

RECEIVED

FEB 20 4 51 PM '02

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

Exhibit MMA-ST-2

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

Postal Rate and Fee Changes

Docket No. R2001-1

**SURREBUTTAL TESTIMONY OF
JOHN D. CRIDER, CMDSM
ON BEHALF OF
MAJOR MAILERS ASSOCIATION**

February 20, 2002

1 **Direct Testimony of John D. Crider, CMDSM**
2 **On Behalf of**
3 **Major Mailers Association**
4

5 **I. INTRODUCTION**

6 **A. Statement of Qualifications**

7 My name is John D. Crider. I am the Manager of Postal Affairs for Sprint Mailing
8 Services located at 14625 W. 100th Street, Lenexa Kansas 66215. Sprint Mailing
9 Services is responsible for mailing invoices, payroll checks, accounts payable checks,
10 W2's, 1099's and other customer mailings for Sprint. Sprint Mailing Services processes
11 approximately 32 million mailpieces per month and spends approximately \$150 million
12 plus in postage annually. Sprint is a member of Major Mailers Association (MMA).

13 I have a total of 12 years experience in the mailing industry beginning in 1990 as
14 an inserter operator inserting invoices, etc. In 1994 I was promoted to supervisor over
15 the mailing operations in Kansas City. In 1996 I was promoted to Production Manager
16 for the Kansas operation. In 2000, I took the position of Manager of Postal Affairs for all
17 three Sprint Mailing Services locations (Kansas, California and Florida).

18 In April 1998 I received my certification as a Certified Mail Distribution Manager.
19 I am on the Board of Directors of MMA. I am past industry co-chair of the Greater
20 Kansas City Postal Customer Council (two terms). I am a member of the Mail System
21 Management Association. I am actively involved with postal reform serving as Lead for
22 MMA working with Deborah Willhite, Senior Vice President of Government Relations &
23 Public Policy for the US Postal Service. I am currently working on Mailing Technical
24 Advisory Committee (MTAC) subcommittees.

25 **B. Purpose and Summary of Testimony**

26 In the unique circumstances of this proceeding, the USPS and all mail groups
27 representing diverse, often conflicting interests were able to come together, cooperate,
28 and reconcile their differences in a Stipulation and Agreement¹ (S&A) that has garnered
29 overwhelming support. The parties did so thanks in large measure to this Commission's

¹ See Motion of the United States Postal Service Submitting Second Revised Stipulation and Agreement (January 17, 2002).

1 leadership. The S&A will provide fair and equitable rates for mailers and additional
2 revenues to the Postal Service three months earlier than if the entire case had to be
3 litigated.² Mr. Bentley has informed me that the slightly lower workshare discounts
4 agreed upon in the S&A will lower test year revenues by about \$82 million. In return,
5 the Postal Service stands to gain an additional \$600 million from the earlier
6 implementation date. We believe it is important for the Postal Service to regain its
7 financial well being and we are prepared to do our share.

8 Sprint Mailing Services is a signatory and strong supporter of the S&A. The
9 primary purpose of my surrebuttal testimony is to respond to APWU witness Riley's
10 claims that the First Class workshare discounts in the S&A and, apparently, even the
11 current discounts, are too high and exceed the cost savings as calculated by USPS
12 witness Michael Miller. Sprint and other MMA members are concerned that APWU is
13 attempting to capitalize on the ongoing economic recession, the tragic 9/11 attacks, and
14 the anthrax incidents to impose a disproportionately large postal rate increase on First-
15 Class workshare mailers in this case. Contrary to APWU's narrow view of the world,
16 these unfortunate developments have had an adverse impact not just on APWU
17 members and the finances of the USPS, but on the entire Nation, including business
18 mailers large and small, and the millions of people they employ. During these difficult
19 times, mailers are experiencing many of the same problems that the USPS is
20 experiencing. While we have empathy and do understand the position that the Postal
21 Service is in, the Commission needs to understand that the industry is going through
22 hard times as well. At Sprint, we have had layoffs (something APWU members have
23 been spared), reorganizations, and a tightening of budgets not just once but several
24 times. Sadly, Sprint's experience is not unique. Under these circumstances, it is
25 difficult, if not impossible, for me to explain to higher management that postal rates need

² Participants interested in First-Class Mail issues, including the OCA, took a lead role in forging a settlement agreement with the USPS. I believe the efforts of these parties to achieve a reasonable settlement of First-Class Mail issues in a timely manner paved the way for the USPS and other mailer interests to reach settlement. First-Class is by far the major contributor to USPS institutional costs. Therefore, no settlement could be achieved without our collective input. I participated actively on behalf of MMA in the settlement discussions on First-Class Mail issues and can attest to how difficult that agreement was. I was dismayed to learn that the APWU, which never joined in our negotiations, has centered its opposition to the S&A on the First-Class workshare discounts.

1 to be increased yet again³ to spare the USPS from the devastating effects of 9/11 and
2 the anthrax incidents.

3 APWU's "solution" is to give the USPS a substantial financial booster shot, up to
4 an extra \$2.5 billion according to MMA witness Bentley, by roughly doubling the rate
5 increase to First-Class workshare mailers. Requiring workshare mailers to bear the full
6 burden of what the APWU views as the USPS revenue shortfall is unfair on its face,
7 especially in view of the fact that First-Class workshare mail already makes **by far** the
8 largest contribution to recovery of institutional costs. It is doubly unfair because the
9 APWU has not bothered to demonstrate that the USPS needs such a massive revenue
10 infusion and the USPS has not claimed that it needs these additional revenues.

11 MMA is even more concerned about the long term implications, for the USPS
12 and **all** users of the postal system, of APWU's proposal to destroy the mutually
13 beneficial, cooperative relationship which the USPS and large workshare mailers have
14 created and nurtured for the past quarter century. APWU witness Riley has made some
15 ill-considered and unfounded claims about how major workshare mailers such as Sprint
16 would react to implementation of his discount proposals. Mr. Riley has suggested that
17 slashing workshare discounts will have little or no impact on workshare mailers'
18 behavior and the extent to which they remain willing to comply with complex postal
19 regulations and requirements governing design, preparation, and presentation of their
20 mail. I also understand that, when he testified orally, Mr. Riley ventured a "guess . .
21 .that if you brought in the CEOs of the top 30 mailers, at least 25 of them would be
22 happy to accept the proposal that I have offered." Tr 12/4943.

23 Mr. Riley is wrong on all counts. Sprint's upper management carefully monitors
24 developments within Sprint Mailing Services. The availability of meaningful workshare
25 discounts and relatively stable postal rates gave Sprint the incentive to invest hundreds
26 of millions of dollars to construct and optimize the operations at its three Mailing
27 Services facilities. In return for making such substantial investments, Sprint's
28 management is looking for stable postal costs and adequate recognition in workshare

³ First-Class workshare mailers already experienced substantial increases in postal costs due to the rates that the Commission approved in R2000-1. Those increases were compounded by the additional postal rate increases, and discount reductions, imposed by the USPS Board Of Governors in July 2001.

1 discounts of the time, effort, and expense that Sprint incurs to comply with very
2 complicated and stringent USPS requirements. As mentioned, upper management is
3 already concerned about the recent, rapid increases in postal costs. As I will discuss in
4 the next section, management is also concerned that, in recent times, the USPS is
5 demanding more and more work from very large mailers like Sprint without sharing the
6 financial benefits the USPS receives from mailers' additional efforts through a
7 commensurate increase in the discounts.

8 The First-Class workshare rates that APWU witness Riley has proposed will not
9 provide the rate stability that Sprint and other large workshare mailers need. In fact, it is
10 just the opposite. APWU is proposing to significantly roll back the discounts. Mr. Riley's
11 speculation that CEOs of 25 out of the top 30 mailers would happily sign on to APWU's
12 "offer" is just that – speculation. I can testify with certainty that no one from Sprint ever
13 told him that slashing workshare discounts was acceptable. I have also canvassed
14 other MMA members and no one recalls having any such discussion with Mr. Riley or
15 any other USPS representative. MMA members are among the largest First-Class
16 workshare mailers in the country.

17 If discounts are reduced drastically, as APWU proposes, Sprint's management
18 will be asking me the "why" questions. Why should Sprint Mailing Services and other
19 First-Class workshare companies bear the brunt of these unfortunate incidents? If we
20 cannot have **meaningful** discounts for First-Class automated mail in this settlement **and**
21 be able to look forward to compensatory worksharing discounts in rate cases to follow,
22 Sprint's management will simply say, "Why did we spend millions upon millions of
23 dollars to put the company in a position where we are financially vulnerable to the
24 whims of the USPS?"

25 I know that Sprint's management will be looking for alternative methods of
26 delivering bills to its customers and receiving payments from them. Faced with a
27 situation where workshare discounts are being reduced, rather than being increased as
28 Sprint strongly believes they should be, Sprint likely will seek to remove a significant
29 portion of its mail from the postal system as soon as possible.⁴ I am aware that Sprint is

⁴ Obviously Sprint could not abandon the postal system overnight. However, that fact provides no support for APWU's proposal that the USPS extract extra revenues from workshare mailers just because it can do so in the short term.

1 already offering as an option to some of its customers substantial financial incentives to
2 pay their bills online via the Internet.

3 The USPS knows, and the Commission should as well, that for each customer
4 who chooses to pay his bills online, the Postal Service loses 24 prebarcoded, low-cost
5 letters per year. Such letters are very profitable for the USPS to handle. Once they
6 leave the postal system, the likelihood that they will return is nil.

7 8 **II. The USPS Already Fails To Give Adequate Recognition To Sprint's Workshare** 9 **Efforts**

10 Sprint Mailing Services spends large amounts of money for automated mail
11 processing that have not been considered for worksharing discounts. The following are
12 cases in point:

13
14 A. **Move/Update.** Sprint was among the first, if not the first, large First-Class
15 mailer to automate the move/update process. Sprint invested approximately
16 \$60,000 in hardware and software in a Forward Trak system, a Pitney Bowes
17 product, to meet move/update regulations. Sprint also had to pay for almost
18 5,000 hours of programming at a cost of over \$400,000 and spent over a year
19 and a half just to get the system working correctly. On top of that the USPS
20 charged an annual \$10,000 fee for the first three years for the "privilege" of
21 doing this.⁵ Compliance with the mandatory move/update requirements
22 entailed not only a large initial investment by Sprint but also ongoing costs
23 due to changes and the need to incorporate weekly updates that we receive
24 from the USPS. In the spirit of partnering with the USPS, Sprint has
25 absorbed this cost. At the same time, Sprint feels there should be some
26 tangible consideration for the investment and expenses incurred; but so far, it

⁵ After long hours of discussion and negotiation, last year the USPS reduced that annual fee to \$5,000.

1 is my understanding that workshare mailers receive no recognition of this very
2 expensive program in the determination of workshare cost savings.⁶

- 3 B. **PostalOne!** – The USPS claims that PostalOne! is a program that the post
4 office needs for their infrastructure to be successful now and in the coming
5 years. Sprint was one of the first mailing industry organizations to beta test
6 PostalOne!. We weigh, scan and apply a routing and destination tag to
7 approximately 3,300 trays each day. The trays are sorted to different pallets
8 based upon destination criteria provided by the USPS. And then the pallets
9 are sorted into trucks. According to the USPS, this expedites and saves re-
10 handling of their mail at their local facility, which in turn cuts costs, **including**
11 **transportation costs**, for the USPS and *potentially* shortens delivery time.⁷
12 Sprint Mailing Services has dedicated approximately 200 square feet of
13 precious floor space in its already strained space at the Kansas City mailing
14 facility to the PostalOne! Program for sorting and palletizing the mail. Sprint
15 also has added new employees, at cost of approximately \$125,000 annually,
16 just to participate in this beta test phase of the program in its Kansas City
17 facility, one of its three locations. This is only for Phase One. Again, in the
18 true spirit of partnership, Sprint is investing time and money to accommodate
19 the USPS, for which the Postal Service seems to give up nothing.
- 20 C. Sprint Mailing Services sorts, bands, palletizes, shrink-wraps its mail and
21 loads mail trucks at the USPS' request. These are jobs that USPS personnel
22 would normally do if Sprint's mail were delivered to USPS facilities. Having
23 Sprint employees perform these tasks saves the USPS direct and indirect
24 labor, material, and equipment costs. Moreover, being able to dispatch whole
25 trailer truck loads of fully prepared and routed mail directly to airports and/or
26 centralized processing plants saves the USPS substantial amounts of
27 transportation costs. MMA witness Bentley informs me that **none** of the

⁶ I understand that in the last case, MMA member Sharon Harrison testified that many MMA members had to use inaccurate USPS addresses even though they had more recent, reliable addresses available to them. Tr 26/12227,12230-32 (Docket No. R2000-1).

In connection with many of the new programs and requirements that it institutes, the USPS touts faster delivery of the mail as a real benefit for workshare mailers like Sprint. Nevertheless, Sprint and

1 transportation cost savings that result from having mailers perform these
2 activities are reflected or even considered in the derivation of First-Class
3 workshare cost savings.

4 D. Whittier Taggers – In 1996 Sprint made the decision to partner with Whittier
5 Tagging Products. We found that maintaining current tray tags issued by the
6 USPS wasn't working. The Whittier tagging system provides a faster way of
7 updating tray tags. Sprint Mailing Services has spent \$44,500 to purchase
8 Whittier taggers and spends an additional \$6,000 annually to license and
9 maintain the taggers for all three mailing centers. The taggers produce only
10 the labels needed for each mailing with the correct zipcode and sortation
11 information to expedite handling of mail by the USPS. This is an example of
12 a function that private industry performs more effectively than the USPS can.
13 If large mailers like Sprint want to maximize the efficient flow of their
14 mailpieces into the USPS system, they effectively have no choice but to incur
15 additional expenses to replicate what the USPS should be able to provide.
16 Again, mailers like Sprint get no credit for the cost savings realized by the
17 USPS.

18 E. Sprint has invested in state-of-the-art inserters with a value of approximately
19 \$36 million, with another \$21 million in state-of-the-art laser printers. All of
20 this money has been spent with the idea of being a partner with the USPS in
21 keeping rates as low as possible. Investments of this magnitude indicate the
22 level of financial commitment that large mailers make to the workshare
23 program. Major mailers such as Sprint will not continue to invest in such
24 expensive new equipment and technology if there is an expectation that they
25 may not be able to recoup their capital investments, much less enjoy some
26 return on those investments. Today, mailing is an important part but not the
27 core part of Sprint's business. If ill-conceived policies like those espoused by
28 APWU force Sprint to leave the postal system and find other means of
29 sending bills and receiving payments, then there would be no longer a need

other MMA members have noted that the USPS has real problems meeting its own existing delivery standards.

1 for Sprint to purchase ancillary equipment such as these printers, inserters,
2 and mail sorters.

3 **F. Mailpiece Design** -- Each year, Sprint expends considerable time and
4 money in training its employees on postal rules and regulations governing the
5 design and production of qualifying mailpieces. This task is complicated by
6 the fact that the USPS requirements are constantly changing. We have a
7 training program for all new employees to explain the **basic** information that
8 the USPS requires before it will accept and process First-Class automated
9 mail. This training is done at all three sites. The necessary ongoing training
10 for me to stay abreast of the all the rules and regulations and participating in
11 USPS work groups is also a significant added expense to Sprint. From my
12 perspective as a manager of Sprint's mailing operations, maintaining the
13 proper address formatting and envelope design capability is extremely time
14 consuming in as large a mailing operation as this. MMA witness Bentley's
15 testimony discusses the industry following that the Postal Service has created
16 by regulating the mailpiece design requirements so closely.

17 18 **III. CONCLUSION**

19 Over the years Sprint has enjoyed a mutually beneficial relationship with the
20 Postal Service. We have proven time after time that we are willing to work with the
21 USPS on new ideas and projects. This has been proven not only in attitude but also in
22 actual dollars spent to support postal programs. We understand the position that the
23 USPS is in and will support the S&A and legitimate postal reform legislation. We want
24 to see the USPS make it through these hard times and come out stronger than before.
25 For this to happen we need to continue to work together.

26 If the USPS should, for any reason, significantly reduce discounts for First-Class
27 workshare mail, it could put the USPS into a virtual death spiral. Such a move would
28 inevitably result in the First-Class mailing industry being forced to seek alternative
29 means of communicating with their customers and to eliminate delivery of hard-copy
30 through the postal system. Resorting to such alternatives, which Sprint's upper
31 management already is experimenting with, will take some time to implement.

1 Nevertheless, the resulting loss of Automated First Class letters, with their large
2 contribution to the Postal Service's institutional costs, would be devastating not only to
3 the Postal Service but its workforce as well. For the USPS to turn its back on
4 worksharing discounts at this time would send a message to the managers of all
5 companies involved in First-Class mail that the spirit of partnership in which they
6 entered a relationship with the USPS was for naught.

7 For these reasons, I recommend that the Commission accept the S&A and reject
8 APWU's proposal reduce First-Class workshare discounts.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document, by First-Class Mail, upon the participants in this proceeding.


Michael W. Hall

Round Hill, VA
February 20, 2002