

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

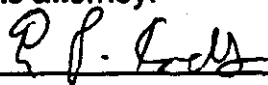
RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS THRESS
TO NAA INTERROGATORIES NAA -T8-1 - 5
(November 19, 2001)

The United States Postal Service hereby provides the response of witness Thress to the following interrogatories of NAA: NAA/USPS-T8-1 - 5, filed on November 5, 2001. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:


Eric P. Koetting

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November 19, 2001

**RESPONSE OF POSTAL SERVICE WITNESS THRESS TO
NAA INTERROGATORIES**

NAA/USPS-T8-1. Please refer to your testimony at Page 18, lines 1 through 13.

- a. Please explain how consumption expenditures on Internet Service Providers, through which consumers obtain access to a range of information and services, affects First Class mail volume.**
- b. Do you assume that any particular percentage of consumption expenditures on Internet Service Providers equates to a substitute of electronic mail or Instant Messaging for First Class mail?**
- c. Does your model take into account free e-mail accounts? If so, how?**
- d. Does your model take into account consumer use of Internet services, including e-mail, through their workplaces, where the cost of Internet service is borne by the employer?**

RESPONSE:

a. First-Class Mail volume is affected by the Internet in a number of ways. For example, E-mail can substitute for personal letters, and bills may be paid electronically instead of through the mail. The extent to which consumers use the Internet in general may be indicative of the extent to which consumers use the Internet as a substitute for First-Class Mail. Consumption expenditures on Internet Service Providers is a measure of the extent to which consumers use the Internet. Hence, it reflects the extent to which consumers use the Internet as a substitute for First-Class Mail.

See Peter Bernstein's testimony, USPS-T-10, Chapter IV, especially section IV.B., for a discussion of this issue.

b. No.

c-d. Not explicitly. These issues are discussed by witness Bernstein in USPS-T-10 at page 31, line 20 through page 32, line 14.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS TO
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NAA/USPS-T8-2: Please confirm that your testimony indicates that Standard ECR has a higher cross-price elasticity with Internet advertising than does Standard Regular mail. Please explain why this is a reasonable result in light of the capability offered by the Internet to target consumers on the basis of factors other than geography.

RESPONSE:

Confirmed.

Consider two means of targeting direct-mail advertising, demographic targeting – that is, targeting on the basis of characteristics such as age, income, or other demographic factors – and purchase targeting – that is, targeting a person on the basis of whether the person has previously bought from a catalog.

Demographic targeting may result in some geographic targeting (e.g., wealthy people tend to live in wealthy neighborhoods), and may therefore be conducive to the use of Standard ECR as opposed to Standard Regular. Purchase targeting, on the other hand, would be less likely to have a geographic component, and would therefore be more conducive to the use of Standard Regular mail.

As witness Bernstein discusses in his response to NAA/USPS-T10-8, there are a number of different types of Internet advertising. Some of these, such as direct e-mail, may be quite conducive to purchase targeting, while others, such as banner ads, may be more conducive to demographic targeting.

Depending on the nature of the specific type of Internet advertising, therefore, different types of Internet advertising may be expected to compete more heavily with either Standard Regular or Standard ECR mail.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS TO
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NAA/USPS-T8-3: Please refer to your testimony at Page 50, line 21. Please explain your understanding of how the price of newspaper advertising affects Standard Enhanced Carrier Route mail volumes. Please include in your answer:

- a. Whether the price of newspaper advertising to which you refer reflects run-of-press newspaper advertising or of insert advertising or some combination of both;**
- b. An explanation of how the cited price of newspaper advertising relates to ECR volume, as distinct from the volume of advertising preprints delivered via ECR mail.**

RESPONSE:

A potential advertiser can choose from among many possible advertising media, including newspapers as well as direct mail. If the price of newspaper advertising increases, then this is likely to make other advertising media, including direct-mail advertising, more attractive to potential advertisers. Hence, an increase in the price of newspaper advertising would be expected to lead to an increase in the use of non-newspaper advertising media, including direct mail.

- a. It is my understanding that the price of newspaper advertising includes both run-of-press newspaper advertising as well as insert advertising.**
- b. My focus is on ECR volume in general. I did not undertake any separate analysis on the "volume of advertising preprints delivered via ECR mail" distinct from other types of ECR mail.**

**RESPONSE OF POSTAL SERVICE WITNESS THRESS TO
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NAA/USPS-T8-4: Does your testimony regarding Standard Enhanced Carrier Route mail take into account, in any way, the prices charged by ECR shared mailers to advertisers for inclusion into a shared mailing? Please explain your answer fully.

RESPONSE:

No. The focus of my testimony is on the volume of Standard ECR mail, and is not concerned with the size or number of advertisers within a particular shared mailing.

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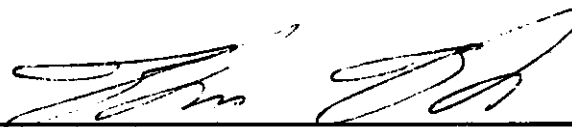
NAA/USPS-T8-5. If your answer to the preceding question is in the affirmative, please identify the source of the data that you use for the price charged.

RESPONSE:

Not applicable.

DECLARATION

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


A handwritten signature, appearing to read "Thomas Thress", is written over a horizontal line.

(Signed)

11-16-01

(Date)

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.

A handwritten signature in black ink, appearing to read "E. P. Koetting", is written over a horizontal line.

Eric P. Koetting

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