

USPS-T-1

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

PARCEL RETURN SERVICE

Docket No. MC2006-1

DIRECT TESTIMONY
OF
SHARON DANIEL
ON BEHALF OF
THE UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPICAL SKETCH

My name is Sharon Daniel. I am the Manager, Ground Products, Package Services in Product Development, Marketing. I have worked at Postal Service Headquarters since 1995. Prior to joining the Postal Service, I was a consultant with Price Waterhouse (now IBM) and worked in the Center for Postal Consulting. While at Price Waterhouse, I supported many of the Postal Service witnesses in Docket No. MC95-1. After joining the Postal Service as an Economist and later as an Operations Research Analyst, I provided testimony in Docket No. MC96-2 on Standard Mail (A) Nonprofit letter mail processing costs. In Docket No. R97-1, I testified regarding various Standard Mail (A) letter and Standard Mail (B) Parcel Post mail processing costs (USPS-T-29). I also provided supplemental testimony (USPS-ST-43) in Docket No. R97-1 on the additional mail processing and delivery cost of nonstandard First-Class Mail pieces. In Docket No. R2000-1, I testified to the impact of weight on costs, delivery costs by rate category, mail processing costs for ECR, and roll forward final adjustments (USPS-T-28).

In July, 2000 I transferred to Atlanta, Georgia where I became the Finance Manager for the Expedited/Package Services strategic business unit. In January 2002, I returned to Washington, DC after a management realignment and became the Manager, Product Development in Package Services where I oversaw the development of a number of initiatives, including Parcel Return Service. I have spent considerable time observing mail processing in Processing and Distribution Centers (P&DCs), Bulk Mail Centers (BMCs), and carrier

1 stations. I have also consulted extensively on various operational and cost
2 matters with postal headquarters and field personnel. I earned a Bachelor of
3 Science Degree in Mathematics and a Master of Science Degree in Operations
4 Research from the College of William and Mary in 1991 and 1992, respectively.

1 I. Purpose of Testimony

2 The purpose of this testimony is to provide information supporting the
3 establishment of Parcel Select Return Bulk Mail Center (RBMC) and Return
4 Delivery Unit (RDU) services as permanent rate classifications. I will discuss
5 what the Postal Service has learned from the Parcel Return Service (PRS)
6 experiment during the past two years, estimate FY2006 volumes by service type,
7 and summarize the request for permanent PRS classifications. There are no
8 workpapers or library references associated with this testimony. Witness Miller
9 (USPS-T-2) and Witness Koroma (USPS-T-3) generally rely on my testimony
10 regarding the product description and policy, as well as the volume projections
11 developed in Section III.

12 Section II of this testimony addresses the findings from the PRS
13 experiment. The experiment has met Postal Service expectations and validated
14 assumptions about how the service would work. We found that the operational
15 concept is sound and verified that the procedures for handling returned parcels
16 function well. We made minor modifications that improved the product flow and
17 made the service easier to use. Volume growth confirms market interest and
18 indicates that Parcel Return Service can be a valuable addition to our product
19 line.

20 Section III of this testimony addresses market factors that support the
21 volume projection for Fiscal Year (FY) 2006. The volume for PRS has grown
22 over the course of the experiment. As expected, there is some seasonality to the
23 volume, but the total volume in year two of the experiment is nearly twice that of

1 year one. Based on my understanding of the market, I expect significant growth
2 to continue in FY2006.

3 Section IV provides a synopsis of the Postal Service's proposal for a
4 permanent classification. Based on the findings over the course of the
5 experiment, the Postal Service proposes that the Parcel Select Return Service—
6 Return Delivery Unit (RDU) Rate Category and the Parcel Select Return
7 Service—Return Bulk Mail Center (RBMC) Rate Category become permanent
8 classifications, and that Certificate of Mailing service be made available for
9 purchase with this service. Because no participant has chosen to use the Bound
10 Printed Matter Parcel Return Service, the Postal Service is not seeking a
11 permanent classification for this category.

12

13 II. FINDINGS FROM THE EXPERIMENT

14 A. The Market Has Embraced the Service

15 The catalog and online retail market is searching for quick, easy,
16 convenient, no-postage-required options for when their customers need to return
17 merchandise. It is in the interest of merchants to improve the overall return
18 process in order to encourage sales, and PRS provides a mechanism for that
19 improvement. All of the merchants currently using this product do so through a
20 third party, either a consolidator or returns management company. These third
21 parties are providing value-added services including: generating email messages
22 on behalf of the merchants as a device for building customer loyalty; the
23 redirection of returns to locations selected by the merchants; and providing

1 information that helps the merchant manage inventories. They can also help
2 smooth the otherwise unpredictable volume flow to the merchant, and better use
3 their transportation capacities, since they may be dropping off outgoing packages
4 at the PRS pickup facilities. The two current participants in the experiment
5 represent scores of merchants and have handled over 13 million PRS returns for
6 their clients. The Postal Service, by virtue of its extensive network, is well-
7 positioned for a role in this returns process.

8 The experiment allowed for up to 30 participants in the second year to
9 account for the possibility that merchants might want to use the service directly
10 and not through a third party. None chose to do so; instead, the many
11 participating merchants are using one of the two current third-party participants.
12 The small number of participants in no way contradicts the market's embrace of
13 this product.¹ These companies are continually seeking new clients, and are
14 having success in so doing. There is also the possibility that additional third-
15 parties will become PRS participants.²

16 Although the Postal Service expected RDU adoption to be slower than
17 RBMC adoption, it ultimately had to wait until the spring of 2004 to enable RDU,
18 consistent with the agents' readiness to use the service.³ Both PRS participants

¹ Actual RBMC volume in FY05 of 8.6 million was 84 percent of the volume estimated before the experiment began. Docket No. MC2003-1, USPS-T-3 (10.2 million).

² Mergers and acquisitions in the consolidator industry also limited the number of actual and potential third-party users.

³ As a result, RDU volumes have been below what was originally projected. RDU usage is expected to be entirely through third parties.

1 were using the RDU option by November 2004. The service is expanding to
2 more delivery units as locations are identified that meet agents' expansion
3 efforts. As these efforts continue, volume is expected to grow closer to the
4 amount originally forecast and even exceed it.

5 The experimental classification for Bound Printed Matter (BPM) Parcel
6 Return Service has not been used. Therefore it is not included in the proposal
7 for a permanent classification.

8 B. The Service is Operationally Feasible

9 As reported in the interim reports filed with the Postal Rate Commission,
10 the process flows that evolved during the experiment generally match those
11 outlined in the filing for the experimental service.⁴ Label modifications have
12 improved operations and made the service easier to use for the merchants. The
13 original plan called for assigning 21 unique, geographic-specific ZIP Codes for
14 each BMC service area for the program. However, the Postal Service decided
15 that it was more efficient to assign each participant a unique ZIP Code beginning
16 with the prefix 569. Each BMC added the unique ZIP Codes to its sort plans. In
17 many cases, the volume justified a unique runout, as described in witness Miller's
18 testimony (USPS-T-3).

19 The original PRS label included the city and state of the BMC's physical
20 address and the participant's unique 569 ZIP Code. Early in the experiment, it
21 became apparent that this label could cause confusion: Employees noticed that

⁴ See witness Miller's testimony (USPS-T-3) for a more detailed description of differences.

1 the first three digits in the ZIP Code did not match the location of the BMC, and
2 occasionally modified the label to correct the perceived problem. This
3 shortcoming of the original label was remedied by removing the city and state
4 and replacing it with a generic address block that simply states the agent's or
5 merchant's name, the words "Parcel Return Services" on one line and the words
6 "Bulk Mail Center" on the next line along with the appropriate 569 ZIP Code for
7 the participant. This had the added advantage of routing the return to the BMC
8 serving the area where the parcel was entered. Occasionally, especially near
9 BMC service area boundaries, a parcel may be entered in the service area of a
10 BMC other than the one that would have been identified on the label.

11 A similar situation occurred with the original RDU label. The label included a
12 specific facility address (including the street address, city and state) near the
13 consumer's address. Later, the Postal Service and a participant tested a generic
14 label that did not include the specific facility address, instead simply stating the
15 merchant's or agent's name, "Parcel Return Services" on one line and the words
16 "Return Delivery Unit" on the next line along with the agent's unique 569 ZIP
17 Code. This generic label proved to be easier for merchants to reproduce and just
18 as likely to be identified and captured at an RDU. Any post office that has been
19 activated as an RDU can now trap and scan PRS pieces regardless of whether
20 that delivery unit is the one that serves the consumer (and would have been
21 listed on the label). Moreover, by removing the specific RDU address, we
22 removed the possibility that a parcel not trapped at an RDU would somehow find
23 its way back to the delivery unit, or "backflow" from the BMC. Instead, the parcel

1 will be trapped at the BMC and will be charged the RBMC rate. In summary, the
2 labeling was greatly simplified by removing specific street addresses, and adding
3 a generic address block that streamlines processing. This label allows more
4 readily for pieces to be handled efficiently regardless of where the consumer
5 enters the return into the mailstream.

6 Another label modification involved merging the RBMC and RDU labels into
7 one PRS label by removing the need to designate the different services either in
8 text or service type codes in the barcode. To participate in the service at a
9 specific delivery unit, participants send a form (PS Form 3801 - Standing Delivery
10 Order) to the delivery unit authorizing the unit to release the mail to a specified
11 agent. If a delivery unit does not have a Standard Delivery Order for a given
12 participant, the piece simply flows through the delivery unit and on to the BMC
13 where it is trapped and picked up by the agent. The generic label also allows for
14 the PRS piece to flow to the BMC in the event the piece is entered in a location
15 that bypasses the delivery unit (and hence cannot be trapped there.)

16 The overall impact of the label modification was positive: PRS parcels not
17 captured at RDUs are captured at the BMC; RDU parcels cannot backflow to the
18 post office; and new RDUs can be activated without causing the merchants to
19 change the label type that they provide to their customers.

20

21 III. VOLUME PROJECTION IN FISCAL YEAR 2006

22 A number of factors indicate that the number of returns, regardless of the
23 parcel carrier used, is continuing to grow. In 2003, an estimated 34 million

1 households shopped online. This number is projected to grow to 63 million by
2 2008.⁵ Revenue from online sales grew 24 percent in 2004 and is expected to
3 grow by a similar percentage in 2005 (excluding travel sales).⁶ As online and
4 catalog sales grow, so does the number of returns. For example, the return rate
5 for online apparel purchases is approximately 35 percent, compared to only a 6
6 percent return rate of retail apparel purchases.⁷ With respect to PRS, in FY2004,
7 4.4 million parcels generated \$13.3 million in revenue for the Postal Service. In
8 FY2005, PRS volume was 8.8 million parcels, and generated \$25 million.⁸
9 Based on the expectations of the current participants, and the possible addition
10 of new agents in the future, I project significant growth for PRS in Test Year
11 2006. Specifically, I estimate 12.8 million Parcel Select Parcel Return Service
12 pieces. Of this, I project one-quarter, or 3.2 million pieces, will claim the RDU
13 rate. The remaining 9.6 million will claim the RBMC rate.

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⁵ The State of Retailing On-Line 8.0: A Shop.org Study Conducted by Forrester Research. (www.shop.org).

⁶ The State of Retailing On-Line 8.0: A Shop.org Study Conducted by Forrester Research. (www.shop.org).

⁷ Going Backwards: Reverse Logistics Trends and Practices. Rogers, Dale S., Tibben-Limbke, Ronald S., Forester Research.

⁸ Volume information was not reported in the bi-annual, interim reports submitted to the Postal Rate Commission because there were fewer than three participants. However, the two participants have agreed to allow the reporting of overall volumes in this proceeding in order to support the request to make Parcel Return Service a permanent classification.

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2 IV. SUMMARY OF THE REQUEST THAT THE SERVICE CONTINUE

3 Through the PRS experiment, we have verified that the procedures for
4 handling returned parcels function well, or have been modified to make them
5 work better. We have also gained insight into the cost models used to establish
6 the original pricing for the service. Customer participation confirms market
7 interest in the service. Based on this knowledge, we would like the service to
8 continue. Specifically, both the Bulk Mail Center and the Delivery Unit options of
9 Parcel Select Parcel Return Service have garnered significant customer interest.

10 During the experiment, consumers were unable to purchase extra services
11 for their returns, though I understand that, at times, some consumers wish to
12 purchase a service that indicates that they have indeed mailed the return. To
13 provide for these customers, I propose that Certificates of Mailing service be
14 made available to consumers.⁹

15 Witness Koroma (USPS-T-3) provides the specific classification changes
16 that the Postal Service is requesting.

⁹ Some consumers may also seek insurance, but, since the Postal Service does not maintain custody of the parcel returns for the entire trip back to the merchant, we do not propose to offer insurance. Also, the label includes a barcode and human-readable code that can provide delivery information on usps.com, which makes offering Delivery Confirmation superfluous.