

USPS-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

EXPERIMENTAL PARCEL RETURN SERVICES

Docket No. MC2003-2

DIRECT TESTIMONY
OF
JOHN GULLO
ON BEHALF OF
UNITED STATES POSTAL SERVICE

TABLE OF CONTENTS

AUTOBIOGRAPHICAL SKETCH..... iii

I. PURPOSE OF TESTIMONY 1

II. OVERVIEW 1

III. TERMINOLOGY..... 3

IV. PRODUCT DESIGN 3

V. POSTAGE PAYMENT 7

VI. USPS SYSTEM REQUIREMENTS 9

VII. OPERATIONAL FLOW 11

VIII. DATA COLLECTION 15

IX. LIMITS ON THE EXPERIMENT 16

X. IMPLEMENTATION 17

XI. GOALS..... 17

Direct Testimony
Of
John Gullo

AUTOBIOGRAPHICAL SKETCH

My name is John Gullo. I currently serve as a Marketing Specialist in the Package Services, Product Development Department, for the United States Postal Service. I have been in this position since March 2002. I am currently responsible for the development and implementation of a new Merchandise Return Service.

I have been with the Postal Service for over 25 years. During this period, I have worked over 7 years in several Headquarters positions under Marketing and Expedited/Package Services. In these positions, I have been responsible for development and management activities on national programs including the Postal Business Centers, the Customer One System (national account management database), Delivery Confirmation™ service offering, and the online shipping application.

Prior to my Headquarters assignments, I worked in the Western New York District for 18 years. During this time I worked as a distribution clerk, maintenance mechanic, electronic technician, automation readability specialist, and Manager of the Buffalo & Rochester, NY, Postal Business Centers.

1 **I. PURPOSE OF TESTIMONY**

2 The purpose of my testimony is to describe the proposed Parcel Return Services
3 products. I will describe the product designs, their operations, the system development
4 to support the services, the various stages of implementation, and the methods used to
5 collect data through the experimental period. There are no workpapers or library
6 references directly associated with this testimony.

7 **II. OVERVIEW**

8 The parcel market has been evolving and the Postal Service's offering has
9 evolved with it. Prior to the 90's, surface parcels were seen as a means to send a
10 parcel or parcels from one postal customer to another. The Postal Service and the
11 Postal Rate Commission recognized that the market had changed and that larger
12 shippers had different needs – and that the Postal Service had a unique opportunity to
13 reduce costs through worksharing. The worksharing options introduced in 1991, and
14 their enhancement in 1999, helped serve the needs of these customers. In 1999, the
15 Postal Rate Commission and the Postal Service recognized that these same shippers
16 needed to know more about the delivery of these parcels and therefore Delivery
17 Confirmation was introduced. It, like worksharing, was enhanced in subsequent filings.
18 The sum of these measures indicates that the Postal Service and Postal Rate
19 Commission recognize the evolving needs of shippers and have worked to meet them.

20 The Postal Service is not the only sector of the economy to evolve. While “brick
21 and mortar” remain the dominant form of retail, other options have also evolved. Direct
22 marketers have become much more sophisticated over the past two decades, with
23 several cataloguers becoming household names. And the Internet has opened up a

1 whole new channel of sales opportunities. Regardless of the channel, however, sales
2 inevitably lead to returns. Unlike traditional retail channels, e-tailers and cataloguers do
3 not always have a convenient “brick and mortar” sales outlet for returns. Instead, these
4 entities rely on the mail or other parcel carriers as a return route.

5 While the Postal Service has had a merchandise return option since 1985, it was
6 built on the model that returns were similar to the single-piece rate outbound shipments.
7 That may no longer be the case. Witness Wittnebel (USPS-T-4) describes the returns
8 market in a manner that suggests that new ways of handling and pricing returns may be
9 needed to accommodate this market and evolving industry.

10 An opportunity exists to expand to merchandise returns the benefits of
11 worksharing that have been successful for outbound parcels. The current Parcel
12 Select® service offering is targeted toward business-to-residential shippers with volume
13 over 100 parcels per day, allowing them to deposit the parcels closer to their
14 destinations. In offering a similar bulk merchandise return service, the Postal Service
15 would be targeting the same shippers, but focusing on merchandise returned from
16 consumers to merchants. Return parcels would most likely be picked up at the same
17 facility where the packages originally were deposited (such as the Destination Bulk Mail
18 Center or the Destination Delivery Unit).

19 Shippers would benefit by being able to take advantage of increased efficiency in
20 their routes by dropping off and picking up parcels at the same time. As a result of this
21 worksharing, more favorable rates could be offered that reflect savings in transportation
22 and mail processing costs. The shipper would be able to determine the financial
23 viability of picking up return parcels at the return post office or a bulk mail center based

1 on density and volume of returns in a specific city or region. The Postal Service would
2 benefit through increased efficiency in processing these returns.

3 The Postal Service is therefore requesting that the Commission recommend
4 experimental Parcel Return Services with commercial pricing as described in the
5 testimony of Witness Kiefer (USPS-T-3). The next section of my testimony will discuss
6 the product design, including labeling requirements, operational processes and flow,
7 and payment and technology processes to support the services.

8 **III. TERMINOLOGY**

9 The following terms used throughout this testimony are defined as:

- 10 ■ Consumer – a person who returns a product or merchandise to the merchant
11 or its agent.
- 12 ■ Shipper or Agent – the company or service provider responsible for picking up
13 returned parcels from a post office delivery unit or bulk mail center.
- 14 ■ Return Delivery Unit (RDU) – a post office identified on the Parcel Return
15 Services label where the shipper or agent picks up the returned parcel.
- 16 ■ Return Bulk Mail Center (RBMC) – the bulk mail center (BMC) that services
17 the ZIP Code where the returned parcel is entered into the mailstream.
- 18 ■ Permit holder – the authorized holder of a Parcel Return Services permit
19 responsible for payment of postage due for parcels returned under the
20 specified permit number.

21 **IV. PRODUCT DESIGN**

22 The process for inducting Parcel Return Services parcels would be similar to the
23 process used in accepting Merchandise Return Service parcels. The principal

1 differences would affect how the parcels are sorted and finalized once received by the
2 return delivery unit (RDU) or return bulk mail center (RBMC). Participating shippers or
3 agents would be responsible for creating return labels identifying the type of service
4 (RDU or RBMC) requested. The parcels would be held for pickup based on the labeling
5 information and how the consumer tenders the parcel to the Postal Service. RDU
6 addressed parcels that enter the mailstream outside of the service area of that delivery
7 unit would be held for collection at the RBMC. The RBMC service would include
8 separate rate categories for Parcel Post and Bound Printed Matter returns.

9 **Labeling Specifications**

10 Parcel Return Services labels would be similar to Merchandise Return Service
11 labels. Specific label requirements would be developed and provided to applicants prior
12 to the implementation of these services. Label barcodes for these services would
13 conform to existing Postal Service barcoding requirements.

14 The primary differences between Parcel Return Services and Merchandise
15 Return Service labels would include specific design elements to allow the Postal Service
16 to capture a unique parcel tracking number, and easily identify the permit holder and
17 shipper (or agent) for sorting purposes. The currently contemplated label design
18 includes the following elements:

19 **▪ Parcel Return Services Label Legend**

20 Each Parcel Return Services label would be required to include text identifying
21 the service requested. The text would be included in a label legend box directly above
22 the delivery address.

1 ▪ Unique delivery address formatting

2 Each Parcel Return Services label would be required to contain the address of
3 the desired pick-up location (i.e., the specific address of the RDU or RBMC). The first
4 line would contain the type of service requested (either RDU or RBMC), followed by the
5 delivery address, city, state, and ZIP Code. All address information would be required
6 to be printed on the label and fit entirely on one side of the parcel.

7 For RDU service, the delivery address would be required to contain the 9-digit
8 ZIP Code of the post office where the parcels would be picked up. Additionally, all
9 labels addressed to an RDU would have to contain a postal routing barcode assigned to
10 the unique ZIP Code of the origin BMC. This is further explained in the Postal Routing
11 Barcode section.

12 For parcels addressed to the RBMC, a unique ZIP Code would be assigned by
13 the Postal Service and would have to be included in both the address and the postal
14 routing barcode. This unique ZIP Code assignment would be used for sorting these
15 parcels to specific runoffs during processing in the BMC. This process is further defined
16 in the Operational Flow section.

17 ▪ Mailer ID

18 Each parcel would have a human-readable unique Mailer ID to identify the
19 shipper or agent. The Mailer ID would consist of an alpha character followed by
20 numeric digits. The alpha character would be assigned to the shipper or agent by the
21 Postal Service after receipt of their application to participate in the experiment. The
22 numeric digits would be determined by the shipper or agent and could be used to assist
23 in their processing operations to identify individual clients. The ID would have to be

1 printed in the lower right portion of the label to the right of the delivery address, within a
2 square no less than 5/8" tall and in capital letters using a bold san serif font of at least
3 20 point.

4 The Mailer ID would be used to sort parcels received at an RDU or RBMC. This
5 is especially critical for BMC operations. Based on densities and operational
6 requirements, it is likely that return parcels for multiple shippers would be commingled
7 to a single BMC runoff. The Mailer ID would allow the Postal Service to optimize
8 manual sortation of these parcels.

9

- Parcel Return Services Barcode

10 The Parcel Return Services barcode is designed to collect information on parcels
11 returned through the Parcel Return Services program. Shippers (or their agents) would
12 be required to include this barcode on the return label. Each Parcel Return Services
13 barcode would be unique and contain specific information identifying the shipper
14 approved to use this service. Additionally, the barcode would be used to differentiate
15 labels addressed to an RDU from those addressed to an RBMC.

16

- Postal Routing Barcode

17 Each parcel would have a postal routing barcode identifying the ZIP Code
18 assignment for the origin BMC of the consumers return address. This barcode is
19 designed to sort the parcels once they have arrived at the RBMC. Although not used
20 for RDU sortation, this barcode is required to facilitate processing for parcels that
21 bypass the RDU and are sorted at the RBMC. A unique ZIP Code assignment would be
22 developed for each BMC and allow the Postal Service to sort the parcels to specific
23 runoffs or chutes assigned to this program. The postal routing code would be required

1 on all Parcel Return Services labels and could be printed as a separate barcode or
2 concatenated with the Parcel Return Services code. The concatenated option is
3 included to minimize the print area required to include these barcodes.

4 **V. POSTAGE PAYMENT**

5 Witness Kiefer (USPS-T-3) proposes three rate categories for the Parcel Return
6 Services products:

- 7 ▪ Parcel Select RDU
- 8 ▪ Parcel Select RBMC
- 9 ▪ Bound Printed Matter RBMC

10 Each participant would be required to submit a completed Form 3615 and the annual
11 permit fee to the post office issuing the permit. In addition, the permit holder would pay
12 an annual accounting fee. The postage for returned parcels would be deducted from a
13 centralized advance deposit account. The proposed rates and fees are discussed in
14 witness Kiefer's testimony.

15 The RDU rates would be charged for parcels addressed and captured at the post
16 office identified on the return label. These items would be scanned, sorted, and held for
17 pick up by the shipper identified by the Mailer ID on the label. Account information used
18 for postage payment would be identified by the Parcel Return Services code and permit
19 number on the parcels. The information collected from the scanned barcodes would
20 generate a daily postage due manifest and would be used to deduct postage from the
21 permit holder's Centralized Account Processing System (CAPS) account. An
22 Automated Clearing House (ACH) debit, which is a standard banking mechanism, would
23 be used to fund the CAPS account.

1 The RBMC rate would be charged to shippers or their agents who pick up
2 parcels at an RBMC. They would be required to develop and install a “returns
3 manifesting” system at the facility where the postage due for the return parcels would be
4 calculated. This system could function in tandem with the shippers’ own package
5 accounting responsibility to the retailers. The shippers would also be required to
6 provide a workspace for a postal employee to sample and verify the returned parcels
7 against the manifest created by the shipper. The “returns manifesting” system would
8 follow the requirements contained in USPS Publication 401, *Guide to Manifest Mailing*
9 *System*, and the returns manifesting system addendum that would be developed for this
10 program. All manifesting systems would have to be approved by the Postal Service
11 prior to activation.

12 At a high level, the “returns manifesting” system would have to accurately weigh,
13 rate, and identify each parcel returned through this program. The weight for each piece
14 would be entered into the computer either automatically by a scale connected to a
15 computer or by an operator who weighs each piece. The computer would calculate the
16 postage and records it on a manifest corresponding to the identification number of that
17 piece. The manifest could be on paper or in electronic form, such as a diskette or other
18 accessible media.

19 The Postal Service would verify the accuracy of the manifest by comparing
20 random samples of the mailing. If the total postage or total weight of the pieces
21 sampled fell outside of the allowable tolerance, the Postal Service would adjust the total
22 postage for the mailing. After completing the verification, the Postal Service would
23 deduct the postage due from the permit holder’s CAPS account. Finally, the shipper

1 would be required to transmit an electronic file listing all of the parcels manifested to a
2 Postal Service database.

3 **VI. USPS SYSTEM REQUIREMENTS**

4 Parcel Return Services will use the following Postal Service systems and devices
5 to support postage payment processes, provide operational and external parcel
6 visibility, and collect data that would be used to develop future costing and pricing
7 considerations.

8 **▪ Mobile Data Collection Device (MDCD)**

9 The Postal Service has deployed to its field units approximately 350,000
10 handheld scanning devices (a.k.a. MDCDs – mobile data collection devices). The
11 primary operation of these devices is to collect and transmit barcode information from
12 Express Mail and special service labels.

13 Postage due for Parcel Return Services parcels picked up at an RDU would be
14 automatically charged against the permit holder's CAPS account. To identify these
15 parcels and create the payment manifest, the Parcel Return Services barcode would be
16 scanned at the RDU. The MDCDs would capture information when parcels are made
17 available for pickup by the shipper (or agent), when they are picked up, and to record
18 sampling information on parcels received at a Post Office. The data collected from
19 these scans would be transmitted to our Product Tracking System consistent with
20 existing data transfer functionality.

21 **▪ Product Tracking System (PTS)**

22 The Product Tracking System is a Postal Service database created to store
23 acceptance and delivery information on Postal Service products and services.

1 All Parcel Return Services labels would include a unique barcode identifying the
2 parcel. The MDCD scanners and the BMC passive scanners would be used to scan
3 information from these barcodes. In addition, shippers who pick up mail from an RBMC
4 would be required to send an electronic file of the Parcel Return Services parcels
5 manifested at their site. The information from these sources would be transmitted to
6 PTS where it would be used to support the following activities:

- 7 1. Payment Process for RDU parcels – PTS would aggregate all scan
8 transactions received from the return delivery units. This data would be
9 used to generate a daily postage due manifest for parcels received at all
10 return delivery units nationwide.
- 11 2. Parcel Tracking – Scanning information and electronic data submitted by
12 the shipper would be accessible via USPS.com. Additionally, all
13 transactional scan data would be included in the extract file of the account
14 holder identified in the D-U-N-S® number contained in the Parcel Return
15 Services barcode.
- 16 3. Data Collection for Experiment – All scan data captured by the Postal
17 Service and electronic file data submitted by the shipper (or agent) would
18 be collected in PTS. This information would be aggregated into a
19 database during the test period for volume and revenue analysis, shipper
20 performance, service measurement, and costing metrics.

21 ■ PostalOne!

22 PostalOne! is a suite of on-line services that allows the Postal Service to
23 electronically collaborate with its business mail customers. It streamlines the mail

1 acceptance and postage payment process, provides consistent verification, improves
2 tracking of mailing jobs and access to information, and eliminates paperwork. The
3 PostalOne! System processes mailing statements and maintains advanced deposit trust
4 funds for First Class, Standard Mail, Package Services and Business Reply Mail
5 permits.

6 To support Parcel Return Services, PostalOne! would be used to collect postage
7 due information and create the necessary postage statements. The postage statements
8 would be used to deduct the appropriate postage from the permit holder's CAPS
9 account.

10 ▪ Permit System

11 The Permit System processes mailing statements and maintains advanced
12 deposit trust funds for First Class, Standard Mail, Package Services and Business
13 Reply Mail permits.

14 To support Parcel Return Services, the Permit System would be used for
15 postage due transactions for all three of the Parcel Return Services rate categories.
16 The Permit system would provide screens and tables to facilitate the proper deduction
17 of postage due charges to the appropriate Parcel Return Services permit holder.

18 **VII. OPERATIONAL FLOW**

19 Mailers participating in Parcel Return Services would provide specially designed
20 labels (see Section IV) to their consumers. To return merchandise, consumers would
21 place the return label on the parcel and give it to their postal carrier, place it in a
22 collection box, schedule a pickup, or bring it into any post office.

1 If the parcel is received by the RDU post office addressed on the label, the office
2 would scan the parcel as available for pick up, sort the parcel based on the human-
3 readable Mailer ID code, and hold it for pickup by the shipper or its agent. When the
4 shipper or agent arrived to pick up the parcel, it would be scanned to indicate pick-up.
5 After the parcel is scanned, it would be handed off to the shipper or agent and loaded
6 into their vehicle. The scanned data would be transmitted to postal systems where a
7 manifest would be created to identify the postage due for each permit holder. This
8 process would run daily and amass all data scanned nationally during the specified
9 timeframe. The postage due manifests would be used to deduct the appropriate funds
10 from the permit holder identified on the return label.

11 At a minimum, participating shippers or agents would be required to pick up
12 once a week from each post office where they receive returns. Shippers would be
13 required to make an appointment by contacting the RDU at least one business day
14 before picking up Parcel Return Services parcels. However, if the shipper already had
15 a Destination Delivery Unit (DDU) appointment to drop off Parcel Select® packages, it
16 could also pick up the return parcels during the same appointment. Additionally, the
17 shipper might be required to pick up parcels more frequently based on the size of the
18 return parcels and post office space constraints. Part of the experiment is to monitor
19 this situation to examine if there are staging issues that would need to be addressed in
20 the future.

21 Any parcel not captured at origin by the Post Office identified on the return label,
22 or any parcel addressed to an RBMC, would be transported to the BMC serving the
23 origin ZIP Code using existing transportation. Once inducted into the BMC system, the

1 postal routing barcode on the label would be scanned and the parcel would be sorted to
2 the appropriate runoff. A unique postal routing barcode would be used to automate the
3 sort process within the BMC. The only exception to this process would result from non-
4 machinable parcels addressed to an RDU or RBMC. In these instances, the parcel
5 would be visibly identified as a Parcel Return Services parcel and manually sorted to a
6 designated processing area. The Mailer ID would then be used to finalize the sortation
7 to the appropriate shipper or agent for pick up.

8 Additionally, the BMC passive scanners would capture the Parcel Return
9 Services barcode on machinable parcels and pass the information to the Product
10 Tracking System. This information would be used to sample volume information, as
11 well as assist in payment auditing.

12 Once the parcels arrive at the RBMC return runoff, the parcels would be
13 manually sorted according to the Mailer ID codes. Mailer ID codes would help to
14 identify the shipper and eliminate the need for scheme knowledge to sort the parcels.
15 When sorted, the parcels would be placed into containers as appropriate for the volume
16 received. The containers would be transported to the designated dock area when the
17 shipper or agent arrives to pick up the parcels. Shippers would be required to pick up
18 Parcel Return Services parcels on a regular schedule, every two days at a minimum,
19 excluding Sundays and postal holidays. Additionally, shippers would be required to set
20 up a recurring or standing appointment to pick up Parcel Return Services parcels by
21 contacting the BMC prior to establishing the service. When the shipper or agent's truck
22 is available at the dock, postal employees would load the containers. After loading the
23 truck, the postal employee would complete a bill of lading form, place a copy with the

1 parcels, and seal the trailer. One copy of the form would be given to the driver of the
2 truck, and a copy would be kept on file at the BMC.

3 The shipper or agent would then transport the parcels to their processing facility
4 where they would be manifested by the shipper and verified by the Postal Service. The
5 following process describes the events that would take place at the shipper's facility:

- 6 1. Only a postal employee would be authorized to break the seal on the truck
7 and verify the bill of lading to the contents of the truck. Any discrepancies
8 must be resolved before the shipper is allowed to process the parcels.
- 9 2. Postal employees would randomly select and sample parcels representative
10 of the size and volume of the load. After sampling, the parcels would be
11 returned to the containers of parcels to be manifested.
- 12 3. The shipper would manifest the parcels using an approved "returns
13 manifesting" system and present the documentation to the Postal Service.
- 14 4. The previously performed sampling would then be verified against the
15 manifest for accuracy. Any discrepancies would be corrected based on
16 current postage adjustment procedures.
- 17 5. Once the manifest is approved or reconciled, the appropriate postage due
18 would be recorded in the Permit System and charged against the Permit
19 holder's CAPS account.
- 20 6. Finally, the shipper would be required to transmit an electronic file of the
21 manifested parcels to the Product Tracking System.

1 VIII. DATA COLLECTION

2 All parcels shipped through this service would include a unique Parcel Return
3 Services barcode. These barcodes would be scanned and the data collected via MDCD
4 scanners, passive scanners in the BMCs, and electronic file transfer from the shipper or
5 agent's returns manifesting system. This information would be aggregated and stored
6 in a postal database where it would be used for monitoring and evaluating service
7 during the test period. The information collected on each parcel would include:

- 8 ▪ Unique Parcel Return Services barcode numerics
- 9 ▪ Origin / Destination ZIP Code
- 10 ▪ Rate category
- 11 ▪ Weight / Zone (as possible)
- 12 ▪ Event data by type, location, and date

13 As previously stated, this data would also be used for collecting volume and
14 revenue information by location, shipper or agent, and by weight.

15 The Postal Service proposes to collect and report the following information to the
16 Commission every six months as part of the ongoing data collection in compliance with
17 the experimental rules:

- 18 ▪ Volume
 - 19 ○ By RDU and RBMC
 - 20 ○ By weight and zone (as possible)
- 21 ▪ Pickup frequency by facility type
- 22 ▪ Number and types of facilities used as pickup locations
- 23 ▪ Evaluation of whether the process flows match those used to estimate costs

1 No information identifying specific shippers would be reported.

2 **IX. LIMITS ON THE EXPERIMENT**

3 Based on experience with consolidators, the Postal Service believes there would
4 be a limited number of parties choosing to participate in the Parcel Return Services
5 experiment. However, the Postal Service proposes to place a limit on the number of
6 participants to avoid any disruption to existing operations. The number of participants is
7 proposed to be limited to twenty for the first year of the experiment and then allow an
8 additional ten during the second year of the experiment.

9 The initial participants would be accepted based on receipt of their application
10 and ability to meet the Parcel Return Services operational requirements. In the event
11 that the Postal Service receives more than twenty applications, the remaining
12 participants would be selected based on the following criteria in order to have a diverse
13 group of participants:

- 14 ▪ Size of network
- 15 ▪ Projected volume
- 16 ▪ Readiness for implementation
- 17 ▪ Relative logistics experience

18 In addition to limitations on the number of participants, the Postal Service also
19 proposes to restrict access for the Return Delivery Unit (RDU) option to "early bird"
20 DDU entry offices (this currently includes all level 22 & above offices). The DDU early
21 bird offices currently represent approximately 6,500 offices, which represent
22 approximately 9,000 ZIP Codes.

1 **X. IMPLEMENTATION**

2 Parties interested in using the experimental service once implemented would be
3 required to apply by completing an application form for the Parcel Return Services
4 experiment available from their account manager or the Package Services program
5 office. Upon receipt of the completed application, the Postal Service would send the
6 participant specific instructions on how to get started. The information, at a minimum,
7 would include:

- 8 ▪ How to establish and pay for the required annual permit and accounting fee
- 9 ▪ How to open a CAPS account
- 10 ▪ Information on how to develop and receive approval for a “returns
11 manifesting” system
- 12 ▪ Parcel Return Services label design requirements
- 13 ▪ Electronic file transfer requirements and certification process
- 14 ▪ Requirements for picking up Parcel Return Services parcels from a Return
15 Delivery Unit or Return Bulk Mail Center

16 **XI. GOALS**

17 The Parcel Return Services experiment is designed to collect data to determine
18 actual volume, market acceptance, and gauge the operational efficiencies of these
19 services. During the experiment, the Postal Service also would evaluate the internal
20 system components used to support the services and would monitor the payment
21 applications and processes to insure proper revenue is captured.