

USPS-T-2

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

CUSTOMIZED MARKETMAIL MINOR
CLASSIFICATION CHANGES

Docket No. MC2003-1

DIRECT TESTIMONY
OF
LARAIN B. HOPE
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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**Direct Testimony
of
Laraine B. Hope**

AUTOBIOGRAPHICAL SKETCH

1 My name is Laraine B. Hope. I am an Economist in the office of Pricing at
2 Postal Service Headquarters, where my responsibilities include rate design for
3 Standard Mail, as well as research on special topics, including postal regulatory
4 issues. In Docket No. R2001-1, I sponsored pricing testimony on Standard Mail
5 Enhanced Carrier Route and Nonprofit Enhanced Carrier Route.

6 I joined the Postal Service in 1998 as a Marketing Specialist in Customer
7 Relations Program Management. Prior to my current assignment in Pricing and
8 Product Design, I was a Program Manager in Strategic Marketing, where I was
9 responsible for the development, analysis, and management of strategic marketing
10 initiatives.

11 I was previously a Senior Associate at the McNamee Consulting Company in
12 New York, where I managed projects and developed business plans for new
13 ventures, including trade magazines, newsletters, and niche book publishing.
14 Subsequently, I served as an independent management consultant specializing in
15 product and service development and evaluation. My clients included Amtrak, Boise
16 Cascade, Federal Employees News Digest, the Museum of Modern Art, and the
17 Solomon R. Guggenheim Museum.

1 I began my career as a Marketing Manager at Feffer & Simons, Inc., an
2 international subsidiary of Doubleday & Company, and have held other management
3 positions in the publishing industry.

4 I received a Bachelor of Arts degree, magna cum laude, from Wesleyan
5 University and a Master's degree in Business Administration from Yale University.

1 **I. PURPOSE**

2 My testimony presents a description and analysis of the classification changes
3 underlying the Postal Service's proposal to offer Customized MarketMail (CMM). It
4 begins with a brief overview, which is followed by a description of how CMM fits into the
5 current Standard Mail rate design. I then describe how this proposal meets the
6 classification criteria of the Postal Reorganization Act. Finally, I summarize the benefits
7 of CMM to the Postal Service and to the advertising mail community and why a minor
8 classification change is appropriate for CMM.

9 There are no Library References accompanying this testimony.
10

11 **II. OVERVIEW AND DESCRIPTION**

12 Customized MarketMail (CMM) is intended to be a Standard Mail option which would
13 allow advertisers to mail pieces weighing 3.3 ounces or less that are currently prohibited
14 in the mailstream because of their non-rectangular shape. Under current mailing
15 requirements, in both Standard Mail and in other mail classes, letter- and flat-shaped
16 pieces 0.25 inch thick or less have to be rectangular to be mailable, and irregularly-
17 shaped pieces have to be over 0.25 inch thick to be eligible for mailing. (For a
18 description and outline of specific current regulations under the DMCS, see testimony of
19 witness Ashe, USPS-T-1, pp. 1-4 and Exhibit USPS-1A.)

20 This restriction has left a gap in the marketplace for business mailers who may wish
21 to reach their customers using more unusual and creative advertising messages and
22 designs than current postal regulations allow. As described in witness Ashe's
23 testimony, the CMM proposal would permit the mailing of non-rectangular pieces under

1 controlled conditions so that mailpieces would bypass automated processing in postal
2 plants. The CMM operating plan builds on an already existing infrastructure of entry
3 options and customizes it to allow for the appropriate handling of CMM pieces, which
4 would be physically entered at the Destination Delivery Unit (DDU), thereby bypassing
5 mail processing operations.

6 CMM would be subject to the minimum volume requirements for presorted Standard
7 Mail, but there would be no minimum volume requirements for packaging or
8 containerization. Ancillary services, including return and forwarding services, would not
9 be permitted for this type of Standard Mail, because they would likely introduce pieces
10 into mail processing operations, which would not be desirable from the Postal Service's
11 perspective. Further, undeliverable CMM would be discarded. In addition, CMM
12 mailers would have to endorse pieces with the Carrier Release marking, in order to
13 avert the need for the carrier to leave a delivery notice if a CMM piece does not fit into
14 an ordinary mail receptacle.

15 CMM would be entered in the Standard Mail Regular or Nonprofit subclasses as
16 piece-rated Nonletter Basic presort mail, subject to the residual shape surcharge (RSS),
17 as discussed on pp. 6-7 of this testimony. CMM pieces would not be eligible for the
18 parcel barcode discount. (Since these pieces are not intended to be processed on
19 automation, a barcode would not add value to their handling.)

20 Witness Ashe discusses the market research conducted to date, which is included in
21 USPS LR-2/MC2003-1. In short, CMM offers both current and potential Standard
22 mailers an innovative and creative means of reaching their key current or potential
23 customers, who may be either households or businesses.

1 CMM is expected to be a highly-targeted, low-density, low-volume Standard Mail
2 option for mailers. As such, it is not anticipated to significantly change the overall
3 institutional contribution or dynamics of Standard Mail as currently configured (see part
4 V, below).

5

6 **III. PROPOSED CLASSIFICATION CHANGES**

7 The Postal Service has carefully considered the classification changes that would be
8 necessary for CMM. They are straightforward, focused in three areas: (1) Product
9 (allowing, in limited circumstances, nonrectangular mail in the mailstream where it is
10 currently prohibited); (2) Implementation (including restrictions on forwarding and return
11 options that are necessary to keep CMM out of mail processing operations altogether);
12 and (3) Rate application (describing how CMM fits into the current rate structure).
13 These changes are designed to allow CMM in the mailstream, but not to alter existing
14 classifications for mail that is currently eligible for Standard Mail or for other mail
15 classes.

16 Examples of specific classification changes in each of these three areas outlined
17 above are presented below.

1 Product

- 2 • An exception to DMCS § 6020(b)(i) is needed for CMM, since by definition these
3 pieces may be less than 0.25 inch thick and not rectangular.
- 4 • A description of CMM is needed under the Standard Mail Regular subclass
5 description in DMCS § 321.22 and under the Nonprofit subclass description in
6 § 323.22.
- 7 • An exception to DMCS § 210 is needed to state that CMM is not mailable in other
8 than the Regular and Nonprofit subclasses.
- 9 • Along similar lines, DMCS § 344.1 outlines a provision that allows First-Class Mail to
10 be attached to Standard Mail. Given that the operating plan for CMM necessitates
11 avoidance of the automation mailstream, in which First-Class Mail is generally
12 handled, an exception for CMM is needed.

13 Implementation

- 14 • Consistent with the product description above, an exception to DMCS § 353 is
15 needed to specify that CMM is not eligible for forwarding or return services.
- 16 • Exceptions to DMCS §§ 361–363 and 365, which detail the ancillary and special
17 services that can be combined with Regular and Nonprofit Standard Mail, are
18 needed. As noted in witness Ashe’s testimony, by design, no special services would
19 be available for CMM. In addition, miscellaneous changes to the special services
20 schedules are needed to clarify that special services cannot be combined with CMM.

1 Rate Application

- 2 • DMCS §§ 321.5 and 323.5 discuss the residual shape surcharge and are amended
3 to include an explicit reference to CMM. Current language applies the surcharge to
4 Regular and Nonprofit subclass mail that is either prepared as a parcel or is not
5 letter- or flat-shaped; CMM logically fits into this group because of its irregular
6 shape.
- 7 • References to CMM are added to footnotes in Rate Schedules 321A and 323A to
8 clarify the rate eligibility of CMM.
- 9 • A reference to CMM is needed in DMCS §§ 321.4 and 321.6, since it would not be
10 eligible for the destination entry discounts or barcode discounts therein described.
11 The DMCS language applicable to the Standard Nonprofit Subclass is in §§ 323.4
12 and 323.6, respectively.
- 13 • Since CMM would not be subject to the nonmachinable surcharge, an exception is
14 needed in § 321.7 for the Regular Subclass and § 323.7 for the Nonprofit Subclass.

15

16 **IV. CLASSIFICATION CRITERIA**

17 This proposal satisfies the classification criteria of section 3623 of Title 39, United
18 States Code, which requires that classification changes be set in accordance with the
19 following factors:

- 20 1. the establishment and maintenance of a fair and equitable classification
21 system for all mail;

- 1 2. the relative value to the people of the kinds of mail matter entered into the
- 2 postal system and the desirability and justification for special classifications
- 3 and services of mail;
- 4 3. the importance of providing classifications with extremely high degrees of
- 5 reliability and speed of delivery;
- 6 4. the importance of providing classifications which do not require an extremely
- 7 high degree of reliability and speed of delivery;
- 8 5. the desirability of special classifications from the point of view of both the user
- 9 and the Postal Service; and
- 10 6. such factors as the Commission may deem appropriate.

11 CMM fits logically into the Standard Mail Regular subclass and its counterpart, the
12 Standard Mail Nonprofit subclass. It is designed as a direct mail vehicle utilized by
13 advertisers who want to target specific customer groups by subject or product area,
14 rather than by geographically-defined area. In other words, it is likely that target
15 customers would be dispersed throughout various regions and not concentrated in 3- or
16 5-digit ZIP Code areas or on specific carrier routes. This is why the Standard Regular
17 subclass and its nonprofit counterpart, both of which are designed for low-density
18 advertising mailings, are the appropriate classification within Standard Mail for CMM.

19 CMM as conceived is fair and equitable (criterion #1). Like other options in Standard
20 Mail, it is available to all Standard mailers. As described earlier, the Standard Mail
21 subclasses applicable to CMM are Standard Regular and its nonprofit counterpart.
22 Within these subclasses, the Basic Nonletter, non-destination entry rate with the
23 residual shape surcharge rate is appropriate, for reasons discussed below.

1 The Basic category is appropriate for CMM. As discussed above, each CMM
2 mailing would be subject to the Standard Mail minimum volume requirements, but there
3 would be no minimum quantity required for drop-shipment to an individual ZIP Code or
4 carrier unit. Given the nature of CMM, it is quite unlikely that the density of a CMM
5 mailing would allow for the significant level of presortation that is currently required in
6 the Regular and Nonprofit subclasses. In any event, the presortation is not required, so
7 the least presorted category, Basic, is appropriate.

8 The Nonletter rate is appropriate because, as conceived, the product is likely to be
9 configured as a non-rectangular flat (see USPS-LR-2/MC2003-1, p. 23). Given
10 advertiser and mailer comments reported both anecdotally and in qualitative market
11 research about the appeal of Standard Mail non-rectangular pieces and a preference for
12 a single rate category for CMM, the Nonletter rate is appropriate.¹

13 The residual shape surcharge is appropriate because CMM in most incarnations
14 would not be not be (1) prepared as either a letter or a flat or (2) satisfy the
15 specifications of letter or flats as prescribed in the Domestic Mail Manual.²

16 For all of the reasons discussed above, it is clear that CMM meets criterion #1. It
17 does not unfairly impact users of other Standard Mail options and it does not adversely
18 affect users of other classifications.

19 Special classifications that are of relative value to some subsets of mailers can be
20 desirable from the point of view of both the user and the Postal Service. This is the

¹ Witness Ashe discusses simplicity of rate design and ease-of-use as concerns of advertising agencies and mailers in his testimony.

² As noted on page 2 of this document, CMM pieces would not be eligible for the parcel barcode discount, because they are not intended to be processed on automation.

1 case with CMM (criterion #5). Market research suggests that some advertisers and
2 advertising agencies are enthusiastic about the prospect of utilizing CMM. Its
3 desirability from the user's viewpoint is discussed in detail in USPS LR-2/MC2003-1.
4 CMM is also desirable from the Postal Service's perspective, since it readily fits into the
5 existing rate design and structure of Standard Regular and Nonprofit Mail and expands
6 postal offerings without burdening mail processing operations with highly inefficient
7 pieces or requiring additional investment. In this sense, CMM, as structured in this
8 proposal, will be mutually beneficial to both the mailing and advertising industries and
9 the Postal Service.

10 CMM demonstrates that the Postal Service recognizes the needs of some Standard
11 mailers and other direct marketers for unique and innovative marketing methods. CMM
12 is an example of the Postal Service's flexibility in meeting the changing demands of the
13 marketplace.

14 In addition, it is designed in a manner that builds on current offerings without
15 detracting from or changing what is already available. It is merely an additional tool for
16 direct mail and potential direct mail advertisers to consider in their advertising plans.

17

18 **V. REVENUE IMPACT**

19 As detailed by witness Ashe throughout his testimony, market research has
20 demonstrated that both mailers and advertising agencies are enthusiastic about the
21 concept of new creative options that CMM offers, but there is no estimate of volume for
22 its use. However, as one of many advertising vehicles available, it is clear that CMM
23 would likely be used in limited circumstances. CMM fills a need for unique campaigns,

1 but would cost mailers more in both creation and execution than their current, more
2 conventional direct mail campaigns.

3 These mailers would be using CMM for a specific business reason: to reach their
4 target customers effectively. These include customers who may respond well to an
5 unusual, creative piece and who may be geographically highly dispersed. For example,
6 CMM would likely not be suitable for the widespread geographic coverage offered by
7 Enhanced Carrier Route or Nonprofit Enhanced Carrier Route Saturation mailings,
8 subclasses that are distributed to virtually all households in a concentrated geographic
9 region. CMM is a complement to current offerings in the Standard Regular and
10 Nonprofit categories. Because of CMM's narrowly-defined characteristics, the fact that
11 CMM would be limited to the Standard Regular and Nonprofit subclasses, and then
12 used primarily only for very highly-targeted, geographically-dispersed direct mailings,
13 this proposal should have virtually no impact upon alternative delivery providers or other
14 competitors.

15 Although CMM is an attractive option for some business mailers, it must be viewed
16 in the context of the revenue profile of Standard Mail Regular and Nonprofit subclasses
17 in aggregate, which amounts to \$10.8 billion in revenue for the Postal Service from
18 approximately 55 billion pieces of mail. Because of its specialized nature, CMM's
19 impact on Standard Mail Regular and Nonprofit subclasses overall is anticipated to be
20 minimal, and its effect on the coverage of institutional costs is expected to be negligible.
21 As the infrastructure already exists to handle CMM, additional resources or investments
22 by the Postal Service are not required. Further, applying the rates as discussed above
23 in Parts III and IV (*i.e.*, the Basic, Nonletter piece rate with the residual shape

1 surcharge) is fair, logical, and helps to assure that the CMM price and costs are not
2 misaligned. Given that CMM pieces will bypass operations at the mail processing plant,
3 from a qualitative perspective, it would appear that CMM pieces will yield positive
4 contribution at the applicable rates.

5 It should be noted that Express Mail and Priority Mail may be used for drop-shipping
6 CMM pieces to DDUs. As is true today for current drop-shippers, CMM mailers would
7 be permitted to use other means at their disposal to transport pieces to DDUs. Due to
8 the low overall projected volume for CMM and taking into account that options outside
9 of Express Mail and Priority Mail can be used for drop-shipment, it is anticipated that the
10 CMM proposal would have an inconsequential impact on these two respective mail
11 classes.

12

13 **VI. SUMMARY**

14 Proposed changes in DMCS language would allow the Customized MarketMail
15 product to be mailable under controlled conditions which are devised exclusively for
16 uniquely-shaped, highly-targeted advertising pieces. The proposal would not extend
17 these classification changes or operating plan beyond CMM.

18 CMM fulfills the classification criteria of § 3623 of Title 39, United States Code, and
19 logically fits into the Standard Mail Regular and Nonprofit subclasses as an additional
20 direct mail vehicle for advertisers who wish to utilize it, without affecting Standard Mail
21 or any other subclasses.