

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

EXPERIMENTAL PARCEL RETURNS SERVICES

Docket No. MC2003-2

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS JAMES KIEFER TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T3-1-13)

The United States Postal Service hereby files the response of witness James Kiefer to the following interrogatories of the Office of the Consumer Advocate:

OCA/USPS-T3-1-13, filed on June 12, 2003.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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OCA/USPS-T3-1. Please refer to your testimony at page 3, lines 13 – 15. What is the rationale for having RBMC products weighed and rated by the recipient or the recipient's agent, but not RDU parcels?

RESPONSE:

RBMC rates vary by weight and distance (zone), so RBMC parcels need to be weighed and the zone determined to calculate the correct postage due. The weighing and rating for RBMC parcels will be performed by the participants in the experiment and the costs saved by the Postal Service are factored into the discounts offered for RBMC parcels. The rates for regular-sized RDU parcels do not vary by weight or zone. Therefore the postage due for these parcels can be determined from a simple piece count. Since the Postal Service will be scanning each RDU piece upon receipt by the shipper or shipper's agent, an electronic piece count will be available for each recipient with no further action required on the recipient's part.

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OCA/USPS-T3-2. Please refer to your testimony at page 4, lines 15 –16. What is the rationale for not proposing a Return Delivery Unit product for Bound Printed Matter?

RESPONSE:

There are two reasons. First, and most significantly, there did not appear to be an interest in a distinct BPM option. Second, RDU parcel processing would be expected to be the same, whether the parcel contained Parcel Post or Bound Printed Matter content. As discussed in my testimony (USPS-T-3, at 5, lines 14-15), the costs of handling RDU parcels are not expected to differ substantially from piece to piece. Given this consideration, and in the absence of cost studies specific to BPM, there did not appear to be a logical rationale for pricing a BPM-specific RDU product at a rate other than the \$2.00 per piece proposed for Parcel Select Return Service RDU pieces.

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OCA/USPS-T3-3. Will Parcel Select Return Service for RBMC be available at every BMC in the U.S.? If not, please list separately the BMCs that will have PSRS RBMC available and those that will not.

RESPONSE:

Yes.

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OCA/USPS-T3-4. Will Parcel Select Return Service for RBMC be available at every ASF in the U.S.? If not, please list separately the ASFs that will have PSRS RBMC available and those that will not.

RESPONSE:

The Postal Service is investigating this issue and has not yet determined which ASFs, if any, might be included in the PSRS RBMC experiment. In making the determination, one criterion for including an ASF as an RBMC site would be that the operations would be similar to those modeled for BMC sites.

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OCA/USPS-T3-5. Will RBMC for Bound Printed Matter be available at every BMC in the U.S.? If not, please list separately the BMCs that will have BPM RBMC available and those that will not.

RESPONSE:

Yes.

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OCA/USPS-T3-6. Will RBMC for Bound Printed Matter be available at every ASF in the U.S.? If not, please list separately the ASFs that will have BPM RBMC available and those that will not.

RESPONSE:

The Postal Service is investigating this issue and has not yet determined which ASFs, if any, might be included in the BPMRS RBMC experiment. In making the determination, one criterion for including an ASF as an RBMC site would be that the operations would be similar to those modeled for BMC sites.

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OCA/USPS-T3-7. Will Parcel Select Return Service for RDU be available at every RDU in the U.S.? If not, please list those delivery offices that will have PSRS RDU available. If applicable, explain why some offices will have the product available, while other offices will not. If applicable, also describe any Postal Service plans to expand RDU to additional delivery offices over the course of the experiment.

RESPONSE:

The PSRS RDU product will be available at every RDU office in the U.S. However, not all delivery units will be designated as RDUs. Witness Gullo (USPS-T-1 at 16) describes the offices that will be designated as RDUs. Because of the uncertain nature of the demand for the RDU product, Postal Service management determined that it would be prudent to limit the availability of RDU service during the experiment to larger offices where the demand was expected to be most significant (the so-called “early-bird” offices). I am informed that the Postal Service is seeking to expand the number of “early-bird” offices as part of its move to improve customer service. As new “early-bird” offices are added, they potentially could be designated as RDU sites. In addition, depending on our experience with the PSRS RDU product during the experiment, the Postal Service may also designate some non-“early-bird” offices as RDU sites also. See also the response of witness Gullo to interrogatory OCA/USPS-T1-22.

I am informed that no comprehensive list of “early-bird” offices exists, although one is being prepared. At present one can consult the lists on the Postal Service’s web page at the following address: <http://www.usps.com/shipping/acceptance.htm>. These lists identify offices by times open to accept DDU mail. “Early-bird” offices must, at a minimum, be open for acceptance from 5 to 7 a.m. and from 10 a.m. to 4 p.m.

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OCA/USPS-T3-8. At pages 5 and 6 of your testimony, you mention that there may be some space constraints for the storage of PRS parcels. Does the Postal Service anticipate having to rent additional space or provide temporary storage structures (such as trailers or sheds) to store PRS parcels? Please discuss.

RESPONSE:

No. As discussed in my testimony (USPS-T-3 at 5) and also in the testimony of witness Gullo (USPS-T-1, Section VII), the Postal Service will adjust pickup schedules to ensure that return parcels will be picked up in a timely manner. This means that the Postal Service will arrange pickup schedules so that existing space is not excessively taxed, and no additional space will be required.

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OCA/USPS-T3-9. At page 12 of your testimony, you assume that the total annual market for return parcels is 300 million pieces. Please describe the reasoning you employed to arrive at that figure. Also state any data you referred to in determining 300 million pieces to be a reasonable figure.

RESPONSE:

Developing estimates of the size of the return parcel market is difficult, at best, since this volume is not tracked. Furthermore, simple visual inspection of parcel flows cannot say with any reasonable degree of certainty which parcels contain returned merchandise and which do not. The Postal Service has seen return market volume estimates that vary widely. The lowest estimate we have seen is fewer than 180 million pieces per year; the highest estimate we have seen is over 700 million pieces. The following list shows the primary market size estimates that were relied on:

- Source A: 171 million pieces
- Source B: 276 million pieces
- Source C: 360 million pieces
- Source D: 514 million pieces
- Source E: 705 million pieces.

Source C is a published source: Steve Rifai, "A New Era for USPS Shipping," *Parcel Shipping and Distribution*, Spring 2003. Source B is from a study performed by Forrester Research, Inc.; Source E is from a study performed by Gartner, Inc. It is my understanding that both of these two estimates have been widely published in the trade literature. The others are private forecaster estimates obtained under contract, or from private in-house sources.

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For purposes of estimating revenue and cost impacts, I decided to adopt a figure that was somewhat on the conservative side of the above range. In any event, the experiment will allow us to determine the market response to our offering, which is more important than a measure of the total market. Also, despite the rather wide variation in estimates, the market size did not affect the per-piece cost savings or the determination of the proposed rates (See the response to OCA/USPS-T3-14, part (b)).

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OCA/USPS-T3-10. At page 12 of your testimony, you assume that PSRS might capture 4% of the 300 million returned parcels. Please describe the reasoning you employed to arrive at the 4% figure. Also state any data you referred to in determining 4% to be a reasonable figure.

RESPONSE:

During the development of the PSRS product, the Postal Service engaged in discussions with Newgistics related to the share of the returns market that potentially would use PSRS. These discussions suggested that PSRS share of the parcel returns market could range from 2% to 7%, depending on the rate offered. Taking into account the size of the discount embodied in my proposed rates, I selected 4% as a reasonable estimate of the potential market share for PSRS since it fell within the range of market share projections, but was slightly on the conservative side. As stated in my testimony, the market for the proposed new services is uncertain, and the actual demand will emerge as part of what we will learn from the experiment. Even if the market share turns out closer to the extremes of the 2-7% range, the overall impact of PSRS on Parcel Post revenues and costs will remain small relative to total subclass revenues and costs. Furthermore, the market demand did not affect the per-piece cost savings or the determination of the proposed rates (See the response to OCA/USPS-T3-14, part (b)).

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OCA/USPS-T3-11. At page 12 of your testimony, you assume that BPMRS might generate a volume of 7.5 million pieces. Please describe the reasoning you employed to arrive at the 7.5 million piece figure. Also state any data you referred to in determining 7.5 million pieces to be a reasonable figure.

RESPONSE:

I based this projection on information obtained during discussions with mailers regarding potential usage of Parcel Return Services products. These discussions yielded information on the current order of magnitude of return parcel volume received by likely participants in a BPM return service experiment. Based on this information, I developed my estimate for the annual usage of BPMRS for purposes of estimating the revenue impacts of the experiment. In developing this estimate, in addition to information about the current market, I also relied on mailer interest and capabilities in arriving at a judgmental estimate of 7.5 million pieces per year. As with PSRS, the market for the proposed new BPMRS is uncertain, and the actual demand will emerge as part of what we will learn from the experiment. Even if the demand turns out several times higher or lower than estimated, the overall impact on BPM revenues and costs will remain small relative to total subclass revenues and costs.

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OCA/USPS-T3-12. At page 12 of your testimony, you state that some figures used in your testimony were based on discussion with mailers.

- a. How many mailers were consulted?
- b. In what types of businesses were these mailers engaged?
- c. Please estimate the range of parcel volumes these mailers ship with the Postal Service and alternative carriers, as well as the range of parcel volumes they receive as returns.

RESPONSE:

- a. I was not involved with the mailer discussions, but I understand that in the general course of business, our product managers gained an understanding of the marketplace through discussions with customers and associations. As these discussions are informal and wide-ranging, there is not a specific count of mailers, but I understand that at least seven entities were involved in some level of discussion about the market.
- b. These companies included transportation companies, consolidators and merchants.
- c. Most of the companies involved do not produce their own mail, but rather handle mail on behalf of merchants. For the group of companies that generate their own mail, the aggregate quantities of outgoing and return parcels sent via the Postal Service each number in the millions of pieces per year. I do not know what volumes this latter group ships via alternative carriers.

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OCA/USPS-T3-13. At page 16 of your testimony, you refer to non-Postal Service forecasts concerning the size of the total returns market, and that the forecasts vary by many hundreds of millions of pieces from the lowest to the highest. Please provide these forecasts, and state the source for each forecast provided.

RESPONSE:

Please see the response to OCA/USPS-T3-9.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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