reproach when it comes to respecting intellectual property if it wishes to have the best ideas presented to it first (we think this should be the subject of further legislative focus).

In addition, when the Postal Service unilaterally competes with private industry, it does so at the expense of private sector jobs, creating a lose-lose scenario. On the other hand, partnering with industry provides attractive opportunities for the Postal Service to harness the innovation of private industry to its benefit, and many times with a very limited investment of its own (as was the case with PC Postage).

We believe that the USPS should provide financial incentives to try to enhance the mailing volume of businesses and consumers and switch them to PC Postage and away from retail post offices. Today, because of the necessity to charge an additional convenience fee, PC Postage customers often 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 mailing discounts are offered to PC Postage customers (and package discounts were offered only recently).

Since May 2007, the Postal Service has provided discounts for online purchase of postage for Priority Mail International and Express Mail International, and since May 2008 for domestic Priority Mail and Express Mail. PC Postage revenues for these products have grown in excess of 30 percent on an annualized basis – this despite precipitous drops in overall mail volume. For the Postal Service, these discounts have been one of the few bright spots in difficult times, yielding revenue increases far greater than the amount of the discounts. We believe similar discounts for single piece First Class Mail that we call “Qualified PC Postage” provide an important opportunity for growth. If the Postal Service moves forward with an exigent rate increase, we believe a qualified PC Postage discount can help with the rate shock that would be experienced, especially for the small business mailers.

Small businesses are critical to our nation’s economy and strength, and are critical to helping the United States compete in today's global marketplace. According to the U.S. Small Business Administration, small businesses have generated more than 60 percent of new jobs over the last decade, and have created more than 50 percent of non-farm private gross domestic product. A small business in a rural area is instantly connected globally and can easily participate in the global economy with the help of PC Postage. Small businesses have historically been underrepresented and less successful in lobbying the postal service compared to large mailers. Because of the complexity of the postal decision making processes and their diffuse nature, small businesses have not gotten the consideration they deserve. For example, extensive worksharing discounts are available to large mailers but small businesses’ practical opportunities to participate are limited to shipping. Stamps.com believes the Postal Service should make discounts available in the mailing side, also.

**Are legislative or regulatory changes necessary to allow the Postal Service more flexibility in new product areas, or does it have sufficient flexibility now?**

Congress should fix the unfair retirement payment obligations it places on the Postal Service. These obligations greatly distort the financial picture and force the Postal Service to make economically irrational decisions. The Postal Service needs the flexibility to be able to close unprofitable Post Offices without interference. The current process prevents post offices from being closed, when what is needed is a drastic reduction. The Postal Service should be allowed to drop Saturday delivery, as necessary and appropriate. Legislative changes should be made to make it more clear that Postal Service cannot and should not encroach on private industry.

One area of the PAEA that we believe is positive and has not been highlighted enough is the improved framework for the Postal Service to perform experimental market tests. This provides an excellent opportunity to innovate in new product areas. We also believe PC Postage can help modernize Postal Service pricing by enabling the use of cutting edge Internet based price testing techniques. The Postal Service's process for pricing is cumbersome and old fashioned. In Stamps.com's business, we are constantly measuring, testing and optimizing various prices in a real world setting. The Postal Service could use technology like PC Postage to conduct price testing. For example, our software could be used in tests to offer different prices to subsets of customers and measure their real world usage to optimize the economics for the Postal Service.

**How can the postal service leverage its network to better serve businesses and consumers?**

First and foremost, the network of Postal Service retail locations must be right sized and consolidated, and it must be operated efficiently. The reputation of post offices in general is not a positive one, with a multitude of complaints about the lines and the inefficiency when visiting one. No one is going to view the post office as a place to go to get additional services until the core basic service of mailing or shipping something is provided in a friendly and efficient manner. In our view the Postal

Service management is hamstrung in this regard. Operating over 36,000 retail locations each of which serves a small set of customers can not ever be efficient -- it flies in the face of the basic business principles of scale economies and queue theory (which state that a single queue served by a number of workers is better than multiple queues each served by a fraction of those workers even if the total workers are the same in each case). Operating only 25% of those locations -- perhaps the 25% that the USPS says are already profitable would be a good choice -- each at much larger scale, would be a much better solution. This might mean that each individual needs to travel a bit further to reach the post office, but when they arrive they would be met by smaller lines and a more efficient operation. Then and only then will visitors consider other services they might want to purchase while at the post office.

At that point, the Postal Service could consider adding low touch services from other government organizations such as the U.S. Passport services it already offers. However, in no case should they jeopardize providing great core service to their customers for mailing and shipping.

PC Postage provides all of the services of a post office, all from the convenience of one's PC and in the privacy of the home or office. As it shuts down its retail locations, the Postal Service should use its network to get word out about the ease of switching to PC Postage. As previously mentioned, it should also price postage at a lower cost to encourage usage of online methods.

**Is there a legitimate concern about the Postal Service straying from its core business of the mail?**

Yes, society critically needs the Postal Service to deliver mail. Moves away from its core business necessarily distract from the core business, and does not create value. The Postal Service has a poor track record outside of its core competency, and other parts of our economy are better suited to solve the problems in these areas.

**How can the Postal Service partner with private sector more effectively?**

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. Every version of PC Postage software must go through a regulatory approval process at the USPS, just like every new drug must be approved by the FDA. 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 business partner with our industry. The USPS participates in press announcements with the PC Postage industry, and it provides distribution of PhotoStamps within some of its retail post offices today. Historically the promotional activity by the USPS for the PC Postage has been relatively limited. We believe there is an opportunity for a deeper and more fruitful partnership.

The USPS sometimes acts as a competitor to our industry. At times, a small minority within 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 can be done with much higher quality and at a much lower cost). This ignores the lack of the intellectual property rights or the expertise needed to participate unilaterally in PC Postage, and has not been a worthwhile effort.

The USPS offers certain Web services at [www.usps.com](http://www.usps.com), partly in partnership with the PC Postage industry that simultaneously compete with services offered by the PC Postage industry, particularly for lower volume customers. At the same time, the promotion of the technologically superior PC Postage offerings of the private companies in the PC Postage industry at [www.usps.com](http://www.usps.com) is fairly minimal.

Indeed, the unilateral efforts of the Postal Service to launch eCommerce products, have been mostly abandoned as failures. There is also an inherent conflict any time the Postal Services competes directly with a product it regulates, and we believe they should not do both. It would be like the FDA launching its own drugs and competing with the pharmaceutical industry.