

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

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

**RESPONSES OF GREETING CARD ASSOCIATION WITNESS
JAMES A. CLIFTON TO INTERROGATORIES OF THE DIRECT
MARKETING ASSOCIATION (DMA/GCA-T1-10-12)**

(November 3, 2006)

The Greeting Card Association ("GCA") hereby provides the responses of James A. Clifton to the following interrogatories of the Direct Marketing Association filed on October 4, 2006: DMA/GCA T1-10-12.

Each interrogatory is set out verbatim followed by the response.

Respectfully submitted,

/s/ James Horwood

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Date: November 3, 2006

RESPONSE OF GREETING CARD ASSOCIATION WITNESS CLIFTON TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/GCA-T1-10. Please refer to your response to DMA/GCA-T1-3(b), where you state that “From the latest publicly available reliable data I have seen, a majority of the banking industry’s mail volume in First Class continues to be mailed at the full single piece rate.”

- a) Please produce the “latest publicly available reliable data” to which you refer.
- b) Please explain how you verified that the data are reliable.

RESPONSE:

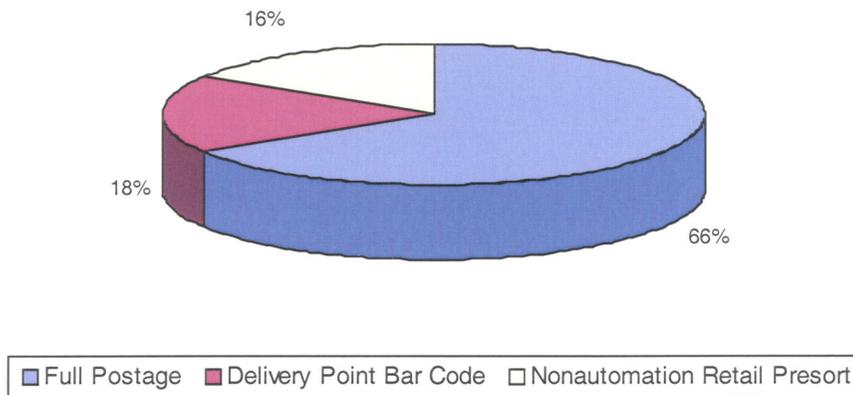
a. Please see the attached pie chart from the 2000 ABA postal survey, the latest available at the time I answered DMA/GCA-T1-3(b).

b. I did not attempt to further verify the above-referenced pie chart for a couple reasons. First, the pie chart was unambiguous in what it stated about the relative volumes of single piece full rate FCM postage sent by banks, namely 66% of total FCM bank volume. Second, there was no reference on the pie chart as to how the percentage was calculated and/or from what if any detailed data tables in the 2000 survey the 66% was taken from or calculated from. As a result, I did not at the time dig deeper into the issue. In researching to provide answers to DMA/GCA-T1-1-3, I obtained the publicly available ABA 2000 Postal Survey,. and also produced the pie chart attached here in a response to a USPS interrogatory (USPS/GCA-T1-52).

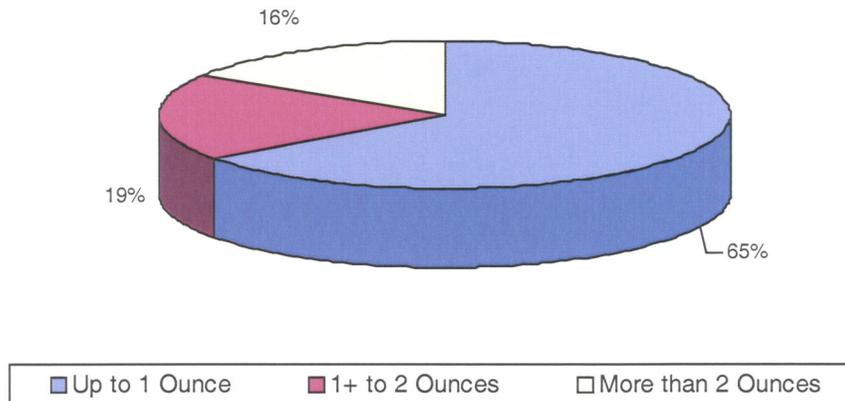
ABA POSTAL OPERATIONS SURVEY REPORT

FIGURE 5: BANKING INDUSTRY'S OUTGOING FIRST CLASS MAIL VOLUME 1999

By Program Type



By Weight



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DMA/GCA-T1-11. Please refer to your response to DMA/GCA-T1-3(b), where you state that “This probably reflects the fact that banks outside of urban and suburban areas do not necessarily have access to a presort bureau and do not have enough mail volume to warrant leasing or purchasing automation machinery.”

- a) Please define what you mean by the phrase “have access to a presort bureau.”
- b) What is the maximum distance between a bank and the nearest presort bureau for use of a presort bureau to be practical and cost effective?
- c) What percentage of First-Class Mail entered by banks is generated within 25 miles of a presort bureau? Within 50 miles? Within 100 miles? Within any other distance for which you have data?
- d) What is the minimum size of a local market needed to support a presort bureau?
- e) What percentage of First-Class mail entered by banks is generated in communities equaling or exceeding the size identified in response to part (d)?
- f) What is the minimum mail volume generated by a bank to warrant leasing or purchasing its own automation machinery?
- g) What percentage of First-Class mail entered by banks is generated by banks with a mail volume equaling or exceeding the minimum identified in response to part (f)?
- h) Please produce all data, studies and analyses that support your answers to the previous parts of this interrogatory.
- i) Please produce any other data, studies and analyses indicating that banks outside of urban and suburban areas lack access to a presort bureau.

RESPONSE:

11. a-i. In addition to my general working knowledge from previous engagements with NAPM including knowledge of where their members are based, the basis for my statement quoted above was information obtained from the USPS website containing the “RIBBS lists” for presort bureaus operating automation equipment as well as major mailers such as large banks operating

their own automation equipment. It is clear from these lists that presort bureaus do not locate and operate in rural areas but mainly in large metropolitan areas or their suburbs as well as other cities. I have not kept downloads of any of this information. Please also see an interesting article in the October 23rd Business Mailers Review, "Case Study: Bank Moves to Neopost Automation". This article does not mean the move to automation mail rates from presorting by Lebanon Citizens National Bank, but to the fact that efficiencies gained by Neopost's newly acquired mail room equipment saves on bank employee costs. "The 20-branch Ohio bank was manually folding, stuffing and attaching postage to 50,000 statements each month—a job that involved a full-time staffer and four part time employees who came in three days a week solely for that purpose."

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DMA/GCA-T1-12. Please refer to your response to DMA/GCA-T1-3(b), where you state that “Less than 6% of the bank industry’s volume of mail and cost of mail is posted at Standard A Regular Rates according to the public available reliable data I have seen.”

- a) Please produce the “publicly available reliable data” to which you refer.
- b) Please explain how you verified that the data are reliable.

RESPONSE:

12. a. and b. My response to DMA/GCA-T1-3(b) (which asked about my “belief”) was based upon the 2000 ABA postal survey that was available at the time I answered DMA/GCA-T1-3(b). See also the response to DMA/GCA-T1-10.

I would further note that whether the banking industry benefits or does not benefit from GCA’s proposal to cut the single piece rate by one cent does not depend on whether the percentage of single piece fully paid postage is 66% or even a majority of the FCM volume sent by the industry. So long as the volume of single piece fully paid FCM exceeds the volume of Standard A regular mail sent by the industry, but even under weaker conditions than this as well, the banking industry benefits from the GCA proposal. The one cent cut is spread over approximately 39 billion pieces of single piece FCLM, and that revenue loss is spread over approximately 51 billion pieces of Standard A Regular letter mail. As a result, the per piece increase in the Standard A Regular rate on average is less than a cent because the institutional cost shift is spread across a much larger volume of mail compared to single piece FCM. If some individual banks sending more Standard A Regular mail have increased costs under the GCA proposal, they can under the standard compensation principle from welfare economics be made as well off as before from those banks benefiting from the cut in the single piece rate. The industry benefits.

The statistics from the ABA survey as I have now further investigated are based on the data from Appendix Tables 2 and 9 for a reconsideration of their 66% pie chart percentage for fully paid postage and utilize statistics on the volume of

Standard Mail found at the top of page 2. The latter indicates that “standard third class mail volume” totaled “426.2 million pieces in 1999” and “accounted for 5.4% of industry outgoing mail volume.” From Tables 2 and 9, it appears clear ABA made a serious error in its own pie chart in showing that 66% of FCM mail volume in 1999 was single piece fully paid postage. My own calculated percentage is 22.1%. Multiplying this percentage by the total FCM volume of 7.5 billion pieces reported on page 1 of the ABA survey, the volume of fully paid single piece mail sent by the banking industry in 1999 approximated 1.7 billion pieces, or 4 times the volume of Standard Mail sent by the banking industry.

Cutting one cent on 1.7 billion pieces of fully paid single piece bank mail, and raising the rate on 426 million pieces of Standard A Regular bank mail by less than one cent, the impact of the GCA proposal on the banking industry, is obviously, and irrefutably, a net gain for the banking industry. Thus, my conclusion about the impact of the GCA proposal on the banking industry does not and did not hinge on the 66% figure, and is equally valid after correcting ABA’s own survey errors in their pie chart.

Subsequent to my answering DMA/GCA-T1-3(b), ABA made available on its website a new 2006 study. Because of the 66% vs. 22.1% error in the 2000 survey, I have no confidence in the newly released (2006) study and would need to discuss the data used, and presentation in that study, with ABA’s statistician before I could form an opinion about it.