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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

DIRECT TESTIMONY  
OF  
JAMES T. HEISLER, Ph.D.  
ON BEHALF OF  
PITNEY BOWES

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Dated: May 22, 2000

1 AUTOBIOGRAPHICAL SKETCH

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4

My name is James T. Heisler. I have been employed in the Marketing Research Industry for 32 years. I currently am Executive Vice President of Opinion Research Corporation International. I joined ORC International as Vice President and Manager of its Washington DC office in 1982, was named Senior Vice President in 1988 and Executive Vice President in 1993. I relocated to the Princeton headquarters in 1993. My current duties include Director of the company's Interactive Services. I also am a member of the corporate board of directors. At various times, I have also been responsible for professional practices serving the IT/Telecommunications industries and Market Assessment issues area.

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Opinion Research Corporation, founded in 1938, is one of the world's larger survey research organizations. It has been an independent corporation since 1991 and publicly traded since 1993.

I hold a Ph.D. in Social Psychology from Illinois Institute of Technology.

1     **Purpose and Scope of Testimony**

2             The purpose of my testimony is to sponsor and explain market research  
3     conducted on behalf of Pitney Bowes Inc. that measures household and non-  
4     household customer reactions to possible discounts for certain single piece rate  
5     First-Class Mail for which postage is metered, either by postage meter or by a  
6     personal computer via the Internet (referred to hereafter as PC postage.) The  
7     research results have been used by Pitney Bowes, together with other  
8     information, to shape its request for discounted postage for such single piece  
9     rate First-Class Mail that complies with metering requirements.

10            I present the conclusions from this research then describe the design and  
11     execution of the research and then discuss and characterize the research  
12     results.

13

14     **Conclusions**

15            The results of this study indicate that there is a substantial market interest  
16     in PC postage and postage meters when a one cent discount on First-Class  
17     postage is associated with the use of these services. This interest has been  
18     evidenced by mailers, in households and in small businesses, who are currently  
19     not using meters.

20            The data from the household portion of this study indicate that PC  
21     postage, with a one cent discount will attract up to **1.4** billion pieces of First-  
22     Class Mail currently using stamps. The non-household portion of the study  
23     referencing PC Postage indicates that **2.6** billion pieces from small businesses

1 will divert from stamps. The non-household portion of the study referencing  
2 stand-alone meters indicates that implementation of a one cent discount for First-  
3 Class Mail prepared with postage meters is calculated to divert up to 3.5 billion  
4 pieces of mail from stamps.

5

## 6 **The Research Design**

### 7 **A. Overview**

8 ORC International conducted two telephone studies. One study was with  
9 representatives of qualifying households (the Household Study). The other study  
10 was with representatives of qualifying small businesses (the Non-Household  
11 Study).

12

#### 13 **1. The Household Study**

14 To qualify for the Household Study, respondents had to come from  
15 households that use stamps and have personal computers and Internet access  
16 and inkjet or laser printers. The respondent had to be the individual most  
17 responsible for preparing First-Class Mail for the household.

18 Representatives of qualifying households were asked about their  
19 reactions to discounts on PC postage for First-Class Mail.

#### 20 **2. The Non-Household Study**

21 To qualify for the Non-Household Study, a business had to use stamps  
22 and spend at least ten dollars on postage per month. Respondents to the Non-

1 Household Study were those individuals responsible for decisions regarding  
2 mail.

3 Approximately half the non-household respondents were asked about  
4 their reaction to discounts for PC postage and half about their reaction to  
5 discounts for metered postage.

## 6 **B. The Samples**

### 7 **1. The Household Study**

8 The underlying sample for the Household Study was a random sample of  
9 U.S. telephone households. ORC International is a licensee of the Genesys  
10 Sampling System created and maintained by Marketing Systems Group of Fort  
11 Washington PA. This is one of a few standard sources for samples of U.S.  
12 telephone households. A sample of households in the forty-eight contiguous  
13 states was drawn using the Genesys Sampling System.

### 14 **2. The Non-Household Study**

15 Pitney Bowes, using their licensed copy of the Dun & Bradstreet database  
16 of business establishments, generated the non-household sample. As a first  
17 step, Pitney-Bowes customers were removed from the database, thus removing  
18 users of Pitney Bowes postage meters from the population. No attempt was  
19 made to remove users of other meters from the population. The resulting  
20 universe count was 9,255,550 non-household locations of which 9,008,956 had  
21 25 employees or less and 246,604 had 26-50 employees. The target number of  
22 interviews was set at 200 for each of these sub-populations, or 400 interviews in

1 total. The samples for the study were then systematically selected from the  
2 database..

### 3 **C. The Questionnaires**

4 The questionnaires for the household and Non-Household Study were  
5 similar, with minor differences to accommodate the household and non-  
6 household settings. The questionnaires are included in Library Reference PB-2.

7 Each questionnaire included qualifying questions and a question about  
8 current First-Class Mail piece volume. Once a respondent qualified, he or she  
9 was read a concept statement. In the Household Study the concept statement  
10 described PC postage. In the Non-Household Study the statement described  
11 either postage meters or PC postage. In the Non-Household Study, the  
12 determination of which concept would be used was made systematically during  
13 the sample selection process. Approximately half the respondents were to see  
14 each concept.

15 Respondents were then asked how likely they would be to use the  
16 concept described at three price levels: no discount on First-Class postage, a  
17 one-cent discount, and a two-cent discount. Once a respondent said she or he  
18 would be extremely likely to use the service described in the concept statement  
19 at a given price level, they were not asked about higher price levels.

### 20 **D. Interviewing**

21 Interviewing by telephone was conducted from ORC International's  
22 Telephone Center in Tucson AZ. Computer Assisted Telephone Interviewing  
23 (CATI) was utilized. The CATI system can be programmed to facilitate the

1 handling of complex interviews, letting the interviewer see only the appropriate  
2 next question while the software follows simple or complex instructions.

3 The average interview length was under ten minutes, a target length set to  
4 encourage respondent cooperation.

5 Interviewing took place between February 15 and March 6, 2000.

## 6 **E. Data Processing and Weighting**

7 Data were transferred from the CATI system to the table processing  
8 software.

9 Simple weighting procedures were used to bring results into line with  
10 known population parameters.

11 The household sample contacted for the study was balanced against  
12 population gender, age, income, and region proportions.

13 The non-household samples were weighted to population counts by broad  
14 Standard Industrial Classification (SIC) groupings.

15 Weighted cross tabulations were produced.

## 16 **Results**

### 17 **1. The Household Study**

18 Of the households contacted, 41% qualified for the interview. Using a  
19 current estimate of 99 million U.S. households, this corresponds to 40.8 million  
20 households.

21 The following concept was read to qualifying household respondents:

1 As you may know, there are ways to affix postage to mail you send  
2 through the US Postal Service besides using postage stamps. One  
3 way to do it is electronically via the Internet using standard word-  
4 processing programs and an inkjet or laser printer. With Internet  
5 postage...

- 6 • You can refill postage over the Internet or by phone 24 hours a  
7 day, 7 days a week, so you no longer have to make trips to the  
8 Post Office to purchase stamps
- 9 • Postage can be printed directly from your printer onto  
10 envelopes or labels as they are being addressed using standard  
11 word-processing programs
- 12 • You don't have to worry about keeping track of single stamps
- 13 • Your addresses are checked and corrected against the US  
14 Postal Service database
- 15

16 Then the respondents were asked their likelihood of subscribing to the PC  
17 postage service, with no mention of a postage discount.

18 Q1 If you could have access to all the features I've just described for a  
19 monthly access fee of just \$5.00, plus the regular cost of first-class  
20 postage you actually use (IF NECESSARY: 33 cents for a regular  
21 first-class letter), how likely would you be to subscribe to this  
22 service? Please use a scale where "5" means you would be  
23 extremely likely to subscribe and "1" means you would be not at all  
24 likely to do so. Of course, you may use any number between 1 and  
25 5.  
26  
27

Unweighted Base	200
Weighted Base	205
5 Extremely likely	7%
4	7
3	12
2	10
1 Not at all likely	65
6 Don't know/Refused	0

28



1           Those who did not say they would be “extremely likely” to subscribe to the  
2 service were asked a similar question which now included reference to a per  
3 piece discount of one cent on First-Class postage.

	Unweighted Base	189
	Weighted Base	192
5	Extremely likely	10%
4		9
3		11
2		1
1	Not at all likely	55
6	Don't know/Refused	0

4           There are a variety of ways to handle intent data. If a great deal of  
5 historical data are available for the product or service in question, it is possible to  
6 tailor an adjustment that is specific for the product or service in question. The  
7 necessary historical data are not available in this case

8           I have chosen to use 80% of the extremely likely respondents as an  
9 estimate of the likely user population. This is an adjustment that is regularly  
10 used in consumer research when no historical data are available. This  
11 adjustment also offers some computational advantages for the approach  
12 followed in this questionnaire when multiple price levels are investigated. There  
13 are other options. For example, we might use 60 percent of the extremely likely  
14 (5) responses, 40% of the (4) responses and 20% of the (3) responses. The two  
15 approaches generally produce recognizably similar results.

1           The adjusted intent estimates can then be converted to volume estimates  
2 by including reported mail volume for appropriate respondents in the equation.  
3 The total estimated pieces affected by a one cent discount is 1.436 billion. The  
4 actual calculation is appended.

#### 5   **1. The Non-Household Study**

6 The computations associated with the Non-Household Study are like those for  
7 the Household Study, with two important additions. The Non-Household Study  
8 consists of two populations; establishments with 25 employees or less and  
9 establishments with 26-50 employees. These two populations were sampled at  
10 different rates and, therefore, the calculations must be made separately for each  
11 population. Moreover, the Non-Household Study is, in reality two studies; one  
12 concerning reactions to possible discounts for use of postage meters and one  
13 concerning possible discounts for use of PC postage. Potential respondents  
14 were systematically assigned to one of these populations when the sample was  
15 drawn. Of the total of four hundred respondents, approximately half would be  
16 found in each of the two studies. The calculations of potential effect need to be  
17 made separately.

18           The structure of the study assumes that only one concept is considered  
19 by a respondent. Therefore, at the point at which they begin to consider one of  
20 the concepts, the subset of the respondents for one concept may represent half  
21 of the original sample, but they represent all of the sample considering that  
22 concept. Calculations concerning potential impact are thus projected to the full  
23 qualifying population for each concept. The concept estimates are not additive,

1 they are independent. Since each concept is alone in the world described in  
2 these studies, no means of establishing overlap between the concepts is  
3 available.

4 Of the population of 9.008 million establishments with 25 employees or  
5 less, 5.415 million (60%) qualified for this study. Of the population of 246,604  
6 establishments with 26-50 employees, 123,006 (50%) qualified.

7 The PC Postage concept statement for the Non-Household Study was:

8 As you may know, there are ways to affix postage to First-Class Mail you  
9 send through the US Postal Service besides using postage stamps. One way  
10 to do it is electronically from your computer via the Internet using standard  
11 word-processing programs and an inkjet or laser printer. With Internet  
12 postage...

- 13 • You can refill postage over the Internet or by phone 24 hours a day, 7  
14 days a week, so you no longer have to make trips to the Post Office to  
15 purchase stamps
- 16 • Postage can be printed directly from your printer onto envelopes or  
17 labels as they are being addressed using standard word-processing  
18 programs
- 19 • An Internet metering system keeps track of the postage you use, so  
20 you have an accurate record of postage expenses for tax purposes
- 21 • Barcoding can be applied to your mail simultaneously, ensuring faster  
22 and more accurate mail processing
- 23 • Your mail projects a more professional "business" image, and each  
24 piece is dated

- 1           • And the postage meter concept statement was:  
2  
3       As you may know, there are ways to affix postage to First-Class Mail you  
4       send through the US Postal Service besides using postage stamps. One way  
5       to do it is to lease a postage meter. With a postage meter...
- 6           • You can refill postage on your meter via modem or phone 24 hours a  
7           day, 7 days a week, so you no longer have to make trips to the Post  
8           Office to purchase stamps
  - 9           • The meter handles small and large envelopes and prints pressure-  
10          sensitive postage tapes for packages
  - 11          • A postage meter keeps track of the postage you use, so you have an  
12          accurate record of postage expenses for tax purposes
  - 13          • Metered mail projects a more professional "business" image and dates  
14          each piece
- 15
- 16           The intent question was in much the same form as for the Household  
17       Study, but adjusted to match the concept that was read.
- 18           Q1    If you could have all the features I've just described for a monthly  
19           (lease cost of less than \$20/access fee of \$5.00), plus the regular  
20           cost of first-class postage (IF NECESSARY: 33 cents for a regular  
21           first-class letter), how likely would you be to (lease a postage  
22           meter/subscribe to the Internet postage service)? Please use a  
23           scale where "5" means you would be extremely likely to (lease a  
24           postage meter/subscribe to the service) and "1" means you would  
25           be not at all likely to do so. Of course, you may use any number  
26           from 1 to 5.

1 The responses to the intent questions were as follows:

PC Postage	Number of Employees	
	<u>25 or less</u>	<u>26-50</u>
Unweighted Base	93	97
Weighted Base	86	99
5 Extremely likely	5%	7%
4	5	3
3	13	13
2	12	6
1 Not at all likely	63	67
6 Don't know/Refused	3	4

Postage Meters	Number of Employees	
	<u>25 or less</u>	<u>26-50</u>
Unweighted Base	107	103
Weighted Base	114	101
5 Extremely likely	0%	2%
4	1	3
3	10	7
2	9	4
1 Not at all likely	80	82
6 Don't know/Refused	1	1

2

3 As in the Household Study, those who did not say they would be  
 4 "extremely likely" to subscribe to the service were asked a similar question which  
 5 included reference to a per piece discount of one cent on First-Class postage.

1

PC Postage		Number of Employees	
		<u>25 or less</u>	<u>26-50</u>
	Unweighted Base	88	92
	Weighted Base	82	92
5	Extremely likely	25%	29%
4		8	13
3		12	12
2		5	10
1	Not at all likely	49	32
6	Don't know/Refused	1	4

Postage Meters		Number of Employees	
		<u>25 or less</u>	<u>26-50</u>
	Unweighted Base	107	100
	Weighted Base	114	99
5	Extremely likely	23%	30%
4		6	11
3		18	9
2		8	8
1	Not at all likely	41	40
6	Don't know/Refused	3	2

2

3           The detailed calculations of the potential First-Class Mail volume to be  
4 affected resulted in the following estimates.

1

Calculation of Pieces of First-Class Mail Affected

	<u>PC Postage</u>	
	<u>25 employees or less</u>	<u>26-50 employees</u>
No discount	216 million	29 million
One cent discount	2.3 billion	71 million
Total	2.5 billion	100 million

	<u>Postage Meter</u>	
	<u>25 employees or less</u>	<u>26-50 employees</u>
No discount	0	7 million
One cent discount	3.4 billion	111 million
Total	3.4 billion	118 million

2           The detailed calculations are available in the Appendix.

3

1

## APPENDIX

2 PC Postage (Households) – No Discount

	Sampled households extremely likely to subscribe to the PC postage service at no discount (7%)	13 respondents
X	.8 intent estimate adjustment	10 respondents 5% of sampled households
	Qualifying households	40.8 million
X	Adjusted percent extremely likely to subscribe to the PC postage service at no discount (5%)	2.0 million
X	Average pieces of mail sent per household per year	168
	<b>Total estimated pieces affected</b>	<b>336 million</b>

3 Those who did not say they were extremely likely to subscribe to the service  
4 were those asked the intent question with the addition of a one cent per piece  
5 discount.



1 The volume estimates for a one-cent discount are shown below.

<b>Sampled households extremely likely to subscribe to the PC postage service at a one-cent discount (10%)</b>	19 respondents
X .8 intent estimate adjustment	15 respondents 8% of sampled households
+ Assumption that sampled households who would subscribe at no discount would do so at one cent	5% of sampled households
Qualifying Households	40.8 million
X Adjusted percent extremely likely to subscribe to the PC Postage at a one-cent discount (13%)	5.3 million
X Weighted average pieces of mail sent per household per year (168 pieces sent by those who would convert at no discount and 324 pieces sent by those who would convert at one-cent discount but not at no discount)	271
Total estimated pieces affected	1.436 billion

2

1

2 PC Postage (25 Employees or Less) – No Discount

<b>Sampled businesses extremely likely to subscribe to the PC postage service at no discount (5%)</b>	4 respondents
X .8 intent estimate adjustment	3 respondents 4% of sampled businesses
Qualifying businesses	5.4 million
X Adjusted percent extremely likely to subscribe to the PC Postage at no discount (4%)	216,000
X Average pieces of mail sent per business per year	1,000
Total estimated pieces affected	216 million

3 PC Postage (26-50 Employees) – No Discount

<b>Sampled businesses extremely likely to subscribe to the PC postage service at no discount (7%)</b>	6 respondents
X .8 intent estimate adjustment	5 respondents 5% of sampled businesses
Qualifying businesses	123,000
X Adjusted percent extremely likely to subscribe to the PC Postage at no discount (5%)	6,150
X Average pieces of mail sent per business per year	4,750
Total estimated pieces affected	29 million

4

1 PC Postage (25 Employees or Less) – One-Cent Discount

<b>Sampled businesses extremely likely to subscribe to the PC postage service at a one-cent discount (25%)</b>	21 respondents
X .8 intent estimate adjustment	16 respondents
	19% of sampled businesses
+ Assumption that sampled businesses who would subscribe at no discount would do so at one cent	4% of sampled businesses
Qualifying businesses	5.4 million
X Adjusted percent extremely likely to subscribe to the PC Postage at a one-cent discount (23%)	1.2 million
X Weighted average pieces of mail sent per household per year (1,000 pieces sent by those who would convert at no discount and 2,250 pieces sent by those who would convert at one-cent discount but not at no discount)	2,103
Total estimated pieces affected	2.5 billion

2

1 PC Postage (26-50 Employees) – One-Cent Discount

	<b>Sampled businesses extremely likely to subscribe to the PC postage service at a one-cent discount (29%)</b>	27 respondents
X	.8 intent estimate adjustment	22 respondents 23% of sampled businesses
+	Assumption that sampled businesses who would subscribe at no discount would do so at one cent	5% of sampled businesses
	Qualifying businesses	123,000
X	Adjusted percent extremely likely to subscribe to the PC Postage at a one-cent discount (28%)	34,440
X	Weighted average pieces of mail sent per business per year (4,750 pieces sent by those who would convert at no discount and 2,500 pieces sent by those who would convert at one-cent discount but not at no discount)	2,904
	Total estimated pieces affected	100 million

2

1	Postage Meter (25 Employees or Less) – No Discount	
	<b>Sampled businesses extremely likely to subscribe to the PC postage service at no discount (0%)</b>	0 respondents
	X .8 intent estimate adjustment	
	Qualifying businesses	
	X Adjusted percent extremely likely to subscribe to the PC Postage at no discount (4%)	
	X Average pieces of mail sent per business per year	
	Total estimated pieces affected	0
2	Postage Meter (26-50 Employees) – No Discount	
	<b>Sampled businesses extremely likely to subscribe to the PC postage service at no discount (2%)</b>	2 respondents
	X .8 intent estimate adjustment	2 respondents 2% of sampled businesses
	Qualifying businesses	123,000
	X Adjusted percent extremely likely to subscribe to the PC Postage at no discount (2%)	2,460
	X Average pieces of mail sent per business per year	2,750
	Total estimated pieces affected	6.8 million

3

1 Postage Meter (25 Employees or Less) – One-Cent Discount

<b>Sampled businesses extremely likely to subscribe to the PC postage service at a one-cent discount (23%)</b>	26 respondents
X .8 intent estimate adjustment	21 respondents
	18% of sampled businesses
+ Assumption that sampled businesses who would subscribe at no discount would do so at one cent	0% of sampled businesses
Qualifying businesses	5.4 million
X Adjusted percent extremely likely to subscribe to the PC Postage at a one-cent discount (18%)	972,000
X Average pieces of mail sent per business per year	3,500
Total estimated pieces affected	3.4 billion

2

1 Postage Meter (26-50 Employees) – One-Cent Discount

	<b>Sampled businesses extremely likely to subscribe to the PC postage service at a one-cent discount (30%)</b>	30 respondents
X	.8 intent estimate adjustment	24 respondents 24% of sampled businesses
+	Assumption that sampled businesses who would subscribe at no discount would do so at one cent	4% of sampled businesses
	Qualifying businesses	123,000
X	Adjusted percent extremely likely to subscribe to the PC Postage at a one-cent discount (28%)	34,440
X	Weighted average pieces of mail sent per business per year (2,750 pieces sent by those who would convert at no discount and 3,750 pieces sent by those who would convert at one-cent discount but not at no discount)	3,430
	Total estimated pieces affected	118 million

2