

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

MARKET TEST OF EXPERIMENTAL PRODUCT-
CUSTOMIZED DELIVERY

Docket No. MT2014-1

NOTICE OF THE UNITED STATES POSTAL SERVICE OF
MARKET TEST OF EXPERIMENTAL PRODUCT – CUSTOMIZED DELIVERY
(September 23, 2014)

Pursuant to 39 U.S.C. 3641, the United States Postal Service hereby gives notice that it intends to conduct a test of an experimental competitive product, named Customized Delivery. The Postal Service also hereby gives notice that it is today filing certain portions of this document under seal, pertaining to the Postal Service's pricing plans for this market test. The protected material has been redacted from the public filing document. An application for non-public treatment of the material is attached.

Customized Delivery is a package delivery service offering that will provide customers with delivery of groceries and other prepackaged goods, primarily during a 3 a.m. to 7 a.m. delivery window. The Postal Service may also test other customized delivery windows as part of this market test. The market test, which will begin on or shortly after October 24, 2014, is designed for retailers to deliver groceries and other prepackaged goods in a customized delivery window, tailored to their unique offerings and customer base. In addition to testing the operational feasibility of customized delivery windows, this market test will also assist the Postal Service in determining the optimal pricing structure for this type of service.

Subchapter III of Chapter 36, Title 39, United States Code, establishes authority for the Postal Service to conduct market tests of experimental products. This notice provides the information required by 39 U.S.C. 3641(c).¹ Pursuant to that provision, the Postal Service is also filing notice of this market test in the Federal Register.

Description of Nature and Scope of Experimental Product

Grocery delivery services are expanding across the nation, with businesses ranging from the nation's largest retailers, to niche operators, to the popular car service Uber entering the marketplace. With its operational reach, the Postal Service has an opportunity to provide retailers a nationwide solution that offers a trained workforce and the trust and reliability of the Postal Service brand. By expanding its carrier services and offering customized delivery, the Postal Service can garner profitable revenue through new revenue streams.

Recently, the Postal Service began conducting operational testing for early morning grocery delivery. In the current process, the retailer brings groceries already packed into retailer-branded totes, some of which are chilled or include freezer packs, directly into Postal Service destination delivery units (DDUs) between 1:30 a.m. and 2:30 a.m. The totes are all the same size and color, and have a QR code on the outside. The Postal Service receives a manifest file from the retailer containing the address and QR code number for each tote. This file is used by the Postal Service to dynamically route totes and create a line of travel for each route.

¹ As of this filing, the Commission's regulations creating specific procedures to implement Section 3641 have not taken effect.

City Carrier Assistants (CCAs) scan totes using iPhone scanning, which provides route order information via a USPS-developed iOS application. The totes are sorted on the workroom floor by route and delivery order, and are then back-loaded to a truck for delivery. Deliveries occur from 3 a.m. to 7 a.m. These deliveries are unattended — the CCA will not ring the doorbell or knock on the door. The carrier places the totes in a location designated by the consumer for delivery. Totes are scanned at key steps in the process to provide tracking and visibility through to delivery. CCAs wear postal uniforms and lighted caps as a safety measure and for easy recognition by the public.

During the operations test, deliveries have been averaging 1 to 4 totes per address with an average of 160 totes per day for the 38 ZIP Codes included in the testing. Through this two-year market test, the Postal Service seeks to test and develop a long-term, scalable solution to enable expansion of customized delivery to additional major metropolitan markets across the nation. The Postal Service may also seek to test other possible delivery windows throughout the day, as part of this market test.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Consistency with Section 3641 Criteria

Section 3641 provides the criteria that a market test must meet. As explained below, the Postal Service has determined that the Customized Delivery market test would satisfy these requirements:

- The product is significantly different from all products offered by the Postal Service within the two-year period preceding the start of the test (Section 3641(b)(1)).
- The introduction or continued offering of the product will not create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer, particularly in regard to small business concerns (Section 3641(b)(2)).
- The Postal Service correctly identifies the product as competitive (Section 3641(b)(3)).
- The duration of the market test will not exceed 24 months, unless the Postal Service requests an extension from the Commission (Section 3641(d)(1)).
- The annual revenues received by the Postal Service from this market test are not anticipated to exceed \$10,000,000 (as adjusted for inflation) in any fiscal year (Sections 3641(e), (g)), unless the Commission has granted exemption authority to the Postal Service (Section 3641(e)(2)). Such an exemption has been requested by the Postal Service below.

Significantly Different Product

The Postal Service has not offered a customized delivery product in the past two years in which retailers can specify a unique timeframe for the delivery of their goods,

and their customers can specify a unique location at their delivery address where the product will be delivered. Specifically, Customized Delivery will provide the Postal Service a new opportunity to explore the demand for delivery during the 3 a.m. to 7.a.m. window at a specific location at the delivery address, particularly in the ever-growing grocery delivery market. The Postal Service believes these differences to be significant and worthy of testing in the marketplace.

No Inappropriate Market Disruption

There is no reasonable expectation that the Postal Service's Customized Delivery service offering would create an "unfair or otherwise inappropriate" competitive advantage for the Postal Service or any mailer, with regard to any other party (including small businesses). Customized Delivery is designed to provide retailers with unique delivery windows for groceries and other prepackaged goods, thereby improving the shopping and delivery experience for customers. Ultimately, the Postal Service expects this will generate more package deliveries that do not currently move within the postal system. Grocery delivery services are expanding across the nation, with several different types of companies beginning to offer this service in recent months. The prices offered by competitors for grocery delivery typically fall within the price range that the Postal Service intends to test. Therefore, the prices offered by the Postal Service would not create an inappropriate market disruption.

The Postal Service does not expect this market test to have a significant impact on small businesses, as delivery of groceries and other prepackaged goods by small courier services and delivery firms already exists in the marketplace. The Postal

Service expects that small courier services will continue to operate in this emerging market, as retailers are still beginning to enter the market and may choose to seek out these and other services for the delivery of certain items. Additionally, the Postal Service expects that couriers will continue to specialize in the delivery of time-sensitive business, legal, and financial documents, rather than the types of deliveries targeted in this market test.

Correct Characterization as Competitive

The Postal Service considers this experimental product to be competitive, as it is designed for packages that do not fall under the Private Express statutes. Customized Delivery service will charge a price greater than six times basic tariff rates (currently \$0.49). The Postal Service submits that Customized Delivery of packages in unique delivery windows and unique locations, specifically early morning delivery of groceries and prepackaged goods as designated by the intended recipient of the product at their delivery address, is yet another component of the highly-competitive package services market.

Duration of Market Test

The market test will begin on or shortly after October 24, 2014. The test will run for two years, unless the Postal Service decides to request an extension for an additional year, establish Customized Delivery as a permanent product on a quicker timeline, or terminate the test early.

Total Revenues from Market Test

Based on current projections, the total revenue received by the Postal Service may exceed the \$10,000,000 threshold in any fiscal year, as adjusted for inflation pursuant to Section 3641(g). As such, the Postal Service hereby applies for an exemption of this statutory requirement pursuant to Section 3641(e)(2). The exact revenue and volume is difficult to predict, as the success of this market test depends on the number of participating retailers, the scope of their businesses, and ultimately, the demand for grocery delivery among consumers in the marketplace. Nevertheless, it is possible that the \$10,000,000 statutory threshold may be reached if adoption of Customized Delivery proves to be particularly strong. However, the Postal Service has taken steps to ensure that anticipated revenues will not exceed \$50,000,000 in any year (Section 3641(e)(2)), by providing some qualifying criteria and limitations relating to technical and logistics capability for participating retailers.

As discussed above, the Customized Delivery market test is likely to benefit the public and meet an expected demand. Moreover, the product is likely to contribute to the financial stability of the Postal Service, by generating more package deliveries that do not currently move within the postal system. Therefore, the Postal Service submits that there is sufficient justification for the Commission to exempt the Postal Service from the statutory requirement in Section 3641(e)(2) for the Customized Delivery market test.

Data Collection Plan

The Postal Service will monitor market demand for Customized Delivery, and will track the costs of providing delivery of groceries and other prepackaged goods during customized delivery windows. Volume, revenue, and cost data will be available through existing reporting systems. The Postal Service is prepared to report on the results of its research to the Commission.

To better understand this experimental product, the Postal Service plans to collect:

- volume of packages delivered via Customized Delivery
- total revenue generated
- work hours, travel times, and other cost data
- administrative and start-up cost data

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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APPLICATION OF THE UNITED STATES POSTAL SERVICE FOR NON-PUBLIC TREATMENT OF MATERIALS

In accordance with 39 C.F.R. § 3007.21, the Postal Service hereby applies for non-public treatment of the portion of the attached pleading that addresses the Postal Service's pricing plans for the Customized Delivery market test. The Postal Service hereby furnishes the justification required for this application by each subsection of 39 C.F.R. § 3007.21(c), as enumerated below. For the reasons discussed, the Postal Service asks that the Commission grant its application for non-public treatment of the identified materials. The Postal Service has redacted this material from its public pleading.

(1) The rationale for claiming that the materials are non-public, including the specific statutory basis for the claim, and a statement justifying application of the provision(s);

The materials designated as non-public consist of information of a commercial nature, which under good business practice would not be publicly disclosed. In the Postal Service's opinion, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3).¹ Because the portions of the materials which the Postal Service is applying to file only under seal fall within the scope of information not required to be publicly disclosed, the Postal Service asks the Commission to support its determination that these materials are exempt from public disclosure and grant its application for their non-public treatment.

(2) Identification, including name, phone number, and email address for any third-party who is known to have a proprietary interest in the materials, or if such an identification is sensitive, contact information for a Postal Service employee who shall provide notice to that third party;

¹ In appropriate circumstances, the Commission may determine the appropriate level of confidentiality to be afforded to such information after weighing the nature and extent of the likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment competing in commercial markets. 39 U.S.C. § 504(g)(3)(A). The Commission has indicated that "likely commercial injury" should be construed broadly to encompass other types of injury, such as harms to privacy, deliberative process, or law enforcement interests. PRC Order No. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1, Mar. 20, 2009, at 11.

None.

- (3) A description of the materials claimed to be non-public in a manner that, without revealing the materials at issue, would allow a person to thoroughly evaluate the basis for the claim that they are non-public;**

The redacted information consists of a paragraph describing the Postal Service's pricing plans for the Customized Delivery market test. The paragraph contains a price range that the Postal Service intends to test in the marketplace.

- (4) Particular identification of the nature and extent of commercial harm alleged and the likelihood of such harm;**

If competitors of the Postal Service were to have access to this information, they would be able to focus their marketing and price cutting efforts for similar services throughout the course of the Customized Delivery market test. The Postal Service intends to test different price points in order to examine the demand for Customized Delivery in the marketplace. The effectiveness of the market test would be negatively affected if competitors were able to undercut the Postal Service's prices in a given metropolitan area, or for selected test participants. Additionally, test participants' ability to compete effectively with other, non-participating firms offering Customized Delivery would be impaired, if the Postal Service were to make its test prices public. The price charged by the Postal Service would represent a key cost element of participating firms' shipping and handling charges, and competitors in the emerging market for grocery delivery frequently use a variety of pricing strategies to compete for the purchasing choices of customers. Publication of the Postal Service's pricing could diminish the willingness of qualifying companies to participate in the Customized Delivery market test, which would further erode the effectiveness of the market test as a whole.

- (5) At least one specific hypothetical, illustrative example of each alleged harm;**

Identified harm: Competitors could use the Postal Service's pricing plans to focus pricing and marketing efforts to the Postal Service's detriment.

Hypothetical: The Postal Service's initial price point and planned pricing ranges are disclosed to the public and available to a competitor. The competitor assesses the profitability of offering early morning grocery delivery service at or below the Postal Service's current price point, or at or below the bottom end of the Postal Service's price range. The competitor then targets its pricing and marketing efforts at actual or potential test participants in the specific metropolitan area(s) that the Postal Service intends to test. These activities could deprive the Postal Service of qualifying test participants before it has been able to adequately test Customized Delivery in the marketplace.

(6) The extent of protection from public disclosure deemed to be necessary;

The Postal Service maintains that the redacted portions of the materials filed non-publicly should be withheld from persons involved in competitive decision-making in the market for domestic parcel shipping products, as well as their consultants and attorneys.

(7) The length of time deemed necessary for the non-public materials to be protected from public disclosure with justification thereof; and

The Commission's regulations provide that non-public materials shall lose non-public status ten years after the date of filing with the Commission, unless the Commission or its authorized representative enters an order extending the duration of that status. 39 C.F.R. § 3007.30.

(8) Any other factors or reasons relevant to support the application.

None.

Conclusion

For the reasons discussed, the Postal Service asks that the Commission grant its application for non-public treatment of the identified materials.