

DOCKET SECTION

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BEFORE THE POSTAL RATE COMMISSION

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

DOCKET NO. R97-1

Postal Rates and Fee Changes, 1997

TESTIMONY
of
FRANK E. DAVIS

In Behalf of

FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

Maxwell W. Wells, Jr.
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P. O. Box 3628
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Due Date: December 30, 1997

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DIRECT TESTIMONY OF FRANK E. DAVIS

I. IDENTIFICATION OF WITNESS

My name is Frank E. Davis and I am the President of PITTMAN & DAVIS, INC. 801 North Expressway, Harlingen, Texas.

I received a BA and a BSBA from Trinity University in 1978. I have continued my education by taking every class on citriculture at Texas A&I, have read extensively on direct marketing matters, and have attended several seminars presented by Direct Marketing Association.

I have been employed by Pittman & Davis since 1978. Since 1988 I have served as President of the company.

II. DESCRIPTION OF MAILER

Pittman & Davis is a family-owned business which has operated continuously since 1926.

The principal office is located in Harlingen, Texas. Since 1984, it also has maintained and operated a packing facility in Vero Beach, Florida.

Our business is a catalog mail order undertaking for the sale and distribution of gift packages. The principal products are grapefruit and oranges, but the product lines also include other fresh and processed food products.

Parcels are shipped from Florida and Texas to destinations in all contiguous 48 states.

1 Products are packaged and shipped under our own label in response to
2 order placed by customers by mail or phone.

3 III USE OF THE POSTAL SYSTEM FOR PARCEL DELIVERY

4 All parcels are transported to the destination delivery area with line-haul
5 tractor-trailer transportation, utilizing refrigerated trucks loaded to a capacity of
6 45,000 pounds. Parcels are drop-shipped at destination postal facilities. On
7 some trips, there may be partial unloads en route to the final destination delivery
8 point.

9 Rate minimization, avoidance of zone 3 rates and additional handlings in
10 inter-BMC movements, and expedition of delivery time are major factors involved
11 in our selection of destination delivery points.

12 We tender parcels to the Postal Service from destination delivery at
13 various facilities, including BMCs and SCFs. Selection of the facilities is
14 coordinated closely with the Postal Service. Postage is determined using an
15 itemized postage system.

16 Most parcels are mailed as parcel post, although some are sent by air to
17 obtain expedited delivery.

18 Business is conducted year-round, but the heaviest volume is during the
19 citrus season - from November through April. During the 1996-1997 season,
20 about 690,000 parcels were handled.

21

22 IV. WEIGHT RELATED HANDLING COSTS

1 The proposed parcel post rates are designed to cover costs (a) on a per
2 piece basis to cover non-transportation costs, (b) on a per pound basis to cover
3 weight related handling costs and (c) on a per pound basis to cover
4 transportation costs.

5 There are no known studies to identify or quantify non-transportation
6 handling costs which are weight related, and no one has identified such costs.
7 Even so, the rate includes 2 cents per pound to cover these unidentified and
8 unquantified costs.

9 I know of no justification to impose a charge of 60 cents on a 30# parcel,
10 and only 20 cents on a 10# parcel.

11 From my experience and observations of handling parcels of various sizes
12 and weights, it appears clear that space related and other processing costs may
13 vary according to the size or cube of the parcel, but that weight is not a
14 distinguishing factor.

15 The established relationship between weight and cube is currently used
16 for the allocation of transportation costs, which are incurred on the basis of cubic
17 feet. That same relationship should be used for the allocation of the unidentified
18 non-transportation costs which are said to be weight related, but in fact are
19 related to the size, or cube, of the parcel. The amount of the 2 cents per pound
20 should be determined and allocated in accordance with the weight-cube
21 relationship.

1 We urge the Commission to correct the per pound element for weight
2 related non-transportation costs to more closely reflect cost causing factors of
3 size or cube, rather than that straight line per pound elements.

4

5 V. IMPACT OF PROPOSED RATE INCREASE

6 The proposed rates for parcel post are for essentially a 30% increase for
7 all rates which we use. Postage is a significant part of our direct costs, and an
8 increase of this magnitude will have major and significant impact. Such an
9 increase would cause an increase in our prices by at least 5%, if we were to be
10 able to pass through the increase.

11 The gift fruit industry is highly competitive with alternate products, and this
12 degree of increase would likely send our customers to these other sources for
13 the gift shipments. Customers of direct marketing react to price increases. We
14 are highly dependent on repeat customers. Loyalty from old customers is the life
15 blood of the direct marketing gift food business. Usually we receive repeat orders
16 from about 70% of our customers, if they repeat the first year. But, if the
17 customer does not repeat due to a price increase, then the repeat business
18 drops to about 20%. Any drastic price increase causing many people to lose
19 their sense of loyalty to the direct marketing company.

20 Recent price increases in the 6% range have demonstrated a decline in
21 volumes for all products, ranging from a 3% decline to over 32%. A further
22 increase across the board to cover the postage increase could have very severe
23 consequences in the loss of volumes. We presently employ 200 people in Texas

1 and 150 in Florida on a seasonal basis. A sales volume decrease of 10% would
2 probably result in reduced employment by at least that much. Loss of
3 employment for seasonal workers can be dramatic.

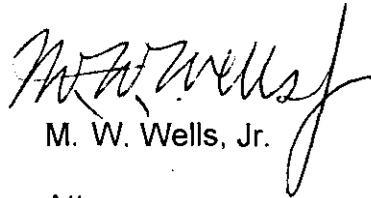
4 We urge the Commission to moderate the increase in parcel post rates,
5 and to require satisfactory evidence to support the costing methodology which
6 has been used by the Postal Service.

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CERTIFICATE OF SERVICE

I certify that a true and correct copy of the foregoing has been mailed this date to all parties of record in accordance with the Rules of Practice.

Dated this 30th day of December, 1997.



M. W. Wells, Jr.

Attorney

Florida Gift Fruit Shippers Association