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POSTAL RATE COMMISSION  
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**Postcom, et al.-T-2**

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

**POSTAL RATE AND FEE CHANGES, 2000**

**Docket No. R2000-1**

**DIRECT TESTIMONY OF JOSEPH E. SCHICK  
ON BEHALF OF THE ASSOCIATION FOR POSTAL COMMERCE  
AND  
MAIL ADVERTISING SERVICE ASSOCIATION**

Communications regarding this document should be served on

Ian D. Volner  
N. Frank Wiggins  
Venable, Baetjer, Howard & Civiletti, LLP  
1201 New York Avenue, N.W.  
Suite 1000  
Washington, DC 20005-3917

Dated: May 22, 2000

1                                   **TESTIMONY OF JOSEPH E. SCHICK**  
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4    Purpose and Autobiographical Sketch  
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7           My name is Joseph E. Schick. I submit this testimony on behalf of the  
8 Association for Postal Commerce and the Mail Advertising Service Association  
9 ("Postcom, et al."). In separate testimony of its economic consultant, Postcom,  
10 et al. has shown why drop entry discounts should reflect 100% of the measured  
11 cost savings the Postal Service realizes from this worksharing activity. The  
12 purpose of my testimony is to show why, as a practical matter, full recognition of  
13 the cost savings associated with drop entry serves to advance other non-  
14 transportation Postal Service operational objectives. In particular, I show that  
15 strengthening the incentives for drop entry serves to encourage mail to be placed  
16 on pallets.

17          I am Director of Postal Affairs at Quad/Graphics, Inc. headquartered in  
18 Pewaukee, Wisconsin. Quad is one of the largest printing and distribution  
19 companies in the United States for magazines, catalogs, books, parcels and  
20 other direct mail marketing materials. I have more than 15 years of experience in  
21 Postal Affairs and have been employed in my present position since 1990. I am  
22 the current Chairman of MTAC; I have served and continue to serve on  
23 numerous technical advisory committees and informal industry working groups. I  
24 testified before this Commission in Docket R97-1 on matters related to drop  
25 entry.

## **STRONG DROP ENTRY INCENTIVES PROMOTE PALLETIZATION OF MAIL**

The depth of the discounts offered by the Postal Service for the drop entry of mail influences more than the decision whether it is worthwhile for mailers to enter their mail at a destination entry facility. From the standpoint of the mailer and mail service provider, it is the total cost of the job (including postage) that counts. Several of the postal related costs, such as sortation, are reflected in the rate structures of both the Standard (A) and Periodical rate schedules. There is, however, one component of the total cost of a mailing job that is not reflected in the current rate schedules -- the cost of placing presorted mail in containers (sacks, gaylords or pallets) -- for transportation to the Postal Service facility.

At each step of the mail preparation process, mailers and mail service providers have choices and, at each step, the choice taken is very strongly influenced by the trade-off between the cost of preparing and presenting a mailing and the benefit that the mailer will receive in terms of reduced postage. The choice of type of containerization and of transportation does not have to be, and often is not, the same for an entire mailing job. It is not uncommon for a mailer to split the run of a catalog into geographic parts. Some parts are drop entered; others are not. Nor are containerization and transportation decisions made independently of one another.

The basic calculus of cost against the benefit of discounted rates applies, and is applied, regardless of the size of the mailing. In each case, the decision is driven by the amount of the postal cost savings that will be realized by drop

1 entering a portion of the mailing at a particular destination entry point. For  
2 example, at a particular drop entry discount level, a mailer may decide to drop  
3 enter all of its mail at a single BMC or SCF close to the point of printing even  
4 though only a portion of the mailing will qualify for the drop entry discount. In yet  
5 other cases, the mailer may decide that it is necessary to split the mailing entirely  
6 and to use plant-load Postal Service trucks for some portion of the mailing job,  
7 using private sector transportation only for that location or those locations at  
8 which drop entry makes economic sense in terms of the total cost of the job. At a  
9 deeper level of discount, the mailer may decide that it is cost effective to enter  
10 mail at 2, 3 or more separate destination entry points.

11 This disaggregation of mailing job by point of entry carries with it a distinct  
12 difference in the kinds of containers that are used for transport. The reason for  
13 this lies in the cost difference associated with the type of containerization. For  
14 drop entered mail, it is almost imperative to use pallets to the maximum extent  
15 possible. Pallets permit most efficient use of the cubic capacity of the truck  
16 thereby keeping the transportation cost -- paid for by the mailer -- at the lowest  
17 feasible level. Also, pallets can be loaded onto (and off) trucks very quickly,  
18 reducing stop time and demurrage charges. However, for mail that is not drop  
19 entered and for mixed loads where only a portion of the load will qualify for the  
20 discount, the decision as to the choice of container is very different: Since the  
21 mailer has already paid for Postal Service-provided transportation through the  
22 undiscounted rate, the mailer's only incentive is to find the least costly means of  
23 getting the mail onto the Postal Service trucks (in a plant load operation) or to the

1 closest postal facility. The fact is that the palletization of mail requires costly and  
2 sophisticated equipment (forklifts, palletizers and the like) and is in many  
3 circumstances, therefore, more costly than the use of either sacks (or for certain  
4 types of mail) gaylords.

5 It is also important to consider the depth of dropship entry. Two elements  
6 of the mail preparation process affect the depth of entry -- presort and  
7 containerization. These are separate elements, but are tied together because of  
8 postal requirements and mail volume.

9 As indicated, in a normal mailing operation, each mailing job is presorted,  
10 containerized and set up for distribution based on its own merits. If, for instance,  
11 a mailing has no carrier route presort, it will not be eligible for any DDU  
12 (Destination Delivery Unit) discounts. That would be due to the fact that only  
13 carrier route mail can claim that level of dropship discount. If, in that same  
14 mailing, there were no 5-digit, 3-digit or SCF level pallets, the mail would not be  
15 entered at a SCF. It could only be entered at either a BMC (Standard (A) mail) or  
16 ADC (Periodicals), if palletized. If, in that same mailing, all or most of the mail  
17 was in sacks, we would not dropship regardless of sack level because of material  
18 handling and added transportation costs associated with sacks.

19 However, if we were presented with greater incentives for carrier route  
20 and/or 5-digit presort and 5-digit palletization, there would definitely be a change  
21 in behavior related to mail preparation in the printing and consolidation industry.  
22 Expansion of the presort discounts and harmonization of those discounts across  
23 classes would prompt co-mailing, co-palletization and, as a result, deeper drop

1 entry. Although we are hopeful that the Postal Service will restructure its presort  
2 incentives in the future, no significant changes in the presort structure for  
3 Standard (A) mail have been proposed in this case.

4         Moreover, the landscape of dropshipping has changed since the drop  
5 entry discount structure was initiated for Standard (A) mail in 1991. At that time,  
6 dropshipping at a SCF meant going to one designated building in the city where  
7 the SCF was located. Any mail that we had on a trailer that qualified for entry at  
8 that facility was off-loaded there. Since that time, because of the volume of mail  
9 that has moved in the SCFs for dropship entry into the Postal Service, numerous  
10 postal annexes have appeared. In some cities, a SCF may be represented by 5  
11 or more different buildings located miles apart. In many instances, we are being  
12 required to off-load different classes of mail at different facilities for the same  
13 SCF dropship discount. Because we are combining those classes of mail on the  
14 same trailers to maximize our transportation efficiencies and to help control our  
15 costs, we actually end up losing those efficiencies at destination.

16         This relationship between presort and containerization and the changed  
17 landscape of drop entry makes it especially important to maximize the incentives  
18 for drop entry deep into the postal system. To do this, it is imperative that the  
19 drop entry differentials be preserved and that the full cost savings associated  
20 with drop entry be reflected in the discount.

21         Experience with the drop entry discounts in Standard (A) shows that the  
22 deeper the discount the more volume that is drop entered. It is also the case that  
23 the more mail that is drop entered, the more mail that will be placed on pallets.

1 As there are many of us in the mailing industry that believe that container-based  
2 discounts deserve renewed consideration, at the very least, it should be  
3 recognized that drop entry discounts promote palletization and that a strong  
4 incentive to drop entry also promotes palletization.

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## 6 **Palletization Benefits the Postal Service**

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8 The Postal Service has openly acknowledged that it realizes cost and non-  
9 cost benefits when mail is presented to it on pallets. Although, under the plant  
10 verified drop ship system, the mailer actually bears the cost of offloading the  
11 truck at the destination entry point, the Postal Service benefits even at this step  
12 of the mail handling process: the quicker the truck gets in and out, the sooner the  
13 unloading bay will be available for another entry, simplifying the Postal Service's  
14 administration of the drop entry process. Also, it has long been recognized that  
15 cross-docking operations -- which are performed by Postal Service personnel --  
16 are much less time-consuming and more accurate when the mail has been  
17 presented on pallets. Further, when the mail is to be further worked or sorted at  
18 the destination entry point, mail on pallets can be more conveniently staged,  
19 whether the sortation is manual or automated, pallet of mail can be more readily  
20 moved to the location in the plant at which it is to be sorted than other any form  
21 of containerization. Further, working with industry, the Postal Service has  
22 developed pallets that are stackable and can be conveniently transported from  
23 the postal facility at which they have been off loaded to the mail service

1 provider's plants. Last, but by no means least, the use of pallets significantly  
2 reduces the risk of, and incidents of, injury to Postal Service employees.

3 All of these considerations, of course, translate into more efficient mail  
4 handing and processing at less cost to the Postal Service. Not all of these  
5 benefits to the Postal Service are incorporated into the drop entry discount.  
6 Some of them may be unquantifiable. Nonetheless, it plainly makes sense to  
7 reflect 100% of the cost savings associated with drop entry that the Postal  
8 Service is able to measure in order to promote realization of these other  
9 operational objectives.