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

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Docket No. MC 88-001-2

EXPERIMENTAL DELIVERY CONFIRMATION  
SPECIAL SERVICE CATEGORY AND FEE

TESTIMONY  
OF  
DONALD J. O'HARA  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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2

**AUTOBIOGRAPHICAL SKETCH**

3

4 My name is Donald J. O'Hara. I am currently Executive Director of the Product  
5 Redesign program. Prior to this assignment, I was Manager, Classification and Product  
6 Development in the Marketing organization.

7 I have been employed by the Postal Service since 1981. My first position was  
8 Principal Economist in the Planning Department, where I produced information and  
9 analyses used in the strategic planning process. During this time, I also played a major  
10 role in the development and implementation of the Postal Service's Total Factor  
11 Productivity (TFP) measurement system. In the 1992 reorganization, I moved to the  
12 reclassification project. I have made appearances in proceedings before the Postal  
13 Rate Commission. In Classification Reform I (Docket No. MC95-1), I provided  
14 testimony on rates and classifications for First-Class Mail. In Classification Reform II  
15 (Docket No. MC96-2), I provided testimony on rates and classifications for Nonprofit  
16 Periodicals. In Docket No. R97-1, I provided testimony on the rate levels proposed by  
17 the Postal Service. In Docket No. R2000-1, I provided rebuttal testimony on certain  
18 issues related to First-Class Mail and Standard Mail.

19 I received a Ph.D. in Economics from the University of California at Los Angeles  
20 in 1971. From 1970 until 1980 I taught at the University of Rochester, first as an  
21 Assistant Professor of Economics (through 1976), and then as an Associate Professor.  
22 In 1980-81, I served on the staff of the President's Commission for a National Agenda  
23 for the Eighties.

1 **I. PURPOSE AND SCOPE OF TESTIMONY**

2 My testimony describes and supports the Postal Service's proposed experiment  
3 which would offer Delivery Confirmation without charge to retail Priority Mail customers  
4 for a limited period in December of this year. The Postal Service expects that this offer  
5 would have two direct benefits. First, it would give customers an incentive to mail  
6 packages before the very busiest week of the holiday mailing season. To the extent  
7 customers respond to this incentive, the Postal Service may be able to reduce the need  
8 for clerk and carrier overtime and for supplemental air transportation during the peak  
9 week. Second, it would introduce Delivery Confirmation to customers who might  
10 otherwise never try this value-added service. In addition, the experiment would give the  
11 Postal Service valuable experience with more flexible pricing arrangements.

2 The remainder of my testimony is organized as follows. Section II is the guide to  
13 supporting documentation. In Section III, I describe the proposal in some detail. In  
14 Section IV, I estimate the potential financial impact of the proposal, and in Section V, I  
15 discuss the data collection plan. Section VI demonstrates the proposal's compliance  
16 with the Commission's rules for experimental cases. Section VII summarizes my  
17 testimony, and Section VIII contains the supporting charts and workpapers.

18

19 **II. GUIDE TO SUPPORTING DOCUMENTATION.**

20 Supporting documentation for this testimony is contained in USPS Library  
21 Reference MC2001-2/1, which contains both electronic and hard-copy forms of my  
22 charts and workpapers.

1

### 2 III. DESCRIPTION OF THE PROPOSAL.

3

#### 4 A. Background.

5 The Postal Service experiences a very sharp peak in Priority Mail volume in the  
6 week just before Christmas, as illustrated in Chart 1, which shows the pattern of Priority  
7 Mail entry through two channels for which daily data can be obtained. The line labeled  
8 "Estimated Retail Priority Mail" is derived from the Point of Service (POS) system, which  
9 collects data on retail window transactions. The POS data have been scaled-up to  
10 reflect the approximately 30% of retail revenue received at sites that do not have POS  
11 terminals. The line labeled "PERMIT System Priority Mail" shows the volume of Priority  
12 Mail recorded in the bulk-entry PERMIT system; for Priority Mail, the PERMIT system  
13 only reports pieces that use permit indicia. There is a third Priority Mail entry channel  
14 that consists of pieces from businesses and individuals who apply postage using meters  
15 or stamps and then leave the mail for Postal Service pick-up or deposit it in collection  
16 boxes. No daily or even weekly data are available specifically pertaining to this  
17 channel, but an examination of ODIS data for total Priority Mail suggests that it is not a  
18 major contributor to the peak. Clearly, the pre-Christmas peak is primarily generated by  
19 retail-entered mail.

20

21 Another consideration that led the Postal Service to propose this experiment is  
22 that more households and other infrequent users of Priority Mail would probably find  
23 Delivery Confirmation useful if they were familiar with it. Instead of calling the recipient

1 to find out if a package or document has been delivered, many household mailers might  
2 come to prefer the convenience of Delivery Confirmation once they learn about it.

3 Priority Mail entered at retail windows is about 300 million pieces per year, or  
4 roughly three pieces per household per year (and of course some of these pieces are  
5 sent by businesses rather than households). Chart 2 shows that whenever the volume  
6 of POS-entered Priority Mail goes up, the percentage of such mail using Delivery  
7 Confirmation goes down. I interpret this as suggesting that infrequent users of Priority  
8 Mail are less likely to use Delivery Confirmation, perhaps because they are not familiar  
9 with it. For these customers, it may be more effective to build awareness by offering  
10 Delivery Confirmation without charge when they are about to enter Priority Mail than by  
11 using saturation mail or broadcast media and hoping that customers retain the message  
12 until the next time they go to mail a package.

13

#### 14 **B. The Basic Proposal.**

15 The Postal Service proposes to offer Priority Mail customers Delivery  
16 Confirmation without charge for pieces entered from December 1, 2001 through  
17 December 16, 2001, as illustrated in Chart 3. Through this experiment, the Postal  
18 Service expects to learn more about (a) the extent to which modest incentives will  
19 induce households to shift their holiday mailing patterns, and (b) the extent to which a  
20 limited-time offer of Delivery Confirmation without charge will lead more households and  
21 other infrequent users of Priority Mail to purchase Delivery Confirmation in the future.

1           The approximately two-week time span was judged to be adequate to  
2 accomplish these goals without incurring the added costs entailed by a longer  
3 experiment. The December 1 start date was chosen in part because it would be easy  
4 for customers to remember. The December 16 end date is the Sunday before the  
5 Monday of the week before Christmas, and was chosen to give customers every  
6 opportunity to move their mail away from the peak week without requiring them to make  
7 dramatic changes in the timing of their holiday purchases. Many postal districts open  
8 selected retail facilities on Sunday afternoons during the holiday-season, so numerous  
9 customers would in fact be able to take advantage of the December 16 end date.

10           While the proposed experiment is targeted at infrequent Priority Mail users who  
11 enter mail at the window, there is another group of Priority Mail customers who  
12 purchase manual Delivery Confirmation without actually coming to the window. These  
13 customers acquire a stock of Delivery Confirmation labels from the Postal Service or  
14 print them from the Postal Service web site, and apply Priority Mail postage plus the 40-  
15 cent Delivery Confirmation fee using meters or stamps. These pieces are then  
16 deposited in collection boxes or picked up by the Postal Service as part of regular  
17 delivery and collection activity. For each window purchase of manual Delivery  
18 Confirmation there were about 0.19 of these non-window purchases last year for the  
19 period that corresponds to the proposed experiment. As a matter of fairness, these  
20 mailers would also be offered Delivery Confirmation without charge during the  
21 experiment, and the financial impact of their participation has been taken into account.

22

1           **C. Potential Benefits of the Experiment.**

2           Both the Postal Service and its customers should benefit from the proposed  
3 experiment, especially households and other infrequent users of Priority Mail. It should  
4 introduce such customers to a value-added service they might otherwise never try.  
5 Also, if the offer of Delivery Confirmation without charge induces more customers to  
6 mail early, this would smooth the pattern of Priority Mail volume; providing opportunities  
7 for modest savings in clerk and carrier overtime and in supplemental air transportation  
8 costs. If enough additional customers do mail early, even customers who wait until the  
9 last week to mail may reap benefits in the form of somewhat shorter lines.

10  
11           **D. Compliance With the Classification Criteria.**

12           Section 3623(c) of Title 39, U.S.C. requires the Postal Rate Commission, when  
13 issuing a recommended decision on a Postal Service request for a classification  
14 change, to consider the following factors:

- 15           1) the establishment and maintenance of a fair and equitable  
16           classification system for all mail;  
17  
18           2) the relative value to the people of all kinds of mail matter entered into  
19           the postal system and the desirability and justification for special  
20           classifications and services of mail;  
21  
22           3) the importance of providing classifications with extremely high degrees  
23           of reliability and speed of delivery;  
24  
25           4) the importance of providing classifications which do not require an  
26           extremely high degree of reliability and speed of delivery;  
27  
28           5) the desirability of special classifications from the point of view of both  
29           the user and of the Postal Service; and  
30



1           6) such other factors as the Commission may deem appropriate.  
2  
3

4           The proposed experiment is consistent with criterion (1); it is intended to benefit  
5 not only those who receive Delivery Confirmation without charge during the experiment,  
6 but other mailers as well. To the extent the experiment induces participants to mail  
7 earlier than they otherwise would, other mailers may benefit from shorter lines and  
8 better window service in the week just before Christmas and would share in any  
9 benefits from reductions in postal operating costs made possible by the smoothing of  
10 mailing patterns. Likewise, to the extent the experiment induces participants to  
11 purchase Delivery Confirmation in the future, there would be a modest increase in  
12 contribution to institutional costs, lessening the degree to which other mailers have to  
13 bear these costs.

14           With regard to the relative value to the people of all kinds of mail matter entered  
15 into the postal system (criterion (2)), many of the Priority packages that would receive  
16 Delivery Confirmation without charge would be holiday presents that are certainly of  
17 great value to both the sender and the recipient. Delivery Confirmation would give  
18 senders the satisfaction and peace of mind that comes from knowing with certainty their  
19 gifts have been delivered; they won't have to wait for a thank-you note or phone call  
20 after the present has been opened.

21           Criteria (3) and (4) are not directly relevant to the proposed experiment since it  
22 would do nothing to change the range of reliability and speed of delivery afforded by the  
23 existing set of postal products and services.

1 With respect to criterion (5), if the experiment indicates that a limited-time offer is  
2 successful in noticeably smoothing holiday mailing patterns, it would certainly benefit  
3 both mailers and the Postal Service, and a permanent classification modeled on the  
4 proposed experiment might well be warranted.

5 Finally, in addition to the specific benefits of the experiment, the Postal Service  
6 anticipates that the entire postal community would benefit from an exploration of various  
7 ways to achieve additional pricing flexibility within the current regulatory framework.  
8 Accordingly, the Postal Service asks the Commission to recognize this benefit under  
9 criterion (6).

#### 11 **IV. PROJECTED FINANCIAL IMPACT.**

##### 12 **A. Lost Revenue From Customers Who Would Have Bought Delivery** 13 **Confirmation.**

14  
15 The revenue loss from providing manual Delivery Confirmation without charge to  
16 customers who would have purchased it in the absence of the experiment is developed  
17 on page 1 of my workpaper. Last year, Delivery Confirmation was purchased in  
18 conjunction with approximately 2.8 million pieces, or 13 percent, of window-entered  
19 Priority Mail during the period that corresponds to the proposed experiment. It is  
20 assumed that this usage would also occur this year in the absence the experiment, and  
21 the result is adjusted to account for manual Delivery Confirmation purchases on Priority  
22 Mail entered through non-window channels. It is estimated that the total revenue loss  
23 would be \$1.3 million.

1

**2 B. Cost of Informing Customers.**

3

4 The Postal Service intends to use two primary means of informing customers

5 about the limited-time offer of Delivery Confirmation without charge. First, there would

6 be window cards and other displays in Post Offices to let customers learn about the

7 experiment any time they visit the Post Office from late November on. During the

8 experiment, these displays would also help make customers aware of the offer before

9 they reach the window. Based on the Postal Service's experience implementing the

10 July 1, 2001 rate change, the cost of producing and distributing these display items is

11 judgmentally estimated to be about \$150,000.

12 To reach customers before they visit the Post Office, the Postal Service plans to

13 make extensive use of press coverage, building on local Postmasters' customary

14 holiday communications with their communities. The novelty of the Postal Service

15 making this sort of limited-time offer is expected to give greater-than-usual visibility to

16 these communications.

**17 C. Effect of the Experiment on Costs and Revenues.**

18 On page 2 of my workpaper, the effects of the experiment on the TY2001

19 volumes, revenue and costs for Priority Mail and Delivery Confirmation are developed.

20 The treatment of the 16 days in which Priority Mail users can obtain manual Delivery

21 Confirmation without charge parallels the existing treatment of electronic Delivery

22 Confirmation, which is available without charge to Priority Mail users year-round.

1 Panel A provides TYAR data for Priority Mail and Delivery Confirmation  
2 consistent with the Commission's Decision in R200-1. In Panel B, the effects of the  
3 experiment are developed. The revenue loss on projected usage in the absence of the  
4 experiment is \$1.3 million. The cost of the electronic portion of this usage is already  
5 included in the TYAR costs for Priority Mail, and with the experiment the cost for the  
6 non-electronic portion would similarly be transferred to Priority Mail from Delivery  
7 Confirmation. For the additional use of Delivery Confirmation during the experiment, the  
8 Postal Service would incur the full (electronic and non-electronic) costs of manual  
9 Delivery Confirmation. As with electronic Delivery Confirmation, these costs would be  
10 allocated to Priority Mail. Panel B also shows the cost of informing customers about the  
11 experiment.

12 Panel C uses the data in Panel B to obtain adjusted TYAR volumes, revenues,  
13 costs and cost coverages. The costs of informing customers are split 50/50 between  
14 Priority Mail and Delivery Confirmation, since both stand to benefit if customers alter  
15 their behavior in response to the experiment. Any savings from reduced clerk and  
16 carrier overtime as result of customer response to the mail-early incentive would tend to  
17 reduce the costs of Priority Mail, while increases in post-experiment use of manual  
18 Delivery Confirmation would generate increased revenue for that service.

19 After these adjustments are made, the TYAR volumes, revenues and costs are  
20 essentially unchanged, reflecting the very limited nature of the experiment. For  
21 example, the cost coverages of both Priority Mail and manual Delivery Confirmation for  
22 Priority Mail would be reduced by only one-half percentage point.

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**D. Difficulty of Projecting Offsetting Cost Savings and Increases in Future Delivery Confirmation Revenue.**

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It is difficult to project the amount of any offsetting savings from reduced overtime usage by window clerks and carriers because the amount of opportunity for such savings is dependent, first of all, on how strongly customers respond to the "mail early" incentive of the experiment. For this reason, no such savings are included in the estimated financial impact of the experiment. Further, because so many different factors affect the usage of clerk and carrier overtime and the need for supplemental air transportation, it would be difficult to assess the amount of such savings even after the experiment is completed.

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Similarly, the possible financial contribution from increased future purchase of Delivery Confirmation depends on how strongly customers respond to the experience of using it, and therefore no increase in contribution from this source is included in the estimated financial impact of the experiment. In this case, however, it should be possible after the experiment to develop at least a judgmental assessment of contribution from additional Delivery Confirmation purchases if the data that would be collected show an increase in usage in the post-experiment period.

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**E. The Experiment Is Worth Doing Even If Customer Response Turns Out to Be Small.**

25

By its nature, an experiment's outcome cannot be known in advance, and the Postal Service has certainly considered the possibility that customer response, both in

1 shifts of holiday mailing patterns and in future use of Delivery Confirmation, could be  
2 small. However, the cost of the experiment would also be modest, and even if customer  
3 response turns out to be small, the benefits, both from learning about customer  
4 response to this particular experiment and in gaining experience with somewhat non-  
5 traditional pricing approaches, would be well worth the cost.

6

## 7 **V. DATA COLLECTION PLAN.**

### 8 **A. Data on Shifts in Mailing Patterns.**

9 The same POS data collection capabilities that permitted the construction of  
10 Chart 1 would allow the collection of similar data for the experimental period. To make  
11 the comparison as accurate as possible, the reported data would include only sites for  
12 which data are available for both December 2000 and December 2001. Although the  
13 POS system collects data on a site-by-site basis, only the aggregate of data across all  
14 such sites would be reported. Because Christmas was on Monday in 2000, and will be  
15 on Tuesday this year, there may be a tendency for part of the very sharp Monday peak  
16 in 2000 to shift to Tuesday or even Wednesday. To avoid confounding the effect of the  
17 calendar shift with the effect of the experiment, it would probably be best to examine the  
18 data on a week-by-week basis rather than day-by-day. These data would be provided  
19 by March 22, 2002, four weeks after the end of Postal Quarter 2, FY 2002.

### 20 **B. Data on Increases in Future Delivery Confirmation Usage.**

21 Similarly, the POS system and other on-going data collection systems would  
22 provide data on future purchases of Delivery Confirmation in conjunction with window-

1 entered Priority Mail. To permit evaluation of the experiment's impact on future use of  
2 Delivery Confirmation by households and other infrequent users of Priority Mail, the  
3 Postal Service would report weekly data for the first six months of CY 2002, together  
4 with comparable data for CY 2001. Again, the comparison would be restricted to the  
5 aggregate of sites for which data are available for both years. As suggested by Chart 2,  
6 the weeks with above-average window entry of Priority Mail (around Valentine's Day,  
7 April 15, Mothers' Day, and the June graduation period) would probably be most useful  
8 for judging the extent of increased Delivery Confirmation usage. These data would be  
9 provided by July 12, 2002, four weeks after the end of Postal Quarter 3, FY 2002.

#### 10 **C. Data on the Cost of Informing Customers.**

11 These costs would be tracked by the Pricing and Classification Implementation  
12 office in the Pricing and Product Design Department and reported by March 22, 2002  
13 along with the data on holiday mailing patterns (Subsection A, above).

### 14 15 **VI. COMPLIANCE WITH THE SECTION 3001.67 EXPERIMENTAL RULES.**

#### 16 17 **A. Novel in Nature.**

18 The proposed experiment is certainly novel in nature, at least in the context of  
19 Postal Service pricing. To my knowledge, the Postal Service has never used anything  
20 but exhortation to get people to mail early, nor has it ever tried to promote awareness  
21 and future use of established products or special services by letting customers try them  
22 without charge. However, a somewhat similar idea was included in the Commission's  
23 R2000-1 Decision, where it suggested that the Postal Service should explore whether

1 discounts would encourage Post Office Box utilization at offices where box vacancy  
2 rates were high. PRC Op. & Rec. Dec., R2000-1, paragraph 5983.

3 Of course, such approaches are by no means novel in other parts of the  
4 economy. One example that I am personally familiar with parallels the “generate  
5 increased future Delivery Confirmation usage” aspect of the current proposal rather  
6 closely. A few years ago, my local cable television provider, in the hope of increasing  
7 the purchase of its premium channels, transmitted them unscrambled for a week or two  
8 so that basic-level subscribers could get a taste of what they were missing. Special  
9 offers that are intended to induce customers to shift the timing of their purchases, such  
10 as preseason sales, are also common in the economy at large.

#### 11 12 **B. Magnitude of Proposed Change.**

13 The Commission’s rules require that experimental proposals have minimal  
14 impacts on “postal revenues, postal costs, mailer costs, and competition.” The  
15 discussion in Section IV and page 2 of my workpaper demonstrates that the impact on  
16 Postal Service costs and revenues would be minimal. While the experiment is in effect,  
17 mailers who would have bought Delivery Confirmation even without the experiment  
18 would see a reduction in their mailing costs. From a broader perspective, the effect on  
19 the costs borne by all mailers would also be minimal. Even if the experiment did not  
20 induce a noticeable percentage of mailers to mail early or to buy Delivery Confirmation  
21 after the experiment ended, so that offsetting cost savings and increases in future  
22 revenue were negligible, the experiment’s total cost would be small.



1 With respect to the impact on competitors, the Postal Service certainly has no  
2 anti-competitive intent proposing the experiment and anticipates that the experiment's  
3 impact would be minimal. First, the experiment would be limited in scope and duration  
4 and has been designed to affect individuals and small businesses that use Priority Mail  
5 infrequently. Most important, the experiment should have no impact on the state of  
6 competition for larger commercial shippers, because such shippers have long been able  
7 to get electronic Delivery Confirmation without payment of an additional fee when using  
8 Priority Mail. The experiment would not change this in the least.

9  
10 **C. Data Generation.**

11 Although the data collection plan outlined in Section IV is quite modest, the  
12 resulting data would be more than sufficient to support judgments about the degree to  
13 which the experiment has been successful in meeting both of its primary objectives.  
14 Daily and weekly data on the volume of Priority Mail entered at POS sites during  
15 December 2000 and 2001 are expected to indicate the degree to which customers  
16 mailed earlier in 2001 as a result of the experiment. Data on the percentage of window-  
17 entered Priority Mail that is accompanied by the purchase of manual Delivery  
18 Confirmation for succeeding months would indicate the degree to which the experience  
19 of using Delivery Confirmation without charge has led to additional usage when a fee is  
20 required.

1

**2 D. Duration of Experiment.**

3 The proposed duration of the experiment is certainly limited: the first sixteen days  
4 of December 2001. Not only does the Postal Service believe that this is sufficient to  
5 evaluate the degree to which the ideas underlying the proposal have merit, but a  
6 "limited-time offer" is more-or-less required to achieve the "mail-early" objective.

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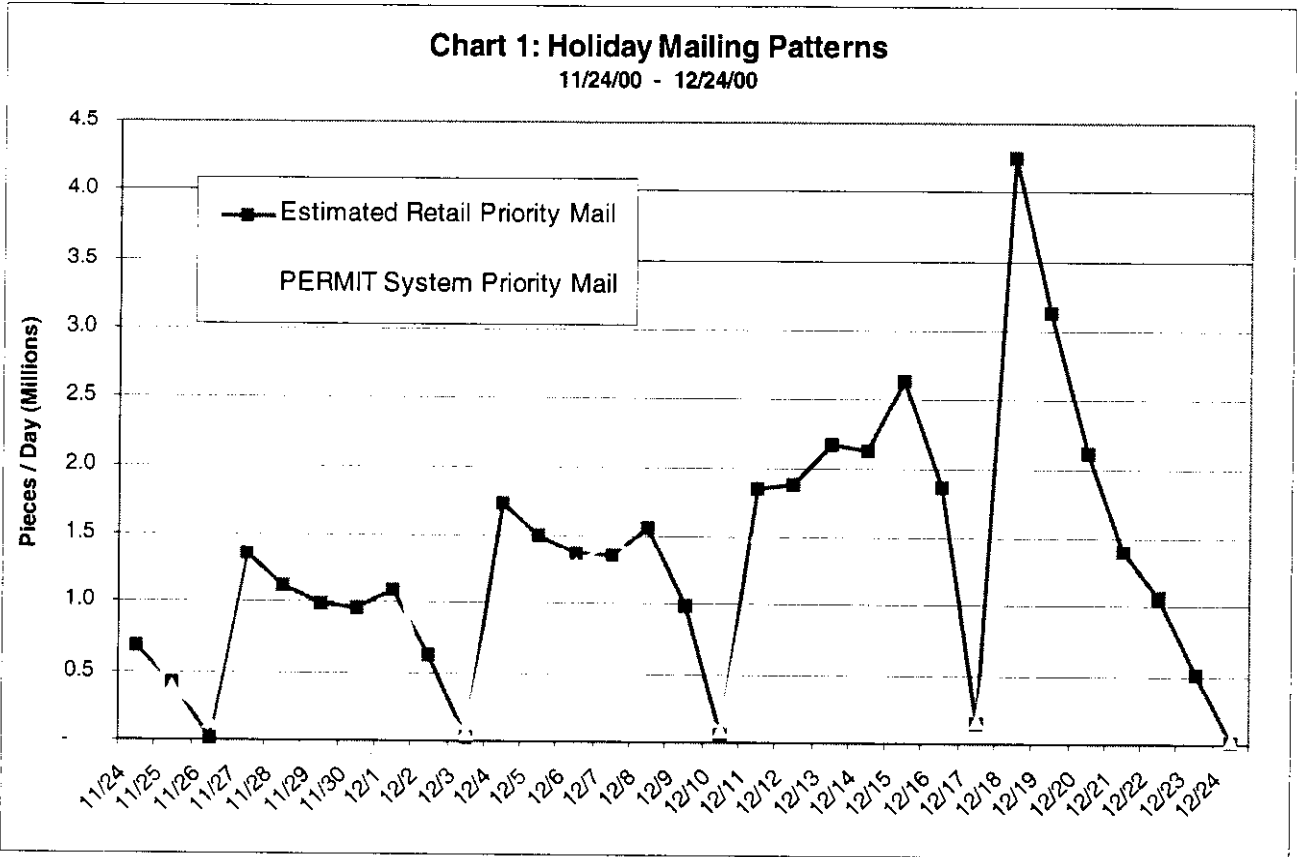
**9 VII. SUMMARY AND CONCLUSIONS.**

10

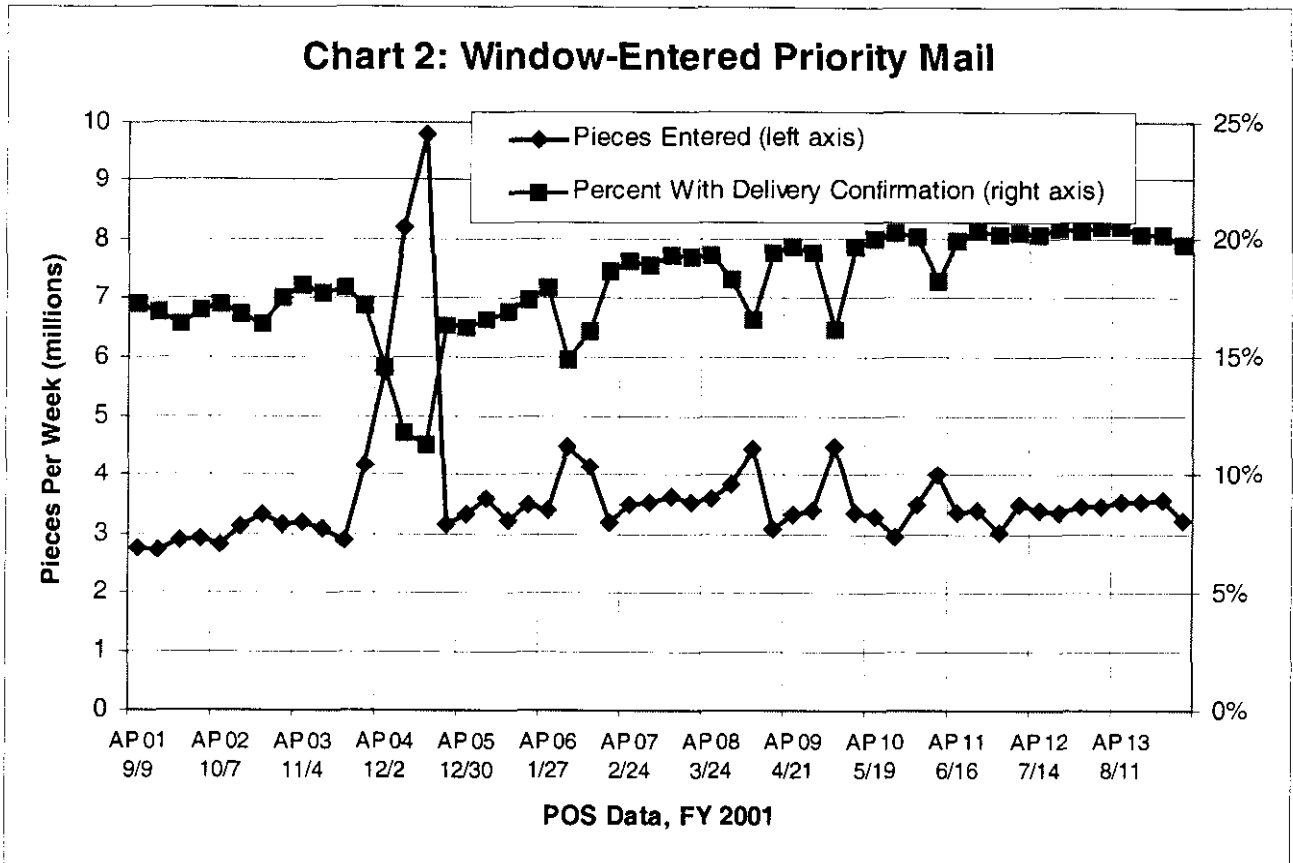
11

12 The proposed experiment is consistent both with the classification criteria of  
13 section 3623(c) of Title 39, U.S.C. and with the Commission's section 3001.67 rules for  
14 experiments. The experiment would provide information not easily obtained in other  
15 ways in two areas that may have wider applicability. One is the extent to which  
16 households can be persuaded to shift their mailing behavior in response to modest  
17 incentives; the second is the extent to which offering customers a limited "trial" period  
18 for a value-added service like Delivery Confirmation generates increased purchases  
19 after the trial period is over. In addition, the entire postal community would gain  
experience with a somewhat novel approach to postal pricing.

1 VIII. CHARTS AND WORKPAPERS.



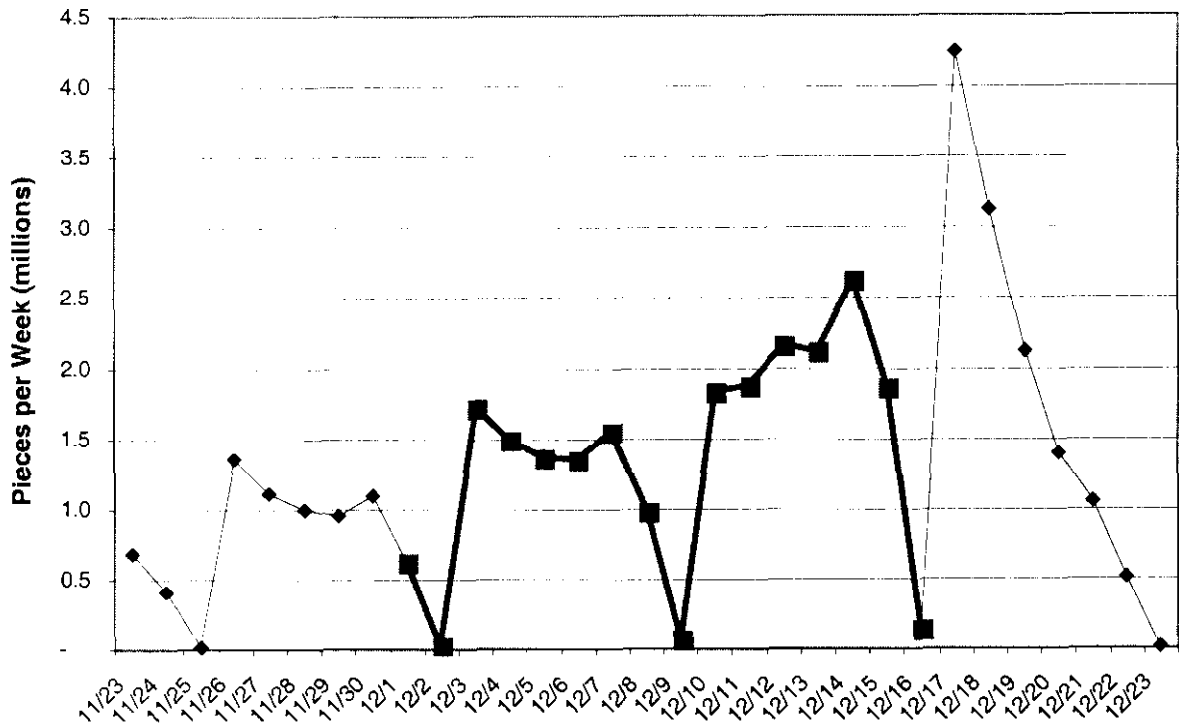
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**Chart 3: Window-Entered Priority Mail: Heavy Red Line = Experiment Dates  
(2000 Data Labelled with 2001 Dates)**



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