

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

REVISED RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
PATELUNAS TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4,
QUESTION 5 – ERRATA

The United States Postal Service hereby provides the revised response of witness Patelunas to Presiding Officer's Information Request No. 4, Question 5, issued November 6, 2001. The original response was filed on November 28, 2001. The only change in the revised response is to subpart (b), which has been changed to indicate that the referenced OIG audit reports are being filed in USPS-LR-J-195 pursuant to Presiding Officer's Ruling No. R2001-1/16, issued December 7, 2001.

The question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking:



Susan M. Duchek

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December 12, 2001

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5. Please describe in detail the Sales Force Augmentation Project.
- (a) Please provide the number of vendors used during FY00 and FY01, a description of the method(s) by which payments to the vendors are determined, a copy of a typical contract, the scope of the Project and geographic coverage, benefits expected to be gained and actually achieved from the project, including savings from not using Postal Service employees, expenses incurred from the project from FY 1999 on, and a description of how expenses associated with the project are attributed.
- (b) Please provide any *Office of the Inspector General* audit or management reports concerning the Project submitted to the Postal Service since January 1, 1999. If such reports recommended any corrective actions, please describe what corrective actions were recommended and what corrective actions have been taken.
- (c) Please identify the account number(s) in the USPS Chart of Accounts where these costs are recorded and specify the cost segment and components where the identified account numbers are located in the CRA.

Response:

- (a) I am told the Sales Force Augmentation (SFA) helps the Postal Service Sales organization obtain new commercial revenue through the sale of Priority Mail, Express Mail, Global Priority Mail, and International Express Mail. This program enables the Postal Service to service previously uncovered small and medium size customer segments. The program uses a full-service provider (contractor) who staffs and manages a core of professional sales people trained explicitly to sell the Postal Service package service products mentioned above in selected markets.

The Sales Force Augmentation contractor is paid on a commission basis. The program provides added flexibility to the Postal Service in changing market

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Response continued:

conditions because resources can be redirected and supplemented as necessary.

The Postal Service awarded a three-year contract to TIC Enterprises, Inc, of Roswell, GA on 12/3/99; thus, there is a single vendor for the project. A copy of the contract was filed as USPS-LR-I-2002 in Docket No. R2000-1. The contract includes extension for two additional two-year periods. The scope of the project requires TIC's sales representatives to call on prospective clients in the small to medium size business segment. The geographic coverage of the project extends over twelve major metropolitan areas: San Francisco, Los Angeles, Denver, Dallas, St. Louis, Chicago, New York City, Boston, Philadelphia, Atlanta, Washington D.C., and Miami. Existing Postal Service customers and prospects are off-limits to the TIC sales force. Sales are monitored, with volume and revenue being measured for each participating customer. The contractor is compensated on a percentage of sales (i.e. commission basis), with the percentage less than the contribution margins for the products.

Since SFA began in Fiscal Year 1999, a total of \$119.9 M in new revenue has been generated. Commissions paid against that revenue amounted to \$24.2 million.

<u>Year</u>	<u>Revenue</u>	<u>Commission</u>
FY99	\$20.7M	\$ 3.9M
FY00	\$35.3M	\$ 9.4M
FY01	\$63.9M	\$ 10.9 M

Revised 12/12/01

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Response continued:

The Revenue to Commission comparison above shows one benefit, and there is the additional financial benefit of a contractor pay structure. It is estimated that the salary and benefits costs of performing the same functions as SFA would be in excess of \$14 million annually for the Postal Service. Another benefit of using SFA is the increased flexibility to respond to market conditions allowed by using a professional, non-Postal sales force.

The Commissions paid by the Postal Service are in Account Number 52323 in the USPS Chart of Accounts. This account is a portion of Cost Component 210, Administration and Area Operations in Cost Segment 18. The entire amount of Cost Component 210 is in Other costs; there are no volume variable costs.

(b) It is my understanding that OIG audits, dated March 30, 1999 and October 31, 2000 are being provided today in USPS-LR-J-195 in accordance with Presiding Officer's Ruling No. R2001-1/16, issued December 7, 2001.

(c) See the last paragraph of the response to part (a).

DECLARATION

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

A handwritten signature in black ink, appearing to read "Richard Patelunas", written over a horizontal line.

Dated: 12/12/01

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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