

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0111**

**Rate and Services Changes to Implement
Baseline Negotiated Service Agreement
With Washington Mutual Bank**

}
}
}
}
}

Docket No. MC2006-3

**RESPONSE OF WASHINGTON MUTUAL BANK
WITNESS MICHAEL RAPAPORT TO
INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE
(OCA/WMB-T1-1-10)
(Filed on April 5, 2006)**

Washington Mutual Bank hereby provides the responses of witness Michael Rapaport to the following interrogatories of Office of the Consumer Advocate: OCA/WMB-T1-1-10, filed on April 5, 2006.

Each interrogatory is stated verbatim and is followed by the Response.

Respectfully submitted,

TIMOTHY J. MAY
PATTON BOGGS LLP
2550 M Street, N.W.
WASHINGTON, D.C. 20037-1350
Tel: 202/457-6050
Fax: 202/457-6315
Email: tmay@pattonboggs.com
Counsel for Washington Mutual Bank

Dated: April 20, 2006

OCA/WMB-T1-1. Please refer to your testimony at page 4, lines 9-13. You identify competitive pressure and an economic downturn as factors that increase WMB's acquisition costs.

- a. Do changes in interest rates or in the state of the economy affect the solicitation mail volume of WMB? If so, please explain how.
- b. Do changes in *expected future* interest rates or in the *expected future* state of the economy affect the solicitation mail volume of WMB? If so, please explain how.
- c. For each year of the proposed NSA, please state your beliefs as to the direction of change of interest rates and the direction of change of the state of the economy.
- d. Did your beliefs (as to changes in interest rates or in the state of the economy over the term of the NSA) change during the course of negotiations with the Postal Service? If so, how did your changing beliefs affect volume estimates, the final level of discounts, or thresholds adopted?
- e. If interest rates or the state of the economy actually differ from current expectations during the term of the NSA, will after-rates volumes differ from forecasts? Please explain your response.

RESPONSE

(a)-(b) Section V of my testimony discusses the factors Card Services considers in developing its marketing budget, which are the basis of the marketing mail volume forecasts in my testimony. While the state of the economy can influence these factors, these market conditions are not primary determinants of our marketing mail volumes. Our business growth targets are the largest determinants of budget and mail volume.

(c)-(d) I haven't developed strong beliefs regarding how these factors will change over the next few years. Section V of my testimony discusses the basis of my before-rates volume forecasts.

(e) Section VI of my testimony explains how Card Services developed its after-rates volume forecast. The impact of the NSA on acquisition mail volume is driven by the "lift" from using First-Class Mail, not by interest rates and the state of the economy. My belief is that "lift" is not impacted by interest rates or the state of the economy.

OCA/WMB-T1-2. Please refer to lines 5-6 of page 7 of your testimony. You refer to “the response rate lift from using First-Class Mail (nearly 20 percent)” Has WMB ever tested relative response rates of First-Class and Standard Mail using identical (other than indicia) pieces? If so, please describe any such tests in as much detail as possible. If not, what is the basis for the “nearly 20 percent” lift?

RESPONSE

Yes, we have tested relative response rates of First-Class and Standard Class Mail.

WMCS used observed response rate lifts from tests of First Class and Standard Class mail. Our testing varied the indicia and controlled for other response rate factors. Mail pieces were identical except for the indicia. The test lists were selected at the same mail depth and prospects were randomized for unbiased samples. In the tests, First Class and Standard Class mail pieces were dropped on the same day. Retests were also conducted for revalidation purposes. Retest results were consistent with prior results and validated response rate lifts from mailing First Class. In 2003, we tested in four different campaigns in July, August, September, and October. In 2004, we tested in three different campaigns in June, July and August.

OCA/WMB-T1-3. Please refer to lines 13-15 of page 7 of your testimony. When planning a mailing campaign, does WMB sort prospects (or lists of prospects) by

- a. expected present value to WMB,
- b. expected response rate,
- c. some other basis?

Please describe in as much detail as possible how WMB determines how many pieces of mail to send as part of a single mailing campaign.

RESPONSE

When planning a mailing campaign, we generally use a proprietary targeting engine that maximizes return on investment subject to budget constraints. Our targeting engine takes the factors identified in (a) and (b) of this interrogatory into account when determining the number of pieces to send, the class of mail to use, and to which prospects pieces should be sent. Other factors that the engine takes into account include expected credit loss rates of a given campaign.

OCA/WMB-T1-4. At page 4, lines 9-21, you discuss the effects of changes in “account acquisition costs.”

- a. Please explain how “competitive pressure” increases acquisition costs.
- b. Please explain how “an economic downturn” increases acquisition costs.
- c. Please describe in as much detail as possible all components of “solicitation costs.”
- d. Please explain how “improved response models” reduce acquisition costs.
- e. Please explain how “new market expansion” reduces acquisition costs.

RESPONSE

(a) Competitive pressures generally reduce response rates, thus increasing the cost to acquire a new account.

(b) During economic downturns, credit constraints on campaigns may be tightened. This reduces the number of marketable prospects, which increases the cost to acquire.

(c) The primary components of solicitation costs are postage and production costs. I understand that witness Ayub (USPS-T-1) calculates WMB’s average postage by class of mail in Appendix A of his testimony. While I am not comfortable providing an exact estimate of the production costs for WMB mailpieces, I understand that witness Buc (BOC-T-2) provided production cost estimates in Attachment 2 to his testimony in Docket No. MC2004-3. The items described in his testimony are similar to the items we would include in our mail campaigns and the costs are also very similar (although postal rates and production costs have increased since witness Buc’s testimony was written).

(d) Improving our models allows us to target our mailings to better prospects, increasing response rates and reducing the cost to acquire an account.

(e) Response rates in expanded credit card markets are generally higher than in established markets. The higher response rate reduces the cost to acquire an account.

OCA/WMB-T1-5. Please refer to page 4, lines 22-24, of your testimony.

- a. Please describe in as much detail as possible the process that led from “our account goals for Year 1” to “a total of 564 million acquisition mail pieces.”
- b. Please define the term “booking rates” on line 22.

RESPONSE

(a) We first determine how many new accounts we need to acquire to meet our growth targets. Then, we determine how many solicitations we need to send to acquire those accounts. In general terms, the number of acquisition mailpieces is equal to the number of new accounts divided by the product of the expected response rate and the expected booking rate.

(b) Booking rate is the number of accounts generated divided by the number of responses received.

OCA/WMB-T1-6. Please describe in as much detail as possible the process by which WMB determines whether to use First Class or Standard Mail in a mail marketing campaign.

RESPONSE

Response rate assumptions and postage costs for First Class and Standard Class mail are inputted into our proprietary targeting engine. The mail class decision is made using the targeting engine discussed in OCA/WMB-T1-3. In general terms, First-Class Mail will be chosen if the lift justifies the additional cost.

OCA/WMB-T1-7. Please define the term “development efforts” on line 21 of page 4 of your testimony. Please define the term “development efforts” on line 7 of page 6 of your testimony.

RESPONSE

In general, development efforts refer to activities which have the potential to generate additional value beyond current practices. Examples of development efforts include, but are not limited to, new credit card products, revised pricing or new creative packages.

OCA/WMB-T1-8. Please explain why Operational volume declined from 123 million in 2005 (Table 1, page 3) to 120 million in Year 1 (Table 3, page 6).

RESPONSE

As noted on the bottom of page 5, I expect 2006 operational mail volumes to be similar to 2005 volumes. Similar to the process discussed in footnote 2 on page 6 for Years 2 and 3, the difference is due to rounding.

OCA/WMB-T1-9. Please refer to lines 16-20 of page 3 of your testimony. Please provide 2005 volumes that have been reconciled with Postal Service records.

RESPONSE

We are currently reviewing our 2005 volumes and reconciling them with Postal Service records and will report our findings as soon as they are completed.

OCA/WMB-T1-10. Please refer to lines 15-16 of page 4 of your testimony. Has WMB ever “reoptimize[d] its mail strategy” for 2006? If so, please describe that process in as much detail as possible.

RESPONSE

To this point, mail strategy for 2006 has not been reoptimized, as campaigns are tracking to account goals and acquisition costs are in line with expectations.