

BEFORE THE  
POSTAL RATE COMMISSION

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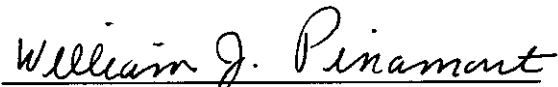
POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

ANSWER OF UNITED PARCEL SERVICE WITNESS  
DAVID SAPPINGTON TO INTERROGATORIES  
OF DOUGLAS F. CARLSON  
(DFC/UPS-T6-1)  
(June 12, 2000)

Pursuant to the Commission's Rules of Practice, United Parcel Service ("UPS") hereby serves and files the response of UPS witness David Sappington to interrogatory DFC/UPS-T6-1 of Douglas F. Carlson.

Respectfully submitted,



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Of Counsel.

**ANSWER OF UNITED PARCEL SERVICE WITNESS SAPPINGTON  
TO INTERROGATORY OF DOUGLAS F. CARLSON**

**DFC/UPS-T6-1.** Please refer to your testimony at pages 25–31. For this interrogatory, the reliability of Priority Mail is defined as the frequency with which Priority Mail is delivered within the number of days specified in the service standard that applies to the origin-destination ZIP Code pair for each piece of mail. (For example, Priority Mail would be more reliable if it met its one-, two-, and three-day delivery standards 90 percent of the time than if it met its one-, two-, and three-day delivery standards 80 percent of the time.)

- a. Please confirm that the reliability of Priority Mail service should be a factor in determining the value of Priority Mail service. If you do not confirm, please explain.
- b. Please confirm that the reliability of Priority Mail service should be directly proportional to the value of Priority Mail service (i.e., the more reliable Priority Mail service is, the higher the value of the service should be). If you do not confirm, please explain.
- c. Suppose a customer is mailing an item from San Francisco to New York. The service standard for First-Class Mail is three days, and the service standard for Priority Mail is two days. This customer chooses Priority Mail because the customer wants the item delivered in two days. The item is, in fact, delivered in three days. Please confirm that this customer's dashed or unfulfilled expectations will tend to lower the value of service that this customer received from Priority Mail.

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- d. By the definition of reliability contained in this interrogatory, please confirm that First-Class Mail is more reliable than Priority Mail. If you do not confirm, please explain.
- e. Please confirm that both speed and reliability are appropriate factors in determining the value of a delivery service.

**Response to DFC/UPS-T6-1.**

(a) Confirmed. However, the frequency with which a delivery product meets its stated service standards is only one determinant of value of service, and is generally not the most important determinant. The actual speed of delivery is a more important determinant of value of service. To illustrate this fact, consider the following examples:

(1) Suppose that Service A has a two-day delivery standard while Service B has a four-day delivery standard. Further suppose that Service A meets its two-day standard 90% of the time but is always delivered within three days, while Service B meets its four-day delivery standard 100% of the time but is never delivered in two days and is delivered in three days 50% of the time. Under these circumstances, Service A provides a higher value of service even though it meets its delivery standard less frequently than Service B.

(2) Suppose that Service A has a two-day delivery standard while Service B has a three-day standard. Further suppose that Service A meets its two-day standard 85% of the time while Service B meets its three-day standard 100% of the

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time and is delivered in two days 50% of the time. Again, Service A provides a higher value of service than does Service B.

In the setting of these examples and more generally, customer value is determined more by actual performance than by comparison to service standards that differ for each product.

(b) Not confirmed. The examples presented in response to part (a) provide one reason why meeting a service standard more frequently is not necessarily associated with higher service quality or greater service value. The discussion on pages 26 through 30 of my testimony provides additional reasons why meeting a service standard more frequently is not necessarily associated with higher quality or greater service value.

(c) I assume that you are asking whether, in your example, the customer's unfulfilled expectations will tend to lower the value of service that customer received from Priority Mail below the value of service that customer would have received using First Class Mail. Not confirmed. In your example, Priority Mail met the less exacting service standard of First Class Mail, and so may well have provided a value of service at least as high as the value that First Class Mail would have provided.

More generally, if a customer incorrectly interprets a service standard as a guarantee that delivery will always occur within the specified time period, then the customer may be disappointed when delivery does not occur within the specified time period. Consequently, customers should be informed about the meaning of a service

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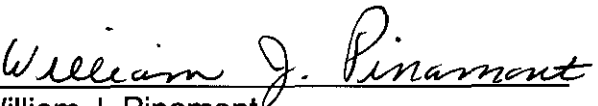
standard, and, more importantly, about the performance actually achieved by all delivery services (e.g., the percentage of time items arrive within one day, two days, etc., regardless of service standard). Because delivery times vary for individual items for a variety of reasons, it is important to measure performance for the service as a whole, rather than on the basis of isolated incidents like the one in your example.

(d) Postal Service data indicate that First Class Mail as a whole has met its service standards more frequently than Priority Mail has met its service standards in recent years. However, in addition to failing to correct for differences in service standards, this comparison fails to correct for differences in mail characteristics. Priority Mail is generally heavier and more bulky than First Class Mail. These differences can render the task of achieving even an identical service standard more difficult for Priority Mail than for First Class Mail. As indicated in footnote 34 of my testimony, when attention is restricted to flats, which constitute a large portion of Priority Mail volume, Priority Mail met its more stringent service standards in FY1999 more frequently than did First Class Mail. Moreover, a greater percentage of Priority Mail's volume consists of packages, which are more difficult to handle.

(e) Confirmed, in that all potential indicators of service quality merit consideration when assessing the value of a service. However, as explained in the answers to parts (a) and (b) above, the actual speed of a delivery service is generally a more important determinant of value of service than is the frequency with which the service achieves stated standards.

**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.

  
William J. Pinamont

Dated: June 12, 2000  
Philadelphia, PA

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