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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

REBUTTAL TESTIMONY OF
GARY INFANTE
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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1 **AUTOBIOGRAPHICAL SKETCH**

2

3 My name is Gary Infante and I am employed by the Postal Service as
4 the Manager of the Product Development team in Marketing Systems. I have
5 acted in this position since February 1996. My primary duties are to manage
6 the development of new products and/or services as well as new uses for
7 existing products and/or services, such as Business Reply Mail.

8 I have been employed by the Postal Service since 1971. From 1971
9 to 1978, I served in the San Francisco Management Sectional Center as a
10 letter carrier and from 1979 to 1984 in several field management positions in
11 Sunnyvale, California and Salt Lake City, Utah.

12 In 1984, I joined the Office of Delivery and Retail Operations at Postal
13 Service Headquarters where I managed the window automation and vending
14 equipment programs. My primary responsibilities in these two programs
15 were the development and deployments of 56,000 Integrated Retail
16 Terminals (IRTs) and 33,000 pieces of improved vending equipment. I also
17 developed and tested the Stamp Sales by Consignment concept and
18 developed a postage meter replacement called a Postage Validator Imprinter
19 (PVI).

20 From 1987 to 1992, I served in positions related to International Mail.
21 First, I served on a small team that developed the Corporate Initiative
22 Workplan for International Mail. I also led a multi-functional team performing

1 analysis of the effectiveness of the transportation network for International
2 Mail.

3 From 1992 to 1995, I served in Strategic Planning on the team
4 responsible for the development and implementation of the Growth
5 Management Process.

6 This marks my first appearance as a witness before the Postal Rate
7 Commission.

1 **I. PURPOSE OF TESTIMONY**

2 The purpose of my testimony is to explain why the Postal Rate
3 Commission should not recommend either of Nashua/Mystic/Seattle witness
4 Haldi's alternative classification proposals for advance deposit account
5 nonletter-size Business Reply Mail. In doing so, I will provide some
6 background on the efforts of the Postal Service regarding the redesign of
7 Business Reply Mail.

8 I will also provide an overview of some of the systemic challenges,
9 related to nonletter-size Business Reply Mail, that the Postal Service must
10 address before reclassifying this portion of the Business Reply Mail stream.

11 **II. BUSINESS REPLY MAIL REDESIGN**

12 The Postal Service has been intensely analyzing Business Reply Mail
13 for the last year¹ in order to improve processing and accounting and to
14 provide better customer service. Three separate initiatives designed to look
15 at these issues have been combined during that period.

16 The initial effort, in response to a local initiative, was the formation of
17 a task force sponsored by the Revenue Assurance team in Finance at Postal
18 Service Headquarters. This national task force was created in December
19 1995 to improve the collection of Business Reply Mail postage and fees.

¹ Contrary to witness Haldi's testimony (Tr. 6/2057) that the task force addressing Business Reply Mail meets only from time to time, 4-6 staff persons have worked on this project on a full-time basis over the past 10-12 months. At times, the team has expanded to 10-12 members, including both Headquarters and field employees, meeting on a daily basis to address the issues and challenges that the Postal Service faces in the redesign of Business Reply Mail. To imply that the Postal Service is not serious regarding the redesign of Business Reply Mail and resolution of the problems therein is misleading and inaccurate.

1 In February 1996, in a separate effort, the Product Development team
2 in Marketing Systems at Postal Service Headquarters began taking a closer
3 look at Business Reply Mail to determine whether Business Reply Mail might
4 provide systemic support for potential new products that were being
5 evaluated. In March 1996, Product Development determined that to best
6 support the future needs of the Postal Service and its customers, the current
7 Business Reply Mail product needed to be redesigned. To that end, Product
8 Development and Revenue Assurance joined forces to form a Business Reply
9 Mail Business Process Re-engineering task force. The objectives for this
10 national task force have been:

- 11 1) to identify barriers restricting postal facilities from effectively
12 processing Business Reply Mail and related elements of Business
13 Reply Mail (e.g.; postage due, box rents, permit mail, trust fund
14 accounting, etc.);
- 15 2) to better understand the entire Business Reply Mail process and
16 related processes to determine if our current products, services,
17 and fees meet the needs of our customers now and in the future,
18 and;
- 19 3) to recommend business solutions aimed at improving customer
20 satisfaction, enhancing financial performance, increasing
21 productivity, and reducing work hours.

22 The initial focus of the team was the immediate improvement of the
23 collection of Business Reply Mail postage and fees. Comprehensive redesign

1 emerged as a goal as the team explored Business Reply Mail in more detail.
2 To support the immediate improvement initiative, approximately a dozen field
3 visits were made by members of the team between March and September in
4 order to better assess the current environment. Business Reply Mail
5 processing and accounting problems were identified during each of these
6 field visits.

7 As the team continued its work, an additional initiative was
8 undertaken. In July 1996, witness DeMay and I, along with other Postal
9 Service officials, attended a meeting with two Business Reply Mail
10 customers, Nashua and Mystic, in Parkersburg, WV. The group toured the
11 Nashua photo processing facility. Nashua and Mystic made presentations to
12 the Postal Service regarding the processing of and accounting for their
13 Business Reply Mail. Two alternative methods were discussed at length:
14 reverse manifesting, utilized by Nashua to calculate postage and Business
15 Reply Mail fees; and weight averaging, used by the Postal Service to
16 calculate postage and Business Reply Mail fees for Mystic. The Postal
17 Service and customer representatives reached agreement that these
18 alternative methods for calculating postage and Business Reply Mail fees for
19 nonletter-size Business Reply Mail required further improvements. To that
20 end, the Postal Service proposed the formation of a Postal
21 Service/Nashua/Mystic working group to explore the development of
22 improved methods for the calculation of postage and Business Reply Mail

1 fees for nonletter-size Business Reply Mail. I was asked to act as the team
2 leader for the Postal Service on this working group.

3 The working group held two meetings in July and August. I provided
4 information and input from the working group regarding nonletter-size
5 Business Reply Mail to the Business Reply Mail Business Process Re-
6 engineering team. The Business Reply Mail Business Process Re-engineering
7 team reviewed this information and has undertaken an intensive effort to
8 develop potential solutions for nonletter-size Business Reply Mail. The task
9 force has determined that the Postal Service should further examine the
10 extent to which reverse manifesting and weight averaging can be improved
11 to reach levels of accuracy and reliability sufficient to serve as a basis for
12 permanent changes in the Business Reply Mail fee structure.

13

14 **III. ISSUES AND REQUIRED IMPROVEMENTS**

15 Nashua/Mystic/Seattle witness Haldi presented estimated costs based
16 on limited information he has gathered about three film processors. The
17 Postal Rate Commission should defer any recommendation about Business
18 Reply Mail fee changes until it has had an opportunity to assess cost data
19 based on observations of Postal Service Business Reply Mail accounting
20 functions performed on a representative cross-section of nonletter-size
21 Business Reply Mail customers. The Postal Rate Commission would also
22 benefit from a better analysis of the potential market response than the
23 anecdotal testimony presented by witness Haldi. Tr. 6/2250-52. Such an

1 analysis would provide a more reliable estimate of the potential volume shift
2 and revenue impact caused by a proposed change in Business Reply Mail
3 fees.

4 Witness Haldi testified that

5 [i]t is neither necessary nor desirable for the Commission to await a
6 "comprehensive" solution to the various issues and problems
7 associated with BRM... and... the Commission should recommend one
8 of the alternative proposals advanced here.

9
10 Tr. 6/2057. I disagree. Witness DeMay has described, in detail, a number of
11 significant shortcomings of the current reverse manifest system at Nashua,
12 as well as the shortcomings in the Postal Service's application of weight
13 averaging to calculate postage and Business Reply Mail fees for Mystic.
14 Before either method can be considered for national application,
15 improvements by both the Postal Service and the customer must be
16 implemented and evaluated for effectiveness.

17 Below, I briefly describe the issues with each of these methods and
18 then describe the required improvements that the Business Reply Mail
19 Business Process Re-engineering team is examining.

20 **A. No Uniform Guidelines or Operating Procedures**

21 Reverse manifesting and weight averaging have been utilized to
22 improve customer service and reduce work hours. To date, the Postal
23 Service has not established any uniform guidelines for the establishment and
24 administration of reverse manifest systems or the use of weight averaging.
25 Some guidelines have been established by local postal employees for Nashua,

1 Mystic, Seattle, and others, but the Business Reply Mail Business Process
2 Re-engineering team has discovered that even those guidelines have not
3 always been followed.² For instance, there is a lack of consistency in the
4 methods for determining postage per pound conversion among post offices
5 that use weight averaging. The need for uniform guidelines and operating
6 procedures is compelling. The task force has recognized the need for
7 uniform guidelines and operating procedures to ensure the execution of
8 statistically valid and seasonally representative sampling and verification
9 procedures. The Business Reply Mail Business Process Re-engineering team
10 has been working on draft guidelines and operating procedures for reverse
11 manifesting and weight averaging Business Reply Mail. These draft
12 guidelines and operating procedures will need to be tested for feasibility in
13 order ensure that they can be implemented properly at post offices and to
14 ensure that, when implemented properly, they protect postal revenue.³

² The local guidelines for Mystic require updating the price per pound conversion once an accounting period with a goal of reducing it to quarterly. Local guidelines for Seattle require updating the price per pound conversion quarterly. The price-per-pound factor at Mystic has been updated only twice since March 1992. The price-per-pound factor at Seattle has been updated three times since 1994. Lack of uniform verification guidelines for weight averaging for these two customers has resulted in ad-hoc local procedures which may have created a situation in which Postal Service revenue may not be protected adequately.

³ Other areas that need to be addressed include the establishment of guidelines for certification of reverse manifest software and systems, guidelines for the completion of customized service agreements for reverse manifesting or weight averaging of Business Reply Mail, and procedures for handling approvals, denials, or suspension of privileges, as they relate to reverse manifesting and weight averaging Business Reply Mail.

1 **B. Cost of Set Up and Administration**

2 Witness Haldi testified concerning Nashua's reverse manifest system
3 that:

4 [t]he Postal Service has almost no involvement, aside from on-site
5 sampling inspections and accepting payments. Nashua's incoming
6 manifest system constitutes an innovative and reliable means by
7 which the Postal Service is able to collect all First-Class postage and
8 fees due for Nashua's BRM while incurring only negligible cost.

9
10 Tr. 6/2066. Witness Haldi's description of the cost to the Postal Service as
11 "negligible" apparently does not take into consideration the time required for
12 such matters as completion of a customized service agreement, the
13 establishment and testing of data collection procedures for a particular
14 mailer, and the level of sampling which may be necessary at the outset. In
15 the case of the current arrangement with Nashua, the Postal Service has
16 devoted an extraordinary amount of senior staff level support in its
17 unsuccessful two-year effort to raise the reliability and accuracy of the
18 system to meet standards in USPS Publication 401. I believe that a
19 comprehensive study of the costs to the Postal Service associated with set
20 up and administration of reverse manifesting and weight averaging is in
21 order. The cost to the Postal Service, per account, could far exceed the
22 existing Business Reply Mail permit and advance deposit accounting fees.

23 The Business Reply Mail Business Process Re-engineering team has
24 recommended and the Postal Service intends to analyze the cost of setting
25 up and administering reverse manifest systems and weight averaging of

1 Business Reply Mail based on a study of a representative cross-section of
2 Business Reply Mail customers.

3 **C. Minimum Volume Requirements**

4 The Postal Service does not have definitive data to support the
5 definition of a minimum volume requirement for participation in a reverse
6 manifest or weight averaging program. In order to address this issue, the
7 Postal Service needs to study a representative cross-section of Business
8 Reply Mail customers to assess whether to set a specific minimum volume
9 requirement and if so, at what level. The Business Reply Mail Business
10 Process Re-engineering team has recommended that the Postal Service
11 analyze whether a specific minimum volume requirement should be imposed,
12 and such an analysis is planned.

13

14 **IV. Conclusions**

15 The Postal Service has undertaken a substantial task in the redesign of
16 Business Reply Mail. Significant time and resources have been specifically
17 applied to the nonletter-size portion of Business Reply Mail. Progress toward
18 the development of draft guidelines and procedures is a tangible result of
19 work performed by the Postal Service/Nashua/Mystic working group and the
20 Business Reply Mail Business Process Re-engineering team to date.
21 However, the overall effectiveness of these guidelines, as well as definitive
22 cost data, are still unknown. Analysis of the overall effectiveness of these
23 guidelines, in a test environment, and completion of cost analysis from a

1 cross-section of Business Reply Mail customers that will provide more reliable
2 data, is required before the Postal Service will be prepared to implement
3 these concepts on a national basis.

4 For reverse manifesting, Business Reply Mail is given to the recipient
5 before postage and Business Reply Mail fees have been calculated by the
6 Postal Service. As a result, the Postal Service must be sure that methods
7 and operating procedures which serve as a substitute for actual piece
8 weighing and/or counting provide a highly reliable and accurate calculation of
9 postage and Business Reply Mail fees due. Once the Business Reply Mail is
10 out of the Postal Service's custody, it is gone. Weight averaging and reverse
11 manifesting methods reduce per-piece postage due accounting costs, but
12 generate additional costs of their own. The Postal Service's experience with
13 these methods has only recently been carefully scrutinized, and that scrutiny
14 shows that adequate revenue protection measures do not exist.

15 A recommendation in favor of either of the two Nashua/Mystic/Seattle
16 proposals in this proceeding would suggest that these important issues can
17 be overlooked and should be left unresolved before new Business Reply Mail
18 categories are established and fees are implemented on a permanent basis.
19 Before the Postal Rate Commission recommends changes of the nature
20 suggested by Nashua/Mystic Seattle, the Postal Service needs to establish
21 internal procedures and safeguards which ensure the collection and
22 verification of statistically valid and seasonally representative mail samples.
23 The Postal Service needs to measure the cost associated with the

1 extraordinary work that would be necessary to perform such sampling and
2 verification, not only in the set up of a reverse manifest system or weight
3 averaging arrangement, but also on a periodic basis to protect Postal Service
4 revenue. The Postal Service needs to examine a cross-section of Business
5 Reply Mail customers to develop data which are representative of more than
6 three film processors. The Postal Service needs to determine whether the
7 costs for reverse manifesting and weight averaging justify identical or
8 different fees for each method.

9 Most importantly, the Postal Service is committed to and has begun to
10 seek answers to these important questions. Those answers are expected to
11 provide a more reliable basis for determining the course of change than the
12 record in this proceeding.