

Exhibit MMA-T-3

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

Postal Rate and Fee Changes

Docket No. R2000-1

**DIRECT TESTIMONY OF
MURY SALLS
ON BEHALF OF
MAJOR MAILERS ASSOCIATION**

May 22, 2000

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

1 **Direct Testimony of Mury Salls**
2 **On behalf of**
3 **Major Mailers Association**
4

5 **I. Qualifications**

6 My name is Mury Salls. My business address is 4388 Shackleford Road,
7 Norcross, GA 30093.

8 I am Executive Vice President of AccuDocs, a document processing company,
9 which mails more than 300 million statements, invoices, and other consumer notices
10 annually. AccuDocs provides document management services from seven production
11 facilities to over 600 clients nationwide. Our clients represent many industries,
12 including telecommunication, financial, insurance, brokerage, utility, and retail.
13 Postage, primarily First-Class, represents a significant portion of the funds expended by
14 AccuDocs, on behalf of these clients, to distribute these critical documents.

15 I am one of the co-founders and current President of Major Mailers Association,
16 a group of quality First-Class mailers. These mailers use First-Class Mail for the
17 overwhelming share of their mailings; as a general rule, they have no significant interest
18 in other mail classes.

19 On behalf of Major Mailers Association, I am a representative to the Mailers
20 Technical Advisory Committee, an adjunct to the Postal Service. I co-chaired the First-
21 Class Committee for four years, co-chaired the Classification Reform Letters
22 Implementation Advisory Group and currently serve as the co-chair of the work group
23 for implementation of new acceptance procedures.

24 I have testified before this Commission in Docket No. MC-95-1.

25 I received a Bachelor of Science degree in Business Administration in 1983 from
26 the University of Nevada, Reno

27 **II. Purpose and Scope of Testimony**

28 MMA witness Richard E. Bentley explains why the Postal Service's proposed
29 additional-ounce rate structure is improper for technical ratemaking reasons. See
30 Exhibit MMA-T-1. The purpose of my testimony is to explain why, from a business
31 perspective, this rate structure is anomalous for the Postal Service and for mailers.

1 I recommend that the Commission focus on this issue now and change the additional-
2 ounce rate structure by extending the 4.6-cent heavy weight discount to pieces
3 weighing between 1 and 2 ounces.

4 **III. Discussion of Issues**

5 Under current rates, First-Class single piece mail is charged 22 cents for the first
6 additional and each ounce thereafter, and, for presort mail, a heavy weight discount of
7 4.6 cents applies to letters weighing over 2 ounces. As proposed by the Postal Service
8 in this case, a First-Class single-piece letter weighing between 1.1 ounces and 2
9 ounces will cost the mailer 23 cents more than a one-ounce letter, and a single-piece
10 letter weighing between 2.1 ounces and three ounces will cost the mailer 46 cents more
11 than a one-ounce letter. This rate/cost relationship should not be accepted, especially
12 since the Postal Service proposes to continue the uniform rate, regardless of weight up
13 to 3.0 ounces, for letters mailed under Standard Mail (A) rates.

14 From a market-based point of view, the Postal Service's proposed First-Class
15 rates for the second and third ounces make no sense. Many potential First-Class
16 automation mailers, such as AccuDocs, send out bills to both households and non-
17 households. For the most part, these mailings are light and normally qualify for the first-
18 ounce rate, which currently ranges from \$0.27 for Basic Automation to \$0.243 for 5-digit
19 Automation mail. However, mailers can and often do include advertising and other
20 messages with their bills. These additional inserts can increase the weight of letters by
21 as much as one ounce or more.

22 At AccuDocs, significant effort is taken to work with our clients to manage what
23 materials can be included with outgoing bills because of the First-Class threshold rate
24 increases at two and three ounces. As the weight of our mail piece exceeds one
25 ounce, we are quite cognizant of the 22-cent postage "penalty" that awaits us. Under
26 the Postal Service's proposals in this case, the penalty for mail pieces weighing more
27 than 1 ounce and up to 2 ounces would be 23 cents.

28 Mailers have several choices about how to distribute these additional bill insert
29 materials to their customers. The first option is to include them along with the bill and
30 pay the additional First-Class postage. As I just stated, this is very expensive,

1 especially when one considers, as the Commission has often observed, that the Postal
2 Service actually incurs little or no additional cost to process these heavier mailings on
3 automated equipment.

4 Second, mailers can choose simply not to send the insert materials. This
5 particular option does not serve the interests of mailers, their customers, or the Service.

6 Third, mailers can use another option that is critical to the issue at hand. Mailers
7 can and do “break up” their mailing into two separate mailings—a First-Class mailing
8 limited to one ounce per piece; and a Standard (A) mailing in which each piece can
9 weigh up to three ounces. Under this option, mailers pay substantially less postage
10 than they do under first option, even though the Postal Service incurs significantly
11 greater costs to handle and process twice the number of mail pieces.

12 Using this last option, we can send up to 3 ounces of advertising or other insert
13 materials at Standard Mail (A) rates, and our postage will be under 18 cents for each
14 letter at the Postal Service’s proposed rates. On the other hand, the First-Class
15 postage from our first option will cost 23 cents just for one additional ounce. Thus, by
16 using the last option, we have quite a cushion of postage savings to pay for the
17 additional costs of printing envelopes, and handling and mailing that we incur.

18 A simple illustration will serve to demonstrate the uneconomic incentives
19 inherent in the existing additional ounce rate structure for First Class. Suppose
20 AccuDocs plans to mail 10,000 two-ounce automation-compatible, prebarcoded letters
21 that are presorted to 3-digits. Our first option is to send all of the letters via First-Class
22 and pay the two-ounce rate of 50.1 cents.¹ Our second option is to split each two-
23 ounce letter into two letters, each weighing one ounce, and mail 10,000 pieces twice—
24 one set of 10,000 letters at the First-Class 3-digit Automation rate of 27.1 cents each,
25 and the second set of 10,000 letters at the Standard Mail (A) rate of 17.6 cents each.
26 Under the second option, our total postage costs are reduced from \$5,010 to \$4,470, a
27 savings of \$540, more than enough to justify the two mailing approach. See Exhibit
28 MMA-3A (Table 1). As an added bonus, we could, if we wish to, send an additional

¹ For purposes of this example, I have used the Postal Service’s proposed 3-digit Automation rate of 27.1 cents for the first ounce and 23 cents for the second ounce.

1 2 ounces of advertising materials at the Standard Mail (A) rates, without incurring any
2 additional postage charges.

3 While the two mailings approach may make sense for mailers due to the built-in
4 anomaly in the current rate schedule, that operating procedure makes absolutely no
5 sense for the Postal Service. MMA witness Bentley advises me that it costs the Service
6 considerably more to process 20,000 one-ounce letters than it does to process 10,000
7 two-ounce letters. In my opinion, it does not make sense to have a rate structure that
8 encourages First-Class mailers to save postage by splitting up their mailings and
9 diverting a portion from First-Class to Standard Class. Such a rate structure does not
10 encourage the efficient use of postal resources or the resources of private sector
11 mailers. Moreover, such a rate structure sends the wrong signal to mailers and
12 ultimately the recipients of these duplicative, wasteful mailings.

13 MMA witness Bentley proposes that the second-ounce rate for workshare First-
14 Class letters be reduced by extension of the 4.6-cent heavy weight discount to such
15 pieces. Such an approach, combined with the modest increases in the presort
16 discounts MMA is proposing, will help to reduce somewhat the unreasonably high
17 revenue burden workshare mailers currently bear. Extending the heavy weight discount
18 to letters weighing more than 1 ounce also will effectively eliminate the significant rate
19 anomaly that exists in the First-Class rate structure today and will persist under the
20 Postal Service's First-Class rate proposals. In that regard, using MMA's 3-digit presort
21 rate of 26.6 cents and applying the 4.6-cent heavy weight discount to the second
22 ounce, reduces the postage cost differential between the one First-Class mailing of
23 2-ounce pieces and the two 1-ounce mailings from \$540 to \$80. See Exhibit MMA-3A
24 (Table 2). As a practical matter, under MMA's proposal there would no longer be any
25 meaningful incentive for mailers to break up their mailings in the manner I have
26 described.

Table 1
Comparison of Alternative Postage Costs for 2-Ounce Letters
(USPS Proposed Rates)

	(1)	(2)	(3)	(4)	(5)	(6)	
		First-Class		Standard		Total	
Situation	Volume	Rate	Postage	Rate	Postage	Postage	
<u>USPS Proposed Rates:</u>							
2 oz. First Class	10,000	\$ 0.501	\$ 5,010			\$ 5,010	[1]
1 oz. First Class	10,000	\$ 0.271	\$ 2,710			\$ 2,710	
1 oz. Standard	10,000			\$ 0.176	\$ 1,760	\$ <u>1,760</u>	
Total						\$ 4,470	[2]
Split Mailing Savings						\$ 540	[3]

(1) Illustrative quantity

[3] [1] - [2]

(2) USPS proposed rates for 3-digit First-Class Automation

(3) (1) x (2)

(4) USPS proposed rates for 3-digit Standard Automation with BMC discount

(5) (1) x (4)

(6) (3) or (5) as appropriate

Table 2
Comparison of Alternative Postage Costs for 2-Ounce Letters
(MMA Proposed Rates)

	(1)	(2)	(3)	(4)	(5)	(6)	
		First-Class		Standard		Total	
Situation	Volume	Rate	Postage	Rate	Postage	Postage	
<u>MMA Proposed Rates:</u>							
2 oz. First Class	10,000	\$ 0.450	\$ 4,500			\$ 4,500	[1]
1 oz. First Class	10,000	\$ 0.266	\$ 2,660			\$ 2,660	
1 oz. Standard	10,000			\$ 0.176	\$ 1,760	<u>\$ 1,760</u>	
Total						\$ 4,420	[2]
Split Mailing Savings						\$ 80	[3]

(1) Illustrative quantity

[3] [1] - [2]

(2) MMA proposed rates for 3-digit First-Class Automation

(3) (1) x (2)

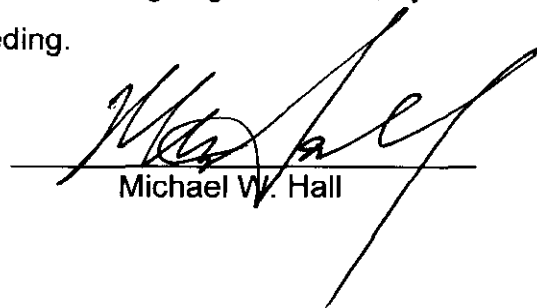
(4) USPS proposed rates for 3-digit Standard Automation with BMC discount

(5) (1) x (4)

(6) (3) or (5) as appropriate

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document, by First-Class Mail, upon the participants in this proceeding.



Michael W. Hall

Round Hill, VA
May 22, 2000