

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

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2012

DOCKET No. N2012-1

DIRECT TESTIMONY OF GREG WHITEMAN
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE
(USPS-T-12)

TABLE OF CONTENTS

AUTOBIOGRAPHICAL SKETCH	1
I. EXECUTIVE SUMMARY	3
II. QUALITATIVE MARKET RESEARCH	8
A. Focus Group and In-Depth Interview Research with Consumers and Small Commercial Organizations.....	9
B. National and Premier Account In-Depth Interviews.....	13
III. QUANTITATIVE MARKET RESEARCH	16
A. Overview of the Research Process.....	16
B. Summary of Changed First-Class Mail™ and Periodicals™ Service Standards on Volume and Revenue	17
C. Tendency of Market Research Subjects to Overstate Reactions to Proposed Changes	18
D. Volume, Revenue And Contribution Loss Estimates.....	19
CONCLUSION.....	23
Appendix A.....	A-1
Appendix B.....	B-1

1 **AUTOBIOGRAPHICAL SKETCH**

2 My name is Gregory M. Whiteman. I am the Manager, Market Research. My
3 group is responsible for the primary market research of the Postal Service. This
4 has included the qualitative and quantitative market research to assess
5 customers' reactions to the proposed changes in service standards for First-
6 Class Mail™ and Periodicals.™

7 I started my career with the Postal Service as a Management Intern in 1969.
8 Upon completing the Management Intern program in 1972, I took a professional
9 staff position in the marketing organization. I moved into management in 1976
10 and have since held a series of executive positions, including positions as the
11 General Manager of the Sales Division, General Manager of the Regular Mail
12 Service Division, and General Manager of Expedited Mail Division. I became
13 Office Director of Market Research and Administration in 1987. In 1997, I
14 became Manager, Industry Marketing, before returning to market research as the
15 Manager of Market Research in 2001. I testified for the Postal Service, together
16 with witness Elmore-Yalch, regarding market research in the PRC Docket No.
17 N2010-1 request for an advisory opinion regarding five-day street delivery.

18 I received a BA from Dartmouth College in 1967, a Masters of International
19 Affairs (MIA) from The Johns Hopkins University School of Advanced
20 International Studies in 1969 and an MBA, specializing in marketing, from the
21 George Washington University in 1978. In addition, I completed both the
22 Marketing Management program in 1975 and the Sales Management program in
23 1980 from Columbia University.

1 PURPOSE

2 The purpose of my testimony is to provide (1) an assessment of the qualitative
3 reactions of both consumers and commercial organizations to the proposed
4 changes to service standards for First-Class Mail™ and Periodicals™, along with
5 other associated operational changes resulting from the Network Rationalization
6 initiative, based upon our qualitative market research and (2) the estimated
7 volume and revenue impact from our quantitative market research. I directed
8 witness Elmore-Yalch (USPS-T-11) in the conduct of her qualitative and
9 quantitative market research that provides the Postal Service the information
10 needed to assess customer reaction and develop volume and revenue estimates
11 associated with the changes in service standards. Witness Elmore-Yalch's
12 testimony describes the research methodologies underlying both the qualitative
13 and quantitative research; I present the results.

14 Two library references relate to the market research, one of which I
15 sponsor, in part. Publicly available materials supporting the market research
16 appear in library reference USPS-LR-N2012-1/26. Non-public materials appear
17 in library reference USPS-LR-N2012-1/NP1. I sponsor two documents in the
18 latter, *CBCIS-Account Type_Products.xls* and *Network Rationalization Volume*
19 *Revenue Contribution Loss-Final2.xls*; as explained in the Preface for the latter,
20 these files document calculation of the customer response to Network
21 Rationalization.

1 **I. EXECUTIVE SUMMARY**

2 The Postal Service sponsored qualitative research, focus groups with consumers
3 and small organizations, plus personal in-depth interviews (IDIs) with larger
4 organizations (IDIs were also conducted among some consumers and small
5 businesses in Alaska and Hawaii) in August and September 2010 for the purpose
6 of gaining insight into reactions to the service standards changes. This research,
7 conducted by the respected market research firm Opinion Research Corporation,
8 permits me to discuss the impact these changes will have on customers and how
9 they can adapt.

10 As witness Elmore-Yalch describes it in her testimony, the Postal Service held 18
11 focus groups in New York City, Chicago, Atlanta , Seattle, and Pocatello Idaho
12 among consumers and small- to medium-size commercial organizations with no
13 more than 100 employees. We also conducted IDIs with consumers and small
14 businesses in the states of Alaska and Hawaii (20 interviews) and with larger
15 commercial organizations across the major mailing industries (17 interviews).

16 In understanding customers' reactions to the proposed changes in service
17 standards, it is necessary to understand their perception of First-Class Mail is
18 very positive. The key features of First-Class Mail, for most customers, are that it
19 is: easy to use, dependable, safe and secure, and not costly. None of these
20 features will be affected by the proposed changes in service standards for First-
21 Class Mail.

1 The most substantial finding concerning the changes to service standards from
2 focus groups and IDIs was that most consumers and small commercial
3 organizations said that changes to the First-Class Mail™ and Periodicals™
4 service standards would have a limited impact on their mailing behavior and their
5 use of the internet as an alternative to mail. Most said they would easily adapt,
6 especially by mailing earlier than they do now, *i.e.*, if the consumer now mails a
7 payment on Wednesday, the consumer would mail that payment on Tuesday.
8 They also indicated that the change would not be considered a significant
9 problem as they also are able to use the internet. This is not to imply there would
10 be no impact. Rather, most agreed adaptation would not be difficult and this
11 change could lead customers to make more use of the internet.

12 Interestingly, many customers are either unaware of First-Class Mail™ service
13 standards and/or perceive that First-Class Mail™ service performance takes
14 longer than the current service standards (and longer than our actual service
15 performance); hence the changes in the service standards would not be
16 perceived as a significant change.

17 Overall, for consumers and small businesses, First-Class Mail™ is important to
18 them and though many use First-Class Mail™ less now to handle personal and
19 business transactions and correspondence, it still provides a key way for them to
20 communicate at a very low price. With respect to their expectations for First-
21 Class Mail™, they expect reliability, dependability, and reasonable speed of
22 service at a low price. They also expect ease of use. Overall, First-Class Mail™
23 is the basic service and current performance is highly satisfactory.

1 In summary, the qualitative focus group research shows that most consumers
2 and commercial organizations will accept the service standards changes if it is
3 necessary to help the Postal Service regain its financial stability. Many said that
4 the Postal Service was too important to them to risk not supporting steps needed
5 to ensure that it continues to operate.

6 Most commercial organizations and consumers would not want a significant price
7 increase in lieu of the service standards changes, though some customers think
8 that the price of First-Class Mail™ is modest given a \$0.44 price to send a letter
9 across the country. They do not see a significant price increase as ensuring the
10 long-term survivability of the Postal Service.

11 The IDIs with consumers and small businesses in Alaska and Hawaii provided
12 feedback very consistent with the outcome of the qualitative focus groups.

13 These customers recognize that living in both states produces effects in their
14 lives that citizens and commercial organizations in the continental U.S. do not
15 experience. However, their basic experience with and expectations for the
16 Postal Service are very similar to what focus group customers expressed. The
17 major difference in their experience is that they recognize that the delivery times
18 to destinations in the continental U.S. will be longer given the much longer
19 distances that the mail must be transported.

20 In terms of their reactions to the proposed service standards changes, they are
21 very similar to consumers and small businesses in the focus groups. They also
22 accept the service standards changes, if necessary to help the Postal Service

1 regain its financial stability. Many said that the Postal Service was too important
2 to them to risk not supporting steps needed to ensure that it continues to operate.

3 In both the focus groups and IDIs, customers stated that the proposed service
4 standards changes are a reasonable action to help solve the financial problems
5 of the Postal Service. The changes are perceived as very practical and will not
6 cause any significant problems for customers since the new service standards
7 are already consistent with their use and expectations for First-Class Mail™.

8 It is clear that consumers and small commercial organizations have already
9 begun reducing their use of First-Class Mail™ due, in part, to the recent
10 economic downturn, by consolidating credit cards and thereby limiting bills and
11 payments; we should expect these changes to continue. However, the proposed
12 service standard change for First-Class Mail™ will not by itself be a tipping point
13 for major diversion to the internet, although diversion will nonetheless continue.
14 Thus, we can expect First-Class Mail™ to continue its decline with this change
15 as just one of several factors contributing to a decrease in volume.

16 In the IDIs with National and Premier Account customers, customers indicated
17 that they would be able to adapt to the proposed service standards changes.
18 After hearing the proposal and the reasons for it, customers accepted it as
19 necessary to help solve the Postal Service's financial problems. The proposed
20 changes clearly indicated to executives that the Postal Service was taking steps
21 to resolve its problems in a responsible manner that minimizes the need to raise
22 prices.

1 Overall, the qualitative research indicates that customers could make changes to
2 their mailing practices by diverting mail volume to the internet and competitive
3 shipping companies. Many felt that it is never good when an organization
4 reduces service, especially if it also increases prices. Thus, while most indicated
5 they would be able to adapt, they will also continue, as reflected by the
6 qualitative research with smaller commercial organizations, to shift hard copy
7 mail to electronic communications thus taking advantage of the convenience and
8 lower costs of electronic communication. Some customers indicated that, while
9 the proposed service standards changes for First-Class Mail™ would not present
10 a major problem to which they could not adapt, they might well accelerate their
11 shift of communication to the internet. Some also acknowledged the availability
12 of FedEx or UPS for important documents. They also indicated they would
13 reduce volume by eliminating discretionary mail volume.

14 Witness Elmore-Yalch also describes the quantitative market research conducted
15 in October and November 2011 to enable the Postal Service to forecast the
16 percentage changes in volume resulting from service standards changes for
17 First-Class Mail™ and Periodicals™.

18 Overall, we conclude that the impact on volume, revenue and contribution from
19 the changes in the service standards will be a reduction of 2.9 billion pieces or
20 1.7 percent of total volume, producing a loss in revenue of \$1.3 billion or two
21 percent, and a loss in contribution of \$499 million or two percent, using FY2010
22 volume, revenue, and contribution data.

1 To understand how to evaluate this estimate, it is important to recognize that
2 when respondents are asked to estimate their responses to proposed changes
3 such as new product introductions or changes in channel option or service
4 features, they tend to overstate their reactions for several reasons:

5 1. Market research creates 100 percent awareness in the marketplace,
6 a condition that never exists in reality. When some customers are
7 unaware of a change, they are unable to react as they might indicate
8 they would when asked in a context that forces 100 percent
9 awareness.

10 2. Customers often act less decisively than they indicate they might
11 when asked directly. In reality, customers experience some amount
12 of inertia when faced with change; change in itself can be difficult
13 such that an affirmative response may be inhibited or delayed.

14 3. Market research also compresses all estimates of change to a single
15 point in time, when, in reality, the estimated change may take effect
16 over a much longer period of time.

17 **II. QUALITATIVE MARKET RESEARCH**

18 Overall, the qualitative market research clearly demonstrates that both
19 consumers and commercial organizations will be able to adapt to the changes in
20 the service standards for First-Class Mail™, and most would prefer the changes
21 in the service standards to significant price increases. Overall, most customers
22 will accept the proposed service standards changes to First-Class Mail™ and
23 Periodicals™, which were perceived as a very reasonable response to the
24 financial problems the Postal Service faces.

1 **A. Focus Group and In-Depth Interview Research with**
2 **Consumers and Small Commercial Organizations**

3 At the direction of the Postal Service, Opinion Research Corporation conducted
4 qualitative focus group research with both consumers and small commercial
5 organizations, supplemented by personal IDIs with consumers and smaller
6 commercial organizations in Alaska and Hawaii, to gain insight into reactions to
7 the proposed service standards changes for First-Class Mail™ and Periodicals™
8 (as shown in Appendix A). In these focus group discussions, the moderator of
9 the groups lead a discussion on what impact the proposed changes would have
10 and how customers could adapt. While not statistically representative of
11 customers, focus groups and personal interviews allow us to gain a deep
12 understanding of how customers will react.

13 In sum, the qualitative research demonstrated to us that customers will accept
14 the changes with the understanding that it is necessary for long term Postal
15 Service financial stability. Conversely, customers would not accept a significant
16 price increase because it would not (by itself) ensure long term financial stability.

17 The most significant finding was that most consumers and small commercial
18 mailers said that the changes would have limited impact on their mailing behavior
19 driven by various purposes, including payments, receipt of bills and statements,
20 and personal correspondence. They also indicate that the proposed changes
21 could increase their use of the internet as an alternative.

22 Most consumers said they would easily adapt, especially by mailing earlier than
23 they do now, e.g., if a consumer now mails a payment on Wednesday, she would

1 mail that payment on Tuesday. They also indicated that the change would not be
2 considered a substantial problem as the internet would be available. This is not
3 to imply there would be no impact. Rather, most agreed adaptation would not be
4 difficult and the change could lead to greater use of the internet.

5 Consumers and small businesses generally value the Postal Service and want to
6 see it survive. These customers use the Postal Service in very basic ways. Most
7 use single-piece First-Class Mail™ and parcel services. A few small commercial
8 organizations use Standard Mail™ and Periodicals™. Consumers and small
9 commercial organizations also use the internet and the competitive package
10 service carriers which will facilitate their adaptation to the proposed service
11 standards changes. Many indicated that the proposed changes would not be a
12 major factor in increasing their use of the internet but that it could lead them in
13 that direction.

14 For most consumers and small commercial organizations, most of their First-
15 Class Mail™ consists of bills and statements, payments, correspondence and
16 other documents. And, most of these customers have established patterns by
17 which they use First-Class Mail™ and/or the internet. The proposed First-Class
18 Mail™ changes will not materially affect how they use these two channels.

19 However, many indicated that the proposed changes would be a factor in
20 increasing their use of or plan to use the internet.

21 Consumers and small commercial organizations have clearly begun to reduce
22 their use of First-Class Mail™ due in part to the recent economic downturn by, for

1 example, consolidating credit cards thereby reducing bills and payments. We
2 expect these changes to continue. However, these First-Class Mail™ changes
3 will not be a tipping point for major diversion to the internet, but just provide
4 another factor for customers to consider. Thus, we can expect First-Class Mail™
5 volume to continue its decline, with service standards changes contributing as
6 just one of several factors.

7 Turnaround mail, typified by the sending of a contract for signature and return or
8 a follow up note to a meeting, is the type of communications which will be most
9 affected. However, such time sensitive mail represents an insignificant
10 percentage of the total First-Class Mail™ volume. Most consumers and small
11 commercial organizations recognize that most of their First-Class Mail™ volume
12 lacks real time sensitivity so they can readily mail a day earlier and meet their
13 needs.

14 For most customers, the key features of First-Class Mail™ are ease of use,
15 dependability, safety and security, and low cost. None of these features will be
16 affected by the proposed changes in First-Class Mail™ service standards.

17 The adaptability of consumer and small commercial organizations to changes in
18 service standards for First-Class Mail™ reflects their general lack of awareness
19 of current standards and their perception that First-Class Mail™ takes longer
20 than the current service standards or actual service performance reflect. Hence,
21 any changes are perceived as immaterial, especially in light of expectations that
22 service will match the new service standards.

1 Customers who need a highly reliable and fast service, for example, to deliver a
2 legal document to a court, indicated they would use a premium service or the
3 internet. In fact, most indicated that in this situation, they already use these
4 alternatives. Thus, the proposed changes in the service standards for First-Class
5 Mail™ would not create any problems for these customers as they have already
6 established effective strategies that would require, if anything, mailing one day
7 sooner.

8 Consumers and small businesses were generally willing to accept the proposed
9 changes in First-Class Mail™ service standards provided that (1) it helps resolve
10 the Postal Service’s financial problems and (2) it is more than a temporary
11 solution.

- 12 • Most see the proposal as a fundamental business decision and
13 recognize it is necessary in light of the economic situation the
14 Postal Service faces. They are potentially more receptive to it now
15 than they would have been in earlier years, given the recent
16 recession and our dire economic situation.
- 17 • As was said by many in different ways, “the Postal Service has to
18 do what it has to do in order to succeed.”
- 19 • Customers are looking for the Postal Service to develop longer-
20 term solutions to the current problem – *i.e.*, adopt new
21 technologies, operate more efficiently, and develop new revenue
22 sources.
- 23 • Nearly all respondents stated they also would like to see
24 accompanying improvements in customer service to offset their
25 loss in delivery service.

1 Recommendations included improvements to employee attitudes and customer
2 focus; employee knowledge; and enhanced accountability among employees and
3 management.

4 When presented with a simple choice, whether the Postal Service should adopt
5 the proposed change or not, approximately 80 percent of the consumers and
6 small commercial customers indicated the Postal Service should adopt it. Most
7 who did not support adoption did not think that it would help solve Postal Service
8 financial problems. Interestingly, for those who did not support adopting the
9 proposed service standard changes, opposition was not emotional or vocal,
10 indicating its low importance to them.

11 Consumers and small businesses demonstrated little awareness of postal
12 operations—notably processing and transportation that occurs behind the
13 scenes, and many expressed amazement at the ability of the Postal Service to
14 deliver a letter dependably and safely across country for \$0.44. These
15 customers consider First-Class Mail™ to be a valuable service.

16 **B. National and Premier Account In-Depth Interviews**

17 As witness Elmore-Yalch describes it in her testimony, 17 IDIs were conducted
18 with the Postal Service's National and Premier Account customers to discuss the
19 impact that the proposed service standards changes in First-Class Mail™ and
20 Periodicals™ would have on larger organizations and how they could adapt.
21 Each interview was conducted with the primary decision maker for a specific
22 application, *i.e.*, billings, or direct marketing.

1 Similar to the results with smaller commercial organizations, the executives in
2 larger commercial organizations will accept the First-Class Mail™ service
3 standards changes if it is necessary to help the Postal Service regain its financial
4 stability. Many said that the Postal Service was too important to risk not
5 supporting steps necessary to ensuring its continued operations.

6 Executives were selected to provide a wide cross section of targeted customer
7 groups; such selection does not constitute a statistically representative sample.
8 In-depth interviews were used to gather information from high level executives,
9 who are often difficult to recruit for focus groups. Interviews were aimed at
10 understanding their behavior, perceptions, and expected response to the
11 proposed service standards changes.

12 The National and Premier Account executives indicated that they would be able
13 to adapt to the proposed changes in the service standards. After learning about
14 the proposal and reasons for it, customers accepted it as necessary to help solve
15 the Postal Service's financial problems. The proposed changes clearly indicated
16 to the executives that the Postal Service was taking responsible steps to resolve
17 its problems, especially if it would help control costs and prices.

18 However, these larger business customers generally do not support a reduction
19 in service, especially if coupled with price increases. Thus, while most indicated
20 they would be able to adapt, they also will continue to shift hard copy mail to
21 electronic communications, taking advantage of its greater convenience and

1 lower costs. Indeed, the service standards changes could accelerate the shift of
2 mail to the internet.

3 Some of these larger business customers also indicated that they could shift
4 important documents to competitors such as FedEx and UPS. A few of the
5 larger mailers also projected logistical problems if the nearest plant where they
6 drop large volume mailings is closed.

7 Overall, key reactions to the proposed change among larger mailers include:

8 • Most executives noted that the change could have an impact, but it
9 would be modest without causing them to stop using the Postal
10 Service. However, the change could accelerate plans to shift
11 communications to the internet.

12 • A common expectation was that the proposed service standards
13 changes and the consolidation of processing plants should reduce
14 pressure to increase prices.

15 • Those responsible for billings and payments indicated the changes
16 would have only a limited impact on their cash management.
17 However, it would increase pressure to divert First-Class Mail™
18 billings and payments to the internet.

19 • For many respondents, price is the critical driver when considering
20 options for basic communications such as bills, statements,
21 payments, notices, *etc.* This explains why large mailers will support
22 efforts by the Postal Service to rationalize its processing network
23 and gain control over its costs.

24 • Mailers expect First-Class Mail™ to be delivered within a
25 reasonable period of time and be reliable; absolute speed is less
26 important.

- 1 • Larger mailers generally perceive that service performance for
2 First-Class Mail™ takes longer than the current service standards;
3 this helps explain their understanding that proposed changes are
4 not major.
- 5 • Changes in Periodicals™ service standards may cause problems
6 for local publishers who currently receive next day delivery of their
7 papers. Hence problems with the scheduling of newspaper articles
8 and customer service issues with subscribers could ensue.

9 **III. QUANTITATIVE MARKET RESEARCH**

10 Opinion Research Corporation also conducted quantitative market research on
11 behalf of the Postal Service to project changes in volume that would be triggered
12 by changing the service standards for First-Class Mail™. I worked closely with
13 witness Elmore-Yalch to develop and prepare materials used in the quantitative
14 market research. In her testimony, witness Elmore-Yalch describes the survey
15 research design, including subject/respondent selection, procedures, data
16 collection and aggregation, and calculation of the estimated change in volume.

17 **A. Overview of the Research Process**

18 The research was designed to estimate for each account segment the
19 percentage change in volume by product and application that would result from
20 changing the service standards for First-Class Mail™.

21 Respondents were asked what the impact of changing service standards for
22 First-Class Mail™ and Periodicals™ would be on their volume use of First-Class
23 Mail™, regular and nonprofit Standard Mail™, regular and nonprofit
24 Periodicals™, Express Mail™ and Priority Mail™. The quantitative market

1 research relied upon the same operational concept description that was used for
2 the qualitative market research, Appendix A.

3 To assist in understanding how this research was conducted, below are the
4 definitions of several key terms:

- 5 • Account Segment: an account segment represents a grouping of
6 similar customers. For example, the National and Premier Account
7 segments represent the larger commercial mailers. Also, the
8 Preferred Account segment represents small businesses which use
9 one or more products for which we have a mailing record of their
10 use.
- 11 • Product: defined from the mailer perspective, the following
12 products were studied: 1) single-piece and 2) presort First-Class
13 Mail™; 3) regular and 4) nonprofit Standard Mail™; 5) regular and
14 6) nonprofit Periodicals™; 7) Express Mail™; and 8) Priority Mail™.
- 15 • Application: an application reflects the mailing purpose *i.e.*,
16 advertising, billing.

17 **B. Summary of Changed First-Class Mail™ and Periodicals™**
18 **Service Standards on Volume and Revenue**

19 Overall, the quantitative research indicates that customers will make changes to
20 mailing practices by diverting mail volume to the internet and competitive
21 shipping companies. While the qualitative research provides related indications
22 of this, these impacts are quite clear from the quantitative research. When an
23 organization reduces service, especially if it is also increasing prices, it should
24 expect to see an effect on its business. Thus, while most customers can adapt,
25 they also will continue, to shift hard copy mail to electronic communications,
26 thereby increasing convenience and reducing costs.

1 Overall, the market research shows that there will be a reduction in volume,
2 revenue and contribution from the service standards changes with an estimated
3 reduction in volume of 2.9 billion pieces or 1.7 percent, a loss in revenue of \$1.3
4 billion or two percent and, a decrease in contribution of \$499 million or two
5 percent, using FY2010 data.

6 **C. Tendency of Market Research Subjects to Overstate**
7 **Reactions to Proposed Changes**

8 When respondents are asked to estimate their responses to proposed changes
9 such as new product introductions or changes in channel option or service
10 features, they tend to overstate their reactions for several reasons:

- 11 1. Market research creates 100 percent awareness in the marketplace,
12 a condition that never exists in reality. When some customers are
13 unaware of a change, they are unable to react as they might indicate
14 they would when asked in a context that forces 100 percent
15 awareness.
- 16 2. Customers often act less decisively than they indicate they might
17 when asked directly. In reality, customers experience some amount
18 of inertia when faced with change; change in itself can be difficult
19 such that an affirmative response may be inhibited or delayed.
- 20 3. Market research also compresses all estimates of change to a single
21 point in time, when, in reality, the estimated change may take effect
22 over a much longer period of time.

23 As recognized in the professional market research literature, and in
24 academia, techniques for recognizing and adjusting to this tendency for
25 over-projecting results have been developed. The Postal Service adapted

1 a specific approach appropriate to the immediate circumstances presented
2 by the market research, conducted for purposes of estimating changes in
3 mailing patterns reportedly induced by the introduction of the service
4 standards changes; a more detailed discussion of the approach used and
5 references to “market research industry” research supporting this approach
6 appears in witness Elmore-Yalch’s testimony (USPS-T-11, section 6.4.1))

7 **D. Volume, Revenue And Contribution Loss Estimates**

8 Each respondent’s change in volume by application and product as a result of
9 revised First-Class Mail™ service standards was calculated. These calculations
10 are supplied by witness Elmore-Yalch. (USPS-T-11, Section 6.4.)

11 Each respondent’s reported volume change per product was adjusted by the
12 likelihood of change measure (0-10 scale). In assessing the likelihood to change
13 score, respondents were asked two questions. The first question asked the
14 likelihood that the service standards changes would cause the customer to
15 change mail volume. The second question asked the likelihood that the service
16 standards changes would cause the customer to change how it sends items.
17 Below are the specific questions.

18 **1. Assuming that the changes to First Class Mail will be in**
19 **place during 2012, what is the likelihood that this change will**
20 **cause your organization to modify the number of individual**
21 **pieces of mail your organization will mail in 2012? Please**
22 **answer using a scale from 0 to 10, where “10” means**
23 **extremely likely and a “0” means extremely unlikely.**

1 **2. Assuming that the changes to First Class Mail had been**
2 **in place during 2012, what is the likelihood that this change**
3 **will cause your organization to modify the way your**
4 **organization mails different items in 2012? Please answer**
5 **using a scale from 0 to 10, where “10” means extremely likely**
6 **and a “0” means extremely unlikely.**

7 To create a percentage adjustment score, we used the highest “likelihood” score
8 from these two questions. We took that score and converted the score to a
9 percentage (0-100 percent). If the score was 9, the formula is as follows: $9 \times$
10 $100/10=90$ percent likelihood.

11 In addition, we posed a further validation question regarding the volumes that
12 respondents indicated they will mail in 2012 are a result of the service standards
13 changes. This question was as follows:

14 **You indicated that based on the First-Class Mail service**
15 **standards I described the total number of pieces you would**
16 **mail using the U.S. Postal Service in 2012 would [DECREASE /**
17 **INCREASE] by _____ pieces. What percentage of this**
18 **[DECREASE / INCREASE] is solely because of the First-Class**
19 **Mail service standards that I described?**

20 We took that reported percentage and multiplied it by the “likelihood to change”
21 percentage to create an overall “adjustment percentage”. Thus if the “likelihood
22 to change percentage was 90 percent and the percentage from the question
23 above was 90 percent, the adjustment factor would be $(.9 \times .9= .81)$ or 81
24 percent.

1 This effectively adjusted the reported changes to reflect the likelihoods of
2 respondents actually (1) changing the volume of mail sent in light of the service
3 standards changes, and (2) changing the way they would send that volume.

4 Estimation of the product specific volume changes starts with witness Elmore-
5 Yalch's change estimates for the respective account segments. While Ms.
6 Elmore-Yalch is an expert researcher, cross walking account segments to
7 respective postal products requires some analysis and assumptions that my
8 office is better prepared to conduct. We essentially replicated the approach used
9 to estimate the volume and revenue impact in my testimony in Docket No.
10 N2010-1. This process begins with quantified recognition that each account
11 segment uses the mail for its own sets of purposes, which can be analyzed in
12 terms of product usage. This allows me to sum product usage across the
13 segments. The calculations are shown in library reference USPS-LR-N2012-
14 1/NP1 (*Market Research Materials (Non-public)*).

15 The paradigm we applied reflects modest compromise so as to tie the market
16 research results to actual product volumes. This research predated the
17 availability of final volume and revenue results for FY2011. As such, we had little
18 choice but to use final results from FY2010.

19 Within a product's FY2010 RPW volumes, each segment's volume portion was
20 developed by using Revenue, Pieces, and Weight (RPW) data system and
21 Customer Business Intelligence (CBI) data system. Volume for the National,
22 Premier, and Preferred Account segments was drawn from the CBI report while

1 the volume for the small businesses and consumers required use of both RPW
 2 and CBI. Then each segment's volume was multiplied by the percent change
 3 derived by witness Elmore-Yalch to calculate segment-specific volume changes.
 4 Each segment's volumes were then summed to arrive at overall volume changes.

5 Network Rationalization Volume Revenue Contribution Loss-Final Workbook
 6 sheet Total, in library reference USPS-LR-N2012-1/NP1 (*Market Research*
 7 *Materials (Nonpublic)*) shows the calculation of changes in volume, revenue, and
 8 contribution loss. Moreover, that file also documents sources for data used to
 9 complete the calculations.

10 Based on the market research and these calculations, I estimate that, if the
 11 service standard changes for First-Class Mail™ are implemented as proposed by
 12 the Postal Service, we would have, using FY10 data, a volume loss of 1.7
 13 percent of total volume and a loss of 2 percent of total revenue and contribution
 14 due to the changes in the service standards. The chart below delineates by
 15 product the estimated total volume, revenue, cost and net contribution changes
 16 that would result if the service standard changes for First-Class Mail are
 17 implemented, as applied to FY2010 mail volume.

18 Chart 1: Volume, Revenue, Cost, and Net Contribution Changes
 19 With First-Class Mail Service Standard Changes

Product	FY 2010 RPW Volumes	Volume Changed Due to Service Standard Change	Volume change %	Volume After Service Standard Change	2010 RPW Unit Revenue	Revenue Change	2010 ACR Unit Cost	Cost Change	Net Change
First-Class Mail									
Total Single Piece	31,643,333,000	-871,348,688	-2.8%	30,771,984,312	\$0.580	-\$505,382,239	\$0.349	-\$304,100,692	-\$201,281,547
Total Presort	46,225,386,000	-645,607,498	-1.4%	45,579,778,502	\$0.345	-\$222,734,587	\$0.117	-\$75,536,077	-\$147,198,510
Total First-Class Mail	77,868,719,000	-1,516,956,186	-1.9%	76,351,762,814	\$0.441	-\$728,116,826	\$0.217	-\$379,636,769	-\$348,480,056
Total Standard Mail	82,523,747,000	-1,164,551,895	-1.4%	81,359,195,105	\$0.210	-\$244,555,898	\$0.143	-\$166,530,921	-\$78,024,977
Total Periodicals	7,269,470,000	-155,850,993	-2.1%	7,113,619,007	\$0.258	-\$40,209,556	\$0.343	-\$53,456,891	\$13,247,334
Express Mail/Priority Mail	852,024,000	-44,440,264	-5.3%	807,583,736	\$7.360	-\$326,947,426	\$5.440	-\$241,551,391	-\$85,396,035
Parcel Select	268,357,000	0	0.0%	268,357,000	\$1.916	\$0	NA	\$0	\$0
Parcel Post	89,875,000	0	0.0%	89,875,000	\$10.014	\$0	NA	\$0	\$0
Media & Library	122,322,000	0	0.0%	122,322,000	\$3.015	\$0	NA	\$0	\$0
Parcels	212,197,000	0	0.0%	212,197,000	\$5.980	\$0	NA	\$0	\$0
BPM	474,488,000	0	0.0%	474,488,000	\$1.080	\$0	NA	\$0	\$0
Totals	169,469,002,000	-2,881,799,338	-1.7%	166,587,202,662		-\$1,339,829,706		-\$841,175,972	-\$498,653,734

20

1 **CONCLUSION**

2 In understanding customers' reactions to the proposed changes in service
3 standards, it is necessary to understand their perception of First-Class Mail™
4 which is very positive. For most customers, the key features of First-Class
5 Mail™ are that it is easy to use, dependable, safe and secure, and not costly.
6 None of these features will be affected by the proposed changes in the service
7 standards for First-Class Mail™.

8 In both the focus groups and IDIs, customers stated that the proposed changes
9 to the First-Class Mail™ and Periodicals™ service standards were a very
10 reasonable action to help solve Postal Service financial problems. They are
11 perceived as practical and will not cause any major problems for customers,
12 whose use of and expectations for First-Class Mail™ are largely consistent with
13 the proposed new service standards.

14 Consumers and small commercial organizations have already begun reducing
15 their use of First-Class Mail™ as reflected by their consolidation of credit card
16 accounts, and fewer bills and payments. This reduction is amplified by the recent
17 economic downturn, and we expect the downward trend to continue. The
18 proposed changes in the First-Class Mail™ service standards are not expected
19 to constitute a tipping point for major new changes in volume decreases. Thus,
20 we can expect First-Class Mail™ to continue declining with service standard
21 changes constituting just one of several contributing factors.

1 Overall, we conclude that the Postal Service will experience declines in volume,
2 revenue, and contribution from implementing the service standard changes. As
3 would be expected, the largest impacts will be in First-Class Mail™, particularly
4 single-piece First-Class Mail™. Presort Automation First-Class Mail™ will also
5 decline. These declines would represent the diversion of payments and billings
6 to the internet, and reduction by large volume customers of communications and
7 advertising.

8 The Postal Service also will face declines in Standard Mail™, Periodicals™,
9 Priority Mail™ and Express Mail™.

1 **Appendix A**

2 Respondents to the qualitative and quantitative market research were provided
3 the following information:

4 **First-Class Mail Service Standards Description-Larger**
5 **Commercial Organizations**

6 The Postal Service is considering the following service standards for First-Class
7 Mail.

8 For First-Class Mail that is dropped at a retail facility, placed in a collection box,
9 placed in the customer's own mailbox or given to a letter carrier, service will be
10 as follows:.

- 11 1. Delivery in the local area will be delivered on the second
12 day.
- 13 2. Delivery outside the local area up to 200 miles will be
14 delivered on the second day.
- 15 3. Delivery to destinations over 200 miles will be delivered in 3
16 days
- 17 4. Delivery to destinations over 1,000 miles which now takes 3
18 days will continue to take 3 days
- 19 5. For those living in Alaska and Hawaii, delivery to anywhere
20 in the continental U.S. will be delivered in 4 days.

21 For First Class mailers who presort their volume to the destinating service area of
22 the plant and enter the mail prior to a Critical Entry Time of 8 am, the First-Class
23 Mail will be delivered the next day. For First Class mailers who presort their
24 volumes to the destinating service area of the plant and palletize the mail by

1 Five-digit ZIP Codes and also enter the First-Class Mail prior to a Critical Entry
2 Time of 12 noon, the First-Class Mail will be delivered the next day.

3 For First-Class Mail delivered under a Caller Service program, the processing
4 operations at the destinating plants will likely increase the frequency of the mail
5 being available for pick-up, resulting in the mail being available earlier.

6 In addition, local Periodical Mail, primarily newspapers, which are presorted to
7 the destinating service area and entered prior to the established local critical
8 entry time will be delivered the next day. Other origin entered Periodical Mail for
9 which the delivery schedule is tied to the First-Class Mail service standard may
10 be delivered one day later than currently.

11 For commercial organizations using bulk First-Class Mail, Standard Mail or
12 Periodical Mail may have fewer locations at which they can deposit their mail and
13 this may result in a need to transport this mail to a location different from the one
14 they are currently using.

15 However, there also is the potential that these mailers may be able to achieve
16 improved transportation efficiencies since the service areas of these facilities
17 may be larger than they are currently. For example, if a mailer currently sends
18 mail to two facilities which are consolidated to one, this can allow the mailer to
19 prepare a larger mailing for deposit at the consolidated site, resulting in reduction
20 in the required transportation.

1 First-Class Mail Service Standards Description-Small Commercial
2 Organizations and Consumers

3 The Postal Service is considering the following service standards for First-Class
4 Mail.

5 For First-Class Mail that is dropped at a retail facility, placed in a collection box,
6 placed in the customer's own mailbox or given to a letter carrier, service will be
7 as follows:.

- 8 1. Delivery in the local area will be delivered on the second
9 day.
- 10 2. Delivery outside the local area up to 200 miles will be
11 delivered on the second day.
- 12 3. Delivery to destinations over 200 miles will be delivered in 3
13 days
- 14 4. Delivery to destinations over 1,000 miles which now takes 3
15 days will continue to take 3 days
- 16 5. For those living in Alaska and Hawaii, delivery to anywhere
17 in the continental U.S. will be delivered in 4 days.

Appendix B

I. Introduction

This Appendix explains the calculations of the volume, revenue and contribution loss estimates, if the service standards changes for First-Class Mail™ are implemented. Estimated percentage changes from the market research are applied to final FY2010 results. Total volume loss is estimated as minus 1.7 percent, with a total revenue loss of minus 2.0 percent. See file Network Rationalization Volume Revenue Contribution Loss-Final.xls in library reference in USPS-LR-N2012-1/NP1 (this excel file is hereinafter identified as the VRC loss spreadsheet). Respective tabs in this file include *Nat'l*, *Premier*, and *Preferred*, *Small Businesses*, *Consumers*, and *Total*.

II Tab: Total

Percentages of volume loss or gain by customer account segment¹ for each of the products² supplied by witness Elmore-Yalch (USPS-T-11)³ provide the starting point for calculating the change in volume by product that would result from implementation of the service standard changes for First-Class Mail™. Calculations for the total change in volume, revenue and contribution consisting of the sum of impacts upon a superset of the products for which witness Elmore-Yalch reports results are shown in the “*Total*” tab of the spreadsheet identified

¹ The five account segments include: National, Premier, Preferred, Small Business and Consumers.

² As reflected in her testimony, USPS-T-11, section 6.4, these include: Single Piece First-Class Mail, Presort First-Class Mail, Regular Standard Mail, Nonprofit Standard Mail, Priority Mail, Express Mail, Regular Periodicals, and Nonprofit Periodicals.

³ See USPS-T-11, Section 6.4, Volume Forecast Calculations; USPS-T-12, Network Rationalization Volume Revenue Contribution Loss-Final worksheet in library reference USPS-LR-N2012-1/NP1

1 above. My work required adaption of her results to the various products shown
2 on the "Total" tab.

3 The percent change in volume by product and segment that witness Elmore-
4 Yalch supplied were applied to product volumes as reported in the FY 2010
5 Revenue, Piece, and Weight (RPW) system and to account segment as reported
6 in the Corporate Business Customer Information System (see worksheet CBCIS-
7 AccountType_Product.xls in library reference in USPS-LR-N2012-1/NP1). The
8 volume and revenue in CBCIS is reported separately for the National, Premier,
9 and Preferred Account segments. The five account segments include: National,
10 Premier, Preferred, Small Business and Consumers.

11 The calculated change in volume for all account segments for each product was
12 summed to calculate the total volume change by product. The change in
13 revenue was calculated by multiplying the percent changes in volume by product
14 after the implementation of the service standard changes for First-Class Mail™
15 by the RPW revenue per piece as reported in the FY 2010 RPW Summary
16 Report. Similarly, the cost changes were calculated by multiplying the percent
17 changes in volume due to the implementation of the service standard changes
18 for First-Class Mail™ by the unit cost by product as reported in the FY 2010 ACR
19 report. Finally, the net change in contribution was calculated by subtracting the
20 total cost change from the total revenue change.

1 **III. Tab: National, Premier and Preferred Accounts**

2 The volume changes for *National, Premier and Preferred* Accounts were
3 determined separately for each account segment by product, as shown in the
4 *Nat'l, Premier & Preferred* tab of the spreadsheet identified at the beginning of
5 this Appendix. Some additional analysis was necessary as one of the sources of
6 reported customer payment for postage, "residual meter," is not associated with
7 any particular product in the Commercial Business Customer Information System
8 so some way of splitting total postage paid for "residual meter" to respective
9 products had to be developed. For residual meter postage, we made a
10 reasonable assumption that residual meter postage was distributed to products in
11 each of these three segments as reported in the FY 2010 RPW report for total
12 Metered Mail.

13 I made use of RPW data to produce a volume and revenue estimate for single-
14 piece metered mail. In CBI, there is only reported revenue for single-piece
15 metered mail so we need a way to estimate appropriate volume for single-piece
16 metered mail from the CBI revenue data. Using the data reported by RPW for
17 the volume and revenue distribution of metered mail by products, I was able to
18 calculate the percent of single-piece First-Class Mail™ paid by meter, single-
19 piece Priority Mail™ paid by meter, and single-piece Parcel Post™ paid by
20 meter. Using this calculated volume estimate, I was able to apply these
21 estimates to the volume estimates provided to me by witness Elmore-Yalch to
22 calculate the volume and revenue estimates for National, Premier, and Preferred
23 accounts.

1 For each account segment (National, Premier and Preferred) the volume loss
2 was calculated by using the same methodology. Business Customer Intelligence
3 (BCI) provided FY2010 volumes by customer segment and product. See CBCIS-
4 AccountType_Product.xls Workbook in library reference USPS-LR-N2012-1/NP1
5 (*Market Research Materials (Nonpublic)*). The information in the Commercial
6 Business Customer Information System is based on information from mailing
7 records such as the mailing statements for Automation First-Class Mail™ and
8 Standard Mail™, thereby accurately providing volume and revenue information
9 for each customer listed in this system. Percent changes from witness Elmore-
10 Yalch for each segment and product were multiplied by corresponding CBCIS
11 volumes to produce volume changes by product/segment combination. The
12 calculations for the change in volume due to implementation of the service
13 standards changes for First-Class Mail™ for National, Premier, and Preferred
14 Accounts are shown as filed electronically in library reference USPS-LR-N2012-
15 1/NP1 (*Market Research Materials (Nonpublic)*). .

16 The total change in volume for each product was calculated by summing the total
17 change in volume for all three account segments from these sources. All
18 account segments by product from CBCIS, including residual meter were
19 summed. The change in volume by product for all account types due to the
20 implementation of the service standard changes for First-Class Mail™ was
21 summed. The estimated volume by account segment and product after the
22 implementation of the changes was calculated by subtracting the change in
23 volume from the total volume.

1 **IV. Tab: Small Business**

2 The change in volume for small businesses was determined by product. The
3 calculations for the volume change due to the implementation of the service
4 standard changes for First-Class Mail™ for small businesses are shown in the
5 *Small Business* tab of the VRC Loss spreadsheet. Given that volume mailed by
6 small businesses is not reported in RPW, measurement is based upon that
7 portion of witness Elmore-Yalch's quantitative market research focused upon
8 small and home based businesses. See section 6.4 of USPS-T-11 for an
9 explanation of how she developed a volume change estimate for each of three
10 products for each of these two sub-segments.

11 The volumes from small businesses that are not reported in CBCIS are not
12 recorded directly in Postal Service data systems. Further, there is no overall
13 count of the number of these small businesses. For this purpose, the Postal
14 Service again relied upon CBI. CBI furnishes access to Equifax data, one of the
15 three large credit reporting firms, which provides a file of known businesses in
16 the United States. Using the count of businesses, we subtracted the number of
17 businesses reported in CBCIS to calculate the number of small and home-based
18 businesses. These calculations also appear on the *Small Business* tab.

19 So, using the estimates of the volume mailed for each product by small and
20 home-based businesses and the number of small businesses, the next step is
21 calculating the per-product volume mailed by small businesses, a direct output of
22 witness Elmore-Yalch's research. (See USPS-T-11, Section 6.4.) Multiplying her
23 results of the average number of pieces for each product mailed by small and

1 home-based businesses by the number of small businesses calculated using the
2 Equifax count of small businesses allows us to produce volume estimates.

3 Total FY2010 RPW mail volume less all CBCIS customer volume (National,
4 Premier and Preferred customers discussed above in section II) yields the sum of
5 small business and consumer volume. The split between small business and
6 consumer volumes was then determined by comparing the total volume witness
7 Elmore-Yalch developed for each group. This method indicates that small
8 businesses account for 80.2 percent of the combined small
9 businesses/consumers First-Class Mail™, 90.6 percent of the combined small
10 businesses/consumers Priority Mail™, and 91 percent of the combined small
11 businesses/consumers Express Mail™.

12 Percent changes from witness Elmore-Yalch for small businesses for each
13 product were multiplied by the calculated volume for each product to produce
14 volume changes by product/segment combination.

15 **V. Tab: Consumers**

16 Calculation of volumes for consumers used the same approach as we used in
17 calculating the volumes for small businesses as described in the previous
18 section.

19 So, using the estimates of the volume mailed for each product by consumers and
20 the number of households in 2010 as reported in the 2010 Household Diary
21 Study, the next step is calculating the per-product volume mailed by consumers,
22 a direct output of witness Elmore-Yalch's research. (See USPS-T-11, Section

1 6.4.) Multiplying her results of the average number of pieces for each product
2 mailed by consumers by the number of households allows us to produce volume
3 estimates.

4 Total FY2010 RPW mail volume less all CBCIS customer volume (National,
5 Premier and Preferred customers discussed above in section II) yields the sum of
6 small business and consumer volume. The split between small business and
7 consumer volumes was then determined by comparing the total volume witness
8 Elmore-Yalch developed for each group. This method indicates that consumers
9 account for 19.8 percent of the combined small businesses/consumers First-
10 Class Mail™, 9.4 percent of the combined small businesses/consumers Priority
11 Mail™, and 9 percent of the combined small businesses/consumers Express
12 Mail™.