

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

RATE AND SERVICE CHANGES TO IMPLEMENT)
BASELINE NEGOTIATED SERVICE AGREEMENT)
WITH WASHINGTON MUTUAL BANK)

Docket No. MC2006-3

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
SECOND INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS ALI AYUB (VP/USPS-T1-9-19)
(May 11, 2006)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. hereby submit interrogatories and document production requests. If necessary, please redirect any interrogatory and/or request to a more appropriate Postal Service witness.

Respectfully submitted,

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VP/USPS-T1-9.

- a. Please confirm that your USPS-T-1, Appendix A, page 1, assumes that the average return rate for all First-Class Mail is 1.23 percent. If you do not confirm, please provide the correct figure.
- b. Please define “return rate” as you use that term in your Appendix A. In particular, explain whether the return rate refers to all undeliverable as addressed (“UAA”) mail, or only that portion of UAA mail that is returned (electronically or physically) because it cannot be forwarded.
- c. If the average “return rate” for First-Class Mail is 1.23 percent, what is the percentage of First-Class Mail that also is UAA, but is forwarded to addressees instead of being returned?
- d. Please confirm that, for WMB’s solicitation mail, the return rate assumed in your Appendix A, pages 5 and 6, is 4.5 percent. If you do not confirm, please provide the correct figure.
- e. Please provide the source of the 4.5 percent return rate for WMB mail shown in your Appendix A, pages 5 and 6, and explain whether the percentage is based on actual returns of First-Class solicitation mail or Standard solicitation mail sent by WBM (including its predecessor, Providian). If the return rate is based on experience with Standard solicitation mailings, please explain its derivation, since Standard mail normally is not returned.
- f. If the return rate for WMB mail shown in your Appendix A, pages 5 and 6, refers only to that portion of WMB’s UAA mail that must be returned because it

cannot be forwarded, what is the estimated percentage of WMB's solicitation mail that is UAA — *i.e.*, mail that is UAA and is forwarded, as well as returned (electronically or physically) when it cannot be forwarded?

VP/USPS-T1-10.

- a. With respect to FY 2005, what is the Postal Service's estimate of (i) the total volume of First-Class UAA mail, and (ii) the total cost of handling such UAA mail?
- b. For all First-Class Mail in FY2005, what is the ratio of the volume of UAA mail forwarded to the volume returned?
- c. In FY 2005, what was the unit cost to:
 - (i) forward a piece of UAA mail?
 - (ii) physically return a piece of UAA mail?
 - (iii) supply the sender with an electronic address correction for a piece of UAA mail?

VP/USPS-T1-11.

- a. Please confirm that one goal of the Postal Service's Strategic Transformation Plan 2006-2010 (September 2005) is to reduce the volume of UAA mail, and confirm that goal is stated in the Transformation Plan at p. 59. If you cannot confirm, please explain.

- b. Are you aware that Postmaster General Potter reiterated the importance of the Transformation Plan goal to reduce the volume of UAA mail in his keynote address to the National Postal Forum in Orlando, Florida, April 3, 2006?
- c. Please state whether you agree with the PMG Potter's assessment of the importance of the Transformation Plan goal to reduce the volume of UAA mail.
- d. When negotiating NSAs that encourage the conversion of Standard Mail to First-Class Mail, what consideration, if any, do you give to the goal of reducing the volume of UAA mail when the mailing lists used for such solicitation mail are known to contain percentages of UAA mail that far exceed the average in First-Class?

VP/USPS-T1-12.

Please explain how giving discounts to encourage conversion of Standard solicitation mail with a relatively high percentage of UAA mail (*i.e.*, "dirty" mail) to First-Class Mail furthers the Transformation Plan's goal of reducing the volume of UAA mail in the First-Class mailstream.

VP/USPS-T1-13.

- a. Would you agree that the benefits to the Postal Service from the proposed NSA with WMB are attributable almost entirely to the volume of Standard Mail that converts to First-Class Mail in response to the declining block discounts? If you do not agree, please explain fully.

- b. Would you agree that the volume of Standard solicitation mail that WMB converts to First-Class in response to the declining block discounts are a reflection of WMB's cross-elasticity of demand between Standard and First-Class? If you do not agree, please explain fully.

VP/USPS-T1-14.

Please refer to your testimony at page 20, lines 8-9, where you state that “the quality of a credit card company’s mailing list highly correlates with the class of mail chosen for marketing.”

- a. Please define, or describe more completely, what you mean by the expression “quality of a ... mailing list,” as you use that expression in this part of your testimony. In particular, please distinguish between “quality” as it might relate to (i) the percentage of positive responses expected to be received from the mailing, (ii) the number of pieces in the mailing that are expected to be UAA, and (iii) any other aspects of quality you care to include in your response.
- b. When a credit card company — *e.g.*, one such as WMB — uses a list for a solicitation, how does it determine *a priori* the “quality” of the list? Does it test a segment of the list?
- c. Does your above-cited statement mean that a credit card company somehow determines the quality of a list and then knowingly assigns “low-quality” lists to be entered as Standard Mail, while assigning “high-quality” lists to be entered as First-Class Mail? Regardless of whether your answer is affirmative or

negative, please elaborate on what you intend by the above-cited statement regarding the correlation between quality of a mailing list and the class of mail chosen for marketing.

VP/USPS-T1-15.

Please refer to your testimony beginning at page 21, line 13, and extending to page 22, line 10. In particular, please refer to your statements that (i) historically, Providian focused on “higher risk and generally underserved customers who might not ordinarily qualify for credit cards, including customers with past credit card problems or limited credit history,” (ii) the company has stated that it is “currently refocusing our business on the middle and prime market segments,” and (iii) the statement that First-Class Mail was used to solicit accounts from customers who were known to be high-risk and to have had past credit card problems, while solicitation of potential customers in “the middle and prime market segments” makes improbable “any large-scale migration back to First-Class Mail as a marketing channel.”

- a. Please state your understanding of why First-Class Mail would be the marketing medium of choice for potential customers are known to be high risk, either by virtue of past credit card problems, or for any other reason.
- b. Please state your understanding of why Standard Mail would be the marketing medium of choice for potential customers who are considered to fall in the middle of prime market segments. In particular, what are the primary factors that make Standard Mail the marketing medium of choice for this more upscale market segment, and why is an NSA with declining block discounts a necessary

and desirable way to overcome the factors that make Standard Mail the preferred medium?

VP/USPS-T1-16.

Please refer to your testimony at page 12, lines 11-12, and page 20, lines 11-12. At page 20, you note that “Card Services will intensify its focus on cross-selling products to other WMB customers,” and at page 12 you state that another term and condition beneficial to the Postal Service is that the subject matter of the agreement is limited to WMB’s credit card products and credit card services.

- a. Please list all other services of which you are aware that WMB offers to its customers, (*e.g.*, mortgages, home-equity lines of credit, insurance of any kind (life, title, credit, etc.), checking accounts, savings accounts and CDs, mutual funds, stock brokerage services, etc.) that might be “cross-sold” by Card Services to other WMB customers.
- b. For purposes of this proposed NSA, are all of the other services listed in your response to preceding part a considered to be “card products,” or “credit card services?” If not, please indicate which items would be considered to fall under either of these two terms, and which would be excluded from falling under either of these two terms.
- c. To what extent does the above-cited limitation mentioned on page 12 (ll. 11-12) of your testimony restrict Card Services from cross-selling WMB products that are not “card products” or “credit card services?” Please give examples of

WMB products that could not be cross-sold by solicitation mail entered under this proposed NSA agreement.

VP/USPS-T1-17.

Please refer to your testimony at page 23, lines 5-6, where you state that “the average response rates for a credit card solicitation fall between 0.3 and 0.4 percent, according to our data sources.”

- a. Do your data sources for response rates for credit card solicitations distinguish between the response rates for solicitations sent via First-Class Mail and those sent via Standard Mail?
- b. Please indicate the level of detail about response rates that is available to the Postal Service for its evaluation of volume forecasts by NSA applicants. For example, do your data sources provide you with (i) the range of response rates experienced by various credit card mailers, and/or (ii) one or more measures of dispersion around the average response rate?

VP/USPS-T1-18.

Please refer to footnote 11 on page 27 of your testimony, where you (i) discuss the possibility of a rate increase during the term of this agreement, (ii) indicate that such an increase has not been accounted for in the revenue calculations, and (iii) state that ignoring any future revenues from future rate increases may undercount revenues in the out-years, thereby giving greater credence to the conservatism of any assumption.

- a. In light of the Postal Service's filing in Docket No. R2006-1, made on May 3, 2006, would you agree that, during the life of this proposed NSA agreement, at least one omnibus rate increase appears likely? Please explain any disagreement.
- b. When you state that "revenues in the out-years have been undercounted," are you referring to (i) the gross revenues from mail expected to be entered at proposed First-Class rates, (ii) the gross revenues from mail that would have been entered at proposed Standard rates, (iii) the net revenues from WMB's Standard mail that is expected to convert to First-Class, or (iv) the net contribution to Postal Service overhead? Please explain.
- c. Please revise and submit relevant pages of your Appendix A showing the effect on revenues and contribution to overhead under the NSA from rates proposed by the Postal Service in Docket No. R2006-1.
- d. Please explain how the failure to consider the effect of higher rates gives "greater credence ... to the conservatism of any assumption."

VP/USPS-T1-19.

Please refer to your testimony at page 30, lines 8-15, where you discuss the increased costs of UAA mail from converted Standard Mail, and state that those costs are included in the After-Rates First-Class Mail solicitation unit cost estimates.

- a. Did your computations include the cost for forwarding UAA mail that is forwardable?

- b. How many times does WMB send solicitation mail to the same list of addressees? In your response, please distinguish between (i) in-house lists of existing WMB customers, and (ii) rented lists used strictly for solicitation.
- c. When WMB receives electronic address corrections for a list or lists that it no longer intends to use for its own purposes, why should it make any effort to correct such lists? Please explain how correcting a list that WMB no longer intends to use might be expected to add value for the Postal Service, for WMB, or for anyone else.
- d. For WMB solicitation UAA mail that is forwarded, does the proposed NSA agreement provide that the Postal Service will supply WMB with an electronic address correction for such mail? If so, what is the Postal Service's cost to provide each electronic address correction for forwarded mail?
- e. Please explain why the Postal Service agrees to provide free electronic address correction service ("ACS") for mail that is being heavily discounted by the proposed NSA agreement. That is, why does not the Postal Service make any kind of return, whether it be physical return or electronic return, an option which the mailer with declining block discounts could obtain only by paying an appropriate cost-based fee? That is, if the mailer neither cares nor desires to receive any kind of return or electronic address correction, in lieu of the endorsement for electronic ACS, the mailer would indicate "No address correction required."

- f. (i) To what degree does WMB send its solicitation mail to rented lists which are used only once?
- (ii) Why would WMB want physical return or electronic address correction on those occasions when it makes only a single use of rented lists?
- (iii) Why would the Postal Service want to expend funds to provide WMB with electronic address correction which would not be used by WMB to improve the quality lists used for mailings?
- g. If WMB currently does not care to purchase electronic return for its solicitations sent as Standard Mail, why would WMB want or need to obtain electronic address correction for its anticipated First-Class Mailings under the NSA?