Postal Rate Commission
Submitted 7/8/2004 3:24 pm
Filing ID: 40900
Accepted 7/8/2004

Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Rate and Service Changes To Implement Functionally Equivalent Negotiated Service Agreement with Bank One Corporation	)))	Docket No. MC2004-3

RESPONSES OF BANK ONE CORPORATION TO OFFICE OF CONSUMER ADVOCATE INTERROGATORIES OCA/BOC-T1-2-6 and T1-8-10 (July 8, 2004)

Bank One Corporation (Bank One)[1] hereby provides the responses of witness Rappaport to Office of Consumer Advocate interrogatories OCA/BOC-T1-2-6 and 8-10, filed June 28, 2004. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

/s/

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July 8, 2004

[1] On July 1, 2004, after the filing of this case, Bank One Corporation officially merged with J. P. Morgan and Co. The name of the merged entity is J. P. Morgan Chase and Co. For convenience, Bank One will continue to use the "Bank One" name for identification throughout this proceeding.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-2

OCA/BOC-T1-2. In your testimony at pages 5 through 6 you provide Before Rates and After Rates forecasts of mail volume.

(a) To what degree does the state of the economy (whether we are in a recession, whether better times are ahead, whether consumers are confident, trends in interest rates, etc.) affect the marketing of credit cards? Please address specific, relevant factors.

b) Please provide the models, statistical analyses, estimating procedures, and/or other relevant quantitative documentation substantiating the forecasts and/or other relevant issues related to the proposed NSA.

c) Please provide your understanding of the underlying factors that would cause Bank One to switch between Standard Mail and First-Class Mail.

Response to OCA/BOC-T1-2:

(a) Numerous factors affect Bank One's marketing of credit cards, such as the costs of non-mail marketing channels and the actions of Bank One's competitors. The state of the economy is also a general factor, but it is not possible to distill out its effect. Because predictions about the anticipated state of the economy and the specific marketing actions of Bank One's competitors during the life of the proposed NSA are necessarily speculative, we have not assumed that these factors will materially change Bank One's marketing volume in either direction. Rather, we have quantified the anticipated volume-related effects of the rate changes offered by the NSA—the one variable that that is clearly within the Commission's control—while assuming that all other volume-influencing variables will held constant.

(b) Bank One retained SLS Consulting, Inc. to provide input into Bank One's volume forecasts, and to test their reasonableness using publicly available data. Please

see the testimony of Lawrence G. Buc (BOC-T-2) for a detailed description of the models requested.

(c) As described in the testimony of Mr. Buc (BOC-T-2), the decision whether to use Standard Mail or First-Class Mail for marketing is based in large part on an economic cost-benefit analysis. For example, on the benefit side, changes in response rates or lifetime values of customers may affect the choice of mail class for marketing materials. Similarly, on the cost side, the relative cost of postage may affect the decision. If First-Class rates of postage were exactly the same as Standard rates of postage, we would mail all of our solicitations as First-Class Mail. At the other extreme, if the rate differential between First-Class and Standard mail became large enough, we would mail all (or virtually all) of our solicitations as Standard Mail. In addition, practical considerations may affect the decision of whether to use First-Class Mail or Standard Mail. For example, at any point in time, Bank One could reduce marketing costs and use less expensive channels, regardless of the economics.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-3

OCA/BOC-T1-3. In your testimony at page 7, lines 19-20, you indicate that your forecasts Before Rates volumes for Year 2 and Year 3 may be optimistic. Please explain in detail why you believe the forecast to be optimistic. What degree of reliability do you ascribe to your forecast?

Response to OCA/BOC-T1-3:

On page 7 of my testimony, I described several factors that I considered in making my forecasts of the Before Rates volumes for Years 2 and 3. Those forecasts may be optimistic because the factors that would cause volume to decrease, such as paper suppression of bills and a rate increase in 2006, may well outweigh those factors that would cause volume to increase. This may be particularly true in the out years of the NSA. I have not determined the statistical measure of the reliability of the forecasts, which are based on historical volumes and my business judgment.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-4

OCA/BOC-T1-4. Please give the primary reasons that Bank One has solicited new credit card customers via Standard Mail rather than First-Class Mail up to the present time. For the relatively small percent of solicitations of new credit card customers previously sought via First-Class Mail, what were the primary reasons for choosing First Class?

Response to OCA/BOC-T1-4.:

For most solicitation mail, the anticipated incremental response rate ("lift") from using First-Class mail does not justify the incremental cost over Standard Mail. For certain solicitation programs, a cost-benefit analysis may favor First-Class Mail solicitations. Please see the testimony of Lawrence G. Buc (BOC-T-2) for a detailed explanation.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-5

OCA/BOC-T1-5. What are the primary factors that will cause Bank One to shift from Standard Mail solicitations to First-Class Mail solicitations under the NSA? Please list. Will First-Class Mail continue to be more expensive than Standard Mail for solicitations, even under the NSA? Please discuss.

Response to OCA/BOC-T1-5:

One of the primary factors that would cause Bank One to shift from Standard Mail solicitations to First-Class Mail solicitations would be the declining block rate discounts under the NSA. Although First-Class Mail will continue to be more expensive than Standard Mail, the discounts would reduce the cost differential. This in turn would induce a migration of some Standard solicitation volume to First-Class mail.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-6

OCA/BOC-T1-6. Generally, does Bank One receive returns of Standard Mail solicitations at the present time?

(a) If so, describe the activities performed on returned Standard Mail solicitations. Does Bank One handle the returns or are returns processed by an outside entity? Please explain

(b) If not, does Bank One have concerns about how the Postal Service disposes of Bank One's Standard Mail solicitations? Please describe any concerns.

(c) Please describe, to the best of your knowledge, how the Postal Service disposes of Bank One's Standard Mail solicitations.

Response to OCA/BOC-T1-6:

Bank One does not receive returns of Standard Mail.

(a) Not applicable.

(b) Bank One is not concerned about the return of the particular mailpiece containing a solicitation. It is concerned that these pieces be disposed of in a way that protects the personal information and privacy of customers and potential customers and that complies with all applicable laws and regulations.

(c) I do not have personal knowledge of how the Postal Service disposes of undeliverable solicitations. To the best of my knowledge, the Postal Service deals with undeliverable Standard mail consistently with the concerns set forth in (b). I have not heard of any complaints, and I am unaware of any problems in this area at this time.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-8

OCA/BOC-T1-8. Please list the primary media used by Bank One to attract new credit card customers, e.g., direct mail, television ads, radio ads, newspaper ads, magazine ads, internet ads, telephone, placements in retail facilities.

(a) Please give approximate percentages of each type of medium used.

(b) Please describe how these percentages are likely to change if the Bank One NSA is recommended by the Commission.

Response to OCA/BOC-T1-8:

Other media channels that are widely used in this industry and by Bank One include telemarketing, Internet, on-site, and event marketing.

(a) The actual percentages of each type of media used by Bank One are highly sensitive and proprietary information. However, Chairman and Chief Executive Officer James Dimon has explained in Bank One's 2003 Annual Report:

> We also developed successful new marketing channels that do not rely on direct mail, which is becoming increasingly more expensive and less effective. In 2003, for the first time, direct mail sales accounted for less than half our new accounts. Several partners, including Disney, Starbucks and Amazon, are using their Internet sites to allow customers to apply for cards. Perhaps the most innovative distribution channel is Avon's 600,000 representatives who are now offering the Avon reward card to their customers.

2003 Annual Report at 4-5.

(b) Bank One's After Rates volumes do not assume any shift of solicitations from other media to the direct mail channel. If such a shift occurred, Bank One's After Rates volume estimates would be understated.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-9

OCA/BOC-T1-9. Please refer to your testimony at page 3, lines 6 – 8.

(a) With respect to solicitations of existing customers, does Bank One primarily send out such solicitations using Standard Mail or First-Class Mail? Please explain.

(b) With respect to solicitations of non-customers, does Bank One primarily send out such solicitations using Standard Mail or First-Class Mail? Please explain.

Response to OCA/BOC-T1-9:

(a) For direct mail solicitations to existing customers, Bank One primarily uses Standard Mail. At the current set of rates for First-Class Mail and Standard Mail, Standard Mail is economically preferable for the majority of our customers. As discussed in my testimony (BOC-T-1) and the testimony of Lawrence G. Buc (BOC-T-2), declining block rate discounts would provide an incentive to shift a considerable volume of mail to First-Class Mail.

(b) For direct mail solicitations to non-customers, Bank One primarily uses Standard Mail. At the current set of rates for First-Class Mail and Standard Mail, Standard Mail is economically preferable for the majority of our customers. As discussed in my testimony (BOC-T-1) and the testimony of Lawrence G. Buc (BOC-T-2), declining block rate discounts would provide an incentive to shift a considerable volume of mail to First-Class Mail.

RESPONSE OF BANK ONE CORPORATION WITNESS RAPPAPORT
TO OCA INTERROGATORY OCA/BOC-T1-10

OCA/BOC-T1-10. Did Bank One provide information to the Postal Service that would allow the Postal Service to confirm the accuracy of the customer mail and solicitation mail volume return figures set forth in your testimony at page 9, lines 1 - 7? If so, please describe the information provided by Bank One to the Postal Service.

Response to OCA/BOC-T1-10

Bank One's return rates were based on historical data. There is a strong similarity between Bank One's return rates and those the Postal Service used in the Capital One case and in the Discover NSA filing, as shown in the table below.

	Bank One	Discover	Cap One
Customer Mail	**0.3**	0.3	1.2
Solicitations—Letters	**9**	9.3	9.6
Solicitations—Flats	**11**	N/A	N/A

Sources:

Bank One: MC2004-3, USPS-T-1 Appendix A.xls

Discover: MC2004-4, USPS-T-1-AppA.xls

Cap One: MC2002-2, T3 Atta2.xls

Certificate of Service

I hereby certify that I have this 8th day of July, 2004, caused to be served the foregoing document in accordance with Section 12 of the Commission's Rules of Practice

/s/

Joy M. Leong