

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

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2011

Docket No. N2012-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS WHITEMAN TO
NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO, INTERROGATORIES
NALC/USPS-T12-1-4, 6-12, 14**

The United States Postal Service hereby provides the responses of witness Whiteman to the above-listed interrogatories of the National Association of Letter Carriers, AFL-CIO, dated January 17, 2012. Each interrogatory is stated verbatim and followed by the response. Questions 5 and 13 from this set were redirected to witness Elmore-Yelch for response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
WHITEMAN TO NALC INTERROGATORY

NALC/USPS-T12-1. Did USPS, in calculating how much the proposed service changes would decrease volume, revenue and contribution, study the extent to which postal customers may shift from using first-class mail to using standard mail? If so, provide any estimates USPS has of how much such a substitution of standard mail for first-class mail might impact volume, revenue and contribution and detail how USPS arrived at or calculated such an estimate.

RESPONSE:

In conducting the research, we allowed customer to indicate how much volume they would send by the class of mail, i.e., Presort First-Class Mail, Standard Mail, etc. in 2012 before the implementation of the service standard changes and after the implementation of the service standard changes. Inherent in this, customers could have provided us an estimate that for some applications and class of mail the volume would increase and for other applications the volume would decrease.

Thus, the questionnaire approach would allow customers to provide us volume estimates which would reflect a plan to downgrade First-Class Mail to Standard Mail. However, we did not specifically ask customers to provide us this level of detail.

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WHITEMAN TO NALC INTERROGATORY

NALC/USPS-T12-2. You state on page 8, lines 15-16 of your testimony that “estimated change may take effect over a much longer period of time.” Does USPS have an estimate of how long it would be for the anticipated declines in mail volume resulting from the proposed change in service standards to fully “take effect”? If so, explain how USPS arrived at such an estimate.

RESPONSE:

No. The research was designed to ask customers to provide us their volume estimates for 2012. However, it can be expected that when customers begin to adapt to the changes in the service standards some will act faster than others and some will adapt within a shorter time period while others will adapt in a longer time period.

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WHITEMAN TO NALC INTERROGATORY

NALC/USPS-T12-3. You state on page 12, lines 23-25 of your testimony that “[n]early all respondents stated they also would like to see accompanying improvements in customer service to offset their loss in delivery service.” Does USPS have plans to implement improvements in customer service to offset the proposed reduction in delivery service? If so, please specify what these customer service changes are and how they will offset the proposed reduction in delivery service.

RESPONSE:

I am not aware of any plans to “implement improvements in customer service to offset the proposed reduction in delivery service.”

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WHITEMAN TO NALC INTERROGATORY

NALC/USPS-T12-4. On page 8, lines 5-16 of your testimony, you provide three reasons why you believe respondents “tend to overstate their reactions.” Please identify the source, if any, for these asserted reasons. If the source is a document, please provide a copy. If it is a published text, please provide the citation. If it is a person or persons, please identify the person(s) by name, address and employer or affiliation.

RESPONSE:

The reasons I discuss on page 8 for why respondents tend to overstate their intentions to buy or to modify their mailing volumes are understood widely throughout the marketing and market research functions. As a practitioner of both, this has been a consistent attribute of market research commonly discussed when considering changes to products or channels.

In an article published in April 2000 by J. Scott Armstrong (The Wharton School, University of Pennsylvania), Vicki G. Morwitz (Stern School of Business, NYU) and V. Kumar (University of Houston), titled *Sales Forecasts for Existing Consumer Products and Services: Do Purchase Intentions Contribute to Accuracy*¹, there is a relevant discussion of this issue on page 11. It is important to note that the products these authors were assessing consisted of existing products, not new ones.

Morrison (1979)² developed a descriptive model of the relationship between purchase intentions and subsequent purchasing. Morrison proposed that there are three threats to the predictive validity of purchase intention measures. First,

¹ J. Scott Armstrong, Vicki G. Morwitz, V. Kumar, Sales Forecast for Existing Consumer Products and Services: Do Purchase Intentions Contribute to Accuracy, International Journal of Forecasting, Volume 16, 2000, pp. 383-397.

² Morrison DG (1979). Purchase Intentions and Purchase Behavior. Journal of Marketing, 43 (Spring), 65-74

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intentions are measured with error. Second, respondents' purchase intentions might change over time because of exogenous events (*e.g.*, current car breaks down, sudden rise in income). Third, average stated purchase intentions might be a biased estimate of the proportion that actually buy the product because of systematic error (*e.g.*, response style biases, promotional effects, changes in the economy, as noted in Kalwani and Silk 1982)³.

While these authors identify different reasons for “threats to the predictive validity” of respondents’ estimates, they consistently address the observation that factors prevent respondents from providing estimates that later equal their actual “in-market” response when the time comes.

³ Kalwani MU & Silk AJ (1982). On the Reliability and Predictive Validity of Purchase Intention Measures. *Marketing Science*, 1 (3), summer, 243-286

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NALC/USPS-T12-5. Are you aware of any factors, including but not limited to the social desirability bias, that might bias respondents in a quantitative market research study to understate their reactions to a proposed change? If so, explain what these might be and how they may have affected respondents' reactions in USPS's quantitative market research regarding the proposed service standard changes here.

RESPONSE:

Redirected to Witness Elmore-Yalch

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NALC/USPS-T12-6. On page 8, lines 2-4 of your testimony, you state that respondents “tend to overstate their reactions” when asked about “proposed changes such as new product introductions or changes in channel option or service features.”

- (a) Explain what you mean by “channel option or service features” and provide an example of the type of “service features” to which you refer.
- (b) Provide an example, if you can, of respondents in a quantitative market study overstating their reaction to a reduction in the quality of service.

RESPONSE:

- a. By channel option I am referring to changes in a web site or retail operations. By service features I am referring to changes in service standards or service features. A recent postal example of a change in service feature occurred when we introduced Delivery Confirmation.
- b. The only research studies which we have conducted on a reduction in service are the research in support of Five-Day Delivery and the First-Class Mail Service Standards. As neither of these proposed changes has been implemented, I am not able to provide you with an example.

I do have an example of customers overstating their intent for a new service introduction. In testimony the Postal Service filed in support of Premium Forwarding, MC2005-1, T-2, Library Reference 1, Witness Rothschild testified that in the first full year of implementation that customers would have 22,841,563 shipments made if the price was \$10 per shipment. In FY2006, in the first full year of implementation there were just over 700,000 shipments. This clearly demonstrates that customers do over estimate their behavior in quantitative research.

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NALC/USPS-T12-7. Do you have a view regarding the extent to which postal customers are currently aware of the proposed service changes? If so, state what your view is and the basis for your view.

RESPONSE:

At the time we conducted the qualitative research, there was little awareness about the proposed changes to the service standards for First-Class Mail and Periodicals mail.

Today, it would be safe to say that there is higher awareness given the extensive media coverage of both our Post Office and plant closings and, as part of the media story, the changes in First-Class Mail service standards.

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NALC/USPS-T12-8. On page 18, line 19 of your testimony, you state or suggest that change by customers may be “delayed.” In USPS’s quantitative market research in this case, did it make any effort to assess what customers’ responses to the proposed changes in service standards may be (*i.e.*, how respondents’ mail volume might change) *beyond* the year of the implementation of the service changes? If so, explain what effort was made to make this assessment and what the results of the assessment were.

RESPONSE:

No. The research was designed to ask customers to provide us their volumes estimates for 2012. However, it can be expected that when customers begin to adapt to the changes in the service standards some will act faster than others and some will adapt within a shorter or longer time period. Further, we can expect that customers will mail different volumes using different products than they indicated in their responses in completing the questionnaire. However, we have no empirical basis for expecting that the sum of customers’ responses will differ from those projected by the market research.

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WHITEMAN TO NALC INTERROGATORY

NALC/USPS-T12-9. Did USPS conduct, or request anyone else to conduct, any econometric studies in connection with USPS's effort to assess how much the proposed service standard changes would reduce demand for USPS's services or would reduce mail volume, revenue or contribution? If not, why not? If yes, please provide copies of such studies.

RESPONSE:

I am not aware of any discussion or action to conduct an econometric study as the Postal Service did not think this type of study would be useful or needed.

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WHITEMAN TO NALC INTERROGATORY

NALC/USPS-T12-10: Figure 41 on page 49 of the testimony of Rebecca Elmore-Yalch (USPS T11) shows that a “probability of change” scale was used in calculating the estimated change in mail volume that would result from the proposed service standard changes. Please state by how much USPS’s estimate of decreased revenue of \$1.3 billion and decreased contribution of \$499 million would be different if the “probability of change” scale had not been used and explain how you calculated this difference.

RESPONSE:

In her response to a parallel question, NALC/USPS-T11-1, witness Elmore-Yalch indicates that it “would be inappropriate and potentially misleading” to present the requested analysis. Thus, without her analysis, I cannot respond as this question requests.

It should be noted that that response offers possible informal technical assistance to any party interested in undertaking such an analysis.

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WHITEMAN TO NALC INTERROGATORY

NALC/USPS-T12-11: Figure 41 on page 49 of the testimony of Rebecca Elmore-Yalch (USPS T11) shows that a “% of Increase/Decrease in Volume Solely Attributable to Change to FCM Standards” factor was used in calculating the estimated change in mail volume that would result from the proposed service standard changes. Please state by how much USPS’s estimate of decreased revenue of \$1.3 billion and decreased contribution of \$499 million would be different if that factor had not been used and explain how you calculated this difference.

RESPONSE:

In her response to NALC/USPS-T11-2, Witness Elmore-Yalch indicated that it “would be inappropriate and potentially misleading” to present the requested analysis. Thus, without her analysis, I cannot respond as this question requests.

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WHITEMAN TO NALC INTERROGATORY

NALC/USPS-T12-12: Please state by how much USPS's estimate of decreased revenue of \$1.3 billion and decreased contribution of \$499 million would be different if neither the "probability of change" scale nor the "% of Increase/Decrease in Volume Solely Attributable to Change to FCM Standards" factor had been used, and explain how you calculated this difference.

RESPONSE:

Please see the responses to interrogatories NALC/USPS-T12-10-11, which indicate why I am unable to respond affirmatively to this request.

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NALC/USPS-T12-13: In Chart 1, on page 22 of your testimony, you provide point estimates for volume, revenue, cost and net contribution changes were the proposed first-class mail service standard changes implemented.

- (a) Provide the confidence interval at the 95 percent level for each of these point estimates.
- (b) Provide what the confidence interval at the 95 percent level for each of these point estimates would be had respondents' responses not been adjusted by the "probability of change" scale.
- (c) For the confidence intervals provided in response to (a) and (b) above, please provide a detailed explanation and illustrative calculations to show how the confidence intervals were derived.

RESPONSE:

Redirected to witness Elmore-Yalch.

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NALC/USPS-T12-14: In its quantitative market research, did USPS seek to make any estimate of how much volume, revenue and contribution it would lose if USPS implemented both (1) the end of Saturday delivery and (2) the change in service standards proposed in this case? If so, please provide these estimates and explain how they were calculated.

RESPONSE:

The market research upon which the Postal Service relies in this docket examines mail volume changes arising from the service standard changes alone.

The Postal Service has not undertaken similar research that isolates changes arising from the sum of service standard changes and the end of Saturday delivery.