

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

EXPERIMENTAL RATE AND SERVICE CHANGES
TO IMPLEMENT NEGOTIATED SERVICE AGREEMENT
WITH CAPITAL ONE SERVICES, INC.

Docket No. MC2002-2

UNITED STATES POSTAL SERVICE INTERROGATORIES
TO TESTIMONY OF JOHN C. PANZAR
(USPS/JCP-T1-1-7)

Pursuant to rules 25 and 26 of the Rules of Practice and procedure, the
United States Postal Service directs the following interrogatories and requests for
production of documents to witness John C. Panzar: USPS/JCP-T1-1-7

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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January 24, 2003

USPS/JCP-T1-1. Using the concepts elaborated in your written testimony, please define the input or inputs relevant to the Capital One Services, Inc. Negotiated Service Agreement at issue in this proceeding. Please provide as full and precise a description as possible.

USPS/JCP-T1-2. If it were demonstrated that the competitors of Capital One Services, Incorporated currently do not utilize the input or inputs at issue in the NSA, how would this affect your testimony? Please explain fully.

USPS/JCP-T1-3. Is it possible that existing workshare discounts currently give a competitive advantage to large volume mailers? Please explain your answer fully.

USPS/JCP-T1-4. a. Do you agree that one of the inputs provided to credit card companies by the Postal Service is the ability to reach potential new customers through advertising? If you do not agree, please explain.

b. Do you agree that the Postal Service has no monopoly in providing this input, as credit card companies have available (and in fact utilize) a variety of other advertising channels besides direct mail (e.g., TV and radio commercials, newspaper and magazine ads, billboards, etc.) to reach potential customers? If you do not agree, please explain.

c. Regardless of your answer to the above questions, if it were demonstrated that the Postal Service did not have a monopoly with respect to the inputs it provides to credit card companies, how would this affect your testimony? If you are unsure of how it might affect your testimony in terms of formal economic models, please discuss how it might affect your testimony intuitively.

d. Hypothetically, if, as a result of an NSA with one credit card company, the credit card company entering the NSA increased its advertising expenditures on direct mail, but commensurately reduced its advertising expenditures in other media, with no net change in its overall advertising expenditures, how would this affect the analysis in your testimony?

e. . Hypothetically, if, as a result of an NSA with one credit card company, the credit card company entering the NSA increased its advertising expenditures on direct mail, but commensurately reduced its advertising expenditures in other media, with a net reduction in its total advertising expenditures, but no net change in the total number of responses received from potential customers reached via all advertising media combined, how would this affect the analysis in your testimony?

f. Hypothetically, if any reduction in advertising expenditures by all other credit card companies that resulted from an NSA with one credit card company were limited to expenditures on other advertising channels (i.e., there were no reduction in the other credit card companies' level of direct mail advertising), how would this affect the analysis in your testimony?

USPS/JCP-T1-5. a. Do you agree that different company-specific advertising strategies to attract new customers are among the means by which credit card companies compete? If you do not agree, please explain.

b. Do you agree that credit card companies do not use advertising inputs in fixed proportion to outputs? If you do not agree, please explain.

c. Regardless of your answer to the above questions, if it were demonstrated that credit card companies do not use the inputs provided by the Postal Service in fixed proportion to outputs, how would this affect your testimony? If you are unsure of how it might affect your testimony in terms of formal economic models, please discuss how it might affect your testimony intuitively

d.. Hypothetically, if, despite the existence of an NSA with one credit card company, all other credit card companies maintained their previous levels of advertising, including direct mail advertising, how would this affect the analysis in your testimony?

e. Hypothetically, if additional direct mail advertising by the NSA credit card company stimulated *more* advertising by competing credit card companies, how would this affect the analysis in your testimony?

USPS/JCP-T1-6. Hypothetically, if the discounted rates available under an NSA with one credit card company allow that company to target solicitations to a group of potential customers that currently are not being targeted by that company or any of its competitors (because the expected response rate from this group of potential customers would not justify expense of the mailings at the current uniform undiscounted rate), would not the result of this expansion of the potential customer base cause the NSA to benefit the Postal Service and the NSA credit card company, with no material impact on other credit card companies? Please explain your answer fully.

USPS/JCP-T1-7. a. Do you agree that, to the extent that some credit card companies use First-Class Mail for solicitation mailings, while others rely almost exclusively on Standard Mail for their solicitation mailings, the credit card companies do not use homogenous direct mail advertising inputs? If you do not agree, please explain. What effect might this have on the analysis in your testimony?

b. Hypothetically, if the Postal Service enters an NSA regarding First-Class Mail rates with one credit card company that relies heavily on First-Class Mail for advertising, and if any resulting decrease in direct mail advertising by other credit card companies is experienced almost exclusively in Standard Mail, and if, even with the NSA discounts, the average contribution (P-MC) from each additional piece of First-Class Mail is greater than the average contribution of the lost pieces of Standard Mail, how would this affect your testimony? If you are unsure of how it might affect your testimony in terms of formal economic models, please discuss how it might affect your testimony intuitively.

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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