

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

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF
UNITED PARCEL SERVICE, REDIRECTED FROM WITNESS KAY
(UPS/USPS-T23-2)

The United States Postal Service hereby provides its response Kay to the following interrogatory of United Parcel Service: UPS/USPS-T23-2, filed on January 31, 2000, and directed to witness Kay

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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March 13, 2000

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF UNITED PARCEL SERVICE
(REDIRECTED FROM WITNESS KAY)**

UPS/USPS-T23-2.

(a) Explain the process by which advertising costs for BY 1998 were determined to be product-specific or non-product-specific, and the extent to which you verified that determination.

(b) Who made the determination of whether particular advertising costs were product-specific or not?

(c) What criteria were used to make that determination?

(d) From whom did you receive the information you present on product-specific and non-product specific advertising costs?

RESPONSE:

(a-d) Two separate processes were used to obtain the BY 1998 advertising expenses allocated to products and product groups for use by witness Kay in her incremental cost analysis. (Witness Kay played no role in their development, and treated them as exogenous inputs to her analysis.) With respect to International mail, postal costing personnel examined International advertising, using accounting information reported under the International Business Unit's finance number, and working directly with knowledgeable personnel from the relevant advertising agencies. The results of that examination were used in the FY 1998 ICRA, and again for the Base Year.

With respect to all other advertising expenses, the Postal Service's advertising staff developed the advertising expense allocations, based on a breakout of expenses by products and channels. (Although the Postal Service's costing staff consulted in this process, suggesting the types of criteria discussed below, they did not participate directly.) As necessary, product managers and channel managers provided further

breakouts. For example, for Special Services, the product manager estimated that 80 percent of his advertising expenditures related to Money Orders, 10 percent to Post Office Boxes, and the rest to other special services. With respect to the expenses allocated to the Expedited group of products, these were further broken down by personnel at the advertising agency based on an analysis of the relative shares of 1998 Media and Production expenses among the three Expedited products (Express Mail, Priority Mail, and Parcel Post). In other words, product shares were obtained from an analysis of a subset of the costs (Media and Production expenses), and those shares were then applied to total Expedited expenses.

The criteria applied in this allocation process were necessarily judgmental. The individuals involved were requested to allocate advertising expenses based on the decisions they had made in managing their functions. Thus, the amount of advertising costs spent directly on one product or product group would definitely need to be considered when determining the share allocated to that product or product group (in situations in which those expenses appeared in a shared pool, rather than a line item already directly linked to the product or product group). The extent to which a product (or product group) was featured in advertising directed to more than one product (or product group) would be another factor to consider. In particular, when addressing cost associated with those types of multiproduct advertising, consideration was given to the extent, if any, to which the existence of a specific product or product group "caused" (i.e., was the reason why the Postal Service engaged in) that type of advertising. It was also acknowledged that, in some circumstances, it is neither possible nor necessary to attempt to allocate all advertising expenses back to specific products or product groups. This is particularly true of those expenses which are directed at supporting the Postal

Service as an institution (e.g., so-called "corporate brand" advertising), or where advertising is targeted so broadly that it is impossible to identify the existence of any particular product, product group, or set of products as the reason why the advertising expenses were incurred. Based on these criteria, and trying to be as reasonable and balanced as possible, the necessary breakouts were estimated.

The results of this analysis are summarized as revised pages 5 and 5A of USPS-LR-I-150, which provide the advertising cost inputs used by witness Kay in her incremental cost testimony.

CERTIFICATE OF SERVICE

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



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