

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE TO
ASSOCIATION FOR POSTAL COMMERCE ET AL. WITNESS HOROWITZ
(USPS/POSTCOM-T6-7-17)

Pursuant to Rules 25 and 26 of the Commission's Rules of Practice and Procedure, the United States Postal Service directs the following interrogatories to Association for Postal Commerce et al. witness Horowitz: USPS/ POSTCOM-T6-7-17.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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USPS/Postcom-T6-7. Please refer to page 3, lines 22-23, through page 4, lines 1-2 of your testimony where you state, "More recently, our mix of new members have increasingly come from marketing channels that do not require the use of the mail to join, such as (1) the Internet, (2) in-bound telemarketing and (3) direct response television." Please indicate the relative costs of acquiring new members through each of these channels and compare them to the costs of acquiring customers through direct mail.

USPS/Postcom-T6-8. Please refer to your testimony at page 5, line 19 where you note that the RSS was 10 cents per piece when first imposed in 1999.

a. Please confirm that when the RSS was imposed, the Postal Service offered evidence that the actual cost difference was 35 cents (see, for example, USPS-T-36, page 13, line 11, Docket No. R97-1), but that the full impact was not being imposed due to the desire to mitigate rate impact. If you do not confirm, please explain.

b. Please confirm that the 24.2 cents cited in your testimony at page 5, line 20, is still less than the original cost difference of 35 cents.

USPS/Postcom-T6-9. Please refer to your testimony at page 7, lines 7-9 where you state that "it costs us more to drop enter our parcels at some West Coast bulk mail centers than we save in the drop entry discount."

a. Please confirm that efficiency arguments, such as Efficient Component Pricing (please refer, for example, to the testimonies of witness Panzar or Sidak in this docket), suggest that the lowest cost provider – whether it be the USPS or the customer – should be performing the activities. If you do not confirm, please explain.

b. Please confirm that efficiency is supported if, because a mailer cannot dropship items at a lower cost than the Postal Service can transport such items, the mailer discontinues dropshipping those items. If you do not confirm, please explain.

USPS/Postcom-T6-10. Please refer to page 8 of your testimony at lines 1-3 where you state, "As a result of the price increases, we will have to curtail our use of the mail as a marketing channel and expand our exploration of alternative media channels to obtain customer, and explore other ways of delivering our products to our members."

a. Please clarify whether the costs to you of advertising through other media have increased, decreased, or stayed the same over the past five years.

b. Please provide a list of the alternative ways that your products may be delivered to your members and provide an indication of relative costs when compared to using Standard Mail.

USPS/Postcom-T6-11. Please refer to page 8, lines 5-7 where you state, “our return on investment from mail marketing channels will be reduced to the point where the mail will no longer be a profitable marketing channel for us.”

- a. Please provide an explanation of the decision process which would lead to this conclusion, including the variables considered and the timeframe over which this decision would be set into motion.
- b. Please confirm that by “mail marketing channels” you are referring to ads included in the shipments of your product to customers. If you do not confirm, please explain.

USPS/Postcom-T6-12. Please refer to lines 9-11 of page 8 of your testimony where you state that you “have begun a marketing initiative to reinstate members through electronic mail and through our website.”

- a. Please reconcile this statement with your testimony, for example on page 4, that First-Class Mail is used to sign up members, send invoices, etc.
- b. Please confirm that this marketing initiative has been underway independent of the outcome of the current rate case.
- c. Please confirm that the “multiplier effect” of your product mailings is weakened when the bill payment, marketing efforts, customer sign-ups are conducted via an electronic method.

USPS/Postcom-T6-13. Please refer to your statement at lines 17-18 of page 8 that “each of these trends [toward electronic substitutes for mail] will accelerate dramatically in the near future, especially if the proposed postage rates for Standard Mail are implemented.” If Standard Mail rates were not increased at all, would these trends continue to “accelerate dramatically,” accelerate, stay stable, or decrease? Please provide any analysis used to arrive at your conclusion.

USPS/Postcom-T6-14. Please refer to your testimony at page 9, lines 2-4 where you state, “As the cost differential between the Postal Service and other services narrows, we will increasingly be willing to use other shipping providers who can guarantee the faster level of service sought by single-sale buyers.” Please provide, if not actual rate comparisons, indications of the cost of these other service providers relative to the prices you would pay under Standard Mail and indicate what shipping and handling charges you would then charge the single-sale buyers for such shipments.

USPS/Postcom-T6-15. Please refer to your testimony at page 10, lines 23-24, through page 11, lines 1-3 regarding the permission to include “non-print” materials in Bound Printed Matter. Is it your understanding that the inclusion of these materials is permissible if the weight limit of 15 pounds is exceeded?

USPS/Postcom-T6-16. Please refer to your testimony at page 11, lines 4-8.

- a. Did Cosmetique determine the materials to be included in its packages independent of the Standard Mail weight limit of 16 ounces? Or did Cosmetique determine the materials to be included in its packages with consideration given to the 16-ounce limit?
- b. If the Postal Service were to change the weight limit of Standard Mail to 13 ounces to be consistent with First-Class Mail's weight limit, would Cosmetique change the content of its packages?
- c. If the Postal Service were to change the weight limit of Standard Mail to 1 ½ pounds, would Cosmetique change the content of its packages?

USPS/Postcom-T6-17. Please refer to your testimony on page 11, lines 9-20 where you suggest that "ride alongs" should be permissible even if they increase the weight of the mail piece above its limit.

- a. Would you agree that the positive effects you describe from including additional advertising material would accrue regardless of the class of mail to which the advertising material is added?
- b. If your response to part (a) is affirmative, would you suggest that the weight limits for every subclass of mail be relaxed from their current "rigid approach" to permit advertising matter to result in a mailpiece over the limit set for that subclass?
- c. Should the Postal Service relax the weight limits for any and all additional content, or just for advertising materials?
- d. What mechanism should the Postal Service use to determine if the weight limit for Standard Mail was exceeded by the inclusion of additional advertising matter or by the inclusion of, for example, additional cosmetic products?

USPS/Postcom-T6-18. Please refer to your response to USPS/Postcom-T6-1 and USPS/Postcom-T6-1.

- a. Please confirm that the proposed postage for a typical Cosmetique parcel drop-shipped to a BMC, \$1.51, is \$4.44 less than Cosmetique's current "standard offer" shipping and handling charge of \$5.95 and that the proposed postage is only 25.4 percent of the shipping and handling charge.
- b. Please confirm that the proposed postage for a typical Cosmetique parcel drop-shipped to a BMC, \$1.51, is \$1.44 less than Cosmetique's lowest shipping and handling charge currently charged to customers who have joined Cosmetique within the last 7 and a half years, and confirm that the proposed postage is only 51.2 percent of Cosmetique's lowest shipping and handling charge for said customers.
- c. Please confirm that on January 10, 1999 the postage for a typical 15.85 ounce Cosmetique parcel that was Basic presorted and drop-shipped to a BMC was \$0.856.

d. Please confirm that Cosmetique's shipping and handling charges have increased by 102 percent since January of 1999 to the present, whereas under the Postal Service's pricing proposals, the postage for a typical Cosmetique parcel described in part (c) would have only increased 76 percent over the same seven and a half years.