

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

FIRST-CLASS PACKAGE SERVICE (FCPS)
SERVICE STANDARD CHANGES, 2021

Docket No. N2021-2

**NOTICE OF DESIGNATED MATERIALS, AND NOTICE OF FILING OF
DECLARATION ATTESTING TO THE PROPOSED RECORD MATERIAL, FOR
UNITED STATES POSTAL SERVICE WITNESS FOTI**

(August 10, 2021)

Pursuant to the Presiding Officer's Ruling No. N2021-2/3 (July 26, 2021) and N2021-2/6 (August 6, 2021), the United States Postal Service hereby provides this notice of designated materials, and this notice of the filing of a declaration attesting to the proposed record material for Postal Service witness Foti. Pursuant to the rulings, attached to this notice are: (i) a declaration of witness Foti supporting the authenticity of his testimony and designated responses to interrogatories and Presiding Officer Information Requests, including the library references accompanying his testimony and responses; (ii) the direct testimony of witness Foti, including replacement copies of the pages revised on July 2, 2021; (iii) a list of library references sponsored by witness Foti; and (iv) the designated responses of witness Foti in alphabetical order by party name and by numerical order of request. There are no additional corrections to the attached documents beyond those already filed as errata and incorporated into the attached direct testimony and designated responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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August 10, 2021

**POSTAL REGULATORY COMMISSION
DOCKET NO. N2021-2
DECLARATION OF THOMAS J. FOTI**

I, Thomas J. Foti, hereby declare, under penalty of perjury, that:

The Direct Testimony of Thomas J. Foti on Behalf of the United States Postal Service, USPS-T-3, was prepared by me or under my direction, and is true and correct to the best of my information, knowledge, and belief;

I am sponsoring Library References USPS-LR-N2021-2-NP3, USPS-LR-N2021-2-NP4, USPS-LR-N2021-2-NP8, USPS-LR-N2021-2-NP9, USPS-LR-N2021-2-NP13, USPS-LR-N2021-2-NP17, and USPS-LR-N2021-2-NP18;

The attached responses to interrogatories and Presiding Officer Information Requests, which were filed with my authorization and which have been designated for inclusion in the record in this docket, were prepared by me or under my direction; and

If I were to respond to these interrogatories and Presiding Officer Information Requests orally today, the responses would be the same.


Thomas J. Foti

DATE: August 10, 2021

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

FIRST-CLASS PACKAGE SERVICE (FCPS)
SERVICE STANDARD CHANGES, 2021

Docket No. N2021-2

**DIRECT TESTIMONY OF
THOMAS J. FOTI
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE**

(USPS-T-3)

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1 **AUTOBIOGRAPHICAL SKETCH**

2 As the Vice President of Product Solutions for the United States Postal Service, I
3 am responsible for leading the strategic development and management of enterprise-
4 wide product solutions to address customer needs. I oversee the management of
5 product lines and services, including the development of strategies, policies, and
6 business plans.

7 I have over 32 years of experience with the Postal Service working in many
8 functional areas. I have had executive leadership roles including product management
9 and development, domestic and international package strategy, and technology
10 planning and analysis.

11 I hold a Master of Business Administration degree in finance from the University
12 of Maryland and a Bachelor's degree in management from the State University of New
13 York at Geneseo.

14

ASSOCIATED LIBRARY REFERENCES

1

2

I sponsor the following non-public USPS Library Reference that is associated

3

with my testimony: USPS-LR-N2021-2-NP3.

EXECUTIVE SUMMARY

1
2 **Background:** Many of the trends in consumer behavior observed during the
3 COVID-19 pandemic in 2020 and 2021, including growth in the e-commerce market, are
4 expected to continue in the coming years. In developing the Postal Service’s Integrated
5 Financial Plan, we forecasted that e-commerce would grow by 32.7 percent in FY 2020
6 and 5.1 percent in FY 2021.¹ We observed volume growth of 18.8 percent in FY 2020
7 across our Shipping and Package volumes, and expect the growth of e-commerce will
8 sustain higher package volumes relative to pre-pandemic.² In addition to e-commerce
9 growth, package volumes increasingly originate closer to end customer locations, as
10 retailers fulfill their products closer to the end consumer.³

11 The Postal Service’s First-Class Package Service (“FCPS”) product is part of
12 our domestic competitive product and solutions portfolio. FCPS is an “ounce-based”
13 product, meaning it competes in the less-than-one-pound space and is priced by ounce
14 and by zone.⁴ Historically from FY 2014 to FY 2019, FCPS volumes have grown at
15 approximately 10 percent every year.^{5,6,7} In FY 2020, FCPS volumes increased by 32.2
16 percent compared to the prior year.⁸ Revenue and volume increased due to the surge

¹ USPS Fiscal Year 2021 Integrated Financial Plan, Nov. 24, 2020, p.3
(<https://www.prc.gov/dockets/document/115156>) (hereinafter “USPS FY 2020 Integrated Financial Plan”).

² USPS FY 2020 10-K, p. 27 (<https://about.usps.com/what/financials/10k-reports/fy2020.pdf>) (hereinafter “USPS FY 2020 10-K”).

³ USPS Delivering for America - Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence, p. 22 (https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf) (hereinafter “USPS Delivering for America”).

⁴ FCPS was made a zone-based product in Docket No. CP2019-3.

⁵ USPS FY 2020 10-K, p. 28.

⁶ USPS FY 2017 10-K, p. 21 (<https://about.usps.com/what/financials/10k-reports/fy2017.pdf>).

⁷ USPS FY 2014 10-K, p. 18 (<https://about.usps.com/what/financials/10k-reports/fy2014.pdf>).

⁸ USPS FY 2020 10-K, p. 29.

1 in e-commerce from the pandemic.⁹ The Postal Service projects that FCPS will continue
2 to show modest growth, driven by its competitiveness in both price and service.¹⁰

3 As described by witness Hagenstein (USPS-T-1), the Postal Service is proposing
4 modifications to current FCPS service standards by integrating FCPS into a more
5 efficient coast-to-coast First-Class Mail (“FCM”) surface network and reducing the use
6 of air transport.¹¹ The changes to the service standards will affect FCPS volumes as
7 follows: approximately 31 percent of FCPS volumes, predominantly in higher shipping
8 zones, will shift from a 3-day service standard to a 4 or 5-day service standard. 64
9 percent of volumes will not experience changes to their service standards and would
10 continue to receive a 2 to 3-day service. In addition, the reach of the 2-day service
11 standard would be expanded. The remaining 5 percent of volumes will upgrade from a
12 3-day service to a 2-day service.

13 These modifications will enable network improvements to enhance our overall
14 on-time delivery and reliability, and meet the Postal Service’s stated goal to achieve 95
15 percent on-time performance.¹² It will also reduce operating costs. My testimony
16 describes the lightweight market landscape and the volume impact that we expect from
17 these proposed service standard changes.

18 **Summary of the Impact of Proposed Service Standard Changes:** First-Class
19 Package Service currently offers the best value proposition of fast delivery times and
20 low prices within the lightweight market. We expect FCPS will continue to show modest

⁹ *Id.*

¹⁰ USPS Fiscal Year 2021 Integrated Financial Plan, p. 4.

¹¹ Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-1), PRC Docket No. N2021-2 (June 17, 2021) (hereinafter “Hagenstein Direct Testimony”).

¹² USPS Delivering for America, p. 5.

1 growth over the coming years.¹³ We believe that the majority of current FCPS
2 customers choose FCPS for its price leadership, and will continue using FCPS after the
3 proposed service standard changes because of the enhanced reliability that will come
4 from these service changes and our competitive price in the marketplace.

5 **I. BACKGROUND**

6 **A. Definition of First-Class Package Service**

7 The Postal Service provides a shipping product portfolio that caters to the varied
8 needs of shipping customers. Our lightweight, less-than-one-pound shipping products
9 consist of First-Class Package Service, which consists of Retail (“FCPS-Retail”) and
10 Commercial (“FCPS-Commercial”) price categories, and Parcel Select Lightweight
11 (“PSLW”).

12 FCPS-Retail and FCPS-Commercial are full network offerings, which use the
13 end-to-end Postal Service network. FCPS-Retail is available to customers shipping
14 packages weighing less than 13 ounces at Post Office locations. FCPS-Commercial is
15 available to commercial and online customers shipping packages weighing less than 16
16 ounces. Both FCPS-Retail and FCPS-Commercial are priced according the zone-based
17 distance from the origin of the package to the destination delivery location. FCPS
18 service standards are currently 2 to 3 days within the contiguous United States. FCPS
19 packages have been historically transported by both ground and air transportation, with
20 42 percent of FCPS parcels transported via air.¹⁴

¹³ USPS Fiscal Year 2021 Integrated Financial Plan, p. 4.

¹⁴ USPS Delivering for America, p. 11.

1 PSLW is our commercial-based less-than-one-pound economy last-mile solution
2 for customers who prepare and enter packages into our network closer to the
3 destination. This service is primarily designed for large and medium-sized shippers
4 looking for an economical ground delivery service for the last-mile, whereas FCPS is an
5 end-to-end shipping solution.

6 **B. Trends within E-Commerce Market**

7 During the pandemic, the package market has experienced significant e-
8 commerce growth due to changes in consumer behavior and expectations. We
9 forecasted that e-commerce would grow by 32.7 percent in FY 2020 and 5.1 in FY
10 2021.¹⁵ We experienced an increased volume growth of 18.8 percent in FY 2020 across
11 our Shipping and Package volumes.¹⁶ This growth was driven by increasing consumer
12 reliance on the safety and convenience of e-commerce.¹⁷ We expect this new normal
13 within e-commerce to sustain package volumes at elevated levels relative to prior-year
14 trends.¹⁸ These trends have contributed to the volume growth of our lightweight
15 products, particularly from commercial customers.¹⁹ In FY 2021, Quarter 2, USPS'
16 ounce-weighted products represented approximately 60% of the Postal Service's total
17 domestic package growth in the quarter vs. the same period in FY 2020.²⁰

¹⁵ USPS FY 2020 Integrated Financial Plan, p. 3.

¹⁶ USPS FY 2020 10-K, p. 27.

¹⁷ USPS FY 2020 10-K, p. 21.

¹⁸ *Id.*

¹⁹ USPS FY 2020 10-K, p. 29.

²⁰ USPS Revenue, Pieces & Weight (RPW) Quarter II FY 2021.

1 Across shipping products, the top driver of shipping satisfaction for commercial
2 shippers in FY 2020 is high reliability.²¹ According to external market research, the
3 drivers of satisfaction with greatest importance for shippers are: 1) reliability, 2) offering
4 the best end-to-end service; 3) delivering items to destination as fast as possible; 4)
5 delivering packages on the exact day that I expect it; and 5) offering my business the
6 tracking information we need to assist customers.²² These drivers of satisfaction
7 remained the same as the previous year. We expect that reliability will continue to be a
8 key driver of satisfaction for our shipping customers. Therefore, as we improve our
9 service reliability for our FCPS product, we believe opportunity exists to capture
10 additional package volume and drive incremental market share.

11 **C. Trends in First-Class Package Service Volume**

12 Historically, FCPS demonstrated consistent growth across FCPS-Retail and
13 FCPS-Commercial volumes. In FY 2020, FCPS volumes totaled 1.8 billion.²³ The
14 majority of FCPS volume is driven by the FCPS-Commercial price category. FCPS
15 volumes have increased by 10.6 percent in FY 2018, 9.2 percent in FY 2019, and 32.2
16 percent in FY 2020.^{24, 25} The Postal Service projects a modest increase in FCPS
17 volumes, driven by its competitiveness in both price and service.²⁶

²¹ USPS Market Research & Insights Q1 FY21 Brand Health Tracker – Shipping Services.

²² *Id.*

²³ USPS FY 2020 Annual Report, p. 25 (<https://about.usps.com/what/financials/annual-reports/fy2020.pdf>) (hereinafter “FY 2020 Annual Report”).

²⁴ USPS FY 2020 Annual Report, p. 25.

²⁵ USPS FY 2019 Annual Report, p. 13 (<https://about.usps.com/what/financials/annual-reports/fy2019.pdf>).

²⁶ FY 2020 Integrated Financial Plan pg. 4.

1 Key customer segments that use FCPS include marketplaces, pharmaceutical
2 companies, mass merchants, and apparel retailers. Two of our largest FCPS customer
3 segments are online marketplaces and pharmaceutical companies. Marketplaces make
4 multiple products available to shoppers by consolidating merchants on their platform.
5 Marketplaces are a key conduit for small and medium-sized businesses to access our
6 FCPS product. Pharmaceutical companies are another key customer segment that use
7 FCPS to ship packages (generally prescriptions) weighing less than a pound.

8 **D. Proposed Changes to First-Class Package Service Standards**

9 The Postal Service plans to shift portions of First-Class Package Service
10 volumes to an enhanced ground network to improve on-time reliability for our customers
11 and reduce costs in our network. As described by witness Hagenstein (USPS-T-1), the
12 Postal Service proposes that 31 percent of the FCPS volume that currently flies on air
13 will shift to surface transportation. We aim to achieve 95 percent on-time reliability and
14 improve the current reach of 2-day volumes, which aligns with the key customer
15 demand driver of reliable, consistent, on-time delivery, and the importance of regional
16 delivery in today's marketplace. Under this model, approximately 31 percent of current
17 FCPS volumes with a 3-day service standard would have a 4-day or 5-day service
18 standard. Five percent of current FCPS volumes with a 3-day service standard would
19 upgrade to a 2-day service standard. This would leave 64 percent of FCPS volumes
20 with unimpacted service standards.

21 **II. ESTIMATE OF IMPACT ON FIRST-CLASS PACKAGE SERVICE**

22 **A. Methodology**

23 To evaluate the impact of changes to FCPS service standards on current users
24 of FCPS – Commercial, the Postal Service retained The Colography Group to conduct

1 primary survey research titled the First-Class Package Service Transit Commitment
2 Survey (“FTC Survey”). The objectives of this survey were to assess if, and how much,
3 volume would switch to other delivery services if transit time commitments for volume
4 shipped to farther zones were slowed by 1 to 2 days, but if on-time performance were to
5 increase to 95 percent across all zones.

6 The survey compiled results from 458 respondents that currently use FCPS. The
7 survey stratification was designed to encompass FCPS shippers across industrial
8 divisions and average daily shipping frequency. A portion of the sample was sourced
9 from The Colography Group’s CY 2020 National Survey of U.S. Expedited Cargo with
10 the following selection criteria: respondents that affirmed using FCPS to ship packages,
11 or respondents that ship packages that weigh less-than-one-pound via 2 or 3-day air or
12 ground parcel across any Postal Service competitive shipping products. A sample of
13 Postal Service First-Class shippers was used to supplement the study across average
14 daily volume categories and industry segments.

15 **B. First-Class Package Service Findings**

16 The Postal Service provides price-competitive rates for packages that weigh
17 less-than-one-pound. FTC Survey respondents most frequently cited price as the
18 primary reason for using FCPS.²⁷ FCPS is positively differentiated by its price compared
19 to other market offerings with similar service standards, and we expect FCPS will
20 continue to be highly price-competitive in the lightweight package market in the future.

21 Based on this research, after the proposed changes to FCPS service standards,
22 we expect that we will maintain current FCPS volumes due to our highly competitive

²⁷ The Colography Group’s “First-Class Package Service Transit Commitment Survey,” Apr. 2021.

1 prices and improved reliability in meeting service expectations. We expect to maintain
2 current FCPS-Retail volumes given these factors and the convenience to retail
3 customers of accessing our package products through our extensive retail network. If
4 FCPS-Retail customers seek a faster delivery time, they have the option of choosing
5 our Priority Mail product, and thus able to readily substitute at one of our retail locations.
6 Regarding FCPS-Commercial volumes, FTC Survey results show that the majority of
7 sampled FCPS-Commercial shippers stated they would maintain or, in some cases,
8 increase FCPS volumes with these proposed changes.²⁸ Analysis from the survey
9 responses provides a foundation to estimate that the directional impact on commercial
10 FCPS volumes will be relatively insignificant. Therefore, we expect that FCPS volumes
11 will not be materially affected after the proposed changes to FCPS service standards
12 are implemented. This expectation could be conservative because as noted above we
13 believe there could be opportunities to capture additional package volume and drive
14 incremental market share through greater reliability. Given the overall trends in the
15 lightweight package market, we expect FCPS will continue to show modest growth over
16 the coming years.

17 **III. CONCLUSION**

18 The Postal Service aims to provide more reliable service for lightweight packages
19 by moving volumes historically transported via air to the ground. We aim to improve
20 transportation efficiency and reduce costs to serve through the proposed service
21 standard changes. According to current market trends, we predict a sustained e-
22 commerce growth and growth among local volumes. Additionally, given FCPS' value

²⁸ The Colography Group's "First-Class Package Service Transit Commitment Survey," Apr. 2021.

- 1 proposition in offering price-competitive ounce-based rates at improved reliability, in
- 2 conjunction with these market trends, we estimate there will be no net impact on FCPS
- 3 volumes within our network.

LIST OF LIBRARY REFERENCES FOR POSTAL SERVICE WITNESS FOTI

The following are the library references sponsored by Postal Service witness Foti:

Non-Public

- LR-N2021-2-NP3, "First-Class Package Service Transit Commitment Survey"
- LR-N2021-2-NP4, "Nonpublic Material Provided by Witness Foti in Response to Presiding Officer's Information Request No. 1"
- LR-N2021-2-NP8, "Nonpublic Material Provided by Witness Foti in Response to Public Representative's First Set of Interrogatories and Requests for Production to United States Postal Service Witness Thomas J. Foti"
- LR-N2021-2-NP9, "Nonpublic Material Provided by Witness Foti in Response to Presiding Officer's Information Request No. 3"
- LR-N2021-2-NP13, "Nonpublic Material Provided by Witness Foti in Response to Presiding Officer's Information Request No. 5"
- LR-N2021-2-NP17, "Nonpublic Material Provided by Witness Foti in Response to Presiding Officer's Information Request No. 7"
- LR-N2021-2-NP18, "Nonpublic Material Provided by Witness Foti in Response to Presiding Officer's Information Request No. 8"

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI
TO INTERVENOR AMERICAN POSTAL WORKERS UNION, AFL/CIO'S
INTERROGATORIES (REDIRECTED FROM WITNESS HAGENSTEIN)**

APWU/USPS-T-1/14

Explain the Postal Service's projections with regard to your testimony on page 40 about the service standard changes possibly resulting in capturing additional package volume and incremental market share.

RESPONSE:

To evaluate the impact of changes to FCPS service standards on current users of FCPS – Commercial, the Postal Service retained The Colography Group to conduct primary survey research titled the First-Class Package Service Transit Commitment Survey ("FTC Survey"). The objectives of this survey were to assess if, and how much, volume would switch to other delivery services if transit time commitments for volume shipped to farther zones were slowed by 1 to 2 days, but if on-time performance were to increase to 95 percent across all zones.

The results of the survey showed that the majority of sampled FCPS-Commercial shippers stated they would maintain or, in some cases, increase FCPS volumes with these proposed changes. Analysis from the survey responses provides a foundation to estimate that the directional impact on commercial FCPS volumes will be relatively insignificant, but possibly resulting in a small increase in volume. Please also refer to LR-N2021-2-NP3, and USPS-T-3.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI
TO INTERVENOR AMERICAN POSTAL WORKERS UNION, AFL/CIO'S
INTERROGATORIES (REDIRECTED FROM WITNESS HAGENSTEIN)**

APWU/USPS-T-1/15

Explain the basis for your statement on page 41 of your testimony that “[t]he changes will have minimal impact on customer satisfaction and the needs of postal customers.”

RESPONSE:

Across shipping products, the top driver of shipping satisfaction for commercial shippers in FY 2020 is reliability. The proposed changes to FCPS service standards will enable enhanced reliability, allowing USPS to achieve its 95 percent on-time delivery target for FCPS.

Among customers of FCPS specifically, FTC Survey respondents most frequently cited price as the primary reason for using FCPS. FCPS is positively differentiated by its price compared to other market offerings with similar service standards, and we expect FCPS will continue to be highly price-competitive in the lightweight package market in the future.

Therefore, we believe there will be minimal impact on overall customer satisfaction in meeting the needs of postal customers.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

1. Please refer to USPS-T-3 at 5. The Postal Service explains that “[t]he majority of FCPS volume is driven by the FCPS-Commercial price category.” Please provide all quantitative metrics that support this claim. If no quantitative metrics are available, please identify any other information in support of the claim.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP4.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

2. The Postal Service states that “[a]cross shipping products, the top driver of shipping satisfaction for commercial shippers in FY 2020 is high reliability.” USPS-T-3 at 5 (citing USPS Market Research & Insights Q1 FY21 Brand Health Tracker – Shipping Services). The Postal Service asserts that “[a]ccording to external market research, the drivers of satisfaction with greatest importance for shippers are: 1) reliability, 2) offering the best end-to-end service; 3) delivering items to destination as fast as possible; 4) delivering packages on the exact day that I expect it; and 5) offering my business the tracking information we need to assist customers.” *Id.*
- a. Please provide results for the abovementioned USPS Market Research & Insights Q1 FY21 Brand Health Tracker – Shipping Services, by quarter, for the past 3 years (*i.e.*, as early as FY 2017 Quarter 4 results), including the corresponding appendices. If necessary, please seek non-public treatment for the relevant materials.
 - b. Please explain how the top five “drivers of satisfaction with greatest importance for shippers” have changed since FY 2017. Please include in your discussion an explanation of how the relative importance of “reliability” and “delivering items to destination as fast as possible” have changed since FY 2017.
 - c. Please confirm that the “reliability” driver of shipping satisfaction could be interpreted by a survey participant to relate to the overall reliability of the Postal Service, rather than solely to service reliability of Postal Service package shipping services specifically. If confirmed, please explain whether another driver of shipping satisfaction would better reflect commercial shippers’ preferences for reliable package shipping services. If not confirmed, please explain.
 - d. Please explain the methodology by which the ranking of “the drivers of satisfaction with greatest importance for shippers” was calculated. Additionally:
 - i. Please confirm that this ranking methodology was consistent for the past results provided in response to question 2.a.
 - ii. If not confirmed, please explain any changes in the methodology.
 - e. Please explain how the survey sample in the USPS Market Research & Insights Q1 FY21 Brand Health Tracker – Shipping Services was identified and contacted. In your response, please state whether the sample is weighted and, if so, how. Additionally:
 - i. Please confirm that the methodology for identifying and contacting this survey sample was consistent for the past results provided in response to question 2.a.
 - ii. If not confirmed, please explain any changes in the methodology.
 - f. Please confirm that the “shipping products” relevant to the USPS Market Research & Insights Q1 FY21 Brand Health Tracker – Shipping Services

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

refer solely to FCPS products. If not confirmed, please explain which products are referenced. Additionally:

- i. Please confirm that the definition of "shipping products" was consistent for the past results provided in response to question 2.a.
- ii. If not confirmed, please explain any changes in this definition.
- g. Please provide a full list of the drivers of shipping satisfaction that were surveyed in the USPS Market Research & Insights Q1 FY21 Brand Health Tracker – Shipping Services, along with their respective rankings. Additionally:
 - i. Please confirm that the list of drivers was consistent for the past results provided in response to question 2.a.
 - ii. If not confirmed, please explain any changes to the list of drivers.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP4.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

3. Please refer to USPS-T-3 at 7-8. The Postal Service explains that it expects “to maintain current FCPS-Retail volumes given [its highly competitive prices, improved reliability in meeting service expectations] and the convenience to retail customers of accessing [Postal Service] package products through [its] extensive retail network. If FCPS-Retail customers seek a faster delivery time, they have the option of choosing [the Postal Service’s] Priority Mail product, and thus [are] able to readily substitute at one of [its] retail locations.”
 - a. Please provide any and all analyses, surveys, and other information that supports the abovementioned claim.
 - b. If the Postal Service does not possess any such information, please explain why questions targeted at eliciting such information were not included in the FCPS Transit Commitment Survey or another survey in order to gauge the volume impact of the relevant proposal on retail customers.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP4.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

5. Please see Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP4.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 2**

1. Please refer to USPS-T-3 at 1. The Postal Service states that “package volumes increasingly originate closer to end customer locations, as retailers fulfill their products closer to the end consumer.”
 - a. Please explain whether the Postal Service expects the percentage of First-Class Package Service (FCPS) volumes originating closer to end customer locations to increase in response to the diminished FCPS service standards.

RESPONSE:

1.a. The abovementioned statement that “package volumes increasingly originate closer to end customer locations, as retailers fulfill their products closer to the end consumer” refers to an ongoing trend observed across the entire US parcel market. This trend is not specific to Postal Service package volumes or the Postal Service's First-Class Package Service volumes, nor is it exclusively tied to FCPS service standards. The percentage of FCPS volumes originating closer to end customers is dependent on many factors; if Postal Service package volumes grow with the overall US parcel market, then we would expect to see growth in all FCPS volumes.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

1. Please see Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP9.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

1. Please refer to USPS-T-3 at 2. The Postal Service explains that “[t]he Postal Service projects that FCPS will continue to show modest growth....”
 - a. How much has FCPS grown so far in FY 2021?
 - b. Please provide a quantitative and qualitative discussion regarding the use of “modest” in this context.

RESPONSE:

- a. FCPS pieces grew 54 percent in the first two quarters of FY 2021 compared to the same period in FY 2020.
- b. Please see the response filed under seal as part of USPS-LR-N2021-2-NP13.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

2. Please refer to USPS-T-3 at 3, line 3. Please provide a quantitative and qualitative discussion regarding the use of "enhanced reliability" in this context.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP13.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

3. Please refer to USPS-T-3 at 7. The Postal Service explains that “[t]he survey compiled results from 458 respondents that currently use FCPS. The survey stratification was designed to encompass FCPS shippers across industrial divisions and average daily shipping frequency.” Please provide an example of the kind of industries and the average shipping frequency for the respondents included in the survey.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP13.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

4. Please refer to USPS-T-3 at 8. The Postal Service explains that "FTC Survey results show that the majority of sampled FCPS-Commercial shippers stated they would maintain or, in some cases, increase FCPS volumes with these proposed changes."
 - a. How many shippers said they would maintain FCPS volumes?
 - b. Of those who said they would increase volumes, did they note how much they would increase by? If so, by how much?

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP13.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 7**

3. Please refer to USPS-T-3 at 6, lines 1-2. The Postal Service states that “[k]ey customer segments that use FCPS include marketplaces, pharmaceutical companies, mass merchants, and apparel retailers.” Please provide the proportion of FCPS volume attributable to the customer segment “marketplaces,” showing volume that will experience service upgrades, downgrades, or no changes. If the Postal Service cannot provide such data, please explain why not.

RESPONSE:

The percentage portion of total FY 2020 FCPS volume found in the customer segment that the Postal Service identifies as “marketplaces” is provided under seal within USPS-LR-N2021-2-NP17. We believe that modeling the impact of the proposed changes to FCPS service standards on this market segment individually would not yield insightful, helpful market information given parcel market dynamics. Whether, and to what degree, the proposed changes impacts each individual shipper requires an intensive inquiry unique to each shipper. We believe such calculations would be unnecessary as we looked at the representative impact across customer segments. Overall, the service standard for approximately 64 percent of FCPS volume will not be affected, 32 percent of current FCPS volumes with a 3-day service standard would receive a 4-day or 5-day service standard, and 4 percent of current FCPS volumes with a 3-day service standard would upgrade to a 2-day service standard.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 8**

3. Please refer to USPS-T-3, which states, “[w]e expect to maintain current FCPS-Retail volumes given these factors [competitive prices and increased reliability] and the convenience to retail customers of accessing our package products through our extensive retail network.” USPS-T-3 at 8.
 - a. Please discuss how retail customer satisfaction will be impacted by the proposed service standard change.
 - b. Please provide all materials, such as a survey or customer communications, that the Postal Service relied upon to make this assertion.

RESPONSE:

- 3.a. We believe customer satisfaction for shippers that use our FCPS-Retail product offering will likely be enhanced after the proposed changes. According to the Q1 FY21 Consumer and Commercial Brand Health Tracker, the top driver of satisfaction for users of USPS shipping products is: “is reliable.” The proposed operational changes that drive these service standard changes will enable greater certainty to FCPS shippers – including FCPS-Retail shippers – of on-time delivery expectations. We expect that this improved clarity of delivery expectations and improved performance at meeting those expectations will improve customer satisfaction. Additionally, relative to other market alternatives, the entire FCPS value proposition of price, service, and access will continue to resonate for shippers using the FCPS-Retail product.
- 3.b. Please see the Powerpoint file provided in USPS-LR-N2021-2-NP18.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 8**

4. Please see Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP18.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 8**

5. Please see Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP18.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 8**

6. Please see Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP18.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI
TO INTERROGATORIES OF THE PUBLIC REPRESENTATIVE**

PR/USPS-T3-1. Please see Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP8.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI
TO INTERROGATORIES OF THE PUBLIC REPRESENTATIVE**

PR/USPS-T3-2. Please see Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP8.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI
TO INTERROGATORIES OF THE PUBLIC REPRESENTATIVE**

PR/USPS-T3-3. Please see Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP8.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI
TO INTERROGATORIES OF THE PUBLIC REPRESENTATIVE**

PR/USPS-T3-4. Please see Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-LR-N2021-2-NP8.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI
TO INTERROGATORIES OF THE PUBLIC REPRESENTATIVE**

PR/USPS-T3-5. Please refer to the 10-year Plan, Delivering for America. The Postal Service states that “[o]nline sales have surged while shipping durations have been reduced. In [Fiscal Year (FY) 2020], shipping customers selected 1- or 2-day service for 72 percent of their parcel shipments. We estimate that this could be as high as 90 percent by 2025” (footnote omitted). *Id.* Please also refer to USPS-T-3 at 7, lines 21-22 and at 8, line 1. Witness Foti states that based on the First-Class Package Service Transit Commitment (FTC) Survey “after the proposed changes to [First-Class Package Service] service standards, we expect that we will maintain current [First-Class Package Service] volumes due to our highly competitive prices and improved reliability in meeting service expectations.”

- a. Please confirm whether the reduction in shipping durations described in the Postal Service’s Strategic plan cited above also includes First-Class Package Service.
- b. If question [PR/USPS-T3-5.a] is not confirmed, please explain.
- c. If question [PR/USPS-T3-5.a] is confirmed, please explain how the statement in the Postal Service’s Strategic Plan, *i.e.*, that there will be increased consumer demand for shorter shipping durations, is not contrary to Witness Foti’s testimony that First-Class Package Service volume is expected to be maintained despite increases to shipping durations under the proposed service standard changes.

RESPONSE:

- a. Confirmed.
- b. N/A.
- c. The two statements are not in conflict with each other. We expect that continued growth in e-commerce will drive increased shipment volumes in the overall parcel market across carriers, shipment sizes, and weights. We also expect a greater proportion of e-commerce shipping volume will be delivered in 2-days or less. As a result, shipments delivered in 3 or more days may represent a smaller proportion of the overall parcel market, but the aggregate volume of shipments delivered in 3 or more days will not necessarily decline.

Further, under the proposed changes, the reach of FCPS’s 2-day service standard will expand. Currently, approximately 20.6 percent of FCPS volumes receive a

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI
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2-day delivery service standard. Under the proposed changes, 25.4 percent of current FCPS volumes would receive a 2-day service standard, upgrading 4.8 percent of volumes to a 2-day service standard. Additionally, the proposed changes enable enhanced reliability and on-time performance at 95 percent.

We believe FCPS's compelling value proposition of fast, reliable delivery at very competitive prices will continue to resonate with lightweight shipping customers.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI
TO INTERVENOR STEVE HUTKINS' INTERROGATORIES**

SH/USPS-T3-1. Please refer to witness Foti's testimony at 5, lines 1-6: "Across shipping products, the top driver of shipping satisfaction for commercial shippers in FY 2020 is high reliability. According to external market research, the drivers of satisfaction with greatest importance for shippers are: 1) reliability, 2) offering the best end-to-end service; 3) delivering items to destination as fast as possible; 4) delivering packages on the exact day that I expect it; and 5) offering my business the tracking information we need to assist customers." Please confirm that this is the exact wording of the USPS Market Research & Insights, Q1 FY21, Brand Health Tracker — Shipping Services, which is cited in the footnotes. If not confirmed, please provide the exact wording.

RESPONSE:

Not confirmed.

The exact language for the top five drivers of satisfaction for commercial shippers in the Q1 FY21 Brand Health tracker – Shipping Services is as follows:

1. "Is reliable"
2. "Offers the best end-to-end service"
3. "Delivers items to destination as fast as possible"
4. "Always delivers packages on the exact day that I expect it"
5. "Offers my business the tracking information we need to assist customers"

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TO INTERVENOR STEVE HUTKINS' INTERROGATORIES**

SH/USPS-T3-2. Please refer to witness Foti's testimony at 6, line 13: "We aim to achieve 95 percent on-time reliability." Given that the Postal Service is not required to report service performance for First-Class Package Service to the public or to the Commission, please explain how the Commission, mailers and the public will know if the Postal Service is achieving 95 percent on-time reliability.¹

RESPONSE:

FCPS shippers have the ability to monitor the on-time performance of their packages and are therefore able to track on-time reliability. Additionally, the Postal Service regularly monitors the performance alongside several of our commercial shippers to provide updates on on-time reliability. Further, to the extent that the Postal Service maintains goals for competitive products that include FCPS, the Postal Service files information regarding competitive products with the Postal Regulatory Commission as part of its nonpublic Annual Performance Plan and Performance Report. Lastly, there are third parties that publicly track and report the performance of our products, as well as our competitor's products.

¹ See Responses of the United States Postal Service to Chairman's Information Request No. 1 (December 15, 2014), Docket No. MC2015-7, Transferring First Class Parcels to the Competitive List, Question No. 2 (b), in which the Postal Service confirms that "the Postal Service is not required to measure or report service performance for First-Class Package Service to the public, or to the Commission."

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI
TO INTERVENOR STEVE HUTKINS' INTERROGATORIES**

SH/USPS-T3-3. Please explain how non-public service performance scores can have any impact on (a) customer satisfaction, (b) a customer's sense of the "reliability" of First Class Package Services, and (c) a customer's decision-making process about whether or not to use First Class Package Services for a given mailing.

RESPONSE:

As described in the response to SH/USPS-T3-2, FCPS shippers will be able to discern improvements in the on-time performance reliability of FCPS through their firsthand shipping experiences, through regular conversation with the Postal Service, and/or through on-time performance scores collected and published by third parties. We expect the enhancements to FCPS' on-time performance will be evident to shippers through their experience with the product itself, and that these enhancements will positively impact their satisfaction, their perceptions of the reliability of FCPS, and their decision-making process about whether or not to use FCPS for a given mailing.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI
TO INTERVENOR STEVE HUTKINS' INTERROGATORIES**

SH/USPS-T3-4. If the Postal Service implements its plan to change service standards on First Class Package Services, mailers will know for certain that a significant portion of FCPS volume will be subject to slower delivery times. At the same time, they will be unable to know with any certainty just how “reliable” delivery will be in terms of performance scores. Isn't it therefore likely that at least some mailers will choose to send their packages using another delivery service? If answered in the negative, please explain why such a scenario is not likely.

RESPONSE:

As described in the answers to SH/USPS-T3-2 and -3, FCPS customers will be able to discern improvements in the on-time performance reliability of FCPS through their firsthand shipping experiences, through regular conversation with the Postal Service, and / or through on-time performance scores collected and published by third parties.

To evaluate the impact of changes to FCPS service standards on current users of FCPS – Commercial, the Postal Service retained The Colography Group to conduct primary survey research titled the First-Class Package Service Transit Commitment Survey (“FTC Survey”). The results of the survey showed that the majority of sampled FCPS-Commercial shippers stated they would maintain or, in some cases, increase FCPS volumes with these proposed changes. Based on these results, we estimate that FCPS volumes will not be materially affected after the proposed changes to FCPS service standards are implemented. We believe FCPS's compelling value proposition will continue to resonate with lightweight shipping customers.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FOTI
TO INTERVENOR STEVE HUTKINS' INTERROGATORIES**

SH/USPS-T3-5. Please refer to witness Foti's testimony at 8, lines 6-12: "FTC Survey results show that the majority of sampled FCPS-Commercial shippers stated that they would maintain or, in some cases, increase FCPS volumes with these proposed changes.... Therefore, we expect that FCPS volumes will not be materially affected after the proposed changes to FCPS service standards are implemented." Did the Postal Service perform an analysis of the actual volumes that these Commercial shippers typically send in order to determine how much more volume the majority would send and how much less volume the minority might send? If so, please share the results of this analysis.

RESPONSE:

As part of the FTC Survey an analysis of respondents' current FCPS shipping volumes and their anticipated changes in FCPS volumes was conducted to estimate the overall impact the proposed changes to FCPS service standards would have on FCPS volumes. A detailed overview of this analysis and the FTC survey can be found in LR-N2021-2-NP3.