

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 BERNSTEIN  
TO NAA INTERROGATORIES NAA -T10-1 - 11  
(November 19, 2001)

The United States Postal Service hereby provides the response of witness Bernstein to the following interrogatories of NAA: NAA/USPS-T10-1 - 11, 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 BERNSTEIN  
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NAA/USPS-T10-1. Please explain, in qualitative terms, how growth in household expenditures for Internet services – as distinct from growth in the number of households making expenditures on ISPs – affects alleged diversion of communications from postal to electronic communications.

RESPONSE:

Chapter IV of my testimony presents an extensive discussion of this issue. In particular, please see section B of that chapter.

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NAA/USPS-T10-2. Does growth in the number of households have a positive effect on the volume of mail?

RESPONSE:

Yes.

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NAA/USPS-T10-3. Please refer to page 43, lines 9-10 of your testimony, where you state the truism that "advertising dollars spent on the Internet are advertising dollars that cannot be spent on other media, direct mail included." Do you believe the growth in Internet advertising has caused less direct mail advertising than would have occurred in the absence of Internet advertising, or has the Internet advertising consisted of new advertising that would not have been made otherwise?

**RESPONSE:**

I believe that growth in Internet advertising has caused less direct mail advertising than would have occurred in the absence of Internet advertising. This view is corroborated by the econometric work of Thomas Thress which shows a significant negative relation between increases in Internet advertising and Standard mail volume. Please see Section II.D of his testimony (USPS-T-8) for a discussion of the econometric impacts on Standard mail.

Some Internet advertising may be new advertising. According to data presented in LR-I-134, total advertising expenditures grew more rapidly from 1995 to 2000 (the period during which Internet advertising emerged) than from 1990 to 1995. However, given the stronger overall economy in the latter period, combined with two elections and two Olympics, it is reasonable that the growth in total advertising expenditures would have occurred independent of the development of Internet advertising.

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NAA/USPS-T0-4. Please refer to page 46, Table 11. Would advertising expenditures on a newspaper's website be included as "Newspapers" or as "Internet"?

RESPONSE:

My understanding is that the PWC/IAB measure of Internet advertising includes advertising expenditures on a newspaper's website as "Internet."

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NAA/USPS-T10-5. Please refer to page 46, Table 11. Would advertising expenditures contained in a newspaper Total Market Coverage program mailed to non-subscribers of the newspaper be contained in "direct mail" or "newspapers" in this table?

**RESPONSE:**

My understanding is that if the advertising is mailed, it is considered direct mail advertising.

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NAA/USPS-T10-6. Please refer to page 47, lines 1 to 9 of your testimony. Is it your testimony that newspapers did not lose any "advertising share" to Internet advertising? Please explain.

**RESPONSE:**

My testimony does not focus on the impact of the Internet on newspaper advertising. Newspapers may have lost some advertising share to the Internet. Looking at the data presented in LR-I-134, I observe that while the newspaper advertising has declined since the advent of Internet advertising in 1995, this decline has been occurring for many years. In contrast, the decline in direct mail advertising share since 1995 follows a 15-year period during which the direct mail share increased.

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NAA/USPS-T10-7. Please refer to page 50, lines 16 to 20. Do you agree or disagree with Mr. Blodgett's prediction that Internet advertising revenues will decline in 2001? Please explain your answer.

RESPONSE:

As explained in my testimony, my projections of future Internet advertising revenues fall between the projections of the more optimistic analysts and the more pessimistic analysts, such as Mr. Blodgett. I note that there is considerable uncertainty about the short-term prospects for Internet advertising. Nonetheless, all analysts, including Mr. Blodgett, predict that over a longer period of time, Internet advertising will increase.



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NAA/USPS-T10-8. Please refer to page 62, lines 13-16 of your testimony. Do you agree that Internet advertising is capable of being highly targeted to an individual's particular interests? If so, please discuss whether you believe Internet advertising is at least as capable of being targeted as Standard Regular mail.

RESPONSE:

There is a wide variety of Internet advertising, some of which appears well-suited for targeting to an individual's interests, some that is not. An example of an Internet ad that is targeted to an individual's interests would be an E-mail message from a computer store to a previous buyer of a computer game. On the other hand, a banner ad presented at the Yahoo home page would probably be less targeted.

I do not know whether Internet advertising is as capable of being targeted as Standard Regular mail.

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NAA/USPS-T10-9. Please refer to page 62, lines 13 to 16 of your testimony:

- a. Do you agree that Standard Enhanced Carrier Route mail is targeted on the basis of geography?
- b. Do you believe that Internet advertising can be targeted geographically to the same degree as Standard ECR mail?
- c. Do you believe that Standard Regular mail is as suited for geographic targeting as is Standard ECR mail?

RESPONSE:

- a. Geography is one basis for targeting ECR mail.
- b. I think that geographic targeting is less important for Internet advertising than for Standard ECR mail.
- c. I believe that since ECR mail provides a lower rate for mailers who can attain the required level of carrier-route density, it is better suited for geographic targeting than Standard Regular mail.

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NAA/USPS-T10-10. Please refer to page 64, lines 20-22 of your testimony, where you state that Standard Regular non-carrier route mail "has grown, in part at the expense of ECR mail, due to improvements in database marketing which have allowed advertisers to target customers more effectively." Please state specifically what types of ECR mail have migrated to Standard Regular mail as a consequence of improvements in database marketing.

**RESPONSE:**

Please see Dr. Tolley's testimony (USPS-T-7), page 102, line 4 to page 106, line 2 and page 114, lines 6 to 23.

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NAA/USPS-T10-11. Please refer to page 67, lines 1 to 2 of your testimony, where you state as an example that electronic check payment is less costly than mailed checks. In making that statement, do you factor into the cost of electronic check payment the costs of personal computers, appropriate software, and access to the Internet. If not, explain why not.

RESPONSE:

No. Table 4 of my testimony at page 20 shows that most electronic (a.k.a. technological) payments are through an automatic funds transfer. Automatic funds transfers do not require a computer, appropriate software, or access to the Internet. Other parts of my testimony discuss how the increases in home computer ownership and Internet access have set the stage for greater use of online bill payment. As such, I do not view the typical online bill payee as purchasing a computer or getting Internet access for the sole purpose of paying bills electronically. Therefore, I view these costs as being largely unrelated to the cost of online bill payment as they are incurred whether or not the individual pays bills online.

DECLARATION

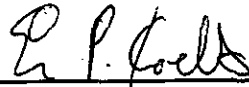
I, Peter Bernstein, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
(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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