

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

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OFFICE OF THE SECRETARY

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

RESPONSES OF NATIONAL ASSOCIATION OF PRESORT MAILERS WITNESS
MACHARG TO INTERROGATORIES OF USPS (USPS/NAPM-T1-1-11)

(June 29, 2000)

The American Bankers Association ("ABA") and the National Association of Presort Mailers ("NAPM") hereby provide the responses of NAPM witness MacHarg to the following interrogatories of the United States Postal Service, which were filed on June 16, 2000: USPS/NAPM-T1-1-11.

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

Respectfully submitted,

AMERICAN BANKERS ASSOCIATION
NATIONAL ASSOCIATION OF PRESORT MAILERS

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June 29, 2000

Washington, D.C.

**RESPONSE OF THE NATIONAL ASSOCIATION OF PRESORT MAILERS WITNESS
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USPS/NAPM-T1-1. On page 8 of your testimony, you present First-Class Mail cost savings between:

- (i) single-piece flats and basic automation flats, and (ii) single-piece flats and 3/5-digit flats.
- (a) Please confirm that the single-piece number you use in your calculations includes parcels as well as flats. If not confirmed, please explain.
- (b) Is it your contention that single-piece costs are the appropriate benchmark to use in measuring cost differentials in setting worksharing discounts? Please explain.
- (c) Please confirm that single-piece mail includes everything from "clean" mail (uniform pieces featuring typewritten or pre-printed addresses and often mailed in bulk) to "dirty" mail (pieces featuring handwritten and incorrect or incomplete addresses). If not confirmed, please explain.

Response:

- (a) Confirmed, but I see no basis for concluding that a barcode on a parcel is more valuable than a barcode on a flat. However, even if the savings estimates provided by Daniel in R97-1 are reduced significantly on the unproven theory that a barcode on a parcel generates greater savings than a barcode on a flat, the savings found by Daniel are easily sufficient to allow for larger discounts than those requested by the USPS in this case. The important point is simply that action is needed now, not later, to bring down the rising cost of processing flats. The best way to do that is by providing a discount that is sufficient to get as many flats as possible prebarcoded as soon as possible.
- (b) Yes, it is my contention that single-piece costs are the appropriate benchmark to use in measuring the cost differential in setting worksharing discounts. The mail, especially the First-Class flats I am discussing on page 8, would enter the USPS and be processed as single-piece mail if not automated by the presort industry. While the USPS and others may believe that there are large quantities of nearly perfect mail with clear typewritten addresses ready to convert to automation mail, my experience is that most customers present a mixture of "clean" and "dirty" mail and that as we reach out to get more and more mail to automate, the quality of that mail goes down not up and that more and more of it consists of "dirty" mail (pieces featuring handwritten and incorrect or incomplete addresses).

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- (c) Confirmed. The mail I get from my customers and that other presort bureaus get from their customers includes everything from "clean" mail (uniform pieces featuring typewritten or pre-printed addresses) to "dirty" mail (pieces featuring handwritten and incorrect or incomplete addresses). That's why single-piece mail is the proper benchmark.

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USPS/NAPM-T1-2. The bulk of your testimony (pages 2-8 generally) is devoted to describing unrecognized cost savings that you state are not reflected in the Postal Service's measurement of workshare cost savings. Is it your contention that no costs associated with the areas of cost you describe (for example, savings from UAA Mail) are reflected in the Postal Service's measurement of workshare cost savings? Please explain.

Response:

Yes, it is my contention that costs associated with the areas of cost I described in pages 2-8 generally of my testimony (for example savings from reduced UAA Mail) are not reflected in the Postal Service's measurement of workshare cost savings. It is my understanding that the only cost savings included in the USPS estimate of the measured cost savings attributable to workshare First-Class mail are USPS Miller's measure of mail processing costs and USPS witness Daniel's measure of delivery costs and that the other cost savings have not been measured or included. However, without more specification of the costs included in various cost pools used by Postal Service witnesses to estimate workshare cost savings, I cannot be absolutely certain. However, given the small cost savings found by Postal Service witnesses, it seems clear that if such savings have been included at all they have been grossly underestimated.

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USPS/NAPM-T1-3. At the bottom of page 3 of your testimony, you state that, "Without the incentive provided for workshared mail, there would be no reason for mailers to submit mail in a form that would permit it to be automated." Is it your contention that mailers derive no benefit from activities that enhance the deliverability of their mail, whether or not they receive a discount? Please explain.

Response:

Mailers derive a benefit from activities that enhance the deliverability of their mail only if the cost of enhancing the deliverability of their mail is less than the benefit gained. Without a discount, the benefits would appear to be minimal especially since the USPS measures of performance include only overnight and one-day collection-box letter mail. Since there is no difference in the service received by full paid mail based on whether it is automation compatible, why should mailers incur any expense to make their mail automation compatible assuming that they would know what mail would be automation compatible and what mail would not be. The USPS will provide the same service whether the mail is automation compatible or not. Moreover, the technical requirements for automation are not as widely known as one might assume they should be even by some fairly large, regular mailers. They frequently do things that make their mail non-automation compatible without realizing what they have done. In my experience, mail piece design is not accomplished in a one-time short course. A large number of people may be involved in designing a mailing including outside consultants and contractors as well as many members of a mailer's on staff. It is easy for them to unintentionally produce mail pieces that are not automation compatible even after they have been producing automation compatible mail for some time--i.e., recidivism is a problem. This can occur from many reasons, but a common one is the departure of the person who "knew the rules." Presort bureaus always have people who know the rules and thus can and do help these customers prepare automation compatible mail, but it is a constant challenge. Thus, I believe that without substantial discounts, the benefits of producing automation mail would be insufficient to ensure that most of the mail processed by presort bureaus would remain automation compatible.

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USPS/NAPM-T1-4.

- (a) Please confirm that your proposal to extend the heavyweight discount to 1-2 ounce pieces applies only to flats and not to letters or parcels. If you cannot confirm, please explain.
- (b) Please confirm that your proposal to extend the heavyweight discount to 1-2 ounce pieces does not apply to nonautomation presort mail. If you cannot confirm, please explain.
- (c) Please confirm that your proposal to extend the heavyweight discount to 1-2 ounce pieces is based solely on rate relationships, per page 9 of your testimony. If you cannot confirm, please explain.

Response:

- (a) Confirmed
- (b) Confirmed
- c) The proposal to extend the heavyweight discount to 1-2 ounce pieces presented in my testimony is based on the need to provide a discount that is sufficient to encourage presort bureaus to automated First-Class flat mail. The 4.5 and 6.5 cent discounts proposed by the USPS in this case are not, in my opinion, sufficient to interest presort mailers in automating 1-2 ounce flats. However, through the testimony of ABA&NAPM witness Clifton, whose testimony provides cost savings support for the extension of the 4.6 cents heavyweight discount to 1-2 ounce automated letters and flats, the NAPM and the ABA are proposing that the heavyweight discount be extended to 1-2 ounce automated letters and flats.

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USPS/NAPM-T1-5. On page 9 of your testimony, you state that Postal Service's proposed discounts of 4.5 cents for 3-digit automation flat and 6.5 cents for a 5-digit flat are "almost certainly inadequate." Please explain the basis for your assertion that these discounts are "almost certainly inadequate" and provide copies of all supporting documentation.

Response:

My assertion that the proposed discounts of 4.5 and 6.5 cents are almost certainly inadequate is based on (1) my knowledge of presort/automation costs as the president of a large presort bureau in Chicago with smaller bureaus in St. Louis and Baltimore, and (2) discussions with owners and operators of other presort bureaus. These people do not feel that a discount of 4.5 and 6.5 cents per piece would be sufficient to make it possible to offer their customers a sufficient incentive to present flat mail and to make a profit. It simply doesn't make any sense to assume that discounts smaller than those provided for sorting letter mail to the 3- and 5- digit level will be sufficient to cover the substantial capital investment in flat barcoding equipment and the operating to pass through a sufficient discount to their customer to make the sortation of flats attractive. There is no supporting documentation because presort bureau costs have in the past been in large part ignored in a system that predicates discounts on avoided costs to the USPS (notwithstanding lip service given by USPS witnesses to the concept that public welfare is served by the mail being delivered at the lowest combined costs of USPS and mailers.) It is clear to me that the cost savings to the USPS from the barcoding of flats is considerably greater than the proposed discounts.

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USPS/NAPM-T1-6. On page 7 of your testimony you state:

Based upon my conversations with other presort bureaus and equipment manufacturers, it is my conservative estimate that at least 50% of the worksharing FCLM is processed with FAST Forward and will, therefore, avoid most all forwarding costs.

- (a) How many presort bureaus and how many equipment manufactures did you talk to in formulating your estimate?
- (b) Does this estimate apply only to presort bureaus, or does it also apply to such customers as utilities or credit card companies, who prepare their own mailings for entry into the postal system? Please explain.
- (c) Please provide the underlying numbers that result in you calculation of "at least 50percent" of workshared FCLM is processed with Fast Forward."

Response:

- (a) I have talked to most of the equipment manufacturers at NAPM meetings and elsewhere, but did not talk to them in the course of formulating the estimate in my testimony. I have talked to a number of presort bureaus, including many, but not all, members of the NAPM over the years, but have not made an effort to keep any running tally. At NAPM meetings there have been occasional informal counts by way of a show of hands of those present as to who is offering FAST*forward*.
- (b) It applies primarily to presort bureaus, but I have spoken with companies that prepare their own mail as well.
- (c) There are no underlying numbers other than those stated above.

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USPS/NAPM-T1-7. On page 4 lines 22-25 you state, "Without automation workshare mailers to explain the requirements and ensure they are complied with, USPS would have to have its own Customer Service Representatives and Mail Design Analysts out begging mailers to provide, out of the goodness of their hearts, mail pieces the USPS must automate."

- (a) Please confirm that it is in any mailer's best interest to ensure that each mail piece is addressed to the appropriate party at the appropriate address in order for that mail piece to reach its intended destination in the proper amount of time. If not confirmed, please explain.
- (b) Please confirm that it is in any mailer's best interest to ensure that each mail piece exhibits the best possible address quality in order for that mail piece to reach its intended destination in the proper amount of time, if not confirmed, please explain.

Response:

- (a) As I noted above, it is in the interest of mailers to ensure that each mail piece is addressed to the appropriate party at the appropriate address so long as the benefits exceed the costs of doing so. Your question implies that mailers should want to ensure that each mail piece is addressed to the appropriate party at the appropriate address at any cost. I do not believe that mailers would pay for example \$100 to ensure each piece of mail was appropriately addressed? Why should they do that when the USPS stands ready to forward the mail for them for a far smaller cost? The object should be to find a cost-effective way to allow mailers to address mail to the appropriate person at the appropriate address. What is needed are appropriate incentives, not command and control rules that ignore costs and thus the reason mailers are in business which is to make money not ensure that, in every case, mail is addressed to the appropriate person at the appropriate address.
- (b) As I noted above, it is in the mailer's best interest to ensure that each mail piece exhibits the best possible address that is economically feasible so that each mail piece reaches its intended destination in the proper amount of time. Mailers, at least business mailers, want their mail to reach the addressees so long as the cost of doing so is sufficiently small to allow them to continue to make an appropriate profit. They are not mailing for mailing's sale, they are mailing to make money.

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USPS/NAPM-T1-8. On page 4, lines 3-5 of your testimony you discuss the amount of time that presort mailers spend educating their customers. Have you attempted to quantify this time on a per-piece basis? If so, please provide and document how you arrived at a cost estimate.

Response:

No I have not attempted to quantify the time presort bureaus spend educating their customers on a per-piece basis because in past rate proceedings the amount of money spent by presort bureaus has been in large part ignored in a system in which discounts are based on costs avoided by the USPS. In short, there is no economic incentive to quantify the time expended on a per-piece basis.

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USPS/NAPM-T1-9. On page 10 lines 11-12 of your testimony you state that worksharing programs "have the only real track record for reducing mail processing costs." Please confirm that the RBCS system and other types of automation equipment have reduced mail processing costs for specific mail types. If not confirmed, please explain.

Response:

I cannot confirm that the USPS RBCS system and other types of automation equipment have reduced mail processing costs for specific mail types. They have, I believe at least reduced the increases in mail processing costs, but I am unaware of any case in which the USPS has presented evidence that mail processing costs have declined. However, the point I would like to make is that much of this work could be done in the private sector for lower costs than the USPS incurs to do it and that mail processing costs could certainly be lower if all mail processing were performed in the private sector.

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USPS/NAPM-T1-10. In your testimony, you claim that the USPS has not recognized any cost savings related to workshared First-Class letter mail related to capital costs, maintenance costs, supply costs, and mail trayng costs. Have you conducted any studies that sought to determine these costs on a per-piece basis? If so, please provide the results of those cost studies and document them completely.

Response:

No, I have not conducted any studies that sought to determine the capital costs, maintenance costs, supply costs and mail trayng costs on a per piece basis since as I noted above, presort industry costs have not been the focus of attention in setting discounts. Moreover, presort bureaus and in-house mailer/users of MLOCR can perform all these tasks cheaper than the USPS can perform them, that's how we make our living. Using presort industry data would therefore lead to an understatement of the savings and tend to lead to break even discounts, discounts that were equal to presort industry costs not Postal Service savings.

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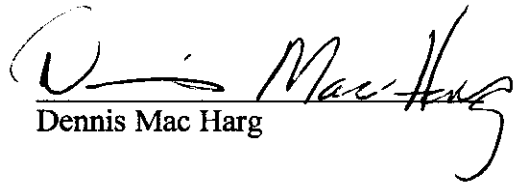
USPS/NAPM-T1-11. On page 2 of your testimony you discuss the concept of "reversion." Have you conducted any market research studies in order to quantify the amount of First-Class worksharing mail that would revert to other rate categories were the Commission to approve the Postal Service proposals as recommended in this docket? If so, please provide the results of those studies and document them completely.

Response:

No, I have not conducted any studies in order to quantify the amount of First-Class mail that would revert to other rate categories were the Commission to approve (recommend?) the Postal Service proposals as recommended (requested?) in this docket. First, I cannot say that mail currently processed by the presort industry will revert to other rate classes if the Commission recommends the rates requested in this docket. However, that does not mean that with larger discounts, discounts that reflect the full cost savings, the presort industry would not be able to induce more mailers to use presort bureaus to automate their mail. If this were to happen, increased discounts could make more money for the USPS than the requested rates since the requested rates understate the savings to the USPS of worksharing so that some mail that could be automated and could be processed at a lower cost remain as un-automated mail processed by the USPS at a higher cost.

DECLARATION

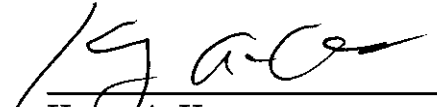
I, Dennis Mac Harg, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.


Dennis Mac Harg

Dated: June 26, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.


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June 29, 2000