

POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-001

---

Postal Rate and Fee Changes, 2006

---

Docket No. R2006-1

DIRECT TESTIMONY OF  
CLAUDE R. MARTIN, JR., Ph.D  
On behalf of  
GREETING CARD ASSOCIATION

September 6, 2006

1

## INTRODUCTION

2 My name is Claude R. Martin, Jr., Ph.D. I am currently the Isadore and Leon  
3 Winkelman Professor Emeritus of Retail Marketing and Professor Emeritus of  
4 Marketing at the School of Business, University of Michigan in Ann Arbor, Michigan.  
5 I have been retained by the firm of Spiegel & McDiarmid to provide assistance to  
6 them in their legal representation of the Greeting Card Association regarding the  
7 Postal Rate and Fee Changes, 2006 (Postal Rate Commission Docket No.  
8 R2006-1).

9

## RESEARCH AND CONSULTATION ASSIGNMENT

10 Specifically I was asked to research emerging competitive substitutes to first  
11 class letter mail, particularly those involving the rendering of billing statements and  
12 the process for payment of them. The results of that effort are found in the report  
13 that follows. It incorporates a review of research and analysis offered by the United  
14 States Postal Service (USPS) including data found in the annual "Household Diary  
15 Study;" the direct testimony of Peter Bernstein on behalf of USPS; the subsequent  
16 cross-examination of Mr. Bernstein and of Thomas E. Thress; information and data  
17 from other sources, including government and private organizations; and information  
18 and data gleaned from two national telephone surveys of consumers and small  
19 businesses and from a series of in-depth interviews with firms involved in the billing  
20 process (See: Appendix A for research design and execution ).

## 21 OVERVIEW OF FOCUS AND RESULTS

22 In my review of discussions of other survey and market research studies I noted  
23 that they focused on business and consumer attitudes toward electronic methods for  
24 bill rendering and payment. However, I also noted there appears to be no attention  
25 to the impact of future First Class postal price increases in those studies. It is my  
26 understanding that the Docket R2006-1 proceeding will likely result in new rates for  
27 First-Class letter mail. If this type of mail faces serious competition from nonpostal  
28 media, the effect of postal prices on the ability of those media to take customers

1 from the Postal Service is obviously a matter of interest. In studying issues of  
2 electronic diversion I specifically examined the impact of nonpostal attributes on the  
3 diversion from mail to electronic, I also examined the impact of future postal rate  
4 increases. This report details that examination. In summary, I can report that  
5 possible postal rate increases are a significant behavioral trigger for diversion. For  
6 example, I probed consumers concerning their likelihood of switching to electronic  
7 bill paying on the belief that the Postal Service was planning regular increases in  
8 postal prices and I looked at the specific price levels where they would seriously  
9 consider switching from mailed bill payments to competitive electronic alternatives.  
10 This is an added and different approach than other studies I have reviewed and  
11 goes to the issues of concern in the Docket R2006-1 proceeding.

12 In summary, postal rate increases will likely have a significant impact on the  
13 diversion of payment and statements mail. This will be applicable to both businesses  
14 and consumers. As I state at the conclusion of this report, postal rate increases are  
15 a triggering device that causes consumers and businesses to examine and turn to  
16 the competitive electronic alternatives.

## 17 ELECTRONIC FUNDS TRANSFER

18 In this effort my initial focus was on what has become known as EFT or  
19 Electronic Funds Transfer. Simply it is the use of electronic means to transfer funds  
20 directly from one account to another, rather than by check or cash. For the postal  
21 system it has the potential to supplant the household-to-business and business-to-  
22 business mailstream substituting EFT for first class mail. However, going beyond  
23 this, the rapid development of electronic communications offers another potential  
24 diversion from the mailstream, the submission of electronic statements for payment  
25 either to businesses or households. Indeed, Peter Bernstein identifies these various

1 forms of billing payments and statements among possible sources of electronic  
2 diversion of first-class Mail.<sup>1</sup>

3 Development of electronic funds transfer systems began more than 35 years  
4 ago, but the growth in the use of EFT was spurred by the development and use of  
5 the internet in recent years. The impact of this on the diversion of bill paying from the  
6 mail system is described by Peter Bernstein:

7 Information from the Recruitment Questionnaire portion of the  
8 Household Diary Study shows a consistent decline in the share of  
9 household bills paid by mail. After remaining at close to 85 percent  
10 throughout the 1990s, the share of bills paid by mail fell to about 66.6  
11 percent in 2005. This decline represents a loss of about three billion  
12 pieces of mail from this single source of electronic diversion from 1999  
13 to 2005. In 2005 alone, it is estimated that shifts from payment by mail  
14 to other payment methods reduced mail volumes by about 400 million  
15 pieces.

16 The decline in the mail payment share is a direct result of the  
17 increase in the use of electronic payment alternatives. In 2005, more  
18 than two-thirds of all households paid at least some bills electronically.  
19 Moreover, the households that use electronic payment methods pay  
20 more bills on average than households that do not use these methods.  
21 Thus, the use of alternatives to payments by mail is affecting the  
22 households that currently represent the largest source of bill payment  
23 volume.

24 Much of the growth in electronic payments comes from the  
25 increased use of online bill payment. One-quarter of all households  
26 paid at least one bill online in 2005. As a group, these households pay  
27 more bills than the average households and pay less than half of these  
28 bills by mail. Again, the households that pay the most bills are the ones  
29 that have most substantially reduced their use of the mail for bill  
30 payment. This last observation is consistent with the finding presented  
31 in the previous chapter that the decline in First-Class Mail volumes  
32 received by households is due to a decline in volumes received by  
33 those households that receive the most mail.<sup>2</sup>

---

<sup>1</sup> Bernstein, Peter, Direct Testimony before the Postal Rate Commission, USPS-T-8, Table No. 4, p. 18

<sup>2</sup> Bernstein, Direct Testimony, pp. 60-61

1 BILLING & PAYMENT SUBMISSIONS

2 The other part of the billing system are bill and statement submissions to  
3 households and businesses. The development of e-mail and web pages present  
4 electronic alternatives to the traditional paper billing statement. While this diversion  
5 from the mail stream has not been extensively studied, the stagnation in the volumes  
6 of bill and statement mail has been:<sup>3</sup>

7 ...the data suggest that bill and statement volumes are no longer  
8 growing, thereby removing one of the historical sources of First-Class  
9 Mail volume growth.

10 The annual Household Diary Study by nature is largely reportorial<sup>4</sup> and, while  
11 providing valuable data, falls short in two categories concerning the billing payment  
12 mailstream and emerging competitive substitutes: (1) it does not address why  
13 changes are occurring in household behavior, and (2) does not provide predictive  
14 behavior information. My research addresses these two key issues.

15 AUTOBIOGRAPHICAL SKETCH

16 I joined the Michigan faculty in 1965 progressing from an initial appointment as a  
17 Lecturer to full Professor in 1978. In 1980 I was named a chaired Professor and in  
18 2002 was granted emeritus status by the Regents of the University of Michigan.  
19 Since 1978 I have been the co-editor of the *Journal of Current Issues and Research*  
20 *in Advertising* and I currently serve on the editorial review boards of the *Journal of*  
21 *Advertising*, the *European Journal of Innovation Management*, and the *International*  
22 *Quarterly Journal of Marketing*. In addition I serve as an ad hoc reviewer for the  
23 *Journal of Marketing*, *Journal of Marketing Research*, *International Journal of*  
24 *Service Industry Management*, *Journal of Business and Industrial Marketing*, *Journal*  
25 *of Retailing and Consumer Behavior*, and *Journal of Business Research*. I have

---

<sup>3</sup> Bernstein, Direct Testimony, p. 35

<sup>4</sup> The material on household bill payments is found in the "recruitment questionnaire" portion of the Household Diary Study which was an initial survey for subject recruiting purposes. See: Bernstein, p. 50

1 served as a reviewer for numerous academic conferences including those of the  
2 American Marketing Association, Academy of Marketing Science, American  
3 Psychological Association, American Academy of Advertising, European Academy  
4 of Marketing, the American Collegiate Retailing Association and have also been a  
5 member of the scientific committee for the 1995, 1997, 1999, 2001, 2003 and 2005  
6 International Seminars on Marketing Communications and Consumer Behavior.

7 In 1989 I received the AJCU Business Deans' Award in conjunction with the 200<sup>th</sup>  
8 anniversary of Jesuit education in the United States and in 2002 was named a  
9 Distinguished Fellow of the American Academy of Advertising. I have also served on  
10 the services steering committee of the Marketing Science Institute and from 1989-  
11 1993 was a board member of the National Advertising Review Board having been  
12 nominated by the National Council of Better Business Bureaus. From 1996-2002 I  
13 was a member of the Board of Trustees of the University of Scranton; from 1970-  
14 1971 I was a member of the Board of Trustees of the American Cancer Society of  
15 Michigan; and from 1982 to 1988 I was a member of the research committee of the  
16 American Academy of Advertising, serving as chairman of that committee from  
17 1987-1988.

18 I have authored more than 65 articles that report my research in peer reviewed  
19 publications along with five monographs and books. In addition I have directed a  
20 number of major research projects at the University of Michigan since 1968 including  
21 the following:

22 1968-1973 Director of Research Group B. This was a group of  
23 department stores in eight mid-western and southwestern  
24 states who supported through the University of Michigan  
25 a program of basic research into consumer behavior.

26 1974-1975 Directed preparation of an economic, cultural and  
27 educational impact study for the State of West Virginia on  
28 the development of Blenerhasset Island. The study  
29 formed the foundation for a projected multi-million dollar  
30 development of the island as an historic tourist attraction.

31 1979-1980 Served as a member of a research group that examined  
32 household and business mailstreams in a major national

- 1 study commissioned by the U.S. Postal Service. This  
2 study was coordinated through the Institute for Social  
3 Research, University of Michigan.
- 4 1968-1979 Directed a program of graduate student development of  
5 marketing plans for major organizations. Among the  
6 organizations participating in this program were: Ford  
7 Motor Company, Wolverine WorldWide Inc., Detroit  
8 Coca-Cola Bottling Company, Federal Reserve System,  
9 Michigan Bell Telephone Company, American Cancer  
10 Society, Warner Vineyards Inc., A.T. & T., and U.S.  
11 Plywood/Champion Paper Inc.
- 12 1972-1993 Directing a study into telecommunications technology  
13 and the effect on the buying and selling of goods and  
14 services, including financial services. This research  
15 originated as a result of participation in a task force on  
16 new services taxonomy and assessment funded by the  
17 National Science Foundation as a part of an inter-  
18 disciplinary study of telecommunications and public  
19 policy.
- 20 1978-1979 Principal researcher for the Federal Reserve System on  
21 the potential for the Susan B. Anthony dollar prior to its  
22 1979 introduction. This was a comprehensive study  
23 among consumers, retailers, and financial service  
24 institution providers. The study correctly predicted the  
25 failure of this new coin.
- 26 1978-1979 Co-principal on a project formulating a model for service  
27 demand at the Survey Research Center, University of  
28 Michigan. This national study was funded by a grant from  
29 American Express.
- 30 1983 Directed a study into demand for the U.S. Olympic Coin  
31 offering. This project addressed the basic positioning of  
32 the coin and the advertising strategy for it. The project  
33 was funded by the office of the Treasurer of the United  
34 States.
- 35 1980-1986 Principal investigator and director of research for a  
36 project commissioned by the Federal Reserve Board of  
37 Governors to examine public attitudes and usage of U.S.  
38 currency. This project was coordinated with the Bureau of  
39 Printing and Engraving and U.S. Secret Service. The  
40 objective was to assess the public reaction to alternative  
41 forms of U.S. paper currency, proposed as a deterrent to

1 a counterfeiting threat based on copy machine  
2 technology.

3 1990-1998 Examined the viability of mall intercepts as a method for  
4 the assessment of new product concepts and for  
5 advertising testing. (Funding from Kraft Inc.)

6 Current Member of the Tobacco Research Network at the University  
7 of Michigan – scholars examining tobacco related issues.

8 Commencing in 1972, I began more than 30 years of research into electronic  
9 funds transfer systems and related consumer/organization behavior issues, including  
10 3 monographs and 10 scholarly journal articles on the subject. I am also an  
11 acknowledged expert on designing and evaluating marketing research  
12 methodologies and procedures. I have served as a consultant to numerous law  
13 firms representing more than 80 different organizations over the past 35 years  
14 offering consulting concerning marketing, advertising and consumer behavior  
15 research issues in litigation matters. These have included: Hallmark Cards Inc. (2  
16 cases); R. J. Reynolds, Inc.; Outboard Marine Corporation; Weber Marking Systems,  
17 Inc.; Booth Publications, Inc.; Metropolitan Life Insurance Company; American  
18 Educational Subscription Services, Inc.; City of Adrian, Michigan; Avon Products,  
19 Inc.; Automobile Club of Michigan; Toyota Motor Sales, U.S.A. Inc. (7 cases);  
20 Continental-Illinois Bank Corporation; Ohio Mattress Company (Sealy and Stearns  
21 & Foster, Inc.); Dunlop Tire and Rubber Company; PepsiCo, Inc.; Nissan Motor  
22 Company (USA) (2 cases); General Aviation Corporation; Subaru of America;  
23 Burger King Corporation; Teledyne, Inc.; Toymax, Inc. (2 cases); Coburn Optical  
24 Industries, Inc., U.S. West Inc., AMOCO Oil Corporation, Abbott Laboratories,  
25 Absopure, Inc.; American Dental Laser Corporation; Schering Plough Corporation;  
26 Farm Fresh Supermarkets, Inc.; Amers, Inc.; Grauel Enterprises, Inc.; The Colonel's,  
27 Inc.; Anheuser-Busch, Inc.; King County (State of Washington); Southwestern  
28 Oakland County Cable Commission (Michigan); City of Brunswick, Ohio; Nutro  
29 Products, Inc.; American Honda, Inc.; Stroh Brewing Company, Inc.; Franklin Credit  
30 Management Corporation; Office Max, Inc.; OPI Products, Inc.; Pinkerton's, Inc.;  
31 Insurance Commissioner – State of Michigan; U.S. District Court – Southern District  
32 of California; Cleveland Automobile Dealer's Association; Review Directories, Inc.;

1 Cow Creek Band of the Umpqua Indian Tribe; Publisher's Clearing House, Inc.; City  
2 of Healdsburg, California; Furniture Row BC, Inc.; General Motors Corporation;  
3 Cooper Tire Company; General Mills/Pillsbury; United Healthcare/AARP;  
4 AT&T/Lucent Technologies; Raytheon, Inc.; City of Atlantic City (New Jersey); City  
5 of San Jose (California); Safelite Glass Corporation; Toyoba Inc.; Brach's Inc.;  
6 KMART Corporation (Sears Holdings); and R.L. Polk Company.

7 In addition, I have provided executive seminars concerning marketing,  
8 advertising and consumer research & behavior to many organizations including:  
9 Acer, Inc. (Taiwan); Management Institute; Michigan Bell Telephone Company; Time  
10 Inc. (Fortune); Beecham Laboratories; Charles H. Strand, Inc.; Hershey Foods  
11 Corporation; Red Lobster Inns of America (General Mills); STP Corporation; Unisys  
12 Corporation; Rexham Corporation; Lincoln National Life Insurance Company;  
13 Diversey Wyandotte Corporation; Southland Corporation; Southern New England  
14 Telephone Company; Bethlehem Steel Corporation; MAACO; Bell Communications  
15 Research (Bellcore); Catho Progresso Profissional, Comercial LTDA (Brasil,  
16 Argentina, Chile); Automotive Warehouse Distributors Association; Allen-Bradley,  
17 Inc.; Chemical Bank of New York; General Motors Corporation; Consumers Power  
18 Company; Southwestern Bell Telephone Company; EDS; BellSouth, Inc.; National  
19 Bank of Kuwait (Kuwait); University of Michigan Medical Center; University of  
20 Michigan Libraries; Sprint Corporation; and Sanford Corporation.

21 My *curriculum vita* (Appendix B) more fully reflects my academic qualifications  
22 and research activities, including a more detailed publication, teaching, and  
23 consulting record.

#### 24 HOUSEHOLD BILL PAYING – A PERSPECTIVE

25 Later in this report I will address business-to-household billing and business-to-  
26 business payment & billing processes. But, initially I examined the payment process  
27 by households. Why focus on this? As Peter Bernstein says on behalf of USPS,  
28 “clearly then, electronic bill payments represent a classic example of diversion of

1 letter mail.”<sup>5</sup> The importance of examining this is attested by Thomas E. Thress  
2 testifying on behalf of USPS. The following is an excerpt from his cross-examination  
3 on August 9<sup>th</sup> of this year:<sup>6</sup>

4 Q. Given such a decline in market share over that 10-year period,  
5 does that indicate to you as an economist that mail’s market  
6 power in the household bill payment market is declining?

7 A. Yes.

## 8 OVERALL STATUS

9 The Federal Reserve Bank of Chicago gives some insight into the overall status  
10 of household bill paying:<sup>7</sup>

11 Thirty years ago, some predicted we were on the verge of a  
12 cashless society. Paper currency and checks would join the Edsel and  
13 the black-and-white television as antiquated symbols of the past.  
14 Consumers would embrace a new alternative for making payments:  
15 electronic money. As it turned out, consumers have been reluctant to  
16 give up on currency and checks. In recent years, however, consumers  
17 seem to be changing their minds. Cash and checks are still widely  
18 used. Currency is used for the vast majority of payments, mainly for  
19 smaller purchases. And checks are the payment choice for about 10  
20 percent of transactions each year. But the percentage of transactions  
21 done electronically is growing dramatically. The important role of  
22 electronic payments can be seen by looking at the value of payment  
23 transactions. Electronic payments account for more than 90 percent of  
24 the dollar value of transactions. This growth is made possible by  
25 electronic payment networks, which move funds in and out of accounts  
26 using electronic messages. Electronic payment systems range from  
27 the now-familiar automated teller machines (ATM) to Internet bill  
28 payments.

29  
30 The Pew Internet & American Life Project reported in January, 2005 that 38% of

---

<sup>5</sup> Bernstein, Direct Testimony, p. 52

<sup>6</sup> Thress, Thomas E., Cross-Examination, Postal Rate Commission hearing, August 9, 2006, p.1304

<sup>7</sup> “Electronic Money,” Federal Reserve Bank of Chicago, [www.chicagofed.org/consumerinformation/electronicmoney.cfm](http://www.chicagofed.org/consumerinformation/electronicmoney.cfm)

1 internet users engage in paying bills online<sup>8</sup> and 14% reported it as a daily activity.<sup>9</sup>  
2 Further insight comes from *comscore Networks* in their analysis of online banking in  
3 the United States. This organization is involved in the measurement and analysis of  
4 consumer behavior and attitudes and on April 10, 2006 released the results of their  
5 study of the status of online banking.<sup>10</sup> They report the number of online banking  
6 customers grew to nearly 40 million during the fourth quarter of 2005, a 27-percent  
7 increase over the previous year. Usage of online bill payment services grew 36  
8 percent during the same period. Serge Matta, director of *comScore Financial*  
9 *Services Solutions*, observed that “consumers continue to migrate to online  
10 banking, with the nation’s largest banks attracting more than 8.5 million new online  
11 banking customers in 2005.”<sup>11</sup> However, Matta also observed that adoption rates are  
12 slowing. In fourth quarter of 2005, the total number of online banking customers  
13 grew by 3.1 percent over the previous quarter, representing the lowest sequential  
14 quarterly growth in three years. However for purposes of this report the most  
15 pertinent data shows bank bill payment, consisting of a payment through a retail  
16 bank at which a bank account is held, continues to grow at a rapid pace. These  
17 currently account for nearly one-quarter of all online bill payments. Bank of America  
18 led the industry in bank bill payment with 5.1 million active bill pay customers,  
19 attracting more than half of total bank bill pay customers in the fourth quarter of  
20 2005. Further, 34 percent of all online banking customers at Bank of America opt to  
21 use the institution’s bill payment service, second only to Citibank (37 percent).

22 Another insight comes from Greg Schmid in a report prepared for the President’s  
23 Commission on the United States Postal Service.<sup>12</sup>

---

<sup>8</sup> “Internet Activities,” [www.pewinternet.org/trends/internetactivities/4.26.06](http://www.pewinternet.org/trends/internetactivities/4.26.06), p. 2

<sup>9</sup> “Daily Internet Activities,” [www.pewinternet.org/trends/dailyinternetactivities\\_4.26.06](http://www.pewinternet.org/trends/dailyinternetactivities_4.26.06), p. 1

<sup>10</sup> [www.comscore.com](http://www.comscore.com), press release, April 10, 2006

<sup>11</sup> Bernstein, Direct Testimony, p. 1

<sup>12</sup> Schmid, Greg, *Two Scenarios Of Future Mail Volumes*, President’s Commission on the United States Postal Service, May, 2003, p.8

1            Payments, bills, and statements make up about half of all First  
2            Class mail. But mailed payments are being dramatically affected by the  
3            shift to digital formats. While the number of discrete payments of all  
4            kinds are rising on the order of 3% per year, the share of payments by  
5            check have been falling over the last two decades. A recent study by  
6            the Federal Reserve indicated that the maximum actual use of checks  
7            probably occurred during the mid-1990s. The total number of checks  
8            used has been declining at a rate of about 6% per year since.

9            Peter Bernstein, testifying for USPS, adds to these perspectives with the  
10           following:<sup>13</sup>

11           The share of household bills paid by mail remained close to 85  
12           percent from 1990 through 1999, and then began to decline, falling to  
13           75 percent in 2002 and to 66.6 percent in 2005. It is possible that  
14           some of the reported decline from 1999 to 2000 is due to the change in  
15           Diary Study contractors in that year. All the same, the consistency of  
16           the mail payment share from 1990 through 1999, and the consistency  
17           of the decline in the mail payment share since 2000, indicates that the  
18           changes shown in Table 25 are real.

19           To put this decline in perspective, consider that the Recruitment  
20           Questionnaire reports that households paid about twelve bills per  
21           month in 2005. Extrapolating that per household per month figure to  
22           the entire population yields a total of about 16.3 billion bill payments  
23           for the entire year. If the share of bills paid by mail had remained at  
24           85.0 percent, about 13.9 billion bills would have been paid by mail in  
25           2005. Instead, the number of bills paid by mail was on the order of  
26           10.9 billion, a loss of three billion pieces of single-piece letter mail over  
27           the period from 1999 through 2005. Alternatively, one can look at the  
28           diversion of mailed bill payments in 2005 alone. In 2004, 69.3 percent  
29           of household bills were paid by mail. If that share had persisted into  
30           2005, there would have been about 11.3 billion household bill  
31           payments through the mail. Instead, there were 10.9 billion, indicating  
32           a loss of 400 million mailed bill payments in 2005 alone, or more than  
33           one percent of total First-Class single-piece letter mail, lost in a single  
34           year from a single source of diversion.

35           Clearly then, electronic bill payments represent a classic example of  
36           the diversion of letter mail .....the electronic share increased from 2.5  
37           percent in 1990 to 26.8 percent in 2005. Put differently, in 1990, there  
38           were more than 33 bills mailed for each one paid electronically, by  
39           2005 this ratio had declined to just 2.5.

40           Clearly the question is not whether there is the diversion of bill paying from the

---

<sup>13</sup> Bernstein, Direct Testimony, pp. 51-53

1 mailstream to electronic alternatives, but why is it happening and what form is it  
2 taking?

### 3 COMPETITIVE ELECTRONIC ALTERNATIVES

4 To do this I looked at three major competitive alternatives to traditional mail  
5 payments: (1) an automatic payment from a bank account, either on-time or  
6 recurring; (2) having the bill paid automatically by a charge to a credit card; and (3)  
7 other electronic payments of bills –not through an automatic payment system but  
8 where the payer specifies the timing and amount of the payment of the bill, this  
9 would also include using the internet, debit cards or e-cards. These categories were  
10 chosen primarily based on the data from the Household Diary Study recruitment  
11 questionnaire.<sup>14</sup> I note that Peter Bernstein admits that the Household Diary Study  
12 did not track debit cards<sup>15</sup> which are found in my third alternative above. However,  
13 not all the volume of payments labeled “electronic” are truly so and many still include  
14 a use of the mailstream. The case in point is that when a consumer makes a  
15 payment through a financial institution, whether automatic or individually specified,  
16 the major share of those to large organizations are truly electronic. That is, they  
17 encompass the electronic transfer of funds from the consumer’s account to the  
18 creditor. Typical of these would be payments to credit card companies, utilities,  
19 financial institutions, brokerage firms, insurance companies, governments (tax  
20 payments and court directed payments are exempt). Some payments to individuals  
21 and most small businesses, while electronically designated by consumers, are  
22 nevertheless paid by check (and mailed First Class) by financial institutions on  
23 behalf of consumers. While large amount of the “electronic” bill paying is truly  
24 handled electronically, there are these exceptions. Later in this report we will  
25 examine the data concerning current and projected receipt of “truly electronic”  
26 payments by small businesses.

---

<sup>14</sup> Bernstein, Direct Testimony Table 26, p. 54

<sup>15</sup> Bernstein, Peter, Cross Examination, Postal Rate Commission hearing, August 9, 2006, p. 1445

1        Returning to the three major forms of electronic payments, the Household Diary  
2 Study recruitment questionnaire shows a significant increase in households using  
3 each method over the past five years (2001-2005): automatic deductions +19.2%,  
4 credit card +8.5%, online payments 16.8%. And these correspond to an 11.8%  
5 decline in mail payment households.<sup>16</sup>

## 6        DIVERSION GROWTH AND MAIL PAYMENT DECLINE – REASONS WHY

7        There has been some limited research and speculation as to why this is  
8 occurring. The Direct Marketing Association in 2002 reported survey data that  
9 concluded that the postal increase in that year would “push younger Americans at a  
10 faster rate away from first class mail when paying bills.”<sup>17</sup> This was based on a  
11 telephone survey conducted by Opinion Research, Inc. in 2002.

12        The Federal Reserve Bank of Chicago speculates that faster processing, certain  
13 payments and receipts, not having sent a payment either “too early” or “too late” are  
14 major attributes for using electronic payment mechanisms.<sup>18</sup>

15        Also looking at reasons for the diversion by electronic alternatives has been  
16 *comscore Network*. On April 10, 2006 it said the following:<sup>19</sup>

17                While ease of use and convenience were previously the major  
18 drivers, incentives and deflating security concerns are the primary  
19 motivations nudging customers to adopt online banking today. When  
20 asked about reasons for enrollment, 33 percent of new online banking  
21 consumers referenced the free banking products that were offered as  
22 an inducement, and 23 percent responded that they felt more secure  
23 about online banking than they did previously. Washington Mutual’s  
24 free banking product offerings attracted the most new enrollees (43  
25 percent), confirming the success of its free checking campaign.

---

<sup>16</sup> Bernstein, Direct Testimony Table 26, p. 54

<sup>17</sup> Direct Marketing Business Intelligence, [Primedia Business Magazines and Media, 2006](#), p. 1

<sup>18</sup> “Electronic Money,” Federal Reserve Bank of Chicago, [www.chicagofed.org/consumerinformation/electronicmoney.cfm](http://www.chicagofed.org/consumerinformation/electronicmoney.cfm), p. 5

<sup>19</sup> [www.comscore.com](http://www.comscore.com), press release, April 10, 2006, p. 1

1 This is based on information from *comscore Network's* proprietary consumer panel  
2 and from a survey of 2124 consumers.

3 Following up on the *comscore Network* report of the importance of “free”  
4 banking, I sampled information from various financial institutions. They all offered  
5 online banking service which relies on access to the internet, provides “electronic”  
6 payment, either automatic or on demand, “paperless” statements; and the ability to  
7 access and download cleared checks/payments. Below are some highlights from  
8 that sampling:

- 9 National City Bank<sup>20</sup> – speed, convenience and “free” for checking  
10 account customers
- 11 Wells Fargo Bank<sup>21</sup> – convenience, control, NOT buying stamps,  
12 and “free” for checking account customers
- 13 Bank of America<sup>22</sup> – timing of payment, automatic payments,  
14 tracking, and “free”
- 15 PNC Bank<sup>23</sup> - no more “stamps or trips to the post office,” time  
16 savings, secure payments and “free”
- 17 Sacramento Valley Farm Credit<sup>24</sup> - convenience, secure, and “free”
- 18 Bank Atlantic<sup>25</sup> - convenience, eliminate paper and clutter, save  
19 money on stamps, and “free”
- 20 Village Bank<sup>26</sup> - avoid costs of checks, stamps and envelopes; no  
21 stopping by post office; and first 90 days are free
- 22 Chase<sup>27</sup> - convenient, control, secure and “free” for checking  
23 account customers
- 24 Comerica<sup>28</sup> - convenient, secure, fast, “no more delays or stamps,”

---

20 [www.nationalcity.com](http://www.nationalcity.com)

21 [www.wellsfargo.com](http://www.wellsfargo.com)

22 [www.bankofamerica.com](http://www.bankofamerica.com)

23 [www.pnc.com](http://www.pnc.com)

24 [www.accountlist.com/sacagloan](http://www.accountlist.com/sacagloan)

25 [www.bankatlantic.com](http://www.bankatlantic.com)

26 [www.villagebankonline.com](http://www.villagebankonline.com)

27 [www.chase.com](http://www.chase.com)

28 [www.comerica.com](http://www.comerica.com)

1 "free"

2 Perhaps of special interest in connection with this postal rate case is the fact that  
3 five of these nine promotional statements referred to stamps or the cost of stamps  
4 as a factor that should influence the reader to adopt the bank's online-banking  
5 service.

6 Because all of these are dependent on internet access, it is one of the major  
7 elements to be considered, that is, the availability of technology by consumers to  
8 use competitive diversionary alternatives. The latest data (6/30/2006) shows  
9 205,326,680 internet users in the U.S, a penetration rate of 68.6% with a growth rate  
10 of 115.5% in the past five years.<sup>29</sup> Peter Bernstein in his testimony on behalf of  
11 USPS also points out that the penetration rate of internet users has soared to 82.5%  
12 among those who receive the most First Class mail (up from 70.8% in 2001).<sup>30</sup> But,  
13 here we are talking about senders, not receivers, of First Class mail and their  
14 propensity to divert it to electronic alternatives. Nevertheless I would expect the  
15 heavy receivers to also be the heavier senders. Logically I assume heavy receivers  
16 to be receiving more bills and thus, paying more. The conclusion is that that these  
17 heavy bill paying users have access to and currently use the internet. Thus, the  
18 technological means for diversion to electronic payment is present.

19 CONSUMER SURVEY

20 OVERVIEW

21 While none of the above is definitive, it does provide an underpinning for the  
22 national telephone survey of consumers concerning the subject that I undertook. A  
23 national random sample of 1,000<sup>31</sup> household bill payers within households was  
24 conducted in June and July, 2006. Lighthouse Research of Riverton, Utah was the  
25 field service firm involved under the direction of Dr. Leonard Homer of Homer

---

<sup>29</sup> [www.internetworldstats.com/america.htm#us](http://www.internetworldstats.com/america.htm#us)

<sup>30</sup> Bernstein, Direct Testimony, Table 19, pp. 51-53

<sup>31</sup> Confidence limit (95%): +/- 3.2%

1 Marketing Research of Houston, Texas. The Lighthouse firm is a well known,  
2 professional research organization conducting economic, sociological and  
3 educational research (SIC Code #8732). Dr. Homer has more than 45 years of  
4 experience in overseeing and conducting survey research studies (Appendix C). I  
5 have previously participated with Dr. Homer in numerous research studies, including  
6 three significant efforts for the United States government:

7 a. A study of consumer and organizational perceptions of the  
8 proposed introduction of the Susan B. Anthony dollar. This was a  
9 study funded by the Federal Reserve Board of Governors and  
10 correctly predicted the failure of that coin offering in the  
11 marketplace. It principally involved focus group and individual in-  
12 depth interviewing.

13 b. A study into the potential for and consumer reaction to the offering  
14 of proof and mint sets of coins to be issued in conjunction with the  
15 summer Olympic games in Los Angeles. This was under  
16 sponsorship of the Treasurer of the United States. It involved focus  
17 group methodology and enabled a successfully repositioning and  
18 marketing of this coin.

19 c. An eight year project examining the potential for counterfeiting of  
20 U.S. currency and the public's reaction to various new  
21 configurations of the currency to thwart the threat of counterfeiting  
22 induced by new technology. This was a project involving a series of  
23 focus groups across the country and a major national survey under  
24 sponsorship of the United States Secret Service, the Federal  
25 Reserve Board of Governors, the Bureau of Engraving and Printing,  
26 and the Secretary of the Treasury.

27 Ultimately I was responsible for and exercised independent judgment in  
28 designing the questionnaires for both the consumer survey and the subsequent  
29 small business survey and for the interviewing protocol used in the in-depth

1 interviews. Both the consumer and small business questionnaires were pre-tested in  
2 the field by Lighthouse Research. A copy of the instructions to Lighthouse  
3 concerning the consumer survey is found in Appendix D. Note that the participants  
4 are clearly defined as those who pay the majority of bills in a household and this  
5 designation means the data is not specifically comparable to “household” or  
6 individual consumer data collected elsewhere. The participant designation was the  
7 most pertinent and applicable to the question at hand. This was a rigorous survey  
8 that was designed to insure compliance with validity and reliability standards.  
9 Participants were randomly selected and their response were 100% validated. The  
10 data were transmitted to me on August 6, 2006 and subsequently translated into a  
11 DataDesk<sup>32</sup> statistical format. All data analysis and reporting of results was my  
12 responsibility. A copy of the questionnaire is found in Appendix E.

### 13 DEMOGRAPHIC OVERVIEW

14 Overall the demographics show wide dispersion over the population and  
15 indicates that bill paying is not concentrated in any one segment of the market.

---

<sup>32</sup> DataDesk 6.2, Data Description, Inc., Ithaca, New York

Table 1  
AGE OF BILL PAYING PARTICIPANTS

Age	% of Bill Payers
18-23	1.7
24-29	7.4
30-35	9.7
36-44	15.8
45-54	31.6
55-69	26.4
70 and over	17.4

Table 2  
EDUCATION OF BILL PAYING PARTICIPANTS

Education Level	% of Bill Payers
College Graduate	6.4
Some College or Technical School	28.2
High School Graduate	32.4
36Less than High School	32.9
D/K or Refused to answer	.5

Table 3  
INCOME OF BILL PAYING PARTICIPANTS

Income	% of Bill Payers
Less than \$35,000	34.1
\$35,000-65,000	30.6
\$65,000-100,000	15.2
More than \$100,000	7.8
D/K or refused to answer	9.3

1 INTERNET ACCESS & USAGE

2 As discussed earlier, access and use of the internet forms the technological  
3 ability of consumers to embrace electronic bill paying as an alternative to the  
4 traditional mail payment process. The data show that 60.7% of bill paying  
5 participants reported having access to the internet and of those the following are  
6 their usage patterns:

7	Daily	56.7%
8	Several Times a Week	16.5%
9	Weekly	11.7%
10	Monthly	4.9%
11	Rarely	6.6%

12 Access translates into usage with only 3.5% of those with internet access saying  
13 they never use the internet.

14 BILL PAYING SEGMENTS

15 The bill paying market can be separated into four segments for further analysis:  
16 (1) those who pay regular bills entirely by mail (*hard core mailers*); (2) those who pay  
17 more than 50% of their bills using the traditional mail processes (*major mailers*); (3)  
18 those who pay more than 50% of their bill using an electronic process (*minor*  
19 *mailers*); (4) those who pay their regular bill entirely by electronic means (*electronic*  
20 *payers*).

21 The initial focal point of my research was to examine those who currently pay  
22 their bills using the traditional mailstream process, whether exclusively or sharing  
23 those payments with an electronic form, incorporating the first three segments  
24 above. An initial analysis of the data shows 87.6% of payers use the mail and their  
25 use is reflected below:

Table 4  
Mail Bill Payers

% Of Bills Paid By Mail	% Of Mail Bill Payers (n=876)
1-24%	13.2
25-49%	6.4
50-74%	13.6
75-99%	28.7
100%	34.9
D/K	3.2

1 From a marketing perspective those who pay 100% of their bills currently form a  
 2 somewhat “hard-core” segment for the postal system and would seemingly be the  
 3 least vulnerable segment for diversion to electronic processes. Those who pay their  
 4 bills entirely by electronic means are by definition not subject to diversion. Both of  
 5 those segments I will discuss later.

6 To start however, the more vulnerable segments for diversion are (1) those who  
 7 pay more than 50%, but not all, of their bills using the mail (*major mailers*); and (2)  
 8 those who pay the some of their regular bills using the mail, but less than 50%  
 9 (*minor mailers*). Both of these segments already make some electronic payments so  
 10 they are, more or less, familiar with the concept. For each of these two segments, I  
 11 examined the attitudes and characteristics, along with some behavior predictors:

- 12 Internet Access
- 13 Internet Usage
- 14 Satisfaction with Mail for Payment of Regular Bills
- 15 Importance to Future Diversion to Electronic Payment:
  - 16 Cost
  - 17 Convenience
  - 18 Timing
  - 19 Delivery Assurance
  - 20 Due Date Receipt
  - 21 Provider Preference
  - 22 Security of Payment
  - 23 Time Involvement
  - 24 Tracking Payment
  - 25 Future Postal Rate Increases
  - 26 Future Stamp Price Level When Seriously Consider Switch to Electronic
  - 27 Effect of Annual Postal Increase on Diverting to Electronic

1 Major Mailers

2 The initial segment examined are *major mailers*, that is those who use the  
3 traditional mail system for more than 50%, but not all, of their regular bill payments.

4 Internet Access & Usage. The data show that 62.9% of *major mailers* have  
5 access to the internet and of those 85% use it weekly or more often. The conclusion  
6 is that almost 2/3 of this “major user” category for USPS has the technological  
7 means to divert their payments to electronic and are frequent users of the  
8 technology.

9 Satisfaction and Postage Increase Switching Effect. Among *major mailers* there  
10 is relatively high general satisfaction with the mailing process. The data show:

	Not Satisfied				Very Satisfied		
Score	1	2	3	4	5	6	7
% Major Mailers	.8	.5	1.9	5.4	12.9	20.2	57.6

15 This would seem to bode well for USPS among the bill payers in this critical  
16 segment of the market, *major mailers*. However, they were later asked:

17 If you had reason to believe or knew that the postal service was  
18 planning regular increases in the price of postage for paying your bills,  
19 such as every year, what effect would this have on you switching to  
20 electronic payment of your bills? Again, use a scale of one to seven to  
21 predict what you’d do. A seven indicates you would definitely switch to  
22 electronic payment and the other end of the scale, a one would  
23 indicate you would definitely continue using a pay by mail system.

24 The data show:

	Stay With Mail				Switch			D/K
Score	1	2	3	4	5	6	7	
% Major Mailers	13.8	10.8	25.7	9.5	10.5	14.9	0	14.9

28 Using a score of 5 or above, I conclude that 1/4 of this critical market segment  
29 probably would switch to electronic payments given a perception of regular  
30 scheduled postal price increases. These “regular increases” seem to be a  
31 triggering device for diversion.

1 To examine this further, I tested for the absolute level of price that would cause  
2 *major mailers* to seriously consider switching to a form of electronic bill payment:

	<u>Price Level</u>	<u>% of Major Mailers</u>
3		
4	42¢	13.7
5	45¢	10.8
6	50¢	25.6
7	60¢	9.5
8	75¢	10.5
9	\$1.00	14.9
10	D/K	10.5

11 Over half of this critical market segment for USPS considers 50¢ or less as a  
12 “break point” for serious consideration of switching more payments to an electronic  
13 process. This comes even in light of their current satisfaction scores for the mail  
14 system.

15 Diversion Attributes. Next I examined ten attributes that might be used by *major*  
16 *mailers* in deciding whether to use some electronic method for paying some or all of  
17 their future regular bills. Each them was given a the list of ten considerations that  
18 could affect their decision. They were asked to rate the attribute’s importance in the  
19 decision process. A Likert scale of one to seven was used with 7 being of greatest  
20 importance and 1 being least important. If an item was of no importance at all, it was  
21 scored zero. I analyzed this data using the mean response score for *major mailers*.

	<u>Attribute</u>	<u>Mean Score</u>
22		
23	Cost	4.4
24	Convenience	4.8
25	Timing	4.9
26	Delivery Assurance	5.2
27	Due Date Receipt	5.5
28	Provider Preference	4.0
29	Security of Payment	5.3
30	Time Involvement	4.5
31	Tracking Payment	4.7
32	Future Postal Rate Increases	3.7

33 Conclusion. The *major mailer* segment consists of bill payers that are satisfied, in  
34 general, with the process They also have experience with alternative forms of bill  
35 payment: (1) an automatic payment from a bank account, either one-time or

1 recurring [59.7%]; (2) bill paid automatically by a charge to a credit card [17.0%]; and  
2 (3) other electronic payments of bills where the payer specifies the timing and  
3 amount of the payment of the bill [21.6%].

4 Looking into the future, if the *major mailer* had reason to believe or knew that the  
5 postal service was planning regular increases in the price of postage for paying bills  
6 (such as every year) this would trigger a switch to more electronic payments by ¼ of  
7 the segment and another 1/3 appearing to be vulnerable to being diverted. The  
8 data also show that among nearly ½ of *major mailers* 50¢ or less for the price of a  
9 stamp is critical to seriously consider switching to some form of electronic payment  
10 instead of using the mail.

11 Postal rates seem to be a future trigger for diverting from mailed bill payments.  
12 The data suggest that, once motivated to switch from the mailed payments by the  
13 price (or changes in the price) of postage, *major mailers* then use other competitive  
14 attributes for the switching or diversion decision.

15 The other reasons cited are ranked in order of their importance to *major mailers*:

- 16 1 Due Date Receipt – the payment arrives on the due date  
17 eliminating possible penalties
- 18 2 Security of the Payment
- 19 3 Delivery is Assured – the payee cannot dispute receipt of the  
20 payment
- 21 4 Timing of Payment – the payment is received when the *major*  
22 *mailer* designates
- 23 5 The process is convenient
- 24 6 The *major mailer* can track the payment
- 25 7 The amount of time involvement by the *major mailer* is reduced
- 26 8 The financial cost of the *major mailer* is less
- 27 9 The type payment used is preferred by the payee

28 I conclude from my sampling of financial institution competitors that they  
29 recognize the importance of these attributes and stress them with their customers,  
30 many of whom would be *major mailers*. This is an important segment to USPS since  
31 it consists of 42% of the major users of the mailstream who already have knowledge  
32 and experience with electronic alternatives. My conclusion is that future stamp price

1 increases will trigger a large share of this segment to reevaluate their bill paying. I  
2 also conclude that when triggered, the financial institution competitors are well  
3 positioned to address important non-post-rate attributes such as: convenience, no  
4 cost (free), payment timing, tracking and assurance of delivery with an accessibility  
5 record for the *major mailer*. The idea that merely a simple price comparison is used  
6 by bill payers in their diversion decision is also negated by Thomas E. Thress  
7 testifying for USPS.<sup>33</sup>

8           Primarily the factors that are driving electronic diversion are the  
9           increasing penetration of the internet and technological advances  
10           which make diversion more possible, more economical, more  
11           economically advantageous from the point of view from the people  
12           developing the technology.

13           This point of view translates to this vulnerable segment (*major mailers*) who not  
14           only have experience with electronic alternatives, but have access to the technology  
15           to increase their diversion from USPS. The price triggers the postal process and the  
16           technology and inherent advantages (including lower cost) drive the decision.

#### 17 Minor Mailers

18           The next segment examined were those who are *minor mailers*, that is those who  
19           use the traditional mail system for less than 50% of their regular bill payments. In  
20           comparison to the previous *major mailer* segment they, by definition, have much  
21           more experience with the alternative electronic systems and would conceivably be  
22           more vulnerable to future diversion. Interestingly over 2/3 of this segment report  
23           paying less than 25% of their bills using the mail, thus signaling their increased  
24           vulnerability to future electronic diversion.

25           Internet Access & Usage. The data show that 75.5% of these *minor mailers* have  
26           access to the internet and of those, 89% use it weekly or more often. The conclusion  
27           is that 3/4 of this *minor mailer* segment for USPS has the technological means to  
28           divert more of their payments to electronic and they use it often.

---

<sup>33</sup> Thress, Cross-Examination, p. 1324

1 Satisfaction and Switching. Among the *minor mailers* the satisfaction scores with  
 2 the mail process are not as high as with *major mailers*. The data show:

Score	Not Satisfied			Very Satisfied			
	1	2	3	4	5	6	7
% <i>Minor Mailers</i>	4.1	1.7	8.7	10.5	18.6	13.9	42.4

7 This shows greater vulnerability in this *minor mailer* segment. This conclusion is  
 8 reinforced by the results from when they were later asked:

9 If you had reason to believe or knew that the postal service was  
 10 planning regular increases in the price of postage for paying your bills,  
 11 such as every year, what effect would this have on you switching to  
 12 electronic payment of your bills? Again, use a scale of one to seven to  
 13 predict what you'd do. A seven indicates you would definitely switch to  
 14 electronic payment and the other end of the scale, a one would  
 15 indicate you would definitely continue using a pay by mail system.

16 The data show:

Score	Stay With Mail					Switch		D/K
	1	2	3	4	5	6	7	
% <i>Minor Mailers</i>	19.1	2.9	4.7	8.7	14.0	15.7	31.9	2.8

20 Using a score of 5 or above, I conclude that 60% of the segment would switch to  
 21 more electronic payments given a perception of regular scheduled postal price  
 22 increases.

23 These “regular increases” are a triggering device for diversion, as with the *major*  
 24 *mailer* segment. Again, I tested for the absolute level of price that would cause  
 25 *minor mailers* to seriously consider switching to a form of electronic bill paying:

<u>Price Level</u>	<u>% <i>Minor Mailers</i></u>
42¢	30.8
45¢	11.6
50¢	21.5
60¢	6.4
75¢	7.0
\$1.00	11.0
D/K	10.6

1 Nearly 2/3 of this segment consider 50¢ or less as a “break point” for serious  
2 consideration of switching to an electronic process for more of their bill payments.

3 Diversion Attributes. Next I examined ten attributes that might be used by the  
4 *minor mailers* in deciding whether to use some electronic method for paying some or  
5 all of their future regular bills. Again, each them was given a the list of ten  
6 considerations that could have affected their decision. They were asked to rate the  
7 attribute’s importance in the decision process. A Likert scale of one to seven was  
8 used with seven being of greatest importance and one being least important. If an  
9 item was of no importance at all, it was scored zero. To analyze this data I used the  
10 mean response score for *minor mailers*.

11	<u>Attribute</u>	<u>Mean Score</u>
12	Cost	5.0
13	Convenience	5.7
14	Timing	5.6
15	Delivery Assurance	5.8
16	Due Date Receipt	5.9
17	Provider Preference	4.1
18	Security of Payment	5.7
19	Time Involvement	5.3
20	Tracking Payment	5.1
21	Future Postal Rate Increases	3.7

22 I noted that generally the scores for the various attributes were higher among  
23 *minor mailers* than among *major mailers*, except for the importance score for “future  
24 postal rate increases,” which was identical.

25 Conclusion. The *minor mailer* segment consists of bill payers who have more  
26 experience with alternative forms of bill payment than do the *major mailers*: (1) an  
27 automatic payment from a bank account, either on-time or recurring [70.9%]; (2) bill  
28 paid automatically by a charge to a credit card [22.6%]; and (3) other electronic  
29 payments of bills where the payer specifies the timing and amount of the payment of  
30 the bill [47.7%].

31 The data also show that if the *minor mailer* had reason to believe or knew that  
32 the postal service was planning regular increases in the price of postage for paying

1 your bills (such as every year) this would trigger a switch to more electronic  
2 payments by nearly 1/2 of the segment and another 23% would appear to be  
3 vulnerable to being diverted. The data also show that among *minor mailers* nearly  
4 2/3 feel 50¢ or less for the price of a stamp is critical to seriously consider switching  
5 more of their payments to electronic forms instead of using the mail.

6 As with *major mailers*, postal rates seem to be a future trigger for *minor mailers*  
7 diverting from mailed bill payments. The data again suggests that *minor mailers* then  
8 use other competitive attributes for the switching or diversion decision. The other  
9 reasons cited are ranked in order of their importance to *minor mailers*:

- 10 1 Due Date Receipt – the payment arrives on the due date  
11 eliminating possible penalties
- 12 2 Delivery is Assured – the payee cannot dispute receipt of the  
13 payment
- 14 3 Security of the Payment and the process is convenient
- 15 4 Timing of Payment – the payment is received when the *major*  
16 *mailer* designates
- 17 5 The amount of time involvement by the *major mailer* is reduced
- 18 6 The *major mailer* can track the payment
- 19 7 The financial cost of the *major mailer* is less
- 20 8 The type payment used is preferred by the payee

21 The *minor mailer* segment is less critical to USPS since the bulk of their bill  
22 paying has already migrated to electronic forms. They constitute 19% of all those  
23 paying by mail and fully 2/3 of them use the mail for less than 25% of all their bills.

24 Nevertheless, my conclusion is that future stamp price increases will trigger a  
25 significant share of this segment to further reevaluate their bill paying. I also  
26 conclude that when triggered by postal rate increases, the financial institution  
27 competitors are well positioned to continue to address important non-post-rate  
28 attributes, such as convenience, no cost (free), payment timing, tracking and  
29 assurance of delivery with an accessible record for the *minor mailer*. This is  
30 buttressed by this segment already having considerable experience with electronic  
31 alternatives.

1 Hard Core Mailers

2 The *hardcore mailers* are those bill payers that use the mail exclusively for all  
3 their bills. Importantly for USPS they are 34.6% of all those paying by mail. This is  
4 the segment that is the hardcore group of postal users and, as I mentioned earlier,  
5 seemingly is least likely to be diverted toward any competitive electronic means.

6 They have a very high level of satisfaction with the mail system:

7		8 Not Satisfied					9 Very Satisfied	
10	Score	1	2	3	4	5	6	7
	% <i>Hardcore Mailers</i>	2.2	2.0	1.0	1.6	12.1	11.1	69.6

11 Also, 50.3% of them do not have access to the internet, but of the reminder that  
12 do there are 78% that use the internet weekly or more. So, there are 39% of this  
13 total hardcore segment who are regular users of the internet affording a  
14 technological and usage portal to alternative means of bill paying.

15 This segment was also asked:

16 If you had reason to believe or knew that the postal service was  
17 planning regular increases in the price of postage for paying your bills,  
18 such as every year, what effect would this have on you switching to  
19 electronic payment of your bills? Again, use a scale of one to seven to  
20 predict what you'd do. A seven indicates you would definitely switch to  
21 electronic payment and the other end of the scale, a one would  
22 indicate you would definitely continue using a pay by mail system.

23

24 The results show:

25		26 Stay With Mail					27 Switch		
26	Score	1	2	3	4	5	6	7	D/K
	% <i>Hardcore Mailers</i>	53.9	4.9	6.5	7.5	9.8	3.3	11.1	2.8

28 Using a score of 5 or above, I conclude that 25% of the segment probably would  
29 switch to more electronic payments given a perception of regular scheduled postal  
30 price increases.

31 For ¼ this *hardcore* mailer segment the “regular increases seem to provide a  
32 potential triggering device for diversion. As before, I also tested for the absolute level

1 of price that would cause *hardcore mailers* to seriously consider switching to a form  
2 of electronic bill paying:

3	<u>Price Level</u>	<u>% Hardcore Mailers</u>
4	42¢	16.3
5	45¢	6.2
6	50¢	15.4
7	60¢	6.5
8	75¢	6.8
9	\$1.00	18.3
10	D/K	29.3

11 Surprisingly, 37.9% of this *hardcore* segment consider 50¢ or less as a “break  
12 point” for serious consideration of switching to an electronic process for more of their  
13 bill payments. Given the definition of this segment, this vulnerability was  
14 unexpected.

#### 15 Electronic Payers

16 The final segment examined were those who currently pay all of their bills  
17 electronically. This constitutes 23.4% of those we surveyed. Obviously these are not  
18 the candidates for diversion and are not especially a target segment for USPS.  
19 However, since electronic payment mechanisms are a recent development as a  
20 competitor to USPS in household payments, I expected these payers to provide a  
21 rich base for understanding their payment selection. They were asked:

22 I am now going to read you a list of considerations that may have  
23 affected your decision as to what methods you use for paying your  
24 regular bills. Use a scale of one to seven with seven being very  
25 important and one being of little importance, and zero means no  
26 importance.

27 In this instance the *electronic payers* were asked about the what attributes have  
28 been of importance in selecting electronic payment processes. Once again a Likert  
29 scale of one to seven was used with seven being of greatest importance and one  
30 being least important and I used the mean response score for *electronic payers*:

	<u>Attribute</u>	<u>Mean Score</u>
1		
2	Cost	5.2
3	Convenience	6.2
4	Timing	5.7
5	Delivery Assurance	6.1
6	Due Date Receipt	6.3
7	Provider Preference	4.1
8	Security of Payment	6.2
9	Time Involvement	5.4
10	Tracking Payment	5.4
11	Future Postal Rate Increases	4.0

12 The attributes scoring the highest focus on the payment delivery, both timing and  
 13 security. There is not an emphasis on cost considerations nor on previous postal  
 14 rate increases as primary drivers of the decision to fully embrace electronic  
 15 processes.

16 My analysis also considered how committed the electronic payer is to that form  
 17 of payment mechanism. For those who use an automatic payment:

		Not Satisfied					Very Satisfied	
	Score	1	2	3	4	5	6	7
18								
19								
20								
21	% <i>Electronic Payers</i>	4.1	1.7	2.9	3.4	8.2	11.5	67.3

22 For those using an automatic charge to a credit card:

		Not Satisfied					Very Satisfied	
	Score	1	2	3	4	5	6	7
23								
24								
25								
26	% <i>Electronic Payers</i>	3.9	3.2	4.7	13.4	12.6	11.1	69.6

27 For the other electronic payments of bills where the payer specifies the timing  
 28 and amount of the payment of the bill:

		Not Satisfied					Very Satisfied	
	Score	1	2	3	4	5	6	7
29								
30								
31								
32	% <i>Electronic Payers</i>	.4	.9	0	6.0	12.0	20.5	59.4

33 The conclusion is that there is a high degree of satisfaction with the electronic  
 34 methods used by these 100% *electronic payers* offering little potential for  
 35 reacquisition by USPS.

1 USPS VULNERABILITY

2 Overall

3 Considering all the mail users in the survey (*major users, minor users, and*  
4 *hardcore*) the vulnerability to USPS to emerging electronic alternatives in the bill  
5 payment system is evident. The number of mail bill payers in the survey was 87.6%  
6 which compares favorably to the 85% in the 2005 USPS Household Diary Study.<sup>34</sup> In  
7 his direct testimony Peter Bernstein offers the following analysis concerning  
8 diversion:<sup>35</sup>

9 To put this decline in perspective, consider that the Recruitment  
10 Questionnaire reports that households paid about twelve bills per  
11 month in 2005. Extrapolating that per household per month figure to  
12 the entire population yields a total of about 16.3 billion bill payments for  
13 the entire year. If the share of bills paid by mail had remained at 85.0  
14 percent, about 13.9 billion bills would have been paid by mail in 2005.  
15 Instead, the number of bills paid by mail was on the order of 10.9  
16 billion, a loss of three billion pieces of single-piece letter mail over the  
17 period from 1999 through 2005.

18 Using data from Bernstein's own analysis and from my survey I calculated the  
19 diversion vulnerability to the bill paying mailstream:

- 20 ❖ U.S. Households, 2006 - 122 million<sup>36</sup>
- 21 ❖ Average annual household bills paid – 144
- 22 ❖ Households paying bills by mail – 106.9 million
- 23 ❖ Percentage of bills paid by mail among “mail payers” – 74.7%
- 24 ❖ Total annual bills paid by mail – 11.5 billion

25 This analysis indicates 39.3% of all mail bill payers (4.5 billion pieces of mail  
26 containing bill payments) would be diversion vulnerable if the bill payer believed or  
27 knew that the postal service was planning regular increases in the price of postage  
28 for paying your bills, such as every year. This is a very conservative estimate since it

---

<sup>34</sup> Bernstein, Direct Testimony, p. 52

<sup>35</sup> Bernstein, Direct Testimony, p. 52

<sup>36</sup> <http://quickfacts.census.gov>

1 only uses those who were at the far end of the scale on future price increase  
2 perception (score 5 or more) compared with a mean vulnerability score for all mail  
3 bill payers of 3.6 on the same scale. In other words I did not count those with a  
4 score under 5, although they have exhibited some degree susceptibility to switching  
5 to electronic processes.

#### 6 Stamp Price Impact

7 An indicator of immediate USPS vulnerability is the fact that 18.7% of all mail bill  
8 payers will seriously consider switching to some form of electronic payment at a  
9 stamp price of 42¢. Using the Bernstein data for analysis and factoring in that many  
10 payers only use the mail for a portion of their payments, nevertheless there are 2.15  
11 billion annual pieces of bill paying mail at serious risk of diversion given an increase  
12 to the requested 42¢ in the first class postal rate. In the longer run, an increase to  
13 45¢ yields 3.2 billion annual pieces of bill paying mail at serious risk. This compares  
14 to the already reported 3 billion piece diversion that stretched out over the period  
15 from 1999-2005.<sup>37</sup>

#### 16 Vulnerable Bill Payers – Demographics

17 A pertinent question is, who are these highly vulnerable bill payers (more than 5  
18 on the switch scale)? First the data would indicate they have greater access to the  
19 internet, 71.3% versus 53.0 for the less vulnerable, and their usage rate is high, 63%  
20 at least weekly usage for the highly vulnerable versus 42% for the same usage  
21 among the less vulnerable. Not only are they more vulnerable to diversion, but they  
22 have the technological means to do it. There are no significant differences between  
23 the two groups on the basis of income or gender, but there are on the basis of age  
24 and education. The highly vulnerable tend to be younger and better educated:

---

<sup>37</sup> Bernstein, Direct Testimony, p. 52

TABLE 5  
EDUCATION OF BILL PAYER  
(% of Vulnerability Level)

<u>Vulnerability</u>	<u>Less Than H.S.</u>	<u>H.S Graduate</u>	<u>Some College or Tech School</u>	<u>College Graduate</u>
Highly Vulnerable	3.6	24.5	34.9	36.8
Less Vulnerable	8.5	30.9	29.9	30.1

TABLE 6  
AGE OF BILL PAYER  
(% of Vulnerability Level)

<u>Vulnerability</u>	<u>18-23</u>	<u>24-29</u>	<u>30-35</u>	<u>36-44</u>	<u>45-54</u>	<u>55-69</u>	<u>70 and over</u>
Highly Vulnerable	2.4	11.2	11.6	18.8	21.6	25.7	8.8
Less Vulnerable	1.2	4.7	8.3	13.6	21.6	26.9	23.7

1 Internet & Broadband Impact

2 As I have previously discussed, vulnerability also centers around the degree of  
3 internet access and usage by households. In this arena is the development of  
4 broadband technology. This has also been described as a high-speed, always on  
5 technology. Peter Bernstein gives some initial perspective on this in his direct  
6 testimony:<sup>38</sup>

7 According to Leichtman Research Group, there are  
8 approximately 40 million broadband subscribers in 2005, with  
9 the vast majority of subscribers being residential, as opposed to  
10 business users....the number of broadband subscribers  
11 increased by more than 20 percent in 2005 and is seven times  
12 greater than it was in 2000.

13 Bernstein later, under cross-examination, gives an even clearer picture of the  
14 vulnerability for diversion posed by the rapid development of broadband technology  
15 and its use by households.<sup>39</sup>

16 I think that as more and more people get broadband, it  
17 represents a different kind of internet access than dial-up  
18 access. It's always on, it's faster, it says something about the  
19 user, that they would actually pay more in many cases to get

---

<sup>38</sup> Bernstein, Direct Testimony, p. 20

<sup>39</sup> Bernstein, Peter, Cross-Examination, Postal Rate Commission hearing, August 9, 2006, p.1450

1 this. So to me it's representative of someone who's more  
2 connected literally and figuratively with the internet and more  
3 reachable that way, more accepting of it, more comfortable with  
4 it.

5 In my survey, respondents were asked whether they had high speed or broad  
6 band access to the internet. Among all those who pay some or all of their bills by  
7 mail there are 37.4% who have broadband. Not surprisingly the *hardcore* segment  
8 has the least access to broad band, or high speed internet technology (26.8%). In  
9 the critical *major mailers* segment there are 40.3% with such access. Remember  
10 these are the bill payers using the mail for more than 50%, but less than 100%, of  
11 their regular payments. In the *minor mailers* segment there are 53.4% who have  
12 access to broadband/high speed technology. If Peter Bernstein is correct in saying  
13 bill payers with such technology would be more "accepting" and "comfortable" with  
14 electronic processes, then this current status of broadband access indicates  
15 additional potential vulnerability for USPS. Peter Bernstein points this out in his  
16 response to GCA interrogatories:<sup>40</sup>

17 What conditions would be consistent with greater electronic  
18 diversion? One driver would be greater than projected internet  
19 penetration or broadband adoption. Competition between internet  
20 providers could intensify, access rates could fall, and adoption levels  
21 would in turn be greater than projected in the baseline.

## 22 BUSINESS-TO-BUSINESS BILL PAYING

23 Also important to understanding electronic diversion of bill paying away from the  
24 mailstream are the payments made by businesses to other businesses.

## 25 OVERVIEW

26 Based on my 30-year of experience with EFTS, I have come to recognize that  
27 large scale businesses and other organizations have long taken advantage of the  
28 electronic transfer of funds, eliminating payments by check or other forms of paper.

---

<sup>40</sup> Bernstein, Peter, Response of United States Postal Service Witness Bernstein To Interrogatory of GCA (GCA/USPS-T8-8), August 8,2006, p.3

1 This is not necessarily true among smaller businesses where reliance on paper and  
2 mailed payments still exists. Because of this and the fact that small businesses<sup>41</sup>  
3 represent 98.2% of all U.S. firms,<sup>42</sup> I chose to concentrate my research on them.  
4 Business-to-business (b2b) payments are about one-half the size of consumer  
5 payments.<sup>43</sup> That translates into 8.8 billion payments annually.<sup>44</sup>

## 6 RESEARCH DESIGN

7 To address b2b payments I used a phone survey of 500<sup>45</sup> small businesses<sup>46</sup>  
8 conducted in July and August, 2006. Small businesses were defined as less than  
9 100 employees and less than \$1 million in annual billings. The phone survey also  
10 had Lighthouse Research of Riverton, Utah as the field service firm under the direct  
11 supervision of Dr. Leonard Homer of Homer Marketing Research of Houston, Texas.  
12 The instructions to interviewers is found in Appendix F and the questionnaire is in  
13 Appendix G. As in the consumer survey, participants were chosen randomly and  
14 response were 100% validated.

15 The participant firms were further separated on the basis of the classification of  
16 their customers into one of three categories: (1) mainly other businesses; (2) mainly  
17 consumers: and (3) both other businesses and consumers equally. For analytical  
18 purposes I separated those who mainly served other businesses and those who  
19 mainly served consumers into two groups. Those who said they served both equally

---

<sup>41</sup> Defined by the Small Business Administration at <http://www.sba.gov>

<sup>42</sup> [www.census.gov/www/smallbus.html](http://www.census.gov/www/smallbus.html)

<sup>43</sup> Schmid, Greg, *Two Scenarios Of Future Mail Volumes*, President's Commission on the United States Postal Service, May, 2003, p.9

<sup>44</sup> Bernstein, Direct Testimony, p. 52

<sup>45</sup> Confidence limit (95%): +/-4.5%

<sup>46</sup> Defined by the Small Business Administration at <http://www.sba.gov>; the survey limited respondent firms to those with fewer than 100 employees and less than \$1-million annual billings which combined represents 98.2% of all firms ([www.census.gov/www/smallbus.html](http://www.census.gov/www/smallbus.html))

1 were equally randomly assigned to one of the groups. This resulted in 205 firms<sup>47</sup>  
2 analyzed for their business-to-business (b2b) practices and 295 firms<sup>48</sup> for their  
3 business-to-consumer (b2c) practices. In this section of the report I concentrate on  
4 b2b firms and their payment process..

## 5 RESULTS

6 The data show a heavy reliance on traditional mail payments being received by  
7 the participant firms from other businesses.

8 Table 7  
9 b2b Mail Bill Payers

<b>% Of Payments Received By Mail</b>	<b>% Of Mail Bill Payers (n=876)</b>
1-24%	8.2
25-49%	1.5
50-74%	9.2
75-99%	39.8
100%	40.8

---

<sup>47</sup> Confidence limit (95%): +/-5.8%

<sup>48</sup> Confidence limit (95%): +/- 4.8%



1 separately. This examination consisted of three major thrusts: (1) a series of in-  
2 depth interviews with firms supplying billing services, consultation and software to  
3 businesses and organization [the protocol for the interviews is found in Appendix H];  
4 (2) the responses concerning bill statements received in the already discussed  
5 consumer telephone survey; and (3) the small business phone survey also already  
6 reviewed above.

7 As was done for the b2b bill payments, the participant firms were further  
8 separated resulting in 205 firms<sup>51</sup> analyzed for their business-to-business (b2b)  
9 practices and 295 firms<sup>52</sup> for their business-to-consumer (b2c) practices.

## 10 BUSINESS-TO-BUSINESS BILLING

### 11 Overview

12 As discussed above, it is my experience that large scale businesses have long  
13 taken advantage of the electronic transfer of funds. Linked to this payment process  
14 are accompanying electronic statements. However, some of these billing statements  
15 are still done in the traditional manner, mailed pieces of paper, because of systems  
16 incompatibility. This is becoming less and less common over time among larger  
17 organizations.

18 However, this is not necessarily true among smaller businesses where reliance  
19 on paper and mailed statements still exists. There are a lot of reasons for this  
20 because internet billing business-to-business (b2b) involves interaction with varied  
21 kinds of payment systems and business processes. The upshot is that implementing  
22 b2b billing typically means having to re-engineer business procedures and change  
23 ingrained attitudes. In the in-depth interviews the reluctance and resistance to

---

<sup>51</sup> Confidence limit (95%): +/-5.8%

<sup>52</sup> Confidence limit (95%): +/- 4.8%

1 change among physicians was typically cited. To get a sense of how healthcare  
2 billing is structured the following four models emerged from the in-depth interview.<sup>53</sup>

3 ***MODEL 1: “Some direct transmission”***

- 4 ●Assumes provider has billing system
- 5 ●Mainly used by medium-large physician practices
- 6 ●Also, the primary model for many “other” providers (e.g., DME, homecare,  
7 VNA)
- 8 ●Purchase software (from their billing system vendor) for the payers they  
9 want to transmit to directly (e.g., EMC software for Medicare B, Medicaid,  
10 BCBSMA, Tufts, HPHC) The software formats claims for payer  
11 acceptability and sets up claims file for download to payer
- 12 ●Providers can also purchase software (from their billing system vendor) that  
13 forwards specified claims to a clearinghouse
- 14 ●Variations on model (see below), based on claims “pathway” decisions  
15 made by provider

---

<sup>53</sup> Also see: <http://www.mahealthdata.org>

	<b>Claims pathway for Medicare, Medicaid, and BCBSMA</b>	<b>Claims pathway for HPHC, Tufts, and other regional health plans</b>	<b>Claims pathway for other payers (e.g., TPAs, national carriers)</b>
<b>MODEL 1A</b>	Direct to payer/Electronic	Paper	Paper
<b>MODEL 1B</b>	Direct to payer/Electronic	Direct to payer	Paper
<b>MODEL 1C</b>	Direct to payer/Electronic	Direct to payer	Clearinghouse
<b>MODEL 1D</b>	Direct to payer/Electronic	Clearinghouse	Clearinghouse

1           **MODEL 2: “Use middleman vendor for all claims submissions”**

- 2           ●Assumes provider has billing system
- 3           ●Mainly used by small physician practices
- 4           ●Providers acquire software from middleman vendor that “grabs” claims data
- 5           from billing system (in a single format) and transmits it to a clearinghouse
- 6           ●Clearinghouse re-formats claims to each payer’s acceptable format and
- 7           transmits claims to each payer in batches
- 8           ○ This includes Medicare, Medicaid, BCBSMA, local health plans
- 9           ○ Some payers may receive paper printed claims
- 10          ●Providers pay middleman a monthly fee for this service (and are therefore
- 11          incented to submit all claims to the clearinghouse)

12          **MODEL 3: “Stand-alone: direct transmission without a billing system”**

- 13          ●Assumes provider does not have a billing system (or chooses not to use
- 14          their billing system); does require that provider has a PC
- 15          ●This model is not used by many providers
- 16          ●Provider directly enters claims data
- 17          ○ Enter data on-line via web browser (e.g., directly to payer or to

1 clearinghouse)

2 **MODEL 4: "Billing Service"**

- 3 ●Estimated use by 15-20% of providers
- 4 ●Includes many physicians (mainly specialists), other providers (e.g.,  
5 hospices, homecare, etc.), and mental health providers
- 6 ●Providers do not need billing system OR a PC
- 7 ●Providers provide claims data to billing service
  - 8 ○ Option 1: on paper and sent
  - 9 ○ Option 2: key entered and transmitted
- 10 ●Billing service transmits claims data to payers using either Model 1 or Model  
11 2 described above

12 While the models above specifically deal with healthcare billing, nevertheless  
13 they offer insight into the alternatives in other lines-of-business. The bill service  
14 vendors were particularly insightful since they (Model 4) deal in both paper and  
15 electronic systems. None of them were able to offer positive reasons for using  
16 paper, but cited longer payment times and higher expense as major negatives. As  
17 for electronic systems they consistently cited short payment times (7-10 days),  
18 greater accuracy, assurance of delivery, and "free" submission of bills. There are  
19 definite hurdles to electronic statements including the enhancement of opportunity  
20 for legal action, fear of computers and software incompatibility with their customers.

21 Adding to the overall diversion potential in the b2b billing area is the following  
22 from Ann Bednarz reporting in *Network World*: "for a company switching from paper

1 to electronic invoicing methods one obvious savings potential is mailing costs – no  
2 more bills to print or postage to purchase.”<sup>54</sup>

3 Survey Results

4 The b2b firms reported a heavy reliance on mail for their submission of  
5 statements and billings:

---

<sup>54</sup> Bednarz, Ann, “E-Billing Adopters Find Rewards,” *Computerworld*, January, 12, 2005

TABLE 7  
b2b Firms Statements

<u>Type of Statements/Bills</u>	<u>Percentage of Firms</u>
100% paper	53.2
Majority paper, but < 100%	21.5
Majority electronic, but < 100%	17.1%
100% electronic	7.3%

1        These data are consistent with what was learned from the in-depth interviews.  
 2        Among the 92.7% of the firms who used paper billing, they were asked their  
 3        satisfaction with it, again on a 7-point Likert scale:

	Not Satisfied						Very Satisfied
Score	1	2	3	4	5	6	7
<i>% b2b paper statement users</i>	.5	1.1	1.1	3.2	13.2	21.1	59.5

9        Obviously there is a high degree of satisfaction with paper statements, which  
 10       again bodes well for USPS. However, the b2b firms then were asked:

11       As you know, postal rate continue rise. What effect would future  
 12       postal rate increases -- for example, annual increases -- have on your  
 13       firm converting your billing to an electronic form? Please use a scale  
 14       of 0 to 7 with 7 being a major effect and zero meaning no effect at all.

15       This produced the following result:

	No Effect					Major Effect				
Score	0	1	2	3	4	5	6	7	D/K	
b2b billers	44.4	10.7	11.2	5.4	4.9	8.8	2.9	8.8	2.9	

19       Consider that 20.5% of these b2b mailers see a significant effect on converting  
 20       their payments to electronic forms in face of postal rate increases. It is also noted  
 21       that there is high satisfaction among those b2b billing electronically:

	Not Satisfied						Very Satisfied
Score	1	2	3	4	5	6	7
<i>% b2b electronic statement users</i>	1.4	0	0	1.4	10.1	15.9	69.6

1 The firms using paper billing were also asked about specific future postal rate  
 2 levels at which they would seriously consider switching to some form of electronic  
 3 billing:

	<u>Price Level</u>	<u>% b2b Mail Billers</u>
4	42¢	5.8
5	45¢	5.3
6	50¢	19.5
7	60¢	7.9
8	75¢	10.0
9	\$1.00	23.2
10	D/K	28.4
11		

12 Finally the respondent firms were asked to evaluate how important 12 different  
 13 factors are in their decision between paper or electronic billing to their business  
 14 customers. The factors came from the in-depth interviews with the billing service  
 15 providers to small business firms. Those with an importance score of 5 or more on a  
 16 7-point Likert scale are considered to highly value that attribute in their decision-  
 17 making.

TABLE 9  
 High Value in Paper vs. Electronic Decision: b2b Billing  
 % of Firms

<u>Attribute</u>	<u>% of b2b Billing Firms Scoring 5 or More</u>
Quick Payment Turnaround – Faster Payment	73.0
Lower Administrative Costs	54.9
Ease of Reconciling Accounts	59.9
Audit Compatibility	55.4
Integrating with your Other Management Systems	50.0
Expediting Dispute Reconciliation	57.9
Reducing the Chance of Invoice Errors	65.2
Shortening the Payment/Approval Cycle	64.3
Easier Access to Information	67.1
Bills Can be Delivered Anywhere	66.7
Enhancing your Employees' Ability to Have Easy Access to Customer Files	48.2
Building Customer Relations	67.6

1        Among the attributes deemed very important in the b2b billing process by more  
2 than two-thirds of the firms are those for which there is an clear inherent advantage  
3 for electronic processes over paper: (1) quick payment turnaround, (2) shortening  
4 the payment/approval cycle, (3) easier access to information, and (4) reducing the  
5 chance of invoice errors. All of these were also confirmed as advantageous by the  
6 in-depth interviews.

## 7 BUSINESS TO CONSUMER BILLING

8        We surveyed both of the participants in the system of submitting billing  
9 statements: the receiver (consumer) and the sender (the small business firm).

### 10 The Statement Sender

11        As reported earlier there were 295 firms<sup>55</sup> studied for their business-to-consumer  
12 (b2c) practices.

13        The b2c firms reported a significant reliance on mail for their submission of  
14 statements and billings. However, the data also show that already more than 40% of  
15 the firms rely to a greater or lesser extent on electronic billing.

---

<sup>55</sup> Confidence limit (95%): +/- 4.8%

TABLE 10  
b2b Firms Statements

Type of Statements/Bills	Percentage of Firms
100% paper	59.7
Majority paper, but < 100%	17.9
Majority electronic, but < 100%	18.3
100% electronic	4.1

1  
2 Among the 95.9% of firms who used paper billing they were asked their  
3 satisfaction with it, again on a 7-point Likert scale:

Score	Not Satisfied			Very Satisfied			
	1	2	3	4	5	6	7
% b2b paper statement users	.4	1.4	2.5	5.3	16.6	21.9	51.6

4  
5  
6  
7  
8  
9 From the perspective of USPS the high satisfaction scoring is encouraging.  
10 However, the b2c firms then were asked:

11 As you know, postal rate continue rise. What effect would future  
12 postal rate increases -- for example, annual increases -- have on your  
13 firm converting your billing to an electronic form? Please use a scale  
14 of 0 to 7 with 7 being a major effect and zero meaning no effect at all.

15 This produced the following result:

Score	No Effect			Major Effect				D/K	
	0	1	2	3	4	5	6		7
b2c billers	35.6	7.1	11.5	9.5	8.1	13.9	4.1	6.8	3.4

16  
17  
18  
19 Consider that 24.8% of these b2c mailers see a significant effect on converting  
20 their payments to electronic forms in face of postal rate increases. It is also noted  
21 that there is high satisfaction among those 40% of b2c who bill electronically:

Score	Not Satisfied			Very Satisfied			
	1	2	3	4	5	6	7
% b2b electronic statement users	0	1.2	0	3.5	11.8	17.6	65.9

1 The firms using paper billing to consumers were also asked about specific future  
 2 postal rate levels at which they would seriously consider switching to some form of  
 3 electronic billing:

	<u>Price Level</u>	<u>% b2c Mail Billers</u>
4	42¢	6.0
5	45¢	7.1
6	50¢	25.1
7	60¢	11.0
8	75¢	6.7
9	\$1.00	14.5
10	D/K	29.7
11		

12 The respondents were asked to evaluate how important 9 different factors were  
 13 in their decision between paper or electronic billing to consumers. The factors came  
 14 from the in-depth interviews with the billing service providers to small business firms  
 15 and from the preceding consumer survey. Those with an importance score of 5 or  
 16 more on a 7-point Likert scale are considered to highly value that attribute in their  
 17 decision-making.

TABLE 11  
 High Value in Paper vs. Electronic Decision: b2c Billing  
 % of Firms

<u>Attribute</u>	<u>% of b2c Billing Firms Scoring 5 or More</u>
Financial Cost	66.4
Billing Convenience for Customer	83.8
Fast Payment Turnaround	80.0
Assurance of Delivery	86.8
Payment Received by Due Date	76.9
Security of Payment	82.7
Amount of Time Involvement	73.2
Tracking Payments	75.2
Future Annual Postal Rate Increases	42.3

1 Future annual postal rate increases have the least impact among all the  
2 attributes, although even for that aspect 42% of the firms deem it very important. As  
3 was seen in the responses to the consumer survey, more important are subsequent  
4 payment delivery issues, not those of pricing and cost, for the statement decision.  
5 The findings are consistent with the report of *comScore Networks*.<sup>56</sup>

6 Consumers continue to migrate to online banking, with the nation's  
7 largest banks attracting more than 8.5 million new online banking  
8 customers in 2005....while ease of use and convenience were  
9 previously the major drivers, incentives and deflating security concerns  
10 are primary motivators nudging customers to adopt online banking  
11 today.

## 12 USPS DIVERSION RISK

13 What's at risk here for USPS? I started with the 2002 data compiled for the  
14 President's Commission on the U.S. Postal Service.<sup>57</sup> Importantly Greg Schmid in  
15 that report delineates the volume of payment and statement mail by type:

16	Payments:	
17	Households to Business (c2b)	6.3 billion pieces
18	Business to Business (b2b)	4.5 billion pieces
19	Business to Households (b2c)	1.8 billion pieces
20	Bills/Statements Sent:	
21	Business to Households (b2c)	25.4 billion pieces
22	Business to Business (b2b)	9.5 billion pieces

23 However, mail volume in 2002 was higher than for 2005, so I adjusted the data  
24 above. During this period the Postal Service and the Federal Reserve report an  
25 annual 1.1% decline in First-Class mail volume.<sup>58</sup> Factoring that decline for the  
26 2002-2005 period and applying it equally to each of the categories, the following  
27 emerges for 2005:

---

<sup>56</sup> [www.comscore.com](http://www.comscore.com), press release, April 10, 2006, p. 1

<sup>57</sup> Schmid, Greg, *Two Scenarios Of Future Mail Volumes*, President's Commission on the United States Postal Service, May, 2003, p. 29

<sup>58</sup> Bernstein, Direct Testimony, p. 6

1	Payments:	
2	Households to Business (c2b)	6.1 billion pieces
3	Business to Business (b2b)	4.4 billion pieces
4	Business to Households (b2c)	1.7 billion pieces
5	Bills/Statements Sent:	
6	Business to Households (b2c)	24.6 billion pieces
7	Business to Business (b2b)	9.2 billion pieces

8 To assess the vulnerability of each of those types of First Class mail to electronic  
9 diversion, I used a seven-point Likert scale to measure switching receptivity. While  
10 any score above zero on those scales indicates some degree of likely switching, I  
11 conservatively chose only scores of five or more as demonstrative of vulnerability to  
12 diversion.

### 13 PAYMENTS

#### 14 Households To Business (c2b)

15 Household bill payers were given the following:

16 If you had reason to believe or knew that the postal service was  
17 planning regular increases in the price of postage for your bills, such  
18 as every year increases, what effect would this have on your switching  
19 to electronic payment of your bills? Again, use a scale of one-to-seven  
20 to predict what you would do. A seven means that you would definitely  
21 switch to electronic payment and one means that you would continue  
22 using a pay by mail system.

23 The data show 42.1% responded with a score of 5 or more on the scale.

#### 24 Business To Business (b2b) and Business to Households (b2c)

25 The business survey respondents were asked:

26 I would like to know how receptive would you be to paying all of  
27 your regular bills electronically? Uses a seven-point receptivity scale.

28 The data show 43.4% responded with a score of 5 or more on the scale.

1 STATEMENTS/BILLING

2 Business to Households (b2c)

3 Household bill payers were given the following:

4 If you could receive all or some of your billing statements  
5 electronically by way of e-mail, tell me how attractive would that be to  
6 you, using a seven point scale where seven is 'very attractive,' and one  
7 is 'not attractive at all.'

8 The data show that 28.5% responded with a score of 5 or more on the scale.

9

10 Business to Business (b2b)

11 The business survey respondents were asked:

12 I'd like to know how receptive you would be to receiving your  
13 regular monthly bills electronically. Using a zero-to-seven scale, where  
14 seven is 'very receptive' and zero is 'not at all receptive,' how would  
15 you feel about receiving all of your regular monthly bills electronically?

16 The data show that 26.8% responded with a score of 5 or more on the scale.

17 SUMMARY

18 The results are summarized in Table 12:

19

TABLE 12  
VULNERABILITY SCORES

PAYMENT	Type	2005 Estimated 1 <sup>st</sup> Class Volume	% Vulnerable (>5 on scale)	# Pieces Vulnerable
	c2b	6.1 billion	42.1	2.6 billion
	b2b	4.4 billion	42.4	1.9 billion
	b2c	1.7 billion	43.4	738 million
STATEMENTS				
	b2c	24.6 billion	28.5	7.0 billion
	b2b	9.2 billion	26.8	2.5 billion

1

1 I conclude there are 14.7 billion annual pieces of First Class billing and statement  
2 mail that are vulnerable to diversion because of a triggering from postal rate  
3 increases. A corresponding analysis earlier (p. 24) of the household bill paying to  
4 businesses showed a vulnerability of 4.5 billion pieces or a 1.9 billion difference from  
5 that above in the c2b segment. The earlier analysis used the household diary data.  
6 Factoring the difference between the two databases and applying it to equally to all  
7 the payment and statement categories it would show a 25.4 annual pieces of First  
8 Class mail vulnerability.

9 Again, even this is conservative since it only factors in those who responded at  
10 the upper end of the scale and ignores those at the lower end who, nevertheless,  
11 have some likelihood of diversion.

## 12 OTHER FACTORS & INSIGHTS

13 In addition to the analysis above, there are some insights that come from specific  
14 line-of-business users.

### 15 Healthcare

16 The in-depth interviews showed that healthcare is the line-of-business where  
17 reliance on paper transactions continues to be the norm. The billing specialists in the  
18 in-depth interviews reported that physicians are particularly reluctant to change from  
19 a paper system. They submit claims to insurance carriers via mail or facsimile,  
20 generally through a third party. Payments are processed via checks and mailed to  
21 the physicians, a traditional process. There is a great deal of reluctance to use  
22 electronic submissions because of privacy issues<sup>59</sup> and compatibility problems with  
23 multiple insurance company systems. However, Cisco System reports it is working  
24 closely with small and medium sized businesses on the network compatibility issue  
25 and other organizations are establishing standardized methods for the electronic

---

<sup>59</sup> Health Insurance and Portability Act (HIPAA), 1996

1 exchange, security and confidentiality of health care data.<sup>60</sup> In addition, recently  
2 MEDICARE has directed that all submissions and payments will be done entirely  
3 electronic, including direct deposit of payments to physician's bank accounts. I  
4 conclude that this will make maintenance of dual systems, paper and electronic,  
5 difficult and be a factor for conversion to all electronic submission and payments with  
6 insurance carriers. This portends an influence for diversion among the b2b  
7 payments and statements within the healthcare line-of-business.

## 8 Utilities

9 Another industry where electronic diversion is reported are utilities. The Power  
10 Marketing Association reports:<sup>61</sup>

11 Increases in electronic payments are believed to have been  
12 achieved through large-scale consumer marketing campaigns funded  
13 by major financial institutions. This marketing activity is expected to  
14 collaterally aid utilities by educating consumers as to the benefits, ease  
15 of use, convenience, and security of paying bills online....accepting  
16 card-based payments (credit & debit cards) is more than worth the  
17 added processing costs (or interchange fees) if closely linked to  
18 suppressing paper statements and promoting the active use of online  
19 account management. Utilities can achieve improved cash flow since  
20 e-payments typically post to accounts faster than other forms of  
21 payment. Just as important utilities will help themselves and their  
22 customers avoid the cumbersome and expensive paper trail of checks.  
23 This can decrease the cost per payment process by over 50 percent.

## 24 Legal Profession

25 Concerning electronic diversion in the legal profession, Lexis One (which bills  
26 itself as "the resource for small law firms) reported the following in 2004:<sup>62</sup>

---

<sup>60</sup> *Five Ways to Improve Your Company's Efficiency*, Cisco Systems, [www.cisco.com](http://www.cisco.com), June 14, 2006, p. 1

<sup>61</sup> *The Power Report*, Power Marketing Association Online, April 23, 2006, pp. 2-3

<sup>62</sup> Tooher, Nora Lockwood, *Small Law Firms Embrace E-Billing*, Lawyers Weekly USA, at [www.lexisone.com](http://www.lexisone.com), April, 2004, pp. 1-2

1 An increasing number of law departments are requiring firms to  
2 submit their bills electronically over the internet. Electronic billing  
3 reduces the cost of paying bills and enables corporate law  
4 departments to track and justify outside legal spending more closely.  
5 Within 10 years, e-billing will be used in 50 percent of corporate law  
6 departments, predicted David Briscoe, a senior consultant to the  
7 Pennsylvania-based legal consulting firm of Altman Weil....corporate  
8 purchasers of legal services say getting a paper-based bill gets them  
9 almost nothing..."it just tells us how much to pay. With an electronic  
10 bill, they can at least begin to get some sense of who are the lawyers,  
11 what are they doing, how does the bill break down and is the bill in  
12 compliance with the rates and expenses they've negotiated?"

13 The National Law Journal addressed this issue in a more recent article:<sup>63</sup>

14 Electronic billing has gained mainstream attention in the legal  
15 profession because it enables law firms to deliver invoices in a more  
16 detailed and consistent format to satisfy clients' growing demands for  
17 more precise billing information. Consequently, e-billing has become  
18 one of the most widely and quickly adopted legal technologies among  
19 *Fortune* 100 companies.

20 Corporate counsel and vendors encouraged firms to use such  
21 technology with promises that e-billing would revolutionize the  
22 attorney-client relationship. Clients promised their firms a faster  
23 payment cycle, expedited dispute resolution, lower administrative costs  
24 and a more efficient method for billing. Knowledgeable law firm  
25 administrators found that these systems can identify billing patterns,  
26 analyze time and resource expenditures and unify billing practices  
27 among practice groups. These programs also give firms more tools to  
28 ensure compliance with client billing guidelines. The firms that use  
29 these systems effectively have established a stronger bond with their  
30 corporate clients.

31 From the law firm's perspective, efficiencies are immediately  
32 realized in eliminating paper, printing and postage costs. Even more  
33 significant to the law firm and the lawyer-client relationship are the  
34 underlying benefits of a faster and more predictable payment approval  
35 schedule, invoice error resolution and exchange of information  
36 between the firm and its client regarding bill accuracy.

37 Today, the vast majority of the top 200 U.S. law firms are sending  
38 electronic invoices to one or more clients.

39 Clients using an e-billing system that audits invoices immediately  
40 upon upload (to pre-established standards) are often able to submit  
41 payment consistently within 10 days. That is a tremendous

---

<sup>63</sup> Evangelista, James, Teresa Stange, and Kelley Johnston, *Use E-Billing or Lose Business*, National Law Journal, [www.law.com](http://www.law.com), September 29, 2005, pp. 1-2

1 improvement over antiquated paper billing processes. E-billing shrinks  
2 the payment cycle by eliminating the delay of regular mail invoice  
3 transmittal and by streamlining the corporate client's invoice review  
4 and processing through automated auditing and internal routing.

5 David Briscoe, writing in Law Technology News, discusses a principal advantage  
6 to electronic diversion from mail for legal firms.<sup>64</sup>

7 Electronic bills contain more data than paper bills. Outside counsel  
8 are required to record all of their work using standardized codes (e.g.,  
9 American Bar Association task codes). This helps companies conduct  
10 objective "apples-to-apples" comparisons of attorney performance from  
11 firm to firm, and matter to matter.

## 12 Technology & System Providers

13 Suppliers of technologies and systems for electronic diversion consistently point  
14 out the competitive advantages to the traditional mail payment/statement system.  
15 Typical of these is IBM.<sup>65</sup>

16 Besides convenient access to billing information, electronic  
17 payment by customers saves them stationery and postage costs.  
18 EBPP can also integrate billing information directly into a personal  
19 money management package. The electronic environment enables  
20 business partners to reduce the cost of processing paper bills and  
21 statements by making it easier to use electronic workflow processes. In  
22 addition, electronic billing improves cash flow by increasing the speed  
23 and accuracy of payments for goods and services between  
24 organizations.

## 25 CONCLUSION

26 Throughout this report I have offered a series of conclusions. In summary the  
27 electronic diversion of bills and statements is a serious concern. Based on data from  
28 the surveys and from the other insights I have offered, it is safe to say that diversion  
29 is occurring and will at an increasing rate. I am not comfortable to assuming that the

---

<sup>64</sup> Briscoe, David, *The Case for E-Billing*, Law Technology News, [www.law.com](http://www.law.com), October 25, 2004, p.  
1

<sup>65</sup> *Electronic Billing: Capitalize on your Corporate Strengths*, IBM Executive Strategy Reports, [www-1.ibm.com](http://www-1.ibm.com), December 22, 2000, pp.

1 past is prologue, as does Thomas Thress.<sup>66</sup> Neither can I accept the assumptions of  
 2 the “baseline economic scenario” as “most likely” as embraced by Peter Benjamin.<sup>67</sup>  
 3 The difficulty with both is that they consider mainly historical performance and ignore  
 4 significant developments that can trigger changes in the slope of diversion, both of  
 5 payments and billing statements. It is simply a failure to address the root causes of  
 6 why diversion is growing, as admitted by Mr. Bernstein in his cross-examination  
 7 testimony.<sup>68</sup> A good example of how the slope of diversion can be steepened is the  
 8 airline industry. Only a few years ago we were using paper tickets and largely  
 9 manual check-ins at an airport counter. Then airlines began the transition to  
 10 electronics and the use of paper tickets is not generally available today. What the  
 11 airlines found was that operating two different systems, paper and electronic, simply  
 12 was not efficient. The changeover was relatively quick since it was basically being  
 13 driven by technology and cost efficiency. Initially the airlines tried surcharging those  
 14 customers using paper, but found it was cumbersome and their customers did not  
 15 like such a system. In the b2c survey I checked for the appetite of small businesses  
 16 to use such a surcharge on their customers:

17 Like the airline industry's ticketing processes, it has been  
 18 suggested that businesses surcharge customers for staying with paper  
 19 based billing. How receptive would you be to that idea? Please use a  
 20 scale of zero-to-seven with seven being 'very receptive' and zero being  
 21 'not at all receptive.'

22 The results are as follows:

Score	Not Receptive					Very Receptive			D/K
	0	1	2	3	4	5	6	7	
b2c billers	49.7	9.5	7.8	6.1	8.2	10.4	2.2	4.8	1.3

26 There is obviously not a strong sentiment for protecting the use of paper statements  
 27 through surcharging.

---

<sup>66</sup> Thress, Thomas E., Cross-Examination, Postal Rate Commission hearing, August 9, 2006, pp. 1328-1329

<sup>67</sup> Bernstein, Cross-Examination, p. 1373

<sup>68</sup> Bernstein, Cross-Examination, p. 1447

1 I have determined that postal rate increases are a triggering device that helps  
2 consumers and businesses examine the electronic alternatives. For example, Greg  
3 Schmid, who I have notated previously on specific issues, offers the following  
4 summary observation:<sup>69</sup>

5 International studies have shown that the total cost of using an  
6 electronic-based payments system is about one-third of a paper-based  
7 system. This cost differential will provide a clear incentive for  
8 businesses receiving payments from a large number of customers on a  
9 regular basis (telecommunications companies, utilities, newspaper  
10 publishers, banks and card companies) to shift as many of those  
11 customers as possible into digital payment formats. They will create  
12 greater incentives from companies to induce people to switch.

13 In other words, the diversions of either consumers or businesses are interactive  
14 with and upon one another. And diversion is driven by inherent and important factors  
15 for both consumers and businesses that out weigh any offered by traditional mailing  
16 of payments and billing statements. The solution is obviously not found in raising  
17 First Class postage prices, which seems to trigger even more diversion.

---

<sup>69</sup> Schmid, Greg, *Two Scenarios Of Future Mail Volumes*, President's Commission on the United States Postal Service, May, 2003, p. 29

APPENDIX A

## RESEARCH DESIGN AND EXECUTION

Two surveys were conducted in 2006: (1) a national random phone sample of 1,000 household bill payers within households (June and July, 2006), and (2) a national random phone sample of 500 small businesses (July and August, 2006). For each of these Lighthouse Research of Riverton, Utah was the field service firm involved under the direction of Leonard Homer, Ph.D. of Homer Marketing Research of Houston, Texas. The questionnaires for the surveys were designed by Claude R. Martin, Jr., Ph.D. Copies of the instructions to interviewers (Appendices D and F) and of the questionnaires (Appendices E and G) are found elsewhere in these appendices.

### CONSUMER PHASE

The participants were chosen from a random probability sample supplied by Equifax. The participants were clearly defined as those who pay the majority of bills in a household.

Initially 1000 phone numbers were drawn. Additional increments of 1,000 numbers were randomly selected as needed. Up to 3 attempts, over three days, were made to reach a respondent. The exception was weekend calls, there two attempts could be made per day. Once a number was deemed unproductive – refused, not a working voice number, etc. – the number was replaced from the originally selected random sample. The responses were 100% validated either through post-interview validation or by monitored interviews. 50% of the calls were recorded by WAVE technology and are maintained at Riverton, Utah by Lighthouse Research.

There were 49,057 total attempts including the following:

DISPOSITION	TOTAL	% OF TOTAL
Completed Interview	1000	2.04
Answering Machine	15619	31.84
No Answer	12500	25.48
Busy Line	3243	6.61
Disconnected	3216	6.56
Fax Number	1025	2.06
Wrong Number	818	1.67
Call Back (anytime)	3507	7.15
Call Back (specific time)	2120	4.32
Language Barrier	947	1.93
Blocked Call	138	.28
Refuse to Participate	4215	8.80
Incomplete Interview (call back)	304	.62
Incomplete Interview (Final)	245	.50

The data were transmitted to Dr. Martin on August 6, 2006 and subsequently translated into a DataDesk statistical format.

## SMALL BUSINESS SURVEY

Each participant was chosen in a random probability sample supplied by Dun and Bradstreet. The participants were clearly defined as those who were most familiar with the billing process in their firm.

Initially 500 phone numbers were drawn. Additional increments of 500 numbers were randomly selected as needed. Up to 3 attempts, over three days, were made to reach a respondent. Once a number was deemed unproductive – refused, not a working voice number, etc. – the number was replaced from the originally selected random sample. The responses were 100% validated either through post-interview validation or by monitored interviews. 100% of the calls were recorded by WAVE technology and are maintained at Riverton, Utah by Lighthouse Research.

There were 29,846 total attempts including the following:

DISPOSITION	TOTAL	% OF TOTAL
Completed Interview	500	1.69
Answering Machine	11450	38.36
No Answer	3500	11.73
Busy Line	1118	3.75
Disconnected	546	1.83
Fax Number	347	1.16
Wrong Number	891	2.99
Call Back (anytime)	3715	12.45
Call Back (specific time)	4177	14.0
Language Barrier	82	.02
Blocked Call	28	.09
Refuse to Participate	2496	8.36
Incomplete Interview (call back)	236	.08
Incomplete Interview (Final)	68	.02

The data were transmitted to Dr. Martin on August 21, 2006 and subsequently translated into a DataDesk statistical format.

## APPENDIX B

CLAUDE R. MARTIN JR., Ph.D.  
September, 2006

**Isadore and Leon Winkelman Professor Emeritus of Retail Marketing and  
Professor Emeritus of Marketing  
University of Michigan**

**Contact:** Voice or Fax: (734) 971-1897  
Cell: (734) 417-4975  
e-mail : claudemartinjr@hotmail.com

**Residence:** 1116 Aberdeen Drive  
Ann Arbor, Michigan 48104

**Office:** School of Business Administration  
University of Michigan  
Ann Arbor, Michigan 48109-1234

**Personal Information:** Born May 11, 1932  
United States citizen  
Married (Marie)  
Six children & eight grandchildren

**Current Position:** Isadore & Leon Winkelman Professor Emeritus of Marketing  
and Professor Emeritus of Marketing  
University of Michigan

**Previous Positions:**

1952-1955	Radio & Television Newsman - Northeastern Pennsylvania
1955-1957	Night Operations Supervisor - Armed Forces Radio & TV Service, Los Angeles
1957-1961	News Director - WNEP-TV
1961-1963	Director of Systems - Blue Cross/Blue Shield, Pennsylvania
1963-1965	Research Assistant - Columbia University, New York
1964-1965	Lecturer in Marketing - St. Francis College, New York
1965-1969	Lecturer in Marketing - University of Michigan
1969-1972	Assistant Professor of Marketing - University of Michigan
1973-1977	Associate Professor of Marketing - University of Michigan
1978-1980	Professor of Marketing - University of Michigan
1976-1984	Board of Directors, Comerica Bank -Ann Arbor.
1983-1989	Board of Directors, Perry Drug Stores Inc. (NYSE)
1986-1989	Chairman, Marketing Faculty - University of Michigan
1991	Visiting Professor, Institut d'Administration des Entreprises, Universite de Droit, d'Economie et des Sciences d'Aix-Marseille, @ Aix-en -Provence, France
1980-2002	Isadore & Leon Winkelman Professor of Retail Marketing - University of Michigan

2002-Present Isadore & Leon Winkelman Professor Emeritus of Retail Marketing  
and Professor Emeritus of Marketing - University of Michigan  
1978-Present Co-Editor, *Journal of Current Issues and Research in Advertising*

**National Biographical Listings:**

Who's Who in the World  
Who's Who in America  
Who's Who in the Midwest  
Who's Who in Germany  
Dictionary of International Biography  
Men of Achievement

**Scholarly Honors and Awards:**

Alpha Sigma Nu (International Honors Fraternity)  
AJCU Business Deans' Award  
(200th Anniversary of Jesuit Education in U.S., 1989)  
O'Hara Award for Distinguished Service in Education  
(University of Scranton, 1994)  
Team Kania Award (Kania School of Management, 2000)  
Fellow, American Academy of Advertising (2002)

**Academic Background:**

Bachelor of Science in Business Administration (1954)  
Master of Business Administration (1963)  
University of Scranton  
Ph.D. in Business Administration (1969)  
Columbia University

**Community Service:**

Board of Trustees  
University of Scranton (1996-2002)  
Services Steering Committee  
Marketing Science Institute, (1990-2004)  
Board Member  
National Advertising Review Board (1989-1993)  
University Council (1989 - 1996)  
University of Scranton  
Board of Directors (1970-1971)  
American Cancer Society (Michigan)  
Board of Trustees (1979-1987) and Treasurer (1980-1987)  
Catholic Social Services  
Committee on Real Estate (1983-1989)  
Diocese of Lansing

**Organizations:**

American Marketing Association  
Association for Consumer Research  
American Collegiate Retailing Association  
Academy of Marketing Science  
Adcraft Club of Detroit  
Southwest Marketing Association  
European Academy of Marketing  
American Academy of Advertising  
Member, Research Committee, 1982-88  
Chairman, Research Committee, 1987-88

**Editorial Review Boards:**

Journal of Advertising  
European Journal of Innovation Management  
International Quarterly Journal of Marketing

**Ad hoc reviewer:**

Journal of Marketing  
Journal of Marketing Research  
International Journal of Service Industry Management  
Journal of Business and Industrial Marketing  
Journal of Retailing and Consumer Services  
Journal of Business Research

**Reviewer for Academic Conferences (1970-2003):**

American Marketing Association  
Academy of Marketing Science  
American Psychological Association  
American Academy of Advertising  
European Academy of Marketing  
American Collegiate Retailing Association

Member of the scientific committee for the 1995, 1997, 1999, 2001, 2003 and 2005 International Research Seminars on Marketing Communications and Consumer Behavior (France).

### **Research Experience:**

Dr. Martin has authored more than 70 articles appearing in national and international journals. The author of five books and monographs, he also has served since 1978 as co-editor of the **Journal of Current Issues and Research in Advertising**.

1968-1973 Director of Research Group B. This was a group of department stores in eight midwestern and southwestern states who supported through the University of Michigan a program of basic research into consumer behavior.

1974-1975 Directed preparation of an economic, cultural and educational impact study for the State of West Virginia on the development of Blenerhasset Island. The study formed the foundation for a projected multi-million dollar development of the island as an historic tourist attraction.

1979-1980 Served as a member of a research group that examined household and business mailstreams in a major national study commissioned by the U.S. Postal Service. This study was coordinated through the Institute for Social Research, University of Michigan.

1968-1979 Directed a program of graduate student development of marketing plans for major organizations. Among the organizations participating in this program were: Ford Motor Company, Wolverine WorldWide Inc., Detroit Coca-Cola Bottling Company, Federal Reserve System, Michigan Bell Telephone Company, American Cancer Society, Warner Vineyards Inc., A.T. & T., and U.S. Plywood/Champion Paper Inc.

1978-1979 Principal researcher for the Federal Reserve System on the potential for the Susan B. Anthony dollar prior to its 1979 introduction. This was a comprehensive study among consumers, retailers, and financial service institution providers. The study correctly predicted the failure of this new coin.

1978-1979 Co-principal on a project formulating a model for service demand at the Survey Research Center, University of Michigan. This national study was funded by a grant from American Express.

- 1983 Directed a study into demand for the U.S. Olympic Coin offering. This project addressed the basic positioning of the coin and the advertising strategy for it. The project was funded by the office of the Treasurer of the United States.
- 1980-1986 Principal investigator and director of research for a project commissioned by the Federal Reserve Board of Governors to examine public attitudes and usage of U.S. currency. This project was coordinated with the Bureau of Printing and Engraving and U.S. Secret Service. The objective was to assess the public reaction to alternative forms of U.S. paper currency, proposed as a deterrent to a counterfeiting threat based on copy machine technology.
- 1994-1997 Study into the public policy implications and ethical issues associated with advertising research. Includes analysis of Center for Disease Control study on adolescent behavior. (Funding from RJR, Inc.)
- 1990-1998 Examining the viability of mall intercepts as a method for the assessment of new product concepts and for advertising testing. (Funding from Kraft Inc.)
- 1972-1993 Directed a study into telecommunications technology and the effect on the buying and selling of goods and services, including financial services. This research originated as a result of participation in a task force on new services taxonomy and assessment funded by the National Science Foundation as a part of an inter-disciplinary study of telecommunications and public policy.
- Current Member of Tobacco Research Network at the University of Michigan – scholars examining tobacco related issues.

**Consulting Experience - Litigation:**

Outboard Marine Corporation  
Weber Marking Systems Inc.  
Booth Publications Inc.  
Metropolitan Life Insurance Company  
American Educational Subscription Services Inc.  
City of Adrian, Michigan  
Avon Products Inc.  
Automobile Club of Michigan  
Toyota Motor Sales, U.S.A. Inc. (7 cases)  
Continental-Illinois Bank Corporation  
Ohio Mattress Company (Sealy and Stearns & Foster Inc.)  
Dunlop Tire and Rubber Company  
PepsiCo Inc.  
Nissan Motor Company (USA) (2 cases)  
General Aviation Corporation  
Hallmark Cards Inc. (2 cases)  
Subaru of America  
Burger King Corporation  
Teledyne, Inc.  
Toymax, Inc. (2 cases)  
Coburn Optical Industries Inc.  
U.S. West Inc.  
AMOCO Oil Corporation  
Abbott Laboratories  
Absopure, Inc.  
American Dental Laser Corporation  
Schering Plough Corporation  
Farm Fresh Supermarkets, Inc.  
Amers, Inc.  
Grauel Enterprises, Inc.  
The Colonel's, Inc.  
Anheuser-Busch, Inc.  
King County (State of Washington)  
Southwestern Oakland County Cable Commission (Michigan)  
City of Brunswick, Ohio  
Nutro Products, Inc.  
American Honda, Inc.  
Stroh Brewing Company, Inc.  
Franklin Credit Management Corporation  
Office Max, Inc.  
EDS  
OPI Products, Inc.  
Pinkerton's Inc.  
Insurance Commissioner – State of Michigan  
U.S. District Court – Southern District of California

**Consulting Experience - Litigation (cont'd):**

Cleveland Automobile Dealer's Association  
Review Directories, Inc.  
Cow Creek Band of the Umpqua Indian Tribe  
Publisher's Clearing House, Inc.  
City of Healdsburg, California  
Furniture Row BC, Inc.  
General Motors Corporation  
Cooper Tire Company  
General Mills/Pillsbury  
United Healthcare/AARP  
AT&T/Lucent Technologies  
Raytheon, Inc.  
City of San Jose, California  
Atlantic City, New Jersey  
Safelite Glass Corporation  
Toyobo, Inc  
Brachs, Inc.  
KMART Corporation  
R.L. Polk & Company

Consultant to law firms representing Philip Morris, Lorillard and Liggett from 1986-1988 concerning advertising and consumer behavior for tobacco litigation (Cippolone v. Philip Morris, et al.). Legal firms involved were:

Arnold & Porter (Washington)  
Shook, Hardy & Bacon (Kansas City)  
Chadbourne & Park (New York)  
Webster & Sheffield (New York)

Consultant to Jones, Day, Reavis & Pogue (Cleveland/Washington/Atlanta/Pittsburgh/ LosAngeles/Dallas); Womble, Carlyle, Sandridge, and Rice (Winston Salem); and to Collier, Shannon, Rill & Scott (Washington, D.C.) concerning advertising and consumer behavior for tobacco litigation from 1996 to present. This involved cases in the state courts of Alabama, Oklahoma, Mississippi, Florida Texas, California, Massachusetts, Vermont, Maryland, District of Columbia, Iowa, Pennsylvania, Iowa, West Virginia and Washington. It also involved litigation before the Federal Trade Commission.

Additional expert witness testimony in administrative law hearings for 35 financial institutions, including banks and saving & loan associations, involving establishment of new offices or de novo institutions.

**Executive Education Seminars:**

Acer, Inc. (Taiwan)  
Management Institute  
Michigan Bell Telephone Company  
Time Inc. (FORTUNE)  
Beecham Laboratories  
Charles H. Strand Inc.  
Hershey Foods Corporation  
Burroughs Corporation (UNISYS)  
Red Lobster Inns of America (General Mills)  
STP Corporation  
Unisys Corporation  
Rexham Corporation  
Lincoln National Life Insurance Company  
Diversey Wyandotte Corporation  
Southland Corporation  
Southern New England Telephone Company  
Bethlehem Steel Corporation  
MAACO  
Bell Communications Research (BELLCORE)  
Catho Progresso Profissional, Comercial LTDA (Brasil, Argentina, Chile)  
Automotive Warehouse Distributors Association  
Allen-Bradley Inc.  
Chemical Bank of New York  
General Motors Corporation  
Consumers Power Company  
Southwestern Bell Telephone Company  
EDS  
BellSouth, Inc.  
National Bank of Kuwait (Kuwait)  
University of Michigan Medical Center  
University of Michigan Libraries  
Sprint Corporation  
Sanford Corporation

Also have served as core faculty member for the Executive Education Division of the School of Business Administration, University of Michigan in the following programs:

Managing Services For Competitive Advantage (Dubai)\*  
Strategic Marketing for Managerial Decision Making (Dubai)\*  
Banking and Financial Services Executive Program  
Marketing for Non-Marketing Managers\*  
New Product Development  
Daewoo Executive Education Program

New Products & Services for High Technology Firms  
Excellence in Service Management\*  
Sports Management Institute  
International Marketing for Non-Marketing Managers (Hong Kong and Beijing)\*  
(\*faculty director)

**Other Consultation (includes strategic planning):**

Old Kent Financial Corporation  
Michigan National Corporation  
United Michigan Corporation  
National Bank of Detroit  
Dow-Corning Inc.  
Dayton-Hudson Inc.  
Bil-Mar Foods Inc.  
General Motors Corporation  
Rexham Corporation  
Realtron, Inc.  
National Decorating Products Association  
Burroughs Corporation (UNISYS)  
Michigan Bell Telephone Company (AMERITECH)  
University of Michigan - Office of Continuing Medical Education  
Witmark Catalog Showrooms

For the past 24 years have served as a primary judge for the National Automobile Dealers' Association's Outstanding Auto/Truck Dealer Award, sponsored by Time, Inc. and Goodyear. This has included the review and evaluation of the intimate financial, operating and performance data for more than 1,000 auto dealers in the United States in conjunction with this award.

## Selected Publications

### Articles

- "Support for Women's Lib: Management Performance," **Southern Journal of Business**, (University of Georgia), Vol. 7 No. 1, February, 1972.
- "What Consumers of Fashion Want to Know," **Journal of Retailing**, Vol.47 No.4, Winter 1977.
- "The Contribution of the Professional Buyer to the Success or Failure of a Store," **Journal of Retailing**, Vol. 49 No. 2, Summer 1973.
- "Survey Implemented Market Segmentation, a Modification of AID," **Proceedings of the American Institute for Decision Sciences**, April 1973.
- "Double Jeopardy," **Journal of the Academy of Marketing Science**, Fall 1973. Also in: **Marketing Update**, Harold Berkman, et.al., eds. Greenvale, N.Y.: Academy of Marketing Science, 1977.
- "Profit Oriented Data Analysis for Market Segmentation: An Alternative to Aid," **Journal of Marketing Research**, August 1974.
- "Teleshopping and EFTS," in **Project Cable Faculty Seminars**, Anil Telang and Kan Chen, eds. Publication C-20, University of Michigan Program in Telecommunications Research, June 1975.
- "Teleshopping and Electronic Funds Transfer," in **Policy Research in Cable Communications, Report to the National Science Foundation**, Kan Chen, ed., June 1975.
- "The Future for an Electronic Business Society," **Business Horizons**, Vol. 18, October 1975.
- "The Consumer and Electronic Funds Transfer Systems," in **Eliminating Constraints on Banking**, Philip C. Mayer, ed., Golembe and Associates, December 1975.
- "The Elderly Consumer: One Segment or Many," **Advances in Consumer Research, Volume III**, Association for Consumer Research, 1975. Also in: **The Elderly Consumer**, Fred Waddell, ed., The Human Ecology Center, 1976; **Lifestyles in Consumer Behavior of Older Americans**, Howard G. Schultz and Glen R. Hawkes, eds., Prager Publishing Company, 1978.

- "Transgenerational Comparison: The Elderly Fashion Consumer," **Advances in Consumer Behavior, Volume III**, Association for Consumer Research, 1975. Also in: **The Elderly Consumer**, Fred Waddell, ed., The Human Ecology Center, 1976.
- "EFTS: The Need for Marketing Planning and Analysis," in **Marketing EFTS to Consumers**, Payment Systems Research Program, 1976.
- "Teleshopping: An Assessment," in **The Retail Revolution of 1976**, National Retail Merchants Association, January 1976.
- "SIMS II: Profit Oriented Market Segmentation for Decision Time Implementation," **Journal of the Marketing Research Society**, July 1976.
- "Profit Oriented and Decision Time Segmentation," **Journal of the Academy of Marketing Science**, Spring 1977.
- "Consumer Demand for Electronic Banking," **Proceedings of the 1977 Southwestern Marketing Association**, March 1977.
- "The Situation Confronting Introduction of the Anthony Dollar," in **Government Marketing**, Steven Permut and Michael Mowka, eds., Prager Press Inc., 1981.
- "The New Susan B. Anthony Dollar: Hypotheses Regarding Consumer and Retailer Reactions," **Developments in Marketing Science, Volume III**, Academy of Marketing Science, 1980.
- "Temporal Incongruency in Consumer Behavior," **Advances in Consumer Research, Volume VIII**, Association for Consumer Research, October 1980.
- "Normative Models for Department Store Buying," **Proceedings of the Southern Marketing Association**, 1980.
- "The Non-Checking Account Customer and EFTS," in **Marketing of Services**, James H. Donnelly and William R. George, eds., American Marketing Association, 1981.
- "An Improved Model for Media Audience Evaluation," **Proceedings of the European Academy for Advanced Research in Marketing**, March 1981.

- "A Review of Situational Influence Paradigms and Research," in **Review in Marketing 1981**, Ben M. Enis and Kenneth J. Roering, eds., American Marketing Association, 1981.
- "Evaluating Classifications of Shoppers: Temporal and Enjoyment Dimensions of Patronage," **Proceedings of the Patronage Theory Conference**, William Darden, ed., American Marketing Association, May 1981.
- "Conceptualizing Elderly Buyer Behavior," **Developments in Marketing Science, Volume IV**, American Academy of Marketing Science, May 1981.
- "Voice Analysis in Advertising: Two Additional Concerns," **Proceedings of the American Academy of Advertising**, April 1981.
- "On Using Voice Analysis in Marketing Research," **Journal of Marketing Research**, August 1981.
- "The Attitudinal Implications of a New Brand Name," **Advances in Consumer Research, Volume IX**, Association for Consumer Research, October 1981.
- "Collective Behavior in Consumer Behavior," in **Marketing Theory: Philosophy of Science Perspectives**, Ronald F. Bush and Shelby D. Hunt, eds., American Marketing Association, February 1982.
- "Message Characteristics and Audience Characteristics: Predictors of Advertising Response," **Advances in Consumer Research, Volume X**, Association for Consumer Research, October 1982.
- "Two Copy Testing Techniques: The Cloze Procedure and Cognitive Complexity," **Journal of Business Research**, Summer 1983.
- "Demand Potential for Electronic Funds Transfer at the Retail Point of Sale," in **The Economics of Distribution**, Franco Angeli, ed., Centro de Studi sul Commercio, University L. Bocconi, (Milan, Italy), 1983.
- "The Cloze Procedure: A Clue to Advertising Likeability and Message Recall," **Journal of Advertising Research**, June/July 1983.
- "On Building a Transition-Based Paradigm for Examining the Changing Household," in **The Changing Household, Its Nature and Consequences**, Ballinger Publishing Company, 1984.

- "New Service Development: International Research Report," **Creativity in Services Marketing**, American Marketing Association, September 1985.
- "Domanda Potenziale Per Il Trasferimento Elettronico Di Fondi Al Punto Di Vendita Al Dettaglio," **Commercio, Revista Di Economia E Politica Commerciale**, Aldo Spranzi, ed., Milan: CESCO, 1985.
- "Burroughs Corporation: Why A New Corporate Identity Program," in **Crosscurrents in Corporate Communications No. 15**, New York: Time Inc., 1986
- "Electronic Funds Transfer at the Point of Sale: The Issue of Productivity," in **Distributive Trades: An International Perspective**, L. Pelligrini & S.K. Reddy, eds., Milan: Franco Angeli Libri S.R.L., 1986 (pp. 209-229)
- "Le Management Du Nouveau Service Aux U.S.A. Et En France," in **Contribution A L'Etude Du Nouveau Service: Concepts Et Pratique Manageriales**, Eric Langeard, et.al. eds., Aix En Provence: Rapport de Recherche remis au Ministere de la Recherche et de l'Enseignement Superieur, December, 1986 (pp.101-111)
- "Item Non-Response in a Telephone Survey: Effects of Question Form and Respondent Characteristics," **Journal of Marketing Research**, Volume XXIV, November 1987 (pp. 418-424)
- "The Impact of New Brand Names on the Process of Inferential Belief Formation," **Journal of Business Research**, Volume 15 No. 2, April 1987 (pp. 157-172)
- "New Services Development Among Successful Firms," **Les Apports Marketing, Production Et Ressources Humaines Au Management Des Services - 1st Seminaire International De Recherche En Management Des Activites De Service**, June, 1990, Aix-En-Provence, France: institut d'administration des entreprises; pp. 160-181
- "Communications in Europe: Global, Local or 'Glocal'?" **Proceedings of the XVIIth International Research Seminar in Marketing**, La Londe les Maures (France), May, 1991
- "Restructuring Toward A Service Orientation," **International Journal of Service Industry Management**, Volume 3, No. 1, 1992 (pp.25-38)

- "New Services Development: Consumer vs. Organizational Firms," **Les Apports Marketing, Production Et Ressources Humaines Au Management Des Services - 2nd Seminaire International De Rechere En Management Des Activites De Service**, June, 1992, Aix-En-Provence, France: institut d'administration des entreprises, pp. 150-172
- "Service Innovation: Successful vs. Unsuccessful Firms," **International Journal of Service Industry Management**, Volume 4, No. 1, 1993 (pp. 49-65)
- "Research Validity and Resulting Public Policy: The Case of the DiFranza 'Old Joe' Cigarette Study," **Proceedings of the American Association of Public Opinion Research**, May 1993
- "The Efficacy of Statistically-Based Research: The Case of 'Old Joe'," **Proceedings of the American Statistical Association**, August 1993
- "Developing New Retail Services: A Research Report," **Proceedings of the 7th International Conference on Research in the Distributive Trades**, University of Sterling, Sterling, Scotland, September 1993 (pp. 154-171)
- "Consumer Research Standards & Public Policy Formulation: The Case of Mickey Mouse & Old Joe," **Advances in Consumer Research**, Vol. XXI - 1994 (pp. 380-386)
- "Pollay's Pertinent and Impertinent Opinions: 'Good' versus 'Bad' Research," **Journal of Advertising**, Vol. 23, No. 1 - 1994 (pp. 117-122)
- "Checking the References: Adolescent Smoking Research Used in Public Policy Formulation," **Proceedings of the Marketing and Public Policy Conference**, Vol. 4 - 1994 (p. 2)
- "The Congruence of New Product and New Service Development, " **Le Management des Services: Apports Multidisciplinaires"- Seminaire International De Rechere En Management Des Activites De Service**, May, 1994, Aix-En-Provence, France: institut d'administration des entreprises (pp. 526-545)
- "Ethical Advertising Research Standards: Three Case Studies," **Journal of Advertising**, Volume 23, No 3 - 1994 (pp. 17-30)

- “The FTC v. *Joe Camel*: Research Standards and Public Policy,” **Proceedings of the 1994 Conference of the Society for Consumer Psychology**, 1995 (pp. 1-8)
- “Advertising Effectiveness: Stimuli Setting Differences,” **Proceedings of the International Research Seminar on Marketing Communications and Consumer Behavior**, La Londe les Maures, France: 1995 (pp. 384-396)
- “Retail Service Breakdowns and Recovery,” **Proceedings of the 8th International Conference on Research in the Distributive Trades; September, 1995**; Milan, Italy, pp. B5.15-5.22
- “Review of Retailing by Dunne, et al” in **Journal of Retailing and Consumer Services**, Vol. 3 No. 1, 1996, pp.58-59
- “Level of Success Inputs for Service Innovations in the Same Firm,” **International Journal of Service Industry Management**, Volume 6 No. 4, 1995, pp. 40-57
- “The Role of Advertising in a Service-Driven Strategy,” in **Marketing Intangibles in Business Marketing, A Report from the Institute for the Study of Business Markets, The Pennsylvania State University and from The Center for Business and Industrial Marketing, Georgia State University**, Bob Donath, ed., 1996, pp. 18-21
- “The Advertising Creative Theme: Service Constructs as a Foundation,” **Les Apports Marketing, Production, Economie, Stratégie et Ressources Humaines au Management des Services - Séminaire international de recherche en management des activités de service**, Aix-En-Provence, France: institut d'administration des entreprises d'aix-marseille III France, 1996, pp. 490-509
- “Retail Service Innovations: Inputs for Success,” **Journal of Retailing and Consumer Services**, Vol. 3 No. 2, pp. 63-71, 1996
- “Advertising in the New Service Economy: How It is Meeting the Challenge of Communicating the Intangibles,” **Development in Marketing Science**, Volume XX, Elizabeth J. Wilson and Joseph F. Hair Jr., eds., 1997, p. 161
- “Effects of Plain Packaging on the Cigarette Consumption Process,” in **Plain Packaging and the Marketing of Cigarettes**, J.C. Luik, ed., London: NTC Publications, Ltd., Chapter 7, 1998

"The Business to Business Customer in the Service Innovation Process," **European Journal of Innovation Management**, Vol. 2 No. 2, 1999

"The Effect of Advertising on Adolescent Smoking Behaviour," in **The Current State of Business Disciplines Vol 6**, S.B. Dahiya, ed., Rohtak, India: Spellbound Publications, March, 2000. pp. 2959-2983

"A Perspective On Client Productivity In Business-To-Business Consulting Services," **International Journal of Service Industry Management**, Vol. 12, No. 2, 2001, pp. 137-157

"Rencontre De Service: Et Productivite Des Clients," **Marketing Management**, No. 4, Revue Trimestrielle, 2001, pp. 91-100

### **Books, Journals, and Monographs**

**Journal of Current Issues and Research in Advertising, (27 volumes)**, 1978-2005 (co-editor).

**An Introduction to Electronic Funds Transfer Systems**, American Management Association, 1978.

**EFTS: Electronic Funds Transfer Systems**, Stichting Contact Centrum Levensmiddelenhandel, (Amsterdam), 1977.

**Research Study into Market Acceptance of the New One Dollar Coin**, Federal Reserve Bank of Chicago, 1979.

**Telecommunications and Electronic Funds Transfer Systems**, Publication TC-5, University of Michigan Program in Telecommunications Research, June 1975.

"Conceptual Development of the Situation and Setting in Marketing Exchange: Toward a Molar Perspective of Marketing," **Research in Marketing ,Volume 8**, JAI Press, March 1986.

## APPENDIX C

## **PROFESSIONAL BIOGRAPHY - LEONARD M. HOMER, Ph.D.**

Dr. Homer entered the field of market research in 1964 during his doctoral studies at Wayne State University. His education in psychology brings forth a mastery in understanding the dynamics of human behavior. He is well versed with qualitative and quantitative research methodologies. Over the past 36 years, he has worked as a market research analyst and consultant. His experience focuses on all aspects of the industry, ranging from study design and analysis to data collection and data processing.

Dr. Homer has extensive project experience in the fields of new product development, advertising, health care, the U.S. Currency system, finance, textiles, the “do-it-yourself” industry, leisure time activities, retail and service marketing, telecommunications and others.

Dr. Homer is very active in the market research industry. He has served as an officer in the Detroit and Triad Chapters of the American Marketing Association and National and Chapter officer of the Marketing Research Association. He is also active in industry educational community. Dr. Homer has conducted seminars on new research techniques, served as Associate Editor of the Journal of Data Collection and frequently lectures to marketing and marketing research classes.

### **PROFESSIONAL POSTIIONS**

2004 – Present Independent market research consultant.

1987 - 2004 Co-founder and President of Homer Market Research Assoc., Inc., Greensboro, North Carolina. This is a full service market research, consulting and data collection firm. Dr. Homer serves as chief operating officer and director of research for this firm and its medical research subsidiary, the Atlanta based T&K Research Centres.

1970 - 1987 Executive Vice President and Research Director for the Brand Consulting Group, Southfield, Michigan. His duties involved sales, study design, analysis and supervision of the analytical staff.

He also created and marketed the services of General Interviewing Surveys, a data collection agency.

- 1968 - 1970 Co-founder of Paradigm International Ltd., a Toronto, Ontario market research firm. This company specialized in early stage new product develop, utilizing the relatively new intensive depth group interviewing technique.
- 1964 - 1968 Project analyst with Milton Brand and Company, Royal Oak, Michigan. This entry level position provided Dr. Homer with a strong background in quantitative research methods. Due to his psychological experience, he was instrumental in introducing the firm to the focus group research procedure.

**OTHER PROFESSIONAL ACTIVITIES**

- 1964- Present Member - American Marketing Association (AMA)
- 1971- Present Member - Marketing Research Association (MRA)
- 1976 Treasurer Detroit Chapter, AMA
- 1980-1984 Associate Editor - Journal of Data Collection
- 1982 Founding Member, President - Great Lakes Chapter, MRA
- 1983-1985 Vice President - MRA
- 1982-1988 MRA Chair - Research Industry's National Steering Committee for the "Your Opinion Counts" Public Education Program
- 1983-1988 Volunteer Research Director - Children's Miracle Network Telethon
- 1989 Vice President - NC Triad Chapter, AMA
- 1990 President - NC Triad Chapter, AMA

**PROFESSIONAL AWARDS AND HONORS**

- 1982-87           Who's Who in the Midwest
- 1977; 1983       The Society of the Quill (MRA's literary award)
- 1983; 1984; 1985     President's Award, MRA
- 1985             Leadership Award, Children's Miracle Network
- 1987             Lifetime Honorary Member, Great Lakes Chapter, MRA
- 1990             "Your Opinion Counts" Leadership Award, MRA
- 1991             Chapter Achievement Award, AMA

**ARTICLES AND PUBLICATIONS**

- MRA Field Service Manual, 1975 (Editorial contributor)
- MRA's Field Director's Manual - (Editorial contributor)
- Words . . . They can make or break your questionnaire.  
Journal of Data Collection, Spring 1982
- New Products Management. C. Merle Crawford, Homewood  
Illinois: Richard D. Irwin, 1983. (Editorial contributor)
  
- Pamphlets published by the Marketing Research Association:
  - A Simplified Guide to Basic Statistics
  - Guideline for Random Telephone Sampling
  - Costing Market Research Field Work

**EDUCATION**

- |      |  |
|------|--|
| 1962 | B.A., Psychology, Wayne State University                               |
| 1966 | M.A./Doctoral studies, Motivational Psychology, Wayne State University |
| 1987 | Doctorate, Motivational Psychology, NC A & T University                |

## APPENDIX D

ELECTRONIC BILL PAYMENT STUDY  
CONSUMER PHASE  
SUPERVISOR INSTRUCTIONS

This is a legal study that examines consumer opinions of paying routine household bills via traditional mail versus alternative electronic methods.

SAMPLE

The study will consist of a national sample of 1,000 CATI interviews. A qualified respondent will be an adult, 18+, who is the primary bill payer in the household.

Respondents will be drawn from a probability sample supplied by your firm. There will be 3 attempts to reach a working telephone number. After three unsuccessful attempts, the telephone number can be replaced.

- Calls may be made on weekday evenings and on weekends throughout the day.
- One attempt will be made per weekday; two attempts will be made on a weekend day. Calls must be made at different times – for example, early evening and late evening.
- The exception to this rule is if the qualified member of the household is not available during the initial screening conversation. In this instance, an appointment should be set to reach the respondent at a later time/date.
- If the call results in a non-existent number or a refusal, the number can be replaced immediately.

Since this is a legal study, contact records must be kept for each calling attempt.

SAMPLE QUOTA

This sample will be equally divided into two sub-quotas: 500 respondents must use Traditional Mail” (the US Postal Service) exclusively; 500 respondents must use other mail systems all or some of the time.

Exclusive users of the Traditional Mail represent about 70% of the population. Therefore, a number of respondents will be terminated early. Data from Q.2 and Q.3 for these terminated interviews must be retained.

INTERVIEWER QUOTA

The project will require at least 20 experienced telephone interviews. All interviewers working on this project must have a minimum of 6 months interviewing experience. No interviewer may conduct more than 75 interviews. A list of interviewers, their experience level and completed interviews must be provided.

### **THE QUESTIONNAIRE**

Please program the questionnaire. Twenty Pre-Test interviews should be completed.

The vast majority of the questions are closed ended or require the interviewer to key a set of numbers. Q. 3.1 allows respondents to provide an answer in addition to those on the list. The additional responses should be captured.

### **THE BRIEFING**

Prior to interviewing, each interviewer must undergo a personal briefing. A practice interview must be conducted in which the interviewer asks the questions and the supervisor serves as respondent. The practice interviews may be conducted in "round-robin" fashion.

### **REPORTS**

Up-dates must be provided by e-mail after interviewing completion every Monday, Wednesday and Friday.

### **VALIDATION**

This study requires 100% validation. 500 interviews will be listened to and responses monitored by a supervisor. For the remaining 500 interviews, the supervisor will tap in at the end of the survey to re-ask Questions 1, 2 and 3. A list of supervisors, their experience level and monitored interviews must be provided.

### **FIELD DATES**

Week of June 19<sup>th</sup>: Program questionnaire, develop sample and pre-test questionnaire.

Week of June 26<sup>th</sup>: Interviewing begins.

July 26<sup>th</sup> or sooner: Interviewing ends.

July 28<sup>th</sup> or sooner: Excel data in ASCII format e-mailed to:

Leonard M. Homer, Ph.D. [leonardhomer@sbcglobal.net](mailto:leonardhomer@sbcglobal.net)

Claude Martin, Jr. Ph.D. [claudemartinjr@hotmail.com](mailto:claudemartinjr@hotmail.com)





## DAILY REPORT

### **FIRST ATTEMPT**

Disconnect/Not working

No answer/Busy

Answer machine

Respondent not available/  
Appointment made

Refused interview

Over quota exclusive traditional mail

Over quota mail/electronic methods

Completed Interview

### **SECOND ATTEMPT**

Disconnect/Not working

No answer/Busy

Answer/Machine

Respondent not available/  
Appointment made

Refused interview

Over quota exclusive traditional mail

Over quota mail/electronic methods

Completed Interview

**THIRD ATTEMPT**

Disconnect/Not working

No answer/Busy

Answer/Machine

Respondent not available/  
Appointment made

Refused interview

Over quota exclusive traditional mail

Over quota mail/electronic methods

Completed Interview

**COMPLETED INTERVIEWS**

Exclusive Traditional Mail

Mail/Electronic Methods

Monitored Interview

Validated Interview

## APPENDIX E

Practice 1  
Interview 2

ELECTRONIC BILL PAYMENT STUDY  
(Final)

Time Start: \_\_\_\_\_ Time End: \_\_\_\_\_

Hello, I'm \_\_\_\_\_ from Lighthouse Research, a national consumer research company. We're conducting a short survey about people's attitudes toward the U.S. mail and other mail systems for paying their regular monthly household bills. **IF THIS IS A CALLBACK ATTEMPT, ASK TO SPEAK TO THE PERSON IDENTIFIED DURING THE EARLIER CONTACT.**

**TALLY INITIAL REFUSALS.**

1. First of all, who in your household pays the majority of the household bills?

- 1 Respondent **SKIP TO Q.2**
- 2 Another person **ASK TO SPEAK TO THAT PERSON. REPEAT INTRODUCTION. IF PRIMARY BILL PAYER IS NOT AVAILABLE, SCHEDULE A CALLBACK APPOINTMENT.**
- 3 Refused **TERMINATE AND TALLY**

1.1 **(IF YOU ARE SPEAKING TO A DIFFERENT PERSON, ASK)** Are you the principal payer of bills in your household?

- 1 Yes
- 2 No or Don't Know **ASK TO SPEAK TO THE APPROPRIATE PERSON. REPEAT INTRODUCTION.**
- 3 Refused **TERMINATE AND TALLY**

2.0 We would like to get a mix of individuals in various age categories, would you tell me into which of the following categories your age falls? **READ CHOICE.**

- 1 Under 18 **TERMINATE AND TALLY**
- 2 18-23
- 3 24-29
- 4 30-35
- 5 36-44
- 6 45-54
- 7 55-69
- 8 70 or more
- 9 Refused **TERMINATE AND TALLY**

2.1 **RECORD GENDER**

- 1 Male
- 2 Female

- 3.0 Do you have access to the internet?
- 1 Yes
  - 2 No or Don't Know **SKIP TO Q.4**
- 3.1 Where is that access located? **READ CHOICES. RECORD ALL THAT APPLY.**
- 1 At Home
  - 2 At Work
  - 3 At School
  - 4 At the Library
  - 5 Elsewhere **(SPECIFY)** \_\_\_\_\_
- 3.2 Do you have high speed or broadband access to the internet?
- 1 Yes
  - 2 No
  - 3 Don't Know
- 3.3 Which of these best describes how often do you use the internet?
- 1 Daily
  - 2 Several times a week
  - 3 Weekly
  - 4 Monthly
  - 5 Rarely
  - 6 Never
- 4.0 Let's talk about you some methods you could use to pay your regular bills. For each method you use, I'd like to know roughly how much you use it and how satisfied you are with the method.
- 4.1 Do you pay any of your bills by having them automatically deducted from your bank account?
- 1 Yes **CONTINUE**
  - 2 No **SKIP TO Q. 5**
  - 3 Don't Know **SKIP TO Q. 5**
- 4.2 What percentage of your regular bills is this? \_\_\_\_\_%
- 4.3 On a scale of 1 to 7, with 7 being very satisfied and 1 being not at all, how satisfied are you with this automatic bank account deduction process?

7 6 5 4 3 2 1  
 Very Satisfied Not Satisfied

5.0 Do you pay any of your bills by having them automatically charged to your credit card?

- 1 Yes **CONTINUE**
- 2 No **SKIP TO Q. 6**
- 3 Don't Know **SKIP TO Q. 6**

5.1 What percentage of your regular bills is this? \_\_\_\_\_%

5.2. On a scale of 1 to 7, with 7 being very satisfied and 1 being not at all, how satisfied are you with this automatic credit card payment process?

7 6 5 4 3 2 1  
Very Not  
Satisfied Satisfied

6.0 Do you make other electronic payments of your bills- that is, not through an automatic payment system where you specify the timing and amount of the bill payment – but other methods, including using the internet, debit cards or e-cards?

- 1 Yes **CONTINUE**
- 2 No **SKIP TO Q. 7**
- 3 Don't Know **SKIP TO Q. 7**

6.1 What percentage of your regular bills is this? \_\_\_\_\_%

6.2 On a scale of 1 to 7, with 7 being very satisfied and 1 being not at all, how satisfied are you with this electronic payment process?

7 6 5 4 3 2 1  
Very Not  
Satisfied Satisfied

7.0 Do you use the traditional process of paying your bills using the regular mail?

- 1 Yes **CONTINUE**
- 2 No **SKIP TO Q. 8**
- 3 Don't Know **SKIP TO Q. 8**

**CHECK QUOTA. NOT MORE THAN 50% OF THE SAMPLE CAN USE REGULAR MAIL EXCLUSIVELY. TERMINATE OVER QUOTA INTERVIEWS AND RETAIN RESPONSES FOR QUESTIONS 2 THROUGH 3.**

7.1 What percentage of your regular bills is this? \_\_\_\_\_%

7.2 On a scale of 1 to 7, with 7 being very satisfied and 1 being not at all, how satisfied are you with using the regular mail for paying your bills?

7 6 5 4 3 2 1  
Very Not  
Satisfied Satisfied

8.0 I am now going to read you a list of considerations that may have affected your decision as to what methods you use for paying your regular bills. For each method please rate its importance in your decision process. We will use a scale of zero to seven with seven being of greatest importance and zero meaning not at all importance. Now how important was \_\_\_\_\_ in your decision as to what methods you use for paying your regular bills? **(PROGRAMER, ROTATE LIST - USE SAME NUMERIC CODING)**

8.1 Financial cost to me  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

8.2 Convenience  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

8.3 Timing of payment  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

8.4 Assurance of delivery  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

8.5 Payment received by due date.  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

8.6 Preference for method by provider  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

8.7 Security of payment  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

8.8 Amount of my time involvement

7 6 5 4 3 2 1 0

Very Important Not at all Important

8.9 Ability to track payment

7 6 5 4 3 2 1 0

Very Important Not at all Important

8.10 Future annual postal rate increases

7 6 5 4 3 2 1 0

Very Important Not at all Important

9.0 (ASK ALL RESPONDENTS WHO DO NOT USE TRADITIONAL "MAIL BILL PAYMENT" EXCLUSIVELY. THEY DID NOT ANSWER "NO" OR "DON'T KNOW" TO Q.7. EXCLUSIVE TRADITIONAL MAIL USER SKIP TO Q.10.)

Now let's assume you are deciding to use some electronic method for paying some or all of your regular bills. I am going to read you the same list of considerations we just covered and ask you to rate their importance for electronic bill payment. We will use the same 0 to 7 importance scale. If you feel that an item is of the same importance as it was in your decision to choose your present payment method, that's okay. Now how important would \_\_\_\_ be in making the decision to use some electronic bill paying method?

(PROGRAMER, ROTATE LIST - USE SAME NUMERIC CODING)

9.1 Financial cost to me

7 6 5 4 3 2 1 0

Very Important Not at all Important

9.2 Convenience

7 6 5 4 3 2 1 0

Very Important Not at all Important

9.3 Timing of payment

7 6 5 4 3 2 1 0

Very Important Not at all Important

9.4 Assurance of delivery

7 6 5 4 3 2 1 0

Very Important Not at all Important

9.5 Payment received by due date.  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

9.6 Preference for method by provider  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

9.7 Security of payment  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

9.8 Amount of my time involvement  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

9.9 Ability to track payment  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

9.10 Future annual postal rate increases  
7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

10.0 **(ASK EVERYONE).**

If you could receive all or some of your billing statements electronically by way of e-mail how attractive would that be to you? Using a seven point scale, seven is very attractive and one if not attractive at all.

7 6 5 4 3 2 1  
Very Not  
Attractive Attractive

10.1 What percentage of your bill statements do you now receive electronically by way of e-mail? \_\_\_\_\_% **(IF ZERO, SKIP TO Q. 11.0)**

10.2 On a seven point scale, how satisfied are you with receiving such electronic statements?

7 6 5 4 3 2 1  
Very Not  
Satisfied Satisfied



12.0 Finally a couple of questions about you and your household for classification purposes.

Which of the following statements best describes your educational level?

- 1 College graduate
- 2 Some college or technical school
- 3 High school graduate
- 4 Less than high school
- 5 Refused/Don't Know

13.0 Which of these groups best describes your household's income level?

- 1 Less than \$35,000
- 2 \$35,000-\$65,000
- 3 \$65,000-\$100,000
- 4 Over \$100,000
- 5 Refused/Don't Know

And finally what is your name.

\_\_\_\_\_

14.1 **INSERT TELEPHONE NUMBER .**

\_\_\_\_\_

Thank you. That's all my question. Remember, You Opinion Counts.

INTERVIEWER \_\_\_\_\_ DATE \_\_\_\_\_

RECORD:

- 1 MONITORED
- 2 VALIDATED

## APPENDIX F

ELECTRONIC BILL PAYMENT STUDY  
SMALL BUSINESS PHASE  
SUPERVISOR INSTRUCTIONS

This is a legal study that examines consumer opinions of paying routine household bills via traditional mail versus alternative electronic methods.

SAMPLE

The study will consist of a national sample of 500 CATI interviews with small businesses.

For this study, we define a small business as having . . .

- Less than 100 employees.
- Annual billings under \$5 million
- All companies send bill to customers.

The sample will focus on the following industries . . .

- Healthcare/medical
- Insurance services
- Food service – including wholesalers, caterers and restaurants
- Retailers
- Hotel/motel/Bed & Breakfast/Other lodging
- Travel
- Financial services
- Wholesale
- Other business services

A qualified respondent will be the person in the company who is most familiar with the company's billing and payment system.

Respondents will be drawn from a probability sample supplied by your firm. There will be 3 attempts to reach a working telephone number. After three unsuccessful attempts, the telephone number can be replaced.

- Calls may be made on weekdays and on weekends.
- One attempt will be made per day. Calls must be made at different times – for example, morning, early afternoon and late afternoon.
- The exception to this rule is if the qualified respondent is not available during the initial screening conversation. In this instance, an appointment should be set to reach the respondent at a later time/date.

- If the call results in a non-existent number or a refusal, the number can be replaced immediately.

Since this is a legal study, contact records must be kept for each calling attempt.

### SAMPLE QUOTA

There are no sub-samples for this study. However, we would like all industries represented.

Please retain data from Questions 1.2 through 1.4 for all terminated interviews.

### INTERVIEWER QUOTA

The project will require at least 10 experienced telephone interviews. If possible, use interviewers who worked on the consumer phase. No interviewer may conduct more than 75 interviews. A list of interviewers, their experience level and completed interviews must be provided.

### THE QUESTIONNAIRE

Please program the questionnaire. Twenty Pre-Test interviews should be completed. Unless there are questionnaire revisions required, these interviews can count toward the quota.

The vast majority of the questions are closed ended or require the interviewer to key a set of numbers. Q. 2.0 allows respondents to name an industry that is not listed. These additional responses should be captured.

### THE BRIEFING

Prior to interviewing, each interviewer must undergo a personal briefing. A practice interview must be conducted in which the interviewer asks the questions and the supervisor serves as respondent. The practice interviews may be conducted in "round-robin" fashion.

### REPORTS

Up-dates must be provided by e-mail after interviewing completion every Monday, Wednesday and Friday.

### VALIDATION

This study requires 100% validation. 250 interviews will be listened to and responses monitored by a supervisor. For the remaining 250 interviews, the supervisor will tap in

at the end of the survey to re-ask Questions 1.1, 1.2, 1.3 and 1.4. A list of supervisors, their experience level and monitored interviews must be provided.

### **FIELD DATES**

Week of July 17<sup>th</sup>: Program questionnaire, develop sample and pre-test questionnaire.

Week of July 23<sup>rd</sup>: Interviewing begins.

August 14<sup>th</sup> or sooner: Interviewing ends.

August 16<sup>th</sup> or sooner: Excel data in ASCII format e-mailed to:

Leonard M. Homer, Ph.D. [leonardhomer@sbcglobal.net](mailto:leonardhomer@sbcglobal.net)

Claude Martin, Jr. Ph.D. [claudemartinjr@hotmail.com](mailto:claudemartinjr@hotmail.com)

### **BILLING**

Bills should be submitted via e-mail to:

Leonard Homer, Ph.D.  
1116 Bering Dr., Suite 8  
Houston, TX 77057  
(336) 253-4668  
Fax (413) 669-4198



**SUPERVISOR IDENTIFICATION**  
**Small Business Phase**

My signature certifies that I have personally monitored interviews for the Electronic Bill Payment study.

<u>SIGNATURE</u>	<u>YEARS/MONTHS EXPERIENCE</u>	<u>NUMBER CALLS MONITORED</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

## DAILY REPORT

### **FIRST ATTEMPT**

Disconnect/Not working

No answer/Busy

Answer machine

Respondent not available/  
Appointment made

Refused interview

Terminated Q.1.2

Terminated Q. 1.3

Terminated Q. 1.4

Completed Interview

### **SECOND ATTEMPT**

Disconnect/Not working

No answer/Busy

Answer/Machine

Respondent not available/  
Appointment made

Refused interview

Terminated Q.1.2

Terminated Q. 1.3

Terminated Q. 1.4

Completed Interview

### **THIRD ATTEMPT**

Disconnect/Not working

No answer/Busy

Answer/Machine

Respondent not available/  
Appointment made

Refused interview

Terminated Q.1.2

Terminated Q. 1.3

Terminated Q. 1.4

Completed Interview

### **COMPLETED INTERVIEWS**

Monitored Interview

Validated Interview

## APPENDIX G

ELECTRONIC BILL PAYMENT STUDY  
SMALL BUSINESSES

Hello, I'm \_\_\_\_\_ from Lighthouse Research, a national business research company. We're conducting a short survey about business firm's attitudes toward the use of the U.S. mail and other mail systems for the billing their customers. This study is sponsored by a major industry association. The interview will take about 10 minutes. At no time will we ask you to reveal any proprietary information.

RECORD COMPANY NAME \_\_\_\_\_

1.0 First of all, who in your organization is most familiar with your billing process?

1. Respondent **GO TO Q. 1.2**
2. Someone else **ASK TO SPEAK TO THAT PERSON. REPEAT INTRODUCTION. IF NOT AVAILABLE, SCHEDULE A CALLBACK APPOINTMENT.**

1.1 Are you familiar with the billing and payment system for your organization?

- 1 Yes **GO TO Q.1. 2**
- 2 No or Don't Know **ASK TO SPEAK TO THE APPROPRIATE PERSON. REPEAT INTRODUCTION.**

1.2 For this study it is important that we include different size companies. Considering all of its locations, would you say that your company employs more or less than 100 people?

- 1 Less than 100 **GO TO Q.1.3**
- 2 100 or more **TERMINATE AND RECORD**

1.3 And would you say that your annual billings are over or under \$5 million?

- 1 Under \$5 million **GO TO Q.1.4**
- 2 \$5 million or more **TERMINATE AND RECORD**

1.4 Does your firm bill customers for goods or services or is your business cash and credit cards?

- 1 Bills customers **GO TO Q. 1.3**
- 2 Cash/credit cards **TERMINATE AND RECORD**

1.5 Does your company handle the billing process internally or do you use a third party billing service>

- 1 Internal billing
- 2 Billing service

2.0 Which of the following best describes your main line-of-business? **READ CHOICES).**

- 1 Healthcare
- 2 Insurance Services
- 3 Food Service (including restaurant)
- 4 Retailing
- 5 Lodging/Travel
- 6 Financial Services
- 7 Wholesaling
- 7 Other Business Services
- 8 Other: \_\_\_\_\_
- 9 Refused **TERMINATE AND RECORD**

3.0 We'd like to talk to you about the behavior and attitudes of your customers, as it pertains to your billing and collections procedures and systems.

Would you classify your customers as. . .

- 1 Mainly other businesses **CONTINUE**
- 2 Mainly consumers **GO TO Q. 9.0**
- 3 Both equally **ALTERNATE GROUP ASSIGNMENT**

**ASK Q. 4.0 THROUGH Q. 8.0 OF BUSINESS TO BUSINESS RESPONDENTS.**

4.0 Let's talk about your billing methods for your business customers. What percentage of these bills to other businesses are sent by traditional paper billing?

\_\_\_\_\_ % **(IF Zero, GO TO Q. 5.0. IF 100, ASK Q. 4.1 AND Q. 4.2, THEN GO TO Q. 6)**

4.1 On a scale of 0 to 7, with 7 being very satisfied and zero being not at all, how satisfied are you with this paper billing of your business customers?

7 6 5 4 3 2 1 0  
Very Not  
Satisfied Satisfied

4.2 As you know, postal rate continue rise. What effect would future postal rate increases -- for example, annual increases -- have on your firm converting your billing to an electronic form? Please use a scale of 0 to 7 with 7 being a major effect and zero meaning no effect at all.

7 6 5 4 3 2 1 0  
 Major No  
 Effect Effect

5.0 What percentage of the bills you send to other businesses use some form of electronic billing?

\_\_\_\_\_ % **(IF Zero, GO TO Q. 6.0)**

5.1 On a scale of 1 to 7, with 7 being very satisfied and zero being not at all, how satisfied are you with the electronic billing of your business customers?

7 6 5 4 3 2 1 0  
 Very Not  
 Satisfied Satisfied

6.0 I am now going to read you a list of considerations that may have affected your organization's decision as to what method you use for billing your business customers. I'd like to know how important each consideration is in your company's decision to use traditional paper billing versus some electronic billing methods. Please evaluate each point on a zero to seven scale with 7 meaning very important in the decision and zero meaning not important at all.

How important is \_\_\_\_\_ in your choice of billing method? **PROGRAMER, ROTATE ATTRIBUTE PRESENTATION.**

6.01 Quick payment turnaround – faster payment

7 6 5 4 3 2 1 0  
 Very Not at all  
 Important Important

6.02 Lower administrative costs

7 6 5 4 3 2 1 0  
 Very Not at all  
 Important Important

6.03 Ease of reconciling accounts

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

6.04 Audit compatibility: electronic v. paper

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

6.05 Integrating with your other management systems

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

6.06 Expediting dispute reconciliation

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

Remember, I'm asking you to evaluate these attributes on how important they are to your organization's choice between paper and electronic billing methods for your business customers.

6.07 Reducing the chance of invoice errors

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

6.08 Shortening the payment/approval cycle

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

6.09 Easier access to information

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

6.10 Bills can be delivery anywhere

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

6.11 Enhancing your employees ability to have easy access to customer files.

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

6.12 Building customer relations.

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

7.0 Now let's focus on how your business customers pay you. What percentage of those customers pay you using traditional paper that is, using the mail.

\_\_\_\_\_ % **(IF ZERO SKIP TO Q. 8.0. IF 100, ASK Q. 7.1, THEN GO TO Q. 17.0)**

7.1 On a scale of 0 to 7, with 7 being very satisfied and zero being not at all, how satisfied are you with your business customers paying you this way?

7 6 5 4 3 2 1 0  
Very Not  
Satisfied Satisfied

8.0 What percentage of those business customers pay you using some form of electronic means?

\_\_\_\_\_ % **(IF ZERO, GO TO Q. 17.0)**

8.1 On a scale of 0 to 7, with 7 being very satisfied and zero being not at all, how satisfied are you your business customers paying you this way?

7 6 5 4 3 2 1 0  
Very Not  
Satisfied Satisfied

**ASK Q. 9.0 THROUGH Q. 16.0 OF BUSINESS TO CONSUMER RESPONDENTS.**

9.0 Let's talk about the billing methods you use for your customers. What percentage of the bills you send to consumers use traditional paper billing?

\_\_\_\_\_ % **(IF Zero, GO TO Q. 10.0.)**

9.1 On a scale of 0 to 7, with 7 being very satisfied and zero being not at all, how satisfied are you with this paper billing of consumers?

7 6 5 4 3 2 1 0  
Very Not at all  
Satisfied Satisfied

10.0 As you know, postal rates continue to rise. If you had reason to believe or knew that the postal service was planning regular increases in the price of postage, such as annual increases, what effect would this have on your firm converting from traditional mail to an electronic form? Please use a scale of 0 to 7 with 7 being a major effect and zero meaning no effect at all.

7 6 5 4 3 2 1 0  
Major No  
Effect Effect

**IF RESPONSE TO Q. 9.0 IS 100%, GO TO Q. 12.0)**

11.0 What percentage of the bills you send to consumers use some form of electronic billing?

\_\_\_\_\_ % **(IF Zero, GO TO Q. 12.0)**

11.1 On a scale of 1 to 7, with 7 being very satisfied and zero being not at

7 6 5 4 3 2 1 0  
Very Not  
Satisfied Satisfied

12.0 I am now going to read you a list of considerations that may have affected your organization's decision as to what method you use for billing consumers. For each method please rate its importance in your decision process. We will use a scale of zero to seven with seven being very important and one being of little importance. If an item was of no importance at all, simply tell me to score it zero. **(PROGRAMER, ROTATE ATTRIBUTE PRESENTATION)**

12.1 Financial cost to you

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

12.2 Billing convenience

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

12.3 Fast payment turn around

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

12.4 Assurance of delivery

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

12.5 Payment received by the due date

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

12.6 Security of payment

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

12.7 Amount of your time involvement

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

12.8 Ability to track payments

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

12.9 Future annual postal rate increases

7 6 5 4 3 2 1 0  
Very Not at all  
Important Important

13.0 Now let's focus on how customers pay you. What percentage of those customers pay you using traditional paper, that is, using the mail.

\_\_\_\_\_ % **(IF ZERO SKIP TO Q. 14.0. IF 100%, ASK Q. 13.1 AND 13.2. THEN GO TO Q. 17.0)**

13.1 On a scale of 0 to 7, with 7 being very satisfied and zero being not at all, how satisfied are you with consumers paying you this way?

7 6 5 4 3 2 1 0  
Very Not  
Satisfied Satisfied

13.2 Like the airline industry's ticketing processes, it has been suggested that businesses surcharge customers for staying with paper based billing. How receptive would you be to that idea...please use a scale from zero to 7, with 7 being very receptive and 0 being not receptive at all.

7 6 5 4 3 2 1 0  
Very Not  
Receptive Receptive

14.0 What percentage of customers pay you using a credit card payment?

\_\_\_\_\_ % **(IF ZERO, SKIP TO Q. 15.0. IF 100%, ASK Q. 14.1, THEN GO TO Q.17.0)**

14.1 On a scale of 0 to 7, with 7 being very satisfied and zero being not at all, how satisfied are you with customers paying you this way?

7 6 5 4 3 2 1 0  
Very Not  
Satisfied Satisfied

15.0 What percentage of customers pay you electronically through their bank?  
 \_\_\_\_\_% **IF ZERO, SKIP TO Q. 16.0. IF 100%, ASK Q. 15.1, THE GO TO Q. 17.0)**

15.1 On a scale of 0 to 7, with 7 being very satisfied and zero being not at all, how satisfied are you with customers paying you this way?

7 6 5 4 3 2 1 0  
 Very Not  
 Satisfied Satisfied

16.0 What percentage of those customers pay you using some other form of electronic payment?

\_\_\_\_\_% **(IF ZERO, SKIP TO Q. 17.0)**

16.1 On a scale of 0 to 7, with 7 being very satisfied and zero being not at all, how satisfied are you with customers paying you this way?

7 6 5 4 3 2 1 0  
 Very Not  
 Satisfied Satisfied

**ASK Q. 17 OF EVERYONE WHO USES “TRADITIONAL MAIL BILLING” AT LEAST SOME OF THE TIME – RESPONDED WITH A NUMBER ABOVE ZERO TO Q. 4 OR TO Q. 9. ALL OTHERS, GO TO Q. 18.0**

17.0 Let’s go back to your use of the U.S. mail for billing your customers, As you know, postal rates keep going up. I’m going to read you some stamp prices for mailing those bills. Please stop me at a price where you would seriously consider switching to some form of electronic billing instead of using the mail.

1	42¢
2	45¢
3	50¢
4	60¢
5	75¢
6	\$1.00
7	DK/Refused

**ASK EVERYONE**

18.0 When it comes to bills your company receives, what percentage do you received electronically?

\_\_\_\_\_ **(IF ZERO, GO TO Q. 19.0)**

18.1 What percentage do you pay through some electronic system?

\_\_\_\_\_

19.0 I'd like to know how receptive you would be to receiving your regular monthly bills electronically. Using our zero to 7 scale, where 7 means you would be very receptive and zero means you would not be receptive at all, would you feel about receiving all of your regular monthly bills electronically?

7 6 5 4 3 2 1 0  
Very Not  
Receptive Receptive

19.1 And using this same scale, how receptive would you be to paying all of your regular monthly bills electronically?

7 6 5 4 3 2 1 0  
Very Not  
Receptive Receptive

20.0 And finally what is your name and title?

Name \_\_\_\_\_

Title \_\_\_\_\_

**INSERT TELEPHONE NUMBER.**

\_\_\_\_\_

Thank you. That's all my question. Remember, Your Opinion Counts.

INTERVIEWER \_\_\_\_\_ DATE \_\_\_\_\_

**RECORD**

- 1 MONITORED
- 2 VALIDATED

## APPENDIX H

## In-Depth Interviews - Protocol

As you know there are tremendous changes taking place in bill dissemination. Questions have been raised as to growth and business opportunities for electronic billing and payment both between businesses and between a business and a consumer. In other words, there is some debate as to the future for your industry. This debate is fueled by such things as ongoing increases in postal rates, advances in electronic mail and others. We are involved in a major research project focusing on the billing and payment process. This research is sponsored by a major industry association that is interested in the shift from traditional mailing of paper to electronic alternatives. As a billing service provider, your views are extremely important. At no time will we ask you to reveal proprietary information

We'd like to talk to you about what drives this market, including the behavior and attitudes of those who are or would be customers – including business-to-business and business-to-consumer billing processes.

1. Briefly examine the company's client base.
  - a. Industries targeted (e.g. healthcare, retail, etc.).
  - b. Percentage of larger vs. smaller client firms.
  - c. Percentage of clients focusing on B2B customers
  - d. Among larger client firms, percentage using traditional mail billing; percentage using electronic billing. REPEAT FOR SMALLER CLIENT FIRMS.
  - e. Percentage of clients focusing on business-to-consumers.
  - f. Among larger client firms, percentage using traditional mail billing; percentage using electronic billing; both systems. REPEAT FOR SMALLER CLIENT FIRMS.

### **AMONG THOSE WHO FOCUS MAINLY ON B2B BILLING SYSTEMS**

2. From the respondent's standpoint explore the advantages and disadvantages of traditional paper billing; electronic billing.
3. From their client's standpoint, explore the advantages and disadvantages of traditional paper billing; electronic billing.
4. Explore hurdles that must be overcome to broaden the acceptance of electronic billing.

5. I'm going to read you a list of attributes we've been told are relevant to the growth of electronic billing. This is a long list, so first I'll read you the attributes and ask you to identify those that you think are most important. Then we will limit our discussion to those attributes.

READ LIST: For each attribute selected, discuss reasons for its importance; whether it is emphasized as a sales tool ...for small versus large businesses; by type of industry

- Quick payment turnaround – faster payment
  - Lower administrative costs
  - Bill evaluation
  - Account reconciliation
  - Allowing clients to differentiate packages of electronic services
  - Audit compatibility: electronic v. paper
  - Integrating with other management systems – which one's
  - Expedited dispute reconciliation
  - Reduction of invoice error
  - Shortened payment/approval cycle
  - Easier access to information
  - Delivery anywhere
  - Enhancing employee (e.g., sales force) participation
  - Building customer relations
  - Competitive differentiation
6. In your view where is the adoption of electronic business-to-business billing going over the next five years: growing...status quo...diminishing.
  7. Related to the billing system is the potential movement from mailed paper to electronic forms of associated account information for customers. In your view where is that going over the next five years..growing..status quo...diminishing.
  8. What effect are increases in postal rates having on conversion to electronic business-to-business billing.

### **AMONG THOSE WHO FOCUS MAINLY ON BUSINESS-TO-CONSUMER SYSTEMS**

9. From the respondent's stand point explore the advantages and disadvantages of traditional paper billing ; electronic billing.
10. From their client's stand point stand point, explore the advantages and disadvantages of traditional paper billing ; electronic billing.

11. Explore hurdles that must be overcome to broaden the acceptance of electronic billing.
12. I'm going to read you a list of attributes we've been told are relevant to the growth of electronic billing. This is a long list, so first I'll read you the attributes and ask you to identify those that you think are most important. Then we will limit our discussion to those attributes.

READ LIST: For each attribute selected, discuss reasons for its importance; whether it is emphasized as a sales tool ...for small versus large businesses; by type of industry

- Quick payment turnaround – faster payment
- Lower administrative costs
- Security concerns
- Cost to consumers
- Costs to business
- Shortening payment cycle
- Not “better” in eyes of consumer
- Hassle of system –e.g., passwords
- Flexibility of payments
- Reduction of invoice error
- Delivery anywhere
- Allowing for competitive differentiation
- Building customer relations
- Competitive differentiation

13. In your view where is the adoption of electronic business-to-consumer billing going over the next five years: growing...status quo...diminishing
14. Related to the billing system is the potential movement from mailed paper to electronic forms of associated account information for customers. In your view where is that going over the next five years..growing..status quo...diminishing.
15. Like the airline industry's ticketing processes, it has been suggested that businesses surcharge consumers for staying with paper based billing...what do you see as the potential for this...what are the pro's; con's?
16. What effect are increases in postal rates having on conversion to electronic business-to-consumer billing.