

USPS-T-44

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

DIRECT TESTIMONY
OF
SAMUEL J. KOROMA
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

1
2
3 My name is Samuel J. Koroma. I am currently an economist in the office of
4 Classification and Product Development, Pricing and Classification, at the United
5 States Postal Service. My primary responsibilities have included the
6 development of a permanent Ride-Along classification and rate as embodied in
7 this testimony. In addition to this testimony, I am also testifying in this case on
8 the Postal Service's proposed fee and classification changes for some special
9 services. I provided substantial technical support in Docket No. R2000-1 in
10 developing Standard Mail billing determinants; and in reconciling and updating
11 the rate, revenue, and volume histories; and I assisted the Special Services
12 witness.

13 Prior to becoming a career Postal employee, I worked first as an intern in
14 1995 and later as a consulting economic analyst in the National Mail
15 Transportation Purchasing division of the United States Postal Service. My
16 responsibilities included conducting various economic studies on the different
17 modes of transportation. Specifically, I worked extensively in developing a
18 benchmark price (container rate) for the Indianapolis Hub and Spoke Program
19 (HASP) and provided substantial technical support in the development of the
20 Fuel Management Program.

1 I earned a Master of Arts degree in Economics from Howard University,
2 Washington, DC and also hold a Bachelor of Science degree in Economics from
3 the University of Sierra Leone.

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

2 The purpose of my testimony is to present the Postal Service's proposal for a
3 permanent classification for Ride-Along attachments or enclosures with
4 Periodicals and a Ride-Along rate for the Periodicals class. The Postal Service is
5 proposing to make permanent the experimental Periodical Ride-Along
6 classification that allows certain materials that would otherwise qualify as
7 Standard Mail to "ride along" with Periodicals mail for a flat per-piece rate. I
8 propose a rate of 12.4 cents per Ride-Along piece. The testimony will discuss the
9 rationale for the classification change and highlight the results of the experiment
10 to date, including the potential revenue and cost impact. Furthermore, the
11 necessary statutory criteria supporting the proposed classification change will be
12 discussed.

13

14 **II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION**

15

16 My testimony references the Ride-Along survey in Library Reference
17 USPS-LR-J-101 and the market research survey for Ride-Along in Library
18 Reference USPS-LR-J-116. My testimony also references the Centralized
19 Postage Payment (CPP) data in attachment 1.

20

1 **III. BACKGROUND**

2 **A. Overview of experimental service and current status**

3 As part of the Postal Service's continued effort to respond to mailers'
4 requests for desirable new services and changes in classifications, the Postal
5 Service proposed an experimental Ride-Along classification for Periodicals. The
6 experiment was recommended by the Commission and implemented by the
7 Postal Service on February 26, 2000. Under the experimental classification,
8 Periodicals mailers are allowed to mail a single Standard Mail attachment or
9 enclosure in a Periodicals host publication as a Ride-Along for a flat rate of 10
10 cents per piece. The Ride-Along postage is calculated separately from postage
11 for the host piece and does not affect the weight, advertising percentage, or
12 postage for the Periodical host piece. Only one Ride-Along piece can be
13 attached to a single host Periodical. However, mailers who wish to mail multiple
14 Standard Mail attachments or enclosures with their Periodicals host piece may
15 continue to use the current procedures by paying the Standard Mail rate.
16 Alternatively, mailers may choose to pay the Ride-Along rate for the first
17 attachment or enclosure and Standard Mail rates for additional attachments or
18 enclosures. If mailers choose the latter, the Ride-Along requirements apply. The
19 Periodicals piece with the Ride-Along must maintain the same shape and
20 automation compatibility as it had before addition of the Ride-Along attachment
21 or enclosure as well as other physical requirements discussed later in this
22 testimony.

1 Since the beginning of the experiment, the Revenue, Pieces, and Weight
2 (RPW) system has reported 99,316,130 Ride-Along pieces with revenue of
3 \$9,931,613.¹ Based on data collected during the experiment, we determined that
4 70 percent of Ride-Along pieces are CD-ROMS. The remaining 30 percent
5 consist of catalogs, brochures, printed matter, product samples, and magazines.
6 More than 90 percent of the Ride-Along pieces are "onserts"² i.e. affixed to the
7 outside of the publication or a loose enclosure placed within the outside wrapper,
8 such as a polybag, that contains the Periodicals host piece.

9

10 **B. Summary of the Proposal**

11

12 The Postal Service is proposing to make the Ride-Along rate category a
13 permanent classification. All subclasses of Periodicals would be eligible for
14 inclusion of Ride-Along pieces. Ride-Along pieces would include all Standard
15 Mail materials meeting the Ride-Along classification requirements (advertising or
16 otherwise) attached to, or enclosed, with the Periodicals host piece. Only one
17 Ride-Along would be allowed per host piece and a flat rate of 12.4 cents per
18 Ride-Along piece is proposed. Mailers desiring to mail multiple attachments or

¹ Revenue and pieces data based on Postal Quarters 3 and 4 FY 2000 and Postal Quarters 1 and 2 FY 2001. Data reports were filed with the Commission on December 15, 2000, and May 23, 2001.

² Based on sample pieces collected in-house.

1 enclosures with their Periodicals mailings would pay, as now, Standard Mail rates
2 for all additional items.

3

4 **C. Requirements and Eligibility**

5

6 The proposed Ride-Along classification applies to all subclasses of
7 Periodicals. This includes pieces mailed at regular, in-county, non-profit,
8 classroom, and science-of-agriculture rates. A limit of one Ride-Along piece may
9 be attached to or enclosed with an individual Periodicals mail piece. The Ride-
10 Along piece must:

- 11 • Be eligible to be mailed as Standard Mail.
- 12 • Not exceed any dimensions of the host publication.
- 13 • Not exceed 3.3 ounces and not exceed the weight of the host
14 publication.
- 15 • Not obscure the title of the publication or the address label whether
16 secured or at anytime when loose in the wrapper.
- 17 • Not change the shape or processing category (letter or flat) or affect
18 the uniform thickness of the Periodicals host piece (automation and
19 nonautomation).
- 20 • Be securely affixed in a manner that prevents detachment during
21 Postal processing. A loose Ride-Along with a bound publication must
22 be enclosed in a full wrapper, polybag, or envelope with the
23 publication. A loose Ride-Along enclosure with an unbound publication

1 (e.g. newspaper) must be combined with and firmly folded within the
2 publication. If the Ride-Along piece is included outside the unbounded
3 publication, the publication and the Ride-Along piece must be enclosed
4 in a full wrapper, polybag, or envelope.

- 5 • Maintain the same processing category (automation letter, FSM881
6 flat, or FSM 1000 flat) and automation compatibility (C810 and C820)
7 with the Periodicals host piece that claims automation discounts. For
8 example, a Periodicals host piece that is automation compatible and
9 claims an automation discount before the addition of the Ride-Along
10 piece must remain within the constraints of the automation
11 requirements of the host publication after inclusion of the Ride-Along in
12 order to use the Ride-Along rate and claim the automation discounts.

13
14 Uniform thickness is required in order to maintain the stackability of
15 Periodicals, both for induction of the piece to an automated flat sorter, and for
16 sortation and delivery by carriers at the delivery office. If a Ride-Along item
17 causes the host piece to become uneven and/or bulky, it could increase handling
18 costs and such piece will not qualify for the Ride-Along rate.

19 Likewise, the resulting mailpiece (with enclosure) will be required to
20 maintain its original shape, be it a flat or letter. If a letter-shaped piece were to
21 become flat-shaped, or a flat-shaped piece were to become parcel-shaped by

1 virtue of the Ride-Along, the costs could increase significantly,³ and again, such a
2 piece will not qualify for the Ride-Along rate.

3 Host pieces that are automation compatible and claim the automation
4 discounts also will be required to remain within the constraints of the automation
5 requirements of the original piece. For example, an FSM 881 compatible piece
6 will not be allowed to migrate to FSM 1000 compatibility because of the addition
7 of a Ride-Along piece.

8

9 **IV. FEE DESIGN**

10

11 The experimental rate design was based on the advertising pound rate for
12 Regular Rate Periodicals of 3.3 ounces mailed to zone 8, which was then 10.2
13 cents (MC2000-1, USPS-T-1, pg. 5). However, because the proposed changes
14 in rate design in the Periodicals rate structure disproportionately affect zone 8
15 (USPS-T-34), maintaining this method would cause an increase in the Ride-
16 Along rate that is disproportionate to the overall increase in Periodicals rates.

³ A host piece that is originally a flat, i.e. exceeding one or more of the maximum letter dimensions and not more than 15”X12”X3/4”, will be required to remain within those dimensions with the Ride-Along. In the same manner, if a letter-size piece meets the dimension requirements in DMM C050.20, then there will be a requirement that the inclusion of a Ride-Along enclosure or attachment should not cause the thickness to exceed 1/4”. Also, DMM C810 requirements, including the requirements for heavy letters under DMM C810.7.5, will have to be met, if applicable.

1 Therefore, the proposed Ride-Along rate is designed by adjusting the
2 experimental 10-cent rate to account for increases in the overall Periodicals
3 rate. Periodical subclass rates have increased 24 percent on average since the
4 inception of the Ride-Along experiment. Accordingly, the proposed rate for Ride-
5 Along is 12.4 cents.⁴

6

7 **V. RATIONALE FOR PERMANENT CLASSIFICATION**

8

9 **A. Response to experiment by mailers.**

10

11 Based on the results of the Ride-Along experiment, the response from
12 mailers has been favorable . The variety of matter entering the mail stream with a
13 Periodicals host piece increased considerably since the beginning of the
14 experiment. Making this classification permanent will give advertisers an
15 additional way to reach targeted audiences, while at the same time maintaining
16 the educational, scientific, cultural and informational (ECSI) value of the
17 Periodical host piece. Also, this classification provides a cost-effective method for

⁴ The 10-cent experimental Ride-Along rate went into effect in February 2000. In January 2001, as a result of Docket No. R2000-1, overall Periodicals rate increased by 9.9 percent. In July 2001 as a result of the Postal Service Governors' modification, overall Periodicals subclass rates increased by 2.6 percent. In this Docket, the Postal Service has proposed an overall increase in Periodicals rates of approximately 10 percent (see USPS-T-28, exhibit USPS 28D pg 1). Therefore, the total cumulative increase in Periodicals rate since the inception of the ride-along experiment is 24 percent.

1 advertisers to distribute what would otherwise be classified as Standard Mail
2 supplements, including very small product samples, to targeted markets.

3 One compelling reason for this classification change is that previously a
4 separate Standard Mail rate of almost twice the proposed Ride-Along rate was
5 charged for all advertising matter or other enclosures or attachments that did not
6 qualify for mailing at Periodicals rate. Although the Postal Service processed and
7 delivered one piece, it charged as if they had mailed two separate pieces. Before
8 the experiment rate went into effect, mailing a Standard Mail enclosure or
9 attachment required both the mailer and the Postal Service to deal with two
10 separate rate schedules when calculating postage.

11 Making the classification permanent will benefit publishers and
12 advertisers. The Ride-Along rate allows advertisers to integrate their magazine
13 ads with separate advertising material such as CD-ROMs, catalogs, brochures,
14 and product samples. This gives the advertisers flexibility and another media
15 channel for advertising, thus generating new business for the publishers and new
16 revenue for the Postal Service without additional handling costs. With Ride-
17 Along, advertisers can be extremely creative in generating sales by inserting CD-
18 ROMs and other interactive devices that can generate new revenue for the
19 advertisers and the publishers.

1 **B. Future use expected**

2

3 Based on the market research included at LR-J-101, future Ride-Along
4 usage is expected to be approximately 222 million pieces annually. The result
5 indicates that advertisers and publishers are generally satisfied with Ride-Along
6 and that Ride-Along usage can be expected to increase substantially upon
7 approval of a permanent classification. However, one must be cautious in
8 evaluating the projected volume growth since more than 50 percent of Ride-
9 Along volume is concentrated with several large mailers. Any change in the
10 mailing behavior of one or more of these large users would significantly impact
11 Ride-Along volume. Such changes could result from instability in the market
12 place, changes in the business cycle, a downward adjustment in advertising
13 expenditures, or other changes in their particular finances or marketing
14 strategies. Therefore, I used a conservative estimate of 100 million to 120 million
15 pieces of Ride-Along annually in developing my testimony.

16

17 **C. Operational results**

18

19 The Postal Service, through careful examination of the sample pieces
20 mailed during the experiment, found only a limited number of unexpected
21 deviations from the prescribed requirements for either the host piece or the Ride-
22 Along piece. Moreover, there has been effective cooperation between the Postal

1 Service and Periodicals mailers in dealing with and correcting any such
2 deviations.

3 The Postal Service has been monitoring processing and delivery
4 operations to determine compliance with the requirements and whether Ride-
5 Along pieces are causing significant unexpected cost increases. The results of
6 the survey are contained in LR-J-101. With regards to delivery:

7 "Although the vast majority of sites have witnessed RA Periodicals, they
8 would not be characterized as prevalent at this point. The most common
9 RA is a CD. Occasionally, Periodicals with RAs can cause problems in
10 the carrier casing operation (e.g. catching, clogging slot), but it would not
11 be characterized as serious. Issues of a more significant nature are when
12 the stiff RA results in the piece not being able to fit in apartment-style
13 mailboxes and small PO Boxes, and instances where these pieces are
14 treated and counted as parcels on rural routes. The vast majority of
15 delivery units prefer attached RAs (particularly CDs), as opposed to
16 separate pieces (more cost effective)."

17
18 LR-J-101.

19 With regards to processing:

20 "Though a vast majority of sites have witnessed RA Periodicals, they
21 would not be characterized as prevalent at this point. A majority of the
22 RAs is compact disks (CDs) enclosed in polywrap. For the most part, the
23 machinability of the Periodicals are not greatly affected by the RAs, but
24 loose polywrap (significant selvage) can cause problems on the AFSM
25 100, and the polywrapped pieces, in general, cause frequent jams on the
26 FSM 881s. There are not significant issues with RAs in terms of their
27 impact on SPBS and manual operations. Though a number of instances
28 of RAs becoming detached from the host piece have been identified,
29 these instances would not be characterized as significant. A vast majority
30 of plants prefer the attachments (particularly CDs) as RAs opposed to
31 separate pieces (more cost effective)."

32
33 LR-J-101.

1 These surveys indicate that the cost impacts of Ride-Along pieces are not
2 significant. The original 10-cent Ride Along rate was specifically designed to
3 provide additional contribution to cover any such minimal additional costs:

4 Given the current advertising pound rate schedule for Regular Rate
5 Periodicals, an additional 3.3 ounces mailed to Zone 8 would require
6 additional postage of 10.2 cents. It is safe to assume that not all "Ride-
7 Along" pieces will weigh 3.3 ounces nor will they all be mailed to Zone 8.
8 The physical requirements for the "Ride-Along" piece have been purposely
9 drafted to attempt to ensure that the inclusion of a "Ride-Along" piece
10 does not result in any additional mail processing or delivery costs.
11 Therefore, the 10-cent per-copy rate should comfortably cover any
12 additional cost due to incremental weight, and also provide contribution
13 that comfortably exceeds the contribution deemed reasonable for the
14 Periodicals subclass.⁵
15

16 As a result, the proposed flat rate of 12.4 cents per Ride-Along piece,
17 which is based on the original 10-cent rate plus overall increases in Periodicals
18 costs since the 10-cent rate was implemented, should cover any minimal
19 additional costs and continue to provide a reasonable contribution.

20

21 **VI. MARKET RESEARCH**

22 The Postal Service engaged National Analysts to address the market
23 research portion of the experimental data collection plan established in Docket
24 No. MC2000-1. The market research is described and its results presented by
25 witness Rothschild, USPS-T-27, and Library Reference J-116. The results of the
26 quantitative market research are as follows:

⁵ Docket No. MC2000-1, USPS-T-1, at 5 (Direct Testimony of Altaf H. Taufique).

- 1 • Approximately 48 percent of Ride-Along pieces represent new matter being
2 mailed.
- 3 • Approximately 7 percent of Ride-Along pieces represent diversion from
4 Standard Mail.
- 5 • Approximately 42 percent of Ride-Along pieces represent diversion of
6 Standard Mail pieces, mailed with Periodicals but paying Standard Mail rates.
- 7 • Approximately 4 percent of Ride-Along pieces represent diversion of other
8 mail matter.
- 9 • Future anticipated volume is expected to be approximately 222 million.

10 The data collection plan also included market research on the effect of the
11 experiment on sample mailers. But because product samples constituted
12 approximately 5 percent of Ride-Along pieces, for a total of approximately 9
13 million pieces since the experiment began, the Postal Service determined that
14 the effect on sample mailers could be deemed to be minimal. Consultations with
15 National Analysts indicated that the small number of product samples sent as
16 Ride-Alongs would make it difficult to obtain reliable survey data regarding the
17 effect of the experiment on sample mailers.

18

19 **VII. REVENUE, COST AND VOLUME IMPACT**

20

21 An estimate of future revenue for the experimental proposal was based on
22 the assumption that existing pieces of Standard Mail enclosures or attachments

1 would migrate to the Ride-Along rate category. Data obtained through the
2 Centralized Postage System (CPP)⁶ on Standard Mail enclosures or attachments
3 between 1999 and 2001 shows a significant migration from Standard Mail
4 enclosures or attachments with Periodicals to Ride-Alongs.⁷ However, market
5 research results indicates approximately 7 percent diversion from stand-alone
6 Standard Mail and approximately 4 percent from First-Class. Therefore, Ride-
7 Along is not expected to result in any significant cannibalization from other mail
8 class. Based on the above and the market analysis, the majority of the Ride-
9 Along pieces are entirely new mail resulting in incremental revenue.

10 Ride-Along is expected to result in net contribution to the Postal Service. It
11 is expected to increase revenue without a significant increase in host Periodicals,
12 given adherence to the prescribed requirements. Moreover, the majority of the
13 increased revenue is not a diversion of Standard Mail. Also, as indicated in the
14 market research, Ride-Along is not expected to result in any significant migration
15 from stand-alone Standard Mail to Periodicals.

16 In accordance with the data collection plan for the experiment, the
17 domestic Revenue, Pieces, and Weight (RPW) system captured the pieces,
18 weight, and revenue associated with Ride-Along pieces. The RPW records total
19 revenue of \$9.9 million for the first four quarters since the implementation of the

⁶ See witness Taufique's experimental testimony for more information on CPP.
Docket No. MC2000-1

⁷ See Attachment 1

1 experiment. As the market research indicates, most of this revenue would not
2 have existed had the Ride-Along rate not been available.⁸

3 Several types of innovative advertisements have emerged that are the
4 driving force behind the increased volume in ride-along pieces. Domestic RPW
5 records a total of 99,316,130 ride-along pieces for the first 4 quarters of the
6 experiment.⁹ Due to differences in reporting methods and information gathering
7 techniques, experimental data collected independent of RPW indicates a slightly
8 higher volume during the start-up period. This recorded information on volume
9 tends to support the testimony of industry witness Schwartz in the experimental
10 case:

11 The current Standard A material which is either on-sorted within a
12 mailing wrapper or bound into our Periodicals is not of the type that
13 advertisers would send directly to consumers via any other class of
14 mail, i.e., Standard Mail A or First-Class Mail. These units are
15 creative pieces designed for inclusion with Periodicals (even though
16 they do not qualify for the Periodicals rates of postage). They are
17 not pieces which are normally sent independently of periodicals or
18 which have historically been subject to mass distribution via
19 Standard Mail A. (Docket No. MC2000-1, USPS-T-2, at 4)

20
21 Based on the survey results and as discussed earlier, the Postal Service to date
22 has not experienced any significant adverse processing or delivery effects from
23 the inclusion of Ride-Along pieces. However, if there is a significant level of non-
24 compliance with requirements or persistent reoccurrence of the problems

⁸ LR-J-116, Table 5.

⁹ RPW - Postal Quarters 3 and 4 FY 2000 and Postal Quarters 1 and 2 FY 2001.

1 reported in the survey, more detailed cost studies may be needed. If significant
2 cost impacts are found, larger increases in the Ride-Along rate or a tightening of
3 preparation requirements could result in the future.

4

5 **VIII. CLASSIFICATION CRITERIA**

6 Section 3623(c) of title 39 U.S.C. requires the Commission to make its
7 recommended decision on establishing a new classification in accordance with
8 the following factors:

- 9 1. the establishment and maintenance of a fair and equitable
10 classification system for all mail;
11
- 12 2. the relative value to the people of the kinds of mail matter entered into
13 the postal system and the desirability and justification for special
14 classifications and services of mail;
15
- 16 3. the importance of providing classifications with extremely high degrees
17 of reliability and speed of delivery;
18
- 19 4. the importance of providing classifications which do not require an
20 extremely high degree of reliability and speed of delivery;
21
- 22 5. the desirability of special classifications from the point of view of both
23 the user and of the Postal Service; and
24
- 25 6. such other factors as the Commission may deem appropriate;
26

27 Consistent with previous discussion in this testimony and witness
28 Taufique's testimony in the experimental case, (Docket No. MC2000-1, USPS-T-
29 1, at 14), this classification change is highly desirable from the point of view of
30 both the Periodicals mailers and the Postal Service (Criterion 5). The adoption of
31 the Ride-Along classification is designed to expand usage of Standard Mail

1 enclosures in Periodicals in a manner that is beneficial to all. Furthermore, as
2 discussed by witness Taufique, *id.* at 2, a compelling reason for this classification
3 change is that, before the experiment was approved, the Standard Mail
4 enclosures and attachments were treated as separate mailings from the
5 Periodicals host piece, whereas, in reality, the Postal Service processes and
6 delivers, and incurs costs for, just one piece. Publishers apparently considered
7 such payment to be unfair and the classification change provides an effective
8 mechanism to adjust the rate to be more reflective of actual costs.

9 The establishment and maintenance of a fair and equitable classification
10 system is fulfilled with the introduction of the proposed classification change
11 (Criterion 1). Fairness and equity is maintained with proper identification of cost
12 relationships. Specifically, since the Postal Service does not incur nearly the
13 same processing and delivery cost for a Ride-Along piece as for a stand-alone
14 Standard Mail piece, having a separate classification for a Ride-Along is
15 appropriate. Adopting this classification would promote a more fair and equitable
16 system for Standard Mail attached or enclosed with Periodicals.

17 The idea of a Periodicals Ride-Along rate originated from Periodicals
18 mailers and it provides a higher value of service than stand-alone Standard Mail
19 (Criterion 2). The value of the Periodicals host piece to the mailers will be
20 enhanced by the ability to include a qualified Ride-Along piece. Additionally,
21 Ride-Along provides value to recipients. There is value in learning about and
22 sampling a product before actually purchasing the product. There is value in

1 receiving the software or data provided on CD-ROMs. There is value in the
2 information included in catalogs and brochures.

3 The classification is designed to encourage a low cost, targeted
4 advertising attachment or enclosure without significantly impacting the ECSI
5 consideration of the Periodicals subclass. Therefore, based on the
6 aforementioned criteria, the proposed classification provides a desirable outcome
7 both from the perspective of the Postal Service, advertisers, publishers and mail
8 recipients.

9

1

2

Attachment 13 CPP DATA ON STANDARD MAIL ENCLOSURE VS RIDE-ALONG 1999-2001¹⁰

4

FY	Standard Mail	Number of Pieces	Revenue	Ride-Along	Number of Pieces	Revenue
1999	Yes	22,264,793	\$4,286,841	No		
2000	Yes	11,970,462	\$2,362,020	No		
2001	Yes	943,938	\$341,716	Yes	60,325,895	\$6,042,991

5

¹⁰ 2001 data does not include Quarter 4