

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

**PSA-T-2**

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**POSTAL RATE AND FEES CHANGES, 2006**

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**Docket No. R2006-1**

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**DIRECT TESTIMONY  
OF  
JOHN McALPIN  
ON BEHALF OF  
PARCEL SHIPPERS ASSOCIATION**

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Respectfully submitted,

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1 **Autobiographical Sketch**

2  
3 My name is John McAlpin. I am the Vice President of Operations at Newgistics, serving in  
4 this role since I joined the company in August of 2004. My responsibilities include Inbound  
5 Logistics, Outbound Logistics, Production Operations, Industrial Engineering, Client Support,  
6 Implementation Services, and Postal Relations.

7 In 1982, I earned a Bachelor Degree in Mechanical Engineering from the University of  
8 Memphis. I have over 24 years of industry experience in manufacturing and supply chain  
9 optimization with 18 years specifically in the parcel movement industry. My career includes  
10 experience with Federal Express, First Union Corporation and Flextronics International.

11  
12 **I. Purpose and Scope of Testimony**

13  
14 The Postal Service continues to raise prices for packages (parcels) in a very competitive  
15 market. Prices for returns packages under the Parcel Return Services (PRS) program are also  
16 scheduled to increase approximately 10 percent in 2007, which is difficult for retailers, shippers and  
17 consumers to absorb. My testimony attempts to explain the competitive landscape in the returns  
18 package market in the United States, showing the need to maintain a competitive environment for  
19 parcel providers and limit postal rate increases for returns. It has been shown in numerous  
20 consumer response studies that a convenient returns solution translates directly into repeat business  
21 to consumer oriented companies. The direct-to-consumer retailer segment has always been strong  
22 for Postal related services and continues to benefit from the growth of online shopping. Since  
23 consumers typically pay for the return shipping, higher Postal prices are likely to trickle down to the  
24 consumer and directly impact the consumer's shopping experience.

1 I will also address the need to keep prices at very competitive levels to assure that there is  
2 ample competition in the returns market so that innovation and service quality continue to grow.  
3 The Postal Service has some flexibility with prices for the Parcel Return Services program  
4 because the savings pass-through to consolidators has been kept to slightly above the 50% level.  
5 We argue for a greater pass-through of savings and, thus, smaller price increases being passed on  
6 to the consolidators and third party providers and ultimately to the clients and consumers.

7 **II. Introduction**  
8

9 For consumers and retailers, dealing with product returns is often viewed as a necessary evil,  
10 an unfortunate reality of remote shopping. Returns are by definition a mistake in the purchase  
11 process, whether the item is the wrong size or wrong order, causing customer inconvenience and  
12 costing retailers. Returns impact direct retailers in at least three ways. First, there is a direct link  
13 between the customer return experience and customer loyalty: 82% of customers won't repurchase  
14 if they have a poor experience while 92% will likely repurchase if the experience is positive<sup>1</sup>.  
15 Second, returns are costly to manage, with costs attributed to customer service, transportation,  
16 receiving, processing, research and storage. Third, returns hurt a retailer's top-line since the  
17 returned item typically gets resold at a discount to list price or liquidated for pennies on the dollar  
18 after months of sitting idle in inventory.

19  
20 My testimony summarizes the parcel returns market in the United States, including market  
21 size, common returns scenarios, trends and competitive offerings. While reverse logistics and  
22 returns management encompass a broad range of business processes, my testimony focuses on the  
23 transportation of individual parcels from consumers back to businesses (C2B) and does not cover  
24 shipments of aggregated (palletized) returns or adjacent returns management processes such as  
25 customer credit management, item processing or liquidation. The parcel transportation process  
26 includes steps to move the package from the customer to the retailer destination, including the  
27 carriers and service providers who manage the shipping labels, transportation and package visibility  
28 during this logistics process.

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<sup>1</sup> Harris Interactive survey, December 2005

1 **III. Market Size**  
2

3 In 2006, over 480 million packages will be shipped in the U.S. as product returns, spread  
4 across direct retail apparel/home (198M), computing & electronics (151M), service parts (77M) and  
5 mobile devices (40M). Return parcels are a subset of the 990 million individual items returned,  
6 including aggregated (palletized) shipments from stores carried by third-party trucking companies or  
7 private fleets<sup>2</sup>. Direct retail return volumes will grow at 11% in 2006, including the mix of catalog  
8 sales and online orders.

9 **IV. Common Returns Scenarios**  
10

11 In my testimony, "returns" are broadly defined and include a number of different ways that  
12 small packages are sent by many individuals back to a few locations. This definition spans returns  
13 of online clothing purchases and returns of expensive service parts. There are four main return  
14 processes: **retail returns, warranty & repair returns, end-of-life returns, and service parts**  
15 **returns.**

16 **V. Key Trends**

17 *a) E-commerce Growth*

18 Online shopping continues to be a strong driver for both parcel shipping and parcel returns,  
19 with 2006 marking the fourth straight year of at least 20% annual growth. US online retail sales will  
20 reach \$211 billion in 2006 and grow to \$328 billion by 2010 with 14% compound annual growth  
21 rate (CAGR), substantially more than the 3% growth across all online and offline (store) US retail  
22 sales.<sup>3</sup> But not all online sales are applicable to the parcel returns market, such as items that are  
23 small, lightweight (under 20 lbs) and shipped as parcels. These "Return Friendly" online categories  
24 make up \$81 billion in sales, excluding sales of non-parcel categories such as travel (\$73B), tickets  
25 (\$5B) and food (\$9B). Part of the growth in online sales can be attributed to the recent availability  
26 of larger items online, such as HDTVs and appliances: total online sales of large items rose 34%  
27 during the 2005 holiday shopping period from the previous year; online sales of TVs grew three  
28 times as fast as TV sales in stores for Best Buy in 2005 compared to a year earlier; and Amazon

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<sup>2</sup> Newgistics, Inc. estimates, 2006

<sup>3</sup> Shop.org and Forrester Research, "The State of Retailing Online 2006", June 2006

1 built several warehouses in 2005 in part to accommodate shipment of large items.<sup>4</sup>

2  
3 ***b) Rising Customer Expectations***

4 Consumer acceptance of returning merchandise from direct purchases (online, catalog and  
5 TV) continues to grow, parallel with the growth of online shopping. Consumers expect the same  
6 best-practice convenience in the returns process as they have come to expect in the shopping  
7 process. Research shows that the ability to return from home (as opposed to driving to a mail  
8 center, for example) has a strong correlation to both customer acquisition and repurchase rates:  
9 96% of consumers said that the ability to return from home was important to their purchase  
10 decision, 94% of consumers would likely buy again with a retailer if provided with the option of a  
11 pre-paid return from home option. Alternatively, 23% said they would be not at all likely to shop  
12 again with a retailer who required a consumer to drive to a drop-box or mail center to make a  
13 return.<sup>5</sup>

14 ***c) Industry Consolidation***

15 The list of parcel providers shrank in early 2006 with the bankruptcy of parcel consolidator  
16 APX. APX was the largest USPS Parcel Select consolidator for parcel deliveries, with 50-60% share  
17 of Parcel Select volume. As a consolidator, APX increased the service levels that shippers could  
18 achieve through the USPS. Without APX, the service gap between the USPS and UPS Ground  
19 expands. By shutting down its operation, APX left roughly 250 million annual parcels (1M packages  
20 a day) up for grabs for other parcel providers. UPS Ground, managing 10.5M packages a day, stood  
21 to gain the most, followed by USPS (Priority Mail and Parcel Post) and FedEx Ground (2.8M  
22 packages a day).<sup>6</sup> APX also managed millions of return parcels under the USPS Parcel Returns  
23 Service (PRS) program: roughly 5M of their 250M annual parcels were returns. Since the exit of  
24 APX, UPS Ground has increased its focus on the returns market opportunity and has aggressively  
25 targeted direct retailers with a "bundled" offering, aggregating a retailer's forward and returns  
26 volumes under one discount structure.

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<sup>4</sup> The Wall Street Journal, "Size Doesn't Matter Anymore In Online Purchases", March 22, 2006

<sup>5</sup> Harris Interactive survey, July 2006

<sup>6</sup> AG Edwards, "Large Parcel Consolidator Files for Chapter 11 Bankruptcy Protection", March 17, 2006



- 1 o Pre-paid labels. Postage-paid, pre-addressed return labels that only cost when  
2 used.
- 3 o Information. The level of tracking, notifications and reporting associated with a return.  
4
- 5 o Cycle time. The number of days within a step of the returns process.  
6
- 7 o Chain of custody. The hand-offs and physical control during the returns process.  
8
- 9 o Weight & Distance (zone). The parcel weight and distance traveled.  
10

11 **A pre-paid return label** is the primary service offered by returns management providers.  
12 24% of US direct retailers provide a pre-paid return label to their customers, making it more  
13 convenient for the customer and also giving the retailer the option to deduct the return fee from the  
14 customer credit.<sup>7</sup>  
15

16 As background, direct retailers follow two basic paths in providing returns services to their  
17 consumers. The majority (76%) leave the return shipping decision up to the customer, providing  
18 only a shipping address or "return-on-your-own" label for the consumer to use to ship the package  
19 with a carrier of their choice and pay directly for shipping. In this scenario, customers  
20 overwhelmingly use the post office to return their package: over 90% of "return-on-your-own"  
21 packages are sent back through the USPS.  
22

23 There are four main returns management providers in direct retail, providing the core  
24 service to transport the package from consumer to retailer destination: **UPS, USPS, Newgistics**  
25 **and FedEx.**

26 **a) *UPS Returns Services***

27 UPS leverages the scale of its market-leading ground parcel network in offering returns  
28 services. Returns can be shipped from one of 44K drop-boxes, 5K UPS Stores or picked up at  
29 home for an extra fee.  
30

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<sup>7</sup> Shop.org "State of Online Retailing 2006"

- 1 o Authorized Return Service (ARS). Pre-printed return labels provided in the outbound  
2 shipment or distributed later.
- 3
- 4 o UPS Returns on the Web. An online service to create and print a return label or initiate a  
5 UPS pickup.
- 6
- 7 o Print & Mail Return Label. A return label mailed to the customer.
- 8
- 9 o Pickup Attempts. A premium service to dispatch a driver to the customer. One to three  
10 pickup attempts.
- 11
- 12 o Call Tag. A premium service to dispatch a driver with return label, including three pickup  
13 attempts.

14 ***b) USPS Returns Services***

15 Given a choice, customers overwhelmingly choose the USPS to ship their return. USPS' core  
16 return service is a pre-paid, pre-addressed label.

- 17
- 18 o Parcel Return Service (PRS): A workshare discount program providing convenient pre-paid  
19 returns and trackable, non-expedited shipments to high-volume retailers. Customers return  
20 through the postal service and third-parties retrieve parcels from designated Post Office™  
21 locations or from designated bulk mail centers.
- 22
- 23 o Merchandise Return Service (MRS). A pre-paid return label in outgoing orders, or sent via  
24 mail, e-mail or fax.
- 25
- 26 o Electronic Merchandise Returns. Online access to create and print a return label.
- 27

28 ***c) Newgistics Returns Services***

29 As a returns provider for direct retailers, Newgistics combines the convenience of the USPS  
30 first-mile with the flexibility and control of third-party logistics companies to aggregate returns to

1 retailer destinations. Newgistics is part of the USPS PRS program (above).

2  
3 o SmartLabel®. A pre-paid return label for high-volume direct retailers, with packages  
4 leveraging the postal service for the first mile and aggregated by third-party providers to  
5 retailer destinations creating a trackable, non-expedited return service.

6  
7 o Return Center. An online portal for customers and customer service to manage the return  
8 process, including a rules-driven return merchandise authorization (RMA) system and web  
9 services integration.

10  
11 o Advance Return Notification® (ARN). An electronic file of incoming return  
12 shipments sent to the retailer in advance of the aggregated delivery.

13  
14 o Return Confirmations. Personalized email confirmations triggered by in-transit  
15 barcode scans.

16  
17 o Email labels. Return labels emailed to customers to print at home or office.

18 ***d) FedEx Returns Services***

19 FedEx currently has little presence in direct retail returns, and instead leverages their  
20 expertise in expedited parcels to focus on mission-critical returns such as technology repairs.

21  
22 o Preprinted Return Labels. Pre-printed, pre-addressed return labels included in the original  
23 shipment.

24  
25 o E-mail Return Labels. Return labels emailed to customers to print at home or work.

26  
27 o Driver-Delivered Return Labels. Return labels delivered to a customer's location by either a  
28 Ground or Express driver.

29  
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1 **Conclusion**

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As the US returns market continues to grow, customers and retailers will continue to expect more in the return process. Customers see the return process as an essential part of buying direct, and expect the same best practices experienced in the purchase process. Retailers will continue to transition the returns management process from a low-priority cost burden to a source of competitive advantage as they battle to find and keep customers. To support this active market, a healthy set of competitors is needed to ensure that continued innovation and quality service create value for both retailers and consumers. USPS Parcel Return Service rates are not competitive with the market. As the Commission recommended in Docket No. MC2006-1, more of the cost savings should be passed through to justify lower and more competitive parcel return service rates.

The Parcel Shippers Association, however, advocates increasing these passthroughs in the next omnibus rate case to better comport with the principle of efficient component pricing .... The Commission concurs. Id. at 14.

