

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Service Standards and)
Performance Measurement)
For Market Dominant Products)

Docket No. PI2007-1

OFFICE OF THE CONSUMER ADVOCATE COMMENTS
IN RESPONSE TO NOTICE OF REQUEST FOR COMMENTS
ON MODERN SERVICE STANDARDS AND
PERFORMANCE MEASUREMENT FOR MARKET-DOMINANT PRODUCTS

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(July 16, 2007)

The Office of the Consumer Advocate (“OCA”) hereby files comments and suggestions in response to the Postal Regulatory Commission’s June 13, 2007, “Request for Comments on Modern Service Standards and Performance Measurement for Market Dominant Products.” (Order No. 21) Comments and suggestions are to be filed by July 16, 2007. Reply comments may be filed on or before July 30, 2007.

I. INTRODUCTION

For several years, the OCA has emphasized the importance of improving service performance to individual and business mailers.¹ OCA sought to prompt Postal Service

¹ See “Report Of The Consumer Advocate On Quality Of Services Provided By The Postal Service To The Public,” Docket No. R2001-1, March 6, 2002; “Initial Brief of the Office of the Consumer Advocate,” Docket No. R2005-1, at 91-109; “Office Of The Consumer Advocate Motion Requesting The Commission To Institute Rulemaking Proceeding To Establish Periodic Reporting Requirements For The United States Postal Service For Quality Of Service Performance Standards And Measurements And To Amend Rule 54(n) To Require The Most Current Performance Standards And Measurements To Be Included In Formal Requests For Changes In Rates and Fees,” Docket No R2005-1, October 26, 2005. More recently, see “Comments In Response To Advance Notice Of Proposed Rulemaking On Regulations Establishing A System Of Ratemaking,” Docket No. RM2007-1, April 6, 2007.

action to better measure service actually provided to mailers as compared to existing service standards, and, where necessary, to develop standards for service to permit such measurement. There remain several area of concern regarding service issues that have been presented by OCA and others. The Postal Accountability and Enforcement Act (“PAEA”) now requires the Postal Service to establish, by regulation, service standards, with one objective being to establish external performance measurements, not later than 12 months after the date of enactment of the Act for all market-dominant products, effective December 20, 2007.² Prior to establishing the performance standards, consultation with the PRC is required. The Commission has therefore requested that suggestions for service standards should be supported by reference to the objectives and factors listed in the PAEA.

Moreover, within 6 months after adopting the service standards, the Postal Service must “develop and submit to Congress a plan for meeting those service standards.”³ The proposed plan must also include “performance goals” for such service standards.⁴ Once established, the Postal Service is to report annually on its performance, including its service performance.⁵ The Commission must also review and evaluate whether the Postal Service’s annual performance is in compliance with the requirements of the PAEA.⁶

² §3691(a).

³ PL 109-435, §302(a).

⁴ *Id.*, §302(b)(1).

⁵ §3652(a)(1).

⁶ *Id.*, §3653(b)(2).

Significantly, the PAEA does not assume the Postal Service will establish any particular service standards, although it recognizes there are previously established service standards. (§3691(c)(1).) The PAEA provides four specific objectives (§3691(b)(1)) and eight guideline factors (§3691(c)) to be considered when establishing those standards. A primary objective of the service standards is to enhance value of service; that is, improve service value which, as discussed below, is a function of customers' perception about the product they expect to receive from the Postal Service. The first objective is "To *enhance* the *value* of postal services to both the senders and recipients." (§3691(b)(1)(A)). (Emphasis supplied.)

In addition, when considering the regulations, the Postal Service "shall" factor in the actual service currently provided. The first factor listed for consideration is the "*actual* level of service that Postal Service customers receive under any service guidelines previously established...." (Emphasis supplied.) (§3691(c)(1).) Also, the Postal Service shall consider the degree of customer satisfaction with current service guidelines. (§3691(c)(2).)

The fundamental duty of the Postal Service is to offer mail services that are useful to mailers and recipients of the mail. Section 3691 of the PAEA requires the Postal Service, in the course of issuing regulations on service standards, to review its performance and customer satisfaction with all of the types of mail services offered. Service standards are meaningless if the standards apply to service that, even if complied with, does not satisfy the customers. The Postal Service has the responsibility under the PAEA to review its service standards from the standpoint of customer

satisfaction. One advantage of this process is that it will assist in maintaining the Postal Service's customer base into the future.

As a starting point for promulgating regulations establishing service standards, it is necessary to look at the current standards and other guidelines which, for the first time, are specifically directed by statute to be established as regulations. The Postal Service has established service standards for 3-digit to 3-digit Zip-Code pairs for all mail within the four major classes of mail: First-Class Mail, Periodicals, Standard Mail and Package Services. For First-Class Mail, the standards are more current. They are based upon a review in the late 1990s that updated the standards to reflect actual drive times and other current realities. The other classes, however, have 3-digit to 3-digit Zip-Code-pair service standards that are apparently based upon the earlier system of the great circle distance measurement. Generally, this can be generally seen by reviewing the national map for each of the classes of service in the Postal Service's service standard CD that includes 3-digit to 3-digit Zip-Code pairs for the four major classes of mail.

The current service standards generally apply to an entire class of service and do not distinguish between subclasses or rate categories within classes of mail such as mail that is drop-shipped. Nor do the 3-digit Zip-Code-pair service standards recognize necessary delays in providing service to outlying geographic areas, particularly for remote areas of the non-contiguous United States, territories or other locations. The current standards, in general, therefore do not, but should, provide for special situations or special types of mail service. In other cases, *no* service standards exist at all. For instance, many Special Services involve important aspects of postal service. They have

no formal service standards although, in some cases, the Postal Service has internal management guidelines, some of which are published.

OCA does not expect to offer specific suggestions for service standards for particular types of mail or for 3-digit ZIP-Code pairs at this time. The details of standards are largely dependent upon the operations of the Postal Service's network and transportation limitations and are best handled by the Postal Service with input from interested participants. Much of the background information on current standards was scrutinized by the Postal Rate Commission in earlier dockets where important information about the operation of the standards was obtained.⁷ The OCA does, however, expect the Postal Service to be even-handed in the application of its business rules and in its computer modeling establishing 3-digit service standards. Management must also insure the standards are a high priority and take steps to insure standards are followed in daily operations.

The Postal Service and the Commission in consultation with the Postal Service must also be particularly aware that the PAEA specifically provides that any violations of regulations promulgated pursuant to §3691 are subject to complaint provisions of the PAEA. Thus, the regulations must provide enough flexibility for the Postal Service to operate without generating a violation of the regulations each time the Postal Service fails to meet any of the established service standards.

⁷ See, for instance, "Commission Report-Complaint on First-Class Mail Standards Service," Docket No. C2001-3, April 17, 2006; "Advisory Opinion Concerning a Proposed Change in the Nature of Postal Services," Docket No. N89-1, July 25, 1990.

A. Previous Proceedings

The Postal Service's service standards have already been the subject of several proceedings before the Postal Rate Commission and review by the Government Accountability Office ("GAO"). Many of the service standards reviewed in previous cases remain in place and much of the criticism of the service standards is still applicable. The GAO has conducted at least two investigations in recent years that reviewed the service standards and performance of the Postal Service. As recently as 2006, the GAO report concluded:

USPS delivery standards are not as useful and transparent as they should be. Standards for key types of mail—including Standard Mail, USPS's main growth product—are largely static, and do not fully reflect current operations. Thus, they cannot be used to set realistic expectations for mail delivery, to establish benchmarks for measuring performance, or to hold individuals accountable through pay-for-performance incentives tied to measurable results. USPS's delivery performance measurement and reporting is not complete, because it does not cover key types of mail—including Standard Mail, bulk First-Class Mail, Periodicals, and most Package Services. Further, despite recent disclosures on its Web site for some types of mail, USPS's reporting remains limited and has fallen short of statutory requirements to include specified delivery performance information.⁸

In an earlier investigation, the GAO concluded:

Although it is reported that overall customer satisfaction is high, when customers do raise concerns, many relate to inconsistencies in delivery services and changes in access to retail services. (Footnote omitted)⁹

And:

⁸ "U.S. Postal Service, Delivery Performance Standards, Measurement and Reporting Need Improvement," GAO, July 2006 at 41.

⁹ "U.S. Postal Service, USPS Needs to Clearly Communicate How Postal Services May Be Affected by Its Retail Optimization Plans," GAO, July 2004 at 31.

...[T]ime frames are needed so that USPS and stakeholders can evaluate the performance of these [retail] initiatives and how they fit into the network optimization plans as a whole, including the potential impact on costs and rates.¹⁰

The Postal Service should be particularly responsive to the critical comments that resulted from detailed review of the service standards in those investigations and should attempt to eradicate the problems that were uncovered during the reviews. OCA believes the PAEA represents Congress' mandate to repair the problems encountered by the current service standards.

Of particular relevance are the PRC's findings in previous "Nature of Service" cases (docketed as N cases by the PRC) filed by the Postal Service pursuant to §3661. Section 3661 was not modified by the PAEA and remains in effect. Section 3661(a) provides that whenever the Postal Service decides to change the nature of services that generally affect service on a nationwide or substantially nationwide basis, it shall submit a proposal, within a reasonable time prior to the effective date of the proposal, requesting an advisory opinion on the change. Section 3661(b) provides that a Commission opinion shall not be issued until an opportunity for an on-the-record hearing has been provided. In those cases, the Postal Rate Commission reached several relevant conclusions regarding service standards that are still current. Those conclusions should be considered when the regulations are formulated.

In other cases, the PRC was also concerned about the Postal Service's underlying basis for the service standards. One of the important aspects of the service standards is the Postal Service's belief that customers prefer reliability over speed. In

¹⁰ *Id.* at 39.

the simplest example, that is interpreted by the Postal Service to mean that customers would prefer a three-day service standard rather than a two-day service standard if delivery would be on time a greater percentage of the time.¹¹ Support for this view of the Postal Service rests upon questionable market research data from studies in the late 1980's. In its Opinion in Docket No. N89-1, the PRC reviewed the Postal Service's realignment plan to revise First-Class Mail service standards and the testimony of Seymour Lazerowitz for the Postal Service. The Postal Rate Commission said:

Properly conducted market research directed toward assessing postal customer support for various balances of "speed" and "consistency," would remedy one of our major problems with the realignment plan.¹²

More recently, the Postal Rate Commission has highlighted the shortcomings of this data. In 2006, the Commission again found the data flawed as well as outdated:

The Commission finds that the Postal Service, as a government monopoly, has a positive obligation to learn the needs and desires of its customers and structure its products to meet those needs and desires where doing so is not inconsistent with reasonably feasible and efficient operations. The flawed, and now outdated, customer research performed prior to Docket No. N89-1 did not satisfy that obligation.¹³

Consequently, it would be desirable and consistent with past Commission decisions for the Postal Service to update thoroughly its surveys of customer satisfaction, needs and desires. Suggestions for determining customer satisfaction with service and service standards are presented later in these comments.

¹¹ Of course, this oversimplifies the practical application of this policy.

¹² "Advisory Opinion Concerning a Proposed Change in the Nature of Postal Services," Docket No. N89-1, July 25, 1990 at 40.

¹³ *Complaint on First-Class Mail Standards*, Commission Report *Complaint on First-Class-Mail Standards Service*, Docket No. C2001-3, April 17, 2006, Appendix D, Findings at 3.

B. Section 3661. Postal services (39 U.S.C. §3661)

As noted above, §3661 enacted in 1970 by the PRA remains intact. It was not modified by the PAEA. As part of the Postal Service's promulgation of service standards pursuant to the PAEA, the Postal Service is properly and necessarily reviewing and, we expect, updating and implementing new service standards where there were none. To the extent there are proposed changes in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis, the provisions of §3661 require a proposal to be submitted to the PRC for an advisory opinion. The Commission may not thereafter submit its advisory opinion on the proposal until there is an opportunity for hearing pursuant to section 556 and 557 of title 5.

The PAEA does not specifically waive the requirements of §3661 during the current process of establishing modern service standards. Thus, Congress recognized that the sections are not mutually exclusive. They serve different purposes. Section 3691 provides that the Postal Service shall establish regulations for service standards. Section 3661 applies where there are planned changes in nationwide service and provides an opportunity for a hearing at which participants may express their views and the Commission may render a written advisory opinion. However, assuming the Postal Service, as part of the consultative process, submits proposed changes in service to the Commission, that submittal also might be deemed by the Commission as a proposal submitted within a reasonable time prior to the effective date of the proposal pursuant to §3661. Opportunity for hearings may be afforded and an advisory opinion issued at an appropriate time. Meanwhile, after consultation with the Commission on the proposed

service standards pursuant to §3691, the Postal Service may promulgate its regulations before December 20, 2007.

II. SUGGESTED FUNDAMENTAL SERVICE STANDARD GUIDELINES

A. Background

At this early phase in the implementation of the PAEA, it is important that the Commission seek to insure the Postal Service regulations follow fundamental guidelines suggested below to meet the objectives of the PAEA. This is an evolving and continuous process. In some cases, because the Postal Service does not consistently meet its service standards for certain classes of service, it may take several years before anticipated service standards are consistently met and before performance measurements are in place for virtually all mail and other postal services.

In this regard, pursuant to Title III of the Postal Accountability and Enhancement Act (“herein “PAEA”), the Postal Service has begun a process to establish modern service standards for market-dominant products. Under the Postal Service’s direction, a workgroup has been organized, operating through the Mailers Technical Advisory Council (MTAC), to receive industry guidance on modern service standards and measures for service performance.¹⁴ In addition to the main workgroup, four subgroups have been established, one each for the four major mail classes in the market dominant category—First-Class Mail, Periodicals, Standard Mail, and Package Services.¹⁵

OCA has actively participated in the MTAC workgroup, and in various subgroups. In this regard, OCA believes the recommendations of the MTAC workgroups, after

¹⁴ Meeting Minutes of MTAC Workgroup 114: Service Standards and Measurement for Market-Dominant Products, February 21, 2007.

¹⁵ *Id.*, at 3.

review at the highest levels of Postal Service management, could be an important step in developing updated standards for existing services and mail classes, developing new standards where none previously existed, and providing meaningful recommendations on measuring service performance and reporting such performance.

Consequently, OCA will not prejudge the outcome of the MTAC process by proposing separate service standards or presenting alternative proposals. Rather, OCA will reserve judgment on the matters before MTAC and, if the opportunity arises, will provide comments on such matters when the Postal Service makes recommendations to the Commission.

B. Deferability Of Mail Processing

OCA suggests that in the course of establishing service standards the Postal Service focus on its deferability standards and operating rules to avoid unacceptable delays in service.

The terms of service of Standard Mail and Package Services state the standard for service is deferrable. That is, these classes of service, being priced lower than alternative services, may, if necessary, be deferred during processing and delivery to provide priority to the higher, more expensive classes of mail. This is similar to the practice of providing interruptible service in the utility industry. Service is interruptible during periods of heavy load at management's discretion. It is a reasonable and useful load management and marketing tool. Yet, deferability can, but should not, become a shield to justify service of several times the number of days in the service standard.

A review of the current service standards for standard mail and package services appears to indicate the current service standards assume the mail will not be deferred

at any step along the way if it is to be delivered within the service standard. If there is a deferral, most likely the standard for a 3-digit to 3-digit Zip-Code pair will not be met. Any mailpiece entered at origin that will require transport across several zones will necessarily flow through several processing points. If the piece is deferred at each of these steps, then delivery will be delayed by several days and possibly weeks beyond the service standard.

Extreme delays seem to occur all too often where small volume Standard Mail mailers are involved, as well as for those mailing packages. There have been many verified instances of unacceptable delays measured in weeks or months in the delivery of deferrable mail. A case in point is the experience of the Flute Network, a mailer of a non-profit newsletter using non-profit Standard Mail. The Flute Network presented detailed and well supported testimony in Docket No. R2006-1 describing the long delays in the delivery of its Standard Nonprofit Mail. Following is one of the many examples of unacceptable delivery delays provided in that testimony and described on brief to the Commission:

The March 2006 issue of Flute Network cleared the Waynesville (NC) Post Office on March 9th.

We heard from 307 individuals about receipt of that issue, from all across the USA. Of that 307: 51 received their March issue in March; 33 received it between April 1st – April 8th; 80 received it on April 10th; 41 received it on April 11th; 102 received it on and between April 12th – 29th.¹⁶

* * * *

¹⁶ “Initial Brief, Janyce Pritchard for the Flute Network,” Docket No. 2006-1, refiled December 29, 2006, Br. at 8, Flute-T-1 testimony at 31.

...[T]here are still some rather startling stand-outs in the raw data ... worthy of note: ... and (2) for both the February and the March issues – going from the western NC town of Waynesville NC to the north Georgia towns of Snellville and Cumming, it took the February issue 74 and 75 days to arrive, respectively, and it took 47 days for the March issue to be received in both towns.¹⁷

Other similar or even more egregious examples from other mailers were discussed in the Flute Network testimony and brief in Docket No. R2006-1.¹⁸

Although this mail is deferrable, informal inquiry by OCA and review of the Postal Operations Manual, indicates there does not seem to be a collective limitation on the deferability of any particular piece of mail. During mail processing Standard Mail is color coded and earlier arriving mail is processed prior to later arriving mail (Postal Operations Manual-Chapter 4-Mail Processing Procedures, 458 *et. seq.*), but there does not appear to be a maximum amount of days any particular location may defer mail.

The largest mailers of standard mail generally have not objected to delays of the type experienced by the smaller volume mailers. It appears the smaller volumes may get lost in the larger picture at processing time. However, because these situations typically involve very small volumes of mail, the incremental cost to assure timely processing of these small mailer volumes, spread across many locations, should not noticeably impact rates.

OCA suggests that the Postal Service undertake efforts to tighten up its deferability rules so that inordinate delays cannot routinely occur. It is one thing for

¹⁷ *Id.* at 10, Flute-T-1 testimony at 33.

¹⁸ *Id.* at 22-27, Flute-T-1 testimony at 36-41.

individual mailpieces to be misplaced or lost in processing; it is quite another for bundles of mail to be set aside for many days or weeks to be processed only when nothing else remains. Customers can understand delays due to heavy workload, but they do not expect that entire mailings will be shunted aside for weeks. The Postal Service should modify its deferability rules in order to avoid extended delays for small business. The goal is a system that assures deferrable mail is not inordinately delayed or even lost. Small mailers, such as The Flute Network and other mailers in the music industry described in testimony in Docket No. R2006-1, are representatives of precisely the types of cultural groups who, without sufficient funds to use First-Class Mail, are bound together across the nation by Standard Mail.

C. Suggested Principles For Service Standards

OCA suggests the following set of principles by which to judge proposed service standards and measures of service performance. The OCA intends to address other essential services that are not within the mandate of MTAC and are not being considered in MTAC meetings. They involve important service issues deserving Commission attention and action by the Postal Service. By following these guidelines designed to meet the objective of the PAEA and the listed factors for consideration, the service standards will serve all users of the mail and meet objectives and factors stated in the PAEA.

1. Service Standards must be based upon knowledge of customer needs and expectations.

Pursuant to the MTAC workgroup, the Postal Service is determining business needs with respect to updating and establishing service standards. However, the Postal

Service has accepted very little direct consumer input on whether the existing service standards meet consumer needs.

To a large extent, as a measure of consumer views, the Postal Service apparently continues to rely upon survey research conducted prior to, and litigated in, Docket No. N89-1, involving the realignment of service standards for three-digit ZIP Code pairs for First-Class Mail. At that time, the Commission found the Postal Service market survey research to assess customer support for consistency over speed was not properly conducted and was unsatisfactory.¹⁹

More recently, in an opinion issued prior to the PAEA on a complaint about the realignment of 2 and 3-day service standards for First-Class Mail, the Postal Rate Commission stated, in even stronger terms, its views that the Postal Service, as a government monopoly, has a positive obligation to learn the needs and desires of its customers and structure its products to meet those needs and desires. It further concluded the customer research performed even before Docket No. N89-1 was not only flawed, but outdated.²⁰

The Postal Service's most recent attempt to understand customer needs and desires is equally flawed. More problematic, however, is the missed opportunity to work with households and small business customers on survey research that is relevant. For example, such research might have addressed individual mailer expectations and

¹⁹ "Advisory Opinion Concerning a Proposed Change in the Nature of Postal Services," Docket No. N89-1, July 25, 1990, Docket No. N89-1, Op. at 40.

²⁰ *Complaint on First-Class Mail Standards*, Docket No. C2001-3, "Commission Report Complaint on First-Class Mail Standards Service," April 17, 2006, Appendix D (Findings) at 3.

satisfaction concerning delivery times of mail to their local areas, within their states and to more distant locations.

2. Service Standards must be established for all market-dominant products, including Special Services

The PAEA requires service standards for the major classes of mail. The MTAC workgroup is also working to recommend service standards for Special Services. OCA is hopeful that the workgroup will complete its work on service standards for Special Services during this phase of the review process, many services of which are used predominantly by individual mailers.

3. Service Standards must be established for important postal services that are commonly considered part of the Postal Service's universal service obligations

The Postal Service's universal service obligations typically include terms of access to delivery services, retail services, and collection. The PAEA directs that attention be given to the universal services. Pursuant to §702 (not codified), the PAEA requires a written report on universal postal service in the United States that includes consideration of the "scope and standards of universal service provided under current law (including §101 and 403 of title 39, United States Code)."²¹ Section 403(b), 39 U.S.C. §403(b) specifies the following responsibilities of the Postal Service:

- (1) to maintain an efficient system of collection, sorting, and delivery of the mail nationwide;
- (2) to provide types of mail service to meet the needs of different categories of mail and mail users; and

²¹ PL 109-435, §702(a)(2)(B).

- (3) to establish and maintain postal facilities of such character and in such locations, that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services.

OCA has previously discussed the importance of establishing modern service standards related to the Postal Service's universal service obligations.²² Those comments are still relevant, and will not be repeated here.

4. Service Standards should be established to ensure consistent delivery of mail

Consistency of mail delivery is a desirable feature to many mailers, and should be promoted via service standards. As used here, consistency means the delivery of virtually all mail within a specified number of days. First, high service performance goals should be set for each class of mail and Special Service. In addition, as part of the service standard, a final set of goals for mail not delivered within the service standard should be established. This is for mail sometimes referred to as the "tail of the mail." OCA suggests a label of "consistency goal" or "outlier delivery standard goal" for this part of the service standard goal. Depending upon the class of mail, this percentage would be set at 98 or 99 percent, or similar, based upon customer expectations and the Postal Service's operations. This percentage would be commensurate with business customers' expectations of the level of service expected from their suppliers. For example, the comments of Mr. Lamm, representing a large direct mailer at the recent Postal Summit at the Bolger Center, expressed this expectation:

²² "OCA Comments in Response to Advance Notice of Proposed Rulemaking on Regulations Establishing a System of Ratemaking," Docket No. RM2007-1, April 6, 2007, at 28-34.

I look at my own you know contracts with third parties with other suppliers, and many of them you know you expect a 98 percent performance, right. Whatever that standard is you need to be performing that 98 percent of the time or better. That allows for the stuff that happens scenario.²³

Consistency goals for such “outliers” are, in effect, another service standard for that small part of the mail that is not delivered within the general service standard. The establishment of another service standard for outliers would preclude the Postal Service from effectively ignoring the small but significant amount of mail that fails to be delivered within the general service standards.

5. Service Standards and performance goals must be subject to periodic review and adjustment to promote continuous improvement in service performance.

For a number of mail products, service performance is currently unacceptable, such as retail single-piece Parcel Post that the Postal Service’s own reports indicate hover near fifty percent or lower.²⁴ Also, other current service performance goals, such as the ninety percent goal for 3-day First-Class Mail, are lower than percentage levels in the very high nineties (such as 98 or 99 percent) that, as discussed above, appear to be the levels of service performance customers normally expect from their business suppliers.

In general, OCA believes proposed service standards must consist of high service performance goals, even if current USPS service performance is unable to attain those goals. OCA believes that setting a high performance goal would help to

²³ Official Transcript of Proceedings Before the Postal Regulatory Commission, Summit Meeting – “Postal Customer Needs in a Changing Regulatory Environment,” March 13, 2007, at 258.

²⁴ Retail Package Services, <http://www.usps.com/serviceperformance/retailpackage.htm>

focus the efforts of the Postal Service on improving its performance. Where established service performance goals exceed current performance, the Postal Service should be permitted an opportunity to raise service performance up to the stated goal. This is preferable to establishing a lower performance goals that may be currently attainable but unsatisfactory to customers.

Proposed service standards and performance goals should be supported by a Postal Service review process to provide for regular review and evaluation. Such review and evaluation would enable mailers and the Postal Service to eliminate service standards that do not meet mailer needs, and adjust service standards and performance goals to promote higher levels of service performance.

6. Service Standards must be available to the public and articulated in terms that are clear and understandable to mailers, recipients, and the general public

Service standards that are published and widely distributed to the public are essential to postal customers. Postal customers, especially retail customers, should have convenient access to service standards to permit comparison based upon service and price. For example, customers should be able to readily compare the stated service standards and price for packages mailed via Parcel Post and Priority Mail. In addition, the service standards should be described in writing, and displayed in a tabular form or other simple graphics to facilitate easy understanding.

Published service standards and related tables should also be presented in one location, much like the Postal Service provides financial information on its website. There, the Postal Service has a webpage dedicated to financial data, reporting and developments. A similar page could be established for published service standards for

all classes of mail and special services, and provide data and trends on service performance measurement.

III. SUGGESTED FUNDAMENTAL SERVICE PERFORMANCE MEASUREMENT GUIDELINES

A. Background.

Performance measurement is a separate but interrelated topic that must be considered when establishing performance standards. Service standards must be designed to permit measurement of the actual service provided as compared to the stated service standards. In the final analysis, however, the Postal Service will be judged on its actual service performance, and measurement provides a basis for the judgment. The PAEA recognizes this: one of four objectives of the PAEA is, "To provide a system of objective external performance measurements for each market-dominant product as a basis for measurement of Postal Service performance." (§3691(b)(1)(D).)

As long ago as the Kappel Commission Report, which pre-dated the Postal Reorganization Act, it was recognized that performance measurement must be continuous, systematic and scientific.²⁵

OCA recognizes that the Postal Service is currently reviewing its service standards and performance measurement systems. OCA has participated in the MTAC Workgroup #114 covering the four primary classes of mail and SpecialS ervices wherein Postal Service business customers are providing input regarding their views about appropriate service standards and performance measurement. Recommendations from this workgroup, after review by senior postal management, will be forwarded to this

²⁵ "Towards Postal Excellence," *The Report of the President's Commission on Postal Organization*, June 1968.

Commission for consultation. The recommendations of this group will reflect a consensus of the customer participants in those groups but not necessarily the views of all customers or even of all the customers in those groups.

OCA is pleased that Postal Service management is reviewing its current service standards and attempting to establish standards for mail and other services. The Postal Service also appears to recognize that the actual service provided for some mail does not, and in some cases could not, meet current service standards. It is a challenge to provide much needed service standards for various subclasses or type of mail that do not, and cannot by their nature, meet existing service standards. The PAEA has caused postal management to focus on some of these areas. In some cases, operations or business rules need to be revised to ensure more mail is able to meet service standards. In other cases, where current standards cannot, and will not, realistically be met, such as for the non-contiguous parts of the United States or its territories and other areas, standards reflecting that fact would be useful and desirable in order to provide customers the information needed to make a rational decision about their mail. The OCA has been concerned, for some time, about the lack of performance measurements of various postal services. OCA filed a lengthy motion late in Docket No. R2005-1 that requested the Commission to institute a rulemaking to require the reporting of performance measurements.²⁶ The following discussion reflects some of the points raised in the OCA motion.

²⁶ “Office of the Consumer Advocate Motion Requesting the Commission to Institute Rulemaking Proceeding to Establish Periodic Reporting Requirements for the United States Postal Service for Quality of Service Performance Standards and Measurements and to Amend Rule 54(n) to Require the Most Current Performance Standards and Measurements to be Included in Formal Requests for Changes in Rates and Fees,” Docket No. R2005-1, October 26, 2005. The Commission did not rule on the substance of the motion.

The quality of postal services has been of great concern as far back as the Kappel Commission Report.²⁷ The Kappel Commission Report focused initially and specifically upon the deficient service quality of mail deliveries at the time of the report. In “The Quality of the Postal Service” (Kappel Commission Report (Report at 12.), the Kappel Commission was concerned with the “adequacy of day-to-day service” (Id. at 12.) as well as a pattern of public concern over the quality of mail service. The Report cited to not only “[d]elayed letters but erroneous deliveries damaged parcels and lost magazines. (Id. at 13.)

At the time, the Kappel Commission noted that the then recent Postal Service implementation of quality control measurements, “on a continuous and scientific basis,” pointed to the fact that 71 percent of First-Class letters were delivered the day after mailing. (Id. at 14.) The Kappel Commission concluded its discussion of quality of service by noting the “dearth of systematic market information” and with an admonition that the “correction of service deficiencies” should be made the first priority of postal management. It further stated that a high level of performance could be attained if management is given the incentive to respond to this urgent need. (Id. at 14.) Thus, there is no doubt where the Kappel Commission stood; it favored development of measurements of service on a continuous and scientific basis with systematic market information..

In the Postal Reorganization Act, the list of the general duties of the Postal Service in §403(a) and retained by the PAEA refers first and foremost to providing

²⁷ “Towards Postal Excellence,” *The Report of the President’s Commission on Postal Organization*, June 1968.

“adequate” postal service before “efficient” postal services and before “fair and reasonable rates and fees.” The adequacy of postal services cannot be determined without proper measurement of the quality of the services provided.²⁸

Over the years in evaluating rates, the PRC has considered the value of the mail service actually provided to the sender and recipients pursuant to the factor in §3622(b)(2) (now repealed and replaced by the PAEA). The quality of service provided by a particular class or subclass of mail was a factor weighed by the PRC in assigning cost coverages.²⁹ The quality of service provided should be measured objectively using appropriate and statistically accurate methods.

The legislative concern over the quality of postal service continues with the passage of the PAEA. At least once a year, the PAEA requires that the Postal Service report on market-dominant product service performance. In the PAEA, §3652(a)(2)(B) states that for each market-dominant product there must be an annual report that:

- (B) measures of the quality of service afforded by the Postal Service in connection with such product, including--
 - (i) the level of service (described in terms of speed of delivery and reliability) provided; and
 - (ii) the degree of customer satisfaction with the service provided.

In addition, the PAEA provides that one of the factors the PRC must consider in establishing a modern system of regulating rates and classes of service is “the relative value to the people of the kinds of mail matter entered into the postal system.” (§3622(c)(8)). The PRC must also consider “the importance of

²⁸ OCA does not consider adequate to mean merely that, on balance, mail is delivered and, most often, on time as measured by either the lack of a public outcry or the absence of public demonstrations at postal facilities. Nor, does “adequate” mean that only a small indeterminate number of patrons are disgruntled by lost or damaged mail or unsatisfactory special services, but that the Postal Service intends to improve service. See USPS Strategic Transformation Plan 2006-2010.

²⁹ See, for instance, PRC Op. Docket No. R84-1, at 516.

providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery.” (§3622(c)(9).) Clearly, there has been and continues to be concern over the quality, reliability and speed of mail delivery. Finally, it is the responsibility of both the Postal Service and the PRC to keep the public updated on the reliability, and speed of mail delivery in both a conveniently accessed and easily understandable manner.

B. Suggested Principles For Performance Measurement Guidelines

OCA believes the following principles should guide the evaluation of proposals for service performance measurement.

1. Service performance measurements by external means are required by the PAEA unless the Postal Service justifies, and the Commission authorizes, internal performance measurements.

Section 3691 of the PAEA expresses a clear preference for “objective external performance measurements for each market-dominant product.” However, the section permits the Commission in its discretion to approve (or disapprove) use of an “internal measurement system.”

OCA has previously discussed the reasons for, and benefits of, using external service performance measurement systems.³⁰ The most important reasons for instituting external measurement is to preclude degrading service performance that leads to higher rates for mailers, and minimizing Commission oversight of data

³⁰ “OCA Comments in Response to Advance Notice of Proposed Rulemaking on Regulations Establishing a System of Ratemaking,” Docket No. RM2007-1, April 6, 2007, at 18 and 20-23.

collection and reporting systems. The benefits of an external system would be its independence, integrity, and transparency.

OCA believes one or more external measurement systems will be required for fulfillment of the Commission's oversight responsibilities with respect to Postal Service performance. These external systems will of necessity operate parallel to internal Postal Service performance measurement systems, and involve additional costs. However, these factors should not be barriers to instituting external measurement systems, since there is no alternative to developing independent and reliable data on service performance.

2. Service performance measurement, at a minimum, must be provided for all mail and services for which a rate is paid

As a general principle, service performance measurement should be undertaken for all mail in all classes of mail. In general, a relevant yardstick is the requirement that all mail and services for which a rate is paid must be measured. This follows from the fact that mailers pay rates for a service, and they have a right to know the actual level of service being provided to them. For most classes of mail, such a yardstick will capture measurement of shape based mailstreams—letters, flats, and parcels. In First-Class Mail, for example, this requirement would also require measurement of nonmachinable pieces and QBRM. To the extent there are mailstreams for which separate rates are not paid, such as letters and flats in Periodicals, those separate shape-based mailstreams should also be measured.

3. External service performance measurement for First-Class Mail, Standard Mail, Periodicals and Package Services should provide the best data on entry-to-delivery, or “end-to-end,” service

Timely delivery is arguably the most important service provided by the Postal Service. Consequently, delivery service performance should be measured from entry of the mail with the Postal Service to delivery to the recipient. Such “end-to-end” service performance measurement should be considered the “gold standard” for Commission oversight of Postal Service delivery performance. In most instances, only an external measurement system, such as a statistical sample based upon seeding, will capture end-to-end service performance.

By contrast, measuring end-to-end delivery performance using internal Postal Service personnel is likely to be highly problematic as it would require delivery personnel to collect scans of barcodes or use other methods to indicate delivery. The difficulties in using an internal measurement system are apparent in the Postal Service’s proposed use of Intelligent Mail Barcodes (IMBs). If IMBs, planned to be effective in calendar year 2009, are the internal source of delivery measurement, passive scans of IMBs on automated mail processing equipment will provide near real-time information about the processing and location of mailpieces bearing such barcodes. But this applies only as far as the last passive scan for delivery point sequencing which would serve as the proxy for delivery that day. External measurement could sample actual deliveries and insure more independently measured delivery data.

The need for external measurement is even more important since not all types of mail service will have IMBs, such as presorted First-Class Mail letters and flats. Other examples include Standard Mail carrier route presort letters and flats dropshipped at the destination delivery unit (DDU).

4. External service performance measurement must provide data that is statistically representative, taking into account the costs of measurement

The Postal Service's required use by mailers of IMBs will allow, in theory at least, passive scans of every letter and flat mailpiece featuring an IMB during processing on automated equipment. In effect, when fully implemented, the Postal Service can use IMBs to take an internal census of every automated letter and flat to measure mail processing performance, and do so at low cost.

Because not all mail is processed on automated equipment that will scan for IMBs, especially smaller volume subclasses or rate categories, a census based upon mailpieces featuring IMBs will not be possible. The only other alternative is some type of external sampling system. To provide meaningful service performance measurement, such an external sampling system must be statistically representative for the mail services being measured. And, such a statistically representative sampling system will involve additional costs. The Postal Service's current EXEC system, which measures service performance of single-piece First-Class Mail, costs approximately \$21 million per year.³¹ In some cases, the costs of a statistically representative system may be viewed as "excessive" relative to the volumes involved, such as non-automation presorted First-Class Mail, which represents 1.8 percent of First-Class Mail volume. However, service performance for such "small" mail services is likely to be lower than for larger mail services for which processing operations are typically set-up to handle. This suggests some type of external service performance measurement is even more important than for larger-volume mail services. To the extent costs are a factor in

³¹ "U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement," GAO-06-733, July 2006, at 96.

establishing statistically representative measures for smaller mailstreams, costs can be minimized by sampling and reporting results less frequently, such as on an annual basis rather than monthly.

5. External service performance measurement data should be regularly reported and made available for use by the public and in the oversight of service quality by the Commission

The Commission should require regular reporting of service performance data, preferably on a monthly basis, for purposes of oversight of service quality. Regularly reported service performance data will permit retail postal customers to choose mail services based on both price and actual service quality. The Commission should have knowledge of service performance data through out the year for ongoing oversight and in fulfilling the requirements of the annual compliance report.

In addition, the service performance data should be posted on the Postal Service's website in much the same manner as financial information is now. The Commission should also make service performance data available on its website.

Service performance measurement data generated internally using the IMB on letters and flats will be useful in managing operations, and analyzing trends to permit further improvements in those operations. The use of passive scans of IMBs will provide a wealth of data to manage postal operations on a daily basis. The Postal Service should make this data available to mailers on a near real-time basis to address service problems by mailers, and improve business management concerning marketing and strategic planning.

C. Current And Planned Measurement Systems

The following discussion and the charts in the Appendix attached to these comments represent an attempt by OCA, for the convenience of the Commission, to list in one place those portions of the mailstream that are not currently measured for performance and that, as so far as we are able to determine at this time, the mailstream that would not be measured for performance using the measurement systems now planned. Without this specific detail, it is easy to lose sight of the smaller groups of mail that would not be measured. OCA recognizes the difficulties and costs required to measure performance for all portions of the mail, however, the PAEA appears to require that objective and OCA supports that goal.

1. First-Class Mail and Standard Mail

Tables 1 and 2 in the attached Appendix indicate the existing and planned measurement systems (where available) for First-Class Mail and Standard Mail. As shown in the tables, there are few measurement systems planned for a number of mail services.

2. Periodicals and Package Services

Table 3 in the Appendix, page 3, provides information on the existing and planned mail measurement systems for both Periodical and Package Services mail. In FY 2006, Periodical mail generated approximately 4 percent and Package Services generated 1 percent of the total domestic mail volume.

Periodical mail has an existing service standard of 1 to 7 days and currently relies on those mail pieces getting a USPS Confirm scan to measure service performance. However, not all periodical mail pieces are being measured, since not all

periodical mailers subscribe to the USPS Confirm service. For the near term, the USPS is considering using Confirm and Red Tag measurement systems to measure service performance. Then, when the USPS introduces its Intelligent Mail Barcode (IMB), which is scheduled for sometime in 2009, the USPS will use Confirm and the IMB to measure periodical mail service performance. Whether it is Confirm, Red Tag and/or IMB, there will continue to be periodical mail pieces that are not measured. For example, newspapers, small publications, high density and saturation mailings, and periodicals entered at the DDU.

Package Services includes Parcel Post, Bound Printed Matter, Media Mail and Library Rate mail. The USPS does not measure the service performance for each separately because mail volumes are extremely low for each subclass.

On its website, the USPS indicated that only 48 percent of retail packages were delivered on-time; and, retail parcels represent only 8 percent of the total surface package volume.³² Package Services mail has an existing standard of 2 to 9 days and currently relies upon those mail pieces receiving a Delivery Confirmation scan to measure current performance. However, not all Package Services mail pieces are being measured because not all Package Services mailers use the USPS Delivery Confirmation service. In 2009, when the USPS introduces its IMB, the USPS plans to

³² USPS website at: <http://www.usps.com/serviceperformance/welcome.htm>. This information has been published on the USPS website pursuant to letter agreement between OCA and the Postmaster General dated July 22, 2005 in partial settlement of issues in Docket No. R2005-1. The OCA notice of the letter agreement stated, among other things, "For First-Class Mail, the External First-Class Measurement system will provide the data for (1) Overnight, (2) Two-Day, and (3) Three-Day First-Class Mail performance. Package Service performance information will be obtained from Delivery Confirmation data. The performance data listed above will be posted at the Postal Service's website and will be accessible to users of Click-N-Ship and the domestic Postage Rate Calculator. The Postal Service has agreed to post notices at its Post Offices, including stations and branches, advising patrons that performance data on Express Mail, Priority Mail, First-Class Mail, and Package Services are available at usps.com." Notice, July 25, 2005.

use both Delivery Confirmation and the IMB to measure service performance. Whether it is Delivery Confirmation or IMB, there will continue to be Package Service mail pieces that are not measured. For example, non-machinables and Destination Delivery Unit (DDU) entered mailpieces without Delivery Confirmation.

IV. SERVICE STANDARDS AND PERFORMANCE MEASUREMENT FROM THE VIEWPOINT OF ECONOMIC THEORY

This section addresses issues of service standards and performance measurement from the viewpoint of economic theory and statistical measurement. Ideally, an enhanced consideration of consumer preferences would be the first step in creating service standards for the Postal Service inasmuch as consumer demand and needs should be an important input to the setting of performance standards. However, OCA recognizes that given the ongoing nature of the Postal Service's operations and the current service standards together with the timelines for implementing the PAEA, an extensive research effort cannot realistically be initiated prior to issuing the service standard regulations. However, the services offered and the service standards for those services should reflect an evolving process of performance analysis. It is hoped that, periodically, performance standards can be revised and improved based on consumer preferences.

By utilizing the approaches discussed herein and/or other appropriate approaches, the Postal Service, with the encouragement of the PRC, could take the opportunity offered by the new legislation to re-vitalize the underpinnings of its service standards. The proposed research will provide insight to products and services as well as the levels of performance that will enhance customer satisfaction. This will assist in establishing service standards for the products offered that are most closely related to

fulfilling customer satisfaction, and also assist in reviewing service standards on an ongoing basis, recognizing that the changing economy and demographics create new opportunities and needs. By specifically coordinating customer desires with products offered and service standards, this fundamental review of service standards will modernize the service standards to be consistent with current consumer preferences. All of this is in keeping with the number one objective of the PAEA to “enhance the value of postal services.” This approach will also serve to meet another significant objective of the PAEA to assure “customer delivery reliability, speed and frequency” of service. It will help to determine and update the relative weight customers place upon these factors of service. The objective is to establish performance standards that will maintain and increase customer satisfaction and thus mail volume for the benefit of all mailers and recipients of the mail.

OCA addresses issues of service standards and performance measurement from the viewpoint of economic theory and statistical measurement. Consumer demand, preferences, and needs should be an important input to the setting of performance standards. We discuss, below, the analysis and measurement of consumer preferences and their translation into products; work performed by the American Customer Satisfaction Index; and ongoing Postal Service customer performance measurement.

A. Economic Theory Provides Important Insight In Evaluating Service Standards, Service Performance, And The Value Of Postal Services To Both Senders And Recipients

Economic analysis can be used in considering performance standards in terms of a number of the objectives and factors of the Postal Accountability and Enhancement

Act (PAEA), providing insight on what consumers value and what the performance standards should be. Econometric and statistical techniques facilitate the analysis of actual performance.

When considering customer satisfaction and when examining possible performance measures, it is appropriate first to consider whether the types of products offered adequately meet consumer demand and preferences. In "A New Approach to Consumer Theory," Kelvin Lancaster presented a theory of consumer behavior focused on how consumer needs, desires, and preferences translate into the demand for specific products.³³ The implementation of Lancaster's theory using a conjoint analysis approach facilitates the analysis of tradeoffs among consumer preferences. In the case of the Postal Service, this approach would permit the determination of the value of various aspects of postal services to both senders and recipients of mail. One could then analyze how consumer preferences should translate into performance standards. Performance can then be evaluated based on performance standards based on consumer demand.

In subsequent sections the OCA will present an overview of the Lancaster approach and how it sets the basis for the analysis of performance, along with some specific comments related to the setting of service standards. In setting performance standards it would be appropriate to give careful consideration of the product characteristics valued by the consumer and how the standards measure performance in delivering the products.

³³ Kelvin J. Lancaster, "A New Approach to Consumer Theory," *The Journal of Political Economy*, Vol. 74, No. 2, April 1966, at 132-157.

OCA will also provide specific comments on various aspects of current performance standards as well as comments on currently available information. Further, research on and consideration of product standards may be appropriate, as well as consideration of the present status of standards and how well they meet consumer needs.

In addition to information available from the Postal Service, information on the measurement of Postal Service performance is available from the American Customer Satisfaction Index (ACSI). It is also our understanding that the Postal Service conducts surveys of customers on an ongoing basis. Although the results of the Postal Service's ongoing survey efforts are not available in detail, the surveys have apparently been conducted for a number of years and are worth consideration.

As measured by the ACSI, the Postal Service receives a grade of 73 averaged across the years 2004-06, placing it 16th from the bottom among 46 industries comparably measured. In comparing consumer satisfaction with governmental agencies, the Postal Service's overall rating is slightly better than the overall governmental rating of 72. Turning to package delivery, the Postal Service receives a satisfaction rating of 75 for Express Mail and Priority Mail, compared to 84 and 82 for FedEx and UPS, respectively.

B. Lancaster's "A New Approach To Consumer Theory" Provides A Basis For The Analysis Of Customer Preferences And The Development Of Service Performance Standards

1. Lancaster focuses on attributes, which combine to form a product

In the standard economics textbook, the concept of a "product" or "good" is basic and undefined: a product is a product. The consumption basket of goods selected by a

consumer is based on the consumer's maximization of utility—i.e., the overall level of satisfaction—resulting from choices among goods subject to a budget constraint.

Consumer preferences and income are a given. When we couple these concepts with the concepts of marginal revenue and marginal cost, we arrive at the product's price and quantity sold. However, this part of economic theory is deficient in explaining consumption choices:

Why do some products do well, and other products wind up as seconds at a remainder store?

Why are some products spectacularly successful?

What determines market share?

Lancaster presented a theory of consumer behavior focused on how consumer needs, desires, and preferences translate into the demand for specific products. He noted that the existing theory of consumer demand,

...has been shorn of all irrelevant postulates so that it now stands as an example of how to extract the minimum of results from the minimum of assumptions.³⁴

He indicated that all of the intrinsic properties of particular goods have been omitted from the traditional theory of consumer demand. Consumer tastes are not incorporated in the theory but, rather, are taken as a given. Lancaster's analysis of consumer demand changed the modeling approach from the traditional assumption that goods are the direct objects of utility. Instead, Lancaster focused on the properties or

³⁴ Kelvin J. Lancaster, "A New Approach to Consumer Theory," *The Journal of Political Economy*, Vol. 74, No. 2. April 1966, at 132.

characteristics³⁵ of the goods from which utility is derived. For example, using traditional economic theory, one concludes that Chevrolet, Ford, and Dodge cars of comparable price are not necessarily the same product: a red Chevrolet may be a different product from a green Chevrolet. Using Lancaster's theory with a focus on characteristics and the automobile purchasing problem/decision of meeting the consumer's underlying basic aspirations, needs, cravings, and feelings that come into play in the automobile purchasing process, one would model the purchasing process for the three vehicles based on their abilities to meet the desired characteristics. They would be alternatives of the same product with differentiating characteristics.

Lancaster moves away from the classical consumer demand concept that assumes consumer preference orderings rank collections of goods. He assumes that the consumer maximizes an ordinal preference function for characteristics subject to a budget constraint. The consumption of goods is based on a consumption technology relationship relating characteristics and goods, subject to a budget constraint. Key aspects of his theory include the following:

A consumer is a producer, using a consumption technology matrix to maximize utility from a set of preferences for characteristics to arrive at a set of goods.

A good does not give utility to the consumer; it possesses characteristics and these characteristics give rise to utility.

In general, a good will possess more than one characteristic; and many characteristics may well be shared by more than one good.

Goods in combination may possess characteristics different from those pertaining to the goods separately.

³⁵ Lancaster focused on technological characteristics—i.e., chemical, physical, etc. Applying the theory to non-physical characteristics involves additional assumptions; clearly much consumption behavior is related to consumer perceptions and preferences that are not in the technological realm but, rather, denote psychological preferences.

Among a group of competing product brands which can be used in combination with one another to produce characteristics, each brand must be on the efficiency frontier resulting from the consumer choice process in order to survive. There is a maximum price at which a differentiated brand can sell. The price is independent of consumer preferences or income. As brands become closer to each other, the maximum price that can be charged becomes closer to other prices.

2. Lancaster presented a new way of looking at products

Lancaster presents an economic theory of brand preference, based on the premise that goods are valued for their attributes and that differentiated products are essentially different packages of attributes.³⁶ The concept of characteristics has replaced the concept of goods. For the theory to be operational, one needs specific definitions of characteristics as related to the specific goods.

3. The application of Lancaster's theory permits improved definition of performance standards

There are a variety of possible attributes which can be associated with a postal product: various price and delivery time levels, performance in terms of specific delivery times, tracking and verification options, etc. Each option would be considered a product attribute using Lancaster's theory. Attributes can be combined to create postal products. In determining consumer satisfaction it is appropriate to consider what type of product the customer desires based on the attributes, thereby defining expected product standards. For example, in evaluating delivery performance for a specific product, one would wish to consider the importance of time, both in duration and in terms of specificity, in comparison to other product attributes.

³⁶ Brian T. Ratchford, "The New Economic Theory of Consumer Behavior: An Interpretive Essay," *The Journal of Consumer Research*, Vol. 2, No. 2 September 1975, at 65-75.

C. Lancaster's Theory Can Be Implemented Using Conjoint Analysis

Conjoint analysis focuses on how consumers make decisions between product choices, i.e., the trade-offs between cost, performance, features, and any other relevant product attributes. Attributes are a general feature of a product or service—e.g., delivery time, size, speed, cost, performance, etc. The amount of the attribute (or some distinguishing characteristic of the attribute if not quantified) is the level of the attribute. For example, for the attribute color, the level could be green, red, mauve, etc.

1. Data for the implementation of a conjoint analysis would be obtained from customer choice surveys

The data for the implementation of a conjoint analysis are obtained from surveys: consumers are asked to differentiate and choose among products, each product being composed of different types and levels of attributes. The purpose is to evaluate the tradeoffs made by consumers in determining the preferred product. The answers can then be analyzed to determine how valuable each of the levels of the choices is relative to the others based on the utility of the level of attributes selected. The results of a conjoint analysis indicate what product(s) is/are desired by consumers. One can also compare across attributes to determine which attributes have the greatest impact on product selection. This permits one to measure the importance of attributes.

2. The conjoint analysis approach permits the definition of products.

For example, in determining possible price levels, one can understand the cost impact vs. extra value to the consumer from various product design choices. If one were designing an automobile, would one get a better return spending more on development to decrease vehicle weight, or would it be more effective to decrease

vehicle price, resulting in lower profit margins per vehicle? The goal of a conjoint analysis is to evaluate the range of options that potential purchasers consider. The approach can be used by marketing managers in addressing customer responses to alternative pricing strategies, predicting the profitability and/or market share for proposed new product concepts, and predicting the impact on profits from changes in competitive position. The marketer can then focus on the most important features of the products or services, arriving at a price, selecting and targeting a marketing or advertising message, or altering product attributes based on what the targeted buyers value. The joint effects of multiple product attributes on product choice are examined.

There are a broad range of techniques associated with conjoint analysis in estimating the value people place on the attributes or features which define products and services. In summary, a conjoint study involves the following procedures:

Products are defined in terms of attributes; each attribute has one or more levels, a value which the attribute can assume. For example, suppose attribute 1 has 2 levels, attribute 2 has 3 levels, and attribute 3 has 2 levels. There are a total of 12 possible combinations of the three attributes ($2 \times 3 \times 2$); not all of the pairings are necessarily meaningful, being technologically unavailable or clearly inferior.

Survey participants are asked to rank the potential product choices. A conjoint survey typically involves substantial participant time and may need to have internal checks for consistency among expressed choices.

Once data has been collected, attributes can be cross-tabulated with other attributes, and the data can be used to analyze consumer preferences. The

procedure gives average utilities, which provide a rough estimate of the importance of the levels of attributes.

The power of conjoint measurement lies in its ability to convert non-metric input into interval scaled output has resulted in conjoint analysis.

3. A conjoint analysis would permit the Postal Service to determine tradeoffs between product, price, and performance characteristics

The application of conjoint analysis could provide useful information in the development of product specifications and performance standards. For example, in the case of Standard Mail, one could hypothesize a variety of product options. Here are three of a number of possible cases:

Option A: Relatively low priced, extended delivery time, projected date of delivery relatively uncertain.

Option B: Higher price, extended delivery time, projected date of delivery certain.

Option C: Higher price, relatively quick delivery, projected date of delivery uncertain.

An analysis would evaluate customer preferences and tradeoffs, permitting a focusing on the product on consumer needs as well as the development of relevant performance standards measuring the delivery of service performance. Such an analysis would be consistent with the Advisory Opinion in Docket No. N89-1:

Properly conducted market research directed toward assessing postal customer support for various balances of “speed” and “consistency,” would remedy one of our major problems with the realignment plan.³⁷

³⁷ “Advisory Opinion Concerning a Proposed Change in the Nature of Postal Services,” Docket No. N89-1, July 25, 1990, at 40.

OCA advocates that some exploration of the conjoint approach be considered, given that appropriate performance standards must be established prior to the collection of data evaluating performance. Alternatively, if the Postal Service has already performed such work or has directed other relevant research, the results of those studies should be useful in the current proceeding.

The consideration of additional survey approaches does not need to be at the expense of the consideration of other consumer input, including surveys, MTAC meetings, and/or other customer input. However, existing data, as discussed in a subsequent section, seem to indicate that customers believe that the Postal Service could improve its performance significantly. To some degree, perceptions of performance may be related to the mis-specification of products. That is, quite possibly the Postal Service delivers the level of product specified, but for a significant group of consumers the product does not really meet all desired characteristics.

D. Release of available survey and performance information is useful for considering customer needs and objectives

As noted above, the Postal Service is currently providing product performance information at its website. In addition, the Postal Service is actively engaged in gathering customer input through MTAC meetings; some of this information may provide the same of the type of input that the more formal approach of conjoint analysis can provide. OCA recognizes that the Postal Service has made some significant advances in providing information. OCA endorses those activities and favors the release by the Postal Service of any other available survey and performance information. Our comments are aimed at providing suggestions for improvements in the consideration of customer needs and objectives.

- E. The American Customer Service Index (ASCI) currently measures customer satisfaction with the Postal Service.

The American Customer Satisfaction Index³⁸ measures customer satisfaction with goods and services for a number of sectors of the economy:

Manufacturing, Non-durables (e.g., apparel, beverages, food processing)

Manufacturing, Durables (e.g., automobiles, consumer electronics, household appliances, personal computers)

Transportation, Communications, Utilities (e.g., airlines broadcasting, utilities, telecommunications)

Retail (Department and discount stores, gasoline, restaurants, supermarkets)

Finance, Insurance (Banks, Insurance/Property/Life/Casualty/Healthcare)

Services (Hospitals, Hotels,)

Public Administration (both local government and Federal agencies).

1. The ACSI measures customer satisfaction based on a customer satisfaction survey and the subsequent analysis of the data in an econometric model.

The ACSI measures customer satisfaction annually for more than 200 companies in 43 industries and 10 economic sectors. Measurement is performed on a rolling basis, with the index taking on a value between 0 and 100. During each quarter data is collected for particular sectors and industries and used to replace data collected 12 months earlier. This data is then weighted by industry and sector to create a national

³⁸ The ASCI survey is sponsored by the University of Michigan Business School, American Society for Quality Control, and the CFI Group (<http://www.theacsi.org>). The survey is funded in part by corporate subscribers, who receive industry benchmarking data and company-specific information about the potential financial returns from improving customer satisfaction. The survey has participation by approximately 70 customer segments of Federal agencies as well as approximately 190 private companies.

ACSI score representing the satisfaction of the "average American consumer." During each quarter new ACSI results are published for: approximately one-fourth of the measured companies, industries and sectors, as well as the rolling-average National ACSI score. These results are released to the public through the ACSI website and a variety of media outlets about 45 days after the end of each fiscal quarter (i.e. in late May for Q1, August for Q2, November for Q3, and February for Q4).

The Survey collects data at the individual customer level in reference to various aspects of consumer satisfaction with products and services.³⁹ Scores for a company's customers are aggregated to produce company-level results. The ACSI model produces indices for the drivers of satisfaction (customer expectations, perceived quality, and perceived value), the resulting satisfaction, and the outcomes of satisfaction (customer complaints, customer loyalty, and pricing and retention tolerance'). An industry score consisting of an average of the company scores weighted by the revenues of each company is also produced, and the national ACSI score is comprised of sector scores, weighted by each sector's contribution to the GDP.

The two key parts of the ACSI effort are the survey instrument and an econometric model. The three important questions in the survey that are key in determining satisfaction, answered on a 1 to 10 scale basis, focus on satisfaction with the goods/services, the degree to which the services met expectations, and how well the services received compare with the ideal set of services. Once collected, the data are input into a causal/structural equation model for analysis, which provides the customer satisfaction index score as well as other information about variables driving

³⁹ The telephone survey consists of Random Digit Dial (RDD) telephone samples of 70,000 customers annually, with controls for non-response and randomness of sample.

the score. Given that the satisfaction questions used to create the ACSI score are identical in each case, it is possible to perform inter-company comparisons. The analysis model relates economic performance of the individual companies to overall customer satisfaction. The model develops information on drivers of satisfaction (customer expectations, perceived quality, and perceived value), satisfaction, and the outcomes of satisfaction (customer complaints and customer loyalty, including price tolerance and retention). The model produces an overall score, and companies are able to use the information to evaluate how changes in customer satisfaction efforts will impact overall customer satisfaction.

The government agency ACSI model is modified in order to evaluate performance in terms of the agency's focus on principle outcomes. Each government agency defines the outcome most important to it for the customer segment measured. Each agency also identifies the principal activities that interface with its customers. The effects of these activities on customer satisfaction are estimated by the model.

2. Based on information available in connection with the ACSI, customer satisfaction is important.

A one percent change in consumer satisfaction as measured by the ACSI is associated with a 4.5 percent change in the overall market value of a company as measured by stock price.⁴⁰ It is possible to project changes in corporate profitability in comparison to changes in customer satisfaction with a company's products. Stocks of companies with high ACSI scores tend to do better than those of companies with low

⁴⁰ Claes Fornell, Sunil Mithas, Forrest V. Morgeson III, M.S. Krishnan, "Customer Satisfaction and Stock Prices: High Returns, Low Risk," *Journal of Marketing*, Vol. 70, January 2006, at.5.

scores. Product/service quality plays a more important role in satisfying customers than does product/service price in almost all ACSI-measured industries. Price promotions can be an effective short-term approach to improving satisfaction, but price cutting is almost never sustainable in the long-term. Companies that focus on quality improvements tend to fare better over time in the CSI than companies that focus on price.

3. ACSI measures are available for the postal service.

Table 1 presents satisfaction measurements for government agencies.

Table 1

	2004	2005	2006	Avg 2004/06
Federal Government (Aggregated)	72.1	71.3	72.3	72
Benefits Recipients				
Pension Benefit Guaranty Corporation	84	85	85	85
Veterans Health Administration, VA	84	83	84	84
Veterans Health Administration, VA	83	80	82	82
Social Security Administration	81	81	80	81
Centers for Medicare & Medicaid Services, HHS	76	76	73	75
Information Providers/Technical Assistance/Supply				
General Services Administration	81	80	82	81
Treasury Franchise Fund, Treasury	NM	85	81	
General Services Administration	76	77	79	77
Pension Benefit Guarantee Corporation	78	79	75	77
Bureau of the Census, Commerce	73	72	74	73
National Aeronautics & Space Administration	75	78	74	76
Pension Benefit Guarantee Corporation	69	68	68	68
Specialty Retail - Collectibles				
U.S. Mint, Treasury	86	88	87	87
Financial Services				
Federal Student Aid, Education	78	76	79	78
Corporation for National and Community Service	NM	74	75	
Small Business Administration	67	66	57	63
Recreational Land Users				
Army Corps of Engineers, Defense	75	75	74	75
IRS				
Internal Revenue Service, Treasury	64	64	65	64
	78	77	76	77
	52	50	51	51
Internal Revenue Service, Treasury	60	60	61	60
Internal Revenue Service, Treasury	51	48	52	50
Regulatory				
Federal Aviation Administration, Transportation	65	66	70	67
International Travelers				
Consular Affairs, State	76	79	75	77

Table 2 presents satisfaction measurements for the Postal Service and several of its competitors.

Table 2

	2004	2005	2006	2007	Avg 2004/06
FedEx Corporation	83	84	86	84	84
Express Delivery	81	81	83	81	82
United Parcel Service, Inc.	80	82	83	81	82
All Others	NM	78	82	79	
U.S. Postal Service - -Express & Priority Mail	77	74	75	77	75

Table 3 presents satisfaction measurements summarized across the economy.

Table 3

	2004	2005	2006	2007	Avg 2004/06
Airlines	66	66	65	63	66
Apparel	79	81	80		80
Athletic Shoes	82	77	76		78
Automobiles & Light Vehicles	79	80	81		80
Banks	75	75	77		76
Breweries	79	82	82		81
Broadcasting TV News	66	68	69	67	68
Cable & Satellite TV	61	61	63	62	62
Cellular Telephones	69	69	70	70	69
Cigarettes	78	79	78		78
Computer Software	NM	NM	74	73	
Department & Discount Stores	74	75	74		74
Electronics (TV/VCR/DVD)	82	81	80		81
Energy Utilities	72	73	72	73	72
Express Delivery	81	81	83	81	82
Fixed Line Telephone Service	71	70	70	70	70
Food Manufacturing	81	82	83		82
Full Service Restaurants	NM	NM	NM	81	
Gasoline Stations	70	69	71		70
Health & Personal Care Stores	NM	76	78		
Health Insurance	67	68	72		69
Hospitals	76	71	74	77	74
Hotels	72	73	75	71	73
Internet Auctions	77	78	78		78
Internet Brokerage	75	76	78		76
Internet News & Information	75	75	73		74
Internet Portals	71	75	76		74
Internet Retail	80	81	83		81
Internet Search Engines	80	80	79		80
Internet Travel	76	77	76		76
Life Insurance	75	75	79		76
Limited Service Restaurants	NM**	76	77	77	
Major Appliances	82	80	81		81
Motion Pictures	73	71	73	70	72
Newspapers	68	63	63	66	65
Personal Care & Cleaning Products	83	83	84		83
Personal Computers	74	74	77		75
Pet Food	83	82	83		83
Property & Casualty Insurance	77	78	78		78
Soft Drinks	83	83	84		83
Specialty Retail Stores	75	74	75		75
Supermarkets	73	74	75		74
U.S. Postal Service	74	73	71	73	73
Wireless Telephone Service	65	63	66	68	65

4. Available data indicate opportunities for improvement in postal service performance.

Overall, the Postal Service is listed towards the bottom third of industries when rated in terms of customer satisfaction. The ACSI collects data on a number of areas of performance. The data are not available on the website but, presumably, could be made available. In interpreting the overall satisfaction index and using Lancaster's concepts, one is prompted to ask whether the Postal Service's products are well aligned with customer expectations as well as whether operational improvements are required. Customer satisfaction does not appear to be as high as desired. Additional consideration of consumer preferences as measured in terms of product attributes may be appropriate in further definition of performance standards and the attainment of increased satisfaction.

F. The Postal Service Also Has Its Own In-House Performance Survey.

OCA reviewed the results of a number of Postal Service Customer Satisfaction Surveys in a previous rate case under seal. Accordingly, we are offering no comments on the material previously reviewed under seal. However, an OCA analyst recently received at their home address via mail a Customer Satisfaction Survey from the Postal Service. Our comments are focused on the current survey effort, and we are unable to comment on whether the survey under discussion in these comments is similar or identical to the surveys reviewed under seal. Our comments are focused only on what is apparently an ongoing survey effort, which is public to the extent that individuals apparently receive it on an unsolicited basis with a request for a reply.

1. The customer satisfaction survey has 28 sections with over 100 questions.

The survey is comprehensive. Requested information focuses on customer experience and perceptions concerning mail received, mail sent, experience at postal facilities, and recent contacts with the Postal Service. As indicated, OCA previously reviewed copies of ongoing customer surveys OCA in a previous rate case.⁴¹ All comments in this filing, however, are based on a copy of the survey received in the mail by a member of the OCA.

The major strength of the survey is its comprehensiveness. The major weakness of the survey is also its comprehensiveness: it is not clear that a respondent will give careful answers to the large number of questions.

2. The survey provides substantial information.

Some brief comments drawn from the literature on customer satisfaction and performance can put the Survey into perspective. Frederick Reichheld has concluded that the satisfied customer⁴² finds that a product or service meets expectations. However, the loyal customer recommends the product to others. Reichheld has concluded that the key driver of customer satisfaction and profitable growth is

⁴¹ In Docket R2005-1 the OCA obtained the results of a number of customer satisfaction surveys under seal. Copies were returned and/or destroyed at the conclusion of the case. No part of the information previously obtained has been used in preparing the current comments.

⁴² He is critical of the relevance of the American Customer Satisfaction Index (ASCI), finding that there is not a strong correlation between high satisfaction scores and outstanding sales growth. Frederick F. Reichheld, "The One Number You Need to Grow," *Harvard Business Review*, December 2003, at 47-54. Other important articles on the subject of customer satisfaction include Werner Reinartz and V. Kumar, "The Mismanagement of Customer Loyalty," *Harvard Business Review*, July 2002, at 86-94; and Thomas O. Jones, W. Earl Sasser, "Why Satisfied Customers Defect," *Harvard Business Review*, November-December 1995, at 88-99.

customers who not only return, but who also recommend the product.⁴³ He has concluded that simple amounts of customer satisfaction is not a strong indicator of customer retention and lacks a consistently demonstrable connection to actual customer behavior and growth. Rather, the willingness of customers to recommend a product or service is the strongest sign of customer loyalty and is correlated directly with differences in growth rates among competitors. He is focused on one key question: “How likely is it that you would recommend the product to someone else?”

Reichheld mentions two tests which substantiate his conclusions. In the first case, companies were rated based on whether a customer would recommend the company’s products. Using a scale of ten (with ten as “extremely likely”, five as “neutral”, and “zero as “not at all likely”) he was able to designate as “promoters” customers with a score of nine or ten. He found that the level of “promoters” was predictive of customer repurchase behavior or the generation of referrals. The Loyalty Test administered to thousands of customers of 14 companies in six industries— financial services, cable and telephony, personal computers, e-commerce, auto insurance, and Internet service providers. In a second analysis he tracked “would recommend” scores for 400 companies in more than a dozen industries, obtaining 10-15 thousand e-mail responses per quarter. Customers were asked to rate one or two companies on a scale of 1 through 10, with 10 being best. He plotted the firms’ net promoters (negative detractors, awarding scores of 0-6, netted against positive customers with scores of 9 and 10), finding that a company’s relative average growth

⁴³ Frederick F. Reichheld, “The One Number You Need to Grow,” *Harvard Business Review*, December 2003, at 47-54.

rate over a three year period could be explained in terms of the single statistic of net promoters.

The median net-promoter score of more than 400 companies in 28 industries (based on some 130,000 customer survey responses gathered over a two-year time period) was 16%. The companies with the most enthusiastic customer referrals, including eBay, Amazon, and USAA, received net-promoter scores of 75% to more than 80%. Net promoters were in the 25% range and up for successful airlines, 8 percent and up for successful Internet Service Providers, and 30 percent and up for successful car rental companies.⁴⁴ Reichheld cited the dangers of customer detractors, using AOL, with a net promoter score of -10 percent, as an example: massive price cuts and the use of incentives rather than superior customer service does not work. Detractors can have a significant detrimental effect through work of mouth communications.

He advocated that a customer feedback program should be viewed not as market research but as a management tool, with managers being rewarded on this basis. One wants to create more promoters and have fewer detractors.

The path to sustainable, profitable growth begins with creating more promoters and fewer detractors and making your net-promoter number transparent throughout your organization. This number is the one number you need to grow. It's that simple and that profound.

⁴⁴ The statistics would be irrelevant in cases in which the customer does not select the vendor, as is the case in software and computers; and in cases of near monopolies such as local telephone and television, where there are not choices and where regional growth rates determine growth.

3. The USPS survey could be used in a performance measurement effort.

For a survey of the type under consideration and using Reichheld's approach to new promoters, one would subtract the Fair/Poor scores from the Excellent scores, thereby obtaining a net overview of performance in a variety of areas. One ignores the Very Good and Good scores, for, as Reichheld infers, the scores are relatively meaningless.

- G. The Customer Satisfaction And Performance Literature Is Relevant In Providing Some New Ideas Relevant To Postal Service Performance Measurement.

As demonstrated by the ACSI, there are opportunities for improvement in Postal Service customer satisfaction—both on an overall basis and in terms of competitive products. Recognizing that the Postal Service has a large, dedicated staff of employees, managers, and leaders with years of experience, it is difficult to reconcile relatively low performance measurements with efforts expended. This leads to a consideration of the Lancaster approach to consumer demand. In achieving a high level of customer satisfaction competitive companies and standard marketing practices look to product attributes to determine what customers value. Given the changing nature of the economy and the legislative changes permitting the Postal Service more freedom to revise products and types of services, such an approach is applicable to the Postal Service. In fact, the Postal Service is currently engaged in substantial customer feedback through MTAC meetings. This effort could possibly benefit through the increased use of economic and marketing techniques to refine concepts of customer expectations and demands relative to the characteristics of postal products.

In addition, the Postal Service has a Customer Satisfaction Survey which it circulates. Using some of the comments provided by Reichheld and others in the field of customer satisfaction it may be possible to determine with improved specificity areas for change and enhancement.

V. CONCLUSION

OCA respectfully submits the foregoing suggestions for the Commission's consideration.

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APPENDIX

Table 1 FIRST-CLASS MAIL

SUBCLASS (Rate Category and/or Shape)	SERVICE STANDARD	MEASUREMENT SYSTEM			FY 2006		
		EXISTING	PLANNED		VOLUME (000)	% OF TTL FC MAIL	% OF TTL DOMESTIC
	EXISTING		SYSTEM	STATUS - ISSUES			
Letters & Sealed Parcels							
Single-Piece	Overnight 95%,				42,067,621	43.1%	19.8%
Letters	2-Day 93%,	EXFC	EXFC	Ongoing	37,428,415	38.3%	17.6%
Flats	3-Day 90%;	EXFC	EXFC	Ongoing	3,405,121	3.5%	1.6%
Parcels		None	(TBD)	Unknown	535,025	0.5%	0.3%
Nonmachinable Ltrs		None	(TBD)	Unknown	384,607	0.4%	0.2%
QBRM Ltrs		None	(TBD)	Unknown	314,453	0.3%	0.1%
Presorted					1,735,392	1.8%	0.8%
Letter		None	(TBD)	Unknown	1,525,444	1.6%	0.7%
Flats		None	(TBD)	Unknown	173,905	0.2%	0.1%
Nonmachinable Ltrs		None	(TBD)	Unknown	36,043	0.0%	0.0%
Automation					48,121,440	49.3%	22.7%
Letters		None	IMB	Planned 2009	47,301,360	48.5%	22.3%
Flats		None	IMB	Planned 2009	820,080	0.8%	0.4%
Business Parcels		None	(TBD)	Unknown	5,170	0.0%	0.0%
Subtotal					91,929,623	94.2%	43.3%
Cards							
Regular (Single-Piece)		None	(TBD)	Unknown	2,252,490	2.3%	1.1%
Presorted		None	(TBD)	Unknown	369,194	0.4%	0.2%
Automation		None	IMB	Planned 2009	3,017,377	3.1%	1.4%
QBRM Cards		None	(TBD)	Unknown	48,769	0.0%	0.0%
Subtotal					5,687,830	5.8%	2.7%
Total					97,617,453	100.0%	46.0%

Source: RPW, FY2006. Nonmachinable Letters and QBRM Letters and Cards derived from Billing Determinants, FY2006.

TABLE 2

STANDARD MAIL

SUBCLASS (Rate Caegory and/or Shape)	SERVICE	MEASUREMENT SYSTEM			FY 2006		
	STANDARD EXISTING	EXISTING	PLANNED	STATUS - ISSUES	VOLUME	% OF TTL STD	% OF TTL DOM
					(000)	MAIL	MAIL
Regular							
Nonautomation	Origin Entered, 2-to-10 Days				2,915,026	2.8%	1.4%
Letters		None	(TBD)	Unknow n	1,604,144	1.6%	0.8%
Flats		None	(TBD)	Unknow n	758,153	0.7%	0.4%
Parcels		None	(TBD)	Unknow n	552,729	0.5%	0.3%
NFM Pieces		None	(TBD)	Unknow n	-	0.0%	0.0%
Automation					51,926,750	50.7%	24.5%
Letter		None	IMB	Planned 2009	40,905,442	39.9%	19.3%
Flats		None	IMB	Planned 2009	11,021,308	10.8%	5.2%
NFM Pieces		None	IMB	Planned 2009	-	0.0%	0.0%
Subtotal					54,841,776	53.5%	25.8%
Nonautomation (Nonprofit)					1,656,678	1.6%	0.8%
Letters		None	(TBD)	Unknow n	1369795	1.3%	0.6%
Flats		None	(TBD)	Unknow n	265,296	0.3%	0.1%
Parcels	None	(TBD)	Unknow n	21,587	0.0%	0.0%	
NFM Pieces	None	(TBD)	Unknow n	-	0.0%	0.0%	
Automation (Nonprofit)				10,309,841	10.1%	4.9%	
Letter	None	IMB	Planned 2009	8,530,470	8.3%	4.0%	
Flats	None	IMB	Planned 2009	1,779,371	1.7%	0.8%	
NFM Pieces	None	IMB	Planned 2009	-	0.0%	0.0%	
Subtotal				11,966,519	11.7%	5.6%	
Regular Subtotal				66,808,295	65.2%	31.5%	
Enhanced Carrier Route							
ECR				33,015,016	32.2%	15.5%	
Letters	None	(TBD)	Unknow n	8,450,362	8.2%	4.0%	
Flats	None	(TBD)	Unknow n	24,562,425	24.0%	11.6%	
Parcels	None	(TBD)	Unknow n	2,229	0.0%	0.0%	
Nonprofit ECR				2,636,248	2.6%	1.2%	
Letters	None	(TBD)	Unknow n	1,111,523	1.1%	0.5%	
Flats	None	(TBD)	Unknow n	1,524,647	1.5%	0.7%	
Parcels	None	(TBD)	Unknow n	78	0.0%	0.0%	
Subtotal				35,651,264	34.8%	16.8%	
Total				102,459,559	100.0%	48.3%	

Source: RPW, FY2006.

Table 3 USPS Mail Measurement System for Periodicals and Package Services							
SUBCLASS/RATE CATEGORY (Rate Schedule)	SERVICE STANDARD	MEASUREMENT SYSTEM		MAIL PIECES		FY 2006	
	EXISTING	EXISTING	PLANNED	MEASURED	UNMEASURED	VOLUME (000)	% OF TTL DOMESTIC
Periodicals	1 to 7 days	Confirm	Short Term			9,022,563	4%
			Confirm Reg Tag until IMB in place	Flats with Confirm Red Tag Mail	Mail pieces not tracked using Red Tag or Confirm Newspapers Non-machinable flats High density & saturation mailings DDU entry		
			Long Term				
			Confirm IMB pieces - 2009	Flats with Confirm IMB mail pieces	Non-machinable flats High density & saturation mailings DDU entry mail pieces Mail processed on an FSS that can not read an IMB		
Package Services Includes: Single-Piece Parcel Post Bound Printed Matter Media Mail Library Rate*	2 to 9 days	Delivery Confirmation	Short Term			1,174,554	1%
			Delivery Confirmation	Mail pieces with Delivery Confirm.	Non-machinables Mail pieces w/out Delivery Confirmation		
			Long Term				
			Delivery Confirmation IMB pieces - 2009	Mail pieces with Delivery Confirm. IMB mail pieces	Non-machinables DDU entry w/o Delivery Confirmation		

Source: RPW, FY 2006. Note: IMB = Intelligent Mail Barcode

* USPS does not separately track Library and Media Mail or Bound Printed Matter in Package Services.