BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2000	)	**Docket No. R2000-1**

RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA, INC. WITNESS GLICK TO FIRST SET OF INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE (USPS/MPA-T-2-1-7)

(JUNE 27, 2000)

Magazine Publishers of America, Inc. hereby provides the response of witness Glick to the following interrogatories of the United States Postal Service: USPS/MPA-T-2-1-7, filed on June 13, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

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UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
MAGAZINE PUBLISHERS OF AMERICA WITNESS GLICK
(USPS/MPA-T2-1-7)

USPS/MPA-T2-1 Please refer to MPA T-2 at p. 23 lines 19-21. Please provide the data and analyses, if any, that support your belief that efforts will "reduce the proportion of bundles that break by about fifty percent" by the Test Year.

Response:

In my testimony I discuss four recommendations made by the Periodicals Operations Review Team to reduce the frequency and the cost of bundle breakage. The first three of these recommendations—improve bundle preparation, increase palletization, and improve USPS processing—would directly reduce the bundle breakage rate. The fourth recommendation—improve bundle recovery—would both reduce the cost of whatever bundle breakage occurs and also reduce the breakage of non-broken but "suspect" bundles in subsequent operations. (Before further discussing methods for reducing bundle breakage, it is worth noting that improved bundle recovery alone could significantly reduce Postal Service mail processing costs.)

As I detail below, I believe that each of the first three MTAC recommendations could individually cut bundle breakage in half over the next few years. Partial implementation of these MTAC recommendations in the Test Year will reduce average bundle breakage rates by about fifty percent. In later years, full implementation of all three MTAC recommendations for reducing bundle breakage could reduce average breakage rates by far more than fifty percent.

Improve Bundle Preparation. Before developing my estimate of the Test Year reduction in bundle breakage, I conducted an analysis of the data collected in the MTAC Study. (These data are contained in USPS-LR-I-297.) My analysis indicated that there are at least four changes in mail preparation that can have a significant impact on bundle breakage in sacks: shrinkwrapping glossy flats, using canvas sacks instead of plastic sacks, filling sacks with more bundles, and eliminating the use of single bands. Table 1 below shows an estimate of the impact of each of these changes on the average bundle breakage rate for sacks using the MTAC

data. I am currently working with the Postal Service and industry representatives to perform a controlled test to confirm these findings.

Table 1. Impact of Improved Mail Preparation

Change	Bundles Affected (Percent)	Bundle Breakage Reduction for Affected Bundles (Percentage Point)	Average Bundle Breakage Reduction (Percentage Point)
	(1)	(2)	(3)=(1) x (2)
Shrinkwrap glossy flats that aren't shrinkwrapped	32	- 11	- 3.4
Replace plastic sacks with canvas	39	- 1	- 0.4
Increase sacks to at least 6 bundles	34	- 8	- 2.8
Double binding all bundles with single band	5	- 9	- 0.5

Source: Derived from data provided in USPS-LR-I-297

My analysis indicates that, in aggregate, these four changes could reduce average breakage rates for bundles in sacks by 7.2 percentage points. According to the MTAC study, the bundle breakage rate in sacks is approximately 18 percent, so this would be a reduction of about forty percent.

In addition to these four changes, the MTAC Work Group noticed a significant variation in the breakage rates within each bundle preparation method. Based upon this variation, the MTAC Work Group noted that a cause of bundle breakage was poor application of a given bundle strapping method.

Given that most mail preparers (even major printers) were unaware of the bundle breakage problem at USPS facilities until recently and that the Postal Service is undertaking a significant mailer education program (including making presentations at conferences, distributing an educational video on the topic, and publishing an article in *Memo to Mailers*) and considering implementing an improved feedback program (a move strongly supported by both the MTAC Work Group and the mailing industry in general), I expect bundle preparation to improve.

Increased Palletization. The MTAC data show that the bundle breakage rate for sacks is about 18 percent whereas the bundle breakage rate for

pallets is below 1 percent. Thus, moving bundles from sacks to pallets eliminates most of the breakage for those bundles. According to USPS-LR-I-90, sacked mail represents about 36 percent of Periodicals Regular flats. If 60 percent of sacked mail were switched to pallets, the average bundle breakage rates would be cut in half.

Peter Moore has recently made software available to analyze how changing presort parameters affects the containerization of flats bundles. The software allows mailers to optimize their mailings in a way that has never before been available. Preliminary runs by Brown Printing indicate that optimizing presort can reduce sack usage by 30 percent with little effect on postage. Based upon this analysis, Brown Printing is working with mail owners to help them optimize their presort. Furthermore, Russ Shores (Brown Printing) told me that Brown is not alone in making these efforts; in fact, most printers are making similar efforts. I believe that these efforts will continue at a rapid pace because printers generally prefer to palletize mailings whenever possible.

Furthermore, to determine whether Brown Printing's analysis was representative, I asked Peter Moore if reducing sack usage by 30 percent by optimizing presort was typical. He indicated that while every mailing is different, he has found significant reductions in sack usage for mailings of almost any size. For mailers who are not currently palletizing, reductions in sack usage are significantly higher.

Finally, as discussed by witness Schick (PostCom, et al.-T-2), increases in drop ship incentives, such as the ones I have proposed in the present case (PostCom, et al.-T-1), will further increase palletization.

Improved USPS Processing. At an MTAC Package Integrity Work Group meeting in January, a senior United States Postal Service field representative on the work group estimated that improvements in internal Postal Service operations alone could reduce bundle breakage by approximately fifty percent.

As examples of ways that the Postal Service can reduce bundle breakage, witness O'Brien's testimony describes both a change in the SPBS pallet dumping procedure and a set of physical modifications to SPBS machines. Both of these changes have now been implemented as a result of the attention the MTAC Work Group has brought to the problem. TW-T-2 at 13. Furthermore, according to USPS witness O'Tormey (USPS-ST-42), there is an effort in USPS Engineering, Research, and Development to identify modifications to dumping equipment to reduce breakage and also an increased focus on minimizing bundle breakage at

sack opening/dumping operations. Response to MPA/USPS-ST42-7a (O'Tormey).

USPS/MPA-T2-2. Please confirm that your estimated cost reductions of $21 million for Periodicals and $58 million for Standard (A) flats assume that bundle breakage will be reduced by fifty percent by the *beginning* of the Test Year. If you do not confirm, please explain why not.

Response:

Not confirmed. My estimates assume that, *on average*, bundle breakage will be fifty percent lower in the Test Year than in the Base Year.

USPS/MPA-T2-3. Please refer to MPA-T-2 at p. 15 lines 27-29. Here you state that "efforts should reduce Test Year costs for processing Standard (A) Regular flats by $58 million". Please refer to your testimony at p. 24, Table 3 ("Test Year Cost Savings by Subclass"). Your table shows savings of $47.0 million for Standard (A) Regular. Please explain the discrepancy between these two cost savings figures for Standard (A) Regular.

Response:

Table 3 states correctly that the Test Year cost savings for Standard (A) Regular are $47.0 million. The $58 million savings cited on page 15 combines the estimated cost savings for Standard (A) Regular and Standard (A) Nonprofit. In this context, my reference to "Standard (A) Regular" was meant to imply that cost savings for Standard (A) ECR were not included in the analysis. This is because neither MPA-LR-I-2 nor USPS-LR-I-90 models Standard (A) ECR costs. Note that I excluded the Periodicals In-County subclass and the Standard (A) Nonprofit ECR subclass for the same reason. Including these subclasses in my analysis would further increase cost savings.

USPS/MPA-T2-4. Please refer to MPA-T2 at pp. 19-22, which describes four efforts to potentially reduce bundle breakage. Please explain, in quantitative or qualitative terms, what weight you believe each effort will contribute towards achieving your assumed overall fifty percent reduction in bundle breakage.

Response:

Given that some types of bundles (e.g., glossy flats) in sacks break at times even when shrinkwrapped ***and*** strapped, the largest potential for improvement is in improved USPS sack-handling operations.

I am, nonetheless, confident that the mailing industry will contribute nearly as much as the Postal Service to solving the problem now that it is aware of the issue. For example, I was recently at a large printing plant and asked a supervisor in the bindery if she knew the extent of the bundle breakage problem in USPS processing. She replied that she had never received any feedback on the issue from the Postal Service and therefore assumed there was no problem. Once I informed her of the issue, she was interested in helping solve it. Based upon the Postal Service's mailer education program, this printer (and many others) is working with the MTAC Work Group to perform a controlled test of the MTAC Study findings.

My interactions with mail preparers in general indicate that witness Cohen's statement about the importance of reducing bundle breakage to publishers is equally applicable for mail preparers. In her testimony, witness Cohen states:

> Publishers have a very strong interest in retaining bundle integrity, not only to keep costs down, but also because bundle breakage tends to damage the magazines in the bundle. Damaged subscriber copies are something the magazine industry tries to avoid assiduously. MPA-T-1 at 15.

USPS/MPA-T2-5. Please refer to MPA-T-2 at p. 20, line 15. The first effort towards reducing bundle breakage that you discuss is to "improve bundle preparation methods" of mailers. Please describe what specific steps, including changes in mailer operations, are required for mailers to improve bundle preparation methods. Please discuss the likelihood that mailers will significantly improve bundle preparation methods by the Test Year.

Response:

Below, I describe below several examples of steps that mail preparers are already taking that will reduce bundle breakage.

For reasons other than improved package integrity, mail preparers are already shifting away from packaging bundles with two straps and towards shrinkwrapping bundles. This shift is being driven by three factors: (1) strapping machines reduce bindery productivity; (2) strapping can damage mailpieces; (3) the quality of shrinkwrap and performance of shrinkwrap tunnels have improved.

Through increased comailing and copalletization as well as presort optimization (see my response to MPA/USPS-T2-1), mail preparers are continuing to increase the amount of mail on pallets. Joe Schick recently told me that his company, Quad Graphics, has increased the proportion of mail on pallets from about 95-97 percent a couple of years ago to more than 99 percent today. These efforts will increase further if the Commission recommends increased dropship discounts and a 5-digit pallet discount.

Finally, I believe that mail preparers will take a variety of actions to improve bundle preparation on a case-by-case basis as a result of increased feedback from the Postal Service. Based upon the recommendation of Russ Shores, the Package Integrity Work Group's Industry Co-Chair, MTAC recently organized a work group to address the process for Mail Irregularity Feedback. (The work group, however, is still awaiting USPS approval.) While the purpose of the Work Group is to develop "Procedural changes (that) could provide timely feedback to the mail owner/preparer to resolve (numerous) problems that impact mail processing, automation and delivery," a primary objective of the work group will be to provide feedback related to package integrity.

As an example of the importance of feedback to improved mail preparation, a USPS representative on the MTAC Package Integrity Work Group has informed me that the Postal Service has recently been working closely with a large Standard (A) mail owner. Based on these

interactions, the representative believes that the mailer will both improve its bundle preparation methods and the amount of mail presented on pallets.

USPS/MPA-T2-6. Pease confirm that within MPA-LR-1-2, you assume that in the Base Year 25 percent of pieces from broken bundles processed on the SPBS are keyed manually. Please provide the data and analyses that support this assumption. If you do not confirm, please explain why not.

Response:

Confirmed. While I was unable to collect FY 1998 USPS operational data, witness Stralberg's observations indicate that this figure is quite conservative. During Periodicals Operations Review Team site visits, he observed that at times half of the Periodicals units being sorted on the SPBS were individual pieces. Also, in his testimony, witness Stralberg reported "seeing operators pulling pieces out of bundles that were not yet broken, that would have been called only 'suspect' in the MTAC terminology." TW-T-1 at 50. Further supporting Stralberg's observations is the fact that Postal Service Operations believed keying pieces on a SPBS was important enough of an issue that it sent a letter to the field instructing employees to discontinue this practice.

As Table 1 below indicates, the result of my assumption is that 10-15 percent of Periodicals units that were sorted on SPBS in the Base Year were individual pieces.

Table 1. Calculation of Percentage of Periodicals SPBS Sorts That Are Pieces

Subclass		Sack Volume	Pallet Volume	% of SPBS Sorts that are Pieces			
				Sacks	Pallets	Total	
Periodicals		(a)	(b)	(c)	(d)	(e)	
	Regular	2,500,722,281	4,527,995,229	33.82%	1.71%	13.13%	(1)
	Nonprofit	528,021,917	1,608,476,481	44.37%	2.49%	12.84%	(2)
Total		3,028,744,199	6,136,471,711	35.66%	1.91%	13.06%	(3)

(a), (b), MPA-LR-2, worksheets "Vols-Per Reg" and "Vols-Per Non."

(c) MPA-LR-2, worksheet "Productivities" cell N10 after setting Worksheet "Control Sheet" cell F7 to 1, cell B21 to .25, and cell G27 to 0.

(d) MPA-LR-2, worksheet "Productivities" cell N10 after setting Worksheet "Control Sheet" cell F7 to 2, cell B21 to .25, and cell G27 to 0.

(e) Average of (c) and (d) weighted by (a) and (b)

(3) Average of (1) and (2) weighted by volumes in (a) and (b)

USPS/MPA-T2-7. Please refer to MPA-T-2 at p. 19 line 7. The second effort towards reducing bundle breakage that you discuss is to "Move bundles from sacks to pallets". Please provide the assumptions you used for what portion of volume is in sack and pallets (including the bundle levels) for both the base and test years.

Response:

For both the Base Year and the Test Year, I used the sacked and palletized volumes contained in USPS-LR-I-90. To simulate the fifty percent reduction in bundle breakage in the Test Year, I reduced both the sack and pallet breakage rates by fifty percent. While some of the reduction in the breakage rate for flats that were in sacks in the "Before" scenario will come from volumes shifting to pallets, I did not explicitly shift these volumes from sacks to pallets in the model.

DECLARATION

I, Sander Glick, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information and belief.

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Date:

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing Erratum upon all participants of record in this proceeding in accordance with the Commission's Rules of Practice.

Anne R. Noble

Washington, D.C.
June 27, 2000