

DOCKET SECTION  
BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268  
RECEIVED  
DEC 30 11 39 AM '97  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

\_\_\_\_\_  
Postal Rate and Fee Changes, 1997  
\_\_\_\_\_

)  
)  
)  
Docket No. R97-1

Direct Testimony  
of  
JOE MONASTRO

On Behalf Of

RECORDING INDUSTRY ASSOCIATION OF AMERICA  
ADVERTISING MAIL MARKETING ASSOCIATION

Communications with respect to this document may be sent to:

Ian D. Volner, Esquire  
N. Frank Wiggins, Esquire  
Venable, Baetjer, Howard & Civiletti, L.L.P.  
Suite 1000  
Washington, D.C. 20005

Due Date: December 30, 1997

## **TESTIMONY OF JOE MONASTRO**

### **Purpose**

My name is Joe Monastro and I submit this testimony in support of the proposal advanced by the Advertising Mail Marketing Association and Recording Industry Association of America ("AMMA/RIAA") seeking the establishment of a postal service called Bulk Merchandise Re-Deposit Service. Under this service, parcel shippers will be able to retrieve merchandise that has been opened by the consumer, re-sealed and re-deposited in the mail without postage; this merchandise will be returned in bulk with applicable postage paid by the original shippers who can then recycle the merchandise. The purpose of my testimony is to show that this addition to the services offered by the United States Postal Service will significantly improve the ability of parcel mailers to use the nation's postal system in a far more efficient and cost effective way than is now possible and will at the same time improve the quality and the reliability of service that the Postal Service is able to offer while increasing revenues and reducing operating costs.

### **Autobiographical Sketch**

I am Senior Director of Postal Affairs and Letter Shop Operations of BMG Direct Marketing, Inc. ("BMG Direct") and have over 15 years of experience in direct mail marketing, particularly in the merchandise logistics and fulfillment area. As the Commission may be aware, BMG is a major direct mail marketer of

audio materials. My earlier experience includes 12 years with The Book-of-the-Month Club Division of Time Warner, where I was actively involved in that company's fulfillment activities relating to book clubs. I am BMG Direct's representative to the AMMA Board of Directors and am active, on behalf of my company, in the Mailers Technical Advisory Committee ("MTAC") program. I served as the chairman of the ad hoc committee created by MTAC to address the problems associated with "re-sealed" parcels and to develop a solution that will work for all concerned. The classification change sponsored by AMMA/RIAA is the outgrowth of the work of this MTAC group.

### **The Problem: Re-Sealed Parcels**

Bulk Merchandise Re-Deposit Service is designed to rectify an omission that has long existed in the services that the Postal Service offers to parcel shippers under the Domestic Mail Classification Schedule. For many years, the Postal Service has offered mailers a method by which merchandise, whether originally shipped at Standard (A) or at Standard (B) rates, will be returned to the mailer (at mailer expense) if the piece proves "undeliverable as addressed." These services -- including BPRS recommended by the Commission just this year -- cover parcels which are delivered to the intended recipient but refused by the customer and re-entered into the mail stream, unopened.

This system for retrieval of undeliverable as addressed and refused merchandise works well. With the addition of BPRS, these services provide a

means by which all interested merchandise mailers can recapture and recycle merchandise that is undeliverable, saving cost and promoting the uses of marketing by mail.

But, there is -- and has long been -- a gap in the Postal Service's offerings. This gap relates to merchandise that is delivered, opened by the consumer, re-sealed and re-deposited in the mail without the payment of applicable postage. Re-sealed parcels are not treated as undeliverable as addressed. They present a serious problem for all three of the affected parties -- the shipper, the consumer and the Postal Service itself.

In theory, re-sealed parcels should not be accepted by the letter carrier but should be returned to the customer, as the sender, for the payment of postage. This is obviously impractical and undesirable as a matter of customer relations; even if practicable, it would be extremely costly. In reality, therefore, re-sealed parcels are handled in one of two ways. Some volume is treated as if undeliverable as addressed and returned to the sender, along with "true" undeliverable merchandise. However, a substantial percentage of re-sealed parcels are treated as "dead mail" and trucked by the Postal Service to mail recovery centers where they are unpackaged and placed in bins to be sold at Postal Service auctions.

The DMM does specify a procedure, applicable only to books and sound recordings, pursuant to which the publisher or distributor can seek to recover these kinds of merchandise from the mail recovery center, if the product can be

properly identified as having been originally sent by that publisher or distributor. This system is cumbersome and extremely costly to both the Postal Service and the shipper. It simply hasn't worked and, in any case, only applies to books and recordings. Merchandise Return Label Service may have been intended as a response to the problem of re-sealed parcels, but experience has shown -- and our recent investigation confirms -- that this service is cost effective only in the case of very expensive products. Consumers are unwilling to go to the trouble of requesting a merchandise return label or of taking the re-sealed parcel to a post office for more moderately priced items, like books, records, cosmetics, collectibles and articles of clothing.

In short, the Postal Service simply does not now have a service that would enable high volume shippers to effectively retrieve re-sealed parcels -- merchandise that, for whatever reason, the customer decides he or she did not want and re-deposits in the mail without postage. All of this merchandise ends up being sold in Postal Service auctions. At those auctions, hampers of books, recordings and audio materials, articles of clothing, cosmetics, collectibles and other merchandise are purchased by flea market operators and other wholesalers and re-sold to the public, often through second-hand retail outlets and street vendors.

This situation is unacceptable. This is true not only for mailers but also for their customers and, we believe, for the Postal Service itself. From the mailer's perspective, the auction and re-sale at flea markets of merchandise that the

original shipper could use or recycle creates costs that ultimately have to be passed on to all customers. The very fact that these products end up in flea markets and second-hand stores creates image and customer relations problems and, in some cases, legal issues. Authors, composers and artists cannot collect royalties on books, recordings and collectibles sold at auction and then sold to the public through flea markets and the like.

Our customers are also poorly served by the auction process. The consumers' expectation is that re-sealed parcels will be returned to the sender. However, merchandise routed to dead-letter centers can never be credited as returned to the customer's account, creating the potential for conflict between the customer and the shipper. This is not all: Not infrequently, the customer includes in the re-sealed parcel a check in payment of previously ordered and accepted merchandise. The consumers' expectation is that these checks will be created to their accounts. When that does not happen -- because the re-sealed parcel ended up in a mail recovery center (where the enclosures are destroyed) -- the consumer unfortunately is inclined to blame the shipper. The result is dissatisfied customers or cancellations, for reasons that the mailer cannot control.

From the Postal Service's perspective, the absence of an effective means of dealing with re-sealed parcels creates parallel operational and cost problems. The Postal Service bears the cost of trucking the merchandise to the dead-letter centers, and of preparing and conducting the auctions. The Postal Service

consistently has reported that the auctions do not generate sufficient revenues to support the cost of operating the system.

Thus, the problem of re-sealed parcels calls out for a solution. The classification change advanced by AMMA/RIAA -- which has been developed on the basis of the investigative work done by the MTAC Ad Hoc Committee and extended discussions with the Postal Service -- solves the problem in a way which is workable for the Postal Service, for mailers of merchandise and the public.

#### **The Solution: Bulk Merchandise Re-Deposit Service**

The proposed DMCS language that accompanies this testimony (as Exhibit I) sets forth the terms and conditions on which AMMA/RIAA propose that the service be made available. Several features bear comment.

First, the service is narrowly tailored to meet the existing gap in the treatment of re-sealed parcels and is optional. It would supplement merchandise return label service and we expect that many mailers will continue to use that service on high ticket items. If elected by a mailer, Bulk Merchandise Re-Deposit Service would apply to all parcel shipments made by the mailer at either Standard (A) or one of the subclasses of Standard (B). This is an important feature of the service because, for example, record and book clubs use both Standard (A) and the Special Standard (B) rate category for the shipment of product; the service will also work for catalog shippers who use Parcel Post but

also use Standard (A) mail for the outbound shipment of their lighter weight parcels. The system is thus designed to provide mailers with a workable and cost-effective method of retrieving (and paying for the return of) merchandise that its customers, after inspection, decide that they do not want and re-deposit in the mail without applicable postage.

Second, the new service category will yield corresponding operational and financial benefits to the Postal Service. Carriers and post offices that receive re-sealed parcels on which postage has not been paid would no longer need to be concerned about the proper routing of these materials; so long as they are appropriately endorsed, they will be amalgamated with and routed, in the same manner, as undeliverable as addressed parcels. Further, return of merchandise to the shipper will relieve the Postal Service of having to dispose of the articles at auction, or -- in the case of books and records -- of maintaining procedures whereby the publisher or distributor can reclaim the materials after they have reached the mail recovery center. The offering of the service will not only enable the Postal Service to provide more reliable and more efficient service to mailers. It will result in direct cost savings.

Third, Bulk Merchandise Re-Deposit Service will provide the Postal Service with a revenue stream that is directly and explicitly related to the cost of accepting, processing and transporting mail. The only revenues the Postal Service now derives from re-sealed parcels sold at auction is what the auctions bring -- revenues which bear no relationship to Postal Service cost. By contrast,



under Bulk Merchandise Re-Deposit Service, mailers that elect to take this service will pay the applicable BPRS, Standard (B) or First Class single piece rate.

Fourth, in order to guard against any burden falling upon mailers who have no interest in the service, Merchandise Re-Deposit Service is proposed as a *bulk* service, but mailers will nonetheless pay the applicable single piece on returned re-sealed parcels. It will be made available only to mailers who have or can reasonably demonstrate that they will receive at least 10,000 pieces of returned parcels in the year in which service is requested. Because we anticipate that merchandise that has been endorsed for Bulk Merchandise Re-Deposit Service will be integrated, transported and returned (either picked up by the mailer or delivered by the Postal Service) to the mailer together with parcels that are undeliverable as addressed, the minimum volume requirement is based upon all returned parcels. By limiting the availability of the service to mailers who can show expected substantial volumes of returned parcels, the Postal Service will be able to achieve economies in its administration and recordkeeping for this new service. Rating pieces at the single piece rate will provide more than sufficient margin to assure that no other category of mailers is burdened with costs that they did not cause.

## **Conclusion**

Bulk Merchandise Re-Deposit Service represents a win-win-win situation. The service will provide a tangible benefit to merchandise mailers who do not want their products sold at Postal Service auctions and are willing to pay for the return of that merchandise. Consumers will also benefit as the result of the enhanced ability of shippers to recycle merchandise and from improved and more reliable tracking of pieces that are re-deposited. The Postal Service will be provided a revenue stream in place of the costly and inefficient dead letter and auction process now in place. Because this classification proposal significantly improves the fairness of the classification schedule and enables the Postal Service to operate in a more efficient and cost effective way than is now possible, it should be recommended by the Commission.

DC1:63708

**Classification Schedule SS 23 - Bulk Merchandise Redeposit Service**

**23.01. Definition.**

23.010. Bulk Merchandise Redeposit Service provides a method whereby the Postal Service will return to sender parcels containing merchandise that has been delivered to the addressee, opened and Re-Deposited in the mail without payment of applicable postage. The service is available only to high volume parcel mailers who have agreed to pay the return postage due on such redeposited parcels. Parcels covered by this service shall be returned to designated postal facilities for pickup in bulk by the mailer at a pre-determined frequency as prescribed by the Postal Service, or delivered by the Postal Service to the mailer in bulk in a manner and frequency prescribed by the Postal Service.

23.011. Bulk Merchandise Re-Deposit Service is available for the return of parcels initially mailed at Standard (A) or (B) Mail rates.

**23.02. Requirements of the Mailer.**

23.020. Mailers must receive authorization to use Bulk Merchandise Re-Deposit Service.

23.021. To claim eligibility for Bulk Merchandise Re-Deposit Service at each facility through which the mailer requests such service, the mailer must demonstrate

receipt of 10,000 returned parcels at a given delivery point (including parcels received at that facility because they were undeliverable as addressed) in the previous postal fiscal year or must demonstrate a high likelihood of receiving 10,000 such parcels in the postal fiscal year for which such service is requested.

23.022. Payment for Bulk Merchandise Re-Deposit Service is made through advance deposit accounts, or as otherwise specified by the Postal Service.

23.023. Mail for which Bulk Merchandise Re-Deposit Service is requested must bear an endorsement or indication prescribed by the Postal Service.

**23.03 Applicable Rates.**

23.030. Parcels returned to the mailer pursuant to Bulk Merchandise Re-Deposit Service shall be rated in accordance with the following Rate Schedules, as applicable:

- (a) Rate Schedule 100 [First Class Mail];
- (b) Rate Schedules 321.1A, 322.1B, 322.3A, or 323.1 [Parcel Post Inter-BMC, Parcel Post Intra-BMC, Single-Piece Bound Printed Matter, or Special Rate]; or

(c) Fee Schedule SS-21 [BPRS].

23.031. Postage for parcels rated under 23.030(a) and (b) will be determined in accordance with postage payment procedures specified by the Postal Service. Postage for parcels rated under 23.030(c) will be determined in accordance with the procedures specified for Bulk Parcel Return Service.

**23.04 Authorizations and Licenses.**

23.040. A permit fee as set forth in Fee Schedule 1000 must be paid once each calendar year by mailers utilizing Bulk Merchandise Re-Deposit Service.

23.041. The Bulk Merchandise Re-Deposit Service permit may be canceled by the Postal Service for failure to maintain sufficient funds in an advance deposit account to cover postage on return parcels or for failure to meet the specifications of the Postal Service.