

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RATE AND SERVICE CHANGES TO IMPLEMENT
BASELINE NEGOTIATED SERVICE AGREEMENT
WITH BANK OF AMERICA CORPORATION

Docket No. MC2007-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS AYUB TO INTERROGATORIES OF VALPAK DIRECT MARKETING
SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T1-18-20)
(April 4, 2007)**

The United States Postal Service hereby provides the response of witness Ayub to the following interrogatories of Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc.: VP/USPS-T1-18-20, filed on March 9, 2007. The interrogatories are stated verbatim and are followed by the response. The Postal Service's response to VP/USPS-T1-1, 9, and 17 will be forthcoming.

UNITED STATES POSTAL SERVICE

By its attorneys:

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VP/USPS-T1-18. The following is a hypothetical. Suppose the Postal Service advised a mailer:

“We want to invite you to work with us on an experiment and an example to other bulk mailers. You agree to keep on doing exactly what you are doing, except that you put on whatever codes and other things that are needed so that we can keep track of the accept rates for your mail. Then we will measure your accept rates for four months. At the end of the four months, you agree to do the following list of things, plus anything else you wish to do. We then will keep track of your accept rates for the next 18 months, after which time we will give you a check for a portion of our savings for any increase in your accept rates, relative to the four-month base.”

- a. Please explain any weaknesses or other problems, including degrees of unfairness, that you see in this program.
- b. Are you aware of any reason why a large number of mailers would not be interested in participating in such a program? If so, please explain fully.
- c. Please explain any Postal Service capacity (or other limitations) that would limit the number of mailers that could participate in such a program?
- d. Do you see anything in particular in this program that would require negotiation with a specific mailer? If so, please indicate what negotiation would be required, and explain why it would be required.
- e. Please explain all reasons why you believe that the NSA you propose is better than this program.
- f. Please explain all reasons why you believe that the NSA you propose is worse than this program.

RESPONSE:

- a. A major problem with the hypothetical described above is that it assumes, incorrectly, that the Postal Service could effectively and efficiently measure the read and accept rates for an individual mailer without requiring changes in mailer behavior and patterns. In the current environment, without the operational changes identified in Section III of the NSA (Attachment F to the Request), the Postal Service would be unable to measure the mailer's read and accept rates for four months.

Additionally, this interrogatory assumes that the Postal Service is or will be in a position to “advise” mailers to participate in the hypothetical program

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described above and to unilaterally establish the terms of the program without input from the mailer. It is unlikely that a mailer would agree to participate in such a program because the program is unlikely to satisfy the mailer's specific needs.

Third, it is hard to imagine how such an experiment could be operated to prevent mailer participants from "gaming" the system by degrading the readability and other quality dimensions of their mail during the four month period—or, at least, to convince skeptical observers that no such gaming was occurring.

Because the meaning of the phrase "degree of unfairness" is unclear to me, I am unable to respond to this part of the interrogatory.

- b. I could only surmise whether mailers would or would not be interested in this type of NSA. However, my previous experience with NSA customers leads me to believe that the costs, time and unpredictability associated with the current NSA process discourages many customers from pursuing such agreements.
- c. Factors such as the Postal Service's measurement systems and the Postal Service's ability to manage the data collected under this hypothetical program are examples of these limitations. The impact of the operational requirements of the NSA on a mailer's behavior, and the Postal Service's ability to effectively and efficiently measure such changes, are critical to the success of the NSA. An important benefit of NSAs is that they allow the Postal Service to test its ability to offer and manage new operational requirements on a limited scale. The use of an NSA in this instance ensures that the Postal Service can effectively manage

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this type of agreement before promoting its wide-spread adoption through classification changes of broader applicability.

- d. I don't know, but certain components such as preparation qualifications, measurements, and incentive levels would have to be negotiated. Additionally, the Postal Service would have to ensure that the processes used by the mailer participant during the measurement period were not inconsistent with the mailer's previous practices (for the reason noted in response to part (a)). Furthermore, it is my experience that many mailers have unique operational and business requirements that they would want met in this program.
- e. The Bank of America NSA is better than the program described above because the NSA will enable the Postal Service to avoid the problems identified in response to part (a) and meet the needs identified in response to parts (c) and (d) above.
- f. I do not believe that the Bank of America NSA is worse than the program described above. See responses to parts (a) through (e).

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VP/USPS-T1-19. Please regard the following as a hypothetical. Suppose the Postal Service advised mailers:

“We have a category of rates that are for bulk/automation mailers. Mailers using these rates are expected to have read rates of that equal or exceed 96 percent (or some other figure, possibly to be adjusted over time). When you sign up to be a bulk/automation mailer, you agree to the following program. You put on a barcode that will enable us to keep track of your accept rates. At the end of each quarter, we will send you a bill for 60 percent of any costs that we must incur on account of accept rates for your mail that are below 96 percent.”

- a. Please explain any and all reasons why you believe, if you do, that this program would be unworkable or unfair.
- b. If the Postal Service made a technical change and all accept rates increased, would this cause difficulty with this program? Please explain.
- c. If mailers found that some Postal Service plants had higher accept rates than others, and proceeded to enter their mail at those plants, would this cause problems with this program?
- d. Please explain all reasons why you believe that the NSA you propose is better than this program.
- e. Please explain all reasons why you believe that the NSA you propose is worse than this program.
- f. Please explain all reasons why you believe mailers might not be able to respond to the incentives in this program.
- g. Please explain all reasons you can think of for restricting participation in this program to a limited number of mailers.
- h. Would you consider it reasonable for a mailer to say: “I have a particularly low accept rate, so I don’t want to be part of this program”? Please explain your response.
- i. Do you think any mailers with unusually high accept rates would view this program as unfair? Please explain your response.

RESPONSE:

- a. The hypothetical described above has several problems. First, it assumes, incorrectly, that the application of the barcode alone would result in a 96 percent accept rate. Second, the hypothetical does not indicate if mailers would be compensated for accept rates higher than 96 percent.

Third, whether or not mailers received additional compensation for exceeding the 96 percent level, requiring a mailer to pay additional amounts for

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accept rates *below* 96 percent would expose the mailer to additional risk. A mailer would expect to be compensated for such risk, whether through greater discounts or through some other means. It is not clear whether the Postal Service and the mailer could reach agreement on compensation that would be small enough to satisfy the Postal Service but large enough to satisfy the mailer. Whether such an arrangement could be negotiated with any mailer is purely speculative. We are authorized to state by Bank of America, however, that it would not accept an arrangement with the sort of downside risk that your hypothetical would entail.

Finally, as with VP/USPS-T1-18, this interrogatory assumes that the Postal Service is or will be in a position to “advise” mailers to participate in the hypothetical program described above and to unilaterally establish the terms of the program without input from the mailer. It is unlikely that a mailer would agree to participate in such a program because the program is unlikely to meet the mailer’s specific needs.

Because I am not in position to qualify this hypothetical as either fair or unfair, I am unable to respond to that aspect of the interrogatory.

- b. Not knowing the full parameters of this hypothetical agreement I cannot answer.
- c. Please see my response to part (b) above.
- d. The Bank of America NSA is better than the program described above because it avoids the problems identified in my response to part (a) above.
- e. Please see my response to part (b) above.
- f. Please see my response to part (b) above.

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- g. Please see my response to part (b) above.
- h. Mailers have a choice of which rates they wish to pay based on their operational capabilities. The Postal Service only offers different rate categories and mailers are free to choose which type of mail they wish to utilize.
- i. Because I am not in position to qualify this hypothetical as either fair or unfair, I am unable to respond to this part of the interrogatory.

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VP/USPS-T1-20. Please consider the up-coming National Postal Forum (“NPF”) to be held from March 25 (Sunday) through March 28 (Wednesday), 2007, in Washington, D.C.

- a. Do you agree that at NPF there will be an “Address Quality Symposium” on both Monday, 10:00 a.m. to 12:15 p.m. and Wednesday 2:00 p.m. to 4:30 p.m.?
- b. Please confirm that other scheduled sessions at the up-coming NPF include:
 - (i) “6 Sigma Addressing Practices I AQE02”;
 - (ii) “6 Sigma Addressing Practices II AQE03”;
 - (iii) “Implementing Intelligent Mail to Drive Business Results SS04”;
 - (iv) “Fundamentals of Quality Addressing AQE04”;
 - (v) “Intelligent mail and Seamless Acceptance IMSA08”;
 - (vi) “The ABC’s of File Hygiene AQE06”;
 - (vii) “Standardize the Foundation of Your Address Quality Processes AQE07”;
 - (viii) “Seamless Acceptance IMSA09”;
 - (ix) “Electronic Data Exchange in Postal Transactions PR104.”
- c. When available, please as a library reference the documents the documents (sic) at these symposia.
- d. Please compare the cost and benefit to the Postal Service of (a) conducting these general NPF sessions attended by hundreds of mailers with (b) litigating an NSA for one mailer, such as BAC.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. The requested information will be submitted as USPS-LR-1/MC2007-1 when available.
- d. The purposes and scope of the NSA and the NPF differ. It would not be possible in my opinion to provide such an analysis. An obvious difference between an NPF session (and any other educational effort) and the proposed NSA, however, is that rate discounts and other financial incentives—also known to economists as “price signals”—can change mailer behavior in ways that education and admonitions alone cannot, particularly when changing behavior in desirable ways requires the mailer to incur additional costs.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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