

TO THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE TO USPS
INTERROGATORIES (USPS/MBI-T1-1-4)

BY
MICHAEL WILBUR

ON BEHALF OF
MBI, INC.

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RESPONSE TO USPS INTERROGATORIES BY MICHAEL WILBUR

USPS/MBI-T1-1 Please refer to the first paragraph of the second page of your testimony where you state, “We are also not protesting their cost calculations or their policy of motivating their constituents’ behavior by addressing rate structures.”

a. Please confirm that the Postal Service has, in this docket, provided testimony that mail pieces shaped as are your collectibles have some operational characteristics and cost characteristics that are more consistent with those of parcels pieces than with those of machinable flats. (See, for example, the testimonies of witnesses McCrery, USPS-T-42; Coombs, USPS-T-44; Kiefer, USPS-T-36; and Miller, USPS-T-20.)

Response to USPS/MBI-T1-1 (a): We do not dispute the USPS's ability to calculate their costs.

b. Please confirm that had the Postal Service proposed that mail pieces such as yours, which share operational characteristics and cost characteristics with parcels, be defined directly into the parcel classification, the rate increase that you would have received would have been larger than what you have calculated you face under the instant proposal. If you do not confirm, please explain.

Response to USPS/MBI-T1-1 (b): We confirm that had this proposal classified our mail as Parcels rather than as Not Flat-machinable, our rates would increase by even more than the approximately 88% that they are projected to rise under the current proposal.

c. Is it your understanding that, with the rate increase of the size you have noted your pieces will incur under the Postal Service’s proposal, the Postal Service will be receiving sufficient revenue to cover the cost of handling your pieces and permit them to provide contribution to institutional cost?

Response to USPS/MBI-T1-1 (c): Again, we do not dispute the USPS's ability to calculate their costs.

d. If your response to part c is affirmative, should the Commission, in setting lower rates as you request, ensure that the rates are sufficient to

provide contribution to institutional cost?

Response to USPS/MBI-T1-1 (c): This is a policy question best left for the PRC to review after consideration of the appropriate testimony. MBI has no recommendation to make.

USPS/MBI-T1-2 Please refer to the second paragraph of the second page of your testimony where you state, “Even if this price hike were to be applied in stages over three to five years, the rate of increase would still be well in excess of inflation”.

a. Please confirm that “inflation” is generally understood to represent the growth in prices of a weighted basket of goods and services. If you do not confirm, please explain the definition of “inflation” that you wished to convey in your testimony.

Response to USPS/MBI-T1-2 (a): Confirmed.

b. Please confirm that, at any given point in time, the process of “deaveraging” the prices for a set of services or products that had previously been grouped together may result in some services receiving a higher price increase than other services within the original group. If you do not confirm, please explain.

Response to USPS/MBI-T1-2 (b): Confirmed.

c. If you confirmed part b above, please confirm that the increase observed for the first subgroup of services described above would not be a result of “inflation”. If you cannot confirm, please explain.

Response to USPS/MBI-T1-2 (c): Confirmed. However, even though the rate increase is a result of “deaveraging” rather than inflation, the proposed rate increase still far exceeds the rate of inflation (by any standard definition), a traditional benchmark for evaluating proposed cost increases.

USPS/MBI-T1-3 Please refer to your testimony where you state “Further, while we can factor the postage rate increase into our cost structure and raise our pricing proportionally in future advertising, we cannot alter the terms under which our existing customers are enrolled in their collectible series and these represent the lion’s share of our shipments for the next several years.”

a. Please provide the total number of existing customers enrolled in a collectible series, broken down by the number of existing customers that are currently enrolled in their collectible series through the next year, through the next two years, and through the next three years.

Response to USPS/MBI-T1-3 (a): As a private company, we do not divulge the number of customers enrolled in each of our collectible series. It is confidential information as is their length of enrollment. However, we can state for the purpose of highlighting the impact of this proposal on MBI, Inc., that we currently mail about 4 million packages per year that would fall under the new rate classification of Not Flat-machinable and we expect to mail a similar number of packages per year for the next three years.

b. Please provide more detail on the nature of the enrollment agreement typically used for a collectible series, including the term length and any clauses related to term modification. If there is not an enrollment agreement, please fully explain why “[MBI, Inc.] cannot alter the terms.”

Response to USPS/MBI-T1-3 (b): Our customers, almost always individual consumers, enroll in our collectible series via responding to direct mail advertisements. They mail tear-off coupons. There are no lengthy enrollment agreements or "clauses related to term modification." In our offers, we do state a fixed price that applies to each item in the collectible series. The term of enrollment can vary from a few months to several years.

For almost all of our collectible series, both the customer and MBI have the option of terminating the agreement at any time. When we say we "cannot alter the terms", we mean that passing along these stiff and sudden cost increases after the customer has enrolled in the series at an agreed upon price is the wrong way to do business. We fear it would harm our relationships with our customers; heighten the chance that they would cancel their collections; and lessen the likelihood that they would enroll in future collectible series.

c. Please provide the shipping and handling costs charged to customers that are enrolled in a collectible series.

Response to USPS/MBI-T1-3 (c): Shipping and service costs vary from series to series to account for our costs.

d. Are the shipping and handling charges in subpart (c) limited by the enrollment agreement discussed in subpart (b) or in any other way? Please explain fully.

Response to USPS/MBI-T1-3 (d): Yes, they are limited by the enrollment agreement as described above in terms of our view of the right way to treat customers.

USPS/MBI-T1-4 Please refer to your testimony where you state “MBI, Inc. primarily sells collectibles.”

a. Please list all other types of business your company engages in, or other items that your company sells.

Response to USPS/MBI-T1-4 (a): We also sell some apparel and home décor items that constitute a very small percentage of our sales.

b. For each business or item listed in subpart (a), please discuss your company’s ability to raise prices in those areas in order to help absorb cost increases in MBI’s collectibles business.

Response to USPS/MBI-T1-4 (b): We cannot raise prices in other businesses due to cost increases completely unrelated to the economics of those products because we have to deliver value to our customers. To ensure our products are saleable, we must price relative to our costs for those specific products and relative to our competition in those businesses, neither of which are impacted by the increase in the Not Flat-machinable postage rate. Further, we will already be absorbing postage cost increases in those businesses as well.

c. Please provide a breakdown of the different types of collectibles sold by MBI, Inc., their approximate size and shape, the mailpiece used, and any additional packaging enclosed by MBI, Inc. (bubble wrap, Styrofoam, paper, etc.).

Response to USPS/MBI-T1-4 (c): MBI, Inc. markets thousands of collectibles, each requiring its own mailpiece and all containing separate packaging and collateral material. To provide a breakdown would be unduly burdensome.

Regards,

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