

USPS-T-1

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

REPOSITIONABLE NOTES MARKET TEST

Docket No. MC2004-5

DIRECT TESTIMONY
OF
DARRON K. HOLLAND
ON BEHALF OF
UNITED STATES POSTAL SERVICE

CONTENTS

1 AUTOBIOGRAPHICAL SKETCH iii

2 I. PURPOSE OF TESTIMONY 1

3 II. PRODUCT DESCRIPTION 1

4 III. PILOT TEST 2

5 IV. CURRENT PROGRAM 2

6 V. PROPOSED EXPANSION 3

7 VI. MARKET RESEARCH 4

8 VII. MARKET TEST 5

9 VIII. DATA COLLECTION PLAN 6

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USPS-LR-1

Opinion Research Corporation: "Repositionable Notes (RPN) Concept Research Report" (May 2004)

**Direct Testimony
Of
Darron K. Holland**

AUTOBIOGRAPHICAL SKETCH

1 My name is Darron Holland. I am employed as a Marketing Specialist in the Product
2 Management – Direct Mail Group within Marketing at the Postal Service. My
3 responsibilities include the development and management of programs designed to
4 improve Direct Mail.

5 I hold a Bachelor's degree in Business Administration from the University of
6 Maryland University College.

7 My employment with the United States Postal Service began in 1988, when I was
8 hired as a City Letter Carrier in Laurel MD. In July 1999, I was promoted to Delivery
9 Supervisor in the Hyattsville MD Post Office. From January 2000 through June 2000, I
10 was detailed to a Retail Marketing Specialist position in Retail Marketing at
11 headquarters. I began my current position in December 2002.

12 Since being promoted to Headquarters, I have worked on a variety of programs to
13 promote the growth of direct mail. Additionally, I am the budget coordinator responsible
14 for tracking, monitoring and general oversight for day-to-day management of budget
15 activities for the Direct Mail Group. In March 2003, I was assigned as program manager
16 for Repositionable Notes on flats and subsequently letters.

1 I. PURPOSE OF TESTIMONY

2 The purpose of my testimony is to present the Postal Service's proposal for a market
3 test of "Repositionable Notes" (RPN). My testimony addresses the characteristics of
4 RPNs, the Postal Service's and mailers' experiences with RPNs, the reasons for the
5 proposed expansion of the RPN program as a market test, and the Postal Service's
6 plans for data collection and reporting during the proposed market test.

7

8 II. PRODUCT DESCRIPTION

9 A Repositionable Note ("RPN") is a Post-itTM-type self-adhesive note that mailers
10 can affix to the outside of a mailpiece. Because RPNs are applied as part of a
11 mechanical process using air pressure, and may have an adhesive strip that is wider
12 than on notes typically used in office settings, they are unlikely to become detached
13 from the mailpiece, as experience, described below, has borne out.

14 RPNs typically display advertising, product offerings, or marketing messages
15 designed to encourage recipients to open, read, and respond to the internal contents of
16 the mailpiece. RPNs call attention to the mailpiece and provide differentiation in the
17 mailbox. RPNs can extend the life of the message, since the recipient can remove the
18 note and re-attach it to a computer, telephone, day-timer, or refrigerator. The RPN then
19 serves as a reminder to respond to the advertisement or solicitation beyond the time the
20 original mailpiece is retained. For catalog mailers, RPNs can be used as a mechanism
21 to correct minor errors in catalogs, instead of the expensive process of reprinting
22 replacement pages. In these various ways, RPNs may increase response rates to the
23 mailpiece.

1 III. PILOT TEST

2 In August 2000, the Postal Service launched engineering tests on automation
3 compatible letters with RPNs attached. The tests showed that RPNs traveled safely
4 and securely through postal processing equipment without requiring any additional
5 handling or care.

6 To alleviate concerns that RPNs might be incompatible with automation in real
7 operations, the Postal Service conducted a one-year pilot test of RPNs on automation
8 compatible letters to determine their operational feasibility. The pilot test, which ended
9 in February 2003, was successful for both customers and the Postal Service. There
10 were 34 RPN mailings, consisting of 4.2 million mailpieces. As a direct result of the
11 response rates they received, three customers requested repeat mailings.

12 Field operations was asked to monitor whether RPNs affected any aspect of
13 processing or delivery. No reports of such effects were received. The pilot test thus
14 confirmed that RPNs resulted in no additional costs to the Postal Service.

15

16 IV. CURRENT PROGRAM

17 Due to the success of the pilot test, the Postal Service began allowing RPNs on
18 automation compatible letters in April 2003.¹ As of May 2004, there have been 68 RPN
19 mailings and no reports of problems from the field. This program has further confirmed
20 that letters with RPNs can be sorted without the need for any processing or operational
21 changes.

¹ DMM C810.7.0

1 V. PROPOSED EXPANSION

2 Mailers of flat-sized pieces, such as catalogs, magazines, and newspapers, have
3 expressed interest in using RPNs on their mail. To evaluate this possibility, Postal
4 Service Engineering began testing RPNs on flats in July 2003. Approximately 3500
5 samples were run, with varying placement positions of the note. No problems were
6 encountered in processing, although it was determined that certain locations were more
7 desirable placements to help ensure that the pieces did not become "dog-eared" or
8 otherwise adversely affected.

9 The Postal Service conducted a test of "live" flat-sized mail in November 2003 using
10 5000 Standard Mail, tabloid-like pieces with RPNs attached, all destinating within the
11 service area of the plant at which they were entered. These pieces passed successfully
12 through all stages of processing and delivery, including on the AFSM 100 and during
13 subsequent stages of the processing cycle when they were mixed with First-Class Mail
14 flats and Periodicals flats. At a local post office, I observed the casing and delivery of
15 the mailpieces. In some instances, the carriers cased the mailpieces with the bound
16 edge up, in other cases with the bound edge positioned down. My observations and
17 discussions with carriers indicated that there were no problems with damaged or lost
18 notes and that no additional handling or special care was required for carriers to case
19 the mailpieces. Several carriers reported that, at the time they were casing the mail,
20 they were not even aware RPNs were attached. The carriers were then instructed to
21 report any problems encountered on the street and no such problems were reported.
22 Thus, the addition of RPNs to flats appeared to cause no additional processing or
23 handling costs.

1 As the RPN program evolved, the Postal Service explored the idea of a charge for
2 the use of RPNs. Doing so would have the obvious direct benefit of additional revenue
3 from the RPN price itself. In addition, RPNs could potentially drive the growth of
4 advertising mail, thereby increasing the volume, revenue, and contribution of the
5 relevant mail classes.

6 Besides anecdotal reactions from mailers who believe that RPNs are a valuable
7 addition to their marketing choices, qualitative market research (described below)
8 confirmed mailers' willingness to pay a nominal price for using RPNs, in addition to the
9 production costs they incur and the applicable postage for the mailpiece.

10

11 **VI. MARKET RESEARCH**

12 To learn more about the market for RPNs, the Postal Service commissioned Opinion
13 Research Corporation (ORC) to conduct qualitative market research.² In April 2004,
14 ORC conducted 15 focus groups among consumers, small and medium-sized
15 businesses, and 35 in-depth telephone interviews among large businesses and RPN
16 current participants.³ Two sets of prices were presented: \$.015 and \$.005 for a First-
17 Class Mail RPNs, and \$.03 and \$0.015 for a Standard Mail RPNs.⁴

18 Various focus group participants responded favorably to the RPN concept.
19 Differences in reactions that existed were based on the type of business and the

² See USPS-LR-1.

³ USPS-LR-1, page i, 3-9.

⁴ USPS-LR-1, page 37, 65-66,

1 specific types of mailings they send, rather than on the business size or segment.⁵ The
2 results also suggest that those businesses, both large and small, which believe RPNs
3 will yield a higher response rate, are willing to pay additional postage for RPNs.⁶
4 Consumers overall thought the concept was attention-getting and were “quite taken with
5 the interactive qualities of peeling-off and reusing Notes.”⁷

6

7 **VII. MARKET TEST**

8 Before determining whether to offer RPNs as a permanent service available to
9 letters and flats for a nominal price, the Postal Service would like to test such an
10 expanded RPN program in the marketplace. Accordingly, the Postal Service is
11 requesting the Commission to recommend this market test. The test will allow the
12 Postal Service to evaluate the reaction of a broader range of mailers to the product and
13 to evaluate the appropriateness of an initial set of prices. The proposed prices (\$.005
14 for First-Class Mail, \$.015 for Standard Mail and Periodicals) are described in the
15 testimony of Witness Kaneer. RPNs are proposed to be available for First-Class Mail,
16 Standard Mail, and Periodicals.

17 In order to properly evaluate the range of mailers that might be interested in using
18 RPNs, the market test will be available to nationwide. Although there is no basis at this
19 time for estimating the number of participants and the potential volumes and revenues,
20 the overall effect, at least initially, is not expected to be particularly large. The market

⁵ USPS-LR-1, pages i-ii,

⁶ USPS-LR-1, pages iii-iv.

⁷ USPS-LR-1, page ii.

1 test will allow the Postal Service to develop information about volumes, revenues, and
2 demand at the proposed price levels and to further confirm the lack of impact on
3 operations. We can then evaluate that information in determining the contours of a
4 permanent service, or decide that one is not warranted, depending on the results of the
5 market test.

6 Given the lag time in mailer adoption of new products generally and the particular
7 modifications and arrangements needed to use RPNs, a market test lasting at least one
8 year is needed to evaluate the market reaction. Since the Commission's rules provide
9 that market tests are normally limited to one year, if the requested classifications are
10 established, the Postal Service will endeavor to determine, before the end of that year,
11 whether: (1) it wishes and is able to file a request for a permanent service, (2) it needs
12 to request either an extension of the market test in order to determine the contours of a
13 permanent service, or a revised test which might include other prices or features, or (3)
14 it prefers to simply let the market test expire.

15

16 **VIII. DATA COLLECTION PLAN**

17 During the market test, the Postal Service plans to collect data that from postage
18 statement forms, which will be appropriately amended to anticipate collection of RPN-
19 related data. The following data will be collected and reported to the Commission semi-
20 annually:

- 21 1. Volume data for each RPN mailing will be collected from the appropriate section
22 of the postage statement for that mailing.

- 1 2. The class of mail for each RPN mailing will be identified by the type of postage
2 statement used.
 - 3 3. The processing category will be identified on the postage statement.
 - 4 4. RPN revenue will be calculated by multiplying the number of pieces shown on
5 each RPN mailing's postage statement by the RPN postage associated with the
6 class of mail on that statement.
 - 7 5. Operations will be asked to report processing or delivery problems to postal
8 headquarters.
- 9 The first reporting period will end six months after the market test implementation
10 date and the second reporting period will end twelve months after implementation.
- 11 Reports will be filed within six to eight weeks of the end of each reporting period.