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

CUSTOMIZED MARKETMAIL MINOR CLASSIFICATION CHANGES	Docket No. MC2003-1

DIRECT TESTIMONY
OF
CHRISTOPHER C. ASHE
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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Direct Testimony
Of
Christopher C. Ashe

AUTOBIOGRAPHICAL SKETCH

My name is Christopher Ashe. I am employed by the Product Management – Flats group within Marketing at the Postal Service as a Marketing Specialist. My responsibilities include the development and management of programs designed to improve flat-size mail.

My professional career started with the United States Central Intelligence Agency in 1989, where I was a trainee in the Agency's Directorate of Operations. From 1991-1996, I worked for The Analytic Sciences Corporation in a variety of technical and management positions. In 1997, I served as the President and Chief Executive Officer of Truth Technologies, Inc., a money laundering and fraud detection company. From 1997-1999, I served as the Regional Sales Manager for Asia and the Pacific Rim for the United States Postal Service's International Business Unit. In 1999, I also served as a Business Development Manager with United Parcel Service of America, and was responsible for the company's international sales in Maryland, Virginia, and Washington, DC. From 2000-2001, I was the Vice President of Sales and Marketing for iDEVCO, Inc., an E-commerce management consulting firm. I returned to the Postal Service in 2001 as an E-commerce Sales Specialist and, in 2002, served as a Business Evaluation Analyst in the Postal Service's Alliance and Partnerships Office. In August 2002, I began my current responsibilities in the Product Management-Flats group.

I hold a Bachelor's degree in International Studies from The American University, and am pursuing a Master's degree in International Affairs from The American University. I have also studied at the United States Department of State's Foreign Affairs Training Center, and

taken a variety of professional development courses from colleges and universities and professional development associations.

I. PURPOSE OF TESTIMONY

The purpose of my testimony is to describe the Postal Service's proposal for a minor mail classification change to allow matter that is currently non-mailable because of its shape to be prepared and deposited as mail under the specific classification provisions of Customized MarketMail (CMM). CMM would be Standard Mail, typically consisting of advertising matter, designed and produced in a unique and unusual shape, with other distinctive features of color or content, to serve as a high-impact marketing piece for delivery of the sender's message. My testimony addresses the physical characteristics of CMM, the Postal Service's expectations for its adoption by mailers, its handling in the mailstream, and the requirements that will apply to its preparation and mailing.

II. PRODUCT DESCRIPTION

A. Background

A basic requirement for mailability, under existing Domestic Mail Classification Schedule (DMCS) § 6020 (and Domestic Mail Manual (DMM) § C010.1.1), is that all mailpieces that are ¼-inch thick or less must be rectangular in shape. Administrative rulings issued in interpretation of these provisions have additionally held that such mailpieces do not meet the definition of "rectangular" if they do not have four right-angle corners and four straight and regular edges, or if they have any holes or other voids within their dimensions.

Typically, mailpieces that are ¼-inch or less thick also meet the dimensional standards for categorization as "letters" or "flats." Letters are the most common shape of mail and, together, letters and flats represent the vast majority of mailpieces carried for delivery by carriers. Parcels, whether machinable, irregular, or nonmachinable,

represent the balance of the mailstream. See Exhibit USPS-1A for a summary of the salient mailpiece characteristics of each shape category.

The requirements for regular, rectangular shape and size for what would be the typical letter- or flat-size mailpieces were established to assure the Postal Service's ability to effect efficient handling and delivery of that mail, whether by automated or manual means. In turn, the result of these requirements enables the Postal Service to design equipment and prescribe methods for sortation and other processing tasks confident of the regularity of the mail that is handled by that equipment or those methods. Regularity of size, shape, and other physical characteristics were further specified by the USPS as mechanized, and then later as automated, when these mail processing methods were implemented, with the most stringent physical requirements being applied to the highly discounted automation rates.

B. CMM

CMM would be different from other mail that is ¼-inch thick or less in two significant aspects: it could be nonrectangular or irregular in shape, and it would be prepared to bypass handling between the mailer's plant and the delivery unit.

The latter difference is especially important because such a piece, if otherwise mailable, would be incompatible with the equipment and methods applicable to the sortation and handling steps that occur between the point of mailing and the delivery post office. If introduced into the mailstream, such items would require entirely manual handling and would not fit properly into containers designed to carry other mail. CMM,

however, would be prepared in containers that move directly to the carrier delivery unit, thus bypassing all intermediate processing steps.[1]

Additionally, to ensure that CMM neither requires nor is afforded handling except as required by the carrier or other postal employees to effect delivery, standards for preparation are proposed that support carrier distribution, minimize processing of containers of CMM en-route to the carrier, and bar it from any services available to other types of mailpieces when they are undeliverable.[2]

Possible examples of CMM pieces are found in USPS LR-1/MC2003-1.

III. CUSTOMER BASE

A. Background

The primary purpose of all media is to secure the attention of the audience so that a message can be delivered. For mail, as for other printed media, the preparer uses various devices to attract the reader's attention, including pictures, graphics, colors, symbols, and attention-getting words and phrases. Advertisers and the designers who employ printed media invest heavily in determining the particular features of a printed message that are most effective, and commonly test extensively with a variety of designs to refine their conclusions. The success of a product or other objective often relies on the ability of the advertiser to both get a message in front of a reader and deliver its contents effectively. Among the printed media, publications such as newspapers and magazines, outdoor advertisements such as posters and billboards,

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[1] The typical mailflow is described in section IV, below.

[2] The preparation requirements for CMM are detailed in section VI, below.

and direct mail are part of the advertiser's toolkit; broadcast and other media also are part of that mix and compete with print media for a share of limited advertising budgets.

Historically, the creative pressures on designers and advertisers have led them to "push the envelope" of mailpiece design. However, because of the existing prohibition on mailpieces that are nonrectangular and ¼-inch or less in thickness, advertisers and designers have had to rely on color and text alone to lure the addressee into the content of a mailpiece, where more creativity can be employed in the presentation of the sender's message. Where those techniques were considered inadequate, advertisers had no choice but to use channels other than the mail to deliver their message.

However, despite the availability of alternative media, and despite the ban on nonrectangular mail, which has inhibited exploration of such pieces' effectiveness for advertising, advertisers and designers have often sought approval for mailing of such pieces.

B. Customer Interest in CMM

CMM would represent a response to this interest from customers. CMM would be, at best, a "niche" type of mailpiece, *i.e.,* one whose characteristics, and whose consequential costs for preparation and mailing, make it suitable only for targeted, carefully developed promotional messages to a selected audience. However, such a mailing would be expected to yield an optimum response, thereby justifying the cost of its production and mailing.

In preparing mailed messages today, senders regularly tailor those messages (whether the text, envelope color, or other characteristics) to the specific audience

segment being targeted. CMM would offer another alternative in that effort and would enable senders to create mailpieces with highly-individualized designs.

For example, if a manufacturer of high-end motorcycles or motorcycle accessories sought to reach motorcycle enthusiasts with a message about a new model, accessory, tool, or other offer, the manufacturer or its advertiser could send a CMM mailpiece in the shape of a motorcycle to a carefully selected list of customers likely to respond to such messages and to generate significant revenues for the manufacturer.

However, senders of less targeted messages would probably not opt for a high-impact device like CMM due to the likely higher cost of producing such pieces. For example, it would be unlikely that a supermarket chain would send out a saturation mailing of CMM shaped in the form of a grocery product to advertise its produce. Such a form of advertising device might not be as effective if used in a less targeted context and would therefore yield an unsuitable return-on-investment for the cost-conscious advertiser. That is, the cost of such a CMM mailing would likely be unattractive, if not prohibitive, given the relative value and profitability of the merchandise being advertised and the availability of an effective low-cost alternative, such as Standard Mail Enhanced Carrier Route saturation rate mail.

It should be noted that there is an informal anecdotal history behind what is being called CMM. I understand that mail classification and marketing professionals in the Postal Service can recall being asked about the mailability of some variations of “CMM” in the past. Although it is commonly understood that there is both an interest in the advertising community for such a mailpiece option and a place in their portfolio for its use, there is no documented record of demand or use for CMM. Obviously, when

something has never been available before there cannot be a record of its use; similarly, a form of advertising message that has never been available before is an unknown commodity in terms of its performance as part of a print media or direct mail campaign.

To learn more about the prospects of success for CMM, the Postal Service commissioned qualitative market research to further refine its understanding of the market for CMM. That research, consisting of focus groups with a variety of advertising, design, and marketing professionals, was conducted in September and October 2002 by National Analysts, a research and consulting firm engaged by the Postal Service. The findings of that research, which are included in USPS LR-2/MC2003-1 and incorporated by reference in this testimony, align with the anecdotal information and general perceptions of both the Postal Service and its customers as described earlier. For example, the summary report found that the concept for CMM was "received with enthusiasm," and that a CMM piece would "provide the attention-getting power of a dimensional piece without … hiding it in an envelope." Nonetheless, participants indicated a desire to evaluate its effectiveness before using it in widespread mailings, reinforcing the earlier statement that CMM is expected to be a "niche" type of mail – complementing, rather than displacing, other forms of Standard Mail.

Based on these findings, we believe that there is a consistent level of interest in CMM, an intention among advertisers to evaluate and use it, and an expectation that it could become a regular ingredient of advertisers' strategies. At the same time, given the industry's lack of experience with CMM-type mail and their need to develop a refined and cost-effective model for using it, it is our expectation that, for the

foreseeable future, CMM would remain a low-volume form of mail, generating proportionally small revenues, and used only in those situations where a message of that sort makes financial and commercial sense.

As a result, the classification change, *per se*, is appropriately considered "minor" and there is no reason to believe that CMM is ever going to be more than a "niche" type of mail. As witness Hope notes, it is reasonable to conclude that implementing the classification changes associated with CMM will have no substantial effect on institutional contribution.

IV. OPERATING PLAN

Because CMM would not be expected or required to be compatible with mechanical or automated processing or mail transportation equipment requirements, its entry profile would bypass the mail processing operations designed for other mail.

Specifically, although CMM could be verified at upstream plants, it would have to be physically entered at the destination delivery unit (DDU), the facility where the mail would be cased for delivery. Physical entry into the mailstream at upstream points such as a bulk mail center, processing plant, or origin post office, would not be permitted.

At the mailer's option, CMM would have to be presented for postage verification either at origin (under the plant-verified drop shipment (PVDS) program) or at destination (as a bulk mailing subject to the applicable requirements). Under the PVDS option, current standards for minimum volume would apply (*i.e.,* the minimum volume would apply to the entire PVDS mailing rather than to the quantity for each DDU), and transportation to destination would be on a vehicle owned or hired by the mailer, or by use of Priority Mail or Express Mail drop shipment (under the existing standards). Either

way, transportation from the point of origin to destination would be the mailer's responsibility, and the mail would be accepted and entered into the mailstream at destination, thereby bypassing all intermediate steps in postal processing.

CMM would be prepared in containers other than sacks as appropriate to the volume of mail destined for the DDU. In addition to trays and pouches currently allowed by the USPS, Priority Mail or Express Mail envelopes, or envelopes or cardboard boxes provided by the mailer, would also be permitted as containers. However, in all cases, the CMM pieces would have to be prepared in packages so as to maintain their integrity and inhibit their movement in transit. The number of pieces in each package and the method of packaging would be at the judgment of the mailer, subject to basic standards for security and safety.

CMM containers would be labeled to the DDU postmaster with instructions to "open and distribute" the contents. The appropriate devices would also be required to indicate payment of postage (*e.g.,* Label 23).

At the DDU, the CMM pieces would be distributed to carriers for casing and delivery. When piece distribution to carriers is necessary, it typically would be accomplished by sorting the CMM pieces into letter or flat cases, as appropriate to their physical size and shape, prior to placing them at the carrier cases.[3] The carrier would then handle the piece in the manner he or she deems most efficient, depending upon the specific size of the individual piece.

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[3] Preparation of CMM mailpieces in carrier route packages or larger units would be encouraged, subject to the applicable standards, but not required. If provided at the mailer's option, carrier route packages or larger units would further reduce handling as they could be brought directly to the corresponding carrier case.

V. APPLICABLE RATES

CMM pieces of 3.3 ounces or less would be eligible for the basic nonletter rate categories in the Standard Mail Regular and Nonprofit subclasses, subject to the applicable minimum quantity and content restrictions. Due to its shape, it would be subject to the residual shape surcharge (RSS), which currently is applied to mailable pieces that are not within the dimensional standards for either letter- or flat-size mail (see DMCS § 321.5 and DMM C050.1.0). However, because it would not be processed in mail processing facilities, it would not be eligible for the parcel barcode discount, which currently is available to appropriately-prepared pieces subject to the RSS.

CMM would not be eligible for any automation, destination entry, or further presort discounts or rates. The Postal Service recognizes that some CMM may, by consequence, have the geographic density or volume that would otherwise make it eligible for a destination entry discount or another presort rate. However, because CMM is expected to be low-volume, low-density, targeted mail, it was concluded that this solution would be rare, and the desire for simplicity and ease-of-use outweigh the potential benefits of developing the standards and mailing statements that would be required.

VI. MAILING REQUIREMENTS

The Postal Service intends to promulgate mailing standards that would ensure that CMM would be processed in the most efficient manner possible.

A. Postage Payment

CMM pieces (and, if applicable, cartons or envelopes used as drop shipment containers) would have access to the existing options for postage payment (postage

affixed by precanceled stamps or metered postage, or paid by permit imprint). Placement of postage will be as permitted by the existing provisions applicable to Standard Mail (or, as applicable, to the class of mail used for the carton or envelope serving as the drop shipment container).

Customers who choose to use boxes or envelopes as drop shipment containers would be limited to three sizes per mailing (to minimize the complexity of mail verification) and would have to pay postage under the existing standards for Manifest Mailing.

B. Markings and Endorsement

Currently, the Postal Service intends to publish mailing standards proposing that CMM be marked as required for Standard Mail and bear the marking "CUSTOMIZED MARKETMAIL," "CUST MKT MAIL," Or "CMM." The permissible locations and methods for showing such markings would be as prescribed by the existing standards for Standard Mail.

C. Physical Characteristics

Under mailing standards to be proposed, CMM could be constructed of any material that is safe for handling by postal personnel. However, CMM mailpieces would have to be sufficiently flexible to withstand movement in the mailstream, the normal handling required for casing and delivery, and folding or rolling to fit in a small mail receptacle (such as a post office box). The Postal Service expects that this latter requirement, in combination with a mailers' desire to make a positive impression with the CMM pieces on the recipient, will naturally inhibit the use of rigid and insufficiently-flexible materials. Regardless, the Postal Service does not intend to propose rules specifying the types of

materials used for CMM (beyond basic safety requirements). We prefer that the mailer be responsible for balancing material choices and their consequences.

Under rules to be proposed, for purposes of defining the dimensional requirements, a straight line drawn between the most distant outer points on a CMM mailpiece would define the axis of its length; a perpendicular line to that axis would be the axis of its height. The height and length would have to be no less than 3-1/2 inches by 5 inches, respectively, nor more than 12 inches by 15 inches, respectively. The thickness of a CMM piece would have to be at least 0.007 inch but, when measured at its thickest point, not more than ¾ inch.[4] CMM pieces would be permitted to have voids or holes within their dimensions, and would not be required to demonstrate a consistent thickness. However, if pieces are of irregular thickness, they would have to be counterstacked when packaged to ensure stability in transit.

Under regulations to be proposed, mailers would not be required to obtain any additional permits specifically to allow the preparation or entry of CMM. Design approval would not be required, and physical or graphic content would be subject to existing standards and statutes.

D. Addressing

Under mailing standards to be proposed, each CMM piece would be required to bear a complete mailing address (including an accurate five-digit ZIP Code or ZIP+4 Code). Mailers would be encouraged, but not required, to show an accurate carrier route

[4] The net effect of this proposal is primarily directed toward pieces that are ¼ inch or less in thickness. Pieces between ¼ and ¾ inch are already mailable if nonrectangular; however, these pieces may be entered under classification provisions for CMM at the option of the mailer, for simplicity of preparation.

number on an optional endorsement line. The address block may be placed anywhere on the mailpiece that is permitted for flat-size mail, and may be printed directly on the piece or on a permanently-affixed label. The address and other required information would be required to be clearly identifiable and legible. Detached address labels would not be permitted. The standards for address quality, address list maintenance, and (if applicable) carrier route coding that applies to other Standard Mail would also be proposed to apply to CMM.

E. Delivery

CMM is intended to be delivered to or left at the address shown on the mailpiece. To avoid the possibility that CMM pieces could be introduced into the mailstream after failure of delivery, undeliverable-as-addressed CMM would be discarded. Ancillary services (including forwarding and return) would not be available for CMM. To assure no such services are mistakenly provided, each piece must be addressed using the exceptional address format (*i.e.,* "or current resident"), subject to the existing standards. In addition, it would be proposed that all CMM pieces bear the words "Carrier Release" to indicate that a deliverable CMM piece is to be left in a practical location near the recipient's mail receptacle if it cannot be placed inside the receptacle because of its size or inflexibility. CMM pieces would not be returned to the delivery office for customer pick-up (using PS Form 3849), thus obviating the need for a customer to travel to the delivery post office to call for a piece of CMM that could not be left in the customer's mail receptacle.

No special services would be available in conjunction with CMM.

VII. MINOR CLASSIFICATION CRITERIA

This proposal satisfies the criteria for consideration of minor classification changes. Those rules require that, to be eligible for consideration as an expedited minor classification, a proposal must:

- not involve a change in any existing rate or fee;
- not impose any restriction in addition to pre-existing conditions of eligibility for the entry of mail in an existing subclass or category of service, or for an existing rate element or work sharing discount; and
- not significantly increase or decrease the estimated institutional cost contribution of the affected subclass or category of service.

It is proposed that CMM be subject to existing Standard Mail rates and fees, as described above; thus, no new rates, fees, or surcharges are requested.

Eligibility standards for mail would in no manner be restricted under this proposal; to the contrary, for pieces less than or equal to ¼" in thickness, the proposed classification changes would "make existing mail classifications more inclusive."[5] For pieces greater than ¼" but less than or equal to ¾" in thickness, the proposed classification changes would establish optional entry and handling procedures. CMM is thus an optional mail preparation method being proposed for mailers; customers would use it at their discretion. The optional or mandated standards that would be implemented for CMM would apply only if the mailer chooses to prepare CMM.

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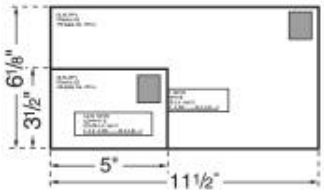
[5] *Cf.* PRC Order No. 1110 at n. 18.

Finally, as witness Hope explains in her testimony (USPS-T-2), CMM will not cause a significant impact on the contribution of Standard Mail toward institutional costs.

Exhibit USPS-1A

Basic Physical Characteristics of Mail Categories

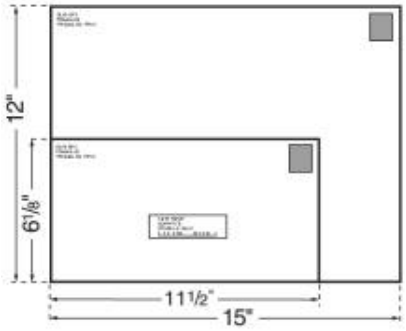
Letter-Size Mail



For automation rates, see size standards in C810.

Dimension	Minimum	Maximum
Height	3-1/2"	6-1/8"
Length	5"	11-1/2"
Thickness	0.007"	0.250" (1/4")

Flat-Size Mail

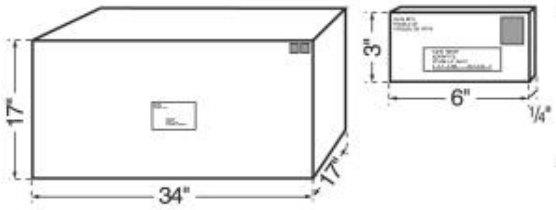


For automation rates, see size standards in C820.

Dimension	Minimum	Maximum
Height	6-1/8"*	12"
Length	11-1/2"*	15"
Thickness	0.250" (1/4")*	3/4"

** Must exceed at least one of these letter-size maximums.*

Machinable Parcels



Dimension	Minimum	Maximum
Height	3"	17"
Length	6"	34"
Thickness	1/4"	17"
Weight	6 or 8 oz.*	35 lb.

** For details, see machinable parcel criteria in 4.1c.*

Exhibit USPS-1B

Facsimile Examples of Possible CMM Mailpieces