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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0000
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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS STEIDTMANN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T2-1-2)

The United States Postal Service hereby provides responses of witness Steidtmann to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T2-1-2, filed on July 9, 1996.

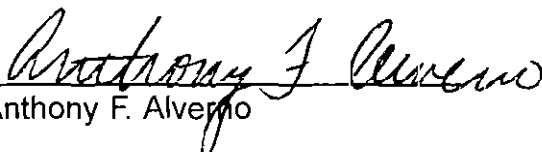
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

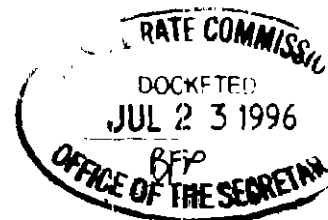
UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Anthony F. Alverno

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1145
(202) 268-2997; Fax -5402
July 23, 1996



U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-1
Page 1 of 2

OCA/USPS-T2-1. In your testimony at 3, you state, "These customers [the large boxholders who are typically businesses] are in turn more likely to request other retail services in conjunction with visits to post offices to retrieve mail."

- a. Have you or the Postal Service conducted a survey or study on the frequency, volume and valuation of transactions for Postal Service retail services among business boxholders and business nonboxholders?
- b. If your response to part "a" of this interrogatory is affirmative, please provide a copy of the survey and the applicable cities. If your response is negative, please indicate the basis for your assertion.
- c. Have you or the Postal Service conducted a survey or study to determine the frequency, volume and valuation of transactions for Postal Service retail services among nonbusiness boxholders and nonbusiness nonboxholders?
- d. If your response to part "c" of this interrogatory is affirmative, please provide a copy of the study with the applicable cities. If your response is negative, please indicate the basis for your assertion.
- e. Please explain how you determined that large boxholders are more likely to request other retail services than small or medium boxholders are.

OCA/USPS-T2-1 Response.

- a. No, I have not conducted such a survey or study, and to the best of my knowledge, neither has the Postal Service.
- b. My assertion is based upon my experience in the retail industry.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-1
Page 2 of 2

- c. No, I have not conducted such a survey or study, and to the best of my knowledge, neither has the Postal Service.

- d. My assertion is based upon my experience in the retail industry.

- e. As noted in my testimony, it is my understanding that larger box holders are generally businesses. For the most part, businesses perform functions that make more use of postal services than individuals. As such, they are more likely to request other retail services when they visit a post office.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-2
Page 1 of 5

OCA/USPS-T2-2. In your testimony at 5, you state that “[s]implifying a product line is worthwhile in a retail context because it generally decreases costs . . . and makes it easier to communicate the value and features of the service to customers.”

- a. Please provide all information you have available to you on retailers who “simplify” their product line while raising the remaining product prices. Your response should cite specific product lines as well as specific retailers.
- b. What has been the market impact on those retailers you cite in part “a” of this interrogatory?
- c. When retailers “simplify” their product line, can the simplification process create a potential for another retailer to enter that market and address any potential “void” brought about by the simplifications process? Please explain your response.

OCA/USPS-T2-2 Response.

- a. The reference to product simplification on page 5 of my testimony pertains to the restructuring of the Postal Service’s return receipt service.

Simplification of a product line does not necessarily go hand in hand with either an increase in product prices or a decrease in product prices. In general, retailers simplify a product line to reduce costs, which usually, although not always, results in a lower price, not a higher price. Retailers will adjust their prices to reflect all factors affecting remaining products, not just the simplification. For instance, higher

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-2
Page 2 of 5

market prices or changes in service levels may induce a retailer to raise prices on remaining products despite the product simplification.

There are numerous examples of companies that have simplified their product offerings. In addition to the automobile manufacturers mentioned in my testimony, other examples can be found in the department store, mass merchandiser, and outdoor apparel industries. Department stores such as Dayton's in Minneapolis, Marshall Field's in Chicago, and Macy's in Atlanta once carried diverse goods such as hardware, furniture, fabric, and food. These department stores have greatly reduced these categories or gotten out of these businesses altogether to focus on apparel. The same has been true of national mass merchandisers, (i.e., nationwide non-specialized retailers) such as Sears Roebuck and JC Penney. Retailers such as Abercrombie and Fitch and Eddie Bauer once sold outdoor equipment, but have now eliminated those products in order to focus on apparel. Specific examples of companies that have simplified their pricing/product lines while raising the remaining product prices include Sears and Proctor and Gamble.

During the spring of 1989, Sears Roebuck undertook a pricing scheme simplification with the goal of reducing promotional spending. The goal was to offer a single set of "lower" prices and eliminate discounts. While Sears advertised that they would

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-2
Page 3 of 5

lower all prices, the simplified price scheme resulted in prices that were lower than their standard prices, but above the previously offered discounted prices.

Similarly, two years ago, Proctor and Gamble, a global provider of brand name consumer products including cleaning detergents, paper, beauty and health, and food and beverage products, decided to simplify its pricing scheme to offer a single set of "everyday low prices." This simplification was part of Proctor and Gamble's initiative to move away from heavy coupon and discount promotions and reduce overall promotional costs. While the simplified pricing scheme was intended to represent "everyday low prices," the resulting prices were higher than many of the discount prices that had previously been offered through promotional efforts.

- b. In general, for the retailers mentioned in part "a" of this response, the narrowing of product focus has been positive, reducing costs and increasing gross margins. Sears Roebuck's price simplification was not as successful. Pressure from competitors forced Sears to resume its promotional efforts. For Proctor and Gamble, the simplification reduced company spending on coupons and price promotions. Furthermore, the simplification helped to eliminate pricing situations in which certain retailers could purchase Proctor and Gamble products at discounted

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-2
Page 4 of 5

promotional prices and resell them to other stores for a profit, thus creating artificial competition for Proctor and Gamble.

- c. Generally, a retailer's decision to simplify a product line is the result of market pressures, and as such, there would not necessarily be a market "void" for another retailer to fill.

A retailer will often decide to obtain the benefits from streamlining its product line when it is no longer economically attractive for them to continue offering certain products. The fact that the product(s) are no longer economically attractive for the retailer may occur either because there is decreasing demand for the product(s) in the marketplace, as a result of competitive pressures, or from increasing product costs.

An example of a product line for which demand has decreased is the typewriter. As technology has replaced the typewriter with word-processing and personal computers, demand decreased and fewer and fewer typewriter products were

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN
RESPONSE TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-2
Page 5 of 5

offered on the market. When retailers discontinued offering typewriter products, market "voids" were not created since there was low market demand.

An example of a product line that was streamlined due to competitive pressures is the product line offered by department stores. Department stores generally stopped offering consumer electronics and appliances when specialists like Circuit City or Best Buy began to expand and focus on those product categories. These specialists were able to offer consumers a much wider selection and lower prices than the department stores could. Simplification allowed department stores to exit a less profitable product line and focus its range of products. Market "voids" were not created since the competition had proactively taken over the market, thus leading department stores to simplification and its associated benefits.


Finally, for an example of simplification resulting from increasing product costs, see the reference to the automobile industry in my testimony at 5.

While there may be the potential for simplification to create an opportunity for another retailer to fill a void, it is not generally the case.



DECLARATION

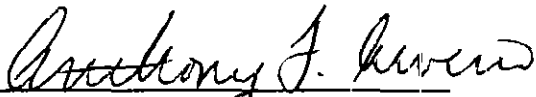
I, Carl E. Steidtmann, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


CARL E. STEIDTMANN

Dated: 7/23/96

CERTIFICATE OF SERVICE

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



Anthony F. Alverno

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Washington, D.C. 20260-1145
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