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

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

# RESPONSES OF ASSOCIATION FOR POSTAL COMMERCE WITNESS LUBENOW TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE (USPS/POSTCOM-T3-1-10)

Association for Postal Commerce hereby provides responses to the above listed interrogatories of the United States Postal Service filed June 15, 2000. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

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June 29, 2000

Response of Association for Postal Commerce witness Joe Lubenow to interrogatory of U.S. Postal Service

USPS/PostCom-T3-1. Please refer to your testimony at p.21, line 28 through p.22, line 1, where you refer to the "small and subtle costs that occur during the processing of address information". Please explain your basis for stating in line 31 that such costs add up to an "impressive" total. Please provide the data and analyses that support this claim.

RESPONSE

The basis for my statement consists in the qualitative claim that deficient addresses cause small and subtle costs that are difficult to measure, coupled with the claim, which can be more easily quantified, that there are many deficient addresses submitted to the USPS.

A report published by the USPS in September 1999, entitled "Undeliverable As Addressed", contains some relevant points. It states (p. 1) that "the estimated annual volume of undeliverable-as-addressed (UAA) mail in FY1998 was 5.4 billion pieces, with an average piece cost of $0.29". This gives a total cost in excess of $1.5 billion.

It explains that UAA mail is generated by a number of causes, some of which are related to the address quality problems detailed in my testimony. These include the addressee having moved, or the address being incomplete, illegible or incorrect. There are other reasons for UAA mail such as refused mail or postage not having been paid which are not related to address quality. A main conclusion of the report is that increased use of USPS Move Update programs has helped to cut the costs of UAA mail approximately in half. In other words, an additional potential cost of $1.5 billion was avoided in 1998 because of Move Update programs, according to the report.

An important point made by the USPS (p. 1) is that "The costs of all categories of UAA mailing are charged to the customer, either directly (as part of a fee) or indirectly (as part of the rate)".

Another part of the report (pp. 15-16) details a study of address deficiencies on randomly selected letter mail pieces. In the study, 23.5% of the pieces had some

deficiencies. More specifically, 7% had directional or suffix deficiencies, 6.9% had street name or number deficiencies, 4.9% had apartment number deficiencies. Further, 3.1% had city/state/ZIP deficiencies, 2.8% had an addressee who had moved, 2.6% had an incorrect ZIP+4 code, and 0.4% had problems with a rural route or box number. These numbers add up to more than 23.5% because of multiple deficiencies in some cases.

This report gives us a basis for estimating how many mailpieces are delivered despite having some deficiencies. The study of address deficiencies only involved letters. Address quality may be somewhat better for nonletters, but it is safe to say that it is not drastically better. Given the preponderance of letters, my estimate is that address deficiencies on all mail should be about 20%, plus or minus a few percentage points. But the data in the USPS report tells us that less than 3% of all mailpieces are UAA. So for every UAA mailpiece, there is reason to believe that there are five or six more with address deficiencies that are still delivered.

Now consider the main types of deficiencies and the additional effort that will be needed to deliver the mailpiece anyway. I have discussed in my testimony the various possibilities that arise when an apartment number, directional or suffix is missing. If there is a deficiency in the city, state or ZIP code, street name, house number, box or route number, the effects are similar: internal handoffs, additional clerical labor, delayed processing, and rerouting. If the addressee has moved, the piece will go to the carrier for delivery, and since by hypothesis the piece is successfully delivered, it is hard to escape the conclusion that some additional handling takes place, unless the distance involved is very short.

In conclusion, it would appear that 15% to 20% of all mailpieces have some address deficiency but are delivered nonetheless. If this number, based on inferences from the data supplied by the USPS, is even close to correct, then indeed I would reaffirm that it is an "impressive total". Once again, as I emphasized in my testimony, once the mailpiece has been submitted to the

be surprising if informal rerouting of missorted pieces costs more than discarding a mailpiece.

(b) As mail processing technology improves, the curve would tend to flatten. For example, improvements in handwriting recognition or data base searching would reduce the work required to deliver mailpieces that are problematic. And as the USPS points out, improved identification of Move Updates reduces UAA mail at the highest cost end of the curve. Furthermore, industry investments in address quality also tend to flatten the curve both by reducing the additional labor involved in salvaging delivery and in cutting down on UAA mail.

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USPS/PostCom-T3-2. Please refer to your testimony at p. 22, lines 9-26.

a. Please explain your derivation of the address quality cost curve for the USPS. If it is more than just a theoretical notion, please provide any data or specific evidence on which this cost curve may be based.

b. Please explain how your address quality cost curve changes (e.g., curve flattens)as mail processing technology improves.

RESPONSE:

(a) The address quality cost curve is in the first instance a theoretical construct. My point in putting it forward was to make it easier to think about how the costs of address quality affect the USPS in comparison with how those costs fall upon mailers. In so doing, it may be possible to create a better structure of rates and incentives that leads to an improved overall outcome.

This theoretical cost curve has at least two fixed data points, with a range of intermediate points connecting the two fixed points. The precise values of the intermediate points are not known. The first fixed data point is for complete and correct addresses that exactly match a postal delivery point and have a barcode with the maximum applicable depth of code. These offer the USPS the best cost profile that can be achieved in the current environment. The second fixed data point is for UAA addresses, which are forwarded, returned or discarded. The USPS estimates these to have an average cost of $0.29 as mentioned above.

This number can be broken down further to create additional data points. Returned mail at an average of $0.59 is the most costly segment within UAA. Forwarding costs an average of $0.21 and discarding a mail piece is estimated at $0.04.

The unknown costs for activities cited in my testimony (p. 21, lines 28-31) such as internal handoffs, rerouting missorted pieces, additional clerical labor, and delayed processing may be expected generally to fall within the fixed data points discussed. In some cases, there may be an overlap. For example, it would not

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USPS/PostCom-T3-3. What is the typical percentage of letter-shaped mail that, before undergoing certified address quality processes, has deficient address data or poor address hygiene? Please provide any data or studies that support your response.

RESPONSE:

Though I lack specialized data or studies with which to contribute toward an answer to this question, there are some ways to approach this question. Mailing lists vary widely in their initial address quality due to differences in the methods of data capture and whether there was any attention paid to address hygiene at the time of acquisition. For example, compiled lists are gathered from public sources, including telephone listings. In this situation, street names are abbreviated, suffixes dropped, and apartment numbers are generally nonexistent. As another example, mailing list input forms may be cramped, without enough room to enter all the relevant information, or opportunity to identify distinct address elements. Over the Internet, there is a chance to edit addresses on input, but for the most part such editing is minimal on most current Web sites. Over the phone, there is the possibility of misspellings and transposition errors. Even when lists are rented, the motivation of the list provider is to maximize revenue, so addresses that may be deliverable and productive but which contain imperfections are not stripped from the list unless this is specified by the customer.

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USPS/PostCom-T3-4. What is the typical percentage of letter-shaped mail that, after undergoing certified address quality processes, has deficient address data or poor address hygiene? Please provide any data or studies that support your response.

RESPONSE

There is an implicit assumption in the question that is not necessarily correct. As a general rule, certified USPS processes lead to matching addresses to data bases, deriving ZIP+4, DBPC, and carrier route codes, and providing a standardized address. But mailers are not required to use the standardized address on the mailpiece, and many choose not to do so. The main reason for this is that the standardized address occasionally will reflect a match to an address that is not the one at which the addressee actually can be found. For example, a street name on an input file may closely resemble two street names on the data base, with some grounds for selecting either, but no complete assurance that the selection is correct. The mailer may prefer to leave the street name as it was on the input record, since the carrier may be able to comprehend the name and address in its entirety better than the software, particularly if the software is only looking at the address. After all, the barcodes and carrier route codes only serve to get the mail piece into the hands of the carrier, at which point the human factor determines the final outcome.

Response of Association for Postal Commerce witness Joe Lubenow to interrogatory of U.S. Postal Service

USPS/PostCom-T3-5. What is the typical percentage of flat-shaped mail that, before undergoing certified address quality processes, has deficient address data or poor address hygiene? Please provide any data or studies that support your response.

RESPONSE

I do not have formal data or studies on this question.

In my experience, Periodicals are generally flat-shaped and, whether sent to subscribers or requesters, are likely to have better than typical address quality. This is reasonable, because the recipients of the Periodicals have paid for or asked to receive the publication, and can be expected to communicate with the publisher if it does not show up.

Catalog mailers do not have as much communication with the recipients of the catalogs, and also use rented lists for prospecting. Since the mailpiece is often more expensive to produce and the postage may be higher, the return on investment for address hygiene processes is better. In practice, this is not always fully recognized or acted upon. Besides, some catalogs are letter-shaped.

Many mailers of flat-shaped mail also mail letter-shaped pieces to the same lists, such as a renewal solicitation or a bill. This places limits on the differences in address quality based on the shape of the mailpiece.

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USPS/PostCom-T3-6. What is the typical percentage of flat-shaped mail that, after undergoing certified address quality processes, has deficient address data or poor address hygiene? Please provide any data or studies that support your response.

RESPONSE

Please see my response to interrogatory 4.

Response of Association for Postal Commerce witness Joe Lubenow to interrogatory of U.S. Postal Service

USPS/PostCom-T3-7. Please assume that mail piece A is nonbarcoded and has perfect address quality and that mail piece B is nonbarcoded and has poor address quality. Further, assume that mail piece C is mail piece A after successful completion of the barcoding and certified address quality processes and that mail piece D is mail piece B after successful completion of the barcoding and certified address quality processes.

Please confirm that the mail processing cost difference (i.e., barcode-related savings) of handling mail piece A versus handling mail piece C is less than the mail processing cost difference (i.e., barcode-related cost savings) of handling mail piece B versus handling mail piece D? If you do not confirm, please explain.

RESPONSE

It is true that adding a barcode to a complete and correct address has less value than adding a barcode to an incomplete and incorrect address.

But the term "barcode-related savings" is rather narrow, in the same way that the USPS rate case proposals reflect a narrow view of the overall benefits of barcoding and address quality. To see this, consider that although mailpiece D has a barcode, the address is not required to be and often is not presented in a complete and correct manner. Therefore, mail piece D may still have address quality deficiencies. This means that D and C may not have the same value. It also means that the difference in cost between B and D is not necessarily as great as the question implies it is. Finally, it shows that either barcoding discounts should be increased to encompass the address quality dimension of the cost savings, or separate address quality discounts should be instituted.

There is another way to make the same point, without utilizing the fact the mail piece D may not present the complete and correct address, despite having the barcode. A may have an apartment number, while B needs one, but does not have it. After "successful completion of the barcoding and certified address quality processes", B may have a barcode, but the apartment number very likely still will not be known. This is not just a matter of the mail piece not containing all the available information. Once again, D has the same rate as C, but D has address quality deficiencies, in this case of a more intractable type. In this case,

there may be difficulty in delivering mail piece D. This example shows that barcoding discounts should be de-averaged, or that separate discounts for complete and correct addresses, for example, those matching the USPS Delivery Sequence File (DSF), should be instituted.

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USPS/PostCom-T3-8. Please confirm that barcode-related mail processing savings increase as address quality of the "pre-barcoded and pre-address quality processed" mail base decreases. If you do not confirm, please explain.

RESPONSE

Confirmed, subject to the qualifications in the previous answer.

Response of Association for Postal Commerce witness Joe Lubenow to interrogatory of U.S. Postal Service

USPS/PostCom-T3-9. Please refer to your testimony at page 16 where you discuss the address quality cost curve for the mailer. Please confirm that it is less expensive for a mailer to barcode a mail piece that begins with perfect address quality than to barcode a mail piece that begins with poor address quality. If you do not confirm, please explain.

RESPONSE

Confirmed.

Response of Association for Postal Commerce witness Joe Lubenow to interrogatory of U.S. Postal Service

USPS/PostCom-T3-10. Please refer to your testimony at page 23 at 19-21 where you state that "in this testimony, I have argued that automation discounts should be increased...in consideration of the costs to the mailer of attaining high address quality and maintaining it through regular certifications." Please discuss how your statement relates to efficient-component pricing.

RESPONSE

If "efficient-component pricing" implies that among the participants in a mailing process, the one who should perform a particular activity which reduces costs is the one who can do so most efficiently, then in my view, the mailer or service provider is better positioned than is the USPS to perform the barcoding and address quality functions. The earlier in the mailing process that these activities can be performed, the more efficient is the process. In fact, address quality is best done at the time the address is captured. Everything else is remedial work. Barcoding is best done before the mailpiece reaches the USPS, since the USPS then needs only to read the code and sort the piece. The USPS has to process a diversity of shapes and sizes, which makes it somewhat harder to apply a barcode, and also has to read the physical address presented on the mailpiece, while the mailer or service provider can work with the digital representation of the address. Further, if the complete and correct address including all applicable postal codes is available at the time the mail is presorted, it leads to a more efficient presorting process.

## ATTESTATION

I, Joe Lubenow, declare under penalty of perjury that the foregoing answers to interrogatories were prepared by me or under my supervision and control and that such answers are true and correct, to the best of my knowledge, information and belief.

Joe Lubenow

Dated: 6/28/2000

**CERTIFICATION**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding having requested service of discovery documents in accordance with Section 12 of the rules of practice.

Ian D. Volner