

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO UPS INTERROGATORIES UPS/USPS -T21-1 - 6,  
REDIRECTED FROM WITNESS KAY  
(October 24, 2001)

The United States Postal Service hereby provides its response to the following interrogatories of United Parcel Service: UPS/USPS-T21-1 - 6, filed on October 10, 2001, and redirected from witness Kay. A partial objection to UPS/USPS-T21-2 was filed on October 22, and the attached answer does not waive that objection. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:



Eric P. Koetting

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2992; Fax -5402  
October 24, 2001

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORIES OF UNITED PARCEL SERVICE  
(Redirected from Witness Kay)**

**UPS/USPS-T21-1.** Refer to Library Reference USPS-LR-J-72, LR-J-72.DOC page 8.

- (a) Confirm that the Postal Service spent \$148,552,492 on advertising expenses in FY2000. If not confirmed, explain.
- (b) What percentage of the total advertising expenses is assigned to individual products in the incremental cost model?

**RESPONSE:**

a. Confirmed that \$148,552,492 was the amount spent on advertising in FY2000 for which information is available from the Advertising unit. The total amount reported in the Cost Segments and Components is \$150,567,000. The difference could be miscellaneous amounts spent for a variety of purposes including, for example, to place "help wanted" classified ads to fill professional or technical positions.

b. Percentage amounts for individual line items are shown, for example, in Witness Kay's workpapers, Volume II, Page IIIA-142, part of the sheet on Test Year Product Specific Costs. The percentages shown on that page total to 58.3 percent. Opinions may differ as to whether all of those line items (e.g., First-Class Mail, Standard Mail) should be considered "individual products."

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORIES OF UNITED PARCEL SERVICE  
(Redirected from Witness Kay)**

**UPS/USPS-T21-2.** Refer to Library Reference USPS-LR-J-72, LR-J-72.DOC page 8. Assign the \$17,638,289 in advertising for Online Service to individual products. If this cannot be done, explain why not. Identify where the total revenue and total cost of these Online Services can be found.

**RESPONSE:**

The referenced amount for the line "Online Services" on page 8 is an aggregation of the amounts spent in FY 2000 for advertising relating to a variety of programs involving, to varying degrees, interactions with customers on the internet. Since none of these programs charge rates or fees which are proposed to be changed in the instant request for a recommended decision, and since none of these advertising costs are included within the incremental costs of any of the products and services for which rate or fee changes are requested, the disaggregated amounts are not relevant to this proceeding, and, in some instances, constitute sensitive commercial information. Two of the programs (USPS.com and Stamps on Line) are infrastructure programs which support a variety of Postal Service products and programs. Two of them (e-Bill Pay and PosteCS) are eCommerce nonpostal services. As such, their total costs and total revenues are included in the amounts reported for such services in the Compliance Statement relating to nonpostal services, filed in response to Rule 54(h)(1) as part of Attachment G to the Request. Lastly, Mailing Online is an experimental hybrid postal service which offers customers with access to the internet an alternative channel to enter material which will be delivered as hard-copy mail within a variety of mail categories. The costs and revenues of Mailing Online were explored most recently in Docket No. MC2000-2.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORIES OF UNITED PARCEL SERVICE  
(Redirected from Witness Kay)**

**UPS/USPS-T21-3.** Refer to Library Reference USPS-LR-J-72, LR-J-72.DOC, page 8. Describe the "image" advertising associated with the cost of \$14,263,606.

**RESPONSE:**

Image advertising in FY 2000 included efforts such as the integration of brand messaging into advertising (e.g., the "Fly Like an Eagle" tagline), and efforts to promote the brand through non-product specific ads such as those featuring Tour de France champion Lance Armstrong and the USPS Cycling Team.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORIES OF UNITED PARCEL SERVICE  
(Redirected from Witness Kay)**

**UPS/USPS-T21-4. Does the Postal Service promote Priority Mail, Express Mail and Parcel Post at mail and parcel events or conferences? If so, in what way?**

**RESPONSE:**

The Postal Service promotes essentially all of its products, including those listed, at mail or parcel events and conferences. It does so in the usual way – encouraging attendees to visit its exhibits, making knowledgeable personnel available at the exhibits to speak with customers and answer their questions, and having Sales personnel follow up on the leads generated by customers who visit the exhibits and express potential interest in our products.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
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(Redirected from Witness Kay)**

**UPS/USPS-T21-5.** Are expenses related to mail and parcel conferences included in 'advertising costs'? If not, where are they included?

(a) Identify all costs associated with promoting the Postal Service or Postal Service products at these events. Include in these cost calculations all labor costs, travel-related costs, conference fees, expenses related to preparing for these conferences, and the cost of exhibits.

(b) Identify all costs associated with promoting Priority Mail, Express Mail, Parcel Post, and International Mail at these events. Include in these cost calculations all labor costs, travel-related costs, and all other conference expenses.

**RESPONSE:**

Some costs relating to trade shows are included in advertising costs.

Specifically, the Postal Service may obtain a list of registrants before a show and send out a direct mail piece inviting potential customers of specific products to visit our exhibit and to inquire about the product or products in which we believe they might be interested. In those instances, the cost of the direct mailing would be included in the advertising costs reported for those specific products or group of products as shown on page 8 of LR-J-72.

a. In addition to the advertising costs discussed above, the other costs of the Postal Service that can be identified as relating to participation in trade shows and promotion of the Postal Service and Postal Service products are the expenses of the Exhibits Marketing program within the Sales function. In FY 2000, the expenses of that program totaled approximately \$3.5 million. This figure includes the personnel costs of the Exhibits Marketing staff, the travel-related costs of attending personnel, the conference fees, and the costs of preparing and displaying the exhibits.

b. Other than the advertising costs discussed above, the Postal Service is

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
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unable to identify the costs of promoting specific products at trade shows. In general, the trade shows at which the Postal Service appears involve the promotion of a wide array of postal products, including, but not limited to, those identified in this subpart of the question. Even at the one event attended by the Postal Service which focuses primarily on package mailers ( the NCOF, National Conference on Operations & Fulfillment), no known basis exists to link the costs of participation (except the above-discussed advertising costs) to specific products.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORIES OF UNITED PARCEL SERVICE  
(Redirected from Witness Kay)**

**UPS/USPS-T21-6.** Are sales-related or customer service expenses assigned to individual products in either the Base Year model or the Incremental Cost model? If not, where are they assigned?

(a) Identify all costs associated with sales-related or customer service activities for all Postal Service products for FY2000.

(b) Identify all costs associated with sales-related or customer service activities for promoting Priority Mail, Express Mail, Parcel Post and International Mail for FY2000.

**RESPONSE:**

No, they are treated as institutional.

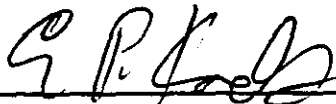
a. Base year costs related to Sales Function staff were included with the cost of Field Area and District Offices for six accounting periods during FY 2000 and cannot be separated from other Area and District costs. The Field portion of the Sales Function was transferred to Headquarters effective in accounting period 7 of FY 2000. The FY 2000 cost of Sales Function programs and activities reported under Headquarters finance numbers was \$96.0 million. The total base year cost of the Sales Function can be approximated by adding the \$96.0 million reported under Headquarters finance numbers to the \$51.1 million estimated to have been reported under Area and District finance numbers for accounting periods 1-6. Please refer to the response to UPS/USPS-T6-9 for an explanation of how the \$51.1 million was calculated.

b. No known basis exists to identify the costs of sales-related or customer service activities associated with promoting individual products.



**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



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