

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

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POSTAL RATE AND FEE CHANGES, 2000

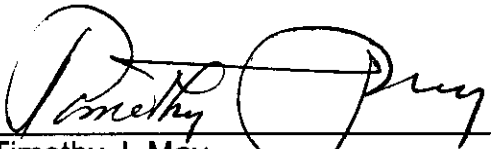
Docket No. R2000-1

RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM
WITNESS RAY BOGGS TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE
(USPS/E & S-T-1-9-21)

E-Stamp Corporation and Stamps.com hereby provide the responses of witness Boggs to the following interrogatories of United States Postal Service: USPS/E & S-T-1-9-21), filed on June 19, 2000.

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

Respectfully submitted,



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Dated: July 5, 2000

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
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USPS/E&S-T1-9 On page 19 you discuss the 1999 U.S. Small Business Survey.

- a. Please confirm that this survey is the source for all of the small business data presented in your testimony. If not confirmed, please explain.
- b. Please provide a copy of the small business questionnaire referenced on the bottom of page 19.
- c. Was the 1999 Small business Survey conducted solely for the purpose of determining the market for PC postage, or did International Data Corporation conduct the survey as part of an ongoing research project? Please explain.
- d. Please confirm that the 1999 Small Business Survey was conducted during the 4Q98 and 1Q99. If you are unable to confirm, please explain.
- e. Please provide a copy of your workpapers underlying the tabulations of small business data presented in your testimony; for example, those presented at Tables 8 and 10 of your testimony.

RESPONSE:

- a. The 1999 U.S. Small Business Survey is the source of small business survey data presented in the testimony with the exception of all forecasts, which are also based on IDC judgement.
- b. Small Business Survey questions that related to PC postage are provided in Library Reference E&S-LR-I-1:
- c. The 1999 Small Business Survey was conducted as part of the Small Business Markets continuing information service, a multi-client research program.
- d. The 1999 Small Business Survey was conducted in 4Q 98 and 1Q 99.
- e. Workpapers associated with the development of forecasts in Tables 8, 9, and 10 are presented in Library Reference E&S-LR-I-2.

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USPS/E&S-T1-10 On page 20, you parenthetically state, "IDC tracks home-based businesses in its annual work-at-home-survey."

- a. Please confirm that this survey is the source for all of the home office data presented in your testimony. If not confirmed, please explain.
- b. Please provide a copy of this home office survey.
- c. Was this survey conducted solely the purpose of determining the market for PC postage, or did International Data Corporation conduct the survey as part of an ongoing research project? Please explain.
- d. Please confirm that this annual work-at-home survey was conducted during the 4Q98 and 1Q99. If you are unable to confirm, please explain.
- e. Please provide a copy of your workpapers underlying the tabulations of home office data presented in your testimony; for example, those presented at Tables 9 and 10 of your testimony.

RESPONSE:

- a. IDC's annual Work-at-Home survey was not used in preparation of the home office data presented in this testimony, except for estimates of the number of home office households
- b. IDC Work-at-Home Survey questions used to develop estimates of home office households are provided in Library Reference E&S-LR-I-3.
- c. The 1999 Work-at-Home survey was conducted as part of the Home Office continuing information service, a multi-client research program.
- d. The 1999 Work-at-Home survey was conducted in September, 1999
- e. Workpapers associated with the development of forecasts in Tables 8, 9, and 10 are presented in Library Reference E&S-LR-I-2.

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USPS/E&S-T1-11 Two key assumptions are listed on the bottom of Figures 2-3 in your testimony.

- a. Please provide the basis for each of the two assumptions, and how each assumption is used in the development of the data presented in the figures.
- b. On page 11 of your testimony, you state, “[t]otal postage spending for both segments [small offices and income-generating home offices] will be growing at 7.1% annually...” Is the basis for this growth rate the assumption that such spending will continue to track closely with spending on other communications technologies? If not, please explain.
- c. Please reproduce Figure 2 in your testimony assuming a 3.5% annual growth rate, which is approximately one-half the assumed level.

RESPONSE:

- a. The basis for both assumptions is the anticipated absence of factors that would have significant positive or negative impact. In preparing the data, the assumptions meant that no major change in annual growth was anticipated over the planning period.
- b. Yes, the assumption is that total postage spending will track closely with spending on other communications technologies.
- c. Figure 2, assuming a 3.5% annual growth rate, in Table form:

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Small Business and Income-Generating Home Office Annual Spending on First Class
Postage (\$M) Assuming 3.5% CAGR

		1998	1999	2000	2001	2002	2003	CAGR
Small Business		6731	6966	7210	7462	7724	7994	3.5%
Home Office		4839	5008	5184	5365	5553	5747	3.5%
Total		11570	11975	12394	12828	13276	13741	3.5%

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USPS/E&S-T1-12 On page 17 of your testimony, you discuss small business attitudes towards PC postage and state, "[i]t should be noted that these interest measures were collected in what was essentially a concept test rather than as a precise comparison."

a. Please describe in detail what you mean by the term "concept test" and provide a description of the concept(s) tested.

b. From the standpoint of statistical precision, what is the implication of conducting a "concept test" rather than a "precise comparison?"

RESPONSE:

a. A "concept test" examines general interest in a product idea presented in general form. Specific, detailed product elements are not included. The general idea of PC postage was evaluated through the use of basic descriptions:

A number of companies are introducing ways to use PCs and printers as alternatives to traditional postage meter. Some products require connection to the Internet while postage is printed, others provide a "vault" the size of a small paper clip box that connects to the PC and stores the postage which can be printed at any time. How interested would you be in different types "PC Postage?"

b. The results of a concept test are the same as "precise comparisons" in terms of statistical precision. The results of both types of research can be projected reliably to the total population based on the sample size being surveyed. A more precise examination of new product ideas would yield results less likely to change as respondents learn more about new technology than would a concept test.

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USPS/E&S-T1-13 Page 23 of your testimony presents the margin of error for IDC's 1999 U.S. Small Business Survey. What is the comparable margin of error for the survey used in developing the home office data presented in your testimony?

RESPONSE:

The home office survey of 776 households has an error of $\pm 3.51\%$.

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USPS/E&S-T1-14 In Section III.A on page 24 of your testimony, you state that, "[t]hree sets of forecasts serve as the foundation for estimating the potential size of the PC postage market: the total market of small businesses, the number of firms with personal computers, and the number of firms on the Internet." Did your survey ask about PC postage directly? Please explain.

RESPONSE:

PC postage was asked about directly through the concept test questions.

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USPS/E&S-T1-15 Listed at the bottom of Tables 2-10 are "key assumptions."
Please provide the basis for each key assumption listed.

RESPONSE:

"Small business formation continues at the present rate as U.S. economic growth continues with only minor fluctuation"

BASIS: IDC judgement, past history

"Population growth will be greatest among firms with 5-9 employees"

BASIS: IDC judgement, past history

"Small business formation will continue at the present rate and the largest share of new businesses will add PCs."

BASIS: IDC judgement, past history

"The smallest of small firms, with under 5 employees, will continue to lag behind other firms in using PCs."

BASIS: IDC judgement, past history

"Growth in PC penetration will be fueled by lower prices, increasing ease of use, and perceived benefits of the Internet."

BASIS: IDC judgement

"Small business interest in using the Internet will increase for a variety of applications."

BASIS: IDC judgement

"More retailers, traditionally the slowest to adopt new technology, will be interested in using PCs and the Internet."

BASIS: IDC judgement, past history

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"Lower cost of broadband access will increase small business interest in the Internet for different applications."

BASIS: IDC judgement

"U.S. economic conditions will not change significantly."

BASIS: IDC judgement

"Economic conditions and tax law changes will foster home-based business formation."

BASIS: IDC judgement

"1999 is the first year when PC postage is commercially available beginning in August."

BASIS: Past history

"PC postage estimates include estimates of first class postage only; overnight and parcel post package delivery are not included."

BASIS: IDC market definition

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USPS/E&S-T1-16 On Page 35, at lines 12-14, you state, "IDC believes that PC postage will come to represent over 10% of total postage spending by small businesses and income-generating home offices." Is this "belief" a direct quantitative finding of your survey work, or does it represent an opinion? Please explain.

RESPONSE:

This represents an opinion that it will take until 2003 for the preliminary interest in PC postage expressed by roughly 10% of small businesses to translate into PC postage spending.

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USPS/E&S-T1-17 Table 10 of your testimony presents projected small office and home office spending on PC Postage from 1999-2003. Please provide the volumes of First-Class Mail and the numbers of small businesses or home offices associated with each revenue cell presented in Table 10.

RESPONSE:

IDC did not prepare mail volume nor number of forecasted customers as part of its research.

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USPS/E&S-T1-18 Please confirm that Tables 8 and 9 are not the tables to which intended reference is made on page 33, lines 17-21. If unable to confirm, please explain.

RESPONSE:

Tables 8 and 9 are the correct tables for the text reference, but the total PC spending for both small businesses and home offices were omitted from the table. These totals could be calculated from the tables by dividing the total PC postage figure by the percentage PC represented of total first class spending. These totals are also presented in Figure 2 and are included below:

Small Business and Income-Generating Home Office Annual Spending on First Class Postage (\$M)

	1998	1999	2000	2001	2002	2003	CAGR
Small Business	6731	7196	7707	8254	8815	9415	6.9%
Home Office	4839	5197	5603	6023	6456	6908	7.4%
Total	11570	12393	13309	14277	15272	16323	7.1%

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USPS/E&S-T1-19 On page 39, lines 13-14 you state "[t]his solution (traditional postage meter that is refilled by telephone) was of greatest interest to small firms regardless of company size, as Table 14 indicates." Please explain why Table 14 shows greater interest in PC Postage (25.2% "very interested" or "somewhat interested") than in a traditional meter refilled by telephone (23.7% "very interested" or "somewhat interested").

RESPONSE:

The statement that the meter refillable by phone is of greatest interest to small firms regardless of size is incorrect. The statement is true only for firms with from 5-99 employees. Firms with under 5 employees are significantly more likely to prefer PC postage than a traditional meter refilled by phone. The interest of the smallest firms also results in the higher total percentage of all small businesses (25.2%) interested in PC postage of any type, compared with 23.7% for traditional meter refilled by phone.

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USPS/E&S-T1-20 On page 41, lines 8-9 you state “[s]mall firms with postage meters generally prefer refilling their meters via the Internet than using PC postage, as Table 15 indicates.” Please explain why Table 15 shows more postage meter users interested in PC Postage (37.0% “very interested” or “somewhat interested”) than in a traditional meter refilled by telephone (35.7% “very interested” or “somewhat interested”).

RESPONSE:

The combined interest in either PC postage solution was greater than using the Internet to refill meters, as confirmed by the table, but not indicated in the text. The combined percentage of 37.0% is composed of 32.2% of meter users very/somewhat interested in PC postage previously downloaded from the Internet and 23.2% very/somewhat interested in printing PC postage directly from the Internet. (Many cited interest in both). While more small firms with postage meters cited interest in PC postage solutions in general than in refilling their meters over the Internet, no individual PC postage solution (print postage while online or print postage previously downloaded) generated higher interest than refilling meters via the Internet.

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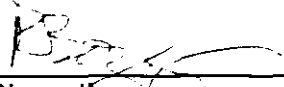
USPS/E&S-T1-21 On page 43, Table 14, column one ("PC Users"), please explain why the interest levels for "Traditional [postage] meter" and "PC postage" are the same as the interest levels reported for all small businesses in the first column of Table 14. Since not all small businesses use PCs, shouldn't these interest levels differ?

RESPONSE:

The percentages for PC users in Table 16 and the Totals for Table 14 are the same because the questions on PC postage were only asked for current PC owners. Interest would be different for small businesses who do not have PCs (at the time of the survey, PC penetration for small businesses was 85.1%) Small firms without PCs were not believed to represent a significant part of the potential PC postage market.

DECLARATION

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

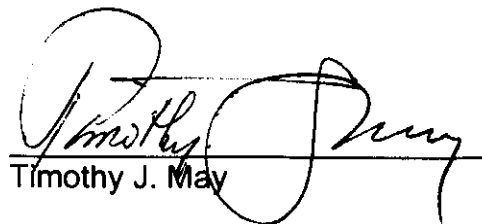


(Signed)

Dated: July 5, 2000

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: July 5, 2000