

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 -T21-7 - 9,
REDIRECTED FROM WITNESS KAY
(November 15, 2001)

The United States Postal Service hereby provides its response to the following interrogatories of United Parcel Service: UPS/USPS-T21-7 - 9, filed on November 1, 2001, and redirected from witness Kay. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:



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November 15, 2001

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UPS/USPS-T21-7. Refer to your testimony, USPS-T-21, at 10.

(a) Describe in detail the method by which advertising costs for Base Year 2000 were determined to be product-specific or non-product-specific. How does this method compare to methods used in prior years?

(b) Describe in detail the criteria that were used to make the determination that costs are product-specific or not. If any estimates were used, provide the data upon which these estimates were based.

(c) From whom did you receive the information you present on product-specific and non-product-specific advertising costs?

(d) Who determined whether particular advertising costs were product-specific or not?

RESPONSE:

a.-d. Advertising costs were determined to be product specific if they were identified as expended in support of a product for which the CRA reports costs. Advertising costs were determined to be specific to a group of products if they were identified as expended in support of a group of products for which incremental costs are estimated. This approach is the same as that employed in prior years. Please see the response to UPS/USPS-T21-8 for an explanation of the other information requested in this question.

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UPS/USPS-T21-8. Refer to your testimony, USPS-T-21, at 10, regarding product-specific costs.

(a) Describe in detail the method by which product-specific advertising costs for Base Year 2000 were allocated among products.

(b) What criteria are used to allocate product-specific costs among products? If estimates are used, provide the data upon which these estimates are based.

(c) Who determines how product-specific costs are allocated among products?

RESPONSE:

a.-c. As in previous years, the information regarding identification of the products or groups of products for which advertising costs have been expended comes from the Postal Service's advertising unit within the Marketing function. In prior years, however, that determination included an examination of amounts spent by various product support groups and amounts spent within various advertising channels, and a subsequent breakout of costs to product. See from Docket No. R2000-1 the Postal Service's response to UPS/USPS-T23-2 (filed March 13, 2000), the Postal Service's response to NAA/USPS-3 (filed April 6, 2000), and the Postal Service's response to UPS/USPS-T34-9 (filed February 29, 2000).

In FY 2000, the advertising unit changed its operating procedures, so that authorization for the expenditure of budgeted amounts included the requirement to identify the "advertising product" that the advertising was intended to support. "Advertising products" are the categories of programs and products that are created to allow subsequent tracking of advertising costs. They are, essentially, the line items shown on page 8 of LR-J-72. (Page 8 does reflect aggregation of the lines for International mail products, as well as aggregation of the amounts for certain online services, as noted in response to UPS/USPS-T21-2.) Thus, for example, while "Grand

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Opening” might be an “advertising product,” intended to track the costs expended to announce the opening of new postal facilities, it clearly would not be thought of as a “postal product” in the same sense as First-Class Mail, Priority Mail, etc. Those more conventional products, however, are also included within the list of “advertising products” that appear on page 8 of LR-J-72. The most noteworthy change between FY2000 and prior years, however, was the elimination of the need in some instances to do *post hoc* allocation to products, by initiation of a new process to make the allocation uniformly contemporaneous with the expenditure of funds, by the personnel seeking approval of the expenditure.

After the end of the fiscal year, officials in the advertising unit provide the list of costs by “advertising product” to the Postal Service’s costing personnel for use in the preparation for the CRA. The costing personnel, in turn, provide the relevant amounts to witness Kay for use as inputs into her incremental cost analysis.

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UPS/USPS-T21-9. Were the advertising expenditures of any previous years considered while allocating product-specific costs among products for Base Year 2000? If so, what years were considered? Describe any similarities and/or differences between the previous year(s)' advertising expenditures and that of Base Year 2000. Were these similarities and/or differences taken into account when allocating product-specific costs? If so, explain the process by which changes from the previous year were taken into account. If no changes were taken into account, explain why not.

RESPONSE:

The procedure described in the response to UPS/USPS-8 neither includes nor allows consideration of advertising expenditures from previous years. The most salient difference in advertising expenditures between FY 2000 and previous years is that the overall level of advertising expenditures decreases substantially.

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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