

## Higher postal rates shaping up as trouble for smaller companies

by Jennifer Davies

When the new postal rates went into effect, consumers and businesses might have felt as if they were traveling through another dimension - a dimension not only of weight and distance but also of shape.

That's because the U.S. Postal Service instituted a new pricing system that focuses on the shape of an item rather than just its weight.

While mailing a standard 1-ounce letter now costs an additional 2 cents, sending an odd-shaped postcard or a package could cost as much as 20 percent more. Catalogs' postal rates went up as much as 40 percent.

POSTAL RATES - Tala Meyers of Modern Postcard in Carlsbad, Calif., gathers cards from a machine that uses an inkjet printer to address and bar-code 17,000 to 20,000 pieces an hour. CNS Photo by Charlie Neuman.

The reason behind the change is simple. Standard letters are easy to process because they can be quickly sorted by machines. Anything that's large or oddly shaped must be handled by a person, increasing the costs for the Postal Service.

Mike Cannone, spokesman for the U.S. Postal Service, said the changes are to make the rates match up with the actual costs.

"The Postal Service is much closer to cost-based pricing than it has ever been," he said.

Many small businesses are bracing for the changes by moving away from larger packages to standard-letter-size envelopes and postcards, said Arnie Cohen, senior manager of product logistics for Modern Postcard, a direct-mail company in Carlsbad, Calif.

While some customers like the style of a square postcard, those actually cost 17 cents more to send than a standard postcard under the new rate structure.

"Mailers who can consolidate it and fold it down should," Cohen said.

But for those companies that can't reduce or redesign their mail, the effect of the new rate changes could be devastating, said Kate Muth, vice president of the Association of Postal Commerce, a trade group for companies that use the mail as their primary form of communication.

She said media attention to the "forever stamp," which covers the postage for 1-ounce, first-class letters even if rates go up in the future, has distracted people from the real effect of the rate changes.

"It's enormously complicated," Muth said. "The forever stamp took everybody's eyes off of how hard this is going to be on businesses. When companies are watching every penny to stay profitable, it's a real big deal."

The companies being hit the hardest are those with an extensive catalog business, said Stephanie Hendricks, director of public affairs for the Direct Marketing Association.

"It's going to hurt a lot of catalogers whether you are a small or a large business," she said.

To deal with the increases, many companies plan to reduce the size of their catalogs or send them out less

regularly, said Sherry Chiger, editorial director of Multichannel Merchant, a publication that tracks the catalog industry.

"They are really going to cut back on inactive buyers, too," she said.

Adding to the pain is the fact that the size of the increase was unexpected, Muth said. There's a rigorous process for setting postal rates, and originally the rate increase requested by the Postal Service was to be 10 percent to 12 percent.

But when the final recommendations came down at the end of March, the actual rate increases ballooned, and many companies simply didn't budget for it, Chiger said.

National Pen Co., a company that specializes in promotional products such as pens and key chains, is also facing large and unexpected increases in its postal costs.

Ron Childs, the company's senior vice president of direct marketing, said National Pen sends out more than 20 million pieces of mail a year, much of it sample products to potential customers, and it expects mailing costs to jump by about 40 percent. "I've been in direct marketing for 28 years, and it's the biggest rate increase I've ever seen," he said. Because of the increase, National Pen said they're ramping up their online marketing efforts.

They aren't alone. Chiger said a recent survey of Multichannel Merchant subscribers showed that almost three-fourths said they'll be doing more e-mail marketing.

Ruethling said that with more companies spending less on mail and redirecting their dollars to the Internet,

the Postal Service could be facing a drop in revenue, which could in turn mean more postal rate increases for everyone in the near future. "It's all coming together to force us into the electronic world," he said.

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