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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

EXPERIMENTAL PRIORITY MAIL FLAT-RATE
Box, 2004

Docket No. MC2004-2

TESTIMONY
OF
THOMAS M. SCHERER
ON BEHALF OF
THE UNITED STATES POSTAL SERVICE

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1 **Autobiographical Sketch**

2 My name is Tom Scherer. I joined the Postal Service in March 1999 as an
3 economist in the Pricing and Classification department, where I continue to be
4 employed. This is my third testimony submitted to the Postal Rate Commission,
5 following USPS-T-1, Docket No. MC2001-1; and USPS-T-30, Docket No. R2001-
6 1.

7 Prior to joining the Postal Service, I worked for three years as a financial
8 analyst for American Can Company; eleven years as an economic/ financial
9 analyst for JACA Corp., an environmental engineering and consulting firm; and
10 one year as a steel industry analyst for CRU International, a commodities
11 research firm. My areas of specialization have included capital budgeting and
12 investment analysis; working capital management; product costing; regulatory
13 economic impact analysis; ability-to-pay analysis; and industrial market research.
14 As a contractor to the EPA and OSHA, I performed economic impact analysis in
15 support of about a dozen new air emissions and workplace exposure standards. I
16 also provided expert witness services to the EPA by determining – through the
17 analysis of financial statements and discounted-cash-flow analysis – the ability of
18 noncomplying companies to pay civil penalties in about 30 different regulatory
19 enforcement cases.

20 I hold a Bachelor's Degree in Economics with High Honors from Oberlin
21 College and an MBA in Finance from The Wharton School, University of
22 Pennsylvania.

23

1 **I. Purpose of Testimony**

2 The purpose of this testimony, along with the testimonies submitted by
3 witnesses Barrett (USPS-T-2) and Loetscher (USPS-T-3), is to present the
4 Postal Service's proposal for an experimental Priority Mail flat-rate box. My
5 testimony focuses on proposing a rate for the flat-rate box derived from the
6 current Priority Mail rate schedule and duly considering a) the value created and
7 b) the risks inherent in a flat-rate offering. I also offer a Data Collection Plan, and
8 demonstrate conformance of the proposal to the statutory criteria for
9 experimental rules, classification changes, and rate changes.

10 **II. Product Description**

11 The Postal Service proposes to create, for two years, an experimental
12 classification offering two Priority Mail flat-rate boxes – that is, two boxes each
13 having a rate that does not vary by distance shipped (zone) or weight. The
14 proposal will give Priority Mail parcel shippers an option similar to the flat-rate
15 envelope already available to mailers of flat-shaped items. Currently, Priority Mail
16 parcel shippers pay by weight and by zone if the weight exceeds one pound. (At
17 one pound and under, the Priority Mail rate is “unzoned,” *i.e.*, does not vary by
18 zone.)

19 The two proposed box sizes are 14” x 12” x 3.5” and 11.25” x 8.75” x 6”.
20 By design, the two boxes have the same cubic volume (0.34 cubic feet), and are
21 priced the same. The proposed rate is \$7.70, exactly twice the Priority Mail one-
22 pound (and flat-rate envelope) rate. Like the flat-rate envelope, and indeed the

1 entire line of Postal Service-supplied Priority Mail packaging, the proposed boxes
2 will be offered to customers at no fee.

3 As discussed in witness Barrett's testimony, the flat-rate box will create
4 value for customers by offering convenience and ease of use. It also has
5 potential benefits for the Postal Service, including additional contribution (to
6 institutional costs) from new volume – which could be attracted by the
7 convenience and ease of use – and from the value created, for which a higher
8 price can properly be charged. Indeed, as will be seen in the next section, the
9 proposed \$7.70 rate includes a premium partly as a reflection of the flat-rate
10 box's added value.

11 **III. Proposed Rate**

12 The proposed flat-rate box postage, \$7.70, is derived from the current
13 Priority Mail rate schedule.¹ The starting point is figuring an average weight for
14 the box. This is made possible by newly available information – presented in
15 witness Loetscher's testimony – on the size (cubic volume) and density
16 characteristics of existing Priority Mail parcels. The data were gathered by
17 Christensen Associates, at the direction of witness Loetscher, in a sampling
18 study conducted from October 2002 to January 2003.² Among other things,
19 Christensen Associates found that the average density of existing Priority Mail
20 parcels at 0.34 cubic feet – the size of the flat-rate box – is 6.70 pounds per cubic
21 foot. USPS-T-3, at 3. That translates to $0.34 \times 6.70 = 2.28$ pounds per parcel.

¹ Consistency of the proposed rate with the current rate schedule is desired so as not to prejudice demand for the new offering – either positively or negatively – versus alternative (and preexisting) weight- and zone-rated options.

² In total, 5,368 Priority Mail parcels were sampled in the study.

1 This falls between an average parcel weight in GFY 2003 of 1.448 pounds at the
2 2-pound weight increment (applicable to pieces weighing 1-2 pounds)³ and an
3 assumed average parcel weight of 2.5 pounds at the 3-pound weight increment
4 (applicable to pieces weighing 2-3 pounds).⁴ For purposes of interpolation below,
5 the 2.28 pounds falls 79.1 percent of the way between the 1.448 pounds on
6 average at the 2-pound weight increment and the 2.5 pounds on average at the
7 3-pound rate increment.

8 Based on the distribution of Priority Mail parcels in GFY 2003,⁵ average
9 realized revenue per parcel across all zones in GFY 2003 was \$4.68 at the 2-
10 pound weight increment and \$6.25 at the 3-pound weight increment. USPS-LR-1,
11 Attachment 1, Table 14. At both weight increments, the average is between the
12 Zone 4 and Zone 5 rates, but closer to the Zone 4 rate (let's call it "Zone 4/5").
13 Applying the 79.1 percent interpolation factor calculated above, a parcel of 2.28
14 pounds carries an estimated average realized revenue of $\$4.68 + [(\$6.25 - \$4.68)$
15 $\times 79.1\%] = \$5.92$, which I term a "base rate."

16 The derived rate is only a "base rate" because, among other things, it
17 assumes that the flat-rate box will have similar weight and zone profiles to
18 existing Priority Mail parcels of comparable size. However, the flat rate –
19 because it immunizes against variations in weight and distance shipped – may
20 well attract shipments that are heavier-weight and/or longer-distance than

³ The source of this information is a Special Weight Report from postal data systems showing volume by ounce increment. See USPS-LR-1/MC2004-2, Attachment 3.

⁴ The midpoint of the 2-3 pound range, 2.5 pounds, was assumed because ounce increment data are not available as they are for the 1-2 pound range.

⁵ Only parcels volume is considered in this analysis. It is assumed that Priority Mail flats and letters will not migrate to the flat-rate box because they already have a flat rate available at \$3.85 (flat-rate envelope).

1 average. For example, what if the average flat-rate box were to “settle” at 3
2 pounds and Zone 5 rather than the average for baseline parcels of 2.28 pounds
3 and Zone 4/5? In this event, the Priority Mail rate schedule would suggest a rate
4 of \$7.45,⁶ exceeding the \$5.92 base rate by \$1.53. Clearly, it would be prudent to
5 add a premium to the base rate as a cushion against relatively heavy and/or long
6 distance shipments being attracted to the flat-rate box. A premium is also
7 appropriate to reflect the product’s added value – or at least a portion of the
8 added value.⁷ The added value was considered to possibly fall in the range of \$0
9 to \$1, on average. Using best judgment, I aimed for a total premium of \$1.50 to
10 \$2.00 in my model, intended both to protect against possible attraction of
11 relatively heavy and/or long distance shipments to the flat-rate box, and to reflect
12 a portion of the added value.

13 With this aim, I solved inductively, using density data from the Christensen
14 Associates sampling study, for a box size to support a convenient “fully loaded”
15 rate (base rate plus premium) of \$7.70 – convenient because it equals two \$3.85
16 (one-pound and flat-rate envelope) stamps.⁸ A box size of 0.34 cubic feet
17 corresponds to a \$5.92 base rate and therefore a \$1.78 premium (\$7.70 - \$5.92),
18 which I considered appropriate because it fell near the middle of the \$1.50 to

⁶ \$7.45 is calculated as the midpoint between the \$6.85 3-pound rate and the \$8.05 4-pound rate in Zone 5 because 3 pounds is midway between the assumed average of 2.5 pounds at the 3-pound weight increment (applicable to pieces weighing 2-3 pounds) and the assumed average of 3.5 pounds at the 4-pound weight increment (applicable to pieces weighing 3-4 pounds).

⁷ Typically (*i.e.*, upward-sloping supply curve, downward-sloping demand curve), when a producer creates new value at no cost (therefore with no shift in the supply curve), the value created is shared between the producer and consumers. (The value created is manifested as an upward shift in the demand curve.)

⁸ Twice \$3.85 has the salutary effect of simplifying the application of postage. There are currently very few stamp denominations above \$3.85. In the future, if a permanent classification for a flat-rate box is pursued, a dedicated stamp could be produced.

1 \$2.00 *a priori* range.⁹ This box size was also considered qualitatively appropriate
2 by Postal Service management.

3 **IV. Risk Factors**

4 As with all new product offerings, the flat-rate box entails risk, both to the
5 Postal Service and to customers. The risk to the Postal Service is quantifiable
6 and has an acceptable upper bound (for an experiment). Moreover, it will be at
7 least partially offset by some potential benefits (though unquantifiable). The risk
8 to customers is considered minimal.

9 **A. The Risk to the Postal Service Is Bounded**

10 The prevailing risk for the Postal Service is “revenue leakage” – that
11 revenue will be lost from Priority Mail customers currently paying more than
12 \$7.70 and “buying down” to the flat-rate box. This is the same risk for which a
13 rate premium is proposed above. Indeed, revenue leakage would be manifested
14 by relatively heavy and/or long distance Priority Mail parcels migrating to the flat-
15 rate box.

16 In Exhibits A and B, I quantify the risk of revenue leakage. Exhibit A, Table
17 1 shows GFY 2003 Priority Mail parcels volume in rate cells above \$7.70. USPS-
18 LR-1, “Special Weight Report I.” The total, 89.6 million parcels, represents 10.4
19 percent of total Priority Mail volume in GFY 2003 (859.6 million pieces).
20 Revenue, Pieces and Weight (RPW) Report for Government Fiscal Year 2003,
21 filed with the Postal Rate Commission on December 18, 2003.

22 Only some of these 89.6 million parcels are candidates for migration to the
23 flat-rate box, however, primarily because their contents will not always be able to

⁹ Any larger box would have resulted in a base rate exceeding \$5.92.

1 fit into the flat-rate box. Two factors weigh against a fit. The first is cubic volume.
2 If an existing parcel exceeds 0.34 cubic feet, it is assumed that its contents
3 cannot fit into the flat-rate box.¹⁰ Since cubic volume tends to increase with
4 weight, the ability to fit generally decreases as weight increases. Tables 1-6 in
5 witness Loetscher's testimony show the distribution of existing Priority Mail
6 parcels by size (cubic volume), with a demarcation at 0.34 cubic feet. For
7 example, in Zone 5 (Table 3), 79 percent of all 2-pound parcels are smaller than
8 0.34 cubic feet, but only 4 percent of 10-pound parcels are smaller.

9 The second factor weighing against a fit is actual parcel dimensions. Even
10 if a parcel is smaller than 0.34 cubic feet, it is assumed that its contents cannot fit
11 into the flat-rate box if any one of its three dimensions (length, width, height)
12 exceeds the flat-rate box's dimensions.¹¹ I reviewed the dimensions of each
13 parcel in witness Loetscher's study and found that of those with cubic volume in
14 the range of 0 - 0.34 cubic feet, 48.0 percent can fit into the 14" x 12" x 3.5" flat-
15 rate box, 35.9 percent can fit into the 11.25" x 8.75" x 6" flat-rate box, and 61.2
16 percent can fit into one box or the other.¹² USPS-LR-1, Attachment 4.

17 Applying these two ability-to-fit factors to the parcels currently priced
18 above \$7.70 in Exhibit A, Table 1, an estimate of parcels thus considered eligible
19 to "migrate down" (*i.e.*, with attendant revenue loss to the Postal Service) to the
20 flat-rate box is obtained in Exhibit A, Table 2. The total is 9.3 million parcels. This

¹⁰ This assumption does not account for the fact that some shipments – *e.g.*, parcels containing "air" or compressible "soft goods" – can be repackaged to smaller dimensions. The number of parcels capable of migrating to the flat-rate box could therefore be somewhat understated. However, in the absence of knowledge about parcel contents and packing practices, no basis for quantifying this potential could be identified.

¹¹ See footnote 10.

1 represents only 10.3 percent of the 89.6 million parcels currently priced above
2 the flat-rate box.

3 I do not expect all of these 9.3 million eligible parcels currently priced
4 above \$7.70 actually to migrate to the flat-rate box. Shippers may still have
5 reasons for not using the flat-rate box, including: “transaction costs” (e.g.,
6 production process changes) that exceed the value of switching; the desire to
7 use own-packaging with a company logo; the desire for packaging consistency
8 across all product lines and sizes; the need for thicker or more rigid packaging to
9 prevent damage/breakage; the desire for a custom packaging fit to prevent
10 damage/breakage; and lack of information about the flat-rate box. Because it
11 does not consider these barriers to change, the following estimation of revenue-
12 leakage risk is probably conservative, if not worst-case.

13 For those rate cells above \$7.70, Exhibit B, Table 1 shows the revenue
14 loss per piece from parcels that could migrate down to the flat-rate box.
15 Application of these rate differentials to the population of parcels currently priced
16 above \$7.70 and eligible for migration (Exhibit A, Table 2) results in a worst-
17 case¹³ annual revenue loss of \$12.6 million, as shown in Exhibit B, Table 2. This
18 represents 0.28 percent of total Priority Mail revenue in GFY 2003. RPW Report
19 for 2003, filed with the Commission on December 18, 2003.

20 As a sensitivity test, the model was also run at the base rate of \$5.92.
21 USPS-LR-1, Attachment 5. In this case, with the greater scope for parcel

¹² This demonstrates the complementary relationship of the two boxes, and is a good argument for offering two boxes of differing dimensions rather than one.

¹³ Once again, assuming no repackaging to smaller dimensions.

1 migrations down to the flat-rate box,¹⁴ the potential revenue loss is \$36.7 million.
2 Charging the fully loaded rate of \$7.70 rather than the \$5.92 base rate therefore
3 reduces the risk of revenue leakage from parcels migrating down to the flat-rate
4 box by about two-thirds. This lends strong support to the \$1.78 rate premium.

5 The \$12.6 million upper-bound risk in Exhibit B, Table 2 is acceptable for
6 an experiment, considering that a) the risk can be monitored and evaluated
7 before any commitment to a permanent classification, and b) two potential
8 impacts offset that risk: revenue gains from Priority Mail customers currently
9 paying less than \$7.70 who “buy up” to the flat-rate box for its convenience and
10 ease of use, and contribution from new volume.

11 **B. The Risk to Customers is Minimal**

12 The only risk, possibly, to customers is that in some instances they will
13 “overpay” for the flat-rate box. In theory, this would be the case if the added value
14 derived from the flat-rate box (convenience, ease of use) does not compensate
15 for the premium paid over an alternative. However, I consider this risk to be
16 minimal. The flat-rate box simply represents an additional service option that
17 customers may elect to use. All current weight- and zone-rated options will
18 remain. These incumbent options have defined the Priority Mail rate structure
19 since the service’s inception in 1968. Electing to use the flat-rate box will
20 therefore require a departure from well-established custom. As a result, it can
21 generally be expected that customers will consider – either explicitly or implicitly
22 – the flat-rate box’s relative merits (*e.g.*, its added value) before electing to use it.
23 Furthermore, the incumbent weight- and zone-rated options will be available as

¹⁴ Because more parcels are priced above \$5.92 than above \$7.70.

1 well-known reference points for that purpose. Especially under these
2 circumstances, it can be presumed that customers are rational economic agents
3 who will act in their own best interests.

4 **V. Experimental Designation**

5 The Priority Mail flat-rate box proposal warrants consideration as, and
6 implementation as, an experiment.

7 **A. Rationale**

8 A \$1.78 rate premium above the calculated base rate is proposed to
9 account for two factors, both unknown: the risk of lost revenue from current
10 Priority Mail customers buying down to the flat-rate box (revenue leakage), and
11 the value created. The very need for this rate/risk premium better supports an
12 experimental rather than a permanent classification at this time. An experimental
13 classification would permit the Postal Service to observe zone and weight profiles
14 of the flat-rate box before deciding whether a permanent classification is
15 appropriate. These profiles will actually be influenced by the two components of
16 the rate premium. For example, to the extent customers ascribe value to the flat-
17 rate box, parcels currently priced below the proposed \$7.70 rate – *i.e.*, relatively
18 light and/or short distance parcels – may “migrate up” to the flat-rate box. On the
19 other hand, to the extent customers are only interested in postage savings,
20 parcels currently priced above \$7.70 – *i.e.*, relatively heavy and/or long distance
21 parcels – may migrate down to the flat-rate box. The zone and weight profiles
22 emerging from the experiment will therefore provide implicit feedback on the two
23 components of the rate premium.

1 Another good reason to test, rather than commit permanently to, a flat-rate
2 box at this time is to ascertain its financial viability first. Priority Mail will lose
3 revenue and contribution from current volume that migrates down to the flat-rate
4 box (revenue leakage). On the other hand, Priority Mail will gain revenue and
5 contribution from current volume that migrates up to the flat-rate box, and from
6 new volume.¹⁵ An experiment can allow these three effects to be monitored for a
7 determination of net financial impact.

8 **B. Compliance with the Section 3001.67 Experimental Rules**

9 This proposal for a Priority Mail flat-rate box is appropriate for treatment as
10 an experiment under the Postal Rate Commission’s rules, as demonstrated by
11 the following considerations.

12 **1. Novel in Nature**

13 The proposed flat-rate box is highly novel. No such product is currently
14 offered – and to the best of my knowledge has ever been offered – in the
15 domestic parcel shipping market, either by the Postal Service or by any of its
16 competitors. Further, the flat-rate box will introduce a flat rate in the midst of a
17 zoned rate structure. In contrast, the Priority Mail flat-rate envelope
18 predominantly affects only flats weighing less than two pounds.

19 **2. Magnitude of Proposed Change**

20 The proposed flat-rate box should have minimal impacts on “postal
21 revenues, postal costs, mailer costs, and competition.” As demonstrated in
22 Section IV.A, worst-case revenue leakage from customers buying down to the

¹⁵ The Postal Service can lose revenue and contribution in other mail classifications, such as Parcel Post, if they are the source of “new” flat-rate box volume.

1 flat-rate box is \$12.6 million per year, representing only 0.28 percent of total
2 Priority Mail revenue in GFY 2003. Moreover, in this worst-case scenario, the
3 revenue loss may well be offset by revenue gains from customers buying up to
4 the flat-rate box and by revenue from new volume attracted to the box.

5 Postal product-cost impacts should be low because potential migrations to
6 the flat-rate box by current Priority Mail volume will have, by definition, the same
7 contents and will therefore be same-weight. They will also travel over the same
8 number of zones.

9 Some individual mailers will save postage by buying down to the flat-rate
10 box, but the net impact on postage costs will also depend on how many
11 customers buy up to the flat-rate box. The two effects are offsetting, and the net
12 impact regardless of direction should represent only a small share of total Priority
13 Mail postage. Some mailers, though, are also likely to save some non-postage
14 costs, namely the costs associated with preparing parcels for mailing and
15 ultimately tendering them to the Postal Service. As discussed in witness Barrett's
16 testimony, the flat-rate box has the potential to avoid time and effort in
17 determining the rate, and perhaps a trip to the post office as well.

18 I do not know how much new volume the flat-rate box will produce for
19 Priority Mail, but I do not believe that any volume growth is likely to have a
20 significant effect on competitive balance in the multibillion-piece parcel delivery
21 market. Even if volume were to grow by, say, 1 - 2 percent (5.6 - 11.1 million
22 parcels), that would only represent a very small share of the market.

23

1 **3. Data Generation**

2 As a *Data Collection Plan* for the experiment, I propose semiannual
3 tabulation of flat-rate box volume – distinguished for the two box sizes – by
4 weight increment and zone. The volume data will come from the Origin-
5 Destination Information System – Revenue, Pieces, and Weight (ODIS-RPW)
6 sampling regularly conducted by the Postal Service’s office of Revenue and
7 Volume Reporting. I have been informed that some ODIS-RPW system changes
8 will be required, but that sampling should be able to commence at the start of the
9 experiment. The Postal Service plans to report the ODIS-RPW results to the
10 Postal Rate Commission every six months. In addition to weight and zone, the
11 ODIS-RPW sampling will identify the method of postage payment – for example,
12 permit imprint, meter, PVI (postage validation imprinter), or stamps. This will offer
13 some insight into the types of customers using the flat-rate box.

14 The ODIS-RPW data will indicate what gravitates to the flat-rate box by
15 weight and zone, but not the origin of that volume. As discussed earlier, revenue
16 impacts of the experiment will differ if current Priority Mail volume migrates up to
17 the flat-rate box (positive impact); if current Priority Mail volume migrates down
18 (negative impact); or if the volume is new to Priority Mail (positive impact, but
19 negative impact for other mail classifications if they are the source of the
20 volume). In an effort to gauge these effects, it is anticipated that the ODIS-RPW
21 sampling will be supplemented with market research in the second year of the
22 experiment. This research is expected to comprise a nationwide flat-rate box
23 user survey. One possible way to administer the survey is by providing a

1 questionnaire and stamped return envelope with flat-rate boxes when they are
2 distributed (though possible self-selection bias from this approach would need to
3 be considered). Possible sample survey questions appear in Attachment A. The
4 questions indicate a range of potential findings from the survey, but Question No.
5 8 addresses the main objective of the survey – to discern the origins of volume
6 gravitating to the flat-rate box. My ultimate objective will be to estimate net
7 revenue and contribution impacts of the experiment. This will aid in evaluating
8 the potential case for a permanent classification.

9 **4. Duration of Experiment**

10 The Postal Service requests that the Commission recommend a two-year
11 duration for the proposed flat-rate box experiment. This should be enough time
12 for profiles of the flat-rate box by weight and zone to emerge, as well as for the
13 Postal Service to conduct market research. This will also give the Postal Service
14 time to prepare any filing for a permanent classification.

15 **VI. Classification Criteria**

16 Section 3623(c) of Title 39, U.S.C. requires the Postal Rate Commission,
17 when issuing a recommended decision on a Postal Service request for a
18 classification change, to consider the following factors:

- 19 1) the establishment and maintenance of a fair and equitable
20 classification system for all mail;
21
- 22 2) the relative value to the people of all kinds of mail matter
23 entered into the postal system and the desirability and
24 justification for special classifications and services of mail;
25
- 26 3) the importance of providing classifications with extremely high
27 degrees of reliability and speed of delivery;
28

- 1 4) the importance of providing classifications which do not require
2 an extremely high degree of reliability and speed of delivery;
- 3
- 4 5) the desirability of special classifications from the point of view of
5 both the user and of the Postal Service; and
- 6
- 7 6) such other factors as the Commission may deem appropriate.
- 8

9 The proposed flat-rate box classification is fair and equitable (Criterion 1).

10 It would be available to Priority Mail customers as a new choice – with no
11 restriction on existing ones. Customers can continue to weight- and zone-rate, as
12 before. Or they can switch to the flat-rate box at their option.

13 The proposed flat-rate box is a clear effort to create an additional Priority
14 Mail service option that may be of value to customers (Criterion 2). Convenient
15 and easy to use, the flat-rate box has the potential to save customers time and
16 effort in determining the rate and in conducting their transactions with the Postal
17 Service. As discussed in witness Barrett’s testimony, this value is most likely to
18 accrue to household and small-business mailers. Now may be a particularly
19 important time to enhance the value of Priority Mail. After growing at an average
20 annual rate of 9 percent in the 1990s, Priority Mail volume has declined by 30
21 percent since fiscal year 2000. This may suggest an erosion of Priority Mail’s
22 value in the eyes of customers.

23 By adding value, the flat-rate box enhances a mail classification – Priority
24 Mail – that provides a relatively high degree of reliability and speed of delivery
25 (Criterion 3).

26 A flat-rate box classification is desirable to both customers and the Postal
27 Service (Criterion 5). Customers benefit from the added value (convenience,

1 ease of use) and by having more choice. Potential benefits for the Postal Service
2 include additional contribution from the added value and from any new volume.

3 **VII. Pricing Criteria**

4 Section 3622(b) of Title 39, U.S.C. requires the Postal Rate Commission,
5 when issuing a recommended decision on a Postal Service request for a rate
6 change, to consider the following factors:

- 7 1) the establishment and maintenance of a fair and equitable
8 schedule;
- 9
10 2) the value of the mail service actually provided each class or
11 type of mail service to both the sender and the recipient,
12 including but not limited to the collection, mode of
13 transportation, and priority of delivery;
- 14
15 3) the requirement that each class of mail or type of mail service
16 bear the direct and indirect postal costs attributable to that class
17 or type plus that portion of all other costs of the Postal Service
18 reasonably assignable to such class or type;
- 19
20 4) the effect of rate increases upon the general public, business
21 mail users, and enterprises in the private sector of the economy
22 engaged in the delivery of mail matter other than letters;
- 23
24 5) the available alternative means of sending and receiving letters
25 and other mail matter at reasonable costs;
- 26
27 6) the degree of preparation of mail for delivery into the postal
28 system performed by the mailer and its effect upon reducing
29 costs to the Postal Service;
- 30
31 7) simplicity of structure for the entire schedule and simple,
32 identifiable relationships between the rates or fees charged the
33 various classes of mail for postal services;
- 34
35 8) the educational, cultural, scientific, and informational value to
36 the recipient of mail matter; and
- 37
38 9) such other factors as the Commission deems appropriate.
39

1 The proposed \$7.70 flat-rate box rate is fair and equitable (Criterion 1). It
2 is consistent with, and in fact derives from, the current Priority Mail rate schedule.
3 A premium is included in the rate to account for identifiable risk (revenue
4 leakage) and to reflect the value of the flat-rate box's convenience and ease of
5 use (Criterion 2). The aim of the pricing methodology is for this added value to be
6 shared between the Postal Service and customers.

7 The proposed \$7.70 rate derives from the current Priority Mail rate
8 schedule which was designed in Docket No. R2001-1 and found by the Postal
9 Rate Commission to cover costs adequately (Criterion 3). Moreover, the rate
10 includes a premium explicitly to account for the possibility/risk that the flat-rate
11 box will attract shipments that are heavier-weight and/or longer-distance – and
12 therefore higher-cost – than average. This provides a hedge against any
13 diminution of cost coverage.

14 The flat-rate box represents a new service option. Current weight- and
15 zone-rated options will remain. Customers can therefore opt to pay the proposed
16 \$7.70 if they want the flat-rate box's convenience and ease of use, or they can
17 continue to pay the current weight- and zone-based rates (Criterion 4). Further
18 addressing Criterion 4, the proposed rate is not unfair to postal competitors in the
19 private sector. It is designed to cover costs adequately and to reflect the value
20 created for customers. Indeed, the experiment is intended to provide value to
21 parcel shippers in the form of convenience and ease of use, not in any way to
22 hinder competition.

1 The flat-rate box does not remove any existing parcel delivery options, it
2 only adds a new option (Criterion 5).

3 Like the current flat-rate envelope, the flat-rate box presents a simplified
4 rate choice to customers (Criterion 7). The box can be mailed anywhere
5 domestically regardless of weight at a single flat rate (\$7.70). While customers
6 may now have to give some thought to the least-cost choice, the comparison is
7 straightforward: a flat rate versus a familiar weight and zone rate structure.

8

1 **Attachment A**

2 **Sample Survey Questions for the Flat-Rate Box User Survey**

3 (Second Year of the Experiment)

- 4
- 5 1. Where did you acquire your flat-rate box?
- 6 a. Post office
- 7 b. Ordered from www.usps.com
- 8 c. Other (describe)
- 9
- 10 2. How do you intend to mail (drop off) your flat-rate box?
- 11 a. Post office
- 12 b. Hand it over to my letter carrier
- 13 c. Leave it for my letter carrier to pick up
- 14 d. Collection box
- 15 e. Other (describe)
- 16
- 17 3. How much do you expect your flat-rate box mailing to weigh?
- 18 a. 0-2 pounds
- 19 b. 2-5 pounds
- 20 c. 5-10 pounds
- 21 d. 10-20 pounds
- 22 e. 20+ pounds
- 23
- 24 4. Approximately how far will your flat-rate box mailing travel?
- 25 a. 0-100 miles
- 26 b. 100-500 miles
- 27 c. 500-1,000 miles
- 28 d. 1,000+ miles
- 29
- 30 5. How many flat-rate boxes do you typically mail per week?
- 31 a. Less than 1
- 32 b. 1-5
- 33 c. 5-10
- 34 d. 10-20
- 35 e. 20+
- 36
- 37 6. For what purpose are your flat-rate box mailings?
- 38 a. Personal
- 39 b. Home-based business
- 40 c. Small office
- 41 d. Large office
- 42

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- 7. Check off all reasons why you are using the flat-rate box.
 - a. Known rate: do not have to figure out the weight and zone
 - b. Avoids a trip to the post office
 - c. Shorter wait in line at the post office
 - d. Postage savings
 - e. Box size
 - f. Able to acquire at an independent (non-postal) retailer
 - g. Able to leave for my letter carrier to collect
 - h. Other (explain)

- 8. If not for the availability of the flat-rate box, how would you have shipped your package?
 - a. With Priority Mail, but paying by weight and zone
 - b. With another U.S. Postal Service mail classification, like Parcel Post (identify)
 - c. With another shipping company
 - d. Would not have shipped the package

EXHIBIT A : VOLUME IMPACTS

Exhibit A
Table 1

Priority Mail
GFY 2003 Parcels Volume
Rate Cells Above \$7.70

Weight Increment	Zones L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
Flat-Rate Env.							
1							
2							
3					5,559,122	11,511,876	17,070,998
4			6,333,961	3,830,576	2,957,402	5,844,570	18,966,508
5		3,153,536	3,387,487	1,994,073	1,476,710	3,305,000	13,316,805
6		2,109,512	2,290,272	1,331,430	1,057,142	2,350,699	9,139,055
7		1,144,667	1,451,984	869,014	709,360	1,682,864	5,857,889
8		886,150	886,901	765,293	579,750	1,269,882	4,387,976
9	1,013,853	597,330	824,458	454,596	359,231	905,000	4,154,469
10	721,020	439,408	480,755	360,089	323,888	652,606	2,977,765
11	543,964	309,978	440,328	280,479	231,431	585,342	2,391,523
12	501,062	294,268	407,008	204,642	163,381	489,863	2,060,223
13	341,851	187,041	251,917	134,589	189,724	364,613	1,469,735
14	307,803	155,557	212,902	145,441	121,324	295,628	1,238,655
15	153,338	137,435	183,541	86,244	102,872	230,743	894,172
16	181,148	76,756	145,037	95,394	122,524	176,667	797,526
17	164,507	67,282	94,568	45,011	57,120	209,016	637,505
18	105,750	83,382	95,292	48,620	69,740	193,870	596,655
19	123,555	60,949	56,903	60,202	49,942	102,391	453,941
20	133,615	64,231	93,901	40,902	54,412	97,585	484,644
21	105,076	25,258	46,476	42,427	28,874	67,890	316,002
22	81,857	21,422	48,910	20,357	26,587	82,320	281,454
23	65,110	26,752	48,563	15,204	12,728	81,103	249,461
24	48,142	23,711	25,838	21,575	14,192	90,609	224,067
25	47,439	35,134	22,151	18,587	15,330	56,322	194,962
26	38,924	9,776	12,957	11,220	26,373	35,340	134,590
27	27,001	30,305	26,053	22,541	5,758	44,176	155,833
28	53,619	11,698	14,472	12,985	10,453	42,920	146,147
29	40,912	6,910	13,839	5,572	8,944	29,436	105,612
30	44,790	13,145	5,947	9,787	6,275	27,650	107,594
31	18,478	5,551	5,379	11,292	9,564	23,181	73,445
32	19,290	10,076	12,724	3,936	11,688	21,085	78,800
33	14,202	13,737	4,656	6,479	768	17,656	57,498
34	26,996	1,707	6,110	2,174	6,268	13,072	56,328
35	22,087	9,261	15,876	14,828	3,979	12,178	78,207
36	16,875	6,070	4,315	3,733	845	7,976	39,814
37	13,037	5,871	1,116	5,154	3,401	14,192	42,771

38	9,625	5,364	5,182	2,339	1,464	15,554	39,527
39	4,641	8,582	11,399	1,468	828	11,836	38,754
40	10,021	5,614	3,099	2,629	2,085	8,201	31,648
41	4,560	6,362	1,000	2,848	1,662	9,290	25,723
42	3,077	762	4,030	2,025	2,465	1,487	13,846
43	3,755	2,666	1,518		503	10,948	19,389
44	3,635	904	237	849	1,581	9,996	17,202
45	4,863	1,598	16,020	791	1,003	4,283	28,557
46	9,508	214	752	477	661	3,192	14,804
47	1,628	1,308	455	101	1,643	4,903	10,039
48	5,416		201	471	838	2,815	9,741
49	283	55	2,466	68	203	5,104	8,178
50	769	494	248	1,270	1,988	5,002	9,771
51	401	1,437	14,775	192		3,642	20,446
52	1,952	592	675	972	930	2,623	7,744
53	1,148		741		1,317	638	3,845
54	626	151	63	149	1,897	3,970	6,856
55	990	165	244	580	362	772	3,112
56	163		780		551	5,070	6,563
57	318		4,493		437	440	5,688
58	894		217		664	200	1,975
59	589		13,967		166		14,723
60	99	56	60	133	783	2,175	3,306
61	359						359
62	153		119				272
63	601				184	1,637	2,422
64			149	143	899	406	1,596
65			82				82
66					227		227
67				169		633	802
68	163						163
69		1,207	163	96			1,466
70	318		309		1,278		1,904
Total	5,045,854	10,061,393	18,036,040	10,992,218	14,403,718	31,050,132	89,589,356

Note: Balloon parcels (length + girth > 84") are included at their recorded weight, even though they do not pay that weight-based rate, but rather the 15-pound rate

Priority Mail
Parcels Eligible for Migrating Down to the Flat-Rate Box*
GFY 2003

Weight Increment	Zones L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
Flat-Rate Env.							
1							
2							
3					1,518,668	2,943,972	4,462,640
4			955,150	559,956	425,538	767,482	2,708,126
5		262,616	295,396	167,443	121,646	243,725	1,090,825
6		108,944	124,640	69,412	53,925	105,752	462,672
7		39,147	52,593	30,028	23,933	49,482	195,183
8		21,181	22,545	18,496	13,658	25,819	101,699
9	33,979	10,431	15,365	8,032	6,178	13,324	87,310
10	18,885	5,816	6,811	4,825	4,219	7,228	47,785
11	11,434	3,207	4,889	2,939	2,355	5,035	29,859
12	8,645	2,443	3,633	1,721	1,333	3,362	21,137
13	4,936	1,274	1,848	929	1,270	2,043	12,299
14	3,782	886	1,308	840	679	1,379	8,874
15	1,627	665	960	423	489	912	5,077
16	1,681	321	655	404	502	600	4,164
17	1,351	245	374	167	204	618	2,959
18	776	269	333	159	221	505	2,263
19	817	175	178	176	141	238	1,725
20	803	166	264	108	138	203	1,683
21	578	59	119	101	67	128	1,053
22	415	46	114	44	56	142	818
23	306	53	105	31	25	128	647
24	211	43	52	40	25	133	504
25	195	60	41	32	26	77	430
26	150	16	23	18	41	45	293
27	98	45	43	34	8	53	282
28	185	17	22	19	14	48	305
29	134	9	20	8	12	31	215
30	140	17	8	13	8	28	214
31	55	7	7	14	11	22	117
32	56	12	16	5	13	19	121
33	39	15	6	7	1	16	84
34	72	2	7	2	7	11	101
35	57	10	18	16	4	10	114
36	42	6	5	4	1	6	64
37	32	6	1	5	3	11	58
38	23	5	5	2	1	11	48

39	11	8	11	1	1	8	40
40	23	5	3	2	2	6	40
41	10	5	1	3	1	6	27
42	7	1	4	2	2	1	16
43	8	2	1		0	7	19
44	8	1	0	1	1	6	17
45	10	1	14	1	1	3	29
46	19	0	1	0	1	2	23
47	3	1	0	0	1	3	9
48	10		0	0	1	2	13
49	1	0	2	0	0	3	6
50	1	0	0	1	1	3	7
51	1	1	12	0		2	16
52	4	0	1	1	1	1	7
53	2		1		1	0	4
54	1	0	0	0	1	2	5
55	2	0	0	0	0	0	3
56	0		1		0	3	4
57	1		3		0	0	4
58	2		0		0	0	2
59	1		10		0		11
60	0	0	0	0	1	1	2
61	1						1
62	0		0				0
63	1				0	1	2
64			0	0	1	0	1
65			0				0
66					0		0
67				0		0	0
68	0						0
69		1	0	0			1
70	1		0		1		2
Total	91,632	458,241	1,487,620	866,465	2,175,439	4,172,662	9,252,059

* Less than or equal to .34 cubic feet and having dimensions that do not exceed any of the three dimensions specified for either of the two boxes (i.e., can fit in either of the two boxes)

EXHIBIT B : REVENUE IMPACTS

Exhibit B
Table 1

Priority Mail
Per-Piece Change in Revenue from Parcels Migrating Down to the Flat-Rate Box
R2001-1 Rates vs. Proposed Flat-Rate Box Rate of \$7.70

Weight Increment	Zones L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Flat-Rate Env.						
1						
2						
3					-\$0.15	-\$0.85
4			-\$0.35	-\$0.80	-\$1.75	-\$2.65
5		-\$0.30	-\$1.60	-\$2.15	-\$3.30	-\$4.45
6		-\$1.15	-\$2.20	-\$2.35	-\$3.60	-\$4.60
7		-\$2.10	-\$2.95	-\$3.30	-\$4.85	-\$6.35
8		-\$3.05	-\$3.75	-\$4.25	-\$6.10	-\$8.05
9	-\$0.20	-\$4.00	-\$4.50	-\$5.20	-\$7.35	-\$9.80
10	-\$0.70	-\$4.90	-\$5.30	-\$6.30	-\$8.60	-\$11.50
11	-\$1.25	-\$5.65	-\$6.05	-\$7.45	-\$9.85	-\$13.20
12	-\$1.80	-\$6.35	-\$6.80	-\$8.60	-\$11.10	-\$14.95
13	-\$2.30	-\$7.05	-\$7.60	-\$9.80	-\$12.35	-\$16.65
14	-\$2.85	-\$7.75	-\$8.35	-\$10.90	-\$13.55	-\$18.35
15	-\$3.35	-\$8.50	-\$9.15	-\$12.05	-\$14.80	-\$20.10
16	-\$3.90	-\$9.20	-\$9.90	-\$13.15	-\$16.05	-\$21.80
17	-\$4.45	-\$9.90	-\$10.65	-\$14.35	-\$17.30	-\$23.50
18	-\$4.95	-\$10.60	-\$11.60	-\$15.45	-\$18.55	-\$25.25
19	-\$5.50	-\$11.30	-\$12.50	-\$16.60	-\$19.80	-\$26.95
20	-\$6.05	-\$12.05	-\$13.45	-\$17.65	-\$21.05	-\$28.70
21	-\$6.55	-\$12.75	-\$14.35	-\$18.85	-\$22.30	-\$30.40
22	-\$7.10	-\$13.45	-\$15.25	-\$19.95	-\$23.50	-\$32.10
23	-\$7.60	-\$14.15	-\$16.20	-\$21.10	-\$24.75	-\$33.85
24	-\$8.15	-\$14.85	-\$17.15	-\$22.20	-\$26.00	-\$35.55
25	-\$8.70	-\$15.60	-\$18.05	-\$23.40	-\$27.25	-\$37.25
26	-\$9.20	-\$16.30	-\$18.90	-\$24.55	-\$28.50	-\$39.00
27	-\$9.75	-\$17.00	-\$19.85	-\$25.65	-\$29.75	-\$40.70
28	-\$10.30	-\$17.70	-\$20.80	-\$26.80	-\$31.00	-\$42.45
29	-\$10.80	-\$18.45	-\$21.75	-\$27.90	-\$32.25	-\$44.15
30	-\$11.35	-\$19.15	-\$22.65	-\$29.10	-\$33.50	-\$45.85
31	-\$11.85	-\$19.85	-\$23.50	-\$30.15	-\$34.70	-\$47.60
32	-\$12.40	-\$20.55	-\$24.45	-\$31.30	-\$35.95	-\$49.30
33	-\$12.95	-\$21.25	-\$25.40	-\$32.40	-\$37.20	-\$51.00
34	-\$13.45	-\$22.00	-\$26.30	-\$33.55	-\$38.45	-\$52.75
35	-\$14.00	-\$22.70	-\$27.25	-\$34.70	-\$39.70	-\$54.45
36	-\$14.55	-\$23.40	-\$28.15	-\$35.85	-\$40.95	-\$56.15

37	-\$15.05	-\$24.25	-\$29.10	-\$36.95	-\$42.20	-\$57.90
38	-\$15.60	-\$24.95	-\$30.00	-\$38.15	-\$43.45	-\$59.60
39	-\$16.05	-\$25.80	-\$30.95	-\$39.30	-\$44.70	-\$61.35
40	-\$16.55	-\$26.60	-\$31.90	-\$40.40	-\$45.90	-\$63.05
41	-\$17.00	-\$27.30	-\$32.75	-\$41.55	-\$47.15	-\$64.75
42	-\$17.50	-\$28.15	-\$33.65	-\$42.60	-\$48.45	-\$66.50
43	-\$17.95	-\$28.90	-\$34.60	-\$43.80	-\$49.70	-\$68.20
44	-\$18.45	-\$29.70	-\$35.55	-\$44.90	-\$51.00	-\$69.90
45	-\$18.90	-\$30.50	-\$36.45	-\$46.05	-\$52.25	-\$71.65
46	-\$19.40	-\$31.30	-\$37.35	-\$47.15	-\$53.50	-\$73.35
47	-\$19.85	-\$32.05	-\$38.30	-\$48.35	-\$54.80	-\$75.05
48	-\$20.35	-\$32.90	-\$39.25	-\$49.50	-\$56.05	-\$76.80
49	-\$20.80	-\$33.65	-\$40.10	-\$50.60	-\$57.35	-\$78.50
50	-\$21.25	-\$34.45	-\$41.05	-\$51.75	-\$58.60	-\$80.25
51	-\$21.75	-\$35.25	-\$41.95	-\$52.85	-\$59.85	-\$81.95
52	-\$22.20	-\$36.05	-\$42.90	-\$54.05	-\$61.10	-\$83.65
53	-\$22.70	-\$36.80	-\$43.80	-\$55.15	-\$62.35	-\$85.40
54	-\$23.15	-\$37.55	-\$44.75	-\$56.25	-\$63.60	-\$87.10
55	-\$23.65	-\$38.40	-\$45.70	-\$57.35	-\$64.80	-\$88.80
56	-\$24.10	-\$39.15	-\$46.55	-\$58.55	-\$66.05	-\$90.55
57	-\$24.60	-\$39.95	-\$47.45	-\$59.65	-\$67.30	-\$92.25
58	-\$25.05	-\$40.75	-\$48.40	-\$60.80	-\$68.55	-\$93.95
59	-\$25.55	-\$41.55	-\$49.35	-\$61.90	-\$69.80	-\$95.70
60	-\$26.00	-\$42.30	-\$50.30	-\$63.10	-\$71.05	-\$97.40
61	-\$26.50	-\$43.15	-\$51.15	-\$64.25	-\$72.30	-\$99.15
62	-\$26.95	-\$43.85	-\$52.10	-\$65.35	-\$73.55	-\$100.85
63	-\$27.45	-\$44.70	-\$53.05	-\$66.50	-\$74.80	-\$102.55
64	-\$27.90	-\$45.50	-\$54.00	-\$67.65	-\$76.00	-\$104.30
65	-\$28.40	-\$46.20	-\$54.80	-\$68.75	-\$77.25	-\$106.00
66	-\$28.85	-\$47.05	-\$55.75	-\$69.85	-\$78.50	-\$107.70
67	-\$29.35	-\$47.90	-\$56.70	-\$71.00	-\$79.75	-\$109.45
68	-\$29.80	-\$48.60	-\$57.65	-\$72.10	-\$81.00	-\$111.15
69	-\$30.30	-\$49.40	-\$58.55	-\$73.30	-\$82.25	-\$112.85
70	-\$30.75	-\$50.25	-\$59.45	-\$74.40	-\$83.50	-\$114.60

Priority Mail
Parcels Eligible for Migrating Down to the Flat-Rate Box*
Revenue Loss if All Eligible Parcels Migrate Down, GFY 2003

Weight Increment	Zones L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
Flat-Rate Env.							
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
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37							
38							

39	-\$172	-\$201	-\$352	-\$53	-\$33	-\$521	-\$1,332
40	-\$373	-\$132	-\$96	-\$96	-\$83	-\$361	-\$1,141
41	-\$170	-\$150	-\$31	-\$104	-\$66	-\$409	-\$931
42	-\$116	-\$18	-\$125	-\$74	-\$99	-\$66	-\$498
43	-\$142	-\$64	-\$48		-\$20	-\$485	-\$758
44	-\$138	-\$22	-\$7	-\$31	-\$64	-\$445	-\$707
45	-\$186	-\$39	-\$508	-\$29	-\$41	-\$191	-\$994
46	-\$368	-\$5	-\$24	-\$18	-\$27	-\$143	-\$585
47	-\$63	-\$32	-\$15	-\$4	-\$67	-\$221	-\$403
48	-\$213		-\$7	-\$18	-\$35	-\$128	-\$400
49	-\$11	-\$1	-\$80	-\$3	-\$8	-\$234	-\$338
50	-\$31	-\$12	-\$8	-\$49	-\$83	-\$231	-\$414
51	-\$16	-\$37	-\$491	-\$7		-\$169	-\$720
52	-\$80	-\$15	-\$23	-\$38	-\$40	-\$123	-\$318
53	-\$47		-\$25		-\$57	-\$30	-\$159
54	-\$26	-\$4	-\$2	-\$6	-\$82	-\$189	-\$310
55	-\$42	-\$4	-\$8	-\$23	-\$16	-\$37	-\$131
56	-\$7		-\$27		-\$24	-\$247	-\$305
57	-\$14		-\$159		-\$20	-\$22	-\$214
58	-\$39		-\$8		-\$30	-\$10	-\$87
59	-\$26		-\$506		-\$8		-\$540
60	-\$4	-\$2	-\$2	-\$6	-\$36	-\$110	-\$160
61	-\$16						-\$16
62	-\$7		-\$4				-\$11
63	-\$28				-\$9	-\$86	-\$123
64			-\$6	-\$6	-\$44	-\$22	-\$77
65			-\$3				-\$3
66					-\$11		-\$11
67				-\$8		-\$35	-\$43
68	-\$8						-\$8
69		-\$38	-\$7	-\$5			-\$50
70	-\$16		-\$13		-\$67		-\$96
Total	-\$130,419	-\$496,104	-\$1,547,654	-\$1,305,878	-\$1,950,529	-\$7,129,059	-\$12,559,644

* Less than or equal to .34 cubic feet and having dimensions that do not exceed any of the three dimensions specified for either of the two boxes (i.e., can fit in either of the two boxes)