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

Postal Rate and Fee Changes, 2006	:	Docket No. R2006-1

REVISED RESPONSES OF GREETING CARD ASSOCIATION WITNESS CLAUDE MARTIN TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE (USPS/GCA T2-1-14)

(October 20, 2006)

The Greeting Card Association ("GCA") hereby provides the response of witness Martin to the following interrogatories of the United States Postal Service filed on September 15, 2006: USPS/GCA T2-1-14. This replaces the responses filed on September 29, 2006. The revision is necessitated by the omission of proper identification of each response as required by the Commission's Rules of Practice and Procedure § 3001.26(b). Revised responses are being filed contemporaneously herewith.

Each interrogatory is set out verbatim followed by the response.

Respectfully submitted,

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Date: October 20, 2006

USPS/GCA-T2-1. At page 1, lines 22 – 25, you state, "In my review of discussions of other survey and market research studies I noted that they focused on business and consumer attitudes toward electronic methods for bill rending and payment. However, I also noted there appears to be no attention to the impact of future First Class postal price increases in those studies."

a. Is it your understanding that a purpose of these studies is to identify the key factors that determine whether consumers choose to use electronic methods for bill rending and payment? If not, what is your understanding of the purpose of these studies?

b. Do you believe that the fact that these studies gave no attention to the impact of future First Class postal price increases indicates that the authors of these studies do not consider postal price increases to be a key factor determining whether consumers choose to use electronic methods for bill rending and payment? If not, why do you think the authors of these studies neglected to mention the role of postal prices in their analyses?

RESPONSE:

It would be improper to assume the purpose and intent of authors of other studies. I merely considered the content of what they had studied and reported. A good illustration of what was not studied is found in the cross-examination of Peter Bernstein (p. 1447-1448) when he was asked "Do you anywhere in your testimony address the root causes of why on-line bill payment is growing?" Mr. Bernstein replied, "I don't know that I do." It is also noted that the interrogatory incorrectly quotes a section of my report by using the term "rending" instead of "rendering." "Rending" refers to the act of splitting or tearing apart by violence, while "rendering" refers to delivering or furnishing for consideration (See: Webster's Ninth New Collegiate Dictionary, Springfield, MA, Merriam-Webster, Inc., 1990, p.997).

USPS/GCA-T2-2. Please refer to your Table 2 at page 18 which shows the education level of the bill paying participants of your telephone survey.

a. Please confirm that 32.9 percent of the bill paying participants in your survey do not have a high school diploma. If you cannot confirm, what is the correct percentage?

b. Please confirm that the percentage of the survey respondents without a high school diploma is much higher than for the US population as a whole. If you cannot confirm, please explain fully.

RESPONSE:

a. It is confirmed that 32.9% of the respondents reported their education level was "less than high school."

b. It is also confirmed that the 2004 census data for the United States (www.census.gov - Table One, "Educational Attainment of the Population 15 Years and Over, by Age, Sex, Race and Hispanic Origin, 2004) shows the overall U.S. population that is 18 and over to have 15.8% not having a high school diploma. The data reported in Table 2 was for household bill payers, as correctly described in the interrogatory. It is not representative of the U.S. population generally, but of the household bill paying population. Unfortunately, the Census Bureau does not report such statistics to be used for comparative purposes.

USPS/GCA-T2-3. Please refer to page 21 of your testimony where you present the following survey question: If you had reason to believe or knew that the postal service was planning regular increases in the price of postage for paying your bills, such as every year, what effect would this have on you switching to electronic payment of your bills?

a. Is it your position that the Postal Service currently has a policy of annual rate increases? If so, what is the basis for that view?
b. Please confirm that your question does not ask about the magnitude of the regular increase in postage prices. If you cannot confirm, please explain fully.
c. Do you believe that the response of mailers to regular one cent increases in postage rates would less than the response of mailers to regular five cent increases in postal rates? If your answer is no, please explain fully.

RESPONSE:

a. The question was posed to bill payers as a hypothesis. That hypothesis was based on the fact that 13 price increases have occurred in the past 32 years and on the more recent history of an increase to 39¢ in 2006 and a requested increase to 42¢ in 2007.

b. & c. The magnitude of the increase was not contained specifically in this question. However, later in the survey participants were asked about specific levels of prices and the effect it would have on their considering to switch from mail to electronic methods. We did not study specific increases, such as 1¢ or 5¢, which incidentally do not reflect recent postal rate increase behavior. We did specifically research an increase from the current 39¢ to 42¢ as proposed by USPS.

USPS/GCA-T2-4. Your testimony reports the percentage of different types of mailers who would "seriously consider" switching to a form of electronic payment, given certain hypothetical levels of future postal rates.

a. Do you believe that some mailers switch to forms of electronic payment in the absence of postal rate increases? Please explain fully.

b. Did you ask mailers if they would "seriously consider" switching to a form of electronic payment if there were no increase in postal rates? If so, what was the result of this question? If not, why did you not ask this question?

RESPONSE:

On P. 2 (lines 1-5) I addressed the objective of my research as follows: "In studying issues of electronic diversion I specifically examined the impact of nonpostal attributes on the diversion from mail to electronic. I also examined the impact of future postal rate increases. This report details that examination. In summary I can report that possible postal rate increases are a <u>significant behavioral trigger</u> for diversion." The inquiry in (b) above suggests research that is not germaine to the central issue for the Postal Rate Commission, which is the impact of a First-Class postal rate increase.

USPS/GCA-T2-5. Please again refer to pages 22, 25, and 29 where you report, respectively, the percentage of *major mailers*, *minor mailers*, and *hardcore mailers* who would "seriously consider" switching to a form of electronic payment if the price of a First-Class letter rose to 42 cents.

a. What percentages of *major mailers*, *minor mailers*, and *hardcore* mailers would not just seriously consider switching, but actually switch to a form of electronic payment in response to an increase in the price of postage to 42 cents? Please provide all documentation that you used to derive this result?

b. What percentage of bills currently mailed by major mailers, minor mailers, and hardcore mailers would be switched to electronic payments in response to an increase in the price of postage to 42 cents? Please provide all documentation that you used to derive this result?

c. If you cannot provide answers to sub-parts a and b, please confirm that the results of these survey questions do not provide a basis for calculating the impact on First-Class Mail volume resulting from an increase in postage rates to 42 cents?

RESPONSE:

The survey addressed the potential for switching by asking whether rate increases, including to the now requested 42¢ level, would cause a serious consideration to switch from mail to electronic methods among these segments of the mailer groups. The interrogatory suggests that researchers can find and respondents can know, both with complete certitude, their future behavior. To the contrary, the survey questions and corresponding responses provide an insight into possible future behavior and like all such surveys provide a basis for prediction.

USPS/GCA-T2-6. Please again refer to pages 22, 25 and 29 of your testimony where you report the percentages of *major mailers*, *minor mailers*, and *hardcore mailers* who would seriously consider switching to a form of electronic payment if the price of First-Class Mail increased to 50 cents.

a. Please confirm that there is no time frame presented in your question, i.e., whether the hypothetical 50 cent rate occurs next year, or in five years, or in ten years?

b. Do you believe the response to a 50 cent rate would be less if it were to occur in ten years as opposed to if it were to occur next year? If your answer is anything but "yes," please explain fully.

RESPONSE:

I confirm that the question does not provide a specific time frame for the hypothetical price increase of 50¢. However the respondents have lived through previous price increases, including an increase in 2006 to 39¢ and another suggested for 2007 to 42¢. Using that track record it could be assumed that that the 50¢ level could be reached by 2010 or sooner. The data provide USPS with beginning guidelines as to the impact at various levels, whenever USPS chooses to ask for rate increases.

USPS/GCA-T2-7. Please refer to your testimony at pages 22 and 26 that lists ten attributes that mailers might consider in deciding whether to use some electronic method for paying bills.

a. Please confirm that major mailers consider future postal rate increases to be the least important of the ten attributes they might consider in deciding whether to use electronic payments. If you cannot confirm, please explain why.

b. Please confirm that minor mailers consider future postal rate increases to be the least important of the ten attributes they might consider in deciding whether to use electronic payments. If you cannot confirm, please explain why.

RESPONSE:

This was addressed in the testimony on p. 23 (lines 11-14): "Postal rates seem to be a future trigger for diverting from mailed bill payments. The data suggest that, <u>once motivated to switch from the mailed payments by the price (or changes in the price) of postage,</u> major mailers then use other competitive attributes for the switching or diversion decision." The fact that "future postal rate increases" got a mean score of 3.7, 3.7 and 4.0 for these three segments shows that they did constitute a significant factor in considering whether to switch and coupled with the data for specific price levels confirms its importance as a trigger for the diversion decision.

USPS/GCA-T2-8. Please refer to page 43, lines 16 – 18 of your testimony. Please confirm that 44.4 percent of surveyed businesses said that annual future postal rate increases would have no effect on their decision to convert to electronic billing. If you cannot confirm, please explain why.

RESPONSE:

The interrogatory mischaracterizes my testimony. The question was asked of b2b firms only and the question read: "What effect would future postal rate increases-- for example annual increases -- have on your firm converting your billing to an electronic form?" It is confirmed that 44.4% of the b2b firm respondents said "no effect." I also confirm that 52.7% said it would have some effect.

USPS/GCA-T2-9. Please refer to your testimony at pages 44 and 47 where you show the percentage of business-to-consumer (b2c) and business-to-business (b2b) billers who would "seriously consider: switching to some form of electronic payment at different hypothetical levels of First-Class letter rates.

a. Please confirm the result that only 5.8 percent of b2b billers surveyed and only 6.0 percent of b2c billers surveyed reported that an increase in postage rates to 42 cents would cause them to "seriously consider" switching to some form of electronic payment.
b. What percentage of b2b and b2c billers would not just seriously consider switching, but actually switch to a form of electronic payment in response to an increase in the price of postage to 42 cents? Please provide all documentation that you used to derive this result?
c. What percentage of bills currently mailed by b2b and b2c billers would be switched to electronic payments in response to an increase in the price of postage to 42 cents? Please provide all documentation that you used to derive this result?
d. If you cannot provide answers to sub-parts a and b, please confirm that the results of these survey questions do not provide a basis for calculating the impact on First-Class Mail volume resulting from an increase in postage rates to 42 cents?

RESPONSE:

Section (a) mischaracterizes my testimony. I did not use the word "only" to describe the 5.8% and the 6.0%. I confirm that 5.8% of b2b mail billers and 6.0% of b2c mail billers would seriously consider switching to some form of electronic billing. This data can be combined with that from the President's Commission on the United States Postal Service as cited on p. 48 of my testimony to address section (d). Using the percentages above for the 42¢ price relative to the b2c billing data of 25.4 billion pieces and the b2b billing data of 9.5 billion pieces, the result forecasts a loss of more than 2 billion pieces of billing mail from small business firms.

Concerning sections (b) and (c), the survey addressed the switching potential by asking whether rate increases, including to the now requested 42¢ level, would cause a serious consideration to switch from mail to electronic methods among the b2b and b2c

billing segments. The interrogatory suggests that researchers can find and respondents can know, both with complete certitude, their future behavior. To the contrary, the survey questions and corresponding responses provide an insight into possible future behavior and like all such surveys provide a basis for prediction.

USPS/GCA-T2-10. Please refer to your Table 11 at page 47 which shows how business mailers evaluated the importance of nine different factors in their decision to use paper or electronic billing to consumers. Please confirm that future annual postal rate increases was the least important of the nine factors presented in Table 11.

RESPONSE:

The interrogatory has already been answered on p. 48 (lines 1-4) of my testimony: "Future annual postal rate increases have the least impact among all the attributes, although even for that aspect 42% of the firms deem it very important. As was seen in the responses to the consumer survey, more important are subsequent payment delivery issues, not those of pricing and cost, for the statement decision."

USPS/GCA-T2-11. Please refer to your Table 12 where you calculated the number of vulnerable First-Class Mail pieces.

a. Please confirm that your calculations for b2b payments, b2c payments, b2c statements, and b2b statements are based on responses to questions that do not specifically ask about the impact of postage rates. See, for example, the following from lines 25-28 of your testimony. The business survey respondents were asked: I would like know how receptive you would to paying all of your regular bills electronically? Uses a seven-point receptivity scale. The data show 43.4 percent responded with a score of 5 or more on the scale.

b. Given that your calculations in Table 12 are largely based on results from questions that do not address the role of postage rates, what is the basis for your statement on page 51, lines 1-3, "I conclude there are 14.7 billion annual pieces of First Class billing and statement mail that are vulnerable to diversion because of a triggering from postal rate increases."

RESPONSE:

The data for the consumer to business payments does have as a predicate the statement "if you had reason to believe or knew that the postal service was planning regular increases in the price of postage for your bills…" Confirmed that the responses for the b2b and b2c payments and statement/billing segments do not have a <u>specific</u> reference to postal rate increases. The calculation of Table 12 relies largely on summary evaluations of receptivity to diversion by all these segments. Those summary questions follow on previous ones that evaluate the impact of postal rate increases generally and specifically. Table 12 is correctly labeled as containing "vulnerability scores" and is described on p. 49 (lines 8-12): "To assess the vulnerability of each of those types of First Class mail to electronic diversion. I used a seven-point Likert scale to measure switching receptivity. While any score above zero on those scales indicates some degree of likely switching, I conservatively chose only scores of five or more as demonstrative of vulnerability to diversion." As for the conclusion on Page 51, it is based on the vulnerability scores (Table 12) <u>and</u> on the body of data analyses on the

previous 50 pages of my testimony, including that which addresses generally and specifically the potential effect of postal price increases.

USPS/GCA-T2-12. Please refer to your testimony at page 54, lines 27 – 29 where you state, "Based on data from the surveys and from the other insights I have offered, it is safe to say that diversion is occurring and will at an increasing rate."

a. Does your testimony present any analysis of historical levels of the diversion of First-Class Mail? If yes, please identify where these measures are presented.

b. If your testimony does not present any analysis of historical levels of diversion, what is the basis for your conclusion that diversion will in the future occur at an increasing rate?

RESPONSE:

My testimony presents analyses of the historical levels of First-Class mail diversion where the data are available. For example, there is little available data on the historical diversion of billing/statement mail and of business-to-business payments. Information that is relevant to historical trends, such as internet growth and usage and the report of the President's Commission to USPS, have been considered in my analyses. The historical data gathered from the Household Diary Study, including its Recruitment Questionnaire have been cited and considered. Basically, my analyses took into account all of this historical trend information. See: Pages 2-4; 8-13; 31; 33-34; 48-49; and 51-54 of my direct testimony.

USPS/GCA-T2-13. Please refer to your testimony at page 55 where you state, "A good example of how the slope of diversion can be steepened is the airline industry. Only a few years ago we were using paper tickets and largely manual check-ins at an airport counter. Then airlines began the transition to electronics is generally not available today."

a. Do you believe that the quantity of airline tickets that are sent through the mail is considerably smaller than it was a few years ago?
b. If your answer to part (a) is yes, does that mean that the future level of the diversion of mailed airline tickets will be much smaller than the historical level of diversion of mailed airline tickets.
c. Would you conclude based on the experience of the airline industry that the future diversion of First-Class Mail will be smaller than in the past? If not, why not?

RESPONSE:

The example of the airline industry was presented as an illustration of the adoption and diffusion of a new competing technology. As discussed (p. 55 my direct testimony) it was as a result of the testimony of Mssrs. Thress and Bernstein. It addressed a difficulty both have in their analyses because "they consider mainly historical performance and ignore significant developments that can trigger changes in the slope of diversion, both of payments and billing statements. It is simply a failure to address the root causes of why diversion is growing, as admitted by Mr. Bernstein in his cross-examination testimony." (p. 55, lines 3-7)

The interrogatory misses the point as to why the airline illustration is offered.

USPS/GCA-T2-14. Please refer to Table 25 at page 51 of witness Bernstein's testimony, and page 1a of USPS-LR-L-73 (Domestic Rate History). If you cannot confirm any of the following, please explain.

a. Please confirm that from 2000 to 2003, during which time the rate for First-Class single piece mail increased from 33 cents to 37 cents, the share of household bill payments made by mail decreased from 79.4 percent to 73.5 percent.

b. Please also confirm that from 2003 to 2005, during which time the rate for of First-Class single piece mail remained constant at 37 cents, the share of household bill payments made by mail decreased from 73.5 percent to 66.6 percent.

c. Please confirm that the decline in the mail payment share was greater during the latter period in which nominal postage rates were unchanged than it was during the earlier period in which nominal postage rates increased by four cents.

RESPONSE:

The interrogatory suggests that I confirm material supplied by Mr. Bernstein. Confirmation of the data is best the responsibility of Mr. Bernstein. However, in my direct testimony (p. 11) I offered the following citation from Mr. Bernstein's submission (pp. 51-53) that I considered in my analyses:

> "The share of household bills paid by mail remained close to 85 percent from 1990 through 1999, and then began to decline, falling to 75 percent in 2002 and to 66.6 percent in 2005. It is possible that some of the reported decline from 1999 to 2000 is due to the change in Diary Study contractors in that year. All the same, the consistency of the mail payment share from 1990 through 1999, and the consistency of the decline in the mail payment share since 2000, indicates that the changes shown in Table 25 are real.
>
> To put this decline in perspective, consider that the Recruitment Questionnaire reports that households paid about twelve bills per month in 2005. Extrapolating that per household per month figure to the entire population yields a total of about 16.3 billion bill payments for the entire year. If the share of bills paid by mail had remained at 85.0 percent, about 13.9 billion bills would have been paid by mail in 2005. Instead, the number of bills paid by mail was on the

order of 10.9 billion, a loss of three billion pieces of single-piece letter mail over the period from 1999 through 2005. Alternatively, one can look at the diversion of mailed bill payments in 2005 alone. In 2004, 69.3 percent of household bills were paid by mail. If that share had persisted into 2005, there would have been about 11.3 billion household bill payments through the mail. Instead, there were 10.9 billion, indicating a loss of 400 million mailed bill payments in 2005 alone, or more than one percent of total First-Class single-piece letter mail, lost in a single year from a single source of diversion.

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