Postal Regulatory Commission
Submitted 4/1/2010 2:20:24 PM
Filing ID: 67511
Accepted 4/1/2010

USPS-T-9

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

SIX-DAY TO FIVE DAY CARRIER DELIVERY AND RELATED SERVICE CHANGES, 2010	Docket No. N2010-1

DIRECT TESTIMONY OF

GREGORY M. WHITEMAN

ON BEHALF OF

UNITED STATES POSTAL SERVICE

TABLE OF CONTENTS

AUTOBIOGRAPHICAL SKETCH.....ii

PURPOSE 1

EXECUTIVE SUMMARY 1

II. QUALITATIVE MARKET RESEARCH 3

A. FOCUS GROUP RESEARCH 3

B NATIONAL AND PREMIER ACCOUNT IN-DEPTH INTERVIEWS 7

III. QUANTITATIVE MARKET RESEARCH 10

A. OVERVIEW OF THE RESEARCH PROCESS..... 11

B. SUMMARY OF FIVE-DAY DELIVERY'S IMPACT ON VOLUME AND REVENUE 11

C. CHANGE WITH PRODUCTS 12

D. VOLUME, REVENUE AND CONTRIBUTION LOSS ESTIMATE 13

E. MARKET RESEARCH SUBJECTS' RELIANCE UPON THE OPERATIONAL CONCEPT MEANS RESPONSES OVERSTATES LIKELY MARKETPLACE RESPONSE..... 15

APPENDIX A

APPENDIX B

AUTOBIOGRAPHICAL SKETCH

My name is Gregory M. Whiteman. I am the Manager, Market Research, Online and Marketing Services, Mailing and Shipping Services. My group is responsible for the primary market research of the Postal Service. This has included the qualitative and quantitative market research to assess customers' reactions to the proposed change to five-day delivery.

I started my career with the Postal Service as a Management Intern in 1969. Upon completing the Management Intern program in 1972, I took a professional staff position in the marketing organization. I moved into management in 1976 and have held a series of executive positions since 1976, including positions as the General Manager of the Sales Division, General Manager of the Regular Mail Service Division, and General Manager of Expedited Mail Division. I became Office Director of Market Research and Administration in 1987. In 1997, I became Manager, Industry Marketing, before returning to market research as the Manager of Market Research in 2001.

I received a BA from Dartmouth College in 1967, a Masters of International Affairs (MIA) from The Johns Hopkins University School of Advanced International Studies in 1969 and a MBA, specializing in marketing, from the George Washington University in 1976. In addition, I completed both the Marketing Management program in 1975 and the Sales Management program in 1980 from Columbia University

PURPOSE

The purpose of my testimony is to provide (1) an assessment of the reactions of both consumers and commercial organizations to the proposed change to five-day delivery from our qualitative research and (2) the estimated volume and revenue impact from our quantitative research. I directed witness Elmore-Yalch (USPS-T-8) in the conduct of her qualitative and quantitative market research that provides the Postal Service the information needed to assess customer reaction and develop the volume and revenue estimates. Witness Elmore-Yalch's testimony describes the research methodologies underlying both the qualitative and quantitative research which results I present.

I. EXECUTIVE SUMMARY

The Postal Service sponsored qualitative research, focus groups with consumers and small organizations, and personal in-depth interviews with larger organizations, from August to October 2009 for the purpose of gaining insight into reactions to five-day delivery. This research, conducted by respected market research firm Opinion Research Corporation, permits me to discuss the impact five-day delivery would have on customers and how they can adapt to the change in service. The research, moreover, provided key information that helped the Postal Service develop the operational plan for five-day delivery from the operational concept used in this research.

As witness Elmore-Yalch describes, the Postal Service held 14 focus groups in New York City, Chicago, Atlanta and Seattle among consumers and small- to medium-size businesses with fewer than 100 employees.

The most significant finding from the focus groups was that most consumers and small commercial organizations said that elimination of Saturday delivery to street addresses would have little impact on their consumer or commercial requirements. Most said they would adapt. This is not to imply there would be no impact. Rather, most agreed adaptation would not be difficult.

In summary, the qualitative research shows that most businesses and consumers said that they would accept five-day delivery if it is necessary to help the Postal Service regain its financial stability. Most businesses and consumers would not accept a significant price increase in lieu of eliminating Saturday delivery as a way to solve the Postal Service's financial difficulty. They do not see a price increase as ensuring the long-term survivability of the Postal Service.

Witness Elmore-Yalch also describes quantitative market research conducted on behalf of the Postal Service in October 2009 to forecast the percentage change in volume resulting from implementing five-day delivery.

Overall, the quantitative research clearly supports what we learned from the qualitative research, demonstrating that customers will adapt to five-day delivery. Further, the impact on volume and revenue will be slight, with an estimated reduction of 1.238 billion pieces or 0.7 percent, producing a loss of $428 million or 0.69 percent in revenues and $197 million in net contribution.

As would be expected the largest loss would be in First-Class Mail™, with single piece First-Class Mail declining by 1.9 percent or 601 million pieces and $261 million. This loss would represent the diversion of payments to the Internet and reduction of advertising in First-Class Mail by small businesses. In addition, presort First-Class Mail would decline by 0.71 percent or 342 million pieces and $116 million, reflecting the diversion of payments and other transactions such as policies and notices to the Internet and changes in advertising plans.

We also will face declines in Standard Mail®, especially with Nonprofit Standard Mail. Regular Standard Mail will actually increase by 0.14 percent or 94 million pieces and $21 million. As we learned in our qualitative research and from meetings with mailers, many can adjust by rescheduling the planned in-home delivery to ensure deliveries will not be affected by changes in Saturday service.

Nonprofit Standard Mail, on the other hand, will decline by 2.7 percent or 356 million pieces and $48 million, reflecting a significant reassessment of marketing strategies by nonprofit organizations, especially the continued efforts to increase

Internet use for membership communications. We think these declines also reflect some impact from the recession along with five-day delivery.

For all the other products, volumes would decline by 33 million pieces and revenues actually increase by $24 million. Most of the increase would come from consumers' increased use of Priority Mail® to ensure timely delivery for important materials.

II. QUALITATIVE MARKET RESEARCH

Overall, the qualitative research clearly demonstrates that both consumers and businesses will be able to adapt to five-day delivery and most would prefer the implementation of five-day delivery as opposed to significant price increase.

A. Focus Group Research

At the direction of the Postal Service, Opinion Research Corporation conducted qualitative focus group research with both consumers and small commercial organizations, and personal in-depth interviews with key decision makers for larger commercial organizations, from August through October 2009 to gain insights into their reactions to the five-day delivery operational concept tested (and reproduced as Appendix A). Focus groups and interviews discussed the impact five-day delivery would have on consumers and businesses and how they could adapt to the change in service. The qualitative research constituted an important source of information that helped the Postal Service develop the Operational Plan for five-day delivery from the operational concept.

We used focus groups to speak with customers about their behavior, perceptions, and expected responses to changes described in the operational concept. While not statistically representative of customers, focus groups allow us to gain an in-depth understanding of how customers will react to the change to five-day delivery and how it could impact them.

In sum, the qualitative research taught us that customers will accept five-day delivery with the understanding that it is necessary to long term stability for the

Postal Service. Conversely, customers would not accept a significant price increase because it would not (by itself) ensure long term stability.

The most significant finding from the focus groups was that most consumers and small commercial organizations said that elimination of Saturday delivery to street addresses would have little impact on their consumer or commercial requirements. Most said they would adapt. This is not to imply there would be no impact. Rather most agreed they would adapt.

Customers generally value the Postal Service and want to see it survive. Consumers and small businesses use the Postal Service in very basic ways. Most use single piece First-Class Mail and our package services. A few small commercial organizations use Standard Mail and Periodicals Mail™. Consumers and small businesses also use the Internet and the competitive package service carriers which will facilitate their adaption to five-day delivery.

For customers, Saturday is similar to the other five days in terms of the mail sent and received and they did not consider the absence of Saturday delivery to be a major issue. They readily acknowledged that they had alternatives, especially with the use of the Internet. Small commercial organizations are more concerned about late delivery than no Saturday delivery as a late delivery precludes the more timely handling of mail that customers prefer.

Consumers did acknowledge that Saturday provided them an opportunity to receive at home to receive packages and accountable items such as Certified Mail™. However, if the Postal Service kept retail units opened on Saturday, this would allow them to have continued access for picking up packages and accountable items.

Focus group participants said they would adapt primarily because delivery on Saturday is different for them compared to delivery on Monday through Friday. Consumers clearly have established mail routines for collecting and sorting their mail as the first thing they do when they get home during the week. However, they have other routines on Saturday. Hence most customers indicate that if

Saturday delivery were eliminated, they have some flexibility to adapt their routines. Most felt that they could forego the Saturday deliveries at their home address so long as Post Offices remained opened.

Commercial organizations also have a regular routine for receiving and sorting mail Monday through Friday when they are open. But many are not open on Saturday so they do not receive or sort mail that day. For these organizations, the lack of Saturday delivery would have little to no impact.

For those companies open on Saturday, many said they normally do not handle mail on Saturday. The person who is responsible for handling the mail generally is not at work on Saturday or, if at work, does not sort the mail until Monday. So, the elimination of Saturday delivery would have little to no impact on them. Further, not having mail processed and transported on Saturday would create no problems either as most indicated they would mail a day earlier or wait until Monday.

I Companies who do need Saturday delivery indicated they would use a premium service. As some competitive package delivery companies charge a fee for Saturday delivery, most customers indicated they would use Express Mail®. Customers were generally willing to accept a reduction in number of days of delivery service – if convinced that (1) it will make a difference in helping solve the Postal Service's financial problems and (2) it is more than a temporary solution.

- Most see the proposal as a fundamental business decision and recognize it may be necessary in light of the economic situation the Postal Service faces. They are potentially more accepting of it now than they would have been in other years given the current recession and our dire economic situation.
- Customers are looking for the Postal Service to develop longer-term solutions to the current problem – *i.e.,* adopt new technologies, operate more efficiently, and develop new revenue sources.

- Nearly everyone stated they also would like to see accompanying improvements in customer service to offset their loss in delivery service. Recommendations included: better employee attitudes/more customer focus, more knowledgeable employees, and greater accountability among employees and management.

Some customers exhibited skepticism that reducing delivery to five days a week will solve the Postal Service financial challenges. When given a choice between five-day delivery and a 10 percent price increase to make the Postal Service financially viable, virtually all chose five-day delivery. Those strongly opposed to a high price increase perceive that prices would continue to rise.

Some customers indicated they would be willing to accept both reductions in service and a rate increase if it would resolve the Postal Service's financial problem more quickly. Others also suggested closing Post Offices entirely on Saturday or other reductions in service.

Those responding negatively to the five-day delivery concept appeared to do so largely based on an immediate emotional reaction rather than reasoned consideration of its practical impact on their lives and commerce.

- Most suggested that, while they might not like reduced delivery, people would adapt and adjust their schedules.
- Few small organizations indicated any real impact as they generally are not open on, or do little with, mail on Saturdays. Those impacted said they could adjust their schedules.
- Most already plan for longer transit times than required and few have specific requirements for Saturday delivery.

Some loss of volume and revenue would flow from small organizations with an essential need for Saturday deliveries. However, significant diversion has already occurred to package service competitors and also to the Internet, so most customers would not accelerate their shift to these alternatives when we implement five-day delivery.

Customers' greatest concern is the potential impact on the Postal Service's ability to handle volume increases on Monday without delaying delivery on Monday or after a three day holiday weekend. Customers were especially concerned about service during the Thanksgiving—Christmas holiday period.

Other concerns include impact on Saturday retail service if more customers go to pick up packages and signature mail, the safety/security of mail left in collection boxes for several days and collection boxes becoming too full. Some suggested later hours at the Post Office on some days and/or later pickup of mail from collection boxes on Friday to help manage these problems.

Customers demonstrated little awareness of postal operations -- notably processing and transportation that occurs behind the scenes, thus limiting their understanding and perceptions of whether mail should continue to be processed over the weekend. At the same time, customers recognize that the Postal Service delivers a huge volume of mail at a relatively low cost. In addition, some acknowledged that the Postal Service provides services that for-profit companies need not and do not because of high cost or low demand.

Customers stressed that communication regarding the change to five-day delivery is critical to getting support. Some noted the analogy to the recent change from analog to digital television service.

B. National and Premier Account In-Depth Interviews

As witness Elmore-Yalch describes, 30 in-depth interviews were conducted among the Postal Service's National and Premier Account customers to assess the viability of five-day delivery. Interviews were distributed across Postal Service applications[1], *i.e.*, billing, advertising, distribution, *etc*., and industries to gather a wide range of perspectives. Each interview was conducted with the primary decision maker for the application sought.

[1] The term "applications" describes mailer purposes for using the mail; the same term is used in the Household Diary Study, a long term, ongoing study of mail received by residential households.

In-depth interviews were used to speak with high level executives, often difficult to recruit for focus groups, to understand their behavior, perceptions, and expected response to five-day delivery. Executives were selected to provide a wide cross section, although not a statistically representative sample, of targeted customer groups. In-depth interviews allow us to gain a clear understanding of how customers in their positions will react to five-day delivery and how it could impact them.

National and Premier Account holders were generally receptive to the proposed five-day delivery concept. Specific situations and applications could present serious problems but, on the whole, after hearing the proposal and the reasons for it, customers accepted it as necessary to help solve Postal Service financial problems.

Prior to requesting feedback, they were read a detailed description of and explanation for the five-day delivery concept (Appendix A). Customers were then asked for their initial reactions.

- Most commercial customers were already aware of the five-day delivery proposal and largely willing to adapt to it.
- Many National and Premier Account holders expressed an understanding that the five-day delivery week would be a result of current economic trends and were sympathetic with the Postal Service's plight.

After offering initial reactions to the five-day delivery week proposal, customers were asked to supply more detail as to what the specific financial, operational and customer service impacts would be for their organizations. Again, while responses varied greatly by application and industry, several commonalities were observed.

- Most noted that the change could have an impact, but it would not cause them to stop using the Postal Service.
- A common expectation was that the move to five-day delivery could reduce the need to increase prices as frequently as in the past few years.

- Among customers focused upon incoming mail, the primary operational concern was an expected increase in Monday mail volume.
- Those responsible for billings and payments expressed concern that the move to five-day delivery could disturb the flow of incoming payments.
- Many found it difficult to foresee the specific customer service impacts of five-day delivery. One exception to this are direct marketing and publishing firms who see Saturday delivery as affording their customers an opportune time for receiving and reading mail.
- Further, Saturday delivery is widely noted as providing consumers a convenient opportunity to receive packages in person at home.

Those involved in the remittance and publishing applications also expressed concerns regarding five-day delivery.

- Remittance concerns were typically registered by National Accounts. Smaller Premier Accounts focused on remittance saw five-day delivery as having minimal impact.
- Customers who rely on the Postal Service to deliver newspapers on Saturday were not sure how to respond to the major challenge five-day delivery poses to their business model.

Customers were asked if five-day delivery presented monthly or yearly challenges or impacts.

- Those involved with retail shipping and distribution mentioned that five-day delivery would increase the difficulty of timely shipping during the holiday season.
- Some customers involved in monthly billing/remittance mentioned that challenge would increase at specific times during the month.

Those responsible for outgoing mail have time constraints or deadlines to meet. They were asked, in general, how an earlier acceptance time on Saturday or Sunday would impact their operations. Most indicated that they would have serious problems making earlier deposit times on Saturday or Sunday because

adjustments in their own operational processes and transportation would be required.

General plans to adapt to five-day delivery varied by application and industry, but virtually all commercial customers indicated that they would find a way to adapt. Plans for adaptation among those focused upon outgoing mail were quite different from those focused on incoming mail.

- Those dealing with incoming mail centered on the expected Monday mail volume increase. To address this influx, many commercial customers would either increase staff or modify schedules.
- Among commercial customers focused upon outgoing mail, especially product fulfillment, adaptation plans centered upon communication with customers.
- Most mailers indicated that, over time, the loss of Saturday delivery would be accepted by their customers as the norm.

Many customers indicated that they would shift communications to the Internet.

- Some mentioned a possible push to conduct financial transactions online, rather than by mail.
- Those responsible for distribution of Saturday newspapers indicated they may see an increase in online subscriptions.

III. QUANTITATIVE MARKET RESEARCH

Opinion Research Corporation also conducted quantitative market research on behalf o the United States Postal Service to project changes in volume that would be triggered in the first year following implementation of five-day delivery, as described in Appendix A. I worked closely with witness Elmore-Yalch to prepare materials used in the quantitative market research. In her testimony, witness Elmore-Yalch describes the survey research design, including subject/respondent selection, procedures, data collection and aggregation, and calculation of the estimated change in volume.

A. Overview of the Research Process

The research was designed to estimate for each account segment the percentage change in volume by product and application that would result from implementing five-day delivery.

Respondents were asked what the impact of five-day delivery would be on their volume use of First-Class Mail, regular and nonprofit Standard Mail, regular and nonprofit Periodicals Mail, Express Mail™ and Priority Mail. The quantitative market research relied upon the same operational concept description that was shared in the qualitative market research, a copy of which appears as Appendix A.

To assist in understanding how this research was conducted, below are the definitions of several key terms:

- Account Segment:, an account segment represents the grouping of similar customers. For example, the National Account segment represents the largest commercial mailers. Also, the Preferred Account segment represents small businesses which use one or more products for which we have a mailing record of their product use.
- Product: defined from the mailer perspective, the following products were studied: 1) single piece and 2) presort First-Class Mail, 3) regular and 4) nonprofit Standard Mail, 5) regular and 6) nonprofit Periodicals Mail, 7) Express Mail and 8) Priority Mail.
- Application: an application represents the purpose of the mailing *i.e.*, advertising, billing.

B. Summary of Five-Day Delivery's Impact on Volume and Revenue

Overall, the quantitative research clearly supports and elaborates upon the lessons from the qualitative research: customers will adapt to five-day delivery. Further, the impact on volume and revenue will be slight, with an estimated reduction of 1.238 billion pieces or 0.7 percent, producing a loss of $428 million

or 0.68 percent in revenues and $197 million in net contribution. N2010-1/NP2, Item 1, tab Total.

C. Change Within Mail Classes.

As one might expect, the largest loss would be in First-Class Mail, as single piece First-Class Mail is estimated to decline by 1.9 percent or 601 million pieces and $261 million (*id.*). This loss would represent the diversion of payments to the Internet and reduction of advertising in First-Class Mail by small businesses. In addition, presort First-Class Mail would decline by 0.71 percent or 342 million pieces and $116 million (*id.*), reflecting the diversion to the Internet of bills/payments and other communications such as policies and notices, and changes in advertising plans. *Id.*

Standard Mail would also face declines, especially with Nonprofit Standard Mail. Regular Standard Mail would actually increase by 0.14 percent or 94 million pieces and $21 million. *Id.* As we learned in the qualitative research and from meetings with mailers, many can adjust by rescheduling the planned in-home delivery date to ensure deliveries will not be affected by the loss of Saturday delivery.

Nonprofit Standard Mail, on the other hand, would decline by 2.7 percent or 356 million pieces and $48 million (*id.*), reflecting a significant reassessment of marketing strategies by nonprofit organizations, which would increase use of the Internet for membership communications. The size of these decreases reflects both the recession and five-day delivery.

For all other products, volumes would decline by 33 million pieces and revenues would actually increase by $24 million *Id.* Most of the increase would come from consumers' increased use of Priority Mail to ensure timely delivery for important materials.

D. Volume, Revenue And Contribution Loss Estimates

Each respondent's change in volume by application and product before and after implementation of five-day delivery was calculated. These calculations were supplied by witness Elmore-Yalch. *See* USPS-T-8 at Section 6.4, pp. 30-37.

Each respondent's reported volume change for each product was adjusted by the likelihood of change measure (0-10 scale). This was done by converting the scale to a percentage (0-100 percent). This percentage was multiplied by the difference between the next 12-month volume and the volume in the first 12 months after five-day delivery implementation. This effectively adjusted the reported impact of the change to reflect the likelihood of their actually changing the volume of mail sent. *See* USPS-T-8 at Section 6.4, pp. 31(businesses) and 36 (consumers).

Estimation of the product specific volume changes starts with witness Elmore-Yalch's change estimates for the respective account segments. While Ms. Elmore-Yalch is an expert researcher, cross walking account segments to respective postal products requires some analysis and assumptions that I, in consultation with colleagues, am better prepared to conduct and defend. This process begins with quantified recognition that each account segment uses the mail for its own set of purposes, which can be analyzed in terms of shape and product usage. This allowed me to sum the product usage across the segments.

Within a product's FY2009 RPW volumes,[2] each segment's volume portion was provided by CBI (N2010-1/NP2, Item 4); each segment's volume was multiplied by the percent change derived by witness Elmore-Yalch to derive segment specific volume changes. All segments' volumes were then summed to develop a product's overall volume change (N2010-1/NP2, Item 1).

[2] FY2009 Revenue, Pieces and Weight Summary Report (November 20, 2009), available on the Commission's Daily Listing page for that date. Hereafter, this source is identified as "RPW Report".

The spreadsheet in N2010-1/NP2, Item 1, shows the calculation of changes in volume, revenue and contribution loss. Moreover, that file also documents sources for data necessary to complete the calculations.

I made use of certain reasonable assumptions (or proxies) to arrive at some of the results presented. These were not supplied by witness Elmore-Yalch. I developed them in consultation with other functional areas at postal Headquarters so that they would be consistent with the general level of precision inherent in the quantified results provided to me by witness Elmore-Yalch and so that appropriate source materials could be identified specifically.

- The distribution of First-Class Mail parcels across account segments was assumed to be the same as those estimated empirically for Priority Mail. *See* N2010-1/NP2, Item 1.
- The distribution of First-Class Mail flats across account segments was assumed to be the same as those estimated empirically for First-Class Mail letters. *Id.*
- Some metered mail revenue is not reported in connection with any specific product. A distribution key derived from metered mail revenues that are product specific was applied to distribute this residual revenue to respective account segments. *Id.*

The change in revenue was calculated by multiplying the revenue per piece by the volume change. The change in net contribution was calculated by multiplying the per-piece contribution by the volume change.

Based on the market research and these calculations, I estimate that if five-day delivery had been implemented at the beginning of FY 2009, there would have been a volume loss of 0.7 percent of total volume and a loss of 0.69 percent of total revenue. *Id.*

The chart below shows by product and in total the volume, revenue, cost and net changes that would have occurred in FY 2009 if five-day delivery had been

implemented for that entire fiscal year. Details are available in N2010-1/NP2, Item 1.

Chart 1: Volume, Revenue and Cost Changes
With Five-Day Delivery in FY2009

Product	Volume Change %	Volume Change	Revenue Change	Cost Change	Net Change
		(Millions)			
First-Class Mail Single Piece	-1.90%	(601.4)	$ (261.4)	$ (158.7)	$ (102.7)
First-Class Mail Presort*	-0.71%	(341.7)	$ (116.1)	$ (39.9)	$ (76.1)
First-Class Mail Flats	-1.99%	(57.0)	$ (70.5)	$ (42.9)	$ (27.5)
First-Class Mail Parcels	2.47%	14.4	$ 27.5	$ 27.0	$ 0.4
Regular Standard Mail	0.14%	94.3	$ 21.1	$ 13.8	$ 7.2
Non-Profit Standard Mail	-2.69%	(356.4)	$ (47.8)	$ (52.4)	$ 4.6
Regular Periodicals	-0.33%	(20.5)	$ (6.0)	$ (6.9)	$ 0.9
Non-Profit Periodicals	1.43%	23.8	$ 4.9	$ 8.0	$ (3.1)
Express Mail	-4.43%	(2.1)	$ (39.5)	$ (24.7)	$ (14.7)
Priority Mail	1.12%	8.9	$ 60.1	$ 46.2	$ 13.9
Parcel Select	0.00%	-			
Package Services	0.00%	-			
		-			
* Includes NSA revenue and volume		-			
Totals		(1,237.7)	$ (427.7)	$ (230.5)	$ (197.1)
Percent of Revenue/Volume Reduced	-0.70%		-0.69%		

E. Market Research Subjects' Reliance Upon the Operational Concept Means Responses Overstates Likely Marketplace Response

Market research respondents based their responses to five-day delivery upon the operational concept (Appendix A). Yet the operational concept would curtail more operations than the operational plan that will be implemented.[3] As examples of restrictions subsequently lifted in the operational plan, the operational concept excludes collection of Express Mail from collection boxes on Saturday, closes Business Mail Entry units (BMEUs) on weekends, and precludes processing of accepted weekend drop shipments.

Customers also expressed various other concerns about the operational concept, including start-the-clock issues and the Postal Service's ability to process and deliver all mail on Monday or following a three day holiday weekend. Witness Pulcrano (USPS-T-1) explains how such customer reactions and concerns led to development of the less drastic operational plan; it mitigates or resolves many, but not all, of the concerns raised by customers. As a result, customers' reaction

[3] Indeed, respondents' responses were one driver for defining a more customer-friendly implementation plan.

to five-day delivery will be milder than what was expressed in the focus groups and in-depth interviews.

Since the same operational concept was used in the quantitative market research, the actual volume loss estimates also likely overstate customer reaction. This is particularly true for bulk mailers as many of the changes incorporated into the operational plan respond to issues these customers raised.

The Postal Service chose not to adjust customers' quantitative responses to reflect the changes from the operational concept to the more customer friendly operational plan. Hence, the calculated volume and revenue responses to five-day delivery will likely prove to be smaller than what has been estimated.

Appendix A

Respondents to the qualitative and quantitative market research were provided this explanation of why the Postal Service was moving from six- to five-day delivery:

- Despite very aggressive cost cutting, the Postal Service is projecting financial losses for this and the next several years. This is due to a significant decline in mail volume and a major requirement to prefund its retiree's health benefits.
- The Postal Service is committed to fulfilling its fundamental role to deliver mail and packages to all Americans.
- To accomplish this, the Postal Service is developing a plan to transition from six- to five-day delivery. This will lower delivery costs and help bring USPS finances into better balance.

Small business and consumer respondents were provided the following 5-Day Delivery Concept of Operations:

- The key components to the 5-Day plan are as follows:
    - No Saturday delivery of mail to homes and businesses. Delivery of mail will be Monday – Friday only.
    - Mail will continue to be delivered to PO Box addresses - Monday - Saturday
    - Post Offices will remain open on Saturday.
    - No mail collected from street addresses, businesses, collection boxes, or Post Offices on Saturday. Mail dropped off at a Post Office or in a collection box after the last Friday scheduled pickup time will be collected and processed on Monday.

- Elimination of Saturday collection, processing and delivery will generally add a day to the delivery of mail that is currently collected and processed or scheduled to be delivered on Saturday.

- Express Mail will continue to be delivered 7 days a week. Express Mail will continue to be accepted and processed on Saturday at Post Offices. However, there will be no carrier pickup of Express or Priority Mail on Saturday.

National, Premier and Preferred Account customers were provided the following five-day delivery concept of operations:

- Express Mail will continue to be delivered seven days a week, and will continue to be accepted and processed Saturday at post offices. However, there will be no carrier pickup of Express Mail or Priority Mail Saturday.

- There will be no Saturday mail delivery to homes and businesses. Mail delivery will be Monday through Friday only.

- Mail will continue to be delivered to P.O. Box addresses, including P.O. Boxes, caller service and national firm holdouts Monday through Saturday.

- Remittance mail that is picked up at a plant Saturday and/or Sunday will continue to be picked up on those days.

- Post offices will remain open Saturday.

- No mail will be collected from street addresses, businesses, collection boxes, or post offices Saturday. Mail dropped off at a post office or in a collection box after the last Friday scheduled pickup time will be collected and processed Monday.

- Bulk mail entry units will be closed Saturday. However, detached mail units (DMUs) currently open Saturday and/or Sunday will remain open.

Mail will continue to be accepted and verified at DMUs Saturday and/or Sunday.

- Incoming bulk mail can continue to be drop-shipped at plants Saturday and Sunday and at delivery units Saturday. However, time slots for dropping mail will be shortened. Mail drop-shipped at a plant Saturday or Sunday will be processed Monday. Standard Mail drop-shipped at a delivery unit Saturday will be delivered by Tuesday.

- Eliminating Saturday collection, processing and delivery will generally add a day to the delivery of mail currently collected and processed or scheduled to be delivered Saturday.

Appendix B

I. Introduction

This Appendix explains calculation of the volume, revenue and contribution loss estimated if five-day delivery had been implemented at the start of FY 2009; volume loss would have been 0.7 percent, while revenue loss would have been 0.68 percent.[1] *See* file Vol_Rev_Contrib_Change_5-Day_Delivery.xls in library reference N2010-1/NP2, Item 1, tab "Total" (this Excel file is hereinafter identified as the "VRC Loss" spreadsheet). Respective tabs in this file (aside from *Title*) include:. *Nat'l, Premier & Preferred; Small Business*; *Consumer; and Total.*

II. Tab: Total

Percentages of volume loss or gain by customer account segment[2] for each of eight products[3] supplied by witness Elmore-Yalch (USPS-T-8) provided the starting point for calculating the change in volume by product that would result from implementation of five day delivery. Calculations of the total change in volume, revenue and contribution consisting of the sum of impacts upon a superset of the products for which witness Elmore-Yalch reports results are shown in the *"Total"* tab of the VCR Loss spreadsheet. My work required adaptation of her results to the various other products also shown on the "*Total*" tab.

[1] As discussed in section II(E) of the USPS-T-9, *supra,* estimates of change caused by implementation of five-day delivery likely overstate actual impact because they are based on the operational concept described in Appendix A, which was modified in material respects into the more customer friendly operational plan. *See also,* witness Pulcrano's testimony, USPS-T-1, who explains how the operational concept grew into the operational plan.

[2] The five account segments include: National, Premier, Preferred, Small Business and Consumer.

[3] As reflected in witness Elmore-Yalch's testimony, USPS-T-8, these include: Single Piece First-Class Mail, Presort First-Class Mail, Regular Standard Mail, Nonprofit Standard Mail, Priority Mail, Express Mail, Regular Periodicals Mail, and Nonprofit Periodicals Mail.

The percent changes in volume by product and segment witness Elmore-Yalch supplied were applied to FY2009 RPW product volumes and to account segment as reported in the Corporate Business Customer Information System (CBCIS).[4]

The calculated changes in volume for all account segments within each product were summed to calculate the total volume change by product. The change in revenue was calculated by multiplying the percent changes in volume by product after five-day delivery by the RPW revenue per piece. Similarly, total cost changes were calculated by multiplying the percent changes in volume due to five-day delivery by the unit cost by product as reported in the FY 2009 ACR. Finally, the net change in contribution was calculated by subtracting the total cost change from the total revenue change. These calculations are in the VCR Loss spreadsheet, NP2010-1/NP2, Item 1.

III. Tab: National, Premier and Preferred Accounts

The volume changes for *National, Premier and Preferred* accounts were determined separately for each account segment by product as shown in the *Nat'l, Premier & Preferred* tab of the VCR Loss spreadsheet.[5] Some additional analysis was necessary for two sets of reasons. First, the eight products for which witness Elmore-Yalch reports results needed expansion to include First-Class Mail flat shape and parcel shape pieces to match the larger group of products used in the final estimation of post implementation changes. Second, one of the sources of reported customer payment for postage, "residual meter", is not associated with any particular product, so some way of splitting total postage paid for "residual meter" to respective products had to be developed.

Since customers who mail First-Class Mail flats are seeking the same delivery timeframe as mailers of First-Class Mail letters, we made the reasonable (but not

[4] *See* library reference N2010-1/NP2, Item 4. CBCIS is administered internally by Customer Business Intelligence, or CBI.
[5] N2010-1/NP2, Item 1, Tab *"Nat'l, Premier & Preferred"*.

necessarily perfect) assumption that the percent volume change for flats would be the same as for single piece First-Class Mail letters. For parcels, we made a similar assumption that volume changes would be the same as Priority Mail, which has a much larger proportion of parcels than First-Class Mail itself. These assumptions reflect a consensus developed through discussion with other functional areas.

For residual meter postage we made another reasonable, but not perfect, assumption after discussion: residual meter postage was distributed to products in the same proportions that non-residual meter postage was already specific to respective products. Overall, these reasonable assumptions meant that our estimation of post-implementation volume changes was more comprehensive.

For each account segment (National, Premier and Preferred) the volume loss was calculated using the same methodology. Business Customer Intelligence (BCI) provided FY2009 volumes by customer segment and mail class.[6] Percent changes from witness Elmore-Yalch for each segment and mail class were multiplied by corresponding BCI volumes to produce volume changes by product / segment combination. Post implementation volume was calculated by subtracting the change in volume from the original BCI volume.

This tab's total volume change for each product was calculated by summing the total change in volume for all three account types. All account types by product from CBCIS, including residual meter, were summed. The change in volume due to five-day delivery was summed across account types to get total product volume. These total product volumes were subtracted the original CBI volumes to net the percent change.

[6] This information is in N2010-1/NP2, Item 4, a spreadsheet named: 5_Day_FY2009_Format_CBI.xls, tab "CBI".

IV. Tab: Small Business

The change in volume for small businesses was determined by product. The calculations for the volume change due to five-day delivery for small businesses are shown in the *Small Business* tab of the VRC Loss spreadsheet. Given that volume mailed by small businesses is collected separately by the Postal Service, measurement is based upon that portion of witness Elmore-Yalch's quantitative market research focused upon small businesses. *See* section Section 6.4, pages 31 to 37 of USPS-T-8 for an explanation of how she developed a volume change estimate for each of five products.[7]

Much as small business' mailing practices are not captured separately in Postal Service data systems, nor are overall counts of small businesses. For this purpose, the Postal Service again relied upon CBI, who in turn reached to Equifax, a successor in interest to Dun and Bradstreet. So Equifax provided the total number of businesses in the United States with two or more employees, from which we subtracted the number of businesses reported in CBCIS and the number of businesses that Equifax reports as having no employees.[8] These calculations also appear on the *Small Business* tab.

So, with values for percentage volume changes and the number of small businesses, the next step is calculating the per-product volume mailed by small businesses, a direct output of witness Elmore-Yalch's research. *See* Excel workbook filed electronically with USPS-T-8. So multiplying her results by the number of small businesses provides volume estimates.

Total FY2009 RPW mail volume minus all CBCIS customer volume (National, Premier and Preferred customers discussed above in section II) yields the sum of

[7] Section III, *supra*, required processing of witness Elmore-Yalch's results for eight products to include other products and shapes. The five products for which results are developed among small business and consumers are Express Mail, Priority Mail and First-Class Mail, with the latter broken down into single piece letters, flats and parcels using the same methodology explained in section III.

[8] Businesses with no employees do have owners. Moreover, many individuals have occasional businesses, which may or may not get external recognition as businesses. For purposes of this testimony, owners are included in the evaluation of five-day delivery as consumers, which is both reasonable and accurate.

small business and consumer volume. The split between small business and consumer volumes was then determined by comparing the total mail volume witness Elmore-Yalch developed for each group. This method indicates that the small business proportions of, respectively, First-Class Mail (single piece), Priority Mail, and Express Mail are 71 percent, 88 percent, and 84 percent. NP2010-1/NP2, Item 1, tabs *Small Business* and *Consumers*.

V. Tab: Consumers

Calculations of volumes for small businesses and consumers were similar to one another in that both started with quantified market research estimates for the same products and that calculating the respective portions of non-CBCIS volume depended upon the ratio of total volume reported by the respective groups of respondents. One key distinction is that small business started from a report of the total count of businesses, while results for consumers started with a total count of households. Calculations for the volume change due to five-day delivery appear in the *Consumers* tab of the VCR Loss spreadsheet .

The number of households in the United States was calculated by starting with the total number of households, supplied by CBI also from Equifax. This number was adjusted upward by adding the count of businesses with no employees (discussed in section IV, *supra*). Implicit in this adjustment is an assumption that mailing patterns for owners of such businesses resemble those of consumers. While some such mailers undoubtedly enter more mail than the average household, others likely enter less. After discussion, we concluded that the assumption we made was reasonable and the best available under the circumstances.[9]

Next, the per-product volume mailed by consumers was calculated by multiplying the average number of pieces by the total number of households. The volume

[9] The assumption made is also consistent with data cleaning rules used by witness Elmore-Yalch, where volume reported by consumers that exceeded a high threshold (that would be too high for a household alone) were dropped. *See* USPS-T-8 at Section 6.2.6 (Businesses) and 6.3.4 (Consumers).

mailed by consumers and small businesses in total was calculated by subtracting the volume reported in CBCIS from the product totals in the FY 2009 RPW. The volume mailed by consumers was calculated by determining the percentage of the combined consumer and small business volume by product and multiplying the percentage by the total non-CBCIS FY2009 volume. This method indicates that the consumer proportions of, respectively, First-Class Mail (single piece), Priority Mail, and Express Mail are 29 percent, 12 percent, and 16 percent. NP2010-1/NP2, Item 1, tab *Consumers*.