

USPS-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

EXPERIMENTAL CHANGES TO IMPLEMENT
CAPITAL ONE NSA

Docket No. MC2002-2

DIRECT TESTIMONY
OF
ANITA J. BIZZOTTO
ON BEHALF OF
THE UNITED STATES POSTAL SERVICE

TABLE OF CONTENTS

	Page
Autobiographical Sketch	ii
I. Purpose and Scope of Testimony	1
II. The Postal Service's Mission	1
III. A Quiet Evolution in Postal Services	2
IV. Customer-Specific Agreements.....	3
V. The Agreement with Capital One	5

1 **I. Purpose and Scope of Testimony**

2 My testimony discusses the reasons underlying the Postal Service's
3 decision to enter into a negotiated service agreement (NSA) with Capital One
4 Services, Inc. (Capital One). I describe how this agreement fits into the Postal
5 Service's overall strategy of increasing our effectiveness by providing the
6 services our customers want and need. I also describe how this agreement is
7 consistent with the general policies of the Postal Reorganization Act. I believe
8 that this agreement will provide benefits, not only to Capital One and the Postal
9 Service, but also, because of the increased contribution to institutional costs, to
10 all customers.

11 There are no Library References or workpapers associated with my
12 testimony.

13 **II. The Postal Service's Mission**

14 The Postal Reorganization Act of 1970 defines the Postal Service's
15 mission:

16 The Postal Service shall have as its basic function the obligation to
17 provide postal services to bind the Nation together through the personal,
18 educational, literary, and business correspondence of the people. It shall
19 provide prompt, reliable, and efficient services to patrons in all areas and
20 shall render postal services to all communities.

21 39 USC §101(a). In everyday language, the Postal Service's goal is to provide
22 customers the products and services that enable them to communicate with
23 friends, family, and business associates through the mail. This universality of
24 service has never meant, however, that every mail piece is identical in the way it
25 is handled, the rate it pays, or the service it receives. Even before postal
26 reorganization, distinctions based on service and other characteristics existed:

1 for example, First-Class Mail letters were treated differently from both Airmail
2 letters and Parcel Post. These differences were reflected in both the rates paid
3 (Airmail was more expensive than First-Class Mail letters which, in turn, were
4 more expensive than Parcel Post) and the speed at which the piece traveled
5 from origin to destination (Airmail was quicker than First-Class Mail which, in
6 turn, was quicker than Parcel Post.)

7 Postal reorganization fundamentally changed postal ratemaking by
8 charging the Postal Rate Commission and the Postal Service with developing
9 rate and classification schedules that specify criteria designed to ensure that
10 costs are covered and that products and services are provided in a manner that
11 is not unduly discriminatory.¹

12 **III. A Quiet Evolution in Postal Services**

13 The world has changed since 1970 and the Postal Service has changed
14 along with it. For instance, the Postal Service has gradually moved from a “one-
15 size-fits-all” approach—with relatively few distinctions among products—to an
16 approach that allows customers to choose among many rate options that depend
17 variously on the degrees of mail preparation, automation compatibility, and
18 geographic entry, thereby also reducing Postal Service costs. In July of 1976,
19 the quiet evolution of postal services began with the introduction of First-Class
20 Mail presortation discounts. Over the next twenty years, discount structures
21 were established in virtually all subclasses of mail and expanded to include
22 automation compatibility, barcoding, drop-shipment, and more specialized

¹ Witness Plunkett (USPS-T-2) discusses the application of these criteria in his testimony.

1 presortation options. In general, these discounts reflect the costs avoided by the
2 Postal Service when our customers “workshare” or perform activities that we
3 otherwise would do to process, transport, and deliver the mail.

4 More recently, the Postal Service has begun examining our product
5 offerings and developing new classifications that meet the needs of small groups
6 of customers. For example, weight-averaged, non-letter-sized Business Reply
7 Mail and Bulk Parcel Return Service were recommended by the Commission with
8 the understanding that these services were targeted at small groups of
9 customers with specialized needs. Over time, a clear consensus has developed
10 that targeted, customer-responsive pricing is not discriminatory and that “one-
11 size-fits-all” pricing ignores the needs of some customers and opportunities to
12 develop products that provide a contribution to the institutional costs of the Postal
13 Service. All customers are not identical, and requiring Aunt Minnie to presort her
14 mail and present it in 500-piece mailings would be as inequitable (and likely as
15 inefficient) as requiring large commercial mailers to pay single-piece rates when
16 they are willing and capable of reducing Postal Service costs by presorting, drop-
17 shipping, barcoding, and meeting other requirements to make their mail
18 automation-compatible.

19 **IV. Customer-Specific Agreements**

20 A natural next step in the evolution of postal pricing is the customization of
21 services and pricing for individual customers in a way that benefits not only the
22 participating customer, but also all other postal customers by providing a positive
23 net contribution to the institutional costs of the Postal Service. There are

1 probably as many different ways of customizing products and prices as the
2 Postal Service has customers, but the potential agreements can be generally
3 categorized into four groups:

- 4 • Providing additional services not included in the existing classification
5 schedule
- 6 • Combining (or bundling) services in a way not contemplated in the
7 existing classification schedule
- 8 • Reducing service offered within a classification
- 9 • Customizing worksharing to a mailer's unique abilities

10 Depending on the exact agreement reached with a participating customer, with
11 some of these opportunities, a discount might be offered, with others, an
12 additional fee might be appropriate. Additional opportunities for worksharing or
13 unique service agreements might be combined with incentives to maintain or
14 increase mail volumes, as appropriate. In all instances, the overarching goals
15 will be to meet the needs of our customers and to provide additional net
16 contribution to the institutional costs of the Postal Service.

17 Negotiated service agreements have been discussed within the postal
18 community over the last decade. Our customers have clearly indicated that they
19 support creative, cost-effective rates and classifications meeting their needs. In
20 a rapidly changing world, and with increasing financial challenges, the Postal
21 Service must work with its customers, before our customers decide to pursue
22 nonmail alternatives. Customized pricing and classifications will give the Postal
23 Service a valuable tool to meet our customers' needs in an increasingly complex
24 marketplace. We should not be afraid to move forward, particularly when

1 remaining in the current “comfortable” spot will not necessarily resolve the Postal
2 Service’s inherent difficulties. The ongoing NSA debate has been a useful
3 exercise and has allowed the Postal Service to refine this proposal. Therefore,
4 the Postal Service is requesting that the Postal Rate Commission recommend
5 the rates and classifications contained within the Capital One agreement and
6 open the door to a brighter future for the Postal Service and all of its customers.

7 **V. The Agreement With Capital One**

8 This agreement with Capital One² is the Postal Service’s first domestic
9 customized pricing agreement and represents the next logical step in the
10 progression from relatively undifferentiated products to a customer-responsive
11 pricing policy. I recognize that the Postal Service cannot and – due to the unique
12 position that we hold in American society – should not differentiate unreasonably
13 and inequitably among our customers. However, implementation of this
14 agreement will benefit not only the Postal Service and Capital One, but
15 nonparticipating customers as well. Capital One’s mail volume is expected to
16 grow over the term of the contract, thus offsetting some of the decline in volume
17 expected in other segments of the mail stream. The Postal Service’s operational
18 costs will fall as a result of changes in return procedures for Capital One’s mail.
19 Capital One will benefit from more economical postage rates. Lastly, and most
20 importantly, nonparticipating customers will see a reduction in their institutional
21 cost burden as the total net contribution from Capital One increases.

22 A fundamental question underlying this Request and the longstanding
23 debate over customized pricing for Postal Service customers is whether it is

1 inherently inequitable for individual customers to be treated differently. Some
2 may argue that all but the simplest distinctions based on weight, shape, or speed
3 of service are inappropriate. The history of postal ratemaking, with increasing
4 accommodation of customer distinctions, already contradicts this argument. The
5 NSA with Capital One is consistent with this trend in postal ratemaking. While an
6 agreement giving a rate reduction without a net increase in contribution would be
7 inequitable, the agreement between the Postal Service and Capital One provides
8 a net increase in contribution. As a result of implementing this agreement, a
9 single mailer will find the mail to be a more attractive medium for communicating
10 with its customers, no other mailers will be harmed, and all mailers will benefit
11 from the net increase in contribution. Accordingly, the Postal Service is
12 requesting that the Postal Rate Commission recognize the benefits of the Capital
13 One NSA to the Postal Service and all postal customers, and work expeditiously
14 toward sharing these benefits as quickly as can reasonably be accommodated.

² Attachment G to the Request.