

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

SERVICE STANDARDS AND)
PERFORMANCE MEASUREMENT FOR)
MARKET DOMINANT PRODUCTS)

Docket No. PI2007-1

MEDCO HEALTH SOLUTIONS, INC.
REPLY COMMENTS
(July 30, 2007)

On June 13, 2007, the Postal Regulatory Commission (“PRC”) issued its Notice of Request for Comments On Modern Service Standards and Performance Measurement for Market Dominant Products under the Postal Accountability and Enhancement Act (“PAEA”) P.L. 109-435). *See* Order No. 21. In response, on July 16, 2007, Medco Health Solutions, Inc. (“Medco”) filed comments and 25 other initial comments were filed by other parties. At that time, Medco (a) expressed its support for destination entry standards of 98 percent for Standard Mail packages delivered within (i) 2 days for DDU entry, and (ii) 3 days for DSCF entry, and (b) stressed that “tail of the mail,” or packages delivered outside of acceptable standards, is an area that will need the utmost attention. Similar initial comments regarding the importance of the tail of the mail were filed by Parcel Shippers Association (p. 4 and Appendix II), The Flute Network (pp. 6-7), and Remittance Mail Coalition (pp. 4-5). Medco respectfully submits these reply comments to address both performance measurement and performance assessment, especially as they pertain to the tail of the mail and Standard parcels.

1. Performance Measurement

In these comments, Medco's interest and concern focus on Standard Regular parcels, which constitute only a small percentage of total Standard Regular volume. Of course, Standard Regular letters, flats, and parcels are processed separately, with letters and flats being processed on automation machines equipped to read the Intelligent Mail Barcode ("IMB"). The Postal Service does not have automation equipment capable of processing small (under 1 lb.) parcels, presenting unique problems for performance measurement for these parcels.

Medco considers it essential that the performance measurement system now under development be capable of compiling data for Standard Regular parcels separately from data for letters and flats. If performance data for Standard Regular parcels were to be merged with data for letters and flats, and this merged data constituted the only aggregate results available for the subclass, such an outcome would not be particularly useful for a Standard Regular parcel mailer such as Medco because the results would be heavily weighted for letters and flats. The remainder of the discussion in these reply comments assumes that separate performance data for Standard Regular parcels will be available.

For Standard Regular parcels that fail to meet the service standards now being developed for Standard Mail, it will not be sufficient simply to record that such parcels were not timely delivered. For those parcels in the tail of the mail, it also will be necessary for the performance measurement system to record accurately the number of days by which each parcel is late, with data aggregated to show the number of pieces that were delivered one day

late, two days late, etc.¹ Medco hopes that any packages which fail to be delivered on time will be no more than one day late, but the system should be able to distinguish the extent to which packages not delivered on time have been delayed.

2. Performance Assessment

Once the basic system for measuring service performance for all Standard Mail is in place, it will provide a plethora of data where heretofore none has existed. The production of meaningful reports, or performance assessment, can be considered a separate activity that follows and builds on performance measurement.

a. Aggregate Reporting. At the aggregate level, the Commission will need to develop a framework for dealing with this new-found abundance of performance data. Once the data become available, it is reasonable to expect that, for all market dominant products, Congress (as well as the mailing community) will want questions addressed, such as the following:

- **Broad temporal comparisons.**
 - Is delivery performance of mail (*e.g.*, First-Class, Periodicals, Standard Regular) improving, remaining level, or deteriorating?
 - Is delivery performance improving for all classes, or only for one or two classes at the expense of the others?

¹ In order to obtain accurate records on the number of days a parcel is late, the system for recording delivery performance must be able to distinguish between delivery days and non-delivery days (*i.e.*, Sundays and federal holidays). To illustrate, assume that under established service standards a package which should be delivered on Saturday is instead delivered on Tuesday following Sunday and a Monday federal holiday. This package should be recorded as only one day late, not three days late (Tuesday in this instance being the next possible delivery day after Saturday).

- **Broad inter-class comparisons.**
 - How does the delivery performance of, say, Priority Mail or Periodicals compare with delivery performance of, say, First-Class Mail or Standard Mail?

It can be anticipated that Congress will look to the Commission to evaluate the data and provide answers to questions such as the above. At the same time, it should not be expected that simple compilations of performance data automatically will provide straightforward, unambiguous answers to questions such as those posed above. Any such expectation is much too simplistic. A key reason for this complexity in analysis is the tail of the mail.² The nature of the problem is easy to illustrate.

First, assume that, in reporting Period One, only 95 percent of all Standard Regular parcels are delivered on time, and the other 5 percent are delivered one day late. Second, assume that, in reporting Period Two, 97 percent of all Standard Regular parcels are delivered on time, but delivery of the other 3 percent averaged four days late. A comparison of performance in Period One with Period Two requires an assessment of whether the service has improved or deteriorated, which in turn requires development of an analytic framework for dealing with late-delivered pieces.

Confronted with a situation such as that described above, it is conceivable that an analyst might say something like “*On the one hand*, fewer pieces were late in Period Two, but, *on the other hand*, for the percentage of pieces that were late in Period Two, service deteriorated.” The Commission should anticipate and develop an analytic framework that can

² See Comment and Suggestion of Janyce Pritchard on behalf of The Flute Network (filed July 16, 2007); see also Docket No. R2006-1, Direct Testimony of Janyce Pritchard (Flute-T-1) on behalf of The Flute Network (September 5, 2006).

be applied consistently to every class of mail and that somehow weighs the volume and extent of lateness of pieces that fail to meet the established standard and provides an unambiguous answer (within this analytic framework). In other words, the Commission needs to develop an analytical framework which recognizes that a piece of mail that exceeds the service standard by 10 days represents far worse service than a piece that exceeds the service standard by only one or two days.

b. Shipper-Specific Reports. The initial comments of certain mailers (*e.g.*, National Postal Policy Council and American Bankers Association (p. 4), Association for Postal Commerce (pp. 4-5), and Remittance Mail Coalition (pp. 5-6), as well as Medco) discussed the type of detailed information that they would like to be able to derive from data developed under the performance measurement system. Medco reaffirms the importance of these comments, as well as the Postal Service's vision of a fully transparent system that will enable mailers to ascertain the status of individual mailings, including whether any delays or problems were encountered, at what point in the process they occurred, and how those problems were resolved.

However, it must be recognized that development of such a fully detailed and transparent system cannot and will not occur overnight, particularly if an effort is made to keep the cost of such a system reasonable, as it should be. Full implementation of this vision will require having data that are more detailed, or "granular," than the data captured initially. Only then will most or all of a mailer's individual concerns and issues be addressed, along with the sort of diagnostics that would help the Postal Service identify systemic service

problems.³ Medco expects to work towards such goals and to cooperate with the Postal Service in developing ever finer levels of detail, to the mutual benefit of both parties.

However admirable and desirable this grand vision of the Postal Service may be, the perfect should not be allowed to become the enemy of the good. At this juncture, Medco would urge the Commission and the Postal Service to move ahead at full speed toward implementation of a performance measurement system that for the first time ever for Standard Mail will record and capture basic data and support regular publication of aggregate performance reports, preferably quarterly (if not more often).

Respectfully submitted,

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³ Such detail, however desirable, would appear to be beyond the purview of the PRC in this proceeding under PAEA.