

USPS-T-1

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

PREMIUM FORWARDING SERVICE : Docket No. MC2007-3

DIRECT TESTIMONY OF
LARAIN B. HOPE
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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ATTACHMENTS

- 1. Semiannual Data Collection Reports (June 9, 2006; March 12, 2007; June 13, 2007)
- 2. Dan Foucheaux’s letter to the Honorable Steven W. Williams (September 16, 2005)
- 3. Form 8176 (PFS Application)
- 4. Survey Form for Qualitative Analysis of PFS Customers

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AUTOBIOGRAPHICAL SKETCH

My name is Laraine B. Hope. I am a Business Solutions Specialist and Program Manager in the Product Management group at United States Postal Service Headquarters. In February 2007, when I began my current assignment in Product Management, I took over program management responsibility for Premium Forwarding Service (PFS). This is my third appearance before the Postal Regulatory Commission (formerly Postal Rate Commission). I was the pricing witness for Standard Mail Enhanced Carrier Route (ECR) in Docket No. R2001-1, and for Customized Market Mail in Docket No. MC2005-1.

I joined the Postal Service in 1998 as a Marketing Specialist in Customer Relations Program Management. In March 2001, I accepted a position as an Economist in Pricing, where I was responsible for Standard Mail ECR. After Docket No. R2001-1, I was responsible for analytical work on the Standard Regular and Standard ECR subclasses and, subsequently, on potential Standard Mail Negotiated Service Agreements. I joined Stamp Services in August 2004 as a Marketing Specialist and Program Manager, where I initiated and managed implementation of new products and partnerships as well as market research on stamp retention.

Prior to joining the Postal Service, I worked in the private sector as a Senior Associate at the McNamee Consulting Company in New York, where I managed projects and developed business plans for trade magazine, newsletter, and book publishers. I also have worked as an independent management consultant specializing in product and service development and evaluation. My clients included Amtrak, Boise

1 Cascade, Federal Employees News Digest, the Museum of Modern Art, and the
2 Solomon R. Guggenheim Museum.

3 I began my career as a Marketing Manager at Feffer & Simons, Inc., an
4 international subsidiary of Doubleday & Company, and have held other management
5 positions in the publishing industry. I served on the Board of Directors of the Book
6 Industry Study Group (BISG) for four years and as Chair of BISG's Marketing
7 Committee for three years.

8 I received a Bachelor of Arts degree, *magna cum laude*, from Wesleyan
9 University and a Master's degree in Business Administration from Yale University.

1 **I. PURPOSE**

2 The purpose of my testimony is to describe the current Premium Forwarding
3 Service (PFS) experiment and to justify making PFS permanent. My testimony relies on
4 the pricing and classification testimony of witness Dawson (USPS-T-3) and on costs
5 developed by witness Abdirahman (USPS-T-2). No specific changes to PFS' current
6 definition, operating plan, or fees are necessary; fees are described in greater detail by
7 witness Dawson (USPS-T-3, section IV).

8 This testimony includes no exhibits or workpapers, and I am sponsoring no
9 library references.

10 **II. PRODUCT DESCRIPTION**

11 **A. Background**

12 In November 2004, the Postal Service filed a request seeking authorization for a
13 PFS experiment (Docket No. MC2005-1). That request was supported by the lead
14 testimony of witness Cobb (USPS-T-1), market research testimony from witness
15 Rothschild (USPS-T-2), costing testimony from witness Abdirahman (USPS-T-3), and
16 pricing testimony from witness Koroma (USPS-T-4).

17 Participants in that proceeding crafted a Stipulation and Agreement that the
18 Commission considered in recommending the PFS experiment. The Postal Service
19 Governors accepted the recommendation which, pursuant to a Board of Governors
20 resolution, was implemented on August 7, 2005. PFS exhibits steady and consistent
21 growth, along with some evidence of seasonal patterns, discussed below. The Postal
22 Service filed three semiannual reports on PFS with the Commission, dated June 9,
23 2006; March 12, 2007; and June 13, 2007, respectively. These reports provide data on

1 zone, weight, and volumes of PFS, as well as an overview of feedback on the
2 experiment. I hereby incorporate this material by reference into my testimony; copies of
3 the reports comprise Attachment 1 to this testimony.

4 Revenues from program inception through June 30, 2007 are \$17.6 million.¹
5 Revenues are discussed in section III, below.

6 **B. Premium Forwarding Service Product Description**

7 PFS is a personalized service designed for residential customers who want to
8 receive all of their mail at a temporary domestic address via Priority Mail[®]. After receipt
9 and acceptance of the PFS application (Form 8176) and required fees, the Postal
10 Service bundles and reships mail to a customer's temporary address for a period of not
11 less than two weeks and up to one year (per application). Each household's or each
12 individual customer's mail is bundled and reshipped once a week via Priority Mail to a
13 temporary address. This offers a convenient way for customers away from primary
14 addresses to receive, for a fee, substantially all of their mail in one package, rather than
15 (for example) receiving only First-Class Mail[®] and certain other pieces one by one on a
16 less predictable basis.

17 A customer may not file a formal temporary or permanent Change of Address
18 (COA) (Form 3575) for a primary address when PFS is active. If both a COA and PFS
19 are requested for the same address and customer or household, the Postal Service
20 may cancel the more recent request. A customer who wishes to pick up mail in person
21 at the Post Office serving the primary address when PFS is active must cancel PFS to
22 do so. While a refund of unused shipment fees is available, restarting PFS requires the

¹ Source: RPW

1 filing of an additional application and payment of the enrollment fee. The enrollment fee
2 is nonrefundable.

3 All classes of mail are reshipped, and mail piece endorsements have no impact
4 upon the handling of a customer's PFS mail. The inclusion of virtually all mail
5 distinguishes PFS from other available options. Accountable mail, pieces requiring a
6 delivery scan, and some packages are reshipped separately from the weekly PFS
7 package. Some mail may be reshipped with postage due, as described in section C,
8 below.

9 PFS is currently available to all domestic residential delivery customers and Post
10 Office (PO) box customers, with several exceptions. PFS is not available if the
11 secondary address is an APO, FPO, or any U.S. territory or possession that requires a
12 Customs Declaration.² PFS is only available to size one or size two PO box customers
13 who have no other boxes in that facility. This restriction serves to limit PFS to
14 residential rather than business customers. PFS is available to, but not from, single-
15 point delivery addresses – e.g., RV parks, hospitals or hotels.

16 **C. Disposition of Mail**

17 Most mail received by customers is shipped in the weekly PFS shipment via
18 Priority Mail. However, certain straightforward and logical operational necessities
19 require that some mail pieces be reshipped separately:

- 20 i. Accountable mail (including Express Mail[®]), and mail using Delivery
21 Confirmation[™] or Signature Confirmation[™], are rerouted immediately and

² Addresses with a 969 three digit ZIP Code require a Customs Declaration, including U.S. Pacific Rim territories such as Guam, the Northern Mariana Islands and Palau.

1 individually to a PFS customer's temporary address at no extra charge.

2 This assures that such pieces are received by the PFS addressee as soon
3 as possible and that they receive the handling paid for by the sender.

4 Parcel Post and pieces indicating "Surface Mail Only" or with hazardous
5 material markings (e.g., "ORM-D") are excluded from the PFS weekly
6 shipment. Instead, such mailable pieces are rerouted individually to
7 ensure they receive proper handling and stay on surface transportation.³

8 Standard Mail[®] parcels that do not require a scan or signature at delivery
9 are included in the weekly Priority Mail shipment if they fit. Parcels that do
10 not fit or are otherwise ineligible – e.g., parcels that are marked for surface
11 transportation only – are separately rerouted at the appropriate one pound
12 Parcel Post single piece rate.

- 13 ii. Package Service mailpieces, including Parcel Select[®], are separately
14 rerouted with postage due at the appropriate single piece rate reflecting
15 the subclass in which the mailpiece was initially shipped. "This policy
16 reflects the fact that customers typically have control over when and
17 where parcels are sent to them, and thus have the ability to have those
18 parcels sent directly to their temporary addresses....This, in turn, keeps
19 the price of the weekly shipment charge lower [than it would otherwise
20 be]." (Attachment 2, p. 4, n. 12.)

³ Aviation security regulations preclude upgrading surface-only mail pieces to Priority Mail, as explained in Dan Foucheaux's letter to the Honorable Steven W. Williams, Attachment 2 to this testimony, and also available from the PRC's daily listing for September 16, 2005.

1 iii. Postage due items mailed to a primary address are rerouted individually at
2 postage due rates. For First-Class Mail and Priority Mail, the only postage
3 due is the original postage due amount at the primary address location.

4 **D. Alternatives to PFS**

5 Potential PFS customers have a range of alternatives available from both the
6 Postal Service and other providers. Postal Service options include a mail hold (for up to
7 30 days) and temporary or permanent forwarding (for up to one year). Forwarding
8 applies to First-Class Mail on a piece-by-piece basis for one year, and may include
9 Periodicals mail for up to 60 days. Parcels may be forwarded locally. Standard Mail
10 generally is not forwarded, unless the mailer agrees via an endorsement to pay
11 forwarding postage.

12 Under the hold option, an individual within a household cannot have mail held
13 separately from the household's. This contrasts with PFS, since individuals can use
14 PFS from a primary address shared with others.

15 Potential PFS customers may also have alternatives that rely upon commercial
16 mail receiving agencies, RV associations, friends or family.

17 **III. REVENUES TO DATE**

18 **A. Consistent Growth**

19 PFS revenue has demonstrated consistent growth since it was launched in
20 August 2005. Table 1, below, illustrates both an ongoing increase over time and how
21 each month's revenue is substantially greater than the same month in a previous year.

Table 1

PFS NET REVENUES FROM PROGRAM INCEPTION
August 7, 2005 – June 30, 2007
(In thousands)

	FY 2005	FY 2006	FY 2007 *	% Change from Previous Year
October		\$ 566.2	\$1,123.6	98.5%
November		680.3	1,160.5	70.6%
December		1,278.9	1,986.9	55.4%
January		979.8	1,565.5	59.8%
February		390.4	575.3	47.4%
March		275.7	488.5	77.2%
April		309.8	637.3	105.7%
May		623.9	1,167.1	87.1%
June		885.1	1,261.6	42.6%
July		440.3	Not Available	Not Available
August	\$ 110.7	386.5	Not Available	249.0%
September	210.6	515.5	Not Available	144.7%
FY TOTAL	\$ 321.3	\$7,332.4	\$9,966. 3	

PROGRAM TO DATE	TOTAL REVENUES SINCE INCEPTION OF PFS EXPERIMENT	<u>\$17,620.1</u>
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Source: EDW

* Note: FY 2007 data available through June only; data are not finalized until year-end.

There has been a 66 percent increase in fiscal year-to-date PFS revenues from FY 2006 to FY 2007 (*i.e.*, from October – June of the respective years). And FY 2007 revenues from October – June (*i.e.*, not a complete year) are already running 35.9 percent ahead of total FY 2006 PFS program revenues.

Total program-to-date revenues through June of this year are \$17.6 million.⁴

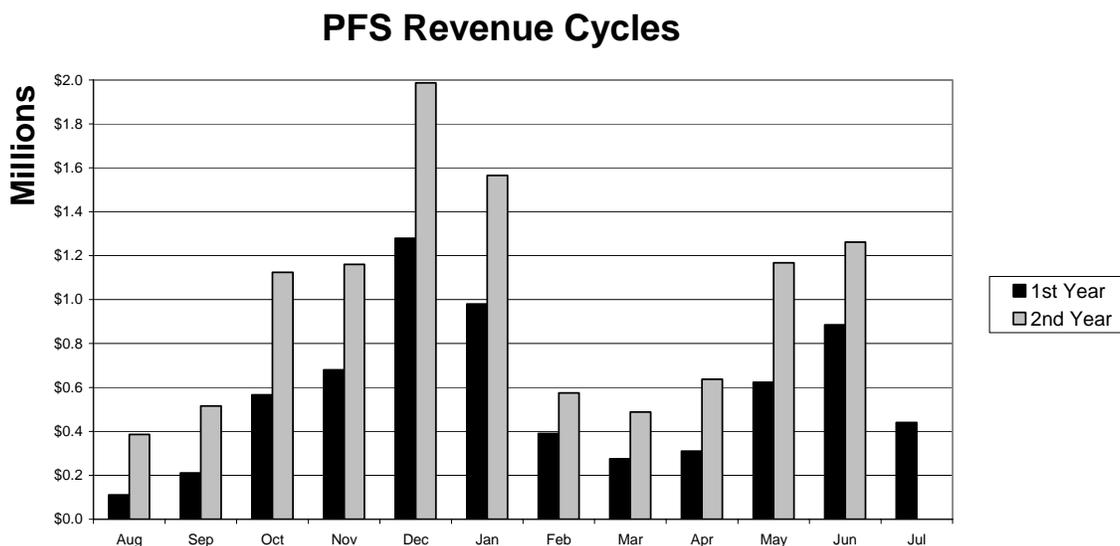
⁴ RPW provides official quarterly and yearly reports; data derives from EDW, which provides shorter-term and more immediate information used by program management.

1 **B. Seasonal Patterns**

2 PFS usage, as reflected in revenue, has two seasonal peaks each year: one at
 3 the end of the year, coinciding with traditional holiday season, and the other in summer
 4 travel months. It is not surprising that this is the case, given that the service is designed
 5 for people who are away from their permanent address on a temporary basis. Many
 6 people travel during the winter to more temperate climates. Revenue tends to fall off in
 7 the February – April period and then start to peak again in the mid-summer months,
 8 presumably as many people go on vacation.

9 Both seasonality and growth month-by-month over the two-year period of the
 10 experiment are illustrated in the bar chart below.

11 **Chart 1**



Source: EDW

1 **IV. OPERATING PLAN**

2 **A. Operating Plan Overview**

3 The Postal Service proposes no specific changes to how PFS now operates.
4 However, for purposes of simplicity and development of an appropriate evidentiary
5 record, a summary of current PFS operations follows.

6 **B. Application for PFS**

7 A customer applies for PFS service by filing a written application (Form 8176, a
8 copy of which is reproduced as Attachment 3) at the Post Office responsible for
9 delivering mail to the individual's primary address. Applicants must present appropriate
10 identification and proof of residence at that address, and must pay all required fees.
11 The applicant is given a copy of one part of the application and two copies are retained
12 at the delivery unit: one for the Master file and one for the carrier. Verification
13 procedures for PFS are modeled on those for PO box applications.⁵

14 **C. Reshipment of Mail**

15 Substantially all mail is sent in the PFS weekly shipment, with certain exceptions
16 as noted above. Post Offices are encouraged to use the Priority Mail packaging most
17 appropriate for each shipment. For example, materials that would fit in a Priority Mail
18 envelope should not be packaged in a box or carton. On occasion, especially in months
19 where catalog mailing volumes are high, the volume of mail some customers receive
20 necessitates use of more than one box in a weekly shipment. While offices are
21 instructed to use the Priority Mail packaging best suited to maximize space and

⁵ Witness Cobb summarized these procedures in her direct testimony. See USPS-T-1/MC2005-1, p. 4, lines 8 – 19.

1 minimize reshipments, when this cannot be done, additional Priority Mail packages of
2 reshipped mail may need to be sent. Witness Dawson (USPS-T-3) adjusts for this in
3 the proposed PFS costing. All PFS reshipments are required to bear the G-400 label
4 for clear operational identification and financial tracking purposes.

5 This proposal entails no changes to current reshipment procedures.

6 **V. CUSTOMER AND INTERNAL FEEDBACK**

7 **A. General**

8 Customer reception of PFS has been strongly positive. An occasional question
9 posed by employees is whether customers can file one PFS application for two
10 temporary addresses within consecutive time periods. The short-term answer is “no”
11 during the PFS experiment, both to keep the application and operational processes
12 simple and because a second temporary address still requires that most of the
13 enrollment activities be undertaken for each temporary address. Customers can file two
14 separate applications for consecutive time periods. While PFS remains a manual
15 service at this time, the Postal Service would like to build and leverage technology tools
16 that might enhance and simplify a PFS customer’s use of the service when time and
17 other resources permit.

18 **B. Postal Service Office of the Consumer Advocate Survey**

19 Earlier this year the Postal Service’s Office of the Consumer Advocate
20 supervised and administered a qualitative survey of PFS customers. A copy of the
21 survey instrument is provided as Attachment 4; results are summarized below.⁶

⁶ This survey is also mentioned in the third PFS data report the Postal Service filed on June 13, 2007, a copy of which appears in Attachment 1.

1 The survey was based on a sampling of customers who provided an email
2 address on their PFS applications. Of the 1,007 surveys distributed electronically on
3 February 5, 2007, 205 had been answered when the survey was closed on March 6,
4 2007.

5 Two-thirds of respondents report that they are “very satisfied” with PFS, with a
6 large percentage also indicating they have used it more than once. Two-thirds of
7 survey respondents said they are “very likely” to recommend PFS to someone else, and
8 over two-thirds said they are “very likely” to use PFS again themselves. In response to
9 an open-ended question on how the Postal Service could improve the enrollment
10 process, many want the option of signing up online. Given a survey conducted online
11 using email addresses, this result is hardly surprising.

12 A very few customers suggest the need for a clearer explanation of the potential
13 for being charged additional postage for reshipment, although less than ten percent
14 reported any need to do so during the term of service. Most feedback was positive; for
15 example, comments include:

- 16 • “It works and works well. What more can I say.”
- 17 • “No improvement necessary.”
- 18 • “The service worked just fine for us.”
- 19 • “Current forwarding has been consistently excellent. In the past, there were
20 inconsistent delivery days a few weeks. Overall, I am very satisfied with the
21 service.”
- 22 • “Keep up the good work!”
- 23 • “Even though I’ve experienced some problems with it, nevertheless,
24 Premium Forwarding Service is the best solution I’ve found for my personal
25

1 situation which is that my home is in Louisiana but I spend 6 or seven
2 weeks at a time in Rhode Island 4 or 5 times a year.”

- 3
- 4 • “For me, this is an excellent service as I travel for various projects and am
5 not home too often.”
- 6

7 One striking finding suggested by responses to this survey is the enthusiasm of
8 customers who use the service on a regular basis. PFS may be a niche service with a
9 dedicated core group which is growing to depend on it as an important tool supporting
10 their highly mobile lifestyles.

11 **C. Comments from Postal Service Personnel**

12 The Postal Service looks for patterns of inquiries to focus internal
13 communications and education about PFS. While the service is growing steadily, some
14 Post Offices still have no first-hand experience with PFS, so we remind them
15 periodically how to process applications and weekly reshipments.

16 As PFS Program Manager, I am the recipient of occasional queries and
17 comments from postal employees who administer PFS. Their feedback echoes
18 customer responses to the survey discussed above, with the notable exception of
19 concern about postage due matters. PFS is proving to be a very convenient alternative
20 to existing options, temporary forwarding in particular.

1 **VI. CONCLUSION**

2 Premium Forwarding Service is an important, useful tool in the Postal Service's
3 menu of options for residential customers in managing mail sent to their primary
4 address when they are away from home. Customers who use the service have
5 indicated that PFS is a desirable option for them. Witness Dawson discusses both the
6 pricing and classification criteria in detail and explains how PFS fulfills statutory
7 requirements (USPS-T-3, Sections IV(B) and VIII, respectively).

8 PFS fills a niche for people on extended vacations, students, employees on
9 temporary assignments away from home, individuals in an extended family care
10 situation, and those with multiple homes, many of whom may sign up repeatedly.

11 Revenues in FY 2007 have shown consistent growth overall and in each month
12 compared to itself from the previous year; fiscal 2007 year-to-date revenues through
13 June 30 (just under \$10 million) are 66 percent ahead of the same period through June
14 2006 (approximately \$6 million).⁷ Program-to-date revenues are \$17.6 million.
15 Seasonality patterns have developed as anticipated.

16 In short, the two-year PFS experiment has been a success. Making PFS
17 permanent makes sense. It increases the utility of mail in this age of increased mobility.

18 The consistent growth of PFS and feedback from customers and postal
19 employees strongly suggest that PFS will continue growing as a permanent service,
20 thus making a positive contribution to postal revenues and institutional costs.

⁷ See Table 1 on p. 6.