

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

CUSTOMIZED MARKET MAIL MINOR
CLASSIFICATION CHANGES

Docket No. MC2003-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ASHE TO INTERROGATORIES OF THE OFFICE OF CONSUMER
ADVOCATE (OCA/USPS-T1—2, 3 (in part), 4 (in part), 5(in part), 6, 7(b), 9-12)**

The United States Postal Service hereby provides the response of witness Ashe to the following interrogatories of the Office of Consumer Advocate: OCA/USPS-T1—2, 3 (in part), 4 (in part), 5 (in part), 6, 7(b), 9-12, filed on March 21, 2003. Interrogatories OCA/USPS-T1—1, 8, and 13 were redirected to witness Hope. Objections to interrogatories OCA/USPS-T1—3(a) (in part), 4(a) (in part), 5 (in part), and 7(a) were filed on March 28, 2003. The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Anthony Alverno
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax -6187
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RESPONSE OF U.S. POSTAL SERVICE WITNESS ASHE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

OCA/USPS-T1-2. The following question addresses potential increases in the amount of carrier handling and delivery time needed for the delivery of an irregularly shaped CMM mail piece as compared to the delivery of current nonletter mail.

(a) Please explain whether or not you performed any analysis or relied upon any studies that examined the carrier time needed to handle and deliver a CMM mail piece (CMM) as opposed to the time needed to deliver a Standard nonletter mail piece. If so, please include in your response copies of all documents, analyses, notes, workpapers and data sources used in performing the analysis. Provide copies of all source documents relied upon, cite all sources used and show the derivation of all calculated numbers.

(b) If no analysis was performed, please explain fully why not.

RESPONSE:

(a) & (b) The Postal Service did not perform any analysis or studies that examined the carrier time needed to handle and deliver Customized MarketMail (CMM) mail pieces. It is not believed that the entry of such pieces will have any noticeable impact on handling/processing and delivery operations at destination delivery units (DDUs). As stated in my testimony at p. 8, the operating plan for CMM mail pieces larger than letter-sized mail pieces would follow the delivery unit handling and casing procedures currently utilized for flat size mail, and, if necessary and, as appropriate to their physical size and shape, for parcels. For instance, at the DDU, 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. 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. In order to eliminate additional handling issues associated with CMM mail pieces at the

RESPONSE OF U.S. POSTAL SERVICE WITNESS ASHE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

DDUs, the proposal strives to minimize the handling operations of these pieces throughout the chain of production. Specifically, the maximum size for CMM has been aligned with that of other flat-size mail (12 by 15 inches) and includes specifications for flexibility and delivery that are more stringent than existing standards. The Postal Service has also proposed that CMM mail pieces will have to be sufficiently flexible to enable safe handling and delivery without damage to accommodate for the unique shapes and sizes that these pieces will present to carriers; other flats do not have such standards. Additionally, to preclude further handling if a CMM piece cannot be placed in the addressee's mailbox, CMM mail pieces will be barred from any ancillary services (like forwarding or return) and will bear a "Carrier Release" endorsement and the exceptional address format ("or current resident") 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. To avoid the possibility that CMM pieces could be introduced into the mailstream after failure of delivery, undeliverable-as-addressed CMM would be discarded.

RESPONSE OF U.S. POSTAL SERVICE WITNESS ASHE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

OCA/USPS-T1-3. In developing the CMM proposal, did you discuss the proposal with any operations personnel to see if there were potential operational concerns regarding the handling of CMM mail pieces?

(a) If so, please provide copies of all documents including notes taken or summaries made regarding their reaction to your proposal. If no notes or summaries were made of the discussions, summarize the input operations personnel gave regarding CMM mail pieces.

(b) If not, please explain why operations personnel were not consulted.

RESPONSE:

(a) A partial objection to this subpart has been filed. Discussions with Postal Service Operations personnel were conducted throughout the product development process, thereby assuring that the proposal would be structured in a manner that would not contravene operational objectives. Operations indicated that current mail processing capabilities and automation would be incompatible with Customized MarketMail (CMM) pieces. Operations further explained that in order to eliminate manual handling costs in mail processing, the processing of CMM pieces from origin to delivery unit should be avoided. To address this concern, CMM has been developed so that CMM mailings must be prepared in 5-digit and carrier route(s) containers that must be entered at, or drop shipped to, the corresponding destination delivery units. Other features in the product design, such as the proposed requirement for the use of a carrier release, also reflect Operations personnel input. Specialists from Postal Service Delivery Support also reviewed the sample CMM pieces at a delivery unit, and determined that such pieces could be accommodated with existing work methods. When the sample pieces were reviewed by city and rural carriers, their feedback verified this view.

RESPONSE OF U.S. POSTAL SERVICE WITNESS ASHE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

(b) Not Applicable

RESPONSE OF U.S. POSTAL SERVICE WITNESS ASHE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

OCA/USPS-T1-4. In developing the CMM proposal, did you discuss the proposal with any rural route or city carriers to see if they anticipated any difficulties in casing and subsequently delivering CMM mail pieces?

(a) If so, please provide copies of all notes taken or summaries made regarding these discussions. Indicate how many carriers were contacted and include in your response all documents, analyses, notes, workpapers and data sources developed or used as a result of these consultations. Cite all sources and provide the derivations of all calculated numbers.

(b) If not, please explain why carriers were not consulted.

RESPONSE:

(a) A partial objection to this subpart has been filed. See response to OCA/USPS-T1-3(a).

(b) Not applicable.

RESPONSE OF U.S. POSTAL SERVICE WITNESS ASHE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

OCA/USPS-T1-5. Excluding focus group facilitators, please provide the number of participants in attendance at each of the four focus groups reported in USPS-LR-2 and provide copies of all summary notes, data and other information developed as a result of each focus group discussion. If no documentation or data was collected, please explain how National Institute conducted its analysis.

RESPONSE:

A partial objection to this subpart has been filed. Excluding focus group facilitators, attendance at the four focus groups reported in USPS-LR-2 were as follows:

Focus Group 1: Thursday, September 26, 2002, 10 respondents.

Focus Group 2: Tuesday, October 8, 2002, 10 respondents.

Focus Group 3: Wednesday, October 9, 2002, 8 respondents.

Focus Group 4: Thursday, October 10, 2002, 8 respondents.

A copy of the advertiser discussion guide is attached.

Attachment to OCA/USPS-T1-5

Customized MarketMail Study Advertisers Discussion Guide

I. INTRODUCTION

- Ground Rules: Audiotaping, confidentiality, candor, one person at a time, no cell phones or pagers, etc.
- Background & Discussion Objectives: The purpose of our discussion is to focus on three topics: 1) process for creating print and direct mail advertisements; 2) emerging needs and requirements for developing such mail pieces; and 3) reactions to new ideas/new regulations

Please think about the objectives of the various campaigns you are responsible for and how those objectives are translated into direct mail piece designs and executions

- Introductions
 - Type and size of company work for
 - Role/responsibilities (Probe: media selection, layout/design, copy or text)
 - Types of campaigns responsible for
 - Types of outside partners used for these campaigns (e.g., ad agency, etc.)

II. PRINT/DIRECT MAIL DESIGN & IMPLEMENTATION PROCESS

(Goal is to develop a detailed process map outlining the steps and key players for specific types of objectives/applications)

- Identification of Process Steps – differentiate legacy vs. new campaigns
 - Who generates the ideas to do...
- Print vs. other media (e.g., broadcast)?
- Type of print (e.g., FSI vs. magazine)?
- Type of direct mail (e.g., stand alone, shared)?
 - What steps are involved from inception to completion? (Probe use of in-house staff versus outside agency like ad agency)
- Idea generation
- Media selection
- Content and Design
- Production
- Distribution
- Response
- Fulfillment
 - Where is the emphasis placed? Why?
 - How, if at all, does this vary by different direct mail campaign objectives?
- Direct response – direct selling
- Traffic building
- Lead generation
- Awareness & brand building
- Identification of Key Decision-makers and Influencers (focus on direct mail)
 - Who is responsible for the content?
 - Who is responsible for the design/layout/format – size and shape, etc.?
 - Who is responsible for postal-related decisions?
- Type of postage – Standard, First-Class, etc.

- Amount of worksharing
- Actual size/shape
- Type of working relationship with USPS (e.g., is there a specific person they are working with at USPS)?
 - Who is responsible for mail distribution for large campaigns?
- Use of internal personnel vs. outsourcing
- Why or why not?
- Direct Mail Campaign Experience
 - Response rate goals
- Success measures
 - Expected vs. actual response rates by campaign type
- Awareness building
- Acquisition
- Direct response
- Loyalty/retention

III. CURRENT DIRECT MAIL REGULATIONS & CONSTRAINTS

(Goal is to identify level of knowledge and specific problem areas)

- Knowledge of Current Restrictions
 - What are the factors that influence the design of direct mail pieces?
- Probe...
- Size of budget
- Postal restrictions (e.g., size/shape constraints, delivery windows, etc.)
- Stringent development timetables
- Mailbox clutter
- Consumer perceptions and consumer response
- Etc.

- How much, if at all, does it vary by the direct mail campaign objective?
- Loyalty/retention vs. acquisition campaigns
 - What are you doing now to thwart these problems?
- Impact & Perceptions of Current Restrictions
 - What is the impact of specific postal restrictions on direct mail use?
- Probe...
- Size and shape requirements
- Thickness/stiffness requirements
- Sortation requirements
- Delivery standards
- Addressing requirements
- Etc.
 - Which of these has the greatest limitation on the creative? Why?
 - Specific ideas/designs that get “nixed” because of existing constraints
- What are the characteristics of these ideas/designs?
- Where in the process do these get rejected?
- Who decides?
- What, if anything, gets developed instead?
- How often, if at all, is direct mail rejected because of constraints?
- How often, if at all, is the campaign rejected because of constraints?
 - Which constraints, if any, should be lifted? Relaxed? Eliminated? Why?
 - How might these be implemented?

IV. PERCEIVED FUTURE DIRECT MAIL DESIGN NEEDS/REQUIREMENTS
 (Goal is to determine desired creative characteristics without any constraints)

- Potential New Direct Mail Design Ideas
 - Suppose no USPS or budget constraints, what types of pieces might be created?
- Over-sized or irregularly shaped
- Free-standing (not in envelopes)
- Product sample-like
- Different colorings/aesthetics/materials/printing
- Etc.
 - Would these changes improve direct mail or not? Why or why not?
- Specific Examples of How Design Characteristics Would Change Today
 - Ask participants to describe how one of their current direct mail pieces might have changed if they could produce an “unconstrained” piece
- Why would such a change have been made?
 - Ask how changes would have impacted...
- Creativity
- Design process
- Size of mailout/campaign
- Overall budget
- Other improvements (e.g., better response)

V. REACTIONS TO MARKETMAIL CONCEPT

(Goal is to show sample MarketMail pieces and determine level of interest)

- Initial Reactions and Perceived Usage Barriers & Inducements
 - Size of piece and mailbox impact
 - Widespread applicability
 - Development costs

- Production costs
- Etc.
- Likelihood to Use It
 - Perceived attractiveness
 - Perceived improvements, if any, to direct mail
 - Potential usage situations/campaigns
- Traffic building, direct response, etc.
- Loyalty/retention vs. acquisition campaigns
 - Frequency of those situations – use on a repeat basis or not?
 - Likely number of pieces to be generated annually
 - Decision-making process & relationship with partners (e.g., ad agency)
- Reactions to Mailing Requirements if Regulations Were Changed
(Describe how USPS would handle and deliver the pieces and attempt to determine willingness to get a “ruling” on a case-by-case basis and pricing sensitivities)

The U.S. Postal Service would permit mailers/advertisers to develop oversized or irregularly shaped pieces each weighing up to 3.3 oz. and sort and bundle them for drop ship delivery to a destinating delivery unit (DDU). The mailer could select one of three desired speeds for the drop ship delivery component – Parcel Select (Fast), Priority Mail (Faster), or Express Mail (Fastest). Once the bundle reaches the DDU, it would be sorted and delivered as a Standard mail piece. The mailer would pay a fee for the drop shipping commensurate with the speed selected and a price per piece for the delivery of each oversized or irregularly shaped piece.

- Willingness to send piece to a committee or review panel for review and approval? Why or why not?

- Willingness to pay for ruling?
- Willingness to be part of a pilot test?
- Speed of drop shipping that would be selected? Why?
- Impact of being able to use only USPS for drop shipping?
- Inducement or barrier?
- Why?
 - Willingness to pay price for drop ship bundle and per piece delivery price?
 - Amount willing to pay for per piece delivery price?
- Compare to existing rates
- Rationale for price willing to pay
 - What value-added information would be desired?
- Tracking information?
- Delivery confirmation or Confirm?
- Other data?
- Potential Impact on Direct Mail & Other Advertising Decisions
 - Would existing direct mail be cannibalized or would the pie grow?
 - What would be the impact on advertising mix? On other direct mail?
 - How would these new design opportunities affect Web advertising, if at all?
 - How would other forms of print advertising be affected, if at all?

VI. REACTIONS TO PROPOSED NAME

- When you first heard the name "Customized MarketMail" what came to mind?
 - What were you expecting?
 - What type of product did you imagine?

- Now that you know about product, what other names, if any, come to mind?
 - Why these names?
 - What do these names communicate that Customized MarketMail does not?
- Should the name have USPS in it (e.g., USPS Customized MarketMail?)
 - What benefits, if any, are there by including USPS in the name?
 - What liabilities, if any, are there in including USPS in the name?

VII. WRAP-UP & THANK PARTICIPANTS

- Last minute comments
- Thank participants

RESPONSE OF U.S. POSTAL SERVICE WITNESS ASHE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

OCA/USPS-T1-6. On page 4 of your testimony, you state: “advertisers and designers have often sought approval for mailing of such pieces.” What is the basis for your statement and what person or office at the Postal Service received such requests? Please provide the number, or an estimate, of the number of advertisers and designers who have sought approval for mailing such pieces.

RESPONSE:

As stated in my testimony at pages 5-6, there is informal anecdotal history behind what is being called Customized MarketMail (CMM). Many mail classification and marketing professionals in the Postal Service can recall numerous past occasions when they were asked about the mailability of some variations of “CMM” – round or circular mailpieces, for example. I have recently discussed the non-mailability of CMM-compatible pieces with two mailers: the first firm was a creative company engaged in the development of mailings for third-parties; the second firm was a manufacturer of irregularly shaped mailpieces that could potentially be mailed as CMM-compatible pieces. Because the only correct answer to date has been that such pieces cannot be mailed, there is no history of either the source and nature of the requests, how much volume would have been produced, or what revenue might have been generated.

RESPONSE OF U.S. POSTAL SERVICE WITNESS ASHE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

OCA/USPS-T1-7. On page 6 of your testimony, you state: “we believe that there is a consistent level of interest in CMM....”

(a) Please estimate CMM volumes for each of the first five years of its initial offering. Include in your response all documents, analyses, notes, workpapers and data sources used in making your determination. Provide copies of all source documents relied upon, cite all sources used and show the derivation of all calculated numbers.

(b) If no volume analysis was performed please fully explain why not.

RESPONSE:

(a) An objection to this subpart has been filed.

(b) As described in my response to OCA/USPS-T1-6, there is anecdotal information that there is interest in the Customized MarketMail product, but there is no basis for making volume projections of the sort relied upon to conduct a ratemaking analysis. No quantitative market research exists to inform such an analysis. Moreover, as described in my testimony at p. 6, line 21, through p. 7, line 3, and by witness Hope in her testimony at p. 3, lines 1-3, the expectation is that this will be a low-volume application.

RESPONSE OF U.S. POSTAL SERVICE WITNESS ASHE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

OCA/USPS-T1-9. Please provide all packaging and addressing requirements that must be followed in order to enter a CMM mailing at the DDU.

RESPONSE:

For proposed Customized MarketMail (CMM) packaging requirements, please refer to my testimony at p. 8, lines 4-14. For proposed CMM addressing requirements, please refer to my testimony at p. 11, line 17 through p. 12, line 7.

RESPONSE OF U.S. POSTAL SERVICE WITNESS ASHE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

OCA/USPS-T1-10. Assume that a CMM mail piece is presented to the Postal Service at a DDU. The CMM mail piece meets all the dimensional requirements you have stated. However, the CMM mail piece does not have a rigid structure – a well-defined silhouette. Rather, the mail piece is flexible such as soft plastic or rubber and can change shape when handled and still be within the dimensional requirements of a CMM piece. Will this type of CMM mail be allowed into the mail stream at the DDU?

(a) If so, please provide the carrier costs of handling and delivering this type of CMM mail piece. Include in your response copies of all documents relied upon, show the derivation of all calculations and cite all sources.

(b) If not, please identify what dimensional requirement(s) provided would prevent a mail piece of this type from being entered into the mail stream.

RESPONSE:

(a) & (b) Without seeing the particular piece in question, I cannot definitively declare it to be eligible for mailing under the CMM classification provisions. However, if it meets the proposed requirements described in my testimony at pp. 10 to 11, it would be mailable. Having a “silhouette” that can change easily but can never exceed the largest dimensions is difficult to imagine.

RESPONSE OF U.S. POSTAL SERVICE WITNESS ASHE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

OCA/USPS-T1-11. Have you addressed the mail security impact of accepting CMM mail pieces at DDU's?

(a) If you did not factor potential security issues into your proposal, please explain fully why not.

(b) If you did factor potential security issues into your proposal, please include in your response copies of all documents, analyses, notes, workpapers and data sources used in making your determination. Provide copies of all source documents, cite all sources used and show the derivation of all calculated numbers.

RESPONSE:

(a) Since there were no new procedures envisioned for the acceptance of Customized MarketMail (CMM) (as opposed to other mail), there was no reason to give special consideration to security issues for CMM.

(b) Not applicable.

RESPONSE OF U.S. POSTAL SERVICE WITNESS ASHE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

OCA/USPS-T1-12. Page 13 of USPS-LR-2 states that advertisers would like to produce more elaborate mail pieces, “but refrain from doing so in order to ensure receipt of postage discounts.” Given the stated desire of advertisers to receive postage discounts, why do you believe mailers would be willing to forgo discounts and pay a premium to mail each CMM mail piece?

RESPONSE:

Once a mailer has decided to create a “mailable” piece, it is generally in the shape of a letter or flat. The mailer naturally attempts to secure the lowest possible price, taking into account the worksharing effort he or she wishes to undertake. If the lowest rate is desired, the mailer must adhere to the requirements for the automation discounts. While these requirements may limit mailpiece design, the mailer often sees this as a reasonable tradeoff for the lower price. Some mailers, however, forego discounts in order to be creative in such aspects as address placement. I believe that this point is supported by the information gathered in the qualitative market research commissioned by the Postal Service for Customized MarketMail (CMM). For instance, during the market research (see page 16, USPS-LR-2), discussions with prospective CMM customers indicated that they “recognized that Customized MarketMail would be more costly to produce than a traditional Standard Mail letter or postcard.” To this point, one attendee stated “I know it would be worth a little extra if we were allowed to do this. Everyone needs to differentiate - whether it’s a tongue depressor or chalk or candy you need something and this [CMM] would definitely help.” My statement was not meant to imply that *all* mailers refrain from more “elaborate” or non-typical pieces.