Postal Rate Commission
Submitted 7/30/2004 12:00 pm
Filing ID: 41161
Accepted 7/30/2004

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

Rate and Services Changes to Implement Functionally Equivalent Negotiated Service Agreement with Discover Financial Services, Inc.	)	Docket No. MC 2004-4

RESPONSE OF DFS WITNESS GIFFNEY
TO VALPAK INTERROGATORIES
VP/DFS T1-1-15

July 30, 2004

DFS hereby provides the responses of witness Giffney to Valpak interrogatories VP/DFS T1-1-15, June 20, 2004. Where DFS has objected, it is so indicated.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

/S/

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Responses of Witness Giffney to VP/DFS-T1-1

VP/DFS-T1-1.

Please refer to your testimony at page 5, lines 1-9, where you discuss potential advantages of direct mail for marketing purposes, and lines 16-21, where you discuss the classes of mail that Discover Financial Services, Inc. ("DFS") uses for marketing, or solicitation purposes.

a. Of the various Marketing mailings that DFS sent in 2003 via both First-Class Mail and Standard Mail, did DFS personalize its First-Class Marketing mail more than its Marketing mail entered with the Postal Service as Standard Mail? If your answer is anything other than an unqualified negative, please describe briefly the major advantages to DFS regarding personalization of the contents of First-Class Marketing mail over Standard Marketing mail.

b. If the proposed Negotiated Service Agreement ("NSA") with DFS is approved, and DFS elects to convert some of its Marketing mail from Standard Mail to First-Class Mail as you project will occur, does DFS have plans to, or is DFS likely to, change the content of those converted mailings in ways that will make them more personalized? If your answer is anything other than an unqualified negative, please describe briefly the principal ways in which DFS is likely to personalize the contents of such First-Class Marketing mail more than it would if they were Standard Mail pieces.

RESPONSE.

Objections filed.

Responses of Witness Giffney to VP/DFS-T1-2

VP/DFS-T1-2.

a. During 2003, did DFS request any kind of optional physical return or return information for any of its Standard Marketing mail that were Undeliverable as Addressed ("UAA") and non-forwardable? Please explain any answer that is not an unqualified negative, and indicate which endorsement(s) were used, and the percentage of Marketing mailings on which DFS used each such optional endorsement(s), for its Standard Mail solicitations. Also, please indicate the amount of any extra fees that DFS paid as a result of using such endorsements.

b. During 2003, did DFS request forwarding service for any of its Standard Mail solicitations that might be UAA? Please explain any answer that is not an unqualified negative, and indicate which endorsement(s) were used, and the percentage of Marketing mailings on which DFS used each such optional endorsement(s), for its Standard Mail solicitations. Also, please indicate the amount of extra fees that DFS paid the Postal Service as a result of requesting forwarding service for any of its Standard Mail solicitations.

RESPONSE.

a. No.

b. No.

Responses of Witness Giffney to VP/DFS-T1-3

VP/DFS-T1-3. Please refer to your testimony at page 5, lines 16-21, where you state that "some of our Marketing mail is currently sent First Class ...", and page 14, lines 1-2, where you state that "For Marketing Mail ... the weighted average return rate is 9.3%."

a. For the First-Class Marketing mail pieces that were returned during 2003 to DFS marked UAA, please describe briefly all ways in which DFS utilized those returned pieces of Marketing mail. Specifically, to what extent did DFS use the returned pieces to correct *(i.e.*, delete or otherwise change) the list(s) that contained the UAA. addresses? Did DFS open and re-use the contents in the envelopes? Please describe briefly any other ways that DFS used the returned mail pieces.

b. During 2003, for how long a period, on average, did DFS retain returned Marketing mail before disposing of it?

RESPONSE.

Objections filed. Notwithstanding these objections and without waiving these objections, DFS will answer the question to the extent possible without disclosing proprietary information.

Prior to 2003, DFS used First-Class return information on an experimental basis, from time to time, for various internal purposes. Since the return information was manually inputted, the expense of using any such information was very great. This NSA would give DFS that information in electronic form. This opens the door to more productive and efficient use of such information by DFS. DFS is looking forward to learning how it can best use that information to avoid the cost of mailing undeliverable pieces of marketing mail, and thereby use it to improve both its own productivity and that of the entire postal system.

Responses of Witness Giffney to VP/DFS-T1-4

VP/DFS-T1-4. Please refer to your testimony at page 5, line 19-21, and page 11, lines 4-7. At these two places in your testimony, you refer to the forwarding capability, speed and likelihood of delivery of First-Class Mail as "valuable components of our marketing program," and as being of "perceived value."

a. Please explain why you did not mention the return of UAA Marketing mail as one of the characteristics of First-Class Mail that is of value to DFS?

b. How would you describe or characterize the value to DFS of UAA First-Class Marketing mail pieces that the Postal Service has physically returned to DFS.

c. How would you describe or characterize the likely value to DFS of electronic address corrections regarding UAA First-Class Marketing mail pieces that will be returned to DFS if the proposed NSA is approved?

RESPONSE.

Objections filed.

Responses of Witness Giffney to VP/DFS-T1-5

VP/DFS-T1-5. Assuming that the proposed NSA is approved, for Marketing mail that DFS decides to convert from Standard Mail to First-Class Mail, please explain fully why DFS is content not to receive returns or address corrections for such Marketing mail when it is entered as Standard Mail, but would need Address Correction Service ("ACS") when the same Marketing mail is entered as First-Class Mail.

RESPONSE.

Objections filed.

Responses of Witness Giffney to VP/DFS-T1-6

VP/DFS-T1-6.

a. When DFS procures by whatever means *(e.g.*, purchase, rental, lease, etc.) a list of non-customers from a third-party source *(e.g.*, independent list broker or list owner) for Marketing Mail purposes, do the terms of the list procurement generally specify, or limit, the number of times that DFS may use the list? Please explain.

b. After DFS has finished using a list of non-customers obtained from an independent third-party *(i.e.*, when it plans no further use of the list on its own behalf), please explain briefly what DFS does with the list. For example, does DFS simply delete the list from its computers, or does it do something else with it, such as return it?

c. Under what circumstances, if ever, does DFS update, and save or return Marketing mail lists obtained from third-party sources?

RESPONSE.

Objections filed. Notwithstanding these objections and without waiving these objections, DFS will answer the question to the extent possible without disclosing proprietary information.

Almost all lists have a limitation on the number of times they can be used, and the terms of each contract generally indicate what should happen to a list after it has been used. DFS follows those contractual obligations.

When DFS buys a list, it generally does not mail to the entire list, but does analysis on the lists, selects names from the list, and ultimately mails to a selected portion of the names. Further, DFS "de-dups" (removes duplicate names) among all its lists each month so that it generally does not mail multiple pieces of the same solicitation to any particular individual.

DFS also "repurchases" a number of lists on a monthly basis. Lists that provide positive results are very likely to be repurchased for future use.

After analyzing the lists in order to select which names may be most beneficial to mail to, the lists are forwarded to our list processing vendor for further analysis. The list

processor provides information relating to the quality of the address so that DFS can make decisions regarding which names should ultimately be included on the final mailing list. During this process, all the return and forwarding information that DFS has been receiving from the Postal Service through the ACS process will be used, and it will be a vital part of that analysis.

Thus, return or forwarding information on any given individual will be part of the analyzing process that DFS performs on the lists it purchases. DFS has been working with its list processor to review all options for utilizing the return information to improve the quality of our mailing lists. The data received through the ACS process will guide the decision making process. Without the specifics of the data, DFS does not know exactly how it will use the data. Thus, while the process that DSFS will use is not fully determined at this time, I am confident that the process will greatly benefit both DFS and the postal system as a whole by increasing efficiency.

Finally, although it should be obvious from the above, on an annual basis, DFS commonly mails multiple times to a given individual.

Responses of Witness Giffney to VP/DFS-T1-7

VP/DFS-T1-7. Please answer the following questions regarding DFS's possible "re-use" of Marketing mail lists.

a. Of the lists that DFS used to send Marketing mail as First-Class Mail during 2003, approximately how many of these lists were used subsequently for a second mailing, either in 2003 or 2004? Please exclude any newly acquired and updated versions of a list used previously.

b. If one or more of the lists described in part a were used for subsequent mailings, then, of the total Marketing mail sent as First-Class Mail during 2003, approximately what percent of the pieces constituted subsequent *(e.g.*, second or third) pieces intentionally mailed to the same people?

c. Of the lists that DFS used to send Marketing mail as Standard Mail during 2003, approximately how many of these lists were used subsequently for a second mailing, either in 2003 or 2004?

d. If one or more of the lists described in part c were used for subsequent mailings, then, of the total Marketing mail sent as Standard Mail during 2003, approximately what percent of the pieces constituted subsequent *(e.g.*, second or third) pieces intentionally mailed to the same people?

e. Please explain briefly the circumstances under which DFS used lists of non-customers for more than one Marketing mailing in 2003 or 2004.

RESPONSE.

Objections filed. See DFS's response to VP/DFS-T1-6.

Responses of Witness Giffney to VP/DFS-T1-8

VP/DFS-T1-8. Please refer to the Postal Service request, Attachment F, Section II.B (p. 2), that states, *inter ali*a, "[i]n exchange for a waiver of ACS fees, DFS agrees ... [f]or any address database it maintains for solicitation mail other than First-Class Mail customer correspondence related to account holders ("customer mail"), ... [to] update that database within 30 business days and use the information in future marketing campaigns."

a. Please give your interpretation of the term "database" as that term is used in the above-cited sentence. In particular, please explain the extent (if any) to which this sentence applies to a list of non-customers that DFS may in the future rent for a First-Class solicitation mailing. Further, if this sentence applies in any way to lists of non-customers that DFS may in the future rent for Standard Mail solicitation mailings, please explain fully how DFS will use electronic returns to update such lists prior to use.

b. Please explain what the above-cited sentence means with respect to the electronic address corrections for UAA mail that DFS will receive under terms of the NSA. Will DFS use returns of Marketing mail from other lists in an effort to update new lists which it has procured but to which it has not yet mailed?

c. Does the above-cited sentence, or any other provision in the NSA, obligate DFS to use the electronic address corrections for UAA mail which it will receive to update every list of non-customers that DFS uses for a First-Class solicitation mailing?

d. Unless your answer to the preceding part c is an unqualified affirmative, please explain what use(s), if any, DFS will have for electronic address corrections for UAA mail that apply to lists of non-customers.

e. To the extent that DFS has little or no use for address corrections (electronic or otherwise) to update Marketing mail lists of non-customers, please explain fully what value such address corrections have or will have for DFS.

RESPONSE.

a. Unlike Capital One, and many other credit card companies, DFS does not maintain an internal prospect database for solicitations. Should that ever change and DFS establish an internal prospect database, DFS will update that database per the terms of this section. Until such time as DFS establishes and maintains such an internal prospect database, the section cited above (II B 1) will be inoperable.

b. Not applicable. See my immediate response in a. above and also DFS's response to VP/DFS-T1-6.

c. Yes. See Section II B 2 of the DFS NSA. See DFS's response to VP/DFS-T1-6.

d.-e. Not applicable.

Responses of Witness Giffney to VP/DFS-T1-9

VP/DFS-T1-9.

a. Please refer to your testimony at page 14, lines 4-9, and discuss in more detail (i) the type of analysis that you envision doing on the return data that DFS will receive from the Postal Service under the proposed NSA; (ii) how you plan to use the return data to improve the quality of Marketing mail sent by DFS; and (iii) what plans you have, if any, to use the return data to improve the quality of lists procured from third-party providers.

b. Does DFS have any mechanism, or plans for any mechanism, by which it will transmit corrected lists (or the corrections) back to list brokers, to list owners, or to whomever was the source of a list? If so, please give a general description of what the mechanism is, and how that mechanism will work. If DFS has no plans to provide a list source with any feedback, please so state.

c. If the electronic address corrections for UAA mail generated under the proposed NSA are never incorporated into a subsequent mailing by DFS, of what value are the electronic address corrections to DFS?

d. Would you presume that electronic address corrections not subsequently utilized by DFS have value to the Postal Service? Please explain fully any affirmative answer.

RESPONSE.

Objections filed. See DFS's answer to VP/DFS-T1-6. While I am not a lawyer and can not give a legal opinion, my understanding is that passing corrected list information back to others is forbidden by the terms of the contract for privacy reasons.

Responses of Witness Giffney to VP/DFS-T1-10

VP/DFS-T1-10. For your response to this question, please assume the following hypothetical. First, the Postal Service eliminates free return of all bulk First-Class Mail that is UAA and cannot be forwarded; *i.e.*, no free physical return, and no free electronic return (bulk First-Class Mail is defined here as any mail that receives a discount below the rate for single-piece mail). Concurrently, the Postal Service (i) increases the discounts for all bulk First-Class Mail by an amount which reflects the savings achieved from eliminating free returns of UAA bulk mail; and (ii) offers as optional services for additional cost-based fees either the physical return of any First-Class UAA mail that cannot be forwarded, or, in lieu thereof, electronic address correction.

a. Under the above-described hypothetical situation, would DFS be willing to pay 60 cents per piece to have its First-Class UAA Marketing mail physically returned?

b. Unless your answer to part a is an unqualified affirmative, would DFS be willing to pay 30 cents per piece to have its First-Class UAA Marketing mail physically returned?

c. Unless your responded affirmatively to either preceding part a or b, please indicate the maximum fee per piece that DFS would be willing to pay for physical returns of its First-Class UAA Marketing mail. If you cannot provide a single amount, please provide a range, such as 15 to 20 cents.

d. Under the above-described hypothetical situation, would DFS be willing to pay 30 cents per piece to receive electronic address corrections for its First-Class UAA Marketing mail?

e. Unless your answer to part d is an unqualified affirmative, would DFS be willing to pay 15 cents per piece to receive electronic address corrections for its First-Class UAA Marketing mail?

f. Unless your responded affirmatively to either preceding part d or e, please indicate the maximum fee that DFS would be willing to pay for electronic address corrections for its First-Class UAA Marketing mail. If you cannot provide a single amount, please provide a range, such as 5 to 10 cents.

RESPONSE.

DFS has performed no analysis on these issues. Thus, I have not basis upon which to

answer this question.

Responses of Witness Giffney to VP/DFS-T1-11

VP/DFS-T1-11.

a. For all the Marketing mail lists that DFS procured during 2003, and subsequently used for First-Class solicitations, please provide: (i) the maximum amount paid per name; (ii) the minimum amount paid per name; and (iii) the average amount paid per name.

b. For all the Marketing mail lists that DFS procured during 2003, and subsequently used for Standard Mail solicitations, please provide: (i) the maximum amount paid per name; (ii) the minimum amount paid per name; and (iii) the average amount paid per name.

c. Do the lists that DFS used for First-Class solicitations generally have a higher cost per name than the lists used for solicitations sent via Standard Mail? Please explain why or why not.

d. Does the cost per name for new lists in any way limit or affect the amount that DFS would be willing to pay for ACS? Please explain your answer.

RESPONSE.

Objections filed.

Responses of Witness Giffney to VP/DFS-T1-12

VP/DFS-T1-12. The proposed NSA provides that if a material change in the Domestic Mail Classification Schedule ("DMCS") or the Domestic Mail Manual ("DMM") "that affects the basic structure of this agreement or changes the benefits of the arrangement" occurs, each party may terminate the agreement, without penalty. (Postal Service Request, Attachment F, p. 9, Section IV.F.5.)

a. Do you believe that if the Postal Service were to propose successfully to the Commission that the price of electronic address correction would be reduced by any amount, or that if any charge is imposed for physical return of commercial First-Class Mail, that the Postal Service could terminate the agreement without penalty under this clause? Please explain your answer.

b. Do you believe that if the Postal Service were to propose successfully to the Commission the creation of a First-Class bulk subclass, that the Postal Service could terminate the agreement without penalty under this clause? Please explain your answer.

RESPONSE.

Objections filed.

Responses of Witness Giffney to VP/DFS-T1-13

VP/DFS-T1-13. Please refer to your testimony at page 13, line 21, through page 14, line 3. There you state that the return rate for your Operations mail "is low, approximately one-quarter of one percent (0.25%)," whereas the weighted average return rate for Marketing Mail is 9.3 percent, and you anticipate that "our return rate for future mailings will remain consistent with this figure."

a. Would you agree that the return rate for your Marketing Mail is approximately 37.2 times the return rate for your Operations mail *(i.e.*, 9.3/0.25)? Please explain fully any disagreement.

b. Would you agree that, from either an operational or a statistical viewpoint, the return rate for your Marketing Mail would appear to differ significantly from the rate experienced with your Operations mail? Please explain fully any disagreement.

RESPONSE

a. Your math appears to be correct.

b. DFS pays an enormous amount of attention to keeping our customer information current, and spends a great deal of money doing so. I would hope that, as a result of this attention and expense, our information would be as close as possible to 100 percent accurate, and thus the return rate as close as possible to zero.

Responses of Witness Giffney to VP/DFS-T1-14

VP/DFS-T1-14. Please refer to your testimony at page 14, lines 4-6. There you state that "DFS has agreed to receive return data electronically, which will save the Postal Service a considerable amount of money...." As a hypothetical, would you agree that if DFS would agree to forego both receipt of returned mailpieces and electronically returned data, then the Postal Service could save considerably more money? Please explain fully any disagreement.

RESPONSE

Your question appears to require an analysis of Postal Service costs under an alternative operational practice, which I cannot provide. Therefore, I have no basis for agreeing or disagreeing

Responses of Witness Giffney to VP/DFS-T1-15

VP/DFS-T1-15.

a. Please refer to the Before- and After-NSA volume forecasts shown on pages 8 and 9 of your testimony. Please confirm that if the volumes of First-Class Marketing mail materialize exactly as you project on page 9 of your testimony, the increase in such mail over the Before-NSA Forecast shown on page 8 will be as follows for Years 1, 2 and 3:

Year 1: 13 million pieces
Year 2: 18 million pieces
Year 3: 18 million pieces

If you do not confirm, please provide what you believe to be the correct volumes.

b. Please confirm that if the return rate for Marketing mail is 9.3 percent, as you project on page 14, lines 1-2, the incremental volume of Marketing mail discussed in preceding part a will result in the following incremental volume of returns:

Year 1: 1.209 million pieces
Year 2: 1.674 million pieces
Year 3: 1.674 million pieces

If you do not confirm, please provide what you believe to be the correct volumes.

c. USPS-T-1, Appendix A, page 1, shows the Postal Service's unit cost of electronic returns for each respective year as $0.34, $0.36 and $0.37. Please ignore the fact that the Postal Service's electronic ACS has only an 85 percent success rate, and confirm that at these cost levels the Postal Service's total incremental cost of providing electronic returns to **all** of the returns in preceding part b will be:

Year 1: $411,060
Year 2: $602,640
Year 3: $619,380

If you do not confirm, please provide what you believe to be the correct incremental cost for the Postal Service.

d. In you opinion, will the value that DFS receives from the returns shown in part b above, exceed the costs to the Postal Service shown in part c above? Please explain fully the basis for any affirmative answer.

RESPONSE

a. Not Confirmed. We have provided minimum projections. We fully anticipate that we will mail more First-Class Mail than this, but cannot accurately estimate it at this time.

b. Not Confirmed. It would depend on how much additional First-Class mail we would mail.

c. I cannot provide testimony concerning the details of Postal Service costs.

d. I have no basis for answering this question.

Certificate of Service

I hereby certify that I have this date caused the foregoing document to be served in accordance with Section 12 of the Commission's Rules of Practice.

/S/
Robert J. Brinkmann
July 30, 2004