

BEFORE THE POSTAL RATE COMMISSION  
WASHINGTON, DC 20268

RECEIVED

Mar 3 1 27 PM '00

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

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

BRIEF OF THE CONTINUITY SHIPPERS ASSOCIATION  
THE DIRECT MARKETING ASSOCIATION AND  
THE ASSOCIATION FOR POSTAL COMMERCE

The Continuity Shippers Association, the Direct Marketing Association and the Association for Postal Commerce submit their brief in support of the complaint concerning the Bulk Parcel Return Service.

The parties have essentially agreed upon two of the three elements for determining the BPRS rate -- attributable costs and roll forward. The CSA accepts the Postal Service's 1998 attributable cost figure of \$1.038 per piece (for purposes of this case only and reserving the right to challenge this cost figure and the BPRS cost study in any other proceeding). CSA's expert witness, Lawrence G. Buc, prepared a roll forward of those costs from year 1998 to year 2000, and estimated a year 2000 cost of \$1.112 per piece. (In R2000-1, the Postal Service's roll forward arrived at a year 2000 attributable cost of \$1.105. J. Eggleston, UPSP-T-26, p. 40.) The parties disagree on the appropriate cost coverage.

Background

Prior to BPRS, Standard A merchandise returns were charged the Third Class single piece rate. In the R94-1 rate case, the average increase for all mail classes was 14%. In contrast, the Third Class single piece rate increased by an average of 66.25% in the 8-16 ounce range (which is the range for BPRS users). The highest Third Class single piece rate paid was \$2.95 (for one pound, ground service of 7-

11 day delivery) which was only \$0.05 less than Priority Mail (for up to two pounds, air transportation within 2-3 day delivery). L. Buc, CSA-T-1, pp. 8-9. The \$2.95 was comprised of (no more than) \$1.038 of attributable cost with a cost coverage of (at least) 284%.

Despite many false starts and promises, the Postal Service did not address the Standard A single piece rate anomaly during 1995 and 1996. Ultimately, the Advertising Mail Marketing Association (now the Association for Postal Commerce or PostCom) filed a complaint with the United States Postal Rate Commission (the "Commission") in October 1996 (No. MC97-4) challenging the rate.

PostCom's complaint was settled through the creation of BPRS (although other possible solutions existed, i.e. reducing the single piece rate). The Postal Service and PostCom negotiated a price of \$1.75 per BPRS return. The parties did not discuss (or agree upon) the attributable cost or the cost coverage. Resp. USPS/CSA-T1-6. It is not known whether the Postal Service determined the attributable cost first and then solved for the cost coverage, or vice versa. Whichever way the Postal Service reached the \$1.75, the Postal Service ultimately arrived at \$1.119 in attributable costs (using proxies) and a 156% cost coverage.

No changes to the BPRS fee were addressed in the R97-1 rate case. The BPRS service was new and the Postal Service had agreed (as part of the BPRS settlement) to conduct a cost study for BPRS.

On October 30, 1998, the Postal Service issued its BPRS cost study showing attributable costs of \$0.93, and a cost coverage of 188%. The Postal Service subsequently revised that cost figure to

\$1.038 to comport with the Commission's methodologies from the R97-1 case. Using the \$1.038 attributable cost figure, the cost coverage has been 168%.

Discussions between the Postal Service and affected mailers after the submission of the BPRS cost study did not resolve the issue. Thus, the CSA filed the instant complaint to redress the BPRS rate based on the BPRS cost study, and to give the Commission its first true opportunity to review the cost coverage for BPRS.

#### Discussion

The setting of the cost coverage for a service is a two part balancing act. Not only must the nine factors of the Act be balanced, but the coverages must be balanced with the other postal categories. In this proceeding, the CSA is asking the Commission to fit the BPRS cost coverage within the existing coverages set in R97-1.

The nine factors of the Act and the balancing within the R97-1 coverages mandate a cost coverage of 135%, which is the same as Standard A regular mail. Using the attributable cost from the Postal Service 1998 cost study (as revised), and rolled forward by Lawrence G. Buc, the price for BPRS should be \$1.50 per piece.

#### A. The Nine Factors under the Act

The application of the Title 39 policies and the nine factors show that the current cost coverage for BPRS of 168% is too high. The cost coverage should be 135%, which is the coverage applied to Standard A regular mail. CSA-T-1, p. 5.

The first factor of "fairness and equity" is the foundation on which all the other factors are based, and provides the basis for balancing

the other factors. §3622(b)(1). As shown in this proceeding, the current BPRS coverage of 168% contradicts this factor.<sup>1</sup> CSA-T-1, p. 5.

The "value of service" in factor 2 looks at the inherent worth of the service provided to the sender and recipient. §3622(b)(2). The value of the BPRS service is much lower than that indicated by the current cost coverage. BPRS parcels receive low priority in terms of transportation and processing; only ground transportation is used; and the Postal Service determines the frequency of the mailer's pickup of BPRS parcels or its delivery of BPRS parcels. CSA-T-1, pp. 5-6.

Other similar return services, i.e. Bound Printed Matter, have much lower cost coverage. Bound Printed Matter has a cost coverage of 136%. In R97-1, the Commission noted that the coverage proposed by the Postal Service for Standard A regular was similar to Bound Printed Matter which it described as "another subclass used for bulk national mailings of (among other things) advertising materials." R97-1, p. 434. In fact, Bound Printed Matter provides a greater value in that the Postal Service delivers Bound Printed Matter returns to the mailer; by comparison, half of the BPRS users pick up their BPRS returns. CSA-T-1, p. 6.

A BPRS rate of \$1.50 per return would more than meet the requirement that BPRS mail "bear the direct and indirect postal costs attributable" to it as required by factor 3. §3622(b)(3). At that rate, a contribution of \$0.388 for institutional cost would be made.

---

<sup>1</sup> The 168% cost coverage is based on the \$1.038 attributable cost from the October 1998 BPRS cost study. Since the BPRS cost study overstates the cost, the 168% cost coverage is actually understated.

Factor 4, which considers the impact of rates on consumers and mailers, is also served by decreasing the BPRS rate to more closely reflect the actual cost of service as shown by the 1998 BPRS Cost Study (as revised). §3622(b)(4). As described earlier, BPRS was created to remedy a draconian increase in the Third Class single piece rate (the predecessor to Standard A and the rate previously applied to these return parcels) in Docket No. R94-1. The establishment of BPRS only provided interim relief to the general public and BPRS users. Further relief is now known to be warranted. CSA-T-1, pp. 8-9.

Factor 5 considers the impact on alternative services. §3622(b)(5). There is no economically realistic alternative to the Postal Service return of BPRS parcels. CSA-T-1, p. 9. That available alternatives are priced considerably higher may explain the demand for BPRS. Overall demand, however, does not equate to value of service. This factor favors lower BPRS rates.

Factor 6 looks at the reduction of costs through the mailer's preparation of the mail. §3622(b)(6). The bulk processing of BPRS parcels, the requirement for machinability of the parcels and the fact that half of the BPRS mailers pick up the BPRS returns establish that Postal Service costs are reduced through BPRS. CSA-T-1, p. 9.

Factor 7 favors a straight forward fee structure. §3622(b)(7). There will be no effect on the per piece fee structure. This will continue the straight forward and easily understood fee structure.

Educational, cultural, scientific and informational considerations of factor 8 do not apply. §3622(b)(8).

B. Balancing of the BPRS Cost Coverage with R97-1 Rates

1. BPRS Should Have the Same Cost Coverage  
As Standard A Regular Mail

BPRS mail more closely resembles Standard A regular mail than any other type of mail, and should have the same cost coverage of 135%.

First, BPRS returns are Standard A mail on the outbound leg, and thus meet all the requirements of Standard A mail, e.g. 16 ounce maximum weight. Resp. USPS/CSA-T1-7.

Second, the DMM provides that only parcels mailed out Standard A can be returned under BPRS. 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." Resp. OCA/CSA-T1-13.

Third, parcels returned under BPRS receive the same transportation and priority as Standard A mail, i.e. ground transportation and lowest priority. CSA-T-1, pp. 5-6.

Fourth, the parcels are presented in bulk on both the outbound and return legs. The mailer presents the parcels to the first Postal facility in bulk on the outbound leg, and the last Postal facility presents the BPRS parcels to the mailer in bulk on the return leg.

Fifth, the Postal Service acknowledges that BPRS is, in effect, Standard A regular mail. This is shown in the Postal Service's implementing regulations for the BPRS return label. The "class of mail" endorsement required by the Postal Service for the BPRS return label is "Standard Mail (A)." Fed. Reg. Vol. 64, No. 180, September 17, 1999, p. 50452.

2. A Lower Cost Coverage for BPRS Than Standard A Regular Mail Could be Supported

BPRS is the return leg of an unsuccessful business transaction. The merchandise is sent to the customer as Standard A mail (the outbound leg), and is then returned under BPRS (the return leg). The "value" of the service is at its highest on the outbound Standard A leg because, at that time, the parcel represents the delivery of the merchandise to the customer closing a sale. By comparison, on its return BPRS leg, the "value" of the service is the by-product of an unsuccessful sales transaction. CSA-T-1, p. 6.

The difference in the value of the service for the outgoing and return legs is further shown by the experience of Cosmetique, a BPRS mailer. Cosmetique tracks its BPRS returns according to whether the customer continues their membership and receives the next shipment, or whether the customer cancels their membership (and there is no potential next sale). Cosmetique's data from mid-1997 through mid-1999 shows that in 73% of the returns, the customer cancels their membership, and in only 27% of the returns does the customer continue their membership. In short, 3/4 of the time, the BPRS return marks the conclusion of a business relationship. CSA-T-1, pp. 6-7.

The value of the outbound Standard A leg is more clearly shown by the price customers pay for the merchandise sent. Customers of Cosmetique pay around \$20.00. L. Buc testimony, 2/2/2000, p. 133. On the whole, customers return only 13% of Cosmetique's outbound shipments (11% of the outbound shipments are returned under BPRS; the other 2% are non-BPRS returns). Resp. USPS/CSA-T1-5. This shows a high value to the outbound leg.

By contrast, the return leg is of low value because the customer does not want the merchandise. While there is some value to the company of the return through re-use of the return product, that value is significantly less than the profit made from successful sales.

The lack of available alternatives or inelasticity of demand for BPRS corresponds to Standard A regular mail. Given the sameness between Standard A and BPRS, and that lack of alternatives or inelasticity of demand for Standard A has already been considered in the Standard A outbound rate, no additional coverage is needed for BPRS on the return leg to account for this. Resp. USPS/CSA-T1-16.

Beyond being the by-product of an unsuccessful sales attempt, other items show a lower value of service for BPRS than Standard A regular mail. There is no service standard at all for BPRS. Resp. OCA/CSA-T1- 13. The Postal Service determines the frequency of delivery or pick up of BPRS returns. Half of BPRS mailers pick up their returns, rather than having the Postal Service deliver them. Finally, a small percentage of BPRS returns are improperly diverted to a mail recovery center. Resp. OCA/CSA-T1-7.

### 3. The Recent Minor Modification to BPRS Has No Impact

The recent minor modification to BPRS has neither increased nor decreased the relative value of the BPRS service. That modification involved two changes: (1) formally allowing the Postal Service to return parcels that customers had opened, resealed and redeposited into the mailstream to the original mailer where it is impracticable or inefficient for the Postal Service to seek the return postage from the customer; and (2) the creation of a BPRS return label.



The percentage of opened versus unopened BPRS returns Cosmetique received for the time periods before and after BPRS, and before and after the minor modification to BPRS is shown (Resp. OCA/CSA-T1-14):

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

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

The data shows that neither the establishment of BPRS, nor the recent minor modification to BPRS to include opened returns affected the Postal Service's actual handling of opened returns. The modification only codified the Postal Service's pre-existing practice. CSA-T-1, p. 7. Moreover, the value of the BPRS service to the mailer is the same whether the return has been opened or unopened. Cosmetique states that it processes opened and unopened returns in the same manner. CSA-T-1, p. 7.

Further, the volume of returns Cosmetique receives from the mail recovery centers has not increased or decreased as a result of the creation of BPRS or the minor modification to BPRS.

The creation of the BPRS label simply resulted from the Postal Service's determination that there was no additional cost associated with the use of a return label. It also addressed one more vestige from the third class single piece rate anomaly from R94-1. Prior to the minor modification, customers who used a merchandise return label were charged \$3.45 per return -- the Standard B inter-BMC rate of \$3.15, plus the \$0.30 merchandise return label fee. This is almost

twice the BPRS fee even though the parcels were returned in the same way regardless of whether a return label was attached or not.

The recent minor modification has neither increased nor decreased the value of the BPRS service. CSA-T-1, p. 7.

C. The BPRS Cost Coverage is Too High  
Under the Special Service Rate Category

The Postal Service states in its rebuttal testimony of Susan Mayo that the cost coverage for BPRS should be viewed within the context of the special services rate category. C99-4, USPS-RT-1, p. 5. Mayo's assertion actually supports CSA's complaint because the most analogous special service to BPRS is the merchandise return service (schedule 932) which only has a cost coverage of 128%.

The merchandise return service and BPRS provide the same service. They both "enable business customers to return parcels without paying the postage." R97-1 Recommended Decision, p. 568. The DMCS defines the merchandise return service as follows:

932.11 Merchandise return services provides a method whereby a shipper may authorize its customers to return a parcel with the postage paid by the shipper. A shipper is the holder of a merchandise return permit.

The same is true for BPRS. BPRS mailers authorize their business customers to return parcels at the mailers' expense. BPRS and the merchandise return service are both "special services." The only two differences are that (1) BPRS is limited to Standard A mail, while merchandise return service can be used by any class of mail, and (2) merchandise return service requires the use of a label while BPRS parcels can, but need not, have a label.

In the R97-1 rate case, the Commission accepted the Postal Service's proposal that the merchandise return service carry a cost coverage of 128%. R97-1 Recommended Decision, p. 568.

Postal services that perform the same function should carry the same cost coverage. Since the merchandise return service and BPRS perform the same service, they should carry the same cost coverage.


Mayo also states that that BPRS returns are unlike advertising mail. C99-4, USPS-RT-1, p. 5. While this is true, it is irrelevant. As discussed above, the correct comparison is BPRS parcels to outbound Standard A parcels. This true comparison shows that they should carry the same cost coverage.

#### Conclusion

For the reasons stated herein, the Continuity Shippers Association requests that the Commission issue a Recommended Decision to the Board of Governors finding that the rate for the Bulk Parcel Return Service should be \$1.50, consisting of \$1.112 in year 2000 costs and a cost coverage of 135%. Such a rate properly reflects the value of the Bulk Parcel Return Service and is otherwise in accord with the policies and purposes of the Act.

Dated: March 2, 2000

Respectfully Submitted,

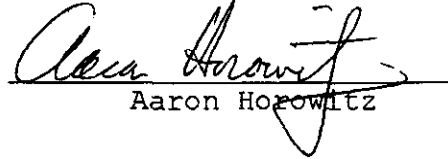
  
\_\_\_\_\_  
Aaron Horowitz  
200 Corporate Woods Parkway  
Vernon Hills, IL 60061-3167  
(847) 913-3360

Attorney for the Continuity  
Shippers Association

CERTIFICATE OF SERVICE

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

Dated: March 2, 2000

  
Aaron Horowitz