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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 JUDITH MARTIN
ON BEHALF OF PITNEY BOWES INC.**

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Dated: May 22, 2000

**TESTIMONY OF JUDITH MARTIN
ON BEHALF OF PITNEY BOWES**

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Biographical Sketch and Purpose of Testimony

My name is Judith Martin and I am Vice President, Strategic Marketing at Pitney Bowes Inc. ("Pitney Bowes"). I have served with the company in increasingly responsible positions for the past 12 years and assumed my current position in 1997. My responsibilities include the development, enhancement and marketing of postal-related products and services to customers in the United States and worldwide.

The purpose of my testimony is to describe, from a business person's perspective, why Pitney Bowes believes that the Commission should recommend the institution of a one-cent discount applicable to the first-ounce rate for mailers (overwhelmingly small business and residential mailers) who use metering technology as the means of affixing postage to their single-piece First-Class mailings. My testimony serves as an introduction to the testimony of Dr. John Haldi (PB-T-2) who demonstrates the economic benefits of our proposal and to Dr. James Heisler (PB-T-3) who has performed a market survey to assess mailer reaction to the proposal. Our evidence establishes that there is a need to provide innovative service to small office, home office and residential mailers, that the evolution of metering technology now makes it possible to recognize the worksharing efforts of users of this technology, and that the discount we seek will encourage small mailers to migrate from stamps -- the most costly method of

1 evidencing payment of postage -- to metering, to the benefit of the mailer and the
2 Postal Service.

3

4 **The Evolution Of Metering Technology Makes It Possible To Respond To**
5 **The Needs of Smaller Business and Home Mailers**
6

7 The Postal Service and this Commission have long recognized that single-
8 piece First-Class mail is the Postal Service's most important -- core -- product. It
9 is, however, the product to which the least attention has been given, particularly
10 as the service is used by smaller business and residential mailers. The Postal
11 Service has done a very credible job in developing service innovations
12 responsive to the needs of its large volume First-Class mailers. The introduction
13 of the presort rates, automation discounts and of refinements in its business reply
14 mail products are just some examples of this.

15 There is, however, a sizeable population of small businesses, home office
16 users and residential mailers whose individual mailings are too small to qualify
17 for bulk discounts. In aggregate, this community counts for a very significant
18 proportion of the Postal Service's core, single-piece First-Class mail product,
19 amounting to more than 50 billion pieces per year. Despite its importance to the
20 mailer community and the Postal Service's current and future well-being, the
21 First-Class, single-piece rate structure remains static. It has been unchanged
22 certainly since the passage of the Postal Reorganization Act thirty years ago.

23 While the rate structure has remained static, the technology mailers can
24 use to affix postage to these single-piece mailings has not. Technological

1 developments in the means of affixing postage have made the stamp the most
2 expensive method that a postal administration has for collecting revenues and
3 enabling its customers to evidence payment of postage.¹ The cost of creating,
4 distributing and selling stamps is, as Dr. Haldi's testimony shows, very
5 substantial in absolute terms and as a percentage of revenues collected by the
6 Postal Service.

7 By contrast, the Postal Service's net cost of collecting revenues when
8 postage is evidenced through metering technology has and continues to decline
9 from an already low base. This is the result of technological innovation in the
10 metering technology field, including migration from mechanical to electronic and
11 now digital meters.

12 An important metering innovation occurred in the late 1960s and early
13 1970s. Pitney Bowes developed the technology that is now generally referred to
14 as computerized meter resetting and that Pitney Bowes offers under the trade
15 name Postage By Phone®. Computerized meter resetting (or CMRS) represents
16 a convergence of telecommunications technology with postage evidencing
17 technology initially made possible by the development of the touch-tone
18 telephone. CMRS has become more efficient and easier to use as the result of
19 the development of the computer modem. Simply put, CMRS enables a meter
20 user to reset the meter at any time of the day or night, seven days per week,
21 without leaving his home or office. CMRS makes it unnecessary for customers to

¹ See, Haldi and Schmidt "Transaction Costs of Alternative Postage Payment and Evidencing Systems" and "Controlling Postal Retail Transaction Costs and Improving Customer Access to Postal Products." Copies of these articles are being submitted as Pitney Bowes Library Reference 1 in this case.

1 take their meter to a post office to be reset or to request onsite meter resetting by
2 Postal Service employees. This is not only a great convenience to meter users;
3 it also yields substantial cost savings to the Postal Service. The Postal Service's
4 data shows that about 92% of meters in the field today are reset without Postal
5 Service involvement.

6 Although CMRS enables the Postal Service to avoid huge costs, it is not
7 free to either the meter company or its customers. In order to provide Postage
8 By Phone®, our company maintains a telecommunications/data center (and a
9 separately located back-up center) to which all reset requests are routed. Postal
10 Service regulations require us to perform all of the accounting functions to ensure
11 that the customer has on deposit with the Postal Service sufficient funds to reset
12 the meter and to reconcile our records with those of the lockbox bank that
13 supports the Postal Service's CMRS revenue collection function. Further, Pitney
14 Bowes has made and continues to make substantial investments in automated
15 voice response units and fully computerized technology to speed the reset
16 process. We also provide toll-free numbers and live operator attendants for
17 account balance inquiries and assistance in the resetting process. Remote
18 meter resetting is also accessible through the Internet now at
19 postagebyphone.com.

20 The development of the electronic meter and of Postage By Phone® have
21 had three very important consequences that bear directly upon our proposal in
22 this case. First, recognizing that the smaller mailer has been under-served in
23 terms of the availability of efficient means of obtaining and evidencing postage,

1 Pitney Bowes has developed and is actively marketing meter models -- including
2 ClickStamp® and Personal Post™ -- expressly designed to serve that market.
3 Second, we have developed products that complement and enhance the use of a
4 meter while at the same time benefiting the Postal Service. An example of these
5 products is a computer software program that we call Smart Mailer®. Among
6 other things, Smart Mailer®, which is a CASS-certified program, provides USPS
7 National Address Databases updates six times each year to insure address
8 accuracy, detects and corrects addresses and zip codes, converts addresses to
9 the Postal Service's recommended format and enables mailers to create and
10 apply delivery point barcode to their mailpieces. Third, Pitney Bowes offers a
11 variety of financial packages, including, in appropriate cases, extensions of credit
12 for postage which facilitate use of the mail. These financial offerings enable
13 mailers to reset their meters and thereby continue to make use of the meter
14 despite fluctuations in their own cash flow.

15 The most recent technological innovation of metering technology is the IBI
16 device generally referred to as PC Postage. The IBI device is simply a form of
17 metering technology that relies upon a multi-purpose computer rather than a
18 dedicated computerized unit as the engine for applying postage. Earlier this year
19 Pitney Bowes was authorized by the Postal Service to market ClickStamp®, its
20 internet-based postage evidencing system, and the company is now doing so.
21 ClickStamp® gives small business and residential mailers the capability and
22 convenience of metering their mail. For purposes of this case, what is important
23 is that -- whether offered by Pitney Bowes or others -- PC postage systems share

1 an essential and indistinguishable characteristic in common with CMRS meters:
2 These forms of postage technology do not burden the Postal Service with the
3 cost of manufacturing, distributing and selling postage stamps and they all can
4 be reset or recharged without taking the device to a post office. Our discount
5 would apply to all metering regardless of the technology employed by the mailer.

6
7 **A Metering Technology Discount for Single-Piece First-Class Mail Would**
8 **Enable the Postal Service to Better Serve its Core Customers**
9

10 Pitney Bowes believes that the metering technology discount we seek is
11 justified because it serves the interests of single-piece mailers and of the Postal
12 Service itself.

13 An examination of the testimony of Dr. Haldi and Dr. Heisler shows why
14 this is the case. As Dr. Heisler's market research shows, the discount
15 encourages smaller mailers to convert from stamps to the vastly more efficient
16 and cost effective metering technology. Dr. Haldi's analysis shows that the
17 Postal Service will realize substantial cost savings when stamp users switch to
18 metering technology. Fairness is also due to existing metering technology users
19 who for years have incurred the cost of obtaining and using a metering device
20 that helps reduce the Postal Service's cost, but have never received recognition
21 for the worksharing efforts they provide to the Postal Service. Thus, the
22 proposed discount will enable the Postal Service to offset the loss of single-piece
23 First-Class mail volume that would otherwise result from the rate increase
24 proposed in this case. It will also empower the Postal Service to capture and

1 retain mail that is highly profitable but increasingly susceptible to electronic
2 diversion.

3 In advancing our proposal, we have deliberately been conservative. Dr.
4 Haldi points out that the one-cent discount represents less than half of the
5 measured cost savings the Postal Service realizes from metering technology.
6 Similarly, the market research Dr. Heisler performed very conservatively
7 estimates the extent to which the metering technology discount will stimulate
8 migration from stamps to metering technology. The very conservative approach
9 that our economist and market analyst have taken assures that the introduction
10 of this metering discount will not unreasonably burden the population of single-
11 piece First-Class mailers who, for whatever reason, choose not to, or are unable
12 to, take advantage of the evolution in metering technology that underlies the
13 proposed discount.

14 There is a very real sense in which those single-piece First-Class mailers
15 who continue to use stamps after the introduction of the discount will nonetheless
16 benefit from it. The collateral benefits of increased use of metering technology --
17 reduced pressure on the Postal Service's window operations and an increase in
18 what is widely recognized to be cleanest type of mail in the First-Class
19 mailstream -- will serve to improve the Postal Service's overall efficiency in the
20 acceptance, processing and delivery of all single-piece First-Class.

21 For these reasons, as more fully developed in the testimony of the Pitney
22 Bowes-sponsored witnesses, we urge the Commission to recommend the

- 1 adoption of a discount of one-cent applicable to mailers who use metering
- 2 technology to pay the First-Class/First-Ounce single-piece rate.