

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

POSTAL RATE AND FEE CHANGES, 2006

DOCKET NO. R2006-1

**RESPONSES OF WITNESS POSCH TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE
USPS/POSTCOM-T3-2 - 9**

The Association for Postal Commerce, the Alliance of Independent Store Owners and Professionals, the Direct Marketing Association, the Mailing and Fulfillment Service Association, and the Saturation Mailers Coalition (herein collectively "PostCom") hereby provide the responses of Witness Posch to Postal Service interrogatories USPS/POSTCOM-T3-2 - 8, filed October 4, 2006, and USPS/POSTCOM-T3-9 filed October 5, 2006.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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USPS/POSTCOM-T3-2. Please refer to your testimony at page 2, lines 20-21 where you state that “heavier solicitation letters – ‘heavy letters’ – can generate business for the Postal Service through a multiplier effect through the mail stream”.

a. Please confirm that, given the quality of the advertising and the targeting of the recipient, the same can be said for advertising in lighter-weight letters.

b. Please confirm that there is no apparent limit to the principle underlying your proposal. Are there limits to the additional weight of advertising after which the multiplier effect for incremental inserts is weakened?

RESPONSE:

a. Only if advertising in lighter-weight letters is cost effective. The idea behind advertising in heavy weight letters is being able to include advertising or coupons that ordinarily (due to cost) would not have been feasible to include.

b. Not confirmed. There is a clutter factor: the consumer may be so overwhelmed by too many advertisements and coupons that he is not able to focus on any of the advertising or coupons and discards the mailing in its entirety. There are limits to the additional weight of advertising after which the multiplier effect of incremental inserts are weakened.

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USPS/POSTCOM-T3-3. Please refer to your testimony at page 3, lines 1-2 where you state, “the existing pricing structure discourages adding additional inserts or additional coupons above the breakpoints, and therefore artificially constrains the use of mail as a marketing and delivery medium.”

- 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 or rate category of mail be relaxed from their current artificial constraints to permit advertising matter to result in a mailpiece over the limit set for that subclass or rate category?
- 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 was exceeded by the inclusion of additional advertising matter or by the inclusion of additional correspondence or mail matter?

RESPONSE:

- a. Certain types of mail produce a much greater rate of return for the Postal Service than others do. So, it would depend on the mail class, the content of the mailing and the advertising content. For example, an advertisement would probably not work well as an insert with an IRS Audit Letter.
- b. Only to the extent that it would make sense to do so and be mutually profitable for the mailer and the Postal Service.
- c. The Postal Service should relax the weight limit for any materials that would result in additional or residual mail to the Postal Service to the extent it would make sense to do so.

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d. Please see my response to USPS/PostCom-T2-1. I do not believe there is any need for a mechanism, other than weight. The content of the mail has no effect on Postal Service operations or revenues and is best left to normal operation of the marketplace; marketers may use the additional .5 ounces for an additional promotion in some cases or for a more detailed explanation of the basic offering or for other legitimate purposes. Whatever the use, USPS will benefit overall from the multiplier effect and additional volume.

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USPS/POSTCOM-T3-4. Please refer to your testimony at page 3, lines 4-6 where you state, “all available information suggests that heavier letters can run efficiently on the Postal Service’s newer letter automation equipment.” Please provide references to this material in this docket or elsewhere.

RESPONSE:

See my response to USPS/PostCom-T3-1. Also, please see the testimony of Witness Godfred Otuteye, POSTCOM-T-8.

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USPS/POSTCOM-T3-5. Please refer to page 4 of your testimony at lines 2-5 where you state, “the increase in the maximum weight for automation and ECR rates letters to 3.5 ounces made it more economically feasible for many direct marketers (including Bookspan) to expand their mailing efforts on developing new markets, new lines of business, and new products.” Please provide the basis for this statement, framing your response in terms of additional mail volume, higher response rates, etc. Please also indicate which pieces of supporting material are unique to Bookspan and which are of broader implication to other industries.

RESPONSE:

The increased weight allowance will permit the development of new markets and products thereby creating additional volumes across all other classes of mail.

One of BOOKSPAN’s predecessors, Doubleday Book & Music Clubs, Inc. (DMCI) used the increase to the automated letter weight to develop a large member base for CROSSINGS® our Christian family interest book club. The increase in automated letter weight provided a discount opportunity that allowed DMCI to cost-effectively include inserts promoting CROSSINGS® in its existing member promotional mailings, as well as promote the club through inserts in promotions for related products. CROSSINGS® is approximately 850,000 members strong today, which translates into a considerable amount of First-Class Mail, Standard Mail and Package Service Mail. This is something that would have been very difficult, if not impossible, without the increase in the automated letter weight.

Using the mail as a business development medium works for the mailer and for the Postal Service by producing profit generating volumes for both.

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USPS/POSTCOM-T3-6. Please refer to your testimony at page 4, line 6 where you state that an increase of the maximum weight to 4.0 ounces “would have equally beneficial effects.”

- a. Please provide the basis for this statement.
- b. Is a similar beneficial result possible above 4.0 ounces?
- c. Is it your testimony that there are no diminishing returns to the inclusion of additional advertising materials?

RESPONSE:

- a. The advertising content in 4.0 ounces would be at level where the customer would not be overwhelmed by the advertising content. Direct marketers could still insert without seeing a drop off in responses.
- b. It is very probable.
- c. No, I believe there is a margin of diminishing returns to the inclusion of additional advertising materials.

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USPS/POSTCOM-T3-7. Please refer to line 9 of page 4 of your testimony where you state that “New mail-based product markets indirectly lead to new mailing lists”. Is this true only as a result of the additional advertising material permitted by an increase in the maximum weight? Please fully explain your answer.

RESPONSE:

Yes, the increased weight allowance will permit the development of new markets and products thereby creating new lists and additional mailings. Without the increased weight allowance the development of new markets and products may not have been economically feasible especially for the products or markets that are iffy.

Since 1990, BOOKSPAN has launched a total of four successful, targeted clubs to Evangelicals, African Americans, and Hispanics (two). Each club provides a carefully screened list of readers. Each listed rented by another marketer leads to an immediate mailing by such marketer-and many further mailings to those who positively respond to the offer.

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USPS/POSTCOM-T3-8. Please refer to your testimony at page 7, lines 1-3 where you state, “heavy letters were instrumental in producing multiplier volumes when the Postal Service increased the maximum weight for automation and ECR rates letters to 3.5 ounces.” Please provide the basis for this statement, including all analyses and data used to develop the conclusion.

RESPONSE:

For example, see my response to USPS/PostCom-T3-5. The members of Bookspan's CROSSINGS® continue to produce mail volume for the Postal Service.

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USPS/POSTCOM-T3-9. Please confirm that you supported the extension of the weight limit from 3.3 to 3.5 ounces. Please confirm that in FY2005, less than 0.2% of Standard Regular automation letters fell into this weight increment.

RESPONSE:

Yes, I did support the extension of the weight limit from 3.3 to 3.5 ounces for the same reasons I have stated in my written testimony in support of the extension to 4.0.

I do not have access to the data I would need to confirm that in FY 2005, less than 0.2% of Standard Regular automation letters fell into this weight increment. As I stated in my written testimony at page 3 lines 1-3 "the existing pricing structure discourages adding additional inserts or additional coupons above the breakpoint, and therefore artificially constraints the use of mail as a marketing and delivery medium."