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1 **AUTOBIOGRAPHICAL SKETCH**

2
3 My name is Lawrence G. Buc. I am the President of SLS Consulting, Inc.
4 (“SLS”), a Washington, D.C., consulting firm specializing in postal economics. I
5 submitted direct testimony in this case for Direct Marketing Association, Inc., *et al.*,
6 (DMA-T-1.)

7 SLS has represented banks in four of the five Negotiated Service Agreements
8 (NSAs) entered into by the Postal Service with credit card issuers (Capital One, Bank
9 One/JPMorgan Chase, HSBC, and Washington Mutual Bank). I was personally a witness
10 in the Bank One NSA. I have also performed analyses for clients on how banks make
11 marketing decisions and the mailing implications of these decisions.

12 I was also a lead author in a major study of the Fair Credit Reporting Act and
13 directed an analysis for this study on prescreened offers of credit. I developed and
14 distributed a survey and received responses from credit issuers that are major users of
15 prescreening, as well as from others that do not rely heavily on prescreening. Our
16 responses on prescreening included bank type credit card issuers representing six of the
17 then top 13 bank issuers, and accounted for over half of all active MasterCard and VISA
18 accounts at the time (i.e., about 153 million of the 281 million accounts). One dimension
19 of the study collected information from banks on their channels for marketing credit
20 cards.

21 **I. PURPOSE AND SCOPE OF TESTIMONY**

22 GCA witness Clifton (GCA-T-1) estimates the elasticity of Single-Piece First-
23 Class Mail, finding it to be more elastic than estimated by USPS witness Thress. Based
24 on his analysis, he proposes that the Commission reduce the rate for Single-Piece First-
25 Class Mail by one cent and make up the resulting revenue loss from Standard Regular

1 Mail. Clifton, GCA-T-1 at 3.¹ Witness Clifton discusses one use of Single-Piece First-
2 Class Mail - in the bill payments market - to illustrate his point generally and to motivate
3 his analysis. Clifton, GCA-T-1 at 11-33. Witness Clifton also contends that Standard
4 Regular Mail is becoming increasingly inelastic because of Internet diversion. Clifton,
5 GCA-T-1 at 53.

6 In this testimony, I show that Standard Mail mailers in general, and banks in
7 particular, have and use a large number of channels for marketing. I also show that they
8 make decisions concerning channels based on cost effectiveness. This reality has
9 important ramifications for elasticity, since elasticity critically depends on the availability
10 of alternatives. It would be a major mistake to ignore this reality in pricing Standard
11 Mail. Interestingly, one channel that marketers and advertisers are using more and more
12 frequently is the Internet, which also provides an alternative for bill paying. It is
13 counterintuitive to believe, as Clifton suggests, that this channel could result in the
14 demand for Single-Piece First-Class Mail becoming more elastic while Standard Regular
15 becomes less elastic.

16 **II. MARKETERS AND ADVERTISERS HAVE A WIDE ARRAY OF**
17 **OPTIONS FOR THEIR MARKETING AND ADVERTISING MESSAGES.**

18 The US economy provides a wide array of marketing and advertising channels,
19 and marketers and advertisers avail themselves of them. Direct mail is only one of these
20 channels. As USPS witness Thress shows in his testimony, USPS-T-7 at 92, in 2005,
21 direct mail accounted for only 20.5 percent of all major media advertising expenditures,
22 trailing television at 23.5 percent, “other” (which includes Internet and event marketing)

¹ Note that shortly before the hearing he revised his testimony to extend the one-cent rate reduction to presort 1C letter mail if the Commission rejects delinking.

1 at 27 percent, but leading newspapers at 17.4 percent, radio at 7.2 percent, and magazines
2 at 4.7 percent. The results for this year are consistent with those for previous years; long
3 term trends have shown a consistent decrease of the share of advertising in newspapers
4 and offsetting increases in the share of advertising in television and direct mail. Thress,
5 USPS-T-7 at 92.

6 These marketing and advertising decisions can be viewed through the lens of
7 basic microeconomics. Profit maximizing firms will invest in marketing and advertising
8 until the marginal cost of the investment is equal to its marginal return. This framework
9 applies both in total and to the investments in selected channels. Thus, as USPS witness
10 Thress observes, with respect to the mail:

11 The decision process made by direct-mail advertisers
12 can be decomposed into three separate, but interrelated
13 decisions:

- 14
15 (1) How much to invest in advertising?
16 (2) Which advertising media to use?
17 (3) Which mail category to use to send
18 mail-based advertising?
19
20

21 Thress, USPS-T-7 at 93. The results of these decisions are reflected in the national data
22 showing total advertising and marketing expenditures and the share by media.

23 **III. EXPERIENCE, NSA RECORDS, AND DISCUSSIONS WITH BANKS ALL**
24 **CONFIRM THAT BANKS HAVE AND USE A WIDE ARRAY OF**
25 **ALTERNATIVES TO THE MAIL FOR MARKETING CREDIT CARD**
26 **SERVICES.**

27 Everyone who gets mail and looks at the postage knows that banks use Standard
28 Mail for marketing credit cards. And anyone who reads the NSA Data Collection reports
29 begins to get a more quantitative understanding. For example, the MC2002-2 (Capital
30 One) Data Collection Report for October 2004 – September 2005 shows that Capital One

1 mailed over a billion pieces of Standard Mail in this period.² As another example, the
2 MC2004-3 (Bank One) Data Collection Report shows that JP Morgan Chase mailed 446
3 million pieces of Standard Mail in the six months between the beginning of April, 2005
4 and the end of September of that year.³ Likewise, the MC2004-4 (Discover Financial
5 Services) Data Collection Report shows that Discover mailed 445 million pieces of
6 Standard Mail in calendar year 2005.⁴

7 However, mail is not the only channel of marketing credit cards - there are
8 alternatives. Last year, at a DC United game I attended, representatives of a bank were
9 handing out T-shirts to anyone willing to fill out a credit card application. Several
10 months ago, while walking through the Charlotte, NC, airport terminal, I noticed
11 representatives of a national bank soliciting for credit cards applications. This was
12 particularly interesting because I had been given an application from this same bank on
13 the flight to Charlotte. Two weeks ago, I purchased a book on a web site and was offered
14 a considerable discount if I signed up on the Internet for a new credit card. And the
15 tellers at my bank often try to sign me up for their credit card; even when they do not,
16 there are applications for the taking on the counter.

17 In the BankOne NSA proceeding, the OCA explored marketing channels in an
18 interrogatory:

19 Please list the primary medias used by Bank One to attract new
20 credit card customers , e.g. direct mail, television ads, radio ads,
21 newspaper ads, magazine ads, internet ads, telephone, placements
22 in retail facilities. MC2004-3 Tr. 2/137,
23

24 Bank One witness Brad Rappaport responded:

² Relevant portions of the report are reproduced at Tr. 29/9997-98.

³ Relevant portions of the report are reproduced in Exhibit DMA-R1, attached hereto.

⁴ Relevant portions of the report are reproduced in Exhibit DMA-R2, attached hereto.

1
2 Other media channels that are widely used in this industry include
3 telemarketing, Internet, on-site, and event marketing. *Id.*

4
5 These other channels are not only used, they are successful. Witness Rappaport

6 went on to quote from BankOne's 2003 Annual Report:

7 We also developed successful new marketing channels that do not rely on
8 direct mail, which is becoming increasingly more expensive and less
9 effective. In 2003, for the first time, direct mail sales accounted for less
10 than half of our new accounts. Several partners, including Disney,
11 Starbucks and Amazon, are using their Internet sites to allow customers to
12 apply for cards. Perhaps the most innovative distribution channel is
13 Avon's 600,000 representatives who are now offering the Avon reward
14 card to their customers. MC2004-3 Tr. 2/137.

15
16 The Bank One case is not the only NSA proceeding the record of which contains
17 evidence showing that banks have and use alternatives to the mail for soliciting credit

18 cards. As HSBC witness Harvey testified:

19 Mail is one of several channels available for marketing financial services,
20 and faces increasing competition from alternatives, such as E-mail and the
21 Internet, event marketing, merchant marketing, telemarketing, print,
22 television, radio, and outdoor advertising. The attractiveness of these
23 alternative channels is likely to increase if the next postal rate case results
24 in a substantial increase in postal rates. MC2005-2 Tr. 2/35.

25
26 Washington Mutual Bank Witness Michael Rappaport reported an additional
27 channel:

28 From Year 1 to Year 2 and 3, our expectation is that our credit
29 card sales in Washington Mutual retail stores (aka branches) will
30 become a greater percentage of our account growth – these accounts
31 are booked without a solicitation mailing accompanying it.⁵

32
33 Finally, the Discover NSA provides even broader evidence on not just the issue of
34 alternatives but also on how banks choose between these alternatives:

⁵ Response of Washington Mutual Bank witness Michael Rappaport to Presiding Officer's Information Request No. 1, Question 1 C.

1 DFS assesses the viability of its marketing strategies on an ongoing basis.
2 We do so by evaluating the efficiency of various marketing channels, and
3 strive to use those that are most productive. While mail provides many
4 benefits, this channel does face increasing competition. DFS utilizes a
5 variety of marketing channels: telemarketing, event marketing, and
6 merchant marketing, as well as print, television, radio, and outdoor
7 advertising. We also use email and the Internet. MC2004-4 Tr. 2/33.
8

9 **IV. CONCLUSION**

10 From my experience with banks in NSAs, analyses for trade groups, and from my
11 work on the Fair Credit Reporting Act, I can say that Discover's approach is not
12 uncommon. Banks build and use models to allocate media expenditures across marketing
13 channels based on the cost effectiveness of these various channels. There are clearly
14 alternatives to Standard Mail, and its price plays an important role in determining how
15 much banks and other commercial mailers spend on it as a marketing channel, just as
16 basic microeconomic principles predict.

LEGAL POLICY & RATEMAKING LAW SECTION
LAW DEPARTMENT



February 7, 2006

Hon. Steven W. Williams, Secretary
Postal Rate Commission
901 New York Avenue, NW
Suite 200
Washington, DC 20268-0001

RE: Docket No. MC2004-3

Dear Mr. Williams:

In accordance with the Commission's Opinion and Recommended Decision in Docket No. MC2004-3, Rate and Service Changes to Implement Functionally Equivalent Negotiated Service Agreement with Bank One Corporation, enclosed is the Postal Service's Data Collection Report for the time period April 1, 2005 to September 30, 2005. The report was due January 30, 2006, and we apologize for the delay.

Please note that I have enclosed with this letter a disk with data responsive to Data Collection Requirement No. 8 because the data are too voluminous to file electronically. The rest of the report has been filed electronically.

Sincerely,

Nan K. McKenzie
Attorney

Enclosures

MC2004-3 Data Collection Report
JP Morgan Chase (Bank One) NSA
April 2005 – September 2005

Data Collection Plan Requirements:

1. Volume of First-Class Mail solicitations by rate category in eligible Bank One permit accounts.
2. Volume of First-Class Mail customer mail by rate category in eligible Bank One permit accounts.
3. Amount of discounts paid to Bank One for First-Class Mail by incremental volume block.
4. Volumes of First-Class Mail solicitations bearing the ACS endorsement that are physically returned to Bank One.
5. Number of electronic address correction notices provided to Bank One for forwarded solicitation mail pieces, including the number of notices processed by CFS units and separately for PARS (when fully operational).
6. Number of electronic address correction notices provided to Bank One for solicitation mail pieces that would otherwise be physically returned, including the number of notices processed by CFS units and separately for PARS (when fully operational).
7. Monthly estimate of the amount of time spent on compliance activity and a description of the activities performed.
8. For each First Class solicitation mailing list run against NCOA, Bank One will provide NCOA contractor reports that separately identify the number of address records checked and the number of corrections made.
9. For each Change of Address record that is used to forward a piece of Bank One solicitation mail through ACS under the Agreement, the Postal Service will provide the date the record was created, its move effective date, whether it was for a family or individual move, and each date that the record was used to forward a mail piece. No other information from the record would be provided.
10. As part of each data collection plan report, the Postal Service will provide an evaluation of the impact of the agreement on contribution. It will also provide an assessment of trends of Bank One's First-Class Mail volume as compared to overall First-Class Mail volume.
11. Volume of Standard Mail solicitations by rate category in eligible Bank One permit accounts.
12. A comparison of the estimated mailer-specific costs, volumes, and revenues with the actual mailer-specific costs, volumes, and revenues.

**MC2004-3 Data Collection Report
JP Morgan Chase (Bank One) NSA
April 2005 – September 2005**

11. Data Collection Requirement Number 11

Volume of Standard Mail solicitations by rate category in eligible Bank One permit accounts.

Mail Category	Volume
Mixed AADC Auto	52,333
AADC Auto	233,501
3-Digit Auto	119,776,541
5-Digit Auto	170,767,183
Basic Nonauto	128,434,325
3/5 Digit Nonauto	26,796,609
Total Volume	446,060,492
ECR Mail Category	
Basic Nonauto Letters	22,389,385
Basic Auto Letters	-
Saturation Letters	-
Total Volume	22,389,385

Volumes are captured on a monthly basis, but these figures may change after final reconciliation with Permit and CBCIS data after the one-year anniversary of the NSA.

LEGAL POLICY & RATEMAKING LAW SECTION
LAW DEPARTMENT



February 7, 2006

Hon. Steven W. Williams, Secretary
Postal Rate Commission
901 New York Avenue, NW
Suite 200
Washington, DC 20268-0001

RE: Docket No. MC2004-4

Dear Mr. Williams:

In accordance with the Commission's Opinion and Recommended Decision in Docket No. MC2004-4, Rate and Service Changes to Implement Functionally Equivalent Negotiated Service Agreement with Discover Financial Services, Inc., enclosed is the Postal Service's Data Collection Report for the time period January 1, 2005, to December 31, 2005.

Sincerely,

Brian M. Reimer
Attorney

Enclosures

Docket No. MC 2004-4 Data Collection Report
Discover Financial Services NSA
January 2005 – December 2005

Data Collection Plan Requirements:

1. Volume of First-Class Mail solicitations by rate category in eligible DFS permit accounts.
2. Volume of First-Class Mail customer mail by rate category in eligible DFS permit accounts.
3. Amount of discounts paid to DFS for First-Class Mail by incremental volume block.
4. Volumes of First-Class Mail solicitations bearing the ACS endorsement that are physically returned to DFS.
5. Number of electronic address correction notices provided to DFS for forwarded solicitation mail pieces, including the number of notices processed by CFS units and separately for PARS (when fully operational).
6. Number of electronic address correction notices provided to DFS for solicitation mail pieces that would otherwise be physically returned, including the number of notices processed by CFS units and separately for PARS (when fully operational).
7. Monthly estimate of the amount of time spent on compliance activity and a description of the activities performed.
8. For each First Class solicitation mailing list run against NCOA, DFS will provide NCOA contractor reports that separately identify the number of address records checked and the number of corrections made.
9. For each Change of Address record that is used to forward a piece of DFS solicitation mail through ACS under the Agreement, the Postal Service will provide the date the record was created, its move effective date, whether it was for a family or individual move, and each date that the record was used to forward a mail piece. No other information from the record would be provided.
10. As part of each data collection plan report, the Postal Service will provide an evaluation of the impact of the agreement on contribution. It will also provide an assessment of trends of DFS's First-Class Mail volume as compared to overall First-Class Mail volume.
11. Volume of Standard Mail solicitations by rate category in eligible DFS permit accounts.
12. A comparison of the estimated mailer-specific costs, volumes, and revenues with the actual mailer-specific costs, volumes, and revenues.

Docket No. MC 2004-4 Data Collection Report
Discover Financial Services NSA
January 2005 – December 2005

11. Data Collection Requirement 11

Volume of Standard Mail solicitations by rate category in eligible DFS permit accounts.

Mail Category	Volume
Mixed AADC Auto	53,828,982
AADC Auto	39,306,079
3-Digit Auto	42,064,882
5-Digit Auto	192,593,269
Basic Nonauto	100,609,374
3/5 Digit Nonauto	16,874,135
Total Volume	445,276,721
ECR Mail Category	Volume
Basic Nonauto Letters	15,702,842
Basic Auto Letters	203,404
Saturation Letters	-
Total Volume	15,906,246