

Written Testimony of Gordon Segal, Founder and Chairman, Crate and Barrel, Northbrook, Illinois, submitted to the U.S. Senate Committee on Homeland Security and Governmental Affairs, Subcommittee On Federal Financial Management, Government Information, Federal Services, and International Security and U.S. House Of Representatives Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia for their Joint Hearing on June 23, 2010

Preface: I regret that longstanding family commitments prevented me from appearing before you to testify in person but I would respectfully request that my prepared testimony be entered into the hearing record.

I am Gordon Segal, Co-founder and Chairman of Crate and Barrel, a retail store company started in Chicago in 1962. In addition to operating our stores, we are a hybrid marketer publishing catalogs, operating sophisticated e-commerce websites and employing a variety of media channels to communicate with our customers. One thing is common to all our businesses: They each use our catalogs as their primary marketing tool.

It is the catalog that has established our brand and given us the ability to reach well beyond the footprint of our growing retail store base. It is safe to say that had the catalog not been available to us, Crate and Barrel would not be the universally recognized brand it enjoys being today.

We are a loyal and committed USPS customer ... and we are growing, making us a great customer for the Postal Service.

Despite our widespread use of the mail, and that we trace our roots to the mailed catalog, we are increasingly concerned that necessity will force us to invest elsewhere to reach our customers. In a world where so many are moving out of mail by choice, and when the high fixed costs to operate a universal mail system demands high mail volumes, an exodus of catalogs is particularly disconcerting, precisely because it is so avoidable. You see, we really want to stay in the mail. In fact, we want to increase our mail volume, but more and more, we are being priced out of mail.

From 1997 to 2008, while inflation increased 34%, catalog postage went up 58%.¹ Since postage is now about half of our catalog cost, this has forced us to reduce our mail volumes substantially.

¹ Unpublished study by Quad/Graphics of hundreds of catalog customers' postage spends from 1997 to 2008.

It actually works the other way too. When the USPS offered a Summer Sale on postage last year, we added 14% more volume in response to what was effectively a 9% reduction in cost. We would have added much more than this had conditions been more favorable, but the comparably short notice, depressed housing market and poor economic conditions moderated the increase.

Actually, the story gets even better. For each one of the additional catalogs we mailed responding to this price incentive, we also created additional mail in the form of postcards and letters, more catalogs and, we hope, a flurry of white boxes with the Crate and Barrel logo on the side!

It is really simple.

Raise postage and volume goes down.

Lower postage and it goes up.

This is not just about the Postal Service. We know that two-thirds of our economy is driven by retail activity. Beyond orders generated strictly from the catalog, with every mail event, we experience much greater retail store sales activity.

Catalogs are also time and fuel efficient. They may be America's biggest carpool and they have a wide variety of social benefits² for single parent and dual income households, shut-in or elderly Americans and rural citizens.

Not only do Americans like to receive catalogs, it is the commercial mail that makes it possible for all Americans to have access to the mail system. Companies like mine are paying the cost of maintaining essential national infrastructure. None of it is borne by the taxpayer. All in all, it's a pretty good deal. But today, this good deal for the American public is threatened.

With a crushing load of debt and liabilities for retiree costs, the US postal system is headed towards collapse from illiquidity. And it is so unnecessary... and unfair to both the USPS and the mailers that depend on it. Since fixing the USPS financial condition requires a change in the law, since an injustice has been done, on behalf of the millions of jobs dependent on the Postal Service, please step in and correct the injustice.

You know the facts, but let's review them again quickly.

As Inspector General David Williams told this Subcommittee³ on April 22 of this year, the dire fiscal condition of the Postal Service is primarily due to mischarges

² For a more complete description of the social benefits of cataloging, see *The American Catalog Experience: Catalog Marketing's Social Importance to American Consumers & Culture*, available on the web at www.catalogmailers.org

³ Oral statement of David C. Williams, Inspector General, United States Postal Service before the

for pension and retiree health costs that add to tens if not hundreds of billions of dollars. Now, facing a severe liquidity crisis largely created by these mischarges, and despite ongoing and significant expense reductions, the USPS is preparing an exigent rate case that will raise postage as much as four times the rate of inflation.

This is totally counter productive. It will cause all companies to reduce their mail circulation. It can be expected to cost tens of thousands of jobs. On the heels of the Great Recession and just as we may be gaining steam in the economy, this injustice borders on insanity.

Consider the catalog industry specifically. Examine what happened when catalog postage was raised so rapidly in 2007⁴. Catalog volumes dropped by one-third⁵. The industry has reduced employment significantly. Many fine companies have shut their doors or stopped publishing catalogs. Private equity and investor inflow have slowed. All of these and other dislocations have been widely reported in the catalog trade press since this time.

At my own company, we have devoted significant management time to discover how we can reduce our dependence on mail. We are concerned about the future of the Postal Service. We are concerned about well above inflationary rate increases and that they seem to have little predictability. We are concerned about changes to postal regulations that do not appear grounded in customer impact. Our reality is that increasingly, technology has broken the postal monopoly, giving us other choices as to how to communicate with our customers. They are just not as good.

Yet to the extent we can afford it, mail is still our preferred contact method. The catalog image provides much more visual impact than an Internet image. Like most other catalogers, our company grew and prospered using catalogs. We

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⁴ Postal Rate Commission Docket R2006-1, with new prices effective mid 2007, raised the two primary catalog mail products by an average of about 15%. However, given changes to the design of the rate bands and depending on the specific mail profile of a cataloger, the impact was highly variable. While some companies experienced almost no increase, others reported gross increases in the 20-40% range. One American Catalog Mailers Association member reported a gross increase of over 50%. These gross increases forced catalogers to change many attributes of their mail program quickly, heightening risk. At that time, about half of all catalogs were mailed under "Carrier Route" a rate category that increased 7.6%. The balance were entered under "Standard Mail flats" a rate category that increased an average of 21.9%. For more on the impact on catalogs, see PRC Docket [ACR2009](#), Initial Comments of the American Catalog Mailers Association, February 1, 2010.

⁵ The USPS does not track catalogs separate from other flat-shaped mail and cannot provide definitive numbers on the number of catalogs in the mail. The American Catalog Mailers Association estimates that for 2006, about 20 billion catalogs were mailed and is forecasting 13 billion to 14 billion will be mailed in 2010, a 30% to 35% drop in four years, most of which was noted prior to the economic recession.

know from our market research that the mailed catalog is highly valued by our customers. Surprisingly, younger Americans tell us the catalog is highly relevant and preferred to all other media, including the Internet.

If postal rates are increased substantially, we will be forced to reduce our mailings to offset the higher cost. The job losses that will ensue as a result will be significant and widespread: foresters, paper mill workers, truckers, employees of printing houses, warehouse fulfillment workers, and retail associates, will all lose jobs if excessive rates are passed. So while the Federal Government speaks about creating jobs, a large rate increase will actually destroy jobs, which is a remarkably counter-productive action at this point in our recovery.

This is why I am submitting this testimony. The millions of Americans employed in the mail order business are threatened by events beyond their control. The US Postal Service, a visible symbol of American commerce and perhaps the most recognizable representative of our federal government, is at risk of illiquidity due to events outside of its (or our) control. The answer lies with you and in your ability to put right what increasingly all agree is a huge injustice; namely, mistakenly assigning liabilities for retiring workers to the USPS and its ratepayers.

Absent attention to address these issues from Congress, the USPS proposes to raise mailing rates. While the federal government works to stimulate the economy, a substantial increase in the costs of catalog mailing will devastate industry employment and accelerate long-term volume loss. For the sake of the millions of Americans employed in the catalog and related industries, please provide the leadership that keeps our mail system healthy and our people employed.