

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

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**Service Standards and Performance  
Measurement for Market Dominant  
Products**

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**Docket No. PI2007-1**

**COMMENTS OF NETFLIX INC.  
IN RESPONSE TO NOTICE OF REQUEST FOR COMMENTS ON  
MODERN SERVICE STANDARDS AND PERFORMANCE MEASUREMENT  
FOR MARKET DOMINANT PRODUCTS  
(JULY 16, 2007)**

Netflix is pleased to have the opportunity to assist the Commission in its consultative role in advising the Postal Service on the establishment of service standards and performance measurements.

Netflix, Inc. (Nasdaq: NFLX) is the world's largest online movie rental service, providing more than six million subscribers access to more than 80,000 DVD titles. The company offers a variety of subscription plans, starting at \$4.99 a month. There are no due dates, no late fees and no shipping fees. DVDs are delivered for free to customers by the USPS from regional shipping centers located throughout the United States. Netflix can reach more than 90 percent of its subscribers with generally one business-day delivery. Netflix offers personalized movie recommendations to its members and has more than one billion movie ratings. Netflix also allows members to share and recommend movies to one another through its Friends<sup>®</sup> feature. For more information, visit [www.netflix.com](http://www.netflix.com)

While it is obviously important that appropriate service standards and measurements be established for all market dominant USPS products, Netflix's particular concern is with First Class mail. The Commission and the Postal Service need to begin by examining the current standards for First Class mail. The traditional definition of a "standard" really does not address everyone in First Class mail; it has been used more for a guiding principle to look at and provide an expectation between any two 3 digit ZIP Codes or within a PDCs defined service area. As the service standards are now set, they adequately describe the framework that allows the USPS to define its operating plans and logistics, and that must, indeed, be preserved, in addition to any other changes that should be made.

In examining whether the traditional definition should change, one asks the question: "What does a service standard really represent"? If the standards are primarily to be used to evaluate postal performance through measurement, then it seems obvious that the standards have to contain significantly more specific details of what that means (address expectations, type of mail, quality, make-up, drop-times, etc.) However, daily high volume users with a national presence, such as Netflix, do not need such standards. The issue comes back to for whom are the standards meant and how are they to be used.

With the obligation to serve such a diverse customer base, setting expectations by defining service standards to cover Aunt Minnie as well as a two-million piece per day mailer is simply not practical. Netflix would lean toward a "guiding principle" that is broadly applied and represents a stake in the ground for defining 1, 2, and 3 day areas for mail deposited in a collection box prior to its posted pick-up. Where USPS performance goals exist today, such as First Class mail overnight, two-day and three-day service standard areas, new performance goals, at a minimum, should be equal to those that exist today, and include Postal Service plans and timelines for improvements.

High volume mailers such as Netflix need only know what the network capabilities are and an explicit agreement on how best to enter and exit that network, and then a published "standard" on how that network is constructed and maintained, with assurance of a level of performance from whatever points the mailer chooses to enter and exit it.

Over the past 8 years of providing DVDs by First Class mail, the most significant component of growth has proven to be our ability to provide 1 day service to customers. Customer expectations of quick turnaround have proven to grow our subscriber base rapidly. We have also experienced the reverse and have lost subscribers when their expectations have not been met. Our expectation and that of our customers is 1 day delivery to the customer and a 1 day return when a DVD is mailed back by the customer. Within our operations we ship out a new DVD the day we receive one back from the customer.

Having stated these grounds in a broader sense, there are several other aspects of service standards that must be considered and defined. The most significant is that there are 3 digit Zip Codes that we are unable to get to and from in one day regardless of what we do. From our standpoint, this is unacceptable and must be corrected. These timeframes represent business opportunities where we have no alternatives. Those business opportunities will result in additional revenue for USPS if served in one day. Implicit in this is the issue of reciprocal standards. One, two or three day service when defined must be in both directions. The magnitude of this problem is more than what one would expect. There are more than 1,203 pairs that are one day in one direction but two days in the reverse direction. See attached exhibit.

The additional concern we have lies in the subtleties of a facilities operation that impacts service standards. For example, the cutoff time for entry of mail at a business mail entry unit (Critical Entry Times (CETs)) could arbitrarily be moved up an hour, which could totally wipe out one's ability to achieve certain service levels that customers have been receiving unless one incurs significant expense to alter operations. The same is true with the pickup of mail. Internal operational shifts resulting in mail being made available will hamper one's operations to the point of rendering "less service" while "standards" have not been changed. In fact we believe with the standardizing of facility operations through the manifestation of the "24 hour clock", there should also be a uniform set of entry and pick-up times set nationally. This would include entry times for different levels of mail make up (3 digit, 5 digit), BMEU entry times and a standard pick-up time for caller service which represents when 100% of the previous day's mail is ready.

Netflix is aware that Postal Service MTAC workgroups are examining closely the future standards and measurement goals, and that the PRC is an observer at those proceedings. Through that process, we are confident that much of the concerns of the mailing public will be addressed, but are not confident that all will be. For that reason, we file these comments and hope they assist the Commission in its role as a consultant to the Postal Service on the development of these new standards and measurement procedures.

Respectfully submitted

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