

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

POSTAL RATE AND FEE CHANGES, 2006

DOCKET NO. R2006-1

**DIRECT TESTIMONY
OF
ANITA PURSLEY
ON BEHALF OF
THE ASSOCIATION FOR POSTAL COMMERCE AND
THE MAILING AND FULFILLMENT SERVICE ASSOCIATION**

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Direct Testimony2 **1. Autobiographical Sketch**

3 My name is Anita Pursley. I am Vice President of Postal Affairs at Quebecor
4 World Logistics, a division of Quebecor World Inc. Quebecor World Inc. (NYSE:IQW,
5 TSX:IQW) is one of the largest commercial printers in the world. It is a market leader in
6 most of its major product categories which include magazines, inserts and circulars,
7 books, catalogs, direct mail, directories, digital pre-media, logistics, mail list
8 technologies and other value added services. Quebecor World has approximately
9 30,000 employees working in more than 130 printing and related facilities in seventeen
10 countries in North America, Europe, and Latin America. My present responsibilities with
11 Quebecor World include establishing corporate postal policy, and serving as the primary
12 liaison with the Postal Service involving all matters affecting Quebecor World and its
13 customers. I have been employed by Quebecor World since 1997, and have been
14 involved with postal affairs for approximately twenty two years.

15 I represent Quebecor World on the governing board of the Association for Postal
16 Commerce (PostCom), serving currently as Secretary of the association and also serve
17 as their Mailer's Technical Advisory Committee representative. I am an active industry
18 representative on the Mailers' Technical Advisory Committee and currently serve as the
19 Standard Mail Leadership committee chair. I am also co-chair of the "Improving the
20 Drop Ship Process" workgroup. I am also an active IDEAlliance member, currently
21 serving as a vice-chair of the Addressing and Distribution Committee. IDEAlliance is
22 an industry organization dedicated to developing, educating and validating best

1 practices in publishing and information technology. This is my first time testifying
2 before the Postal Rate Commission.

3 **2. Purpose of Testimony**

4 The purpose of my testimony is to present the proposal of PostCom and the
5 Mailing and Fulfillment Service Association ("MFSA") (hereinafter, collectively
6 "PostCom") to increase the passthroughs of avoided costs associated with (i) the
7 destination entry discounts for Standard Mail Regular and ECR and (ii) the 5-digit
8 presort discount for Standard Mail Regular Automation Flat mail, to 100% of avoided
9 costs. The purpose of increasing the passthroughs of avoided costs is to provide
10 mailers with necessary incentives to prepare their mailings in a way that minimizes the
11 combined mail processing and transportation costs to mailers and the Postal Service.
12 Increasing the destination entry passthroughs is likely to increase the amount of
13 Standard Mail flats that are dropshipped and palletized, which will lower costs both to
14 the Postal Service and to its mailers. Increasing the 5-digit presort discount for
15 Automation Flat mail would provide greater incentives for co-mailing.

16 In Section 3 of my testimony, I review the Postal Service's proposal with respect
17 to these discounts, and summarize the recent history of the destination entry
18 passthroughs. In Section 4, I explain why full passthroughs of avoided costs advance
19 Postal Service objectives; I describe the increases in mailers' costs, and explain why the
20 destination entry discounts must keep pace with these increases in order to maintain
21 the destination entry volumes and related avoided costs the Postal Service anticipates.

1 In Section 5, I explain PostCom's related proposal for a 100% passthrough for the 5-
2 digit presort discount for Standard Mail Automation Flats.

3 **3. Recent History of Destination Entry Passthroughs**

4 Both the Postal Service and the Commission have previously indicated
5 preferences for 100% passthroughs of costs avoided by destination entry, provided
6 such passthroughs are otherwise consistent with other pricing goals. In this case,
7 however, the Postal Service proposes passthroughs of destination BMC, destination
8 SCF, and destination DDU avoided costs of 87% , 85%, and 85% respectively, for
9 Standard Mail Regular letters, flats and hybrids, and for Standard Mail ECR letters and
10 flats. PostCom proposes 100% passthroughs of costs savings for each of these drop
11 ship discounts.

12 In the R2000-1 case, the Postal Service proposed passthroughs of avoided costs
13 for destination entry discounts for Standard Regular and ECR subclasses ranging from
14 73% to 78%. See Opin. and Rec. Dec., PRC Docket No. R2000-1 at 346. The
15 Commission found that its preference for 100% passthroughs of avoided costs could
16 not be accommodated in its entirety due to the impact on other rates, but increased the
17 Postal Service's proposed passthroughs of avoided costs to passthroughs ranging from
18 82 to 84%. *Id.* at 347.

19 In the R2001-1 case, which settled under the extreme circumstances following
20 September 11, the Postal Service proposed to apply only 85% passthroughs; the
21 Commission accepted the settled rates. See Opin. & Rec. Dec. Approving Stipulation,
22 PRC Docket No. R2001-1, at p. 99 *et seq.*

1 I am advised that in the R2005-1 case, which also settled under unique
2 circumstances of an across-the-board adjustment, destination entry passthroughs were
3 effectively in the range of 76-79%;¹ thus the currently effective rate design reflects a
4 marked reduction in these passthroughs as compared to earlier rates.

5 In short, despite the Commission's expressed preference for passthroughs that
6 reflect efficient component pricing,² the Postal Service has been reluctant to propose
7 100% passthroughs to more fully encourage destination entry, and the settlements of
8 recent years have prevented mailers from achieving more efficient pricing. Therefore,
9 for reasons that will be further discussed below, the Postal Service's pricing proposal
10 should be adjusted to reflect 100% passthroughs of avoided costs associated with
11 destination entry.

12 **4. Full Passthroughs of Avoided Costs Advance Postal Service Objectives**

13 Fully passing through the costs avoided by the Postal Service when a mailer
14 drop enters its mail at a Postal Service mail processing facility serves to advance Postal
15 Service operational and financial objectives.

16 To date, drop shipping has been an extremely successful workshare program. I
17 am advised that according to the Postal Service, 68% of Standard Mail Regular is drop

¹ See PRC-LR-12 (Reg-FinalRev-PRC6.xls, worksheet "DROP DIS"), PRC Docket No. R2005-1 (the Commission shows passthroughs of 78.5% for DBMC and 76% for DSCF).

² See, e.g., *Opinion and Recommended Decision Vol. 1*, PRC Docket No. R2000-1 at ¶ 5414 and 5534 *et seq.* (November 13, 2000, rev. Nov. 30, 2000).

1 shipped to the BMC and SCF.³ Yet, now, the level of drop entry is threatened with
2 stagnation, and potentially, decline. One reason is that the cost of drop shipping is
3 increasing for mailers. Factors include, fuel price increases, DOT Hours of Service
4 rules limiting the number of hours a driver can be on the road and changes occurring
5 within the Postal Network. A decline in drop shipped mail would result in added Postal
6 Service costs and unplanned-for changes in its mail flows.

7 A mailer's decision to drop ship is commonly based on two factors: whether the
8 mail is palletized, and whether or not it is cost effective. In other words, mail that is
9 currently not drop shipped is either not palletized (too little weight to a particular
10 destination) or is not cost effective (cost of drop shipping exceeds postage savings).

11 Increasing the passthroughs for drop entry would influence both of these factors.
12 Most certainly, an increase in the discount would encourage mailers to increase the
13 number of pallets created through co-mailing and co-palletization efforts. Increasing
14 passthroughs would also make the cost-benefit analysis more attractive, and allow
15 mailers to continue to drop ship, go to a greater number of destinations, or go to a
16 deeper level.

17 As Postcom Witness Sander Glick demonstrates in his testimony, passing
18 through 100% of the avoided costs yields not only higher discount values that keep
19 better pace with mailers' increasing costs, but these passthroughs also yield a deeper
20 differential between the BMC and SCF destination entry rates. Hence, there is a

³ Calculated based on billing determinants in USPS-LR-L-36 (WP-STDREG-2), PRC Docket No. R2006-1.

1 greater incentive for a mailer to bring its mail closer to the ultimate destination, saving
2 the maximum Postal Service resources possible.

3 As the Postal Service proceeds with implementing its Evolutionary Network
4 Redesign, the current class-based network will be changing into a shape-based
5 network. Changes to the drop entry landscape will be occurring at a greater pace than
6 ever before. In today's environment, trucks are redirected often resulting in added costs
7 to the mailer. Additionally, many destinations require different drop locations for
8 different classes of mail that are painstakingly consolidated on mailers' trucks. We
9 expect these costs to rise as the Postal Service makes changes to its processing
10 facilities, removes old equipment and installs new equipment such as APPS and the
11 FSS machines. All of these factors influence the results of a mailers' cost-benefit
12 analysis of the value of drop shipping.

13 My understanding of the END process suggests that the Postal Service is relying
14 on maintaining roughly the same level of worksharing as it proceeds with its transition to
15 a shape-based network. But, mailers will evaluate the cost benefit of drop shipping on
16 an on-going basis, and uncompensated operational losses will factor into this analysis.
17 In order to be assured of maintaining worksharing at roughly the same level as costs to
18 mailers increase, the Postal Service should provide the deepest possible level of
19 worksharing discounts during and following this transition period. The goal should be to
20 encourage mailers to palletize and drop ship to the finest extent possible so that the
21 Postal Service can achieve maximum efficiencies and cost avoidance.

1 **5. The 5-Digit Presort Discount Should Fully Reflect Avoided Costs**

2 In this case, the Postal Service has disaggregated the 3-5 presort level in
3 Standard Mail Automation Flats to the 3-digit and 5-digit presort levels. Unfortunately,
4 the Postal Service has proposed to passthrough only *half* of the cost-savings associated
5 with automation mail entered at the 5-digit level. PostCom believes that 100% of the
6 avoided costs associated with automation mail entered at the 5-digit level should be
7 passed through in the 5-digit automation rates in order to encourage more 5-digit
8 palletization and co-mailing.

9 In the course of preparing a mailing or set of mailings, mailers and mail service
10 providers compare the costs of additional preparation steps including presorting,
11 containerization, and drop entry, with the benefit of taking these steps, in terms of
12 reduced postage and service reliability. This cost-benefit analysis ultimately determines
13 the manner in which a mailing is prepared. Mailing jobs may be either split or co-mailed
14 in order to minimize the total mail production and postage costs. In some
15 circumstances, parts of a mailing job may be presorted to a finer degree, and drop
16 entered, while other parts of the same job may not be addressed with sufficient density
17 in a geographic area to be entered or drop-entered on presorted pallets. In other
18 circumstances, a mail service provider can combine mailings in order to achieve the
19 density to create pallets sorted to 3- or 5-digits. A higher 5-digit presort discount is
20 essential to encourage more co-mailing.

21 Mailers' choices regarding the level of presort, containerization, and drop entry of
22 a given mailing or set of mailings are intertwined: the level of presorted pallets that can

1 be prepared also determines the depth of entry that is feasible or permitted. For
2 example, mail prepared in sacks will not be drop shipped, while mail prepared on 5-digit
3 pallets can be dropped closer to its destination. A mailing job that can achieve more
4 and finer sorted pallets is more likely to be cost-effectively entered closer to its
5 destination. Because of this intertwined relationship between presort, containerization,
6 and drop entry, it is important to maximize the incentives at the 5-digit level to achieve
7 the greatest possible level of combined avoided costs to the Postal Service resulting
8 from the presorting, containerization, and drop entry.

9 In addition to the immediate benefit to the Postal Service of avoided costs, more
10 mail presorted to the 5-digit level is consistent with the Postal Service Corporate
11 Automation strategy regarding Flat Sequence Sorting (FSS). If, with sufficient
12 incentives, mailers are encouraged to more finely sort their mail now, the Postal Service
13 will enjoy the benefit of greater increases in efficiency in the future.