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The following white paper contains an examination of the price sensitivity of postal customers of three market dominant Postal Service products: First-Class Mail, Standard Mail, and Periodicals.

The marketplace for traditional Postal Service products is increasingly competitive. In addition to the long term trend toward electronic media, Postal Service products face intense pressures brought about by the Great Recession. This paper explores an open question raised by these disruptive trends: Are Postal Service customers becoming more price sensitive? Though intuition may suggest that growing competition would have this effect, the answer to this question is best found by letting the data do the talking.

Toward that end, this paper presents the results of an open-minded, rigorous empirical review of the demand for these postal products. Price sensitivity was analyzed with a battery of tests using both the Postal Service demand models and alternative models. The analysis was subjected to extensive peer review.

We were surprised to find that, no matter how we stressed the models or which models we used, the data told the same story: Demand for postal products is not becoming more price sensitive. In fact, a case can be made that these products are becoming less price sensitive. This may be because customers most likely to leave the Postal Service for the Internet have already done so, leaving the remaining customers more loyal in the face of price increases.

In the course of our analysis, we did uncover some technical problems with the Postal Service’s demand models. We recommend that the Postal Service make adjustments to its models as appropriate. These technical problems had no significant effect on our conclusions.

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