

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

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**POSTAL RATE AND FEE CHANGES, 2000**

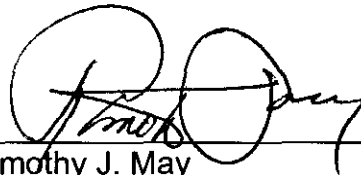
**Docket No. R2000-1**

**RESPONSE OF E-STAMP CORPORATION  
WITNESS MICHAEL JONES TO INTERROGATORIES OF  
UNITED STATES POSTAL SERVICE  
(USPS/E-STAMP-T-1-1-9)**

E-Stamp Corporation hereby provides the responses of witness Michael Jones to the following interrogatories of United States Postal Service: USPS/E-Stamp-T-1-1-9, filed on June 8, 2000, and served on June 14, 2000.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



\_\_\_\_\_  
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Counsel for E-Stamp Corporation

Dated: June 27, 2000

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/E-STAMP-T1-1** Please describe the current end users (e.g., small businesses, home offices, households, etc.) of E-Stamp's PC postage products and services. Include discussions of: business demographics, household demographics, average mail volumes, and type of mail to which PC postage is applied. Provide copies of all supporting documentation.

**RESPONSE:**

Objection filed.

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/E-STAMP-T1-2** On page 8 lines 3-5 of your testimony you state "the USPS also sees PC postage as having the potential to retain current customers and regain current customers in the face of electronic alternatives to mail and competing carriers."

- a. Please cite the appropriate USPS reference(s) indicated.
- b. Have you conducted any market research studies that sought to determine whether PC postage would help to retain or regain these customers? If so, please provide copies of all supporting data.

**RESPONSE:**

- a. I cite the following quotes from: Postal Bulletin, 22004 (8-12-99) Customer Relations. PC Postage Information Package.

"Announcing PC Postage products is also a very good opportunity to promote the use of our other products and services, as well as meet the needs of our customers. PC Postage products provide time savings, increased efficiency, reduced costs, and enhanced security for both customers and the Postal Service.

PC Postage is targeted toward the fast-growing small offices and home offices (SOHO) business market and we want them to use our services. The SOHO market is computer-savvy and demands convenience. If we can make it easier for them to get postage, using the convenience of their personal computers, they will be more likely to use the Postal Service than one of our competitors for their delivery needs."

"The easier PC Postage is to use, the more customers are likely to use it. The more they use it, the more revenue we gain. It's a good business proposition for all parties involved." (p. 9)

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

“The Postal Service receives the money from the postage and from the new business, as customers in small and home-based businesses find the service more convenient than shipping with the competition.” (p. 11)

This is not the only time these statements have been made by the USPS, although it is not always stated in writing; but these passages from the Postal Bulletin seem to sum up the USPS position best.

- b. E-Stamp has not conducted specific market research studies to determine if PC Postage has the potential to increase the USPS retention rates and/or lost customer regain rate. Rather, E-Stamp uses existing Industry Analyst reports to better understand USPS benefits resulting from the PC Postage (IBI) Program. For example, Raymond Boggs, a postage industry analyst with IDC, states on page 10 of his testimony (E-Stamp Corporation/Stamps.com-T-1):  
“Support for PC-based mail applications ... will contribute to significant growth in small business use of the mail for promotional purposes.”

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/E-STAMP-T1-3** On page 9 lines 13-15 you state "[w]e have found that the requirement to perform address cleansing while paying full postage is a major barrier to customer acceptance of PC postage." Please provide copies of all qualitative and quantitative data that you feel support this claim.

**RESPONSE:**

It is our position that every additional, mandatory step that is added to the process of printing postage via a PC Postage product reduces the level of customer satisfaction and thereby becomes a barrier to broader customer acceptance. The USPS also has noted that the products must be easy to use. I quote from:

Postal Bulletin, 22004 (8-12-99)

Customer Relations. PC Postage Information Package.

"The easier PC Postage is to use, the more customers are likely to use it. The more they use it, the more revenue we gain." (p. 9)

In terms of data, since August, 1999 we have received over 12,500 complaints / problems from customers citing the cause as the Address Matching System CD and the requirement to perform address cleansing. This data has been sorted from our Customer Service / Tech Support database and contains confidential customer information. Many of these issues (in aggregate) are shared with USPS representatives from the National Customer Support Center in Memphis, TN on a regular basis.

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/E-STAMP-T1-4** On page 7 lines 14-15 of your testimony you state "the user has the ability to print postage from the PC using a regular deskjet or inkjet printer." If a printer is not working properly, or a printer cartridge needs to be replaced, is a PC postage user still able to apply postage on a mailpiece or does the software prohibit them from doing so?

**RESPONSE:**

If the printer is still allowing the user to print, then the software is not able to prevent it. Printers monitor their own status. As part of this monitoring process, many will send some sort of warning signal or message to the user to notify them of any status issues and will prevent a user from printing if the condition is or becomes severe enough. Users are educated through the software and user guides as to what constitutes an acceptable print. Users are also always given the opportunity to perform a test print which enables them to check on the actual print quality status without using any postage. In addition, customers are able to apply for a refund for any mailpiece that is not printed to acceptable standards. Also, it is in the customers' own interest to make sure his printer is functioning so that illegible addresses do not delay or misdirect their mail.

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/E-STAMP-T1-5** On page 8 lines 16-17 of your testimony you state "[i]nspections are not necessary because the software has insured compliance..." In addition, on page 15 lines 4-8 you state "[u]nlike a postage meter where the user can select the postage amount and must be relied upon not to attempt to defraud the Service, a PC Postage customer will have the postage amount determined automatically by the product and the customer will not be able to override the calculated value."

- a. Do PC postage users apply postage to an envelope before or after the contents have been placed in an envelope and the envelope has been sealed?
- b. How do PC postage products ensure that First-Class mail pieces weighing over one ounce are assessed the additional ounce rate?
- c. Are PC postage users required to have a scale integrated into their system?
- d. How do PC postage products ensure that First-Class nonstandard mail pieces are assessed the nonstandard surcharge?

**RESPONSE:**

- a. Before.
- b. The weight is automatically entered when the integrated scale is used, or the customer is responsible for entering the weight when a stand alone scale is used. The rate is automatically calculated based on the weight. Mistakes or cheating is possible; but there is no reason there would be a greater incidence than is currently the case with single piece F.C.M.
- c. An integrated scale is not a requirement of PC Postage products.
- d. Users are asked to select if they are sending a letter, flat or package. If a flat or package is selected, the one ounce rate includes the nonstandard surcharge.

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/E-STAMP-T1-6** On page 10 lines 20-21 of your testimony you state "the barrier created by a lack of a discount for PC postage will still stand in the way of PC Postage gaining full acceptance." In addition, on page 11 lines 8-11 you state "It is naïve to believe that PC postage customers will willingly incur these burdens with no trade off in the form of a discount. Unless a discount is offered, PC Postage will not be able to attract enough customers to convert in order to establish this form of postage evidencing as a mainstream postage solution."

- a. Have you conducted any market research studies that sought to determine how a PC postage discount would affect PC postage mail volumes? If so, please provide all supporting data and state the conclusion that you reached. If not, upon what do you base your claim?
- b. Given these statements, was the concept of a PC Postage discount an integral element in E-Stamp's original business plan? If not, why not?

**RESPONSE:**

- a. E-Stamp has not conducted a formal market research study to determine the specific impact of a PC postage rate discount on mail volumes. E-Stamp has, however, received much unsolicited, anecdotal feedback from customers and prospective customers. Once the customer understands the product limitations, and then the subsequent rationale for the limitations (USPS fraud protection, cost savings, and sorting efficiency), they often ask why the USPS is not passing along the savings to encourage greater use thereby reducing both consumer and the USPS expense.
- b. Yes, the concept of the USPS encouraging the growth of PC Postage by some form of a postage discount was anticipated as part of the company's early business model. Given the significant benefits to the USPS, a 5% to 10% reduction in postage costs was considered sufficient to convert to a new business model. The preferred model would be a net cost of zero to

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

the PC Postage user - using the reduction in postage to fully offset the cost of the PC Postage vendor service. (To be clear, other changes to the business model would accompany a change of this sort.)

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/E-STAMP-T1-7** Please confirm that your proposal would result in a First-Class revenue loss. If not confirmed, please explain.

- a. Please quantify the magnitude of that loss.
- b. How do you suggest that this revenue loss be recovered so that the Postal Service can meet its revenue target?

**RESPONSE:**

Confirmed; however, whatever revenue loss would occur would be more than offset by cost avoided by the Postal Service so that the Postal Service would have a more rather than less favorable ratio of revenue to cost.

- a. The revenue lost to the Postal Service is a function of multiplying the discount times the volume of PC Postage. I have not estimated that volume.
- b. The Postal Service does not need to recover the revenue loss, because the costs avoided by PC Postage are greater than the revenue loss. The Postal Service filing assumed, according to Postal Service testimony, that there would be \$0 cost savings from PC Postage in the test year. Since the Postal Service's "revenue target" assumes a certain level of attributable costs that would be covered by that target, a failure to calculate the cost avoidance from PC Postage has resulted in an overstatement of Postal Service attributable costs, leading to a correspondingly excess revenue target.

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/E-STAMP-T1-8** In this proceeding, witness Clifton (ABA&NAPM-T-1) proposes a First-Class single-piece "P" rate (at a two-cent discount from the first-ounce single-piece rate) for mail pieces that could be deposited in collection boxes maintained by presort bureaus/MLOCR-qualified mailers. If your proposal and the "P" rate proposal were both implemented, would the PC postage products prohibit users from also claiming the "P" rate? If not, please explain why a mail piece should be extended both discounts.

**RESPONSE:**

ABA and NAPM witness Clifton's proposal is not our proposal. If the Postal Rate Commission recommends both the Clifton proposal and the E-Stamp proposal, the Postal Rate Commission would have had to find that, in addition to the more than 4 cents cost savings on PC Postage, there was an additional 2 cents cost savings for "P" rate mail. Consequently, if the Postal Rate Commission made such a finding and such a recommendation, then PC Postage products would not prohibit users from claiming the "P" rate as well. The reason why the mail piece should be extended both discounts, under the hypothesis you have advanced, is because the Postal Rate Commission would have found as a matter of fact that there was both a 2 cents savings on "P" rate mail, and an additional 4 cents savings on PC Postage, a savings additional to the cost savings claimed by "P" rate mail.

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

**USPS/E-STAMP-T1-9**

- a. Please confirm that PC postage users are required to pay a fee to use your products to apply postage at the current First-Class single-piece rates? If not confirmed, please explain.
- b. Please confirm that a "convenience fee" of 5%-10% is applied to each postage purchase. If not confirmed, please explain.
- c. If your response to either (a) or (b) are confirmations, does that not suggest to you that PC postage users may be at least as concerned with, or more concerned with, the convenience your system affords rather than the specific postage rates that are charged? If your response is negative to any degree, please explain.

**RESPONSE:**

- a. Confirmed.
- b. Not confirmed. Each PC Postage vendor has instituted their own fee structure and not all are based on purchase amounts. In the case of E-Stamp, fee calculation at the present time is based on 10% of the postage purchase amount, with a minimum fee of \$4.99 and a maximum fee of \$24.99 based on a maximum allowable postage balance of \$500.
- c) Consumers are concerned with convenience as well as price. Obviously, consumers would prefer everything to be easier and cheaper than it already is. At the same time, PC Postage vendors need to be compensated for the services they offer. The proper combination of both convenience and price creates the value proposition that will entice customers to embrace PC Postage. While the convenience of being able to purchase and print postage anytime of the day without having to go to the post office is attractive to customers, other USPS regulations that are

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

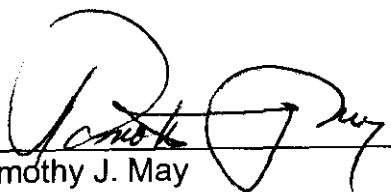
a part of PC Postage Open Systems and are designed to reduce Postal Service costs are not attractive to customers as long as they are required to pay the full rate. In comparison, more regulatory inconveniences have been placed on users of PC Postage Open Systems than are placed on users of other methods of postage that pay full rate, such as meter and stamp users. Also by comparison, there are postal customers using other methods to print postage that adhere to some of the regulations in place for PC Postage Open Systems and subsequently qualify for a discount. It is this discount that entices those customers to meet those regulatory standards. Without the discount in place, it is doubtful that those same customers would go to all of the effort required to perform these work share and cost avoidance duties since it would not provide a direct benefit to them.

The proper balance of convenience and price needs to be derived to create the value proposition that is acceptable to the consumer.

Considering the regulatory demands placed upon PC Postage Open System users in order to reduced costs for the Postal Service, a discount on postage is required to create that balance.

## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the Postal Service by hand and by First-Class Mail upon all participants in this proceeding requesting such service.

  
Timothy J. May

Dated: June 27, 2000