

BEFORE THE POSTAL RATE COMMISSION
WASHINGTON, DC 20268

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Complaint on Charges for the)
Bulk Parcel Return Service) Docket No. C99-4

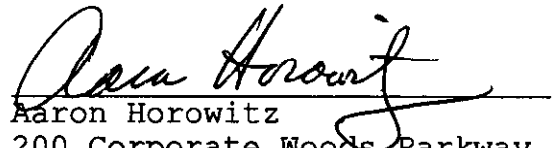
RESPONSES OF WITNESS LAWRENCE G. BUC FOR
THE CONTINUITY SHIPPERS ASSOCIATION
AND THE DIRECT MARKETING ASSOCIATION
TO THE INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/CSA-T1-1-16)

The Continuity Shippers Association and the Direct Marketing Association hereby provide responses of witness Lawrence G. Buc to the following interrogatories of the Office on the Consumer Advocate: OCA/CSA-1-16, filed on December 29, 1999.

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

Dated: January 7, 2000

Respectfully Submitted,


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Attorney for the Continuity
Shippers Association

OCA/CSA-T1-1

- a. Please provide a list of the member companies of the Continuity Shippers Association (herein, CSA).
- b. Please identify the companies listed in part a. of this interrogatory that are (1) continuity marketing mailers, (2) negative option mailers, or (3) both. See the testimony of witness Mohammad A. Adra (USPS-T-2) in Docket No. MC97-4 at 4.
- c. Please describe in general terms the products or merchandise (i.e. recorded music, books, cosmetics, etc.) distributed through the US Postal Service by the companies listed in part a. of this interrogatory.
- d. Please identify the class or classes of mail used to distribute the products or merchandise described in part c. of this interrogatory.

RESPONSE:

- a. The voting members of the Continuity Shippers Association are Cosmetique, Inc. and International Masters Publishing. Non-voting participants at CSA events have included:

BMG
Centrobe
Experian
Hosiery Corporation of America
LL Bean
Meredith Corporation
Quad Graphics
Readers Digest
Solar Communications
Wingset

- b. Both Cosmetique and IMP are continuity marketing mailers.
- c. Cosmetique distributes cosmetics through the US Postal Service using Standard (A) mail. IMP distributes printed material, such as printed collectable cards, books, etc., through the US Postal Service using Standard (A) mail, Standard (B) mail, Special Standard (B) and Bound Printed Matter.
- d. Please see my response to c, above.

OCA/CSA-T1-2

Please refer to your testimony at page 5, where it states "Under the 1998 BPRS cost study (as revised), the actual coverage is 168%." Please show all calculations used to derive the figure of 168 percent.

RESPONSE:

The calculation is as follows:

Rate divided by cost equals coverage:

$$\$1.75/\$1.038=168.59\%$$

OCA/CSA-T1-3.

Please refer to your testimony at page 5, where it states "The 168% coverage is overstated in relation to this type of mail (Standard A regular) and to other similar return services, i.e. Bound Printed Matter."

- a. Please confirm that the Bound Printed Matter subclass consists of Standard Mail weighing at least 16 ounces, but not more than 15 pounds. If you do not confirm, please explain.
- b. Please identify the products or merchandise described in OCA/CSA-T1-1(c), above, that qualify for return via Bulk Parcel Return Service (herein, BPRS) that also qualify for the Bound Printed Matter subclass.
- c. Please confirm that the Bound Printed Matter subclass has two separate rates, one for single piece and another for bulk mailings. If you do not confirm, please explain.
- d. Please confirm that mail matter qualifying for single piece Bound Printed Matter rates are not required to be "machineable." If you do not confirm, please explain.
- e. Please confirm that neither the DMCS nor the DMM authorize a return service specifically dedicated to the return of material qualifying for the Bulk Bound Printed Matter subclass. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. None.
- c. Confirmed.
- d. Confirmed.
- e. Not confirmed. The Merchandise Return Service is available to mail delivered under the Bulk Bound Printed Matter subclass. Returns of mail delivered under the Bulk Bound Printed Matter subclass are also rated under the Single Piece Bound Printed Matter rate.

OCA/CSA-T1-4.

Please refer to your testimony at page 5, where it states "The 'value of service' in factor 2 looks at the inherent worth of the service provided to the sender and recipient."

- a. Please confirm that another consideration subsumed within the second criterion is the economic value of the service provided to the sender and recipient. If you do not confirm, please explain.
- b. Please confirm that the economic value of service is often measured by the price elasticity of demand. If you do not confirm, please explain.
- c. Please confirm that, in general, a low elasticity of demand indicates a sender with a high value of service. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.

OCA/CSA-T1-5.

Please refer to your testimony at page 9, where it states "There is no economically realistic alternative to the Postal Service return of BPRS parcels." Please confirm that a mailer having no economically realistic alternative or available substitutes for the return of BPRS parcels has a low price elasticity of demand. If you do not confirm, please explain.

RESPONSE:

Confirmed. However, as price is increased, even with inelastic demand, the quantity demanded declines, and at some price the quantity demanded goes to zero. At BPRS rates that are too high, the mailer will forego return of a parcel.

Please note that BPRS users also do not have a realistic economic alternative or available substitutes for the outbound Standard (A) mail delivery either. The cost coverage for the outbound leg already reflects that price elasticity of demand.

OCA/CSA-T1-6.

Please refer to your testimony at page 5, where it states "Parcels returned under BPRS are Standard A Regular mail which has a coverage of 135%."

- a. Please confirm that Standard Mail (A) parcel shape mail bearing a BPRS endorsement cannot be returned via any subclass of Standard Mail (A). If you do not confirm, please explain.
- b. Please confirm that a customer receiving a Standard Mail (A) parcel shape mail piece bearing a BPRS endorsement cannot re-enter the parcel into the mail for return to the mailer at any Standard Mail (A) rate. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed, but see response to OCA/CSA-T1-13.
- b. Confirmed, but see response to OCA/CSA-T1-13.

OCA/CSA-T1-7.

Please refer to your testimony at page 6, where it states "By comparison, on its return BPRS leg, the 'value' of the service is the by-product of an unsuccessful sales transaction."

- a. Please confirm that, prior to BPRS, there was no "value" of return service available in the DMM or DMCS for any mail class following an unsuccessful sales transaction. If you do not confirm, please explain.
- b. Please confirm that, prior to BPRS, the result of an unsuccessful sales transaction was the routing of some products and merchandise to the Mail Recovery Centers (MRCs). If you do not confirm, please explain and provide any data to support your assertions.
- c. Please confirm that, prior to BPRS, any products and merchandise routed to MRCs resulting from an unsuccessful sales transaction were sold to the public at auctions or discarded. If you do not confirm, please explain (1) how CSA member companies recovered products or merchandise from MRCs, and (2) the estimated volume (in percentage terms) of products or merchandise routed to MRCs. Also, please provide any data to support your assertions.
- d. Please confirm that, prior to BPRS, mailers now using BPRS were uncertain for an indefinite period of time as to the outcome of the sales transaction if their returned merchandise was routed to mail recovery centers.
- e. Please confirm that BPRS facilitates the return of inventory of products or merchandise that is the result of any unsuccessful sales transaction. If you do not confirm, please explain and provide any data to support your assertions.
- f. Please confirm that BPRS facilitates payments by customer who include checks and other forms of payment for prior purchases in returned products or merchandise where there is a unsuccessful sales transaction. If you do not confirm, please explain and provide any data to support your assertions.

RESPONSE:

- a. Not confirmed. Prior to BPRS, Standard Mail (A) parcel shaped mail pieces were returned under the Third Class single piece rate.

b. Confirmed. Please note, however, that the same result has occurred after the creation of BPRS.

c. Not Confirmed. Cosmetique informed me that the Postal Service returned parcels that were misrouted to the MRCs both before and after the creation of BPRS. Before the creation of BPRS, after the creation of BPRS, and after the recent minor modification to BPRS, and Cosmetique has received less than 1% of all its returns from MRCs.

d. Confirmed. Please note, however, that the same result has occurred after the creation of BPRS.

e. Confirmed. Any service that provides the return of merchandise would have this same effect.

f. Confirmed. Any service that provides the return of merchandise would have this same effect.

OCA/CSA-T1-8.

Please refer to your testimony at page 7, where it states "Although a company may be able to reuse product that has been returned, the company incurs additional costs beyond the BPRS fee in order to do so, such as processing the returns and restocking the product."

- a. Please confirm that, prior to BPRS, a company also incurred the additional costs of processing the returns, and restocking the product before being able to reuse the product. If you do not confirm, please explain.
- b. Please confirm that, prior to BPRS, a company incurred cost of recovering products routed to MRCs. If you do not confirm, please explain and provide any data to support your assertions.
- c. Please compare the "BPRS fee," referenced in the quote above, to the costs of recovering products routed to MRCs in part b. of this interrogatory.

RESPONSE:

- a. Confirmed. Cosmetique informed me the creation of BPRS has not changed its returns operation.
- b. Confirmed. Cosmetique informed me that the costs of recovering products misrouted to MRCs has not increased or decreased because of the creation of BPRS.
- c. The BPRS fee is \$1.75. Cosmetique informed me that the Postal Service procedures in MRCs is to gather returns and mail them in one container on a frequency determined by the Postal Service. The Postal Service charges Cosmetique the Standard B rate for the entire container. For example, if a container holds 55 returns weighing 50 pounds, the BPRS fee would be \$96.25 (55 returns x \$1.75). The Postal Service charge for the 50 pounds from a MRC will not exceed \$34.49 (Standard B mail, zone 8).

OCA/CSA-T1-9.

Please refer to your testimony at page 8, where it states "One competitor in the continuity product market has reported to me that each unit of a main line of its products (representing forty percent of its business in terms of both volume and revenue) costs 30.77% more when re-introduced to inventory after return by the Postal Service than when taken directly from inventory for the first time, owing to the costs associated with re-integrating the product into inventory after being returned (including the cost of damaged goods)."

- a. Please confirm that, for the competitor cited in the quote above, each unit of a main line of products returns also costs 30.77% more to re-introduced to inventory when the parcels are returned directly to that competitor by its customers without utilizing the BPRS. If you do not confirm, please explain and provide any data to support your assertions.
- b. Please confirm that for the competitor cited in the quote above, prior to BPRS each unit routed to MRCs cost 30.77% more to re-introduce to inventory, plus the cost of recovering returns from the MRCs. If you do not confirm, please explain and provide any data to support your assertions.

RESPONSE:

- a. Confirmed.
- b. Confirmed.

OCA/CSA-T1-10.

Please refer to the section of your testimony entitled "Cost Coverage/Pricing."

- a. Please confirm that Standard Mail (A) parcel shape mail returned via BPRS consists of merchandise having an intrinsic value far in excess of the cost of the Standard (A) postage. If you do not confirm, please explain and provide any data to support your assertions.
- b. Please confirm that Standard Mail (A) parcel shape mail returned via BPRS consists of merchandise that may be proprietary to the mailer. If you do not confirm, please explain and provide any data to support your assertions.
- c. Please confirm that Standard Mail (A) parcel shape mail returned without postage prepaid by the customer but via BPRS preserves the integrity of the merchandise. If you do not confirm, please explain and describe the condition of Standard Mail (A) parcel shape mail containing products or merchandise recovered by CSA member companies from MRCs. Also, please provide any data to support your assertions.
- d. Please confirm that Standard Mail (A) parcel shape mail returned via BPRS reduces the overall expense and effort of mailers billing and collecting from customers who have returned merchandise. If you do not confirm, please explain and provide any data to support your assertions.
- e. Please confirm that Standard Mail (A) parcel shape mail returned without postage prepared by the customer but via BPRS serves to protect mailers against false claims by consumers that merchandise was not received. If you confirm, please explain and provide any data to support your assertions. If you do not confirm, please explain.

RESPONSE:

- a. Not Confirmed. The economics would dictate that a mailer would use BPRS so long as the value of the merchandise returned exceeds the cost of the return postage, plus the cost of processing and restocking returns. The same statement can be true for any service that returned product.
- b. Confirmed. The statement is also true for any service that provides the return of merchandise.

c. Not Confirmed. Cosmetique informed me that (on average) 20% of its products returned through the Postal Service lose their integrity.

d. Confirmed. The statement is also true for any service that provides the return of merchandise.

e. Not Confirmed. A customer who returns a parcel (whether under BPRS or otherwise) could not falsely claim non-receipt of it (because their return shows that they received it), and would have no motivation to do so because they receive full credit from Cosmetique for the return. A parcel that is truly undeliverable as addressed would properly permit the customer to claim non-receipt.

OCA/CSA-T1-11.

In Docket No. MC97-4, USPS witness Mohammad A. Adra (USPS-T-2) makes the following statements on pages 4-6 concerning the need of shippers for a BPRS type service.

- a. "An effective and efficiently operating parcel return service is especially needed by mail order firms in general, and by continuity and negative option marketing firms in particular." Do you agree with the statement of witness Adra? Please explain your answer.
- b. "With continuity marketing, refusals and cancellations are handled by return of the product." Do you agree with the statement of witness Adra? Please explain your answer.
- c. "As described above [in the testimony], continuity and negative options mailers, in particular, incur a relatively high parcel return rate as a normal course of business and their parcels tend to be concentrated mostly in the upper weight increments." Do you agree with the statement of witness Adra? Please explain your answer.

RESPONSE:

- a. I agree, if a "fair price" is included in the definition of an "effective and efficiently operating parcel return service."
- b. Cosmetique informed me that nearly all of its refusals are handled through returns. A smaller proportion of cancellations are handled through returns because there are a number of different ways customers inform Cosmetique of their decision to cancel their memberships.
- c. Cosmetique informs me that their returns are in the upper weight increment of Standard Mail (A). I do not have information concerning the weight of returns for other BPRS users. Neither I nor members of the Continuity Shippers Association have information regarding whether "continuity and negative option mailers, in particular, incur a relatively high parcel return rate as a normal course of business."

OCA/CSA-T1-12.

Please confirm that the BPRS cost coverage at the current rate of \$1.75, based on the FY2000 BPRS unit cost in Table 2 of your testimony of 111.2 cents is 157 percent ($\$1.75/111.2 = 157.39$ percent), only one percent higher than the originally established BPRS coverage of 156 percent which was based on unit cost of 111.90 cents ($\$1.75/1.1190 = 156.39$ percent).

RESPONSE:

Confirmed.

OCA/CSA-T1-13.

Please refer to page 5 of your testimony where you state, "As Standard (A) Regular mail, BPRS parcels receive low priority in terms of transportation and processing...."

- a. Please explain the basis for your assumption that BPRS is Standard (A) Regular mail.
- b. Do not BPRS parcels receive the same priority in terms of transportation and processing as all Standard (A) Regular mail?
- c. Can you name any terms of service applicable to BPRS less desirable than the terms of service of Standard (A) Regular mail?
- d. If BPRS service receives the same terms of service in certain areas and a higher value of service in other areas, does it not follow that, overall, the terms of service available to BPRS are higher than the service for Standard (A) Regular mail?

RESPONSE:

- a. Parcels that are returned under BPRS meet all the requirements of Standard (A) Regular mail, and are charged under Standard (A) Regular Mail on their outbound leg. In fact, DMM S924.1.2 states that "BPRS is available only for the return of machinable parcels, as defined in C050, initially prepared and mailed as Regular or Nonprofit Standard Mail (A) machinable parcels." [Emphasis added.]
- b. Yes, both BPRS and Standard (A) Regular mail receive the same low priority.
- c. Yes. There is no service standard for BPRS. In addition, the Postal Service can determine the frequency of delivery of BPRS returns.
- d. Yes, if BPRS had a higher value of service. It also is true that since BPRS receives lower terms of service in certain areas and has a lower value of service in other areas, the terms of service available to BPRS is lower than the service for Standard (A) Regular mail.

OCA/CSA-T1-14.

On page 7 of your testimony you state, "Moreover the value of the service to the mailer is the same whether the return has been opened or unopened. Cosmetique has informed me that it processes unopened and opened returns in the same manner. The value of the BPRS service has not increased as a result of the recent minor modification."

- a. Please confirm that the "recent minor modification" cited in the quote above refers to the classification changes adopted by the Commission and approved by the Governors in Docket No. MC99-4. If you do not confirm, please explain.
- b. Please confirm that the "recent minor modification" cited in the quote above has eliminated the legal and business uncertainty as to the treatment by the Postal Service of Standard (A) parcels that have been opened, resealed, and redeposited into the mail. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Not Confirmed as to "business uncertainty." Confirmed as to "legal uncertainty." Cosmetique's experience with receiving opened returns through the Postal Service has not changed with the creation of BPRS or the recent modification to BPRS. The following chart is based on data from Cosmetique:

Percentage of Opened v. Unopened Cosmetique
Third Class Single Piece/BPRS Returns

Pre-BPRS 3/97-10/97		BPRS 10/97-9/99		BPRS-Modification 10/99-12/99	
Opened	Unopened	Opened	Unopened	Opened	Unopened
55.91%	44.09%	54.47%	45.53%	52.44%	47.56%

OCA/CSA-T1-15.

On page 7 of your testimony you state, "Moreover the value of the service to the mailer is the same whether the return has been opened or unopened. Cosmetique has informed me that it processes unopened and opened returns in the same manner. The value of the BPRS service has not increased as a result of the recent minor modification."

- a. Does Cosmetique include BPRS return labels in its packages?
- b. Has Cosmetique informed its customers that they are now permitted to return opened material without the payment of postage?
- c. Has Cosmetique experienced any increase in returns of opened packages since BPRS was modified?

RESPONSE:

- a. No.
- b. Yes, when a customer inquires by phone how to return a parcel (whether opened or unopened), Cosmetique informs them that they have the option of redepositing the return into the mail stream and that the parcel may be returned to Cosmetique without the customer paying the return postage. Cosmetique has informed its customers of this since before the minor modification in October 1999. See Answer to OCA/CSA-T1-14(b).
- c. No. See Answer to OCA/CSA-T1-14(b).

OCA/CSA-T1-16.

In your testimony at page 9, you cite factor 7 as favoring a straightforward fee structure and that your proposal will continue to facilitate such a fee structure. Is it not true that the current fee structure is also straightforward and consistent with factor 7?


RESPONSE:

Yes.

DECLARATION

I, Lawrence G. Buc, do hereby declare under penalty of perjury that the answers to the foregoing Docket No. C99-4 interrogatories are true to the best of my knowledge, information and belief.

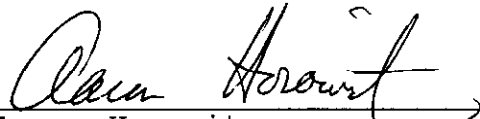
Dated: January 7, 2000



Lawrence G. Buc

CERTIFICATE OF SERVICE

This will certify that the foregoing Answers of Lawrence G. Buc to the Interrogatories from the Office of Consumer Advocate were served upon all participants of record in this proceeding in accordance with section 12 of the rules of practice on January 7, 2000.

A handwritten signature in cursive script, appearing to read "Aaron Horowitz", is written over a horizontal line.

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Attorney for the Continuity
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