

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

PSA-T-1

POSTAL RATE AND FEES CHANGES, 2006

Docket No. R2006-1

**DIRECT TESTIMONY
OF
CHRIS FINLEY
ON BEHALF OF
PARCEL SHIPPERS ASSOCIATION**

Respectfully submitted,

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1 **Direct Testimony**

2 **Autobiographical Sketch**

3 My name is Chris Finley. I have been serving as Vice President of Operations at The Swiss
4 Colony since August of 2003. I joined the company in July of 1998. My responsibilities include
5 Purchasing, Planning, Mailing Operations, Inbound Logistics, Outbound Logistics, Industrial
6 Engineering, Production Operations, and Fulfillment Operations.

7 In 1997, I earned a Masters of Business Administration degree from the University of St.
8 Thomas Graduate School of Business in St. Paul, Minnesota. In 1990, I graduated from the
9 University of Wisconsin La Crosse with a Bachelor of Science degree in Finance.

10 The Swiss Colony is the oldest specialty mail order food company in the country. But our
11 product line has diversified to include a variety of other consumer goods as well. The Swiss Colony
12 ships most of its packages using the Postal Service’s Parcel Select product.

13 In addition to my responsibilities at The Swiss Colony, I am actively involved in industry
14 associations and the Mailers’ Technical Advisory Committee (MTAC). I am a Vice President of the
15 Parcel Shippers Association (PSA) and also serve as the chair of its Delivery Services Committee.
16 Also, I was the industry chair of MTAC’s Parcel Delivery Performance Measurement Effectiveness
17 workgroup and currently serve as an industry co-chair of the MTAC Optimizing Parcel Preparation
18 and Entry for Seamless Acceptance workgroup.

19 **1. Purpose and Scope of Testimony**

20 Over the next few years, the Postal Service intends to shift “much of the allied activities (e.g.,
21 bundle sorting, parcel distribution, container breakdown) to Regional Distribution Centers (RDCs)
22 when efficiencies can be realized.” USPS-T-42 at 34. Parcel sorting activities that are currently
23 being conducted at the Postal Service’s 21 bulk mail centers (BMCs) and 7 auxiliary service facilities

1 (ASFs) will in the future be carried out at “roughly 28-100 RDCs.” Institutional Response to
2 PSA/USPS-T42-1.

3 This shift in where parcel processing will occur will have a significant impact on how parcels,
4 particularly DBMC parcels, are prepared and entered in the Test Year. In addition to having to
5 transport parcels to a larger number of facilities to qualify for DBMC rates, it is expected that
6 parcels entered at RDCs will have to be prepared on pallets or in pallet boxes, rather than the
7 current practice of bedloading these pieces. Institutional Response to PSA/USPS-T42-1(d), (h).

8 In response to PSA/USPS-T42-1(i)-(k), the Postal Service indicated that it does not have
9 sufficient information to determine whether these new requirements will increase mailer costs to
10 qualify for DBMC rates. Addressing the Postal Service need for information, The Swiss Colony
11 analyzed the impact on cost for preparing and entering parcels using a hypothetical scenario where
12 the Dallas BMC was replaced with five RDCs. As discussed below, the impact will be significant.
13 Further, the postage reduction that would result from qualifying for lower zone rates would not
14 offset the higher costs.

15 **2. The Swiss Colony’s Current Shipping Practices**

16 Currently, The Swiss Colony uses a "zone-skipping" strategy in which we enter Parcel Select
17 parcels at the DBMC. That is, instead of using the Postal Service’s end-to-end parcel distribution
18 network, we sort our parcels by BMC service area and arrange for them to be transported at our
19 expense to that particular BMC.

20 **3. Anticipated Impacts of the Transition to RDCs**

21 As discussed above, the Postal Service has indicated that with the transition to Regional
22 Distribution Centers (RDCs), there may be considerably more than the 21 BMCs and 7 ASFs that
23 we use today, and we will of course need to ship our products to them on a routine basis. Also,

1 because the parcels delivered to the RDCs will need to be palletized instead of bedloaded, as they are
 2 today, our costs will increase significantly. Complying with the expected containerization
 3 requirements will require additional handlings as well as the procurement of additional containers,
 4 equipment, trailers, and transportation. Additionally, we may need to significantly reconfigure our
 5 existing facilities to provide enough operating space to meet these new requirements.

6 **4. Cost Study**

7 To examine these impacts, we performed a focused study of the cost of parcels being
 8 shipped to Texas. Specifically, we compared the cost of entering bedloaded parcels at the Dallas
 9 BMC and the cost to enter these parcels at five different RDCs in Dallas, Houston, San Antonio,
 10 Austin, and El Paso on pallets.

11 As Table 1 shows, our analysis found that the required changes in preparation would result
 12 in a net cost increase of \$0.59 - \$0.98 per parcel.

13 **Table 1. Mailer Costs and Postage Savings From**
 14 **Entering Parcels at Five RDCs in Texas**

Item	Costs/(Savings)
Costs	\$1.18-\$1.55
Labor	\$0.20
Equipment	\$0.38
Transportation	\$0.60-\$0.97
Postage Savings	(\$0.57)-\$(0.59)
Net Cost	\$0.59-\$0.98

17 This is a huge increase (16% to 26%) considering that the postage we currently pay on these
 18 parcels averages approximately \$3.75. Further, this cost increase is in addition to any rate increases -
 19 - such as the 16 percent increase for DBMC parcels it is seeking in this case (USPS-T-37 at 22) --
 20 USPS proposes as it rolls out its future network.

1 **a. Additional Mailer Costs**

2 We specifically examined costs in three major categories: labor; equipment; and
3 transportation. We have assumed that there would be no supply constraints in obtaining any of
4 these additional inputs.

5 **Labor Cost** increases are due to additional setup and preparation for loading into
6 containers/pallets, additional labor for picking and processing packages destined for
7 more outbound locations, additional marking of containers, additional loading of pallets,
8 and additional costs of managing additional transportation movements. We estimate the
9 incremental labor cost per parcel will be approximately \$0.20.

10 **Equipment Cost** increases are related to purchasing containers for loading outbound
11 parcels, costs to inventory and store these containers, and forklift expense to move and
12 transport the containers. We estimate that the incremental equipment cost per parcel
13 will be \$0.38.

14 **Transportation Cost** increases arise due to the fact that palletization decreases the
15 volume utilization of trailers. We estimate that the volume utilization of the trailer in a
16 palletized environment would be 60 percent of the utilization of a bedloaded trailer.
17 Additionally, in the Texas analysis, the cost of delivering parcels to RDCs will be higher
18 due to the longer distances being traveled, as well as the number of deliveries being
19 made. Using multiple transportation simulations, we project that our increased costs per
20 parcel would be approximately \$0.60 - \$0.97.

21 We have yet to study the impact of any capital investments needed to support these changes.
22 We do anticipate, however, that our facilities, as currently configured, could not support a
23 palletization requirement. We would need to either reconfigure our existing facility space to provide

1 the additional interior space or add to or procure additional floor space for these facilities. None of
2 these options could be pursued without considerable capital expense.

3 **b. Postage Savings**

4 In the past, USPS has indicated that entering parcels at additional facilities would allow
5 shippers to qualify for lower zone rates, thus reducing postage. Further, USPS has indicated that
6 these savings would likely be substantial enough to cover any incremental mailer expenses. Our
7 analysis confirms that entering parcels at five Texas RDCs (rather than just at the Dallas BMC)
8 would indeed result in postage savings. The estimated savings per parcel, however, will be only in
9 the \$0.57 - \$0.59 range.

10 While this represents a meaningful expense reduction, it is not sufficient to offset the
11 expected labor, equipment, and transportation cost increases. Our lower bound estimate of these
12 cost increases (neglecting possible new capital expenditures) is \$1.18 per parcel, essentially double
13 the projected postage savings.

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2 expected labor, equipment, and transportation cost increases. Our lower bound estimate of these
3 cost increases (neglecting possible new capital expenditures) is \$1.18 per parcel, essentially double
4 the projected postage savings.

5 **Conclusion**

6 We are not opposed to the progressive rationalization of USPS operational infrastructure;
7 the objectives of END are laudable. Rather, we ask the Commission to take these increased costs
8 into consideration when judging the fairness of the rate increases being proposed for parcels. USPS
9 will achieve considerable cost savings from the rollout of END in the Test Year. However, neither
10 our increased costs, nor the Postal Service's reduced costs are taken into account in the rates
11 proposed by the Postal Service.